

CDIC Webinar

Understanding CDIC Coverage of Brokered Deposits

Note: this webinar aired live on August 30, 2018



Disclaimer

The presentation and discussion do not replace legal advice that member institutions, brokerage firms and financial advisors should seek in the course of carrying out business, or before making any decision or taking any action.

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Who is CDIC? What does CDIC do?

Who we are:

- CDIC is a federal Crown corporation established in 1967 to protect the savings of Canadians.
- CDIC contributes to financial stability by safeguarding over \$770 billion in deposits.
- Our members include banks, federally regulated credit unions as well as loan and trust companies and associations governed by the Cooperative Credit Associations Act that take deposits.

What we do:

- As resolution authority, we are responsible for handling the failure of any of our members, from the smallest to the largest.

Mechanisms at CDIC's disposal to handle failure:

- formal liquidations & reimbursement of insured deposits
- financial assistance (e.g., guarantees or loans)
- Facilitate a forced sale
- Bridge bank
- Bail-in (Domestic Systemically Important Banks only)

Canada Deposit Insurance Corporation

Canada's federal deposit insurer and resolution authority for its member institutions

- Protects \$770B + in deposits at 83 member institutions
- Formally designated resolution authority for its members in 2017, including Canada's largest banks
- Since 1967, 43 failures affecting 2M + depositors. Zero loss of insured deposit
- For