

GIC Deposit Transfers Interim Approach

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Preamble

- The **GIC Deposit Transfer Interim Approach** was developed through the Brokered Deposit Advisory Group (BDAG), in collaboration with CDIC, to support the adoption of an interim industry approach for updating ownership information for GIC deposits when they are transferred (i.e., external transfers)
- The Interim Approach looks to facilitate standardization of industry processes used to transfer GIC deposits that are transacted through nominee brokers and is a stop-gap measure until a permanent automated solution for GIC deposit transfers is developed and implemented across the nominee broker deposit industry
- The Interim Approach looks to make the GIC deposit transfer process more efficient by reducing, to the extent possible, information misalignment between the deposit records kept by nominee brokers and CDIC member institutions as it relates to transfers; and help ensure nominee brokers and CDIC member institutions maintain complete and accurate deposit information as required under the *CDIC Act* and Bylaws.
- BDAG is committed to developing a long-term GIC Deposit Transfer Best Practices that would complement and fully 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 Bylaw (COTDB)*

1. Context

1.1 Implementing Automated Approaches

- Given new deposit insurance requirements for nominee broker deposits, BDAG determined that current manual elements of key GIC deposit processes required streamlining and automation to better align with the requirements in the *CDIC Act* and Bylaws
- Specifically, BDAG concluded that the existing manual processes related to the internal re-registration and external transfers of brokered GIC deposits involved important delays (up to several weeks) in the transmission of required deposit information that did not respect new data transmission timing requirements
- BDAG also concluded that due to different requirements and complexities separate automated processes were needed for GIC deposit re-registrations and transfers
 - The GIC Deposit Re-Registrations Industry Best Practices was published on April 30, 2021 and is available at <https://www.cdic.ca/wp-content/uploads/bdag-gic-deposit-re-registration-industry-best-practices.pdf>

1.2 Approach for GIC Deposit Transfers

- BDAG discussions on external deposit transfers identified several challenges to having an industry-wide automated process in place by the time the new *CDIC Act* requirements come into effect on April 30, 2022
- The decision was made to develop an interim approach for GIC deposit transfers that standardizes industry processes by having nominee brokers (NBs) and CDIC member institutions (MIs) use a template for effectuating GIC deposits transfers
- Industry participants should recognize that the interim approach is a stop-gap measure that will not fully address the alignment concerns with the *CDIC Act* requirements and Bylaws identified by BDAG, but if implemented widely by NBs and MIs will greatly reduce deposit insurance coverage risk
- While the interim approach will be used by industry over the medium-term, BDAG is committed to developing a robust automated GIC deposit transfer process in the longer term. This work will commence after April 30, 2022

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 NBs and MIs must meet to ensure that the deposits held for broker clients are protected
- A central change is the requirement for NBs 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, NBs 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 transfer 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 Interim Approach

- The Interim Approach for GIC Deposit Transfers sets out the industry's temporary solution for the processes that support the transfer of GIC deposits that are transacted through/between NBs and for improved updates to records of MIs
- The goal of the Interim Approach is to ensure that these processes allow NBs and MIs to reduce timelines for the transmittal of required information for GIC deposit transfers
- This interim approach forms the basis for NBs and MIs to implement system and procedural changes that enable faster, more efficient processes for GIC deposit transfer until a fully automated approach is developed and implemented by the nominee broker deposit industry
- Reduced timeframes for GIC deposit transfers is expected to help NBs and MIs better meet their deposit insurance obligations related to nominee brokered deposits as set out in the *CDIC Act* and Bylaws



2.3 Target Audience

- The Interim Approach for GIC Deposit Transfers 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 Transfer of a GIC deposit?

