

GIC Deposit Re-Registration Industry Best Practices

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Preamble

- The **GIC Deposit Re-Registration Industry Best Practices** were developed through the Brokered Deposit Advisory Group (BDAG), in collaboration with CDIC, to support the adoption of a preferred industry approach for updating ownership information for GIC deposits when they are re-registered (i.e., internal re-registration)
- The Best Practices look to provide standards and parameters to facilitate industry standardization and automation of processes used to re-register GIC deposits that are transacted through nominee brokers
- The Best Practices help support the maintenance of complete and accurate information by nominee brokers and CDIC member institutions as required under the *CDIC Act* and Bylaws and to improve operational efficiency of the re-registration process
- The standards and parameters compliment and support key legislative requirements set out by the Government of Canada. They should be implemented by stakeholders in conjunction with the *CDIC Act* and the *CDIC Co-Owned and Trust Deposit Disclosure By-law (COTDB)*

1. Context

1.1 Implementing Automated Approaches

- Given new deposit insurance requirements for nominee broker deposits, BDAG determined that current manual elements of the GIC deposit processes needed to be streamlined and automated to align with requirements in the *CDIC Act* and Bylaws
- BDAG concluded that due to different requirements and complexities separate automated processes are needed for GIC deposit re-registrations and transfers
- BDAG developed a two-step implementation plan to meet legislative reporting requirements:
 - Step 1: Full automation of the GIC deposit re-registration process by April 30, 2022 to facilitate update of all existing GIC deposits held at CDIC member institutions as of April 30, 2022 and to support future re-registrations
 - Step 2: Full automation of the GIC deposit transfer process after April 30, 2022
 - In the short-term, discussions between nominee brokers, member institutions, CANNEX and CDIC will continue to develop an interim solution to minimize information misalignment and/or discrepancies
 - In the longer-term, industry will work towards an automated GIC deposit transfer process

2. Introduction



2.1 Amendments to the *CDIC Act*

- Amendments to the CDIC Act have been made to strengthen deposit insurance protection for brokered deposits held in nominee-name, including new requirements that nominee brokers and CDIC member institutions (MIs) must meet to ensure that the deposits held for broker clients are protected
- A central change is the requirement for nominee brokers to transmit to MIs a unique client identifier (UCI) at the time they place a deposit for a client and each time a change is made to a deposit
- To meet *CDIC Act* requirements, nominee brokers will need to:
 - Link all (existing) deposits on the records of MIs as of April 30, 2022 with UCIs, and
 - Link all new deposits placed for clients after April 30, 2022 with UCIs
- MIs will be required to retain, record and maintain accurate and complete deposit records for re-registration transactions, including UCIs
- These requirements are effective April 30, 2022 and are not discretionary: they apply to all nominee brokered deposits -- including existing deposits and net new deposits

2.2 Purpose of Industry Best Practices

- The GIC Deposit Re-Registration Industry Best Practices set out industry's approach for the processes that support the re-registration of GIC deposits that are transacted through/between nominee brokers and for timely updates to records of MIs
- The goal of the Best Practices is to ensure that these processes allow nominee brokers and MIs to meet their deposit insurance obligations related to nominee brokered deposits as set out in the *CDIC Act* and By-laws
- They form the basis for nominee brokers, MIs and CANNEX to implement system and procedural changes that enable electronic processing of nominee deposit re-registrations



2.3 Target Audience

- The GIC Deposit Re-Registration Industry Best Practices apply to all organizations that play a role in nominee brokered deposit industry and are involved in the process for placing client funds in deposit products held at MIs, including:
 - Broker/Dealer firms, Carrying Broker/Dealer firms and Introducing Broker/Dealer firms (collectively “brokerage firms”)
 - CDIC MIs
 - Data Service Providers that support brokerage firms and MIs
 - CANNEX Financial Exchanges Limited (“CANNEX”)
 - Relevant regulatory bodies (federal or provincial)
 - Other organizations that deal in nominee brokered deposits such as mutual fund companies, insurance companies, etc.



