



CANADA

FINANCIAL SECTOR ASSESSMENT PROGRAM

TECHNICAL NOTE ON CRISIS PREPAREDNESS AND SAFETY NETS

August 2025

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July 22, 2025

TECHNICAL NOTE

CRISIS PREPAREDNESS AND SAFETY NETS

Prepared By
**Monetary and Capital Markets
Department**

This Technical Note was prepared by IMF staff in the context of the Financial Sector Assessment Program in Canada. It contains technical analysis and detailed information underpinning the FSAP's findings and recommendations. Further information on the FSAP can be found at

<http://www.imf.org/external/np/fsap/fssa.aspx>

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Glossary

AMF	Autorité des Marchés Financiers (Québec)
BCFSA	British Columbia Financial Services Authority
BOC	Bank of Canada
CAD	Canadian Dollars
CAG	Crisis Advisory Group
CCIR	Canadian Council of Insurance Regulators
CDIC	Canada Deposit Insurance Corporation
CMG	Crisis Management Groups
CoE	CDIC's Centre of Excellence
CUCPA	Credit Unions and Caisses Populaires Act, 2020
DIS	Deposit Insurance Scheme
DOF	Department of Finance
D-SIB	Domestic Systemically Important Bank
D-SIFI	Domestic Systemically Important Financial Institution
DTI	Deposit taking institution
ELA	Emergency Lending Assistance
FIRP	Financial Institution Restructuring Provisions
FISC	Financial Institutions Supervisory Committee
FMI	Financial Market Infrastructure
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSRA	Financial Services Regulatory Authority of Ontario
FX	Foreign Exchange
GiC	Governor-in-Council
G-SIB	Global Systemically Important Bank
IADI	International Association of Deposit Insurers
IAIG	Internationally Active Insurance Groups
MoU	Memorandum of Understanding
NPL	Non-performing loan
OFA	Ontario Financing Authority
OSFI	Office of the Superintendent of Financial Institutions
P&C	Property and Casualty
RWA	Risk-weighted Assets
SAC	Senior Advisory Committee
STLF	Standing Term Liquidity Facility
WURA	Winding-up and Restructuring Act

EXECUTIVE SUMMARY

The Canadian financial system has been remarkably stable for a long time. The country's institutional and legal framework has been able to appropriately manage cyclical downturns, global instability episodes, and idiosyncratic shocks in recent decades. Preparedness and the good standing of safety nets remain a priority for the authorities, both federal and provincial.

However, showing no space for complacency, authorities have made important progress in several key areas of their crisis preparedness and management framework. Noticeable progress was made in the areas of (i) coordination among authorities both at the federal level as well as in necessary federal-provincial engagement, (ii) the scope of recovery planning, (iii) supervisory data collection and quality, and (iv) the emergency financing and indemnity from the fiscal authority on account of emergency lending assistance (ELA) to the regulated provincial systemically important institution (Québec). A significant number of bilateral agreements among authorities (MoUs) in the sector have been implemented and operationalized since 2019, enhancing information sharing across the system, though further progress would be desirable, especially at the federal-provincial level (e.g. Office of the Superintendent of Financial Institutions (OSFI)—Autorité des Marchés Financiers (Québec) (AMF), and OSFI—Financial Services Regulatory Authority of Ontario (FSRA)).

Canadian authorities can exercise a broad range of powers in resolution and the recovery and resolution toolbox is comprehensive and mature. However, at both the federal and provincial level, the frameworks, in their current version, have not been used in the actual resolution of an institution. To compensate for this, Canada Deposit Insurance Corporation (CDIC) founded in 2019 the Centre of Excellence (CoE) which plays an important role in crisis preparedness. Over the years, the CoE has conducted simulation exercises with participation of key regulatory agencies and market participants. Future planned activities will include foreign authorities. Separate specific simulations are also conducted regularly, for instance by the Bank of Canada (BOC) in relation to the operational readiness of its liquidity facilities. Future simulation activities by federal agencies can be enriched by involving provincial authorities that host important deposit-taking institutions (DTIs) or financial market infrastructures (FMIs). Other initiatives, like the annual Federal-Provincial deposit insurance forum, contribute to disseminating best practices. Regarding the ability to implement bail-in, the authorities must keep prioritizing work on cross-border coordination, including necessary data granularity regarding the investors base by origin.

The safety net for depositors in Canada is generally well developed, both at the federal and provincial level, but harmonization across the various schemes is recommendable. The federal scheme functions in parallel with 10 other provincial organizations, which creates differences in the protection of depositors in the different types of DTIs under the oversight of the different supervisory institutions. The most noticeable difference across jurisdictions is the maximum coverage per depositor per institution per depositor category, which ranges from Canadian Dollars (CAD) 100,000 per depositor per institution to unlimited coverage in four provincial jurisdictions. Such diverging deposit coverage levels across the provincial and federal levels can undermine confidence in the protection to some depositors and negatively impact deposit flows during periods

of instability. While legal responsibility for the safety of financial institutions is divided across jurisdictions depending on each authority's purview, convergence towards a national standard is desirable and could be achieved over time as has been done with other practices.

The federal deposit insurance coverage limit, last updated in 2005, needs reconsideration.

While the coverage limit of CDIC and AMF, of CAD 100,000 per depositor per institution per category, still achieves a good coverage of the number of accounts insured (about 95 percent of retail deposits and small businesses at the federal level), certain accounts, for example, those of medium size corporations likely to be above the limit, have lost coverage in real terms over the years. A scheme that introduces periodic reviews and updates informed by, among other things, accumulated inflation would be appropriate to keep the real value of the coverage over time and also contribute to reaching the fund size target in proportion to total deposits. The ongoing review of the federal deposit insurance scheme is an opportunity to reexamine these issues. The review could be usefully complemented with future reviews of adequacy at the provincial level.

A comprehensive resolution framework for insurance companies is still pending, though policyholders are protected by two industry-based guarantee funds.¹ Confidentiality issues as well as board independence for one of the firms will remain while frameworks for federal and provincially chartered insurers are not established. Designation of resolution authorities is also needed, as well as the establishment of resolution planning requirements, especially for large insurers and those that are internationally active. In the meantime, final approval of a property and casualty shelf bridge insurer is pending, and participation/access of the guarantors to supervisory coordination bodies (e.g., Crisis Management Groups (CMGs)) is being implemented.

The BOC should be able to offer ELA in foreign currency. This is needed in view of the significant cross border funding of Canadian banks and the growing presence of deposits in foreign currencies (mainly USD). The BOC is already legally able to offer Foreign Exchange (FX) support under ELA, but the potential sources and operational arrangements have yet to be identified/developed and will eventually need to be tested. Meanwhile, it is important that the BOC continues expanding access to ELA to eligible provincially regulated credit unions with proper safeguards.

The dated legal regime for liquidation of financial institutions at the federal level remains functional, but requires an overhaul. The Winding-up and Restructuring Act (WURA) is a law originally enacted in the late 1800s and amended last in 1996. It provides the applicable regime for liquidation of financial institutions. This is particularly important for the liquidation of insurers, which lack a resolution regime and a resolution authority. While the flexibility of WURA still allows it to deal with the complexity of modern financial conglomerates, even those with cross border activities, its lack of specific restructuring tools can leave space for interpretation which can lead to uncertainty. A comprehensive reform of the liquidation framework is needed.

¹ In 2024, OSFI communicated to the industry the deferral of discussion about the insurance resolution framework, based on concerns about regulatory burden.

Table 1. Canada: Key Recommendations on Crisis Management and Safety Nets

	Recommendations	Agency	Timing¹
Depositors' Safety Net			
1	Move ahead with the ongoing review of the federal and Québec Deposit Insurance Schemes (DISs), and consider updating the absolute maximum coverage, and including a mechanism for periodic revisions informed among other things by inflation and deposit coverage. ¶39	DOF/CDIC/AMF	ST
2	Harmonize the practices of the different deposit insurance schemes across federal/provincial levels, including the maximum coverage per account ¶38	DOF/CDIC/Provincial Authorities	MT
3	Review the adequacy of provincial deposit insurance schemes, including overall coverage levels, and the consistency of maximum deposit coverage with the necessary target fund sizes. ¶39,40,41	Provincial authorities	MT
4	Increase the operational independence of CDIC as resolution authority. ¶16	CDIC/DOF	MT
Bank and Deposit Taking Institutions Resolution Frameworks			
5	Further develop aspects of resolution optionality in the resolution planning process ¶24, 25	CDIC/Provincial authorities	ST
6	Overhaul the liquidation regime for all financial institutions (WURA) ¶53	DOF/Innovation, Science, and Economic Development Canada	MT
7	Implement a regular reporting requirement to track closely the investor base composition of institutions' Total Loss Absorbing Capacity (TLAC) securities ¶31	OSFI/AMF	ST
Insurance Resolution Frameworks			
8	Put in place resolution frameworks for insurers, especially for those systemically important, including the designation of the resolution authorities, and requirements for resolution planning ¶48	DOF/OSFI/Provincial authorities/CCIR	MT
9	Conclude approval of the creation of a shelf bridge insurer for Property and Casualty (P&C) policyholder guarantor ¶51	DOF	ST
10	Prepare the necessary steps and safeguards to allow the participation of the insurance guarantee funds in appropriate insurance crisis and cross border coordination bodies, including where relevant with cross border counterparts ¶49	OSFI/DOF	MT

Table 1. Canada: Key Recommendations on Crisis Management and Safety Nets (concluded)

	Recommendations	Agency	Timing ¹
Emergency Lending Assistance			
11	Complete the operational side of ELA provision in foreign currency ¶45	BOC	ST
Provincial Arrangements			
12	Implement collaboration agreements between OSFI and provincial authorities to share relevant information on prudential supervision and enhance crisis preparedness ¶6	OSFI/AMF/FSRA/other Provincial authorities	ST
13	Continue with the planned structuring of a consolidated approach (akin to a CMG) to preparedness/resolution towards the D-SIFI in Québec ¶10	AMF	ST
14	Formalize backup funding from the Ministry of Finance of Québec, notably for the purpose of the indemnification post-resolution ¶35	AMF/Ministry of Finance of Québec	ST
15	Incorporate the power to charge exceptional premiums from the industry to recoup potential losses from resolution ¶35	AMF	MT
16	Draft a manual for deposit payouts and conduct periodic simulations of the operational aspects of payouts ¶41	FSRA	ST
17	Take the necessary steps to establish the eligibility of key Ontario DTIs to ELA and the STLF from the BOC ¶44	FSRA/BOC	ST
18	Implement data enhancements that allow better assessment of the sufficiency of deposit insurance coverage ¶10	FSRA	ST
19	Strengthen coordination by developing a formal framework for interagency cooperation, and consider joint crisis management schemes in relation to significant entities in the corresponding jurisdictions ¶10	FSRA/AMF	ST
20	Work with Ontario's Ministry of Finance to bring resolution-related amendments in the CUCPA into force ¶11	FSRA	ST
¹ I—Immediate (within 1 year), ST—Short term (within 1–2 years), MT—Medium term (within 3–5 years)			

INTRODUCTION²

A. Background and Scope of the Assessment

1. **The Canadian financial system has been remarkably stable for a long period of time.**

The country's institutional and legal framework has been able to appropriately manage cyclical downturns, global instability episodes, and idiosyncratic shocks in a way that avoided bank failures in recent decades. In fact, since 2000 Canada has yet to see a bank failure despite the significant turmoil derived from the global financial crisis, the pandemic, and other recent global shocks. Overall, the effective structure of supervision and sound financial sector policies have been successful in preventing crisis episodes.

2. Despite the recent absence of bank failures and severe crises periods, preparedness and the good standing of safety net institutions remain a priority for the authorities, both federal and provincial. This technical note will provide an update in this area, identifying progress in developing the crisis management framework and remaining room for improvement. This note mainly covers: (i) interagency cooperation, (ii) funding in resolution, (iii) recovery and resolution planning, and (iv) progress in the resolution framework. The main focus of the analysis is on DTIs, insurers, and the institutions in charge of their supervision, resolution, safety nets, and liquidity provision, both at the federal level (i.e., Department of Finance (DOF), OSFI, CDIC, and the BOC) and provincial level for Québec (AMF) and FSRA. Crisis preparedness arrangements are also covered, especially regarding coordination across federal authorities, provincial, and cross border, including via systematic simulation exercises.