- From a transactional perspective, transfers of GIC deposits are defined as follows:
 - **Transfer:** A deposit “moves” in-kind from NB or legal entity to another; an external or inter-dealer change where information flows from one NB to another NB to MI (i.e., external transfers)
- For transfer examples see Appendix A

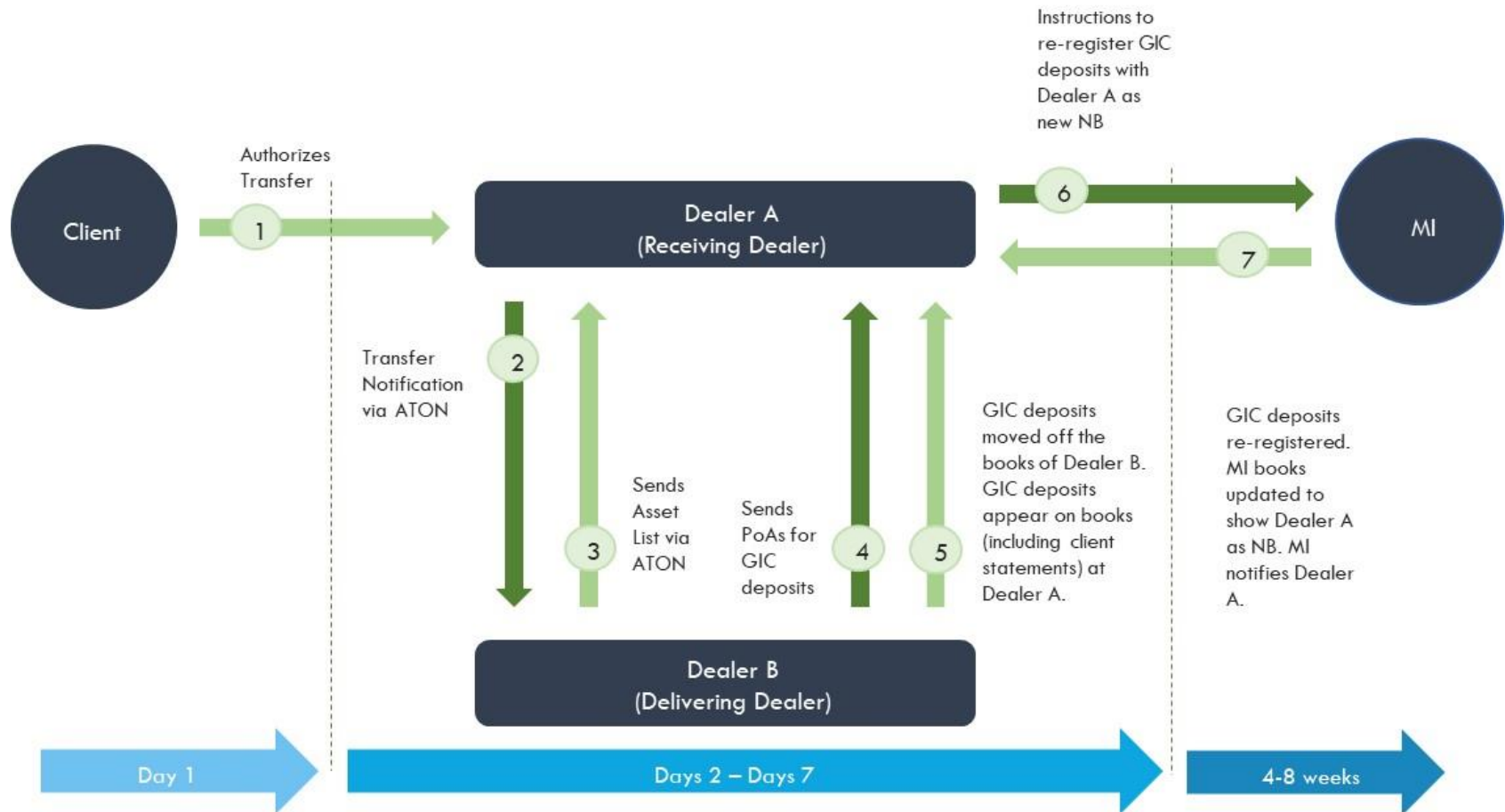
2.5 Current Process for GIC Deposit Transfers