2.4 What is a Re-Registration of a brokered deposit?

- From a transactional perspective, re-registrations are defined as follows:
 - **Re-registration:** A deposit “changes” but stays with the same nominee broker; an internal or intra-dealer change where information flows from nominee broker to MI (i.e., internal re-registrations)
- For re-registration examples see Appendix A

2.5 Why Institute an Automated Process - Key Drivers

■ Deposit Insurance Requirements

- For the purposes of the CDIC deposit insurance framework, CDIC relies on the records of MIs to determine deposit insurance coverage
 - i.e., who is identified as the depositor/trustee and who is identified as the beneficiaries determine how deposits are aggregated for coverage
- When a deposit is changed (i.e., re-registered), the *CDIC Act* and By-laws require that key deposit information (i.e., UCIs) is transmitted/updated by brokers and received and recorded by MIs
- The timely alignment of depositor information between brokers and MIs is a critical element to ensure accuracy of records and overall compliance with the *CDIC Act* requirements
- BDAG discussions highlighted that existing re-registration process timeframes would not align with the requirements
 - Information misalignment increases risk of non-compliance with the rules and can result in reduced deposit insurance protection

2.5 Why Institute an Automated Process - Key Drivers (Cont'd)

- Client Satisfaction/Archaic Processes
 - GIC deposit re-registration processes have not been modernized as for other investment products (i.e., mutual funds); processes contain highly manual components (i.e., physical exchange of ownership docs)
 - Manual processes have been a long-standing client satisfaction issue (i.e., due to time delays); general agreement that current processes should be updated
 - *CDIC Act* amendments provide a catalyst for introducing more efficient processes
- COVID-19 Lessons
 - The COVID-19 situation has led to the development of new arrangements and workarounds to allow GIC transactions to continue to occur (i.e., inability to transmit physical documents)
 - While developed bi-laterally, these arrangements provide a foundation for an industry-wide platform for streamlined re-registration approach



2.6 Automated Process - Benefits and Incentives

- The automated process through which brokered GIC deposits would be re-registered carry several benefits for the brokered deposit industry:
 - Timely updates of MI records and closer alignment of records between brokers and MI to align with *CDIC Act* requirements (i.e., reduced non-compliance risks)
 - Improved accuracy of reporting of key NBD information for GICs by brokers and MIs to CDIC for deposit insurance calculation purposes
 - Greater process standardization for GIC deposits and a modern approach for re-registering GIC deposits
 - A more secure means of transferring key information related to GIC deposits between brokers and issuers
 - Reduced privacy and confidentiality risks related to the transfer of sensitive deposit data
 - Greater process efficiency and potential cost savings through automation (i.e., FTE reduction)
 - Better data quality due to reduced number of errors that occur with manual handling

2.7 Current Process for Brokered GIC Deposits

- GIC deposits are considered an over-the-counter product and are generally processed manually when re-registered (see process flow for details)
 - In contrast with processes for HISAs and market-linked GICs which are fully automated (similarly to mutual funds and other securities)
 - Recent industry estimates indicate that current processes to re-register brokered GIC deposits can take up to 4 to 8 weeks to complete (i.e., from initiation to full reflection on the records of the issuer)

