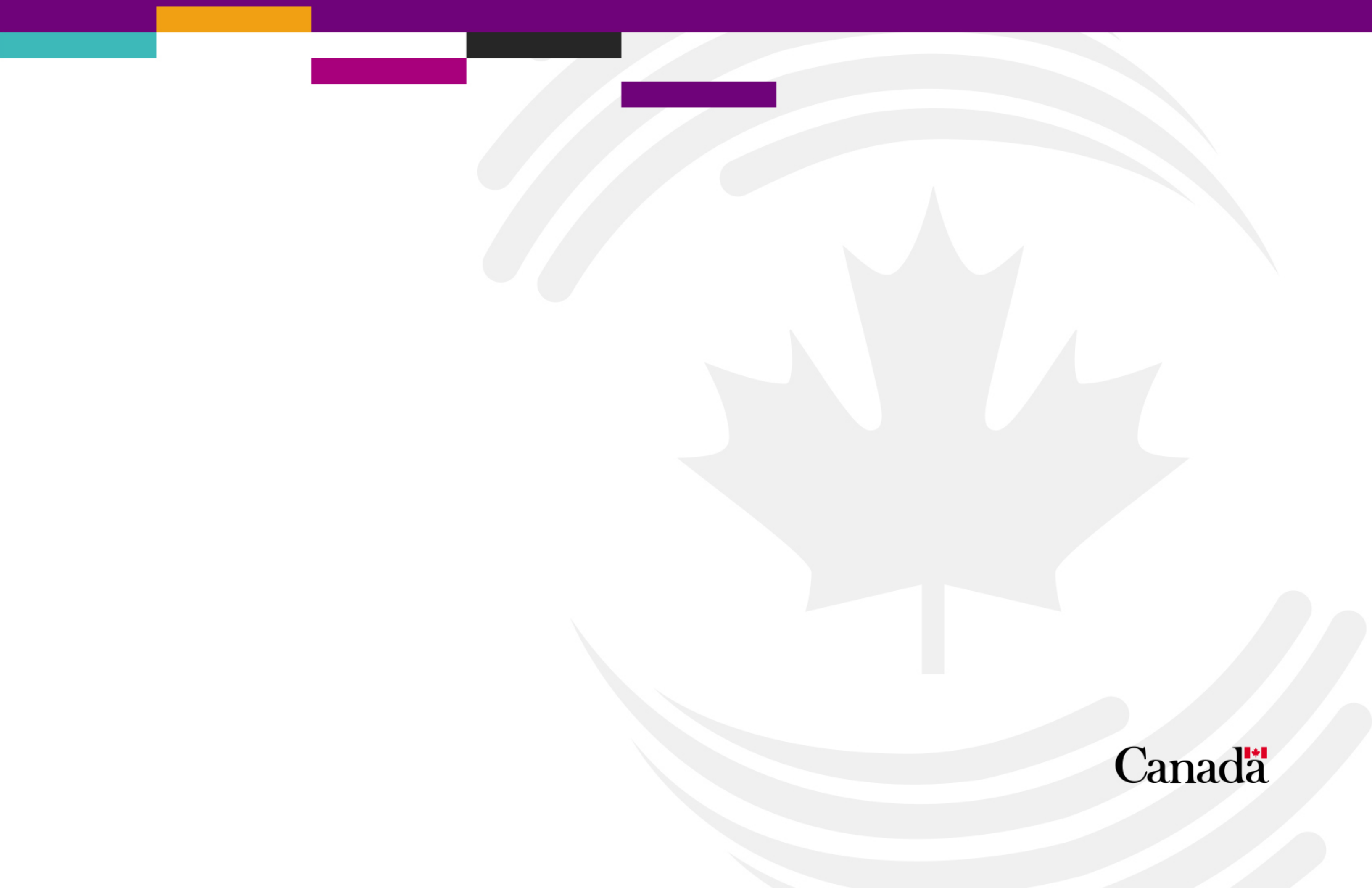
CDIC | SADC
Canada Deposit Insurance Corporation | Société d'assurance-dépôts du Canada

An Overview of CDIC's History and Evolution

1967-2015



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Introduction

Around 1913, when revisions to the Bank Act (BA) introduced the ability for a shareholder's audit of each bank, depositor protection was present in the form of senior management and shareholder liability for net losses associated with a failed bank (i.e., double liability). Due to the failure of Home Bank in 1923, improved oversight was established through the creation of the Office of the Inspector General of Banks (OIGB), and the double liability concept was formally removed in 1950. Many changes have taken place since then towards protecting the interests of depositors and promoting financial stability. This note describes the origins of the federal plan of deposit insurance, its evolution within the federal financial institution safety-net, and the material developments that drove these changes.