B. Canada's Crisis Management Institutions and Laws

3. The Canadian framework for crisis management and preparedness comprises a well-developed and complex network of federal and provincial institutions. The responsibility for the federal financial sector legislation lies with the Minister of Finance. Legislative changes are approved by the Parliament while regulatory changes are approved by the Governor-in-Council (GiC). The crisis management framework and related policies have been developed by financial sector authorities both at the federal and provincial levels. The Canadian financial safety net comprises mainly the Minister of Finance, BOC, CDIC, and OSFI at the federal level, while AMF and FSRA lead these functions in Québec and Ontario, respectively. The authorities have taken steps towards a more consistent Canada-wide crisis preparedness through enhanced interinstitutional coordination mechanisms for crisis management and via indemnity arrangements across jurisdictions (e.g., federal-provincial). While the resolution frameworks for DTIs are mature and sophisticated, further reforms have been introduced at the federal level and in some provinces. Notably Ontario's institutional reforms, including the creation of a consolidated authority (FSRA), are gradually strengthening the supervisory and resolution practices for DTIs under its oversight. In Québec, the

² This technical note was prepared by Mario Mansilla, Senior Economist at the Monetary and Capital Markets Department of the IMF.

AMF enhanced its governance, established the Resolution Board, and reorganized its Superintendency of Financial Institutions, all measures that enhance AMF's preparedness for crisis management. Governance reforms in CDIC aligned the institution with best practice. In addition, the pandemic period and recent events in peer markets led to an ongoing review of some crisis management tools, especially in the areas of interagency coordination, intra-agency preparedness tools (e.g., playbooks and simulations), and communication.

4. The legal basis for the main building blocks of crisis management and resolution frameworks is developed in several different statutes. These laws are applied by dedicated federal and provincial agencies. The key laws are:

- The Bank Act. Establishes the general banking regime, including licensing, governance and, most relevant for this workstream, the supervisory functions of banks. The Bank Act has key connections with the OSFI Act, the main federal supervisory authority for the sector, and other laws that form the resolution regime.³
- The OSFI Act. Establishes OSFI and mandates it with the supervision of federally regulated financial institutions (including DTIs, insurers, and pension plans).
- The BOC Act. Establishes the powers and functions of the central bank, including the rules for the provision of liquidity assistance, a central role for crisis prevention and management, including in bank resolution.
- The CDIC Act. Gives CDIC the deposit insurance function and the resolution authority.⁴ The act includes the main provisions relevant for resolution. In addition, by-laws and regulations derived from this act complete the more detailed elements of the deposit insurance scheme and the resolution framework.
- WURA regulates the liquidation process for financial institutions, which is intrinsically a judicial process.
- Other laws supplement the institutional powers described above. For instance, the Financial Administration Act includes the provisions that allow the Minister of Finance to enter into contracts that promote stability or maintain the efficiency of the financial system in Canada.
- Regarding nonfederal jurisdictions, there are thirteen provinces and territories in Canada. They all have different legislative regimes and institutional arrangements for crisis management and preparedness. In addition, most are host to federally supervised institutions and in the Québec case it is home to a Domestic Systemically Important Financial Institution (D-SIFI) with national presence. In the case of AMF and FSRA, their powers are provided by specific laws and regulations issued in Québec and Ontario for their specific regulatory perimeters, mainly

³ For instance, the Bank Act establishes the principle of early intervention, the first step in the continuum of powers that may lead up to resolution and eventual liquidation.

⁴ Note that the CDIC resolution authority is only for its member institutions, which excludes other entities—for instance foreign bank branches.

comprising credit unions, caisses populaires, financial services cooperatives, securities firms, pension administrators, and insurers chartered in those jurisdictions.⁵ Apart from oversight, both AMF and FSRA have the functions of deposit insurance and resolution authority in relation to their supervised entities.

The resolution regime and the supervisory and regulatory functions are distributed among those agencies and their respective laws, roles and responsibilities. Hence, the efficacy of the crisis preparedness and management framework requires consistency, tight cooperation, and coordination among the agencies.

DEVELOPMENT IN THE CRISIS MANAGEMENT AND SAFETY NETS FRAMEWORK

A. Key Measures Since the 2019 FSAP

5. Since the 2019 FSAP, Canadian financial oversight institutions implemented important adjustments to the crisis management frameworks. Some measures had been planned and developed over time, while others resulted from the threats to financial stability that came up during the pandemic and during the volatile period after March 2023.

6. The authorities strengthened their coordination arrangements at several levels. These mainly included the creation of new interinstitutional cooperation mechanisms, including cross-border, the formalization of agreements to share information in a more systematic way, and the establishment of indemnity mechanisms:

- Canadian authorities signed along with host authorities of the two Canadian G-SIBs (Royal Bank of Canada and Toronto Dominion Bank) cooperation agreements with the purpose of sharing information, cooperation and coordination in the context of early interventions and resolution.
- Additional MoUs since 2019 were signed by the BOC with provincial authorities in five provinces for information sharing.⁶ A specific MoU with the government of Québec has been signed, it includes an indemnity agreement to be signed in the event ELA was requested for the D-SIFI chartered in that province.

⁵ Most provinces have their resolution and deposit insurance schemes in their credit union legislation. Specifically, AMF's legal framework is established by the Act Respecting the Regulation of the Financial Sector, the Act respecting Financial Services Cooperatives, and the Deposit Institutions and Deposit Protection Act. FSRA's is governed by the Credit Unions and Caisses Populaires Act, 2020.

⁶ BC Financial Services (British Columbia), Financial Services Regulatory Authority of Ontario (Ontario), Nova Scotia Superintendent of Credit Unions and Nova Scotia Credit Union Deposit Insurance Corporation (Nova Scotia), Financial and Consumer Services Commission (New Brunswick), Alberta President of the Treasury Board and Minister of Finance, and Credit Union Deposit Guarantee Corporation (Alberta).

- CDIC-OSFI strategic alliance update (2020). The revised framework addresses crisis management communication, coordination issues, and the sharing of relevant information and expertise, given the institutions' shared objectives.
- CDIC, OSFI, and the BOC are developing a joint Data Collection Modernization Initiative in relation to all federally regulated financial institutions. The initiative recognizes the challenges coming from technology and processes, and the evolving data needs.
- MoU for the protection of confidential information signed by Heads of Agencies in 2022.
- A Federal-Provincial Deposit Insurance Forum is in place (2023), where insights and best practices on deposit insurance and resolution are shared. The forum takes place annually.
- OSFI and CDIC executed cross-border cooperation agreements for Canada's two G-SIBs, and separately OSFI is party to a cooperation agreement for a US-based Canadian bank. These agreements establish frameworks to enhance preparedness, facilitate crisis management, and recovery and resolution planning among the domestic and foreign stakeholders of each institution.
- AMF maintains relations with financial safety net participants. Some are based on MoUs (i.e., with BOC and CDIC), while others are not. Notably, there is no formal agreement with OSFI nor with FSRA. However, there are informal exchanges with FSRA, especially in relation to a financial cooperative that is part of the Québec-based D-SIFI.
- In recent years, FSRA has formalized coordination agreements through information sharing MoUs with the BOC, BCFSa, CDIC, Payments Canada (PayCan), among others, but has yet to have one with OSFI and the AMF.

7. Crisis management arrangements were also fine-tuned in several areas. These included organizational changes and regulatory upgrades:

- Modernization of the scope of CDIC deposit insurance coverage in 2020 (Stage I).⁷ These included extension of coverage to foreign currency deposits given their wide use in the market, elimination of term limits on certain deposits, and removal of traveler's cheques given their discontinuation. Stage II was implemented in 2022 and added coverage (at the same limit of CAD 100,000 per depositor, per institution) to registered education savings plans and registered disability savings plans. This phase also simplified coverage of mortgage tax deposit accounts and improved rules for trust deposit accounts. Effective April 1st, 2023, eligible deposits in First Home Savings Accounts (FHSAs) are also separately protected for up to CAD 100,000 at each CDIC member institution. Equivalent changes have been made to the AMF deposit insurance coverage with the aim of maintaining harmonization with the CDIC coverage. In Ontario, an amendment of the Credit Unions and Caisses Populaires Act, 2020 (CUCPA) regulations was

⁷ Based on the Deposit Insurance Review of 2014.

made to add FHSA's to the defined list of registered deposits that are insured by unlimited coverage in the province's credit unions.

- The CDIC Act was amended in 2021 to extend the legislative time limit to complete a sale transaction in cases where CDIC has taken control of a failed member institution. The time limit was increased to 12 months (from 180 days before) extendable up to an additional 6 months, if necessary and as authorized by the GiC. The additional time would allow for deeper due diligence by and of potential buyers, as well as other authorities to assess policy considerations (e.g., competition).
- In 2023 OSFI adopted a new internal governance whereby financial crisis issues fall under the mandate of the Supervision and Policy Oversight Committee. This change was part of the adoption of the three lines organization model: policy, supervision, and administration. This governance model enhances risk management by clearly defining the roles of different units in the organization, promoting accountability and internal coordination.
- OSFI adopted a crisis playbook which outlines the institutional approach to financial system crises. In this living document, the roles of the Executive Committee, and senior members of OSFI are centered around two internal governance bodies, the Crisis Advisory Group (CAG), and the Crisis Cabinet (CC). In a stress episode, the CC, chaired by the Superintendent, is OSFI's main crisis governance body. Its decisions are supported by a CAG, which is chaired by an Assistant Superintendent and focuses on the technical aspects that can support a supervisory response.
- CDIC implemented a number of governance measures that sought to align it with best practice and with other relevant Crown corporate Boards in Canada. These included legal reforms to the CDIC Act, and involved adding the CEO as a Director on the Board and added one new private sector position to the Board of Directors which kept the presence of public and private sectors balanced.⁸ In addition, a review of CDIC's Governance Structure, conducted in 2022, resulted in the development of a Decision-Making in Resolution Matrix, an Accountability Framework, and a Governance Framework, as well as subsequent amendments to charter, by-laws, policies, and related guidance documentation. Upon the recommendation of the Office of the Auditor General, CDIC started disclosing its compensation framework including the total compensation of its executive positions. Now, CDIC also discloses risk appetite and risk tolerance in its risk identification and assessment processes.
- In line with best practice, the AMF enhanced its governance by replacing the Advisory Council on Administrative Management with a board of directors (December 2021). As part of these reforms the Resolution Board has been constituted and is fully operational, a simulation mandate has been formalized and is currently being implemented, and an operational resilience program was launched through the organization.

⁸ Confidentiality and protection against conflict of interest are established in the Conflict-of-Interest Act, Conflict-of-Interest Code, and CDIC business conduct policies.

- In addition to well-established federal authorities' forums the Financial Institutions Supervisory Committee (FISC), the Senior Advisory Committee (SAC),⁹ the Heads of Regulatory Agencies (HoA), etc.), the BOC has enhanced its internal governance for financial stability decision-making including for extraordinary interventions in support of the financial system.
- The BOC also developed its Financial Risk Policy and Financial Risk Framework which apply to the management of the bank's balance sheet and includes the process for standard and accelerated decision making. Both the policy and the framework are expected to be updated periodically.
- In 2019, CDIC formed a Simulation CoE to enhance CDIC's readiness pre-crisis. The CoE leads crisis simulation exercises designed to ensure a systematic approach to rehearsing and testing crisis management readiness and response capabilities through the existing toolkit. During the period under review, these included, amongst others, testing the resolution of failing institutions and had the participation of CDIC's Board of Directors and senior authorities from other agencies as well as member institutions, third party standby agents and other selected external stakeholders.