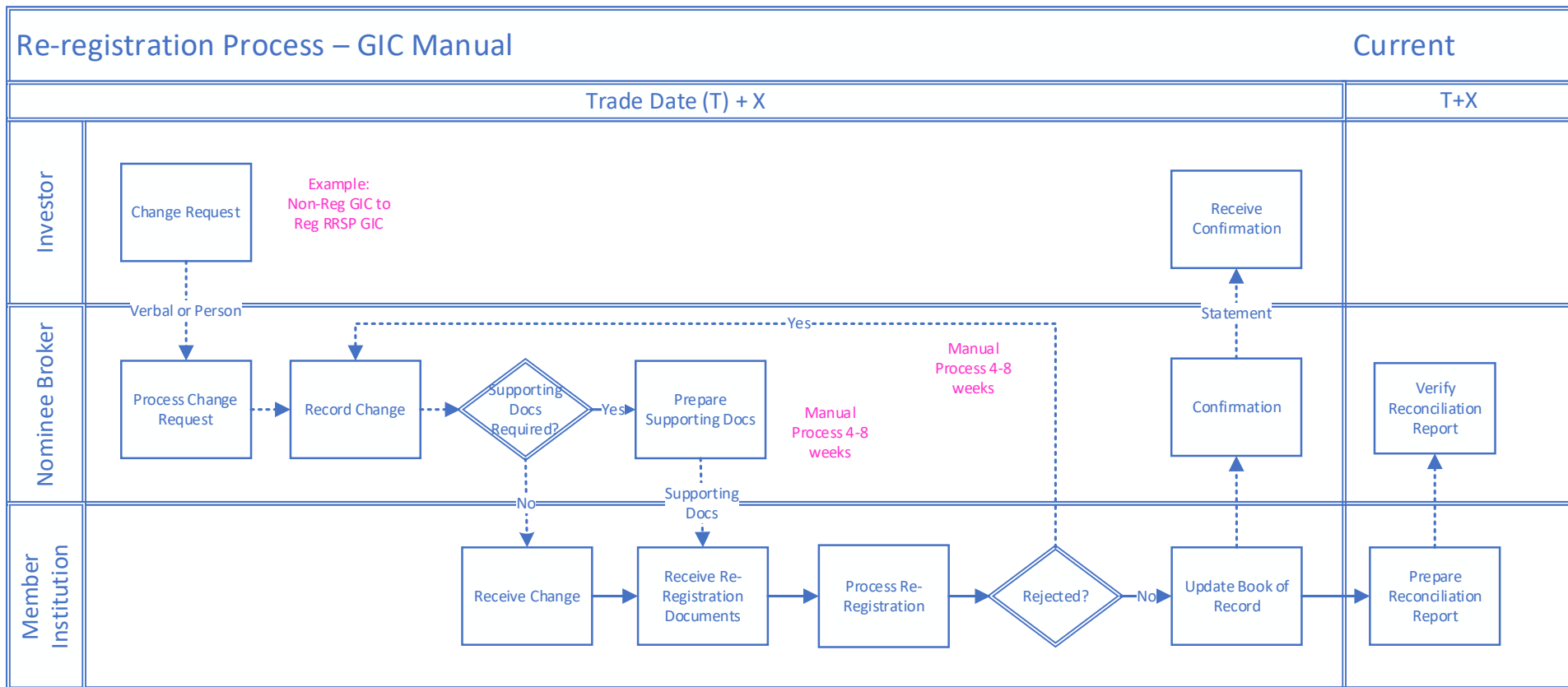


2.7 Current Process for Brokered GIC Deposits (Cont'd)

- Standing agreements between nominee brokers and MIs to allow for electronic transmission of required information and customer consent/ authorization/ownership documents for re-registrations are not common
 - Process requires exchange of physical copies of legal and other documentation supporting execution of GIC changes (typically by mail or courier) between brokers and MIs.
- Manual processes to support physical transmission of documents are time consuming, labour-intensive and prone to errors and privacy breaches (e.g., documents not received or misdelivered)
 - They can also create procedural uncertainty as there are no established standards to verify/confirm transaction completion