This note draws primarily on the work of the Porter Commission, Wyman Committee, Estey Commission and Mackay Task Force, the numerous policy papers and Budget documentation issued by the Department of Finance over the years, CDIC annual reports, and the public records of relevant House of Commons Debates, among other sources.

The failures of the 1960s - The establishment of CDIC

By the early 1960's, an increasingly competitive deposit-taking industry raised concerns about its potential impact on overall monetary policy and financial stability. At that time, and until 1967[1], banks were limited to charging an interest rate of 6% on loans, which, in combination with the rising interest rates during that period and certain other factors, resulted in banks being largely excluded from the mortgage market[2]. At that time there were also some concerns about the concentration of banking in a few banks and the need to have more/new banks. Other concerns pertained to the jurisdiction over deposit-taking, weak and varied provincial standards, and the control of the money supply if a significant portion of the deposit-taking business would be outside the control of the Bank of Canada.

In 1961 the Government formed the Porter Commission to conduct a study on the Canadian financial landscape. The 1964 report generally favored deregulation, open markets, broader powers for banks, and innovation. With respect to public protection the report was light and stated that "the public dealing with financial institutions and markets can never be guarded against loss" and that "the best way of reconciling the need to protect the public with the need to keep the financial system flexible…is through high standards of self-regulation[3] and disclosure backed by a thorough, but not rigid, system of government inspection". The Porter Commission regarded the supervision that took place at the time to be "good and thorough" and that "given such regulation" it did not see the need for a deposit insurance plan "especially as none of the institutions thought it desirable". In relation to the inspection of financial institutions, the Commission recommended broadened coverage under the BA, expanded staff for the OIGB[4], and additional supervisory powers, such as the power to require institutions to take the necessary steps to achieve a sound financial condition.

Around 1965, the events surrounding the failure of the Atlantic Acceptance Company (AAC), including the move by the Government of Ontario to protect depositors and restore confidence, amplified concerns over inconsistent financial standards and inadequate supervision at the provincial level, and strengthened arguments in favor of a federal plan of deposit insurance. In 1966, the failure of the Prudential Finance Company (PFC) received a lot of publicity as well, further increasing pressure for federal Government action.

These events resulted in the Government's focus on restoring public confidence in Canada's deposit-taking institutions, bringing about a gradual improvement in financial standards, and enhancing stability by considering inducements to bring provincial financial institutions within the federal framework. The Government also remained focused on enhancing the competitive

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[1] *The 1967 amendments to the BA also increased the maximum loan to value ratio to 75%, permitted banks to make uninsured mortgage loans, prohibited interbank agreements on interest rates, and introduced the 10% rule on share ownership.*

[2] *The demand for mortgages was high at that time and other types of institutions moved aggressively into the deposit business. As a result the banks' share of institutional assets decreased from 87% in 1945 to 66% in 1962.*

[3] *"The main job of the government authority must be to stimulate the financial institutions to create their own internal regulation".*

[4] *Irrespective of this recommendation, the total staff complement of the OIGB was only 4 a decade after the Porter Report (1974).*

position of the smaller banks, and attracting new banks. The Government felt that the introduction of a deposit insurance scheme could be relevant to meet these goals.

In 1966 the Minister of Finance announced the intention to proceed with a federal plan of deposit insurance, with the caveat that "deposit insurance is not the answer to all the problems involving the supervision of financial institutions in this country". He described the objectives of the deposit insurance plan in general terms during the House of Commons debates in January, 1967, as:

- to ensure the safety and soundness of those depositors who are usually not in a position to judge for themselves the financial soundness of the institution holding their deposits;
- to ensure adequate inspection of deposit-taking institutions; and
- to provide a source of emergency liquidity to deposit-taking institutions as a lender of last resort at times of crisis when these institutions may not have access to their normal sources of liquidity.

Following the announcement, the Canadian Bankers Association (CBA) expressed concerns that a plan of deposit insurance would not by itself guarantee safety for all creditors and that it would be better to rely on adequate supervision, arguments that remained largely consistent with the views of the Porter Commission.

During the debates on the proposed CDIC Act, the Minister of Finance highlighted the role of CDIC as a source of emergency liquidity or open bank assistance. This Lender of Last Resort (LLR) function was aimed at relieving liquidity pressures or 'buying time' to avoid the need for a troubled institution to engage in a fire-sale of assets, which would increase the risk of loss to CDIC and could be seen as incongruent with CDIC's object to 'manage the fund'. The failures of AAC[5] and the PFC, the run on the Montreal City and District Savings Bank in 1967, and the liquidity problems at York Trust[6], drove an interest in this role.