8. The COVID-19 pandemic period precipitated special measures to support the healthy functioning of the banking system and the economy in general. Mindful of the extraordinary conditions imposed by the pandemic at many levels, the DOF, the BOC, in partnership with supervisory and safety net authorities devised a number of legislative and operational measures. Measures oriented to relieve part of the financial stress on families and firms were implemented and communicated on a large scale,¹⁰ and additional specific measures to help banks focus their resources on handling the crisis were put in place in parallel. At the outset of the pandemic, these included: (i) optional deferral of premiums to CDIC, (ii) delayed compliance with submission of certain information requirements as well as recovery and resolution plans, and (iii) postponement of data and system requirements. OSFI postponed all consultation and policy development activities and announced key measures supporting banks' lending and insurers' operations without increased capital requirements.¹¹ These measures were coupled with OSFI's expectation that federally regulated financial institutions avoid increasing dividends, implement share buybacks, or increase executive pay. At the same time the Minister of Finance announced programs that provided additional stable funding to banks and mortgage lenders and direct credit support to businesses. Additionally, public awareness activities about the financial safety net were stepped up. At the systemic level, the BOC implemented (federal and provincial) bond purchasing operations to support market functioning and launched the Standing Term Liquidity Facility (STLF), the Extended Term Repo Facility and the Contingent Term Repo Facility (CTRF) to provide market-wide liquidity. The STLF was also introduced to provide loans to eligible financial institutions in need of temporary liquidity support and where the BOC has no concerns about financial soundness. Like its federal

⁹ The SAC helps formulate advice to the Minister of Finance on legislative, regulatory, and policy issues related to the financial system. It is chaired by the Deputy Minister of Finance and includes the BOC Governor, the Superintendent of Financial Institutions, the President of CDIC, and the Commissioner of the FCAC.

¹⁰ Including, for instance, mortgage deferrals and measures to mitigate income losses of households and firms.

¹¹ For instance, the Domestic Stability Buffer (applicable to all D-SIBs) was reduced by 1.25 percent of risk-weighted assets to 1 percent. This level was in place until June 2021.

counterparts, the AMF also put in place similar measures in response to the pandemic to support the healthy functioning of the financial system and the economy. Those measures were complemented by intense monitoring and collaboration with other Canadian agencies. For Ontario, FSRA also increased its contingency arrangements, including revised limits for the revolving credit facility from the Ontario Financing Authority (OFA) (from CAD 400 million to CAD 2 billion).

9. Most of the pandemic emergency measures lapsed within the first year of implementation, though a few instruments remain in place, especially the BOC's liquidity facility (STLF). Other extraordinary measures that were authorized were not activated and the mandate was left to expire. One example of the latter was the possibility of increasing the maximum deposit insurance coverage. Twice in recent years (March 2020 and March 2023), the CDIC Act was amended by Parliament to allow the Minister of Finance to increase the deposit insurance coverage limit as a precautionary measure in the event of a market disruption. These authorizations were provided on a temporary basis and not used. While emergencies like the pandemic and the instability episode of 2023 gave merit to such decisions, the nature of the measure creates a contingent fiscal cost and could undermine confidence in the tool. The review of CDIC's deposit insurance coverage framework at the federal level, currently in progress, will better serve as a basis to determine the sufficiency of the deposit insurance scheme in a structural way. Increasing the maximum deposit insurance coverage for a certain period is also a possibility in Québec (introduced in 2009).¹² However, this measure was not used during the pandemic.

B. Future Improvements to the Crisis Preparedness Framework

10. Based on the experiences of recent years in Canada and in other jurisdictions, the authorities have identified a range of activities and adjustments in their existing toolkit. The simulation work and tabletop exercises have also yielded additional areas of work. These include:

- Proposed improvements to the pre-ELA liquidity facilities of the BOC (CTRF and STLF) in 2025. One of these changes would be the expansion of the list of eligible NBFIs counterparties for the CTRF in order to include certain asset managers and certain investment funds.
- Preparations for amendments to the Canadian Payments Act (Bill C-59), which will expand the membership to include eligible provincial credit unions.
- At a more general level, the BOC has extracted lessons to enhance the effectiveness of special programs implemented during stress periods like the pandemic. There is now agreement that, from the outset, special programs must specify the market failure they are addressing, their objectives, and the conditions for their termination.¹³

¹² The Ministry of Finance of Québec is authorized by law to potentially raise the deposit insurance coverage above the CAD 100,000 limit for up to two years.

¹³ For instance, the Government Bond Purchase Program (GBPP), the Extended Term Repo Facility (ETRF), the Provincial Bond Purchase Program (PBPP) and the Canada Mortgage Bond Purchase Program (CMBP) had sufficiently vague objectives that they likely continued to operate longer than strictly necessary (i.e., after the underlying objective had been accomplished).

- Policy measures also must have sufficient flexibility to be able to be wound down when appropriate. This will avoid that certain measures subsist for longer periods and grow larger than necessary.
- Regarding SIBs, a key focus for CDIC is ensure operationalization of the cross-border aspects of Canada's bail-in regime and conduct additional work on the securities law requirements in resolution.
- Further work by the BOC, mainly of operational nature, is in progress regarding the options available to address foreign currency funding needs in resolution.
- As part of its continuous work in enhancing preparedness, OSFI plans to start an update of its recovery planning guidance, which will include streamlining and a focus on standards for non-D-SIBs.
- AMF plans to further develop its cooperation for crisis management approach for the Québec-based D-SIFI. A consolidated approach, in the spirit of CMGs, is also planned. This will require the participation of other relevant regulatory and safety net agencies.
- FSRA plans to work with Ontario's Ministry of Finance to bring resolution-related amendments in the CUCPA into force. In the meantime, FSRA will assess large credit unions' resolution plans, which are due in March 2025.
- Implementation of the Enhanced Data Collection initiative by FSRA is in progress, it will allow the authority to have better data granularity to, among other things, better calibrate the size of the deposit insurance reserve fund.
- The AMF has also set up a data center (datamart), which is being operationalized, to enhance data collection, processing, and analysis. Following a new resolution on data disclosure requirements issued in January 2024, Québec's D-SIFI is required to make available to the AMF a set of data for the purposes of operationalizing resolution. The AMF is in discussion with Payments Canada, an FMI operator, to identify and develop communication and coordination processes to support the resolution framework.

RESOLUTION FRAMEWORK

A. The Legal Regime for Resolution

11. There are legal regimes for resolution at the federal and provincial level. The CDIC Act establishes the provisions for the resolution of federally regulated DTIs, both systemic and non-systemic. The federal resolution framework, through the CDIC Act, provides CDIC with the mandate as the resolution authority for its members since 2017. While there are no separate regimes for

systemic and non-systemic banks, certain rules apply only to D-SIBs.¹⁴ The AMF is in charge of executing the resolution of deposit institutions under its supervision, mainly financial services cooperatives and one Québec-designated D-SIFI.¹⁵ The legal regime for resolution of the Québec's D-SIFI was established in 2018 by Québec authorities and provides AMF with a broad range of resolution powers and tools aligned with the mandate of resolution authority. An important step by AMF towards a better governance of Québec's resolution framework has been the operationalization of an independent Resolution Board in 2024. In the case of Ontario, FSRA is the resolution authority for credit unions, and its mandate is to manage the resolution process to maintain stability in the sector, minimize disruption and contagion, and protect the Deposit Insurance Reserve Fund (DIRF). The legal framework for resolution in Ontario is more recent. FSRA was created in 2019 as an operationally independent agency of the Ministry of Finance of Ontario. FSRA replaced two previous agencies¹⁶ and is charged with regulatory and supervisory activities and is governed by a board. Since its creation, FSRA has continued developing its resolution tools and manuals, the most recent being a new section added to the CUCPA in 2024 which gives FSRA explicit authority to make resolution orders. However, this new section has yet to be in force, as this requires FSRA to draft and consult on a rule to define "eligible financial contracts". Separate from the resolution regime, the liquidation of financial institutions at the federal level falls under the WURA, which is applicable to banks, branches of foreign banks, and insurance companies. The liquidation is a judicial process, overseen by a superior court.

12. The determination of non-viability by the Superintendent triggers the resolution process. At the federal level, OSFI is the authority in charge of declaring if an institution is non-viable or if its viability cannot be recovered through intervention. Triggers of non-viability include: (i) excessive dependence on external financial assistance to sustain its operations, (ii) depositors' confidence loss, (iii) the institution's capital is substantially deficient, (iv) the institution is not able to pay its liabilities as they become due and payable. The determination of these factors is technical, and the law is not prescriptive in terms of the analysis. This mandate and process require close cooperation between OSFI and CDIC, mainly through information sharing which also involves other FISC agencies. The non-viability decision triggers a liquidation or a resolution process. The Minister of Finance may override a decision by the Superintendent to take control for the purposes of a winding-up and liquidation; but the Minister's recommendation to the GiC is specifically required to initiate a resolution plan approved by the CDIC Board.¹⁷ Following those steps, the resolution regime

¹⁴ Branches of foreign banks are not eligible to be members of CDIC and are not covered by the resolution scheme.

¹⁵ The Québec's D-SIFI, a provincial chartered financial group, includes one federal chartered financial institution, Desjardins Trust Inc. Likewise, the National Bank of Canada Inc., a federal chartered financial group designated as a D-SIB by OSFI, includes one Québec chartered financial institution, National Bank Trust Inc. At the same time, the Caisse Desjardins Ontario (CDO), a financial cooperative in Ontario is part of the Québec's D-SIFI, as an auxiliary participating member of the Fédération des Caisses Desjardins du Québec. Such presence of entities incorporated under provincial and federal charters raises the need for cooperation between the regulatory bodies, notably in the context of resolution (i.e., AMF, CDIC, OSFI, and FSRA). The division of responsibilities over deposits is by jurisdiction, deposits in Québec fall under AMF and those outside the province would be the responsibility of CDIC. FSRA is responsible for CDO.

¹⁶ The Financial Services Commission of Ontario and the Deposit Insurance Corporation of Ontario.

¹⁷ Though this is the law formulation, in practical terms the Superintendent of Financial Institutions will want a clear signal that there is no objection.

is activated and the decision-making shifts to the CDIC Board. Once an institution is in resolution, OSFI remains involved to monitor the case and relay information to CDIC and the DOF. In Québec, when the AMF is of the opinion that the conditions for failure of the D-SIFI are present, and that its legal powers are insufficient to correct the situation, it must notify the Resolution Board and the entity. If the Resolution Board decides that it is in the public interest to implement the resolution operation, it would order its implementation. At that point, the AMF becomes the receiver of the D-SIFI.

B. Resolution Powers and Safeguards

13. The CDIC Act provides CDIC with a comprehensive set of resolution tools and access to resources. The Financial Institution Restructuring Provisions (FIRP) provide CDIC with powers to force the transfer of shares and/or assets of a non-viable CDIC member to a new owner. Other recovery and resolution powers granted by the CDIC Act include graduated measures that range from financial assistance to distressed institutions to the payment of deposits, following a court process that decides on the winding-up of the institution. CDIC can also assist a purely private sector transaction. The FIRP comprises the main resolution tools:

- Vest in CDIC the shares and subordinated debt in order to gain control over the entity;
- Appointment of CDIC as receiver of the institution; and
- Creation of a bridge bank.

The use of a FIRP tool is also a prerequisite to effect recapitalization via bail-in (applicable to D-SIBs).

14. The powers provided by the law to CDIC include the possibility to combine resolution actions that enhance the viability of the main tools. These include temporary public ownership, which would allow sale of shares and assets/liabilities, amalgamation of the institution, the purchase and assumption of the bank, and restructuring of the business. Resolution can also be supported through comprehensive stays of legal actions and the power to maintain contracts, which would ensure continuity of essential services. Critical functions can be maintained through continued contracts with payment, clearing and settlement systems.

15. OSFI has developed a framework for identifying domestic systemically important banks (D-SIBs). The criteria include metrics for size, interconnectedness, and substitutability. Other factors are also considered, but generally the 6 largest banks are consistently classified as D-SIBs, though their ranking varies depending on the criterion considered. Currently the designated Canadian D-SIBs are the Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, Toronto Dominion Bank, and the National Bank of Canada. In the provincial space, following a similar designation framework, the Desjardins Group, a Québec chartered financial group has been designated as a D-SIFI by the AMF.¹⁸ While these ex-ante

¹⁸ In addition to the criteria recommended by the Basel Committee to define the domestic systemic importance of deposit-taking institutions under its jurisdiction, the AMF added the criterion of regional concentration of activities, given the features specific to the institutions operating within its jurisdiction.

designations are best practice as they assist in the supervision and recovery and resolution planning, the applicability of the resolution tools at the federal level should be based on the systemic classification at the time of failure. In Québec, the applicability of the tools is determined by the type of crisis (i.e., systemic, idiosyncratic, hybrid (liquidity and capital)).