- GIC deposits are considered an over-the-counter product and are generally processed manually when re-registered or transferred (see process flows for details)
 - In contrast with processes for HISAs and market-linked GICs which are fully automated (similarly to mutual funds and other securities)
 - While many securities (e.g., equities, bonds, etc.) may be transferred in-kind, from one NB to another, through CDS' ATON facility, GIC deposit transfers initiated through ATON are re-directed to a manual process
 - Recent industry estimates indicate that current processes to transfer brokered GIC deposits can take up to 5.5 to 9.5 weeks to complete (i.e., from initiation to full reflection on the records of the issuer)

2.5 Current Process for GIC Deposit Transfers

- There are no standing agreements between NBs and MIs to allow for electronic transmission of required information and customer authorization/ownership documents for transfers
 - Current process requires exchange of physical copies of legal and other documentation supporting execution of GIC changes between NBs and MIs
- Manual processes to support physical transmission of documents are time consuming, labour-intensive and prone to errors and privacy breaches
 - They can also introduce procedural uncertainty as there are no established standards to verify/confirm transaction completion

2.6 Current GIC Deposit Transfers – Process Flow and Timelines



3. Interim Approach for GIC Deposit Transfer



3.1 Overview of Interim Approach for Transfer of GIC Deposits

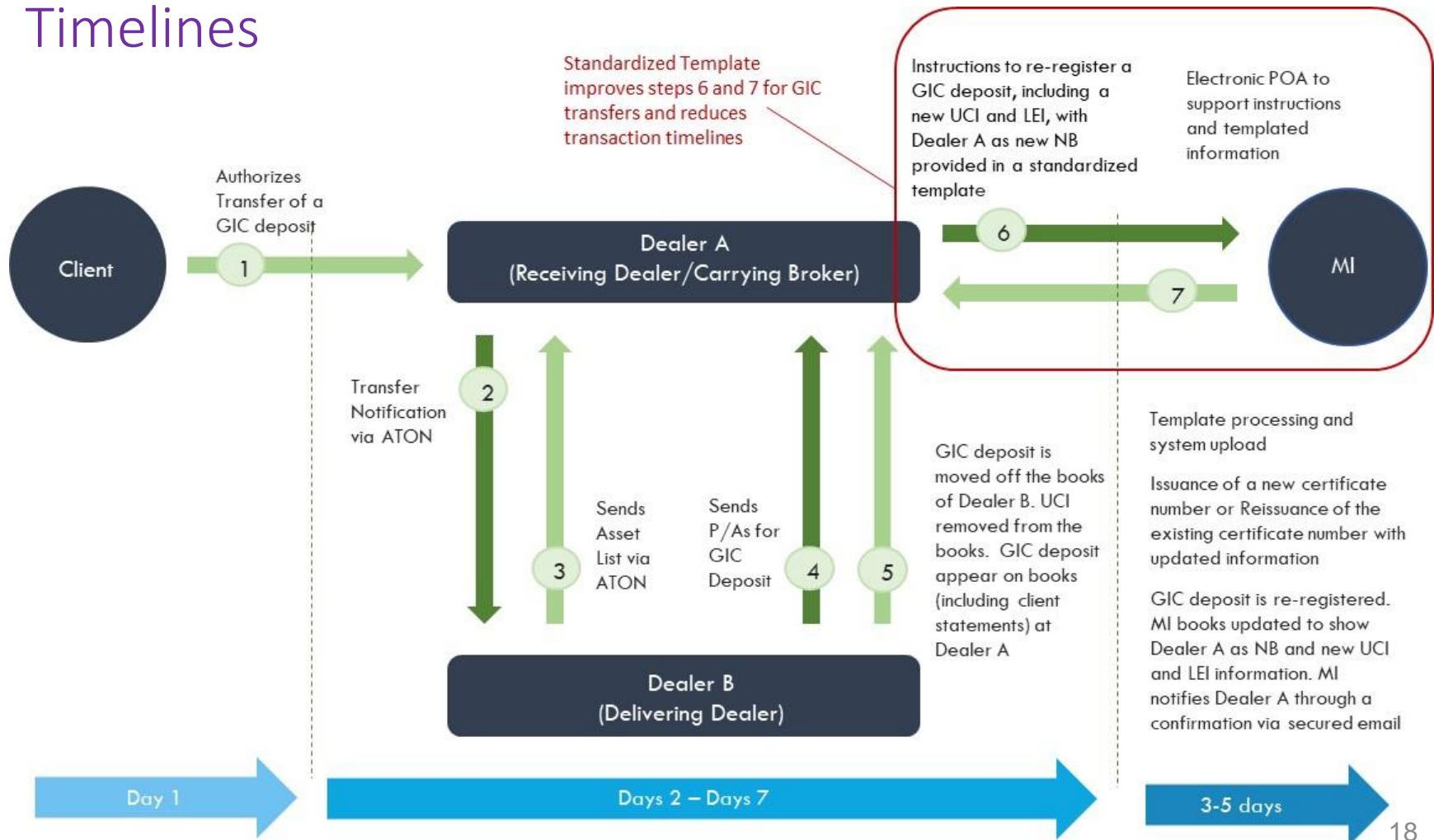
- The interim approach builds on bilateral processes implemented by some MIs, which support more streamlined and timely transfers of GIC deposits for NBs with whom they deal
 - At the core of these processes is a template that NBs populate electronically with relevant deposit information/instructions to effectuate a GIC deposit transfer
 - MIs use the information provided in the GIC deposit transfer template to update their systems to complete the GIC deposit transfer transaction and update the relevant records
 - The bilateral processes reduce timelines for GIC deposit transfer transactions and have been found to work well
- In light of the new *CDIC Act* requirements and the general desire across the industry to modernize GIC deposit transfers, BDAG determined that the bilateral process could be leveraged, with modifications, as a stop-gap measure until an industry-wide automated process is in place