The interplay between the CDIC LLR role[7] and the LLR role of the Bank of Canada did not receive a lot of debate at the time. While CDIC is not restricted in exercising an LLR role for Federal or provincial members, based on the context. Irrespective of the CDIC LLR role being cited as an argument for the establishment of CDIC, none of the past comprehensive reviews, except the Wyman Committee[8], focused on CDIC's LLR role.

The 1967 CDIC Act set out that CDIC accumulate a reserve fund and that membership in the plan would be mandatory for banks[9], which would need to contribute to the fund and therewith be responsible to pay for others failing. At inception, the coverage limit was set at

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[5] *The British Mortgage and Housing Trust Co. had exposures to AAC. A run forced Ontario to guarantee its depositors and investors.*

[6] *CDIC took over an emergency loan extended by CMHC to York Trust. This loan required CDIC to borrow from the CRF.*

[7] *CDIC's authority to purchase assets from a member and make loans or advances to a member whether collateralized or not.*

[8] *To be covered later in this paper.*

[9] *CDIC would also have discretion to approve membership of provincial deposit-taking institutions.*

$20k in any one member institution and CDIC's borrowing limit[10] was set at $500 million to give credibility to the deposit insurance plan and in recognition that it would take time to accumulate a sizeable ex-ante fund. At inception the thinking started with the need to cover bank savings accounts and (shorter) term deposits, and it was not the intention to insure instruments that might fall into the category of investments so as to ensure that the deposit insurance plan would not interfere with efforts of non-insured institutions to raise money. The issue of joint deposits and trustee deposits was already contemplated at inception, and, as such, joint deposits and trusteed deposits were deemed to be deposits separate from any other deposit in the name of the beneficiary of the trust or participants in the joint arrangement.

The legislated objects of CDIC at its inception were to i) provide deposit insurance, ii) examine affairs of the member institutions related to insurance, and iii) manage the deposit insurance fund. Other matters of the CDIC Act included the above-noted LLR role and powers of the CDIC Board. CDIC was established as a Crown corporation, which facilitated objective decision-making, borrowing from the CRF, and enhanced CDIC's credibility. CDIC had a small Board made up of Government officials with knowledge and responsibilities regarding deposit-taking activities. CDIC had the authority to inspect a member institution[11], to prescribe standards of sound business and financial practice for non-federal members, and cancel insurance[12]. Its first annual report, for the year ending on December 31, 1967, stated that CDIC insured $17.1 billion in deposits with 28 Federal member institutions and 41 provincial member institutions.

The CDIC Act was amended in 1968 to enable CDIC to extend loans to an agent of the government of a province in recognition that provincial plans might not have the time necessary to build up a sufficient funding capacity.

Some minor amendments to the CDIC Act were made in 1977, most notably to permit CDIC to provide premium rebates. However, the debates surrounding the 1977 Bill again raised the issue of federal jurisdiction over all aspects of banking, the desirability of subjecting provincial institutions to federal supervision, and increasing the deposit insurance limit. During the preceding decade, CDIC's claims experience had consisted of 2 small deposit insurance payments of $15 million in aggregate.

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[10] *In 1967 the CDIC Act provided the Governor in Council with the authority to authorize the Minister of Finance to advance loans to CDIC out of the Consolidated Revenue Fund (CRF).*

[11] *Where CDIC considered that a member was following unsound business or financial practices or that it was in breach of a by-law, CDIC was to make a report to the president and directors of that member.*

[12] *Note: only if the member was insolvent or was no longer taking deposits.*

Failures and uncertainty (1980s) - A stronger mandate / greater independence

Early in the 1980s the number of failures began to grow and CDIC's losses and its deficit accelerated. As of April 30, 1982 the deposits insured by CDIC amounted to $188 billion, which was more than ten times greater than the amount covered at CDIC's inception. In 1983, and in addition to increasing the haste to retroactively adopt an increase to the coverage limit to $60k[13], the failures of the early 1980s sparked reforms to address gaps in the safety net and improve its ability to deal with troubled institutions. Bill C-142 (1983) increased CDIC's borrowing power to $1.5 billion and clarified CDIC's authority to make deposits in a member institution. Legislative amendments also added to CDIC's objects a reference to "assisting in maintaining the confidence and stability in the financial system", which received no attention during the House of Commons Debates on the Bill and which the Wyman Committee presumed was implicit since 1967.

In response to the numerous trust company failures that took place in 1983, the Wyman Committee was established, which reported on CDIC's mandate in April 1985. At that time CDIC found itself involved in the management and liquidation of large portfolios of assets, as well as facing a fund deficit. The Wyman Commission believed the losses arising from the insolvent financial institutions were in part "the direct result of outdated legislation and inadequate supervisory resources" and the Commission offered a great number of proposals with respect to the powers, funding, staffing, and overall organization and role of CDIC.