16. Applicability of some resolution tools requires the authorization of the government.

Following OSFI's non-viability opinion, the board of CDIC determines the appropriate resolution method. For FIRP and actions dependent on it, regardless of the complexity or size of the entity, the CDIC Board requests that the Minister of Finance recommends to the GiC, provided the Minister considers it in the public interest, authority to implement such resolution method. The choice of resolution tool by CDIC must be done in accordance with its statutory objectives, including minimization of exposure to losses and the preservation of financial stability—that is, not necessarily a pure cost minimization rule. The GiC may exempt CDIC from the loss minimization objective, if upon consultation with the Governor of the BOC, the Superintendent of Financial Institutions, and the Board of Directors of CDIC, the Minister of Finance is of the opinion that minimizing CDIC's exposure to loss might have an adverse impact on financial stability. This chain of decisions leaves decisions of the resolution authority dependent on the action and authority of the Minister of Finance and the GiC.¹⁹ The latter is a departure from the Financial Stability Board (FSB) Key Attributes and should be reconsidered in the sense that the approval of the Minister of Finance should be left to cases involving public funds, notwithstanding consultations for all other circumstances as appropriate.

17. In order to proceed efficiently through the required resolution steps, CDIC has a Resolution Playbook in place. The playbook is a collection of manuals, templates and other documents regarding the tools and processes. The playbook's main objective is preparedness, and thus it is an evergreen tool that is kept updated. Generally, CDIC prepares resolution strategies for both scenarios, payout and non-payout, based on the information available from preparatory work or special examinations.

18. The AMF is responsible for planning and executing the resolution of failing DTIs licensed in Québec, including the D-SIFI under its jurisdiction. The latest upgrade of the legal framework in Québec was in 2018. The resolution regime provides a broad range of tools and powers to resolve entities under the supervision of AMF, including the D-SIFI. Thus, AMF can provide funding, acquire assets and securities, support an acquisition with guarantees, enter into agreements with other agencies ensuring parts of the deposit institution, enable the liquidation, and apply to the Superior Court to force the sale or amalgamation of an institution. With regards to the resolution operation of a cooperative group, the law establishes special conditions: (i) potential contagion across members of the group, (ii) recovery actions are insufficient, and (iii) public interest. The first two conditions are under the AMF's responsibility, which must notify the Resolution Board if they are met. The third condition falls under the responsibility of the Resolution Board. At the same time, the rules to deal with a cooperative group resolution are akin to those of the regime for federal banks.

¹⁹ The authorities view this structure as an appropriate check and balance, where a democratically responsible official is the decision maker both where use of public funds is being considered and where private property can be appropriated or taken control of by public entities.

AMF can take possession of property, replace senior management, control and operate the financial institutions. It can also potentially proceed with the amalgamation/continuance of operations, establish a bridge institution, establish an asset management company, transfer assets and liabilities, and carry out bail-in.²⁰ A partial or total wind-up of operations is also possible.

19. Since its creation FSRA has gradually strengthened the resolution framework for financial institutions under its supervision, mainly credit unions, but the process is ongoing. As the resolution authority for credit unions, FSRA has several options to resolve an entity. FSRA considers that its most important tool is the authority to place a credit union under administration and control of the agency in order to proceed with an open credit union resolution strategy. This strategy was used successfully in 2018 by one of FSRA's predecessor institutions. In this scenario, FSRA can take over the main functions of the entity excluding the previous managers from the business of the credit union. FSRA also has powers to restructure the entity through forced asset sale, orchestrate a purchase and assumption transaction or a merger, and eventually proceed with its liquidation.²¹ Additional powers awaiting proclamation include limits to dividends, control over contractual matters, directors and executives' compensation, stay proceedings, access by the failing credit union to FMI's services, among others.²² An administration operational manual developed in 2023 guides supervisory and resolution activities for credit unions that are in resolution or at risk of failure.

20. Regarding personal protection associated with resolution decision making, all involved agencies have legal arrangements in place that protect their officers from personal litigation. This personal safeguard applies to the extent that the authorities act in good faith and within their legal powers. Those provisions have been tested successfully in courts in Ontario.²³

RECOVERY AND RESOLUTION PLANNING

A. Recovery Planning

21. Recovery plans at the federal level are guided and assessed by OSFI following international best practice. The formulation and assessment cycle of recovery plans has matured following several completed cycles since 2011. OSFI uses a suite of supervisory recovery planning guidance that specifies what is expected from the plans formulated by the banks themselves. OSFI works closely with CDIC and the BOC to develop guidance for supervised entities subject to this requirement, as the recovery plans can be precursors of resolution plans. In Canada, D-SIBs and also a segment of smaller and medium size banks are required to prepare recovery plans.²⁴ The guidance

²⁰ The AMF may implement any resolution operation without the consent, authorization or approval of anyone if it is in the resolution plan, or with the sole authorization of the Resolution Board if it's not.

²¹ Notably, FSRA does not need the consent of members or shareholders of the credit union to exercise those powers.

²² These amendments to the CUCPA were made in the Fall 2024 and are not in force yet.

²³ Pace Savings & Credit Union Limited vs. Financial Services Regulatory Authority of Ontario, 2024.

²⁴ Apart from D-SIBs, banks in stage 1 or higher, Canadian subsidiaries of G-SIBs, critical services providers, life insurers members of internationally active insurance groups.

sets out expectations for the roles of board and senior management members, so that recovery planning is integrated with other internal practices. In general, smaller banks have proportional requirements for these exercises. The output of the assessments is integrated by OSFI in routine supervisory processes, including for instance the risk ratings for the institutions, and in the periodic discussions within CMGs led by OSFI. Starting in 2022, the frequency of the recovery planning requirements for D-SIBs changed from an annual to a bi-annual cycle. Recovery plans are shared with CDIC, BOC, and DOF as part of their information sharing agreements. As is expected, recovery plans for the smaller banks and insurers are relatively less well-established and OSFI is focusing on the key elements to improve their quality and consistency.

22. At the provincial level AMF and FSRA lead the recovery planning exercises. In Québec, only the D-SIFI is subject to this requirement. Since its designation in 2013, the D-SIFI has completed seven iterations of its recovery plan, including AMF's assessment reports. The main goal of the plan is that the cooperative group has an effective crisis management framework and credible options to restore its viability. At the same time, given the cooperative nature of the group, AMF requires that plans must incorporate the objective of continuity of services and preservation of its nature. Operational aspects of the recovery strategies are prioritized. Starting in 2023, AMF has established a two-year cycle for the submission of this requirement, so the next plan is expected by end-2025. Recovery plans for the Ontario jurisdiction are a relatively new supervisory tool, as FSRA issued its guidance in 2021 requiring that all credit unions develop recovery plans in accordance with their risk profile, size, and complexity. After the first round of submissions and assessments, FSRA has required that plans are updated periodically by the credit unions, and going forward it expects to review plans with a frequency that depends on the asset size.²⁵ FSRA considers the recovery plans as a playbook for the supervised and the supervisors in times of financial stress, with the objective to improve preparedness and better protect the insured deposits. At this stage, a key component of the plans is the identification of the core business and the functions and services that underlie the core business. FSRA's assessment focuses on the granularity of the analysis and the identification of the triggers for recovery scenarios.

B. Resolution Planning

23. Over the years CDIC has developed a proportional approach to resolution planning. CDIC maintains resolution plans for each member institution. For D-SIBs, the first generation of resolution plans started in 2012. The initial phase helped authorities (which initially were in charge of preparing the plans) identify the preferred strategies from the resolution tools available for D-SIBs under the CDIC Act. Once preferred strategies were developed, CDIC transferred the plan preparation responsibility to the D-SIBs themselves who must submit their plans for CDIC's resolvability assessment in accordance with the Resolution Planning By-Law and the corresponding guidance.²⁶ CDIC prepares resolution plans for non-SIBs with a priority based on a comprehensive view of their risk profile including likelihood of failure as well as their complexity in resolution. The

²⁵ Credit unions with assets below CAD 500 million should submit their plans every two years, and those above that threshold every year.

²⁶ For this purpose, in 2024 CDIC published two updated guidelines: the CDIC Resolution Plan Guidance for Domestic Systemically Important Banks, and the CDIC Resolution Plan Assessment Framework.

objective of non-Systemically Important Banks resolution planning is to form a preliminary view on the risks and impediments that might impact CDIC's approach to resolving the institution within the framework. The latter is a more recent exercise (only one full round has been completed). The final assessments are shared with the CDIC Board. CDIC expects to maintain a three-year planning cycle for non-SIBs subject to no material changes.

24. CDIC has specific requirements to ensure implementation feasibility of the plans.

For this purpose, D-SIBs must test their resolution capabilities. Typical impediments to resolvability are associated to the complexity of the entity (e.g., in legal terms, business model, etc.), timeliness, and quality of data, and extensive linkages to non-CDIC members or operational processes. While there is resolvability variation across institutions depending on their complexity and cross border activities, the preferred resolution approach for D-SIBs combines a single point of entry recapitalization through bail-in conversion alongside the provision of liquidity assistance from the public sector. The stabilization period is then followed by a return to private sector ownership. This open-bank resolution path aims at the preservation of critical functions through the process. Non-SIBs as a segment don't have a preferred strategy based on the resolution tools available under the CDIC Act. Optionality of resolution scenarios is mainly considered in the restructuring phase post-resolution. An enhanced approach to resolution planning should involve a systematic optionality analysis considering scenarios in which certain tools would be inadequate or insufficient.

25. The resolution planning responsibility in Québec mainly lies with the AMF.

This approach allows AMF to retain control of the development of the resolution plan and implementation of the resolution strategy for the D-SIFI. The Resolution Board approves the resolution plan of the D-SIFI as established by the AMF with amendments, if necessary. The Board may ask the AMF for updates of the plan and can request the AMF additional information as relevant.²⁷ In recent planning rounds key officials from the D-SIFI have been gradually more involved in the operational side of the strategy implementation. The resolution planning process has helped identify the importance of adequate funding (ELA and backstop from the Ministry of Finance) and the role of an independent authority such as the Resolution Board. An enhanced approach to resolution planning should involve a systematic optionality analysis considering scenarios in which certain tools would be inadequate or insufficient.

26. FSRA has established resolution planning requirements only for large credit unions.²⁸

The framework for resolution planning is relatively recent for the Ontario jurisdiction. FSRA has no formal interagency consultation, though the Minister of Finance is kept adequately informed, as well as the OFA if funding needs are identified, OSFI if the credit union has a bank subsidiary, and AMF with regards to a Québec-based D-SIFI with activities in Ontario. The initial guidance from FSRA was published in 2022, and the first full round of resolution plans are due in March 2025 and will be assessed by FSRA. While the process matures, FSRA is gaining a better understanding of its largest supervised entities, while improving the data readiness for asset valuation and depositor payout. At the same time, FSRA has identified a critical function by a FMI that is based and regulated in British

²⁷ Other functions of the Resolution Board include ordering the implementation of the resolution, closing resolution operations, and authorizing any resolution operation not provided for in the resolution plan.

²⁸ Sixteen entities with assets above CAD 1 billion.

Columbia but provides clearing and settlement services for credit unions across Canada, including most in credit unions in Ontario. CUCPA amendments (yet to be in force) will provide FSRA with a greater ability to manage operations of a failing credit union in resolution.

C. Crisis Management Readiness Efforts

27. One of the main lessons learned by the authorities from the instability episodes of recent years is the importance of information sharing and readiness exercises. The CoE has played an important role in this area. The CoE has designed and delivered testing exercises involving all participants in the federal resolution framework, including safety net partners, domestic regulators, and member institutions. These tests served to rehearse and test crisis response plans, capabilities, and arrangements, including playbooks, manuals, and decision-making matrices. A total of 29 exercises have been conducted by the Centre, of which 7 included non-CDIC participants (see Annex I). Topics included: payout of insured deposits, communication and coordination during a resolution, decision making in a scenario of bank deterioration, cyber breach, among others. The simulations are always followed by reports and action plans that are then followed up by the CoE on a quarterly basis and in order of priority. The AMF has also formalized a mandate to conduct simulations. Since 2019 the AMF undertook financial crisis simulation exercises with other agencies as well as internally, mainly in relation to insurers, and with individual deposit institutions to test parts of the payout process.

