



Reconciliation Reporting Template and Best Practices for Non-Automated Deposit Transactions

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Preamble

- The **Deposit Reconciliation Reporting Template and Best Practices (DRR Best Practices)** was developed through the Brokered Deposit Advisory Group (BDAG), in collaboration with CDIC, to support the full implementation of the new *CDIC Act/By-law* requirements for **Nominee Brokered Deposits (NBDs)** and support **nominee broker (NB)** and **member institution (MI)** compliance with these new rules.
- The new framework for NBDs, introduce several new requirements that will involve key data/information to be transmitted from the NB to the MI to ensure that CDIC has access to the information it needs to protect these deposits.
- The DRR Best Practices looks to help facilitate standardization of industry processes used to **reconcile** deposits that are transacted between NBs and CIDC MIs through means outside of the automated processes supported by CANNEX and Fundserv, with a view to ensure that all required information has been properly sent, received and recorded by industry participants.
- The Best Practices will allow industry participants to more readily identify situations where required information has not been sent/received and should allow participants to rectify these deficiencies proactively, to minimize instances of non-compliance with the new rules.
- It is to note that the reconciliation of deposits transacted through CANNEX and/or Fundserv platforms is an area of work either completed or under consideration by these Platforms.

1. Context



1.1 Information Transmission Requirements

- Upcoming changes to the *CDIC Act/COTDB* require that:
 - NBs transmit certain prescribed information to MIs with each nominee brokered deposit (NBD) made and changed (e.g., UCI, SIA-type, \$ amount or % interest in the deposit associated with each UCI, etc.)
 - If MIs fail to receive any required data from a NB for a NBD transaction, MIs must notify the NB of any non-compliance, including fact that broker failed to comply with the requirements and details of what info was missing, as soon as possible after the failure is identified, for correction
 - CDIC will rely on NBD information recorded on the books of the MI as basis to determine CDIC coverage applicable to NBD positions in event of an MI failure
 - Information regarding the changes can be found at: [Industry Best Practices \(Brokered Deposit Advisory Group – BDAG\) - cdic.ca](#)



1.2 Existing Reconciliation Process

- Industry has indicated that that MIs/brokers currently have in place industry-level verification tools (e.g., periodic reconciliations) to ensure deposit transaction accuracy and to confirm alignment of NBD positions across broker and MI records.
- Existing industry verification/reconciliation tools are generally exercised in the following context:
 - Performed at an aggregate level and not at a transaction-level
 - Do not specifically focus on the new NBD data elements required by CDIC
 - Are carried out at a frequency that may or may not support the timely identification/remediation of NBD data transmission failures and/or inconsistencies between broker and MI records



1.3 Current Reconciliation Approaches

- The scope of current industry-level reconciliation tools are typically based on the manner in which the deposits are transacted:
 - Deposits transacted through the Fundserv or CANNEX automated platforms are typically reconciled using Fundserv’s or CANNEX’s existing reconciliation reporting process
 - The CANNEX and Fundserv reconciliation processes provide a strong level of standardization for those brokers/MI that use their platforms
 - Deposits transacted directly between NBs and MIs outside these automated platform processes are generally reconciled bilaterally between the MI and the NB who are party to the transactions (e.g., using manual processes)
 - There is currently no industry-wide standardization of this bilateral reconciliation process



1.4 Updating Industry Reconciliation Processes

- Industry participants have identified the need to update NBD reconciliation reporting processes to reflect new requirements that take effect on April 30, 2022
- Key benefits of updating reconciliation reporting processes include the following:
 - **Process Accuracy:** helps industry ensure and monitor the overall efficacy of key processes developed to meet CDIC information requirements
 - **Error Identification:** allow MIs and NBs to proactively identify key NBD information gaps in their respective systems and take steps to remediate to avoid compliance issues and ensure DI protection for clients' funds
 - **Compliance Attestations:** supports increase MI and NB confidence in the accuracy of attestations made to CDIC regarding overall compliance with new rules
 - **DI Coverage:** ensure all information required by CDIC is aligned between MI and NB to ensure strong deposit insurance protection
- A robust, standardized industry-wide reconciliation process could be leverage by CDIC over time as a key sources of NBD industry risk mitigation information that could feed into its compliance and testing approach
 - **NB and MI reconciliation processes should be clearly outlined in respective Policies and Procedures related to compliance with NBD information requirements**



1.5 Target Audience

- The DRR Best Practices are applicable 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
 - Financial Exchange Platforms (CANNEX, Fundserv)
 - Relevant regulatory bodies (federal or provincial)
 - Other organizations that deal in nominee brokered deposits such as mutual fund companies, insurance companies, etc.