The Wyman Committee argued that the protection of small unsophisticated depositors and the administration of the deposit insurance fund were CDIC's primary objects and that all other objects were secondary. While the Committee noted that CDIC should have an LLR role, it believed CDIC was not directly implicated in considering the stability of the Canadian financial system. With respect to CDIC's powers, the Committee recommended additional powers of:

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[13] *A 1981 private members' bill to increase premiums and the coverage limit (to $50k) did not pass. A subsequent attempt to increase it to $40k was approved by the Government later in 1981 but not turned into law. A move to $100k was suggested in a private members bill as well in February of 1982. While discussions in the House of Commons in 1983 raised the issue of a possible increase to $100k again, ultimately a move to $60k was agreed to in April of 1983 but applied retroactively to January 17, 1983 to enhance coverage for depositors in respect of the failures of Seaway Trust and Crown Trust. The increase to $60k was driven in part by:*

a) an erosion of coverage due to inflation,

b) to ensure continued appropriate protection of RRSPs (so that individuals do not have to spread small deposits among a large number of institutions), and c) the crisis of confidence and uncertainty associated with the failures of Greymac, Seaway Trust, and Crown Trust.

During the House of Commons debates of April 1983 on Bill C-142 the Minister was urged to consider as well: i) a risk-based premium structure and ii) "changes to the directorships to make sure that there is another check and balance in the process of managing the Canada Deposit Insurance Corporation so that the interlocking control that seems to exist will not take place but that different people be made responsible for the Corporation than are responsible for the operation of the institutions covered by the Corporation".

(i) regulation (e.g., to develop standards for leverage and capital in conjunction with the prudential regulator, develop standards of sound business, and to allow CDIC to step in and take action if action is not being taken by the prudential regulator),
(ii) supervision (e.g., determine examination standards, expand staff to maintain a core of inspectors, require information from members, develop an early warning system to detect when a member may be headed for trouble), and
(iii) rehabilitation/liquidation (e.g., the power to carry out a sale of a member).

The Wyman Report also recommended that CDIC be given authority to levy significant penalties against members[14] (and professional advisors) to ensure compliance, greater discretionary authority to take action in pursuit of its objects, that its board of directors be complemented by members from the private sector to provide varying insights, and that it hire a CEO. The Committee favoured co-insurance and the pursuit of risk-based premiums.

The 1985 Green Paper recognized the work of the Wyman Committee though it also sought comments in relation to deposit insurance as to i) the impact of deposit insurance on market discipline, competition, and regulatory burden, ii) the adequacy of coverage in light of a general public perception that the government would offer unlimited coverage in a failure, iii)) the distribution of funding costs and that a flat-rate premium system is unfair to sound institutions, and iv) federal-provincial entanglement (i.e., that the insuring and supervising functions should rest with the same level of government).

The Senate Interim Report, tasked with the review of the Green Paper and the Wyman Report, doubted the Wyman Report's suggestion surrounding broader regulatory powers for CDIC on the basis of duplicative regulation. It recommended, instead, that these powers would in the ordinary course be delegated to the primary regulator but that CDIC would participate in establishing early-warning systems and be promptly informed in a situation of impending trouble. It also recommended that CDIC have extensive powers to examine, and intervene in, a troubled institution. The Senate Report proposed that CDIC's primary objects should be to insure small depositors, to protect the deposit insurance fund, and it agreed with the Wyman Committee that CDIC should be given broader powers to withdraw membership. It also proposed a system of co-insurance.

The failure of the Canadian Commercial Bank (CCB) and the Northland bank in 1985[15], which formed only a fraction of the Canadian banking business, led to the establishment of the Estey Commission in the Fall of 1985. Interim measures in June 1986 (Bill C-86) addressed the ex-ante fund deficit by means of an increase in premiums but also enabled the addition of 4 private sector members to the CDIC Board, which had been a recommendation of the Wyman Report to widen the Board's range of expertise and increase its independence. This was a

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[14] *A view that was reiterated during the House of Commons debates surrounding Bill C-86; "At present there are no sanctions which could be imposed on member institutions which mislead the public as to what is insured. A case in point is the Pioneer Trust case where the company was selling income averaging certificates with the CDIC stamp prominently displayed for amounts and for periods of time which were not insured".*

[15] *Bill C-79 (of December 1985) provided coverage (and paid $800 million out of the CRF) to uninsured large depositors, as a result of safety net agencies having encouraged customers to continue dealing with the failing institutions.*

significant change in the governance of CDIC, and forced decision-making by the board to be "with the interest of the corporation at the forefront rather than the interests those board members may have outside the corporation". In her remarks at the House of Commons Debates respecting Bill C-86, the Minister of State (Finance) noted that "There must be a clear recognition that the CDIC be…an integral element of the regulatory system, which is separate from those whom it is to regulate, and from those in government and other agencies who would manipulate it to serve the purposes of the Government, or the other agencies or their directors, as has occurred"