28. The BOC regularly tests the operational side of its lending facilities with financial sector participants. Since the last FSAP, the BOC organized 55 tests of the Standing Term Liquidity Facility. The tests simulate specific transactions against various collateral types, including valuation of a portfolio of mortgages. The first ELA simulation with a provincially regulated institution took place in 2022 and used recently revised legal agreements. These tests help identify potential bottlenecks, including governance arrangements and use of tracking reports for the advance.

29. Other more permanent efforts include playbooks and crisis management plans. The DOF and OSFI maintain evergreen playbooks to help navigate stress events. There are playbooks designed for internal preparedness and others for supervisory stress events. For this purpose, OSFI has a taxonomy of crisis levels and action plans based on intervention stages. These documents help define a senior governance structure to manage crisis, guiding existing bodies for crisis response. Similarly, CDIC also has a Resolution Playbook put together to maintain the institutions preparedness to resolve members of any size or complexity. This implies that the tools, processes, systems, and people to implement resolution processes are ready to be deployed consistent with CDIC's objectives. The BOC, jointly with CDIC, OSFI, and DOF have produced a document that outlines a coordinated approach to public sector liquidity provision for periods of liquidity stress. The framework establishes responses to escalating stress scenarios, including the sequence of tools that could be used. AMF has also developed a set of contingency and crisis management plans backed by documents, processes, policies, and checklists relevant to stress episodes. Some of these are designed for AMF's own preparedness and others are jointly developed with other safety net

agencies.²⁹ FSRA's contingent crisis response is based on a Systemic Crisis Playbook for province-wide crisis episodes and an Administration Operational Manual that sets out internal processes for idiosyncratic cases.

D. International Coordination

30. Given the international presence of Canadian financial institutions, and the hosting of some globally systemic institutions, preparedness efforts also include cross border coordination arrangements. CDIC and OSFI collaborate to co-host or attend different layers of coordination with foreign counterparts:

- OSFI and CDIC co-host (as lead home authorities) CMGs with relevant domestic (BOC and DOF) and foreign stakeholders, for Canadian SIBs on a biennial basis with a focus on recovery planning. CDIC also participates in OSFI's supervisory colleges for the D-SIBs.
- On an annual basis, CDIC, in collaboration with OSFI, leads resolution-focused CMG discussions for Canadian G-SIBs: Royal Bank of Canada and TD Bank. Bank-specific Cooperation Agreements for the Canadian G-SIBs have been executed among CMG members.
- OSFI is a member of the US-based State Street CMG which is supported by a cooperation agreement with the relevant foreign entities.
- The agenda of the CMGs has evolved in line with appropriate developments in the market. In 2022, CMGs focused on lessons from the pandemic in recovery and resolution planning and crisis management testing, while in 2024 the agenda centered around lessons from the 2023 banking crisis and the impact of non-financial risks (e.g., cyber and technology). Recent resolution-focused CMG topics have covered bail-in execution, crisis communications and coordination and TLAC requirements, including internal TLAC.
- OSFI has expanded its cooperation agreements for Canadian entities which operations are potentially systemic in certain host institutions. These are called Outreach Panel meetings. This helps track intervention frameworks and D-SIB designations in each jurisdiction.
- OSFI has also signed a recent MoU with the ECB that covers cooperation arrangements in relation to emergency situations.

These coordination groups allow participants to share good practices, be aware of developments in each of their jurisdictions, and depending on their mandate, be better prepared to face potential crisis and provide appropriate responses to cross border instability.

²⁹ In 2024, the AMF launched two initiatives in this area: the Operational Resilience Program Enhancement, and the review and improvement of the AMF's crisis management framework.

RESOLUTION FUNDING

A. Loss Absorption Capacity Requirements

31. TLAC is a well-established requirement for Canadian D-SIBs and for Québec's D-SIFI designed to facilitate recapitalization under resolution through the conversion of liabilities into shares. OSFI is in charge of establishing the requirements applicable for D-SIBs (i.e., not only G-SIBs), effective since 2021, while the requirements applicable for the Québec D-SIFI are under the purview of the AMF. OSFI's requirements are well aligned with the standards established by the FSB (Annex II) and banks must disclose TLAC levels as part of their pillar 3 requirements.³⁰ Canadian banks issue TLAC-eligible instruments globally, though more than half are denominated in USD and about 29 percent are issued in CAD. The main investors in Canadian banks' TLAC securities are asset managers, pension funds, and insurers. D-SIBs and Québec's D-SIFI have committed to not promote or distribute bail-in debt to retail investors in the country. Authorities do not have permanent visibility of the structure of TLAC issuance by residency of the holders largely because of secondary trading. Authorities should conduct closer monitoring to ensure bail-in capability is not in question in practice in specific markets, especially because bail-in is one of the preferred resolution tools in resolution plans. At present, all D-SIBs and Québec's D-SIFI are meeting their TLAC requirements.

B. Arrangements for Official Support

32. The frameworks for funding in resolution in Canada are robust and have several lines of defense. While Canada has not experienced a CDIC member failure since 1996, some of the BOC's liquidity support tools were activated during the recent episodes of instability and the authorities in charge test their strategic and operational response capabilities through simulation exercises. In 2021/22, CDIC conducted a strategic review of the ex-ante fund regarding its design and target size, which reaffirmed the general adequacy of the instrument to protect depositors and promote financial stability through the provision of liquidity during a member's resolution. The resolution planning stresses that the D-SIBs and Québec's D-SIFI should prioritize the use of internal liquidity sources as much as possible, which must be identified clearly at the planning stage. In the runway towards resolution, if private sources would be insufficient or inadequate, there are two primary public funding sources: the liquidity facilities from the BOC (ELA) and CDIC temporary assistance.³¹ In Québec, the ELA and AMF's temporary assistance are the two primary public funding sources for the D-SIFI.

33. The BOC has the most capacity to provide liquidity assistance in resolution. The BOC has clearly stipulated rules to grant ELA that mainly establish (i) the fully collateralized nature of liquidity support from the BOC, (ii) the requirement of having a credible recovery and resolution framework, and (iii) strict conditions of eligibility. The maximum term is comparable to other major markets: 6 months, renewable for longer duration, although in practice ELA is provided on a daily

³⁰ Québec's TLAC Guideline took effect in March 2019, it is also aligned with FSB standards adapted to a non-bank DTI. Starting in April 2022, the D-SIFI has been mandated to comply with this requirement.

³¹ Note that if needed CDIC can also provide guarantees to access private markets.

renewable basis. While the BOC can charge a higher interest rate, the minimum interest charged for ELA does not carry the usual punitive spread that accounts for risk and provides an incentive for early repayment, as is standard. This is so because authorities consider that the risk of BOC providing ELA is not always higher, plus a punishing rate could worsen the financial recovery capacity of the entity. Canada has no prepositioning requirements in the regulation of DTIs, and the BOC accepts a wide variety of collateral types (basically securities, non-mortgage loans, mortgage loans) and conducts tests that check the operational readiness to provide ELA and the valuation of the mortgage loan portfolio. Notably, in 2022, the BOC conducted its first ELA simulation with a provincially regulated institution in Québec. The BOC also participates in the simulations run by CDIC to strengthen preparedness and ensure consistency of practices across agencies.

34. The BOC can provide ELA to federally regulated financial institutions and provincially regulated DTIs and domestic FMIIs.³² The eligibility of regulated DTIs requires that in BOC's opinion there is a credible recovery and resolution framework in place. Additionally, for provincially regulated DTIs, the BOC must have an indemnity agreement with the relevant provincial government to recover residual losses from the corresponding fiscal authority. In the case of FMIIs, only those subject to oversight by the BOC are eligible. Insurance companies, mutual funds, investment dealers, foreign bank branches, and foreign FMIIs are all explicitly excluded from access to ELA. While the insurance industry has arrangements in place to receive support at times of stress, those are limited in size.

35. The resolution framework guides the different layers and criteria by which CDIC can provide further funding in resolution, including significant support from fiscal resources. CDIC can provide tailored assistance to an entity in resolution, but it must be geared to achieve the objectives of the specific case. The terms of funding would generally be consistent with market conditions and can be with or without security. CDIC and the AMF can also provide guarantees to certain instruments issued by the entity under stress and guarantees a minimum asset value of a member institution's asset values. CDIC can also purchase assets and liabilities of a member institution (including for instance NPLs) and segregate those in a subsidiary corporation for workout. The basic limit for CDIC funding is the amount of its investment portfolio (CAD 9 billion as of June 2024) and its borrowing authority (CAD 36 billion as of December 2024).³³ Additional borrowing could be authorized by the Parliament, CDIC is able to participate directly in government borrowing and access debt markets at the sovereign rate. The losses that could be incurred by providing this assistance would be absorbed by the ex-ante fund and be recouped from the members through extraordinary assessments.³⁴ At the provincial level, FSRA could recoup resolution losses through special levies on credit unions, with the Minister's approval, while AMF does not have similar recoup arrangements. AMF is actively seeking to formalize backup funding from the Ministry of Finance of Québec to help ensure resolvability of its systemic supervised entity.

³² The BOC clarified its policy for lending to provincially regulated DTIs and FMIIs in 2015, but lending to these entity types pre-dates this period.

³³ This amount is adjusted annually to reflect the growth of insured deposits.

³⁴ This option is ruled by the CDIC Act and the Financial Administration Act.

36. In addition to these mechanisms, the Minister of Finance has broad powers to enter into contracts to provide liquidity, recapitalize and support private sector transactions.

Supplemental borrowing could be authorized by the GiC on the recommendation of the Minister of Finance, if in the Minister's opinion the funding would promote stability or maintain the efficiency of the financial system. This funding could be channeled through CDIC or provided directly to the financial institution. Under these powers, the Minister of Finance can: (i) purchase, acquire, hold, lend, or dispose of securities of an entity, (ii) make a loan or acquire interest in securities of an entity, (iii) provide a line of credit, (iv) guarantee debts obligations of a financial asset, (v) provide loan insurance or credit insurance for the benefit of an entity.

DEPOSITORS' SAFETY NETS

A. Coverage Framework

37. The safety net for depositors in Canada is generally well developed, both at the federal and provincial level. The alignment of the deposit insurance schemes with International Association of Deposit Insurers (IADI)'s Core Principles has not been assessed recently, but the deposit insurance schemes are mature. CDIC constantly updates its framework to ensure its effectiveness. The AMF periodically conducts self-assessments in this area against the IADI's Core Principles and Key Attributes, and action plans are set to address remaining gaps.³⁵ In recent years federal and provincial authorities have made progress in establishing coordination mechanisms, for instance via the Federal-Provincial Deposit Insurance Forums, while seeking convergence in their practices and information exchange. At the same time, agreements about the treatment of insured deposits that fall under different jurisdictions but belong to the same institution have been put in place to reduce protection gaps in the market.

38. But harmonization across the various deposit insurance schemes is recommendable.³⁶ The federal scheme functions in parallel with 10 other provincial schemes, which leaves space for dispersion in the protection of depositors in the different types of DTIs under the oversight of the different supervisory institutions. The most noticeable difference is the maximum coverage per depositor per institution per category,³⁷ which CDIC and AMF have maintained at CAD 100,000 since 2005, while four provinces offer unlimited coverage to their credit union depositors, four others cover up to CAD 250,000, and the rest fall in between (Annex III).³⁸ The funding limits for such coverages vary by scheme, some provinces can only count on their DIS's funds, while others have recourse to additional funding from their fiscal authority. This diversity of coverage can be confusing for depositors and thereby reduce confidence in the safety nets, may lead to sudden transfers across

³⁵ The most recent one was in 2024.

³⁶ Authorities consider that given the nature of the different jurisdictions involved, where each one determines the deposit insurance coverage based on their own criteria, this recommendation cannot be implemented.