3.1 Overview of Interim Approach for Transfer of GIC Deposits (Con't)

- The interim approach standardizes the GIC transfer process and the interaction between NBs and MIs , through a template that facilitates processing of the GIC transaction (steps 6 and 7 on slide 18)
 - Receiving NBs would use the template to generate a transfer request;
 - MIs would validate and process the templated request;
 - MIs would upload and database the GIC information and send confirmation back via secure email to brokers
- The use of the template can help reduce the deposit transfer timelines to within 3-5 business days provided: 1) the required information is in order, 2) the GIC deposit is in transferrable state, and 3) the timing of request, upload and confirmation response by the respective parties are completed
 - It is expected that each MI will develop its own IT solution to support uploading/databasing/ validating and confirming of the GIC deposit transfers
- For an overview of the standardized template please see slide 21. The full template is available at [<https://www.cdic.ca/wp-content/uploads/bdag-gic-deposit-transfer-blank-template.xlsx>]

3.2 Interim GIC Deposit Transfer – Process Flow and Timelines



3.3 Standardized Template in Support of Interim Approach

- The standardized template builds out the template currently in use by some MIs and NBs
 - The standardized template includes data fields that take into consideration existing roles, obligations, and requirements of NBs and MIs
 - The standardized template also includes new fields to incorporate the upcoming *CDIC Act* requirements, such as the UCI data, as well as various industry best practices documents developed by BDAG, such as LEI
 - For information on BDAG’s work, please visit: [Industry Best Practices \(Brokered Deposit Advisory Group – BDAG\) - cdic.ca](https://www.cdic.ca/industry-best-practices-bdag)
- The standardized template uses universal language to describe fields based on BDAG terminology
- In collaboration with CANNEX, for mapping the data points BDAG used CANNEX verbiage as a means of facilitating the adoption and integration of the standardized template across the industry

3.4 User Guidelines for Standardized Template

- The standardized template is provided by the MI/issuer to the receiving NB, who prepares the document for processing
- All fields are mandatory, unless otherwise marked “if applicable”
 - The standardized template is considered complete when all fields marked as mandatory are filled out
- The standardized template also includes additional information required by SROs for registering a deposit, such as a broker’s name
- For examples of a filled-out template, please see [<https://www.cdic.ca/wp-content/uploads/bdag-gic-deposit-transfer-template-with-examples.xlsx>]