The Estey Comission reported on its findings in October 1986, which were an impetus for action. In its report the Commission noted that "perhaps the greatest significance of this report is the light it sheds upon the ineffectiveness of the external auditors and the OIGB in discharging their respective functions in the years leading up to the failure" and the Commission recommended combining deposit insurance and banking supervision into a new Canada Deposit Insurance Commission to improve the supervisor's "will and skill to act quickly", and ensure that "troubles in a bank will come to the attention of the regulator in a timely fashion" (as per the Senate Interim Report). The recommendations included the transfer of OIGB staff to CDIC and an increase in examination staff by the addition of experienced bank auditors and bank credit officers.

The Commission recognized that the objective of the regulatory system was not to "assure that all banks will be saved". Notwithstanding this, the Commission noted that, in relation to a bank the survival of which would, in the opinion of the Minister of Finance, be in the public interest, the (reorganized) CDIC would be primarily responsible for the design and implementation of a bank assistance program. In other words, whereas the provision of liquidity advances in the ordinary course would remain in the Bank of Canada, the procedure would be revised when the assistance pertains to assisting a bank that faces longer-term liquidity concerns. Depending on the success of the bank assistance program, CDIC would subsequently restore the bank to private ownership. So as to limit the use of public funds, the Estey Commission recommended that CDIC could reduce or cancel outstanding capital, debt, and equity, in particular circumstances.

Over the course of 1986 the Bank of British Columbia (BBC) suffered erosion of its capital base. To facilitate the transaction, CDIC extended $200 million to HSBC's parent to assist in the transfer of substantially all of the troubled bank's assets and liabilities to HSBC Canada, and therewith minimize future losses for CDIC. In November 1986 Bill C-27, An Act to facilitate the continuation of the business of the Bank of British Columbia, enabled the prompt acquisition by avoiding delays related to shareholder rights under the BA, which can be seen as a precursor to the Financial Institution Restructuring Provisions.

The Commission's recommendation to consolidate deposit insurance and supervision was not accepted. Instead, in 1987, and after lengthy debates in the House of Commons, the

Government passed Bill C-42 that established OSFI and granted it extensive powers[16], and established the Financial Institutions Supervisory Committee (FISC), which committed safety-net agencies to regular meetings and the exchange of information relevant to the supervision of financial institutions. Bill C-42 increased CDIC's borrowing authority to $3 billion and increased the maximum annual premium rate to one 6th of one percent, and addressed the problem of substitution regarding the directors on the CDIC Board. CDIC's ability to monitor troubled member institutions, terminate insurance coverage for Federal members (subject to the Minister's authorization), and conduct preparatory examinations were also sharpened. Lastly, amendments also included a change to CDIC's ability to cancel deposit insurance when the member is about to become insolvent, and the ability to levy surcharges (in consultation with the Superintendent).

Up until 1987 CDIC had limited intervention powers and limited operational capacity, and was largely confined to collecting premiums, management of the fund, paying claims, and open bank assistance (such as acquire assets from, or make loans to, a member institution). The changes made in 1987 reflected the recognition that CDIC needed to be preventative and timely, and that it needed a stronger mandate and greater independence and proactivity to minimize its risks.

[16] *In December 1986 a policy paper titled "New Directions for the Financial Sector" (i.e., the "Blue Paper") was tabled in the House of Commons. It recommended increased cooperation within the safety-net and a merger of the OIGB and the Department of Insurance.*

Failures and uncertainty (1990s) - Incentives and early intervention

Thirteen member institutions failed from 1987 to 1992, including Central Guaranty Trust and Central Guaranty Mortgage Corporation with aggregate insured deposits of approximately $10.8 billion. CDIC had a level of outstanding debt of $3.7 billion in 1992.

Bill C-48 (1992) implemented the Financial Institution Restructuring Provisions (FIRP) to allow the sale or merger of an institution without the approval of its shareholders or creditors; a concept first raised by the Wyman Committee and further emphasized by the circumstances surrounding the acquisition of BBC. The Bill also increased the borrowing limit to $6 billion. At that time OSFI and CDIC entered into a Strategic Alliance Agreement to provide a framework for CDIC and OSFI to coordinate their related activities and exchange information. The CDIC Standards of Sound Business and Financial practices were made into law on August 17, 1993.