³⁷ Tax-Free Savings Accounts (TFsAs), Tax-Free Home Savings Accounts (FHSAs), Registered Education Savings Plans (RESPs), Registered Disability Savings Plans (RDSPs), Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), deposits in one name, joint deposits, and trust deposits.

³⁸ The AMF has maintained harmonized coverage with the federal scheme.

provinces or across institutions in a province under stress circumstances,³⁹ are not conducive to a level playing field for market participants, and can also generate uneven fiscal costs of resolving very similar entities in the country. The ongoing review of the federal DIS could be usefully complemented with a review of sufficiency of deposit insurance funds at the provincial level.⁴⁰

39. The federal deposit insurance coverage limit, last updated in 2005, needs

reconsideration. While CDIC's (and also AMF's) coverage limit of CAD 100,000 per depositor per institution per category still achieves a good coverage of the number of accounts insured (about 95 percent), certain accounts, for example, those of Small and Medium Size Enterprises, likely to be above the limit have lost coverage in real terms over the years.⁴¹ A scheme that introduces periodic reviews informed by the evolution of, among other things, inflation and deposit coverage would be appropriate.⁴² The ongoing review of the federal scheme by the DOF is expected to make key recommendations in these areas. At the same time, the proportion of CDIC's deposit insurance fund in relation to total deposits (currently at about 77 basis points as of March 2024) needs to continue its progression towards its ex-ante target funding ratio as deposit accounts continue growing. CDIC has established a target for this ratio to exceed 85 basis points by the fiscal year end of 2026–27.

40. A revamped differential premium system is in process of implementation. Following a public consultation process about the modernization and sustainability of the ex-ante fund and the premiums charged to member institutions, CDIC has redesigned the differential premium payment framework originally implemented in 1999. The new system will better differentiate members on the basis of the failure and resolvability risk they pose through more frequent assessments and modernized qualitative and quantitative indicators. The premiums charged on this basis serve as an early warning signal, with financial consequences, to management and boards of directors. The premiums rates associated with each premium category can be reset every fiscal year and with consideration of the target ex-ante fund.

41. At the provincial level, the CDIC coverage for federally regulated entities coexists with the coverage of DTIs operating under the laws of each province. In the case of Québec, AMF's deposit insurance scheme covers deposits in financial services cooperatives and other institutions qualified under Québec law to take deposits (e.g., savings companies, trust companies, etc.). AMF's coverage was set up so that all depositors in their jurisdiction get the same treatment, hence its

³⁹ For instance, funds could flow from federally covered accounts towards provincially covered accounts, and vice versa, though the experience suggests that deposits tend to migrate to safer institutions.

⁴⁰ The AMF is currently reviewing its own deposit insurance scheme while the FSRA has an Enhanced Data Collection initiative that will enable more accurate assessments of the DIRF target level in the future.

⁴¹ On a *per institution* basis, the federal limit and that of AMF lag behind those of the comparable schemes in other advanced economies. However, when considering protection *per institution per category* Canada's limit (federal and Québec's) is only below the US's. The higher level of protection requires depositors to have specific types of deposits (e.g., savings for higher education, for disabilities, for retirement, etc.).

⁴² In practice a depositor can achieve higher coverage to the extent the deposits are distributed in special registered types (e.g., study savings accounts, or trust funds) and in different institutions. But this strategy may be costly to apply by depositors.

coverage has remained harmonized with that of CDIC.⁴³ The Ontario DIS, however, insures deposits up to CAD 250,000 for non-registered accounts and is unlimited for deposits in registered accounts. This limit was the same as CDIC's until 2018, when it was adjusted to the current level. Regarding ex-ante fund target levels, both AMF and FSRA conduct periodic assessments of the sufficiency of their funds to fulfil their objectives and calibrate their premiums. Currently FSRA's target is 100 basis points of insured deposits, but a proposed revised target of 120 basis points has been proposed in late 2024. AMF reviews its fund target every 3–4 years, currently it is estimated that towards the end of the decade a target between 130 and 150 basis points should be reached, which required an increase in the premium rate. FSRA does not have policies or procedures in place for deposit payouts, and no guaranteed repayment period. Moreover, the Ontario deposit insurance reserve fund has not made a payout since 2013, so conducting tests of deposit payouts operational arrangements will be important. As recommended in the IADI Core Principles, AMF has procedures for payout in place and regularly conducts tests on them, the target to reimburse most insured depositors is seven working days.

EMERGENCY LENDING ASSISTANCE

A. Institutional Arrangement and Safeguards

42. The lender of last resort in Canada is the BOC. In this role, the BOC is the only institution providing emergency lending assistance both at the federal and the provincial level, under certain restrictions. The BOC can provide financing through its ELA facility for eligible institutions before, during, and after resolution. This funding is a last-resort source for individual financial institutions and is provided on a temporary basis. It is expected that ELA is used only once private funding sources are no longer available. ELA is not intended for liquidation scenarios or to support payouts and, by law, can only be provided on a secured basis.

43. There is no indemnification arrangement between the BOC and the federal government for the provision of ELA, but such arrangements are needed with provincial governments. Given the mandate that ELA loans are always collateralized, with collateral conservatively valued, residual losses in a default scenario would be absorbed by the BOC's capital, which is subscribed by the federal government of Canada. In the case of provincial governments, they would need to indemnify the BOC for ELA-related losses from provincial entities.

B. Eligibility

44. Expansion of the scope for ELA eligibility has continued since 2019. In recent years, the BOC has been working on preparations for amendments to the Canadian Payments Act (Bill C-59) which will expand Payments Canada membership to include provincially regulated credit unions. These could then seek access to ELA if other eligibility criteria are met. This expansion is very important to establish a Canada-wide coverage of liquidity assistance that reduces space for

⁴³ An agreement between CDIC and AMF explicitly avoids duplication of deposit insurance for trust and loan companies.

spillover effects across jurisdictions. The eligibility criteria include having a credible recovery and resolution framework; in addition, the provinces need to indemnify the BOC for any losses remaining after collateral and guarantees are accounted for in case of a default. The AMF has made important progress in this area in relation to the D-SIFI in Québec—mainly in terms of the indemnity arrangement between the BOC and the Québec government. The mechanism agreed for the indemnity is a special schedule of the MoU that would be signed on a case-by-case basis by the Ministry of Finance of Québec (MFQ). For Ontario, while the recovery and resolution planning framework is in place and credit unions gain experience in their compliance with it, access by credit unions to ELA (and STLF) is still a work in progress. Arrangements for the provincial indemnity to the BOC are still pending.

45. Regarding currency denomination, the BOC is working on the operational side to make provision of ELA possible in foreign currencies, especially in USD. Two developments make this option important: (i) In recent years, the preference of Canadian depositors for accounts in foreign currency has increased; (ii) Canadian banks have expanded their operations in the US market including their access to USD wholesale funding and have been using those funds for operations in the US and in Canada. Both point to a balance sheet structure of the banks that, in a given recovery/resolution scenario, may require liquidity in foreign currency. Arrangements for ELA in foreign currency would avoid a scenario where emergency liquidity granted exclusively in CAD translates into foreign currency market volatility. In addition, this option could also assist financial stability in scenarios of heightened rollover risk in global markets for Canadian banks.

46. The clear specification of the instruments to be used and the conditions of ELA in foreign currency are yet to be defined. Work is ongoing between the GoC and BoC to establish a mechanism that could provide foreign currency liquidity from the GoC to the BoC to lend out in the form of foreign currency ELA.

47. A new scheme for ELA in foreign currency will also need specific provisions for the type of eligible collateral. There are no requirements for prepositioning of assets in Canada, but the DTIs' balance sheets are monitored for capacity to offer collateral, and resolution plans must demonstrate capabilities to manage, track, and value collateral. Regarding collateral, beyond USD securities, the BOC would be prepared to receive CAD denominated loans in collateral (especially mortgages) and charge back FX risk costs to the borrowing institution.

INSURANCE COMPANIES RESOLUTION AND POLICYHOLDERS' SAFETY NETS

A. Resolution of Insurance Companies

48. Canada has well-established dedicated institutions for supervision and crisis preparedness in the insurance sector, but resolution frameworks remain missing especially for entities with significant market presence. OSFI (for federally chartered insurers) is the key supervisory authority for the sector and as such it is also responsible for early intervention of

insurance companies.⁴⁴ For early intervention of province-chartered entities, the corresponding provincial authorities are in charge, and they also participate along with OSFI in the eventual resolution process of federally chartered insurers due to their role in the insurance licensing in their respective jurisdictions. The sector, however, has no designated resolution authorities, the work on resolution planning has yet to be established, and thus far recovery planning is only expected from internationally active insurance groups (IAIGs). At the same time, the sector has two well-established industry-based policyholder protection institutions that are instrumental in the preparedness work and are equipped to assist in the resolution process for P&C and life insurers. These institutions are industry-funded, and, as non-government organizations, they are not accountable to Parliament or provincial legislatures, but work in partnership with OSFI and relevant provincial authorities.⁴⁵ Their mandate focuses on the protection of policyholders, not on financial stability. During a failure of an insurer, their role is to minimize the loss of benefits and facilitate the continuation of coverage, normally by transferring policies to other solvent companies. Thus, they serve as the safety net of policyholders. Federal⁴⁶ and provincial legislation require that all insurers (other than private mortgage insurers) be members of a designated policyholder protection organization if one exists.⁴⁷

49. In the past, the policyholder guarantors dealt with insurers' failures successfully but, in absence of additional tools and access to funding, their ability to help resolve systemic institutions remains limited. There are no recent experiences with insurers' failures, but these institutions have elaborated strategies and procedures. The P&C segment has not had a member failure since 2003 and the life segment since 2012, and the powers to act before liquidations have yet to be used. However, resolution scenarios have been identified which would produce better outcomes for all stakeholders (than liquidation). Both guarantors coordinate directly with supervisory authorities (federal and, where applicable, provincial) and have access to some level of member information, but it is the supervisor who determines the non-viability of an insurer. At that point, a receiver may be appointed by the Court upon request from the supervisor.⁴⁸ Separately, a structural limitation for the role of these institutions in crisis preparedness is their private sector nature, which limits a deeper and permanent collaboration with official agencies especially in terms of information sharing.⁴⁹ Developing information sharing schemes between supervisors and guarantors with the proper safeguards and allowing the guarantors to participate more widely in supervisory bodies (e.g., CMGs) would enhance crisis preparedness of the sector. Finally, the existing structure is geared

⁴⁴ Québec, British Columbia, Alberta, and Ontario, have specific intervention guides that include their interactions with the policyholder guarantors for P&C and life insurance. In those cases, confidentiality agreements are in place to secure information sharing.

⁴⁵ In particular via the Canadian Council of Insurance Regulators (CCIR).

⁴⁶ The Insurance Companies Act.

⁴⁷ The guarantor for life and health insurance policies is designated federally, but the one for P&C has not been designated federally.

⁴⁸ The wind up of an insurance company generally falls under WURA or under provincial legislation based on specific circumstances decided by the Court, depending on the jurisdiction of incorporation. In Québec, section 19.1 of the *Act respecting the regulation of the financial sector* is also applicable.

⁴⁹ Key information is shared with guarantee funds on a need-to-know basis, which tends to happen when the chance of required guarantee payment increases.

to facilitate the transfer of policies to other solvent companies and avoid proceeding to liquidation. If liquidation is unavoidable (for the whole or part of the entity), insurers fall under the WURA, which is an outdated law that requires full reexamination.

B. Safety Net for Insurance Policyholders

50. Federal and provincial regulations recognize the life policyholder guarantor as the compensation body for life insurers. All life insurers in Canada are required to be members of this guarantor. The coverage varies by product, with maximums of CAD 200,000 for death benefits, CAD 60,000 for health expense benefits, CAD 2,000 for monthly income benefits, and up to CAD 60,000 for cash value benefits. Claims above these amounts have a coverage of up to 85 percent. As part of a resolution process, which typically would involve restructuring and selling the operation to another entity, the guarantor can provide stop-loss guarantees. While the sale is in process, the guarantor can also take charge of the liabilities run off. This pre-liquidation strategy is where the guarantor would be instrumental and is preferred to the liquidation courts process. However, the guarantor is limited by its own internal resources. As part of their engagement with regulators, this guarantor participates in supervisory colleges though not in CMGs.