2. Updating Reconciliation Processes



2.1 Automated Reconciliation Processes

- Most NBDs protected by CDIC flow through the CANNEX or Fundserv platforms. Each platform has looked to ensure that new requirements are reflected in core transaction processes and safeguards have been developed to minimize the incorrect transmission of required information
- CANNEX and Fundserv have established reconciliation processes available to users/members to reconcile deposit positions. Both Platforms indicate that modification to these processes can be made to reflect new requirements in their reconciliation reports
 - Fundserv has completed key adjustments to its reconciliation reporting processes to fully integrate the *CDIC Act/By-law* requirements
 - CANNEX will also be updating its reconciliation reporting files to reflect the *CDIC Act/By-law* requirements
- As an industry preferred approach, NBs and MIs are strongly encouraged to use these automated reconciliation options whenever possible
 - **Information on how to contact CANNEX and/or Fundserv can be found in Annex A**

2.2 Manual Reconciliation Processes

- For various reasons, not all deposits flow through the automated platforms and are placed bilaterally between NBs and MIs (i.e., through more manual processes)
- These deposits do not benefit from the safeguards that automated processes have in place to ensure required deposit information is transmitted between NBs and MIs, increasing the risk that incomplete or incorrect information is transmitted
- This situation could negatively impact deposit insurance protection as it would create misalignment between the records of NBs and MIs
- A broadly applicable and consistent reconciliation process is therefore important to ensure that misalignments are identified and addressed in a timely manner to ensure robust deposit insurance protection



2.3 Bilateral Reconciliation Processes

- Currently, certain MIs have in place bilateral reconciliation processes and templates with the NBs they deal with, which look to simplify the current MI-to-NB reconciliation process for manually transacted deposits
- These processes/templates have been successful in ensuring the broad reconciliation of NBD positions between NBs and MIs. However, these bilateral arrangements have some important shortcomings considering the new requirements, including:
 - They do not reflect the new information required under the *CDIC Act/By-laws*
 - They are sometimes used for NBD transacted through automated processes where MIs/NBs choose not to use the automated reconciliation option
 - They are not standardized across the NBD industry and can differ from MI to MI
 - The lack of standardization imposes challenges for NBs to implement into their systems
- The new NBD Framework provides an opportunity to update, improve and standardize the manual reconciliation processes to ensure they meet industry participants needs and help ensure compliance with the new requirements



3. Deposit Reconciliation Reporting (DRR) Template



3.1 Standardized Template

- To support strong reconciliation reporting when the new NBD Framework takes effect, industry has developed a standardized reporting template that can be broadly implemented by MIs and NBs
- The template builds on work undertaken by certain MIs to update their existing bilateral reconciliation reporting templates to integrate key CDIC required information in preparation for the new framework taking effect
- In developing the template, industry participants sought to maintain key deposit information required by NBs to reconcile the deposit positions held at CDIC MIs while integrating key required information to align with the *CDIC Act/By-laws*

3.2 New Reconciled Information

- The template integrates the following new required information for ongoing reconciliation:
 - The Unique Client Identifier (UCIs)
 - Applicable to trust account beneficiaries and beneficial owners of SIA plans
 - The number of beneficiaries and/or co-owners in the deposit
 - Beneficial share /interest for each UCI related to each deposit
 - The deposit Special Income Arrangement (SIA) type with the Insurance Determination Category (IDC) type
 - The flagging of UCIs that are beneficial owners of SIA deposits
 - The account balances of NB deposits
 - The LEI of an Introducing Broker if an IB/CB arrangement