From 1992 to 1994 a comprehensive review of the deposit insurance system took place to identify areas for potential improvements[17]. The review took place during a precarious time in the history of financial sector stability due to a multitude of failures[18] and heightened political awareness associated with it. The review was primarily motivated by i) concerns from CDIC members about the cost of the deposit insurance system, ii) a lack of information about, and understanding of, CDIC's operations, and iii) a lack of market discipline. Its main topics were:

- early intervention and strengthened incentives for institutions to operate prudently as means to lower the costs imposed on the deposit insurance fund. Suggestions included a Guide to Intervention, risk-based premiums to mitigate against riskier behavior induced by a flat-rate system, the staging concept, and the ability to wind up an institution with positive capital;
- charging depositors of a failed institution an administrative charge to decrease the costs to CDIC associated with resolving failures;
- Increased disclosure to protect the interests of uninsured creditors and improve the efficiency of financial markets; and
- stacking.

In February 1995, at a time of a significant deficit in the deposit insurance fund and borrowings from the CRF, the Department of Finance released a discussion paper titled "Enhancing the Safety and Soundness of the Canadian Financial System". This paper, drawing on the review, emphasized that the protection of depositors, policyholders, and creditors comes before the interests of shareholders, and the financial sector framework needs incentives for institutions

[17] *At that time certain relevant changes were made to CDIC's regulatory approach by its Board, such as the requirement that a member pay for special purpose examinations and the creation of a surcharge system to incentivize prudent behaviour.*
[18] *Eight CDIC member institutions failed from 1993 to 1996, on the heels of the many failures that occurred from the mid to late 80s.*

to prudently manage and solve problems quickly. The paper included the concepts of early intervention, a strengthened prudential framework, and enhanced disclosure of financial data.

In relation to CDIC, the paper noted the principle that "any depositor or policyholder protection system must be paid for by the industry and not pose risks to taxpayers" and that "costs of supervision and of providing deposit insurance protection should not pose an undue burden on consumers or financial institutions". Recommendations relevant to CDIC's role and congruent with the emphasis on building adequate incentives for action or reducing cost, included:

- enhancing the understanding within the financial sector of the system of intervention,
- the introduction of risk-based premiums for CDIC members ,
- the elimination of stacking across affiliated CDIC members, and
- the removal of the reference in CDIC's objects to the promotion and contribution of competition in the financial system.

The paper also introduced discussions surrounding enhancing CDIC's ability to transfer deposit liabilities and marketable assets of a non-viable institution to a healthy institution (i.e., an asset-based FIRP). The recommendations of the policy paper formed the basis for legislation, which was enacted in the summer of 1996.

The amendments to various statutes in 1996 by means of Bill C-15 logically focused on early intervention and the resolution of problem institutions. At that time, amendments to the CDIC Act changed the Ministerial approval requirement related to CDIC's power to terminate or cancel a member's policy, instead, providing the Minister the opportunity to object to termination on the basis of public interest. At that time the reference to "promoting or otherwise contributing to the competitiveness of the financial system in Canada" was removed from the CDIC objects on the grounds that CDIC had no means available to it to address this objective and that it was inconsistent with its other objectives. Bill C-15 also added the authority for risk-based premiums, to borrow in the market, and added a provision to the restructuring provisions to enable an asset-based FIRP.

Around that time CDIC and OSFI jointly developed the Guide to Intervention for Federal Financial Institutions[19], which provides a loose framework for responding to circumstances that could lead to the instability of a member institution, and incentivizes institutions to reduce the risk of losses by promoting awareness and enhancing transparency of the intervention framework. In this vein CDIC introduced its Differential Premiums By-law in 1999, which links premiums paid by each member institution to its risk classification.

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[19] The Guide was published in the White Paper that preceded the 1996 legislation.

A focus on consumers, governance, and regulatory burden (1997 – 2006)

The Task Force on the Future of the Canadian Financial Services Sector (the Mackay Task Force) was established in December 1996 and reported in September 1998. It believed in 'convergence of function', conglomeration, and enhancing competition. Recommendations covered four themes:

- competition and competitiveness,
- empowering consumers,
- Canadians' expectations and corporate conduct, and
- improving the regulatory framework.

The Task Force concluded that "on balance the regulatory regime works well and is effective". Recommendations regarding deposit insurance were few and included (i) the removal of the portion of CDIC's mandate that requires it to promote standards for members on the basis of unnecessary overlap with OSFI, (ii) that the CDIC Chair be a member of an OSFI Board[20], (iii) that CDIC have a right to review and comment on proposed regulatory initiatives that will affect its operations, and (iv) the integration of the deposit insurance scheme for banks and the compensation scheme for insurance companies to address the competitive inequity that can be attributed to CDIC's status as an Agent of the Crown. While the Task Force considered the amalgamation of CDIC and OSFI, it believed the roles were distinct and that 'healthy tension' serves public policy best when they are not combined.