51. Another guarantor covers the claims of policyholders of member P&C insurance companies. With some exceptions,⁵⁰ all P&C insurers covering homes, cars, businesses, and other property are members of this segment's guarantor, which has existed since 1989. Thus, in case of an insurer failure, P&C policyholders receive protection of two kinds: (i) refunding of premiums paid in advance (up to 70 percent of unearned portion) up to a maximum of CAD 2,500—that is, CAD 1,750 per policy; and (ii) payment of eligible claims up to CAD 520,000 for personal property and CAD 400,000 for other lines covered.⁵¹ Under these parameters, more than 95 percent of P&C policies are covered. The ex-ante fund amounts to CAD 63.7 million, all invested in very liquid and safe instruments, which is supplemented by stand-by credit facilities (for CAD 250 million) with several banks. Typically, these resources would be applied to the compensation of policyholders once coverage stopped.⁵² Subject to approval by its board of directors, the guarantor can support resolution via sale, transfer, or reinsurance of a book of business, and issue guarantees or provide direct financial support in respect of a book of business. To facilitate these procedures, the guarantor has worked on the establishment of a shelf bridge insurer, a legal entity ready to be activated in case of need, which is in process of being approved by the DOF.⁵³

⁵⁰ Exceptions include some mutual insurers in Ontario and Québec and government-owned automobile insurers licensed in Manitoba, Saskatchewan, and British Columbia. In addition, the P&C guarantor has participation agreements with all provinces and territories.

⁵¹ These coverage amounts are now adjusted by the Consumer Price Index monthly.

⁵² As is the case with banks under liquidation, amounts not covered by these schemes can be compensated by the estate of the failed insurer or submit a hardship claim to the guarantor.

⁵³ Ontario has a specific protection mechanism for motor vehicle policy holders. The Motor vehicle Accident Claims Act (Section 6) establishes payment of benefits by the Motor Vehicle Accident Claims Fund in the event of a wind-up order of the insurer.

52. Further progress in the area of crisis preparedness and resolution of systemically important insurers is warranted. The complexity of domestically systemic institutions in the insurance market needs the establishment of a comprehensive resolution framework, including the designation of a resolution authority and recovery and resolution planning requirements. These would help design tailored strategies and identify gaps in the process and the viable tools available, perhaps with the participation of the safety net organizations in their assessment. Relatedly, the designation of a resolution authority for insurance would also assist in establishing a line of authority in the pre-insolvency period.

C. Liquidation law

53. The legal regime for liquidation of financial institutions at the federal level needs an overhaul. The WURA, which is a law originally enacted in the late 1800s and amended last in 1996, provides the applicable regime for liquidation of financial institutions. In the case of banks, WURA is the alternative to the resolution framework,⁵⁴ but for insurers, which don't have a law that supports a resolution regime and a resolution authority, WURA is the only applicable law for liquidation, although depending on the circumstances specific provincial regimes can be applicable.⁵⁵ The practice of federal courts, as well as legal and insolvency practitioners is adapted to WURA despite its age. While the flexibility of the law still allows it to cope with the complexity of modern conglomerates, even those with cross border activities, its lack of specific restructuring tools can leave space for interpretation which can lead to uncertainty. The established practice borrows from the jurisprudence developed for non-financial institutions to allow liquidators to effect asset transfer contracts and operate the business as appropriate to preserve value for liquidation. In the case of banks, forced restructuring can only occur under the CDIC Act. Given this reality, provincial legislatures have opted for their own regimes (e.g., Ontario added resolution powers and tools for its credit unions), contributing to greater dispersion. Hence, a reform of the law would be appropriate to make it consistent with other more modern pieces of legislation at the federal and provincial levels as well as established practice and standing jurisprudence. Any change of WURA should take into account the jurisdiction of provincial authorities regarding provincially chartered insurers in its scope.⁵⁶

⁵⁴ Though the decision between commencing liquidation vs. triggering resolution via a declaration of non-viability by the Superintendent is not clearly specified (FSAP Report 2020).

⁵⁵ In Québec, the AMF may apply to the Superior Court for the appointment of a receiver under section 19.1 of the Act that regulates the financial sector. Such receivership may lead to the liquidation or winding-up of the insurer, in accordance with the order of the Court.

⁵⁶ While there were early attempts to tackle this reform in the pre pandemic time, federal authorities have not subsequently prioritized work in this area given other urgent needs.

RECOMMENDATIONS FROM THE 2019 FINANCIAL SECTOR ASSESSMENT PROGRAM

54. Canadian authorities have made important strides in several areas of the main recommendations raised in the 2019 FSAP, but some have yet to be tackled. Noticeable progress was made in relation to: (i) coordination among key authorities both at the federal level as well as in the necessary federal-provincial engagement, (ii) group-wide supervision, (iii) expansion of the scope of recovery planning, (iv) recovery planning guidance, (v) data quality, and (vi) the emergency financing and the indemnity for the systemically important provincially regulated institution (Québec). Other recommendations were not prioritized, including those related to institutional independence issues and WURA, and remain under study (e.g., depositor preference) or in progress (i.e., the review of the deposit insurance scheme). At the provincial level, notable progress has been achieved in areas relating to the independence of the resolution authority, access to emergency liquidity, and continued preparedness work via the implementation of MoUs (Annex IV).

Annex I. Activities of Canada Deposit Insurance Corporation's Centre of Excellence (2019–24)

#	Exercise/Simulation Topic ¹	Exercise Type	Date
1	CDIC Act Powers	Inter-Agency Tabletop	Sep 2019
2	Roles & Responsibilities in Crisis	Internal Fire Drill	Dec 2019
3	Bail-in	Board Tabletop	Mar 2020
4	COVID-19: Stabilization Options	FISC & Board Tabletops	May 2020
5	Payout & Liquidation	Internal Simulation	Jul 2020
6	Key Person & Third-Party Risks	Internal Fire Drill	Sep 2020
7	Powers: Multiple failure case	Inter-agency Tabletop	Sep 2020
8	Powers: Bidding Process	Board Tabletop	Oct 2020
9	Powers: Negotiations and Execution	Internal Simulation	Dec 2020
10	Cyber Incident Response	Management Tabletop	Jan 2021
11	Powers: Authorizing Deals	Board Tabletop	Mar 2021
12	GIC Order Process	Internal Walkthrough	Mar 2021
13	Cyber Incident Response	Board Tabletop	May 2021
14	Powers: Operationalization	Inter-agency Simulation	Sep 2021
15	Payout and Liquidation of a Small Member	Board Tabletop	Oct 2021
16	Bridge Bank	Internal Simulation	Mar 2022
17	Cyber Attack	Board Tabletop	April 2022
18	Bail-in Simulation	Industry Participants Simulation	Oct 2022
19	Resolution of a Federal Credit Union	Board Tabletop	March 2023
20	Cyber Incident Response Plan	Fire Drill	March 2023
21-22	Exercises Post March 2023 events	FISC & Board Tabletops	Jun 2023
23	Deterioration of a High-Risk Member	Board Tabletop	Nov 2023
24	BCP Exercise	Internal Simulation	Nov 2023
25	Decision-making for a High-Risk Member	Board Tabletop	Apr 2024
26	Bail-in Communications Exercise	Industry Participants Tabletop	Jun 2024

#	Exercise/Simulation Topic ¹	Exercise Type	Date
27	High Risk Member Readiness	Board Tabletop	Jun 2024
28	Payout and Liquidation Simulation of a mid-sized member	Internal Simulation	Sept-Nov 2024
29	High Risk Member Readiness	Board Tabletop	Dec 2024
Source: CDIC.			
¹ Events in bold face involved participants from outside CDIC, including G-SIBs, custodians, and securities regulators.			

Annex II. Comparison of TLAC Requirements: FSB vs OSFI

Criteria	FSB TLAC Term Sheet	OSFI's TLAC Guideline
Covered Firms	Covered firms include global systemically important banks (G-SIBs).	OSFI's guideline extends further to cover all Canadian D-SIBs which includes the two Canadian G-SIBs.
Minimum TLAC requirement	Minimum TLAC must be at least 18 percent of Risk Weighted Assets (RWA) plus any applicable regulatory capital Basel III buffers. Minimum TLAC must be 6.75 percent of leverage ratio exposures	OSFI's TLAC RWA Minimum requirement for D-SIBs is 21.5 percent which is the Minimum TLAC (18 percent) + Capital Conservation Buffer (2.5 percent) + SIB surcharge (1 percent). Minimum requirement of 6.75 percent of leverage ratio exposures. D-SIBs currently have supervisory target TLAC requirements (both RWA and leverage exposure based) above the minimum requirements.
External TLAC issuer	External TLAC must be issued and maintained directly by resolution entities, subject to certain exceptions	Regulatory capital instruments issued indirectly by a wholly- and directly owned funding entity or via a special purpose vehicle (SPV) will only be recognized as TLAC where they were issued on or before December 31, 2021. Thereafter, such instruments will only be eligible towards the D-SIB's capital ratios in accordance with the CAR guideline. Tier 2 capital instruments that are subject to amortization under OSFI's CAR guideline may be fully included as TLAC where their residual maturity is greater than 365 days.
Eligibility Criteria	(9a) TLAC-eligible instruments must be paid in.	(13d) The instrument, when issued, must be paid for in cash, or with the prior approval of the Superintendent, in property.
	(9b) Be unsecured	(13f) The instrument is neither fully secured at the time of issuance nor covered by a guarantee of the issuer or related party or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis the

Criteria	FSB TLAC Term Sheet	OSFI's TLAC Guideline
		institution's depositors and/or other general creditors.
	(9c) Not be subject to set off or netting rights that would undermine their loss absorbing capacity in resolution	(13g) The instrument is not subject to set-off or netting rights.
	(9d) Have a minimum remaining contractual maturity of at least one year or be perpetual (no maturity date)	(13i) The instrument is perpetual or has a residual maturity in excess of 365 days.
	(9e) Not be redeemable by the holder (i.e., not contain an exercisable put) prior to maturity;	(13j) The instrument can be called or purchased for cancellation at the initiative of the issuer only and, where the redemption or purchase would lead to a breach of the D-SIB's minimum TLAC requirements, with the prior approval of the Superintendent.
	(9f) not be funded directly or indirectly by the resolution entity or a related party of the resolution entity, except where the relevant home and host authorities in the CMG agree that it is consistent with the resolution strategy to allow TLAC-eligible instruments or liabilities issued to a parent or a resolution entity to count towards external TLAC of the resolution entity.	(13e) Neither the institution nor a related party over which the institution exercises control or significant influence can have purchased the instrument as principal except for purposes of re-sale (and where purchased for re-sale such instrument has been re-sold), nor can the institution directly or indirectly have provided financing to any person for the express purpose of investing in the instrument.
Priority	The subordination requirement specified in Section 11 does not apply in those jurisdictions in which all liabilities excluded from TLAC in Section 10 are statutorily excluded from the scope of the bail-in tool and therefore cannot legally be written down or converted to equity in a bail-in resolution. This exemption is detailed in the antepenultimate paragraph under Section 11 of the FSB TLAC Term Sheet.	Canada meets the criteria for this exemption in the antepenultimate paragraph of section 11. Per Canada's Bank Recapitalization (Bail-in) Conversion Regulations (SOR/2018-57) , prescribed shares and liabilities are subject to bail-in conversion. Prescribed shares and liabilities exclude any debt obligation, other than subordinated indebtedness, that has an original or term to maturity of 400 days or less, secured liabilities, and liabilities without a CUSIP, ISIN or other similar designation for trading and settlement purposes. Therefore,