3.3 Reconciliation Template Link

- [<https://www.cdic.ca/wp-content/uploads/bdag-deposit-reconciliation-reporting-template.xlsx>]



3.4 Application of the Template

- The template is designed to be broadly applicable by MIs with their NBs and should facilitate the integration of the template elements into key systems
- While MIs and NBs are not obligated to use this template to reconcile their deposit information, the use of the standardized template is the **industry's preferred approach** to reconciling deposit positions and information once the new requirements are in place
- The template has been developed in coordination with CDIC, and they have expressed **strong support** for this standardized template approach as a means of ensuring strong compliance with the *CDIC Act/By-laws* across the NBD industry



3.4 Application of the Template (con't)

- Failure to use this template could increase the risk that incorrectly transmitted or missing required information is not identified by NBs and MIs. This could place NBs and MIs in non-compliance with the new requirements and negatively impact deposit insurance protection provided by CDIC
- For clarity, while the standardized reconciliation process assists industry participants in ensuring compliance with the new *CDIC Act/By-law* requirements, it does not replace the requirement for MIs to report an NBs failure to report required information as soon as possible
 - as set out in section 8(5) of the *CDIC Act* and section 14 of the CDIC Co-owned and Trust Deposit Disclosure By-laws

4. Guide for using the DRR Template



4.1 Key Template Design Features

- **Single Spreadsheet Design:** the template was developed as a single spreadsheet to facilitate MI and NB integration of the key template information into existing systems
- **Multiple Owners and Beneficiaries:** the template is designed to allow for the reconciliation for deposits with multiple co-owners and/or multiple beneficiaries
 - Based on input from industry participants, the template allows for reporting of up to 12 co-owners and 25 beneficiaries
 - Deposit that fall outside these parameters are to be dealt with bilaterally by the MI and NB
- **Mandatory Fields:** all the fields set out in the template are mandatory fields for reconciliation reporting purposes, unless specifically identified as optional
- **Key Deposit Examples:** The template included several deposit examples to facilitate understanding of how different types of deposits should be reported for reconciliation through the template



4.2 Frequency of Reconciliation

- As an industry best practices, the reconciliation of the deposit positions held by NBs at CDIC MIs should be completed at **a minimum on a monthly basis**
 - Monthly reconciliation represents the current reconciliation standard within the NBD industry
- Regardless of this minimum frequency, MIs and related NBs should establish bilaterally whether a more frequent reconciliation approach would be appropriate to establish that required information has been transmitted/received correctly
 - Determination on frequency should be based on multiple factors including the volume of deposits transacted between the NB and MI, the complexity of transacted deposits (i.e., multiple beneficiaries/co-owners), etc.
- Failure to establish an appropriate reconciliation frequency could result in increased risk of MI and/or NB non-compliance with the *CDIC Act/By-law* requirements



4.3 Addressing Reconciliation Errors

- Efforts should be made by NBs and MIS to review reconciliation reports with a view to identifying and rectifying any errors/inconsistencies as quickly as possible
- As an industry best practice, such errors/inconsistencies should be identified by the NB with the respective MI as soon as possible, and when possible, **within 10 business days** of receiving the reconciliation report
- Similarly, MIs that receive reports of reconciliation errors from their NBs should update their systems with the revised deposit information as soon as possible, and when possible, **within 10 business days** of receiving the updated information
- If a NB receives a reconciliation report and identifies no errors/inconsistencies, the NB should confirm this with the MI (e.g., by email) as soon as the review of the report is completed
- If a MI receives revised deposit information from a NB stemming from a reconciliation report and updated its systems accordingly, the MI should confirm this with the NB (e.g., by email) as soon as the update is completed



Appendix A - CANNEX and Fundserv Contact Info

- CANNEX Contact Info:
 - Kimberley Muise
kimberley.muise@cannex.com
cfn.support@cannex.com

- Fundserv Contact Info:
 - Russ White
russ.white@fundserv.com

**Brokered Deposit
Advisory Group**
BDAG



**Groupe consultatif sur
les dépôts de courtiers**
GCDC