3.4 User Guidelines for Standardized Template (Cont'd)

- The standardized template consists of four components
 - **Certificate details** - describes the current certificate and helps the issuer identify/retrieve the correct deposit: Column A-H contain the fields with relevant data points
 - **Current information about the deposit** - helps the issuer validate that responsibility for the deposit has been given to the receiving broker. Columns J-M contain the fields with relevant data points
 - **New Re-Registration Information** (sourced by the receiving broker) - helps the issuer to complete the re-registration of the deposit. Columns O-U contain the fields with relevant data points
 - **New Re-Registration Information** as it relates to UCI information. Columns W-onward contain the fields with relevant data point

3.5 Alternative GIC Deposit Transfer Processes

- Certain participants may consider using alternate processes to transmit required information to transfer brokered GICs deposits (i.e., through a non-standardized template)
- 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 the interim approach
- 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



3.6 Industry Expectations

- The GIC Deposit Transfer Interim Approach set out in this document should be adopted by industry in the lead-up to April 30, 2022 to meet the *CDIC Act* requirements to ensure all (existing) deposits on the records of MIs a when then come into force on April 30, 2022 include UCIs
- The interim approach will support more streamlined and timely transmission of GIC deposit transfers; 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 the interim approach to ensure that required information is transmitted correctly between NBs and MIs to ensure deposit insurance protection



3.7 Legal Considerations

- The interim approach to GIC deposit transfers will continue to require confirmation of key legal/ownership documents and industry participants have indicated a desire to move away from the physical (paper-based) transmission of these documents
- Two paperless approaches to address ownership documentation confirmation have been elaborated by BDAG participants that should not require amendments to broker/MI roles and responsibilities set out in existing contract/arrangements.
 - **Electronic/Digital Process** whereby a receiving NB transmits the legal documentation as PDF attachments via a secure email as part of the transfer process
 - **Semi-Automated Process** whereby a receiving NB maintains the legal/ownership documentation and provides legal documentation to MI only upon the MI's request. Receiving NBs may wish to notify the MI that the appropriate documentation is available

3.7 Legal Considerations (Cont'd)

- Depending on the nature of the transfer, NBs should consult internal policies and procedures to determine which legal documents, if any, must be included as part of the transfer process
- NBs and MIs are expected to review their current arrangements to confirm which of the two processes best meets their needs
- Relinquishing and Receiving NBs would continue to use existing processes to exchange transfer-related information with each other as per current approach