The Mackay Report includes its belief that "deposit insurance is relatively less important as a mechanism to avoid payment system crisis", and that the "primary rationale of deposit insurance in today's marketplace is protecting the savings of unsophisticated consumers who cannot make appropriate risk calculations about the safety of the institutions with which they are entrusting their savings". These views mirror the views expressed by Warren Moysey who was tasked by then Chair of the Task Force, Mr. J. Baillie[21], with the research surrounding CDIC's deposit insurance role. While Mr. Moysey's research paper did not cover in any detail CDIC's broader role or authorities beyond the insurance of deposits, his paper highlighted a valuable secondary rationale for deposit insurance; "Minimizing pressure for an implicit 100% government guarantee". He added that "If one public policy objective is to ensure efficient operation of the Canadian financial sector, then it would be productive to take all action possible to remove the expectation in the mind of the public that the government will invariably bail them out regardless of the circumstances." In other words, industry funded limited deposit insurance insulates the Government against unrealistic demands when failures occur. Mr. Moysey's report also noted his reasons in favor of co-insurance.

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[20] *The creation of an OSFI Board of Directors was a recommendation of the Task Force.*

[21] *At that time the Chair of the Task Force was Mr. James Baillie. Mr. Mackay replaced Mr. Baillie.*

The recommendations of the Task Force were followed by the June 1999 White Paper titled Reforming Canada's Financial Services Sector: A Framework for the Future, which announced a number of changes to streamline CDIC's administrative processes and was the basis for Bill C-8 (2001), which largely centered on competition and consumer protection[22]. The changes specific to CDIC's role were minor and focused on reducing the reporting burden on financial institutions[23]. At that time premium rates across all four categories were cut by 50%; a reflection of the fact that CDIC's debt was fully paid off in mid-1998. Of note, CDIC was influential in the work of the Financial Stability Forum that subsequently led to the formation of the International Association of Deposit Insurers (IADI) in May of 2002.

During the tabling of the Federal budget in February 2004, and in an effort to reduce regulatory burden, the Minister of Finance asked CDIC and OSFI to seek opportunities to reduce overlap and duplication. In 2005 the reference to the Standards of Sound Business was removed from CDIC's objects[24] and CDIC's role in the approval of new members was eliminated. In July, 2005 the deposit insurance limit was increased to $100k to "enhance protection for consumers, promote competition among deposit-taking institutions, and help Canadians save for retirement."

CDIC's statutory objects[25][26], have not changed since 2005 and remain today as:

- to provide insurance against the loss of part or all of deposits,
- to promote and otherwise contribute to the stability of the financial system in Canada; and
- to pursue the objects set out in paragraphs (a) and (b) for the benefit of persons having deposits with member institutions and in such manner as will minimize the exposure of the Corporation to loss.

[22] *Bill C-67 (1999) permitted foreign banks to have direct branches in Canada. At that time the Office of the Auditor General's special examination of CDIC's financial and management controls recommended improving the effectiveness of communication with the public and the development of a contingency plan to deal with the possibility of large or multiple failures.*

[23] *It enabled the appointment of another private sector director and the Commissioner of the FCAC as members on the Board.*

[24] *CDIC's Standards of Sound Business and Financial Practices By-law was subsequently repealed.*

[25] *CDIC's objects speak to contribution to the stability of the financial system. It does so through deposit insurance coverage, ongoing monitoring of member performance and emerging risks, preparedness to address problems preemptively and enhance resolvability, collaboration with safety net agencies and relevant foreign counterparts, and public awareness efforts.*

[26] *In minimizing exposure to loss CDIC must give due consideration that it does not expose itself to unnecessary losses.*

Crisis and uncertainty (2007 –…) - a focus on ending "Too Big to Fail"

The period circa 2007 (re asset backed commercial paper and interbank anxiety) and 2008 saw stressed financial markets across the globe and this episode in history set the stage for worldwide reforms respecting the stability of the financial sector and bank resolution. Irrespective of Canadian banks' apparent stability compared to other banks around the world, amendments to the CDIC Act (Bill C-10, July 2009) expanded CDIC's capabilities to deal with large member institutions and contribute to financial stability. CDIC was provided with the authority to hold shares in its member institutions (subject to Ministerial approval), greater flexibility in the timing of preparatory examinations, and the authority to establish a bridge institution[27] to preserve the critical infrastructure of a non-viable member institution. Amendments also allowed the Board broader scope of action to resolve a failure without regard for the loss minimization object, subject to an Order in Council[28]. As well, CDIC's borrowing limit was increased to $15 billion, the size of which would be adjusted annually based on the growth in insured deposits.

