



Canada
Deposit Insurance
Corporation

Société
d'assurance-dépôts
du Canada

CDIC NBD Compliance Framework Approach Overview

Version: 1.0

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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. Nominee Brokers (NBs) and Member Institutions (MIs) must comply with these requirements***.
- 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

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.

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.

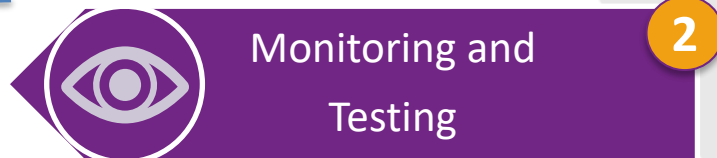
CDIC NBD Compliance Framework - Four Pillars

PILLARS

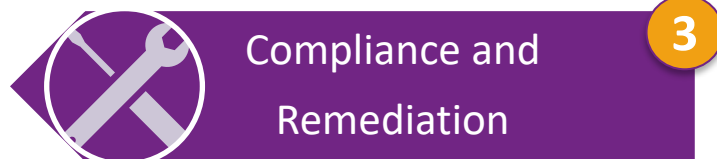
OBJECTIVES



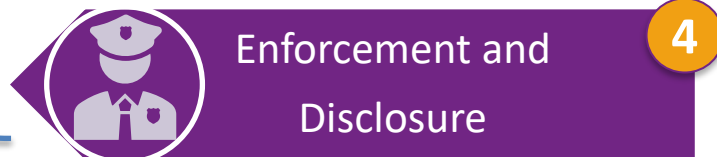
Industry awareness; tracking progress towards compliance; maintain strong industry awareness/compliance



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



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

Supported by a new CDIC Broker Portal

Pillar 1: Promotion, Awareness and Education

- Strong CDIC engagement 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

Pillar 1: Upcoming Activities

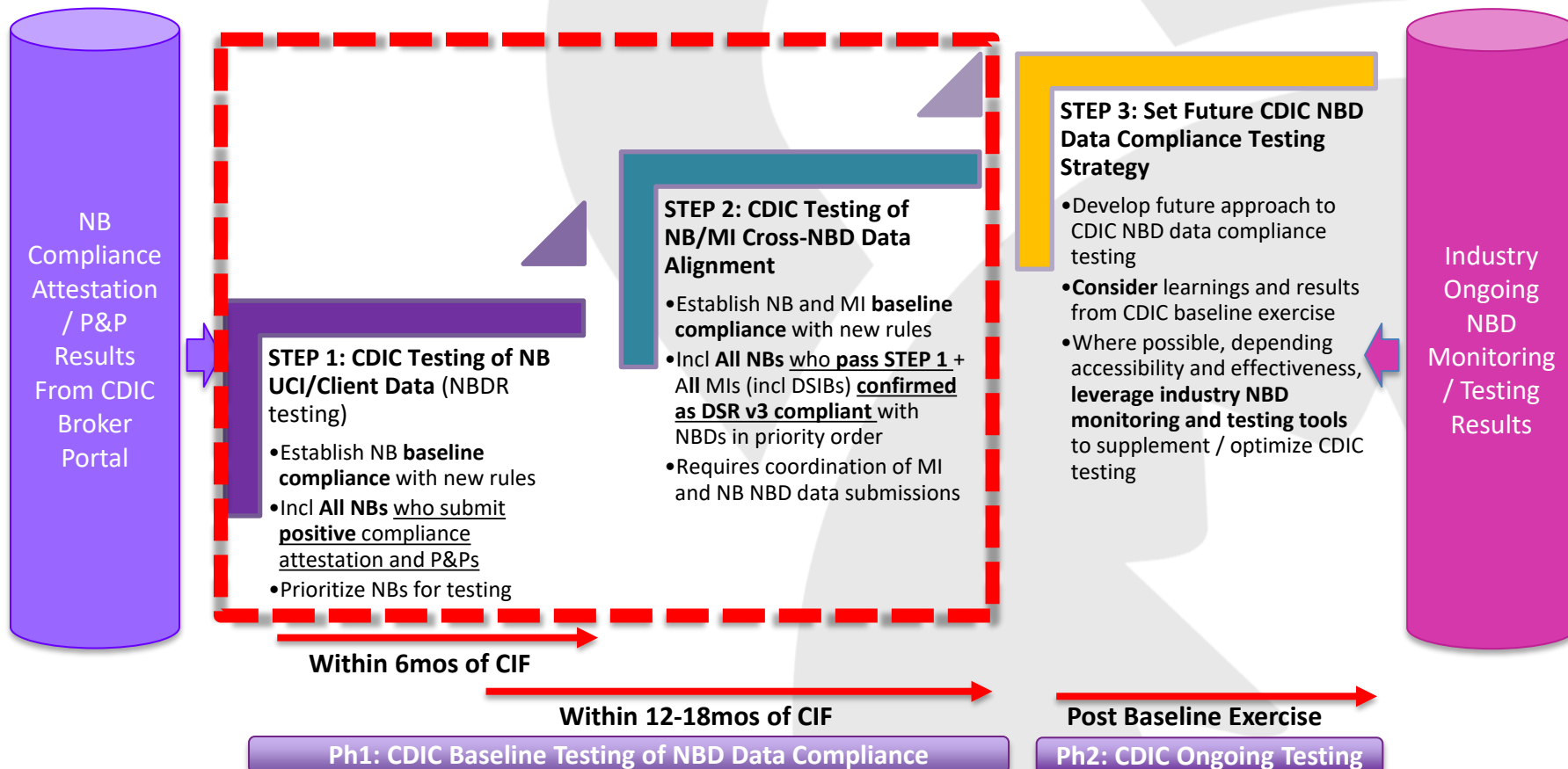
- Planned activities in lead up to CIF:
 - Industry survey on implementation progress (Spring 2021)
 - Confirm established implementation timeframes with key NBD Stakeholders (i.e. from published UCI Data Transmission Timeline)
 - Identify possible impediments to full compliance by April 30, 2022
 - Outreach to NBs for baseline data (April/May 2021)
 - Will support NBD Compliance Framework and Broker Portal
 - Confirm NB universe, gather basic demographic info, confirm deposit activities, etc.
 - Assessment of NBDR* pre-testing (Ongoing)
 - Permit NBs to assess compliance readiness prior to CIF
 - Participation is voluntary and deficiencies not deemed non-compliance