Criteria	FSB TLAC Term Sheet	OSFI's TLAC Guideline
		excluded liabilities on the balance sheet and creditors are excluded from the scope of the bail-in tool and cannot legally be written down or converted to equity in a bail-in resolution.
Redemption Restrictions	G-SIBs should be prohibited from redeeming eligible external TLAC prior to maturity without supervisory approval if the redemption would lead to a breach of the G-SIB's TLAC requirements.	13 (j) The instrument can be called or purchased for cancellation at the initiative of the issuer only and, where the redemption or purchase would lead to a breach of the D-SIB's minimum TLAC requirements, with the prior approval of the Superintendent.
Governing Law	Eligible external TLAC must be subject to the law of the jurisdiction in which the relevant resolution entity is incorporated. It may be issued under or be otherwise subject to the laws of another jurisdiction if, under those laws, the application of resolution tools by the relevant resolution authority is effective and enforceable on the basis of binding statutory provisions or legally enforceable contractual provisions for the recognition of resolution actions.	Where the instrument is governed by foreign laws, the D-SIB should provide an external legal opinion addressed to OSFI confirming Canadian statutory bail-in power will apply. Such legal opinion may contain standard assumptions and qualifications provided its overall substance is acceptable to OSFI.
Source: OSFI		

Annex III. Maximum Coverage of Provincial Deposit Insurance Schemes

Provincial Institution	Coverage Limit
Credit Union Deposit Insurance Corporation of British Columbia (CUDIC)	Unlimited
Alberta Credit Union Deposit Guarantee Corporation (CUDGC)	Unlimited
Saskatchewan Credit Union Deposit Guarantee Corporation	Unlimited
Deposit Guarantee Corporation of Manitoba	Unlimited
Financial Services Regulatory Authority of Ontario	CAD 250,000; unlimited in registered accounts
Autorité des Marchés Financiers du Québec (AMF)	CAD 100,000
New Brunswick Credit Union Deposit Insurance Corporation (CUDIC)	CAD 250,000
Prince Edward Island Credit Union Deposit Insurance Corporation (CUDIC)	CAD 125,000; Unlimited in registered accounts
Nova Scotia Credit Union Deposit Insurance Corporation (CUDIC)	CAD 250,000
Newfoundland and Labrador Credit Union Deposit Guarantee Corporation (CUDGC)	CAD 250,000
Source: CDIC.	

Annex IV. Implementation of 2019 FSAP Recommendations

2019 FSAP Recommendations on Crisis Management	Status
Modernize the systemic risk oversight framework, underpinned by a federal—provincial platform (potentially, HOA) to discuss systemic issues and formulate policy responses, supported by enhanced transparency	<p>In progress. The Systemic Risk Surveillance Committee (SRSC) continues to meet at a regular frequency to facilitate information sharing and collaboration on the assessment of vulnerabilities and risks to the Canadian financial system.</p> <p>The Bank of Canada’s Financial Stability Department also created a new Systemic Risk Analytics team. Its mandate will focus on interconnections and potential sources of contagion across financial system participants (including NBFIs) that can propagate shocks.</p>
Strengthen autonomy and governance of financial sector authorities, including BOC and OSFI (powers), and Financial Institutions Commission (FICOM) (overall); clarify the roles and responsibilities of the authorities in charge of overseeing systemically important FMIs	<p>No new developments in this area. Financial sector authorities consider that they have the required autonomy and governance to carry out their respective mandates.</p> <p>As an example, OSFI’s guidelines are enforceable in practice as regulated entities recognize that OSFI has intervention powers that are legally enforceable.</p>
Strengthen legal foundation underpinning insurance group-wide supervision; apply the regulatory framework more consistently to group-side supervision	In progress. Undertakings addressing group-wide supervision formed a component of the annual supervisory letters for the two IAIGs with unregulated holding companies. For P&C insurance, undertakings are also being strengthened to ensure that group-wide capital calculations under the Minimum Capital Test (MCT) are consistent across supervision.
Task the SAC with responsibility of overseeing Canada-wide crisis preparedness, thus performing the roles of the coordination body at the federal level and the federal coordinator with key provincial authorities; strengthen CDIC’s operational independence	There was material progress in this area. The agencies continue to develop and maintain inter-agency contingency planning and crisis management frameworks. Conducting regular tabletop exercises to test implement coordinated crisis preparedness measures aimed at addressing stress events under different scenarios.
Expand recovery planning to all deposit-taking institutions and resolution planning to those performing critical functions; further develop the valuation framework for compensation;	The recommendations regarding recovery planning are mostly in place, but there are no new developments regarding depositor preference. Recovery plans are an essential element of OSFI’s supervisory toolkit for systemically important banks (SIBs) and OSFI requires all SIBs to maintain and submit recovery plans. OSFI has a mature framework that provides guidance on recovery plans which includes several tools such as OSFI’s

2019 FSAP Recommendations on Crisis Management	Status
adopt depositor preference; strengthen resolution powers	<p>recovery plan principles and selective technical notes guidance created by OSFI, the BOC and the CDIC Further, OSFI has a detailed assessment methodology to support its internal oversight, assessment and review of SIBs recovery plans. For all other financial institutions, OSFI uses a risk-based criteria threshold to determine when a recovery plan is required.</p> <p>Based on the recent review of Small and Medium-Sized Deposit-Taking Institutions (SMSB) recovery plan criteria as well as OSFI's Supervision Risk Tolerance Framework, OSFI has concluded that comprehensive recovery planning requirements, that currently apply to D-SIBs, will apply to financial institutions (on a proportional basis) based on their systemic importance and OSFI's internal criteria of impact and substitutability. Therefore, for financial institutions meeting OSFI's impact and substitutability thresholds, recovery plan requirements will apply if they are not staged (i.e., safety and soundness concerns do not exist) and will apply to those that are staged/have solvency concerns (i.e., safety and soundness concerns exist).</p> <p>Additionally, for those financial institutions that do not meet the systemic importance criteria of impact and substitutability and are not required to prepare and submit recovery plans, OSFI has prudential controls in place which requires them to prepare tactical "recovery plans" for critical areas in compliance with OSFI's Guidelines (e.g., Guideline B-6—Liquidity Principles (osfi-bsif.gc.ca); Guideline E-18—Stress Testing (osfi-bsif.gc.ca), and Guideline E-21—Operational Risk Management (osfi-bsif.gc.ca)). Regarding the province of Québec, no changes are needed. The only Québec-chartered financial institution designated as a D-SIFI is under the responsibility of the AMF. Since the 2019 FSAP, recovery and resolution plans have continuously been updated. The AMF has been working on several elements to strengthen and operationalize its resolution framework.</p>
Further develop the valuation framework for compensation	<p>No new developments. CDIC plans to monitor developments before proposing further changes.</p> <p>Scope of regime is clearly set out in regulation and CDIC has information on its website about the process. On valuation, the authorities indicate that CDIC would likely hire a valuer to assist when/if needed.</p> <p>For Québec, the AMF finalized the implementation of its valuation framework for resolution in November 2023. The</p>

2019 FSAP Recommendations on Crisis Management	Status
	framework documents the approaches, methodologies, processes as well as information and data required to perform valuations.
Adopt depositor preference	No new developments. CDIC plans to monitor developments before proposing further changes. For Québec, the AMF stands ready to collaborate with federal authorities when they initiate work in this area.
Strengthen resolution powers of CDIC	No new developments. CDIC plans to monitor developments before proposing further changes.
Adopt terms of reference for the SAC and the sub-SAC.	No new developments. Sub-SAC and SAC work well as currently set up—any project to adopt terms of reference would be low priority; it would be included as part of a discussion document on governance for contingency planning workstream
Put in place MoUs between OSFI and provincial authorities.	No change at the federal level. Since the 2019 FSAP, OSFI and the AMF have held discussions to potentially sign a formal MoU, but none has been put in place due to OSFI's concern about information exchange concerning federally regulated entities.
Publish recovery planning guidance.	OSFI published their Operational Risk Management and Resilience—Guideline on August 22, 2024
Extend the scope of the resolution regime to subsidiaries and branches of foreign banks.	No change.
Introduce powers to terminate contracts, claw back remuneration from directors, write down shares and liabilities, and require changes to improve the resolvability of financial institutions.	No changes in this area. While it does not have claw back or termination powers, CDIC has broad powers as a receiver and may do all such things necessary or incidental to its rights, powers, privileges and immunities as receiver. CDIC also has the power to do all things necessary or incidental to its objects and may do all such things as may be necessary for the exercising of any of its powers under its Act. From AMF perspective no changes are needed in this area. (1) Terminate contracts: The AMF may, as a receiver, terminate or resolve any contract, except financial contracts covered by its regulation. (2) Claw back remuneration from directors: The sector-specific laws allow the AMF to institute criminal proceedings against directors or officers who have intentionally, negligently or recklessly committed an offence under one of these laws. (3) Write down shares and liabilities: The AMF has prioritized the harmonization of its legal framework with the federal scheme. (4) Changes to improve the resolvability of financial institutions:

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	As an integrated regulator, the AMF may use the powers within the sector-specific laws to improve a firm's resolvability.
Recognize the power of the resolution authority to depart from the <i>pari passu</i> treatment of creditors for specified reasons and subject to the no creditor worse off safeguard.	No new developments in this area.
Overhaul the bank liquidation regime (i.e., the Winding-Up and Restructuring Act).	No new developments in this area.
Ensure that resolution plans are in place for all federally regulated financial institutions that provide critical functions.	Implemented. Resolution plans are in place for all systemically important banks in Canada. OSFI has determined that Canada does not have systemically important insurers.
Continue bolstering ex ante resources; continue improving the quality and the granularity of deposit data.	Ongoing. This is a major component of CDIC's ongoing operations and preparedness activities.
Eliminate the power to provide open bank assistance without a change of ownership and a restructuring of the distressed deposit-taking institution.	No change.
Conduct an analysis of the effects of the existence of different coverage levels.	No change.
Put in place provincial indemnity of potential emergency liquidity assistance provided by the BOC to systemically important provincially regulated deposit-taking institutions.	There was substantial progress in this area with Québec. In 2020, the BOC signed an MoU with the Government of Québec to which is appended the Indemnity Agreement that would be signed in the event ELA is requested for Québec's D-SIFI (La Fédération des caisses Desjardins du Québec).
Incorporate recommendations regarding the scope of the regime, powers, compensation, and depositor preference on the legal framework for bank resolution (Québec government, AMF)	AMF has implemented these recommendations aligned with the federal framework.

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<p>Continue increasing the deposit insurance system's resources; consider introducing amendments in line with the federal deposit insurance review. (Québec government, AMF)</p>	<p>Ongoing. Several changes have been made in recent times to increase the deposit insurance system's resources:</p> <ul style="list-style-type: none"> • In May 2019, the AMF established a target for its deposit insurance fund to be achieved in a 10-year horizon. • In April 2020, the Regulation regarding the application of the Deposit Institutions and Deposit Protection Act was adopted. Among the major changes are the increase of the premium rate, as well as the repealing of the premium reduction for members of the Desjardins Security Fund. • In June 2023, the AMF conducted a review of its target fund ratio. To reach this target and to respect the time horizon, the premium rate for authorized deposit institutions was increased. <p>Since the 2019 FSAP, the AMF has modernized its governance, which has led to an increase in its workforce.</p> <p>With the aim to stay in harmony with the CDIC coverage, changes have been made to the deposit insurance coverage in Québec to bring it into line with the federal deposit insurance review announced in the federal budget in 2019, as well as subsequent revisions.</p> <p>In March 2019, three regulations pertaining to resolution came into force (bail-in power, indemnification plan, and protected financial contracts). These regulations are harmonized with the federal regime.</p> <p>Following the TLAC Guideline that took effect in March 2029, Québec's D-SIFI has been required, since April 2022, to maintain a minimum loss absorbing capacity to support its internal recapitalization (bail-in) in the event of failure. In 2023, the AMF undertook a review of its deposit insurance coverage.</p>
<p>Support steps by the Québec government to agree the terms and conditions of a provincial indemnity of potential emergency liquidity assistance provided by the BOC; seek to formalize backstop funding arrangement with the Québec government (AMF)</p>	<p>In progress. Provincial indemnity: The BOC and the government of Québec (i.e., Ministry of Finance of Québec) set up an indemnity agreement.</p> <p>Backstop funding arrangement: the AMF held regular meetings with the Ministry of Finance of Québec's representatives to establish the terms and conditions for the backup funding as well as the operational process. The formalization of this potential source of funding has been identified as a priority by the Resolution Board.</p>

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Source: IMF staff based on information from Canadian Authorities (Federal and Provincial).	