In July 2008, and in response to the international financial turmoil, the Basel Committee on Banking Supervision (BCBS) and IADI decided to collaborate to illustrate the importance of effective depositor compensation arrangements and the need for authorities to agree on an international set of principles for effective deposit insurance systems to influence the design of effective depositor protection frameworks. IADI and the BCBS released the principles in June 2009.

Bill C-9 (July 2010) created more certainty surrounding valuation in the context of transferring liabilities and assets to a bridge bank, and permitted CDIC to make by-laws with respect to information and capabilities it can require of its member institutions so that it can quickly pay-out insured deposits or identify liabilities to be transferred to a bridge bank[29]. At that time a legislative framework was introduced to enable credit unions to incorporate and continue federally under the BA as Federal Credit Unions (FCU)[30], motivated in part by a desire to promote competition and enhance provincial stability by incentivizing large credit unions to continue federally and therewith be subject to federal oversight.

On November 4, 2011, the Financial Stability Board published the benchmark standards for resolution regimes driven by a desire to enable the resolution of large and complex institutions without severe systemic disruption and without exposing taxpayers to loss. This document elaborated on the "resolution authority" concept and helped shape CDIC's role as Canada's large bank resolution authority. In 2011 CDIC formed the Complex Resolution Division to

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[27] *CDIC would own the bridge institution and provide the financial assistance that it needs in order to discharge its obligations.*

[28] *A similar amendment enables the Minister to direct CDIC to take actions to prevent adverse effects on financial stability.*

[29] *The Data and System Requirements By-Law was made on December 8, 2010, came into effect on January 1, 2011 (deadline for implementation was June 30, 2013).*

[30] *In December 2012, the regulations that were required to implement the FCU framework were put in place.*

provide expertise on large bank resolution, develop resolution plans, contribute to policy development, assess the extent to which large banks can be resolved, and work with the banks and stakeholders to ensure orderly resolution processes are in place. CDIC's activities as resolution authority are closely coordinated with the other safety net agencies, and relevant international counterparts[31].

In December of 2011 CDIC's Board approved an increase to the minimum target for the Corporation's *ex ante* funding to 100 basis points of insured deposits, in line with international practices for greater ex-ante funding capacity. Further changes to the CDIC Act and By-laws in 2012 and 2013 sharpened CDIC's powers regarding the resolution of large banks by, among other things, providing for a limited, automatic stay in respect of certain eligible financial contracts when a bridge institution is established, and obligating members to provide CDIC with information to facilitate resolution planning.

The Government's budget tabled on March 21, 2013 announced the intent of the Government to implement a comprehensive risk management framework for Canada's systemically important banks, including a bail-in regime for these institutions. Several days later the Superintendent designated the six largest banks as being of domestic systemic importance. The Government fulfilled on its commitment by releasing a public consultation paper setting out a proposed design for the bail-in (recapitalization) regime (August 1, 2014).

On February 11, 2014, as part of its Economic Action Plan 2014, the Minister of Finance announced the launch of a comprehensive review of Canada's deposit insurance framework; intended to ensure that the deposit insurance framework provides adequate protection for the savings of Canadians, taking into account lessons from the recent financial crisis and significant shifts in the global banking landscape.

In March 2014, and as part of the Financial Sector Assessment Process to determine a country's compliance with international standards, the IMF noted that CDIC's legal and institutional powers for resolving D-SIBs are robust and well articulated, and that CDIC had established leading practices. Its main recommendations for the crisis management and bank resolution framework in relation to CDIC centered around:

(i) enhanced resolution powers and increased autonomy in activating a broader range of resolution tools and actions to improve a firm's resolvability;
(ii) legal requirements for the preparation of resolution plans; and
(iii) introducing a form of depositor preference and bolstering CDIC's ex-ante resources and data collection.

On May 7th, 2015 the Minister of Finance delivered the Federal Budget, which reiterated the Government's commitment to enhance the resolution toolkit for Canada's systemically

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[31] *To take account of the policy lessons brought to light during the financial crisis, the IADI Core Principles for Effective Deposit Insurance Systems were revised in October 2014 to strengthen the standards that are traditionally associated with deposit insurance (i.e., reimbursement speed, coverage, and funding) but also to add more guidance on the deposit insurer's role in crisis preparedness and crisis management, and reflect the greater role played by many deposit insurers in resolution regimes.*

important banks (DSIBs), including bail-in. In addition, the Budget suggested little appetite to pursue a holding company structure for DSIBs. While CDIC had been responsible for the preparation of resolution plans, in its Budget the Government announced that it will ask DSIBs to be responsible for preparing resolution plans. The Budget also announced changes respecting the governance of certain Crown corporations with the effect that responsibility for membership in financial sector risk organizations (FISC and SAC) as well as disclosure responsibilities will move from the Chair of the Board of Directors to the President and CEO.