2.8 Current Process Flow - GIC Deposit Re-registration



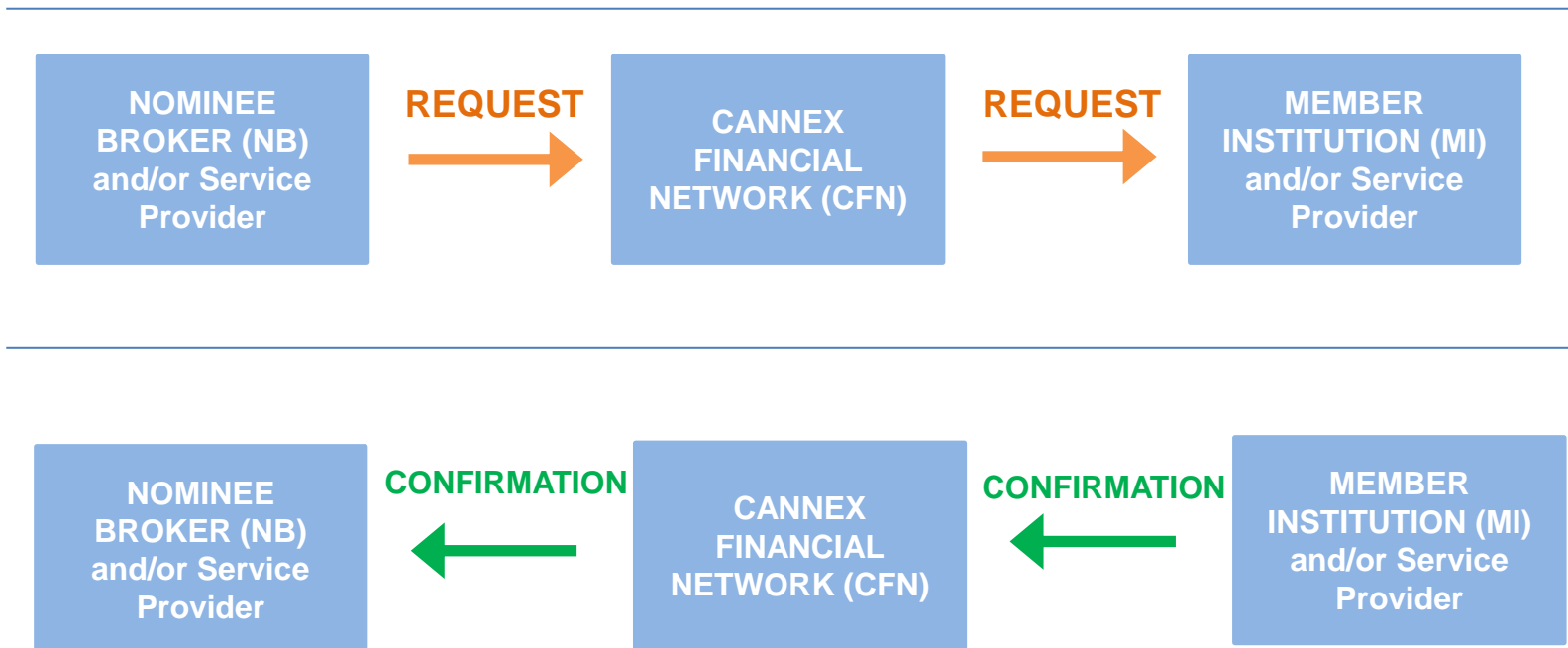
3. Automated Process for Re-registration of brokered GIC Deposits

3.1 Overview of Automated Process for Re-registration of GIC Deposits (facilitated by CANNEX)

- The process would automate the interaction between brokers and MIs (that are contracted clients of CANNEX and subscribe to the Re-registration service)
- This involves the automated generation of request files by brokers; validation and processing the request files by CANNEX; and uploading, databasing and confirming back the GIC information by the MIs
- For GIC deposits flowing through CANNEX, nominee brokers and MIs would use CANNEX's standard file formats for processing re-registrations via the CANNEX Financial Network (CFN)
- This re-registration process can be accomplished same-day through CANNEX, depending on timing of file request, upload and confirmation response by the respective parties.

3.2 Automated GIC Deposit Re-Registration - Process Flow

- GIC Internal Re-Registration Request and Confirmation Cycle (via CANNEX):





3.3 Roles and Responsibilities

- The information provided in the following slides sets out high-level roles and responsibilities that each party involved in GIC re-registration will play
- For legally binding roles and responsibilities please refer to the legal agreement between each party



3.3.1 CANNEX Financial Exchange Limited - Revised

- The CANNEX Financial NetworkSM (CFN) Transaction Processing Services will facilitate the automated processing of Nominee GIC transactions for CFN members, between the financial institutions who issue the GICs and the brokers who purchase GICs on behalf of their clients
- CANNEX offers an automated solution for processing GIC re-registrations-between nominee brokers and CDIC MIs that are contracted clients of CANNEX
- CANNEX's re-registration service is fee-liable.
- Contact CANNEX at 1-800-387-1269 (ask for CFN Business contact) or visit CANNEX website <https://www.cannex.com>



3.3.2 Nominee Brokers

- Nominee Broker is responsible for linking all existing deposits held at MIs as of April 30, 2022, with UCIs, and for linking all new deposits placed for clients, after April 30, 2022 with UCIs
- Nominee Broker must ensure that the UCI and all other required non-financial information is updated as soon as possible at MI
- Nominee Broker who participates in the automated process is responsible for entering into/executing an agreement with CANNEX
- Nominee Broker is responsible for subscribing to CANNEX's GIC Order/Confirmation Transaction Services in order to participate in their re-registration service
- Nominee Broker is responsible for administering CANNEX's file format
- Nominee Broker is responsible for automating file processing
- Nominee Broker is responsible for participating in testing with CANNEX between April 12 and September 17, 2021 (in production date begins October 2-3, 2021)
- Nominee Broker is responsible for correctly assigning UCI, LEI, beneficial ownership information/% and other information

3.3.3 CDIC Member Institutions

- MI is responsible for capturing/storing re-registration information as part of an existing or new deposit
- Nominee Broker must ensure that the UCI and all other required non-financial information is updated as soon as possible at MI
- MI who participates in CANNEX's re-registration automated service is responsible for entering into/executing an agreement with CANNEX
- MI is required to subscribe to CANNEX's GIC Order/Confirmation Transaction Services in order to participate in CANNEX's re-registration service
- MI is responsible for processing brokers' requests and sending confirmation in a timely fashion, either in T+0 or T+1
- MI is responsible for participating in testing (for Re-registration service) with CANNEX between April 12 and September 17, 2021 (in production date begins October 2-3, 2021)

3.4 Alternative Re-Registration Processes

- Certain participants may consider using alternate processes to transmit required information to re-register brokered GICs deposits
 - i.e., through an automated non-CANNEX facilitated process
- While not prohibited, it is incumbent on these participants to ensure that any chosen alternate process meets the same high standards for timeliness, accuracy and security as the process set out in these best practices
- Failure to do so increases the risk of incorrect or incomplete information regarding these GICs being exchanged between participants, therefore increasing the risk of non-compliance with the CDIC Act requirements



3.5 Industry Expectations

- The automated re-registration process set out in these Best Practices should be adopted by industry in the leadup to April 30, 2022 to meet the *CDIC Act* requirements to ensure all (existing) deposits on the records of MIs as of April 30, 2022 include UCIs
- Automation will support error-free transmission of NBD GIC data (i.e., UCI, LEI); facilitate reception and updating of MI files (i.e., consistent format to receive updated GIC deposit data and reduce risk of misaligned data and non-compliance with requirements)
- It is therefore strongly recommended that all industry participants adopt these best practices to ensure that required information is transmitted correctly between nominee brokers and MIs to ensure deposit insurance protection
 - This recommendation extends to the re-registration of GIC positions on the books of an MI on April 30, 2022 and/or any subsequent GIC placed at MIs after that date



3.6 Legal Requirements

- The automated re-registration of GIC deposits could require the electronic transmission of key legal/ownership documents.
- Two paperless approaches for supporting the automated GIC deposit re-registration solution have been identified by industry participants that should not require amendments to contracts as roles and responsibilities of Nominee Brokers and MIs (Issuers) remain unchanged.
 - **Electronic/Digital Process** whereby a nominee broker transmits the legal documentation as PDF attachments via a secure email as part of the re-registration process
 - **Automated Process** whereby a nominee broker maintains the legal/ ownership documentation and provides legal documentation to MI only upon the MI's request. The Nominee broker may consider how best to notify the MI that the appropriate legal/ownership documentation is available
- Depending on the nature of the re-registration, nominee brokers are expected to consult internal policies and procedures to determine which legal documents, if any, should be included as part of the re-registration process
- Nominee Brokers and MIs are expected to review their current agreements/ arrangements to confirm which of the two processes are available to them and determine the one that best meets their needs

3.6.1 Paperless Approaches for Sharing Legal Documentation

- **Electronic Process** - Nominee broker transmits the legal documentation as PDF attachments via a secure email as part of the re-registration process



- **Automated Process** - nominee broker maintains the legal/ ownership documentation and provides legal documentation to MI only upon the MI's request



Appendix A - Examples of Re-registration of brokered GIC Deposits

- **Re-registration:** GIC deposit stays with the same nominee broker. Examples include
 - Change in Account Type (e.g., move from an RRSP to RRIF account)
 - Change in Account Type (e.g., move from a non-registered to a registered account)
 - Change in beneficial ownership %
 - Change in beneficial owner of the GIC (e.g., death of spouse, GIC re-sold or GIC split and re-sold)

**Brokered Deposit
Advisory Group**
BDAG



**Groupe consultatif sur
les dépôts de courtiers**
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