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Deposit Insurance d'assurance-dépôts Corporation du Canada

CDIC NBD Compliance Framework Approach Overview

Version: 1.1 Updated as of: 2021-12-14 Revision: Slide 7 and 9 Effective Date: 2022-04-30

Background

- Several amendments to the *CDIC Act* that strengthen deposit insurance protection for nominee brokered deposits (NBDs) will take effect April 30, 2022. <u>Nominee Brokers (NBs) and Member</u> <u>Institutions (MIs) must comply with these requirements*</u>.
- The CDIC Act provides CDIC with powers to monitor, assess and enforce compliance with the requirements to ensure that CDIC has access to the information it requires to protect deposits
- CDIC Senior Management has recently approved a comprehensive Nominee Brokered Deposit (NBD) Compliance Framework that sets out CDIC's overall approach to oversee compliance with the new NBD rules
- * Refer to Annex for overview of key CDIC requirements applicable to NBDs



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Purpose

- Socialize core elements of the NBD compliance framework with industry stakeholders to:
 - Build awareness regarding CDIC's supervisory approach
 - Ensure transparency regarding CDIC expectations and priorities
 - Work with BDAG and broader broker community to ensure strong engagement when CDIC's new compliance framework takes effect
- Raise awareness of CDIC NBD Testing Approach that will be launched upon coming into force of the new requirements.
 - Awareness of timelines and key steps
 - Highlight mechanisms under development to assist testing and other compliance-related processes (at CIF and thereafter)
- Respond to questions/comments from NBs and MIs to help ensure the successful integration of the NBD Compliance Framework.



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Objectives of the NBD Compliance Framework

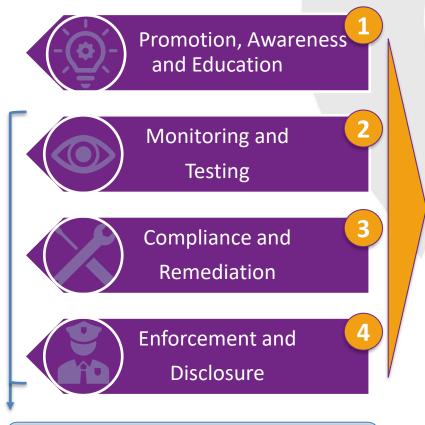
- Promote: Encourage strong adherence to the new NBD rules by:
 - Fostering industry understanding of new NBD rules and create awareness regarding CDIC expectations for compliance
 - Implementing robust NBD baseline data testing approach to assess overall compliance, identify compliance gaps/issues and work with stakeholders to remediate these gaps/issues
 - Providing transparency regarding the application of CDIC supervision and enforcement tools
- Focus: Ensure CDIC will have key information needed to enable a fast insurance determination/payout for NBDs.
- Accountability: Reinforce fact that primary responsibility for continued adherence to NBD rules and alignment of NBD positions rests with NBs and Mis.



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CDIC NBD Compliance Framework - Four Pillars

PILLARS



Supported by a new CDIC Broker Portal

OBJECTIVES

Industry awareness; tracking progress towards compliance; maintain strong industry awareness/compliance

NBD data baseline testing exercise following CIF; identify outstanding compliance issues to be corrected to ensure coverage; promote ongoing industry compliance selfassessment

Transparency regarding steps CDIC will take to address non-compliance quickly; set CDIC expectations regarding how deficiencies should be addressed

Outline how CDIC will exercise its enforcement powers; determine criteria for exercising disclosure power



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Pillar 1: Promotion, Awareness and Education

- <u>Strong CDIC engagement</u> with industry stakeholders (MIs, NBs, intermediaries) is key to successful implementation of requirements
 - Promotes awareness of new rules through strong collaboration with industry (i.e. BDAG) including development of key resources (e.g. implementation best practices guides) to support industry compliance
 - Ensures CDIC expectations regarding implementation and ongoing adherence to new NBD rules are clear and transparent
 - Provides an outlet for industry stakeholders to raise questions and implementation challenges and seek timely input from CDIC
 - Allows CDIC to monitor industry progress to comply with new NBD rules and work with industry to prepare for NBD Compliance Framework implementation
 - Increasing area of focus as CIF date approaches



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Pillar 1: Upcoming Activities

Planned activities <u>in lead up to CIF</u>:

- Industry survey on implementation progress (Spring 2021) COMPLETED
 - Confirm established implementation timeframes with key NBD Stakeholders (i.e. from published UCI Data Transmission Timeline)
 - Identify possible impediments to full compliance by April 30, 2022
- Outreach to NBs for baseline data (April/May 2021) COMPLETED
 - Will support NBD Compliance Framework and Broker Portal
 - Confirm NB universe, gather basic demographic info, confirm deposit activities, etc.
- Broker Onboarding to Nominee Broker (NB) Portal (Jan-Mar 2022)
 - Initial set up and access of NB users to new CDIC NB Portal
 - Save the Date message to all NBs for onboarding preparations (Dec 2021)
 - Onboarding material & Info session (Jan 2022)



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Pillar 2: Compliance Monitoring and Testing

- Monitoring and testing <u>after the CIF date</u> is critical to assess NB and MI compliance with new NBD rules
 - CDIC NBD monitoring/testing approach to focus on 3 key areas:
 - I. Review of NB submitted attestations, P&Ps and other supporting documentation to confirm NB adherence
 - Facilitated through new CDIC Broker Portal
 - II. Implement robust NBD data compliance testing program in 2 phases:
 - Phase 1: Baseline Compliance Testing Exercise post CIF to assess NB compliance and NB/MI data alignment
 - Phase 2: Ongoing NBD Data Compliance Testing (following CDIC baseline exercise)
 - III. Where possible, access and review industry verification tools (i.e., reconciliation reports, internal audit results) to obtain view of industry compliance self-monitoring
 - Aligned with CDIC expectation that accountability for NBD data compliance and alignment rests with NBs and MIs



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Data Compliance Testing Approach – Sequencing and Timing

NB Compliance Attestation / P&P Results From CDIC Broker Portal

STEP 1: CDIC Testing of NB UCI/Client Data (NBDR testing)

•Establish NB baseline compliance with new rules

Incl All NBs who submit
positive compliance
attestation and P&Ps

 Prioritize NBs for testing
Aligned with MI DSR 3.1 compliance testing STEP 2: CDIC Alignment Testing of NBD data for High-risk NBs/MIs

- •Assess data transmission process between NB & MI and overall success implementing new rules
- Incl NBs <u>flagged as higher-risk</u> through NB Survey, attestation review or Step 1 compliance engagement
- Incl sample of related MIs (incl DSIBs) <u>confirmed as DSR</u> v3.1 compliant
- •Will require coordination of MI and NB NBD data submissions

STEP 3: Set Future CDIC NBD Data Compliance Testing Strategy

- Apply future risk-based approach to CDIC NBD data compliance testing
- **Consider** learnings and results from CDIC baseline exercise to identify key risk areas/NBs
- Consider how to leverage industry NBD reconciliation/ monitoring tools to optimize CDIC testing

Industry Ongoing NBD Recon / Testing Results

Within 12mos of CIF

Within 12-18mos of Step 1 completion

Ph1: CDIC Baseline Testing of NBD Data Compliance

Post Baseline Exercise

Ph2: CDIC Ongoing Testing



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Pillar 3: Compliance and Remediation

- The Act provides CDIC a variety of tools to address NBD non-compliance and escalate issues appropriately to bring stakeholders into compliance to ensure deposit protection
- Materiality of compliance deficiency will drive the use of escalation tools
 - Apply appropriate compliance tools to encourage timely action to fully comply with the rules
 - Focus on engagement with non-compliant stakeholder to clearly set out steps and expectations for achieving compliance
 - Principles of procedural fairness will be built into the process
- Goal is to address vast majority of non-compliance issues at this stage; however, process provides foundation for enforcement action when necessary



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Pillar 4: Enforcement and Disclosure

- Where CDIC compliance tools fail to achieve the desired compliance results, CDIC can take enforcement actions
 - Focus on systemic, egregious and/or ongoing non-compliance situations that impact deposit insurance coverage
- The CDIC Act provides various enforcement tools to address noncompliance situations with NBs
 - Disclose NB non-compliance situations with key supervisory bodies
 - Disclose NB non-compliance to the general public
 - Leverage other tools available (e.g. CDIC Deposit Insurance Information Bylaw) to promote accurate disclosure concerning deposit insurance coverage
- Enforcement tools will be used when compliance / remediation tools fail
 - Will follow a clear and procedurally fair process to exercise enforcement action where required
 - Due consideration to protecting depositors and maintaining financial sector stability



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CDIC Broker Portal

Development of a secure portal for NBs is underway to centralize all communications/interactions between CDIC and NBs:

- Provide a single point of contact with NBs for all compliance and administrative functions, including:
 - Receive NB attestations and supporting documentation for compliance purposes
 - ✓ Facilitate NB upload and submission of NBDR files for CDIC testing
 - Communicate with NBs regarding compliance findings and administer compliance/enforcement actions
- Details regarding the new broker portal will be shared with NB industry more broadly:
 - Portal Pilot Testing with volunteer NBs anticipated Spring 2021
 - NB-focused information gathering to initiate NB portal profiles
 - Industry focused information session on new CDIC Broker Portal (timing TBC)

* Refer to Annex for highlights of the new CDIC Broker Portal



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Questions?