* Refer to Annex for details of CDIC Nominee Broker Data Requirements (NBDR)

Pillar 2: Compliance Monitoring and Testing

- Monitoring and testing after the CIF date 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

Data Compliance Testing Approach – Sequencing and Timing



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

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 non-compliance 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

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)

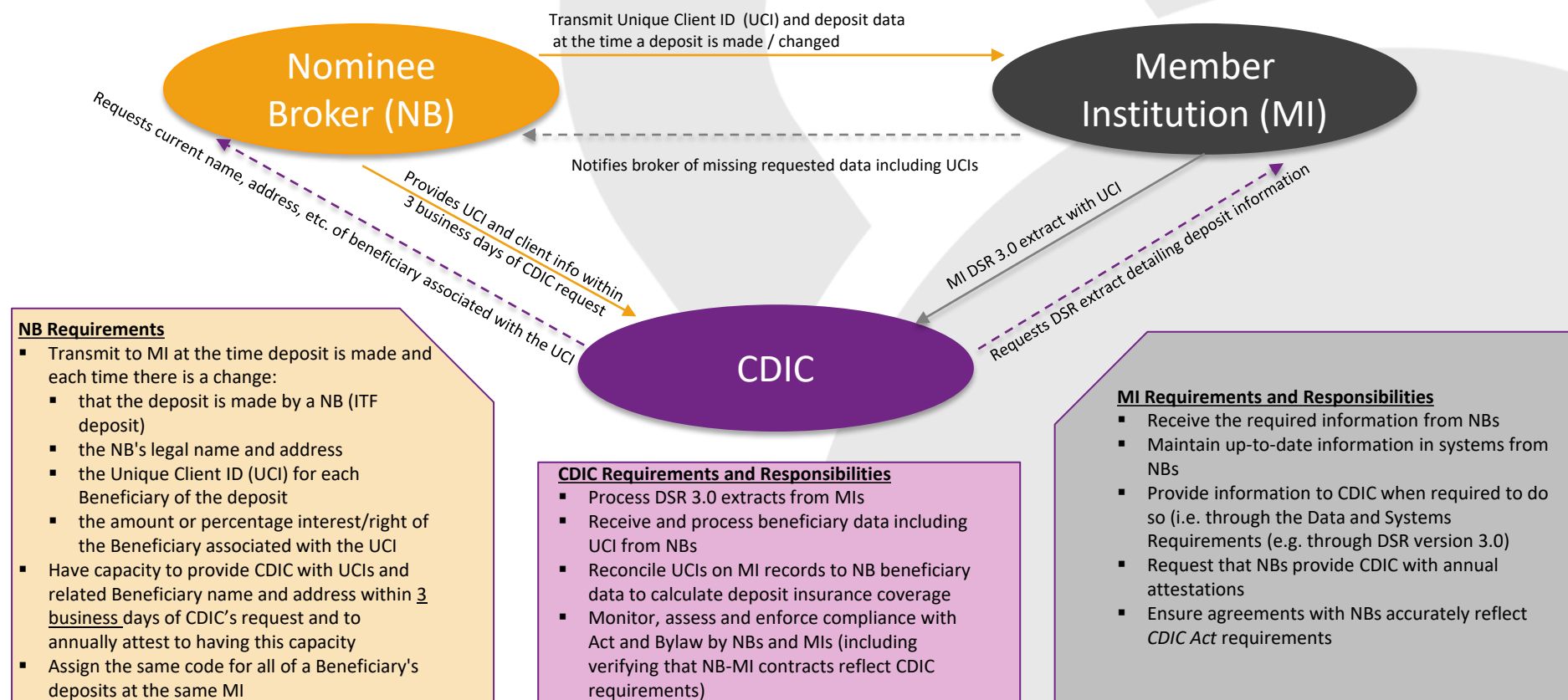
* Refer to Annex for highlights of the new CDIC Broker Portal

Questions?

- Any questions, please feel free to contact us at questions@cdic.ca.

Annex

Overview of CDIC Requirements for NBDs



NB Requirements

- Transmit to MI at the time deposit is made and each time there is a change:
 - 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 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

** 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.

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

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 **NOT** require:
 - A separate SFTP process
 - Any specific plug-ins from the NB