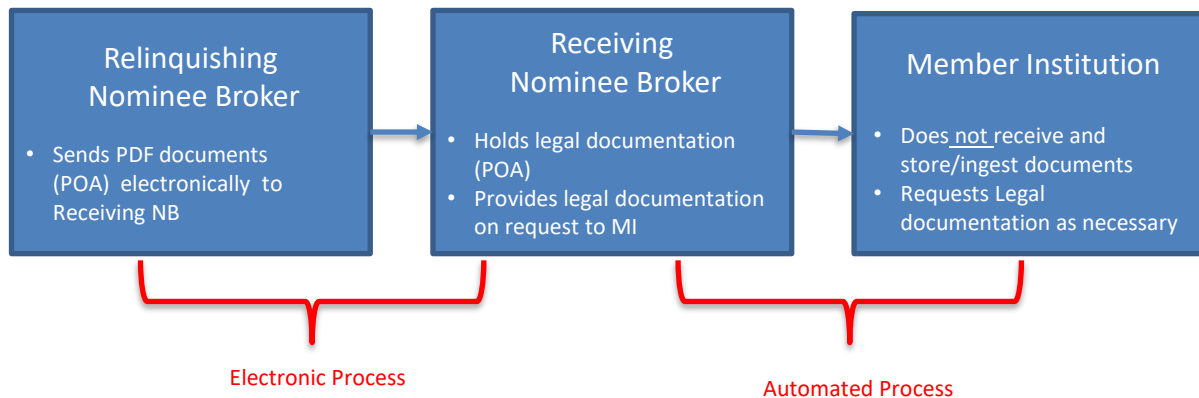


3.8 Paperless Approaches for Sharing Legal Documentation

Electronic Process



Semi - Automated Process



4. Long-Term Automated Solution for GIC Deposit Transfers

4.1 Approach to Developing a Long-Term Solution

- In the longer-term, BDAG is committed to developing a robust GIC deposit transfer process that would automate the interaction between NBs and MIs by enabling the electronic exchange, confirmation and verification of information/documentation required for deposit transfers
- Discussions to launch the development of a long-term automated solution for GIC deposit transfers are expected to occur soon after the new requirements under the *CDIC Act* and CDIC Co-Owned and Trust Deposit Disclosure Bylaw come into effect on April 30, 2022
- This work will be critical to ensuring the ongoing alignment of deposit information between NBs and MIs and therefore the accuracy of records and overall compliance with the *CDIC Act* requirements

Appendix A - Examples of Transfers of Brokered GIC Deposits

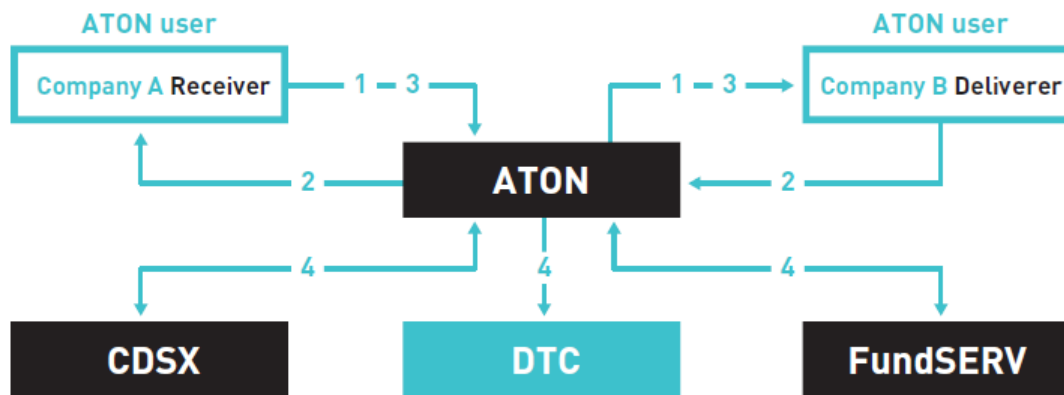
- **Transfer:** GIC deposit moves from one NB to another NB. Examples include
 - Advisor (including clients) moves to a different NB;
 - Client deposit moves from one NB to another NB;
 - Client moves deposit from one Legal Entity to another at the same MI;
 - Client deposit moves from one Introducing Broker to another while using the same Carrying Broker)



Appendix B - Overview of Transfer Process for Brokered Securities (excluding GIC Deposits)

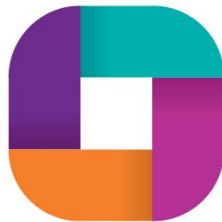
- Currently, industry participants use the Account Transfer Online Notification (ATON), to exchange and confirm requests for transfer (RFTs) and asset list details between the deliverer and receiver of account transfers.
- ATON transfers information and facilitates the automated exchange of cash and securities including:
 - Debt (e.g., Government of Canada marketable bonds and T-bills, provincial and municipal bonds, corporate and strip bonds)
 - Equity (e.g., shares, rights, warrants)
 - Money market instruments (e.g., bankers' acceptance, commercial paper)
 - Mutual funds
 - Depository Trust Company (DTC) eligible securities
- All IIROC dealers must use the ATON system to facilitate transfers to/from other IIROC dealers. ATON is available for use by MFDA dealers but not mandated.
- ATON enables transfers between IIROC dealers; between MFDA dealers; and between IIROC and MFDA dealers.

Appendix C – ATON Process



1. The receiver of the new account sends instructions (RFT) through ATON to the deliverer who is relinquishing the account.
2. The deliverer returns the RFT listing the client assets (asset list) that will be transferred.
3. The receiver confirms the RFT or disputes the assets identified.
4. Once confirmed, eligible items to be transferred through ATON are settled (cash and securities go through CDSX or DTC, and investment funds through FundSERV).

**Brokered Deposit
Advisory Group**
BDAG



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