Any questions, please feel free to contact us at <u>questions@cdic.ca</u>.



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Annex



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Overview of CDIC Requirements for NBDs

Transmit Unique Client ID (UCI) and deposit data at the time a deposit is made / changed

Provides UCI and client info within Notifies broker of missing requested data including UCIs MDSR 30 extract with UCI

Member Institution (MI) Requests JSR extract detailing deposit information

NB Requirements

Requests current name, address, etc. of beneficiary associated with the UCI Transmit to MI at the time deposit is made and each time there is a change:

Nominee

- that the deposit is made by a NB (ITF deposit)
- the NB's legal name and address
- the Unique Client ID (UCI) for each Beneficiary of the deposit
- the amount or percentage interest/right of the Beneficiary associated with the UCI
- Have capacity to provide CDIC with UCIs and related Beneficiary name and address within 3 business days of CDIC's request and to annually attest to having this capacity
- Assign the same code for all of a Beneficiary's deposits at the same MI

CDIC

CDIC Requirements and Responsibilities

- Process DSR 3.0 extracts from MIs
- Receive and process beneficiary data including UCI from NBs
- Reconcile UCIs on MI records to NB beneficiary data to calculate deposit insurance coverage
- Monitor, assess and enforce compliance with Act and Bylaw by NBs and MIs (including verifying that NB-MI contracts reflect CDIC requirements)

MI Requirements and Responsibilities

- Receive the required information from NBs
- Maintain up-to-date information in systems from NBs
- Provide information to CDIC when required to do so (i.e. through the Data and Systems Requirements (e.g. through DSR version 3.0)
- Request that NBs provide CDIC with annual attestations
- Ensure agreements with NBs accurately reflect CDIC Act requirements

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** Note: Above provides a summary of key NBD rules. For details of all CDIC requirements applicable to NBDs, refer to the CDIC Act and Bylaws.

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Nominee Broker Data Requirements (NBDR)

- NBs are required to provide CDIC with specified info upon request
 - For every NBD, UCI for each beneficiary and individual if held under an SIA plan, and for every UCI the associated: name and address of the person/entity; the MI where held; IB LEI (if an IB/CB arrangement); SIA type; and an indication if UCI is for an SIA individual
- NBs must be capable of delivering info to CDIC within 3 days after request
- Must be sent electronically in standard format prescribed by CDIC (NBDR)
- CDIC will request NBDR submissions from NBs to:
 - Support ongoing compliance testing, and
 - Facilitate deposit insurance calculation/payout for NBDs in the event of a failure
- CDIC defines the detailed requirements for NB NBDR files in the CDIC NBDR document available on CDIC's website



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CDIC Broker Portal – Highlights

- CDIC Broker Portal is web-based SaaS solution
- Requires establishment of a separate Account for each NB
 - Each NB must provide CDIC specific info incl contact details for a NB Administrator to enable Account set up
 - NB Administrator responsible to update Account and set up User profiles and permission levels for their NB
 - Each NB Account can have up to 5 unique Users (Administrator + 4 other Users)
 - Other Users must include required NB Signatory/Senior Officers (Individual NB (1); Non-Individual NBs (min 2))
 - To gain access to their NB Account, NB User needs unique log in and password, together with Salesforce Authenticator App on a mobile device (IOS/Android) to complete the multi-factor authentication
- CDIC Broker Portal can accept:

NBDR Data Uploads

- NBDR XML data files must be PGP encrypted before uploading to the CDIC Broker Portal
- Acceptable file formats: *.asc *.gpg *.pgp

Other Document Submissions (E.g. policies and procedures, action plans, other non-sensitive documents)

- Acceptable file formats: *.csv *.doc *.docx *.pdf *.txt *.xls *.xlsx
- CDIC Broker Portal does <u>NOT</u> require:
 - A separate SFTP process
 - Any specific plug-ins from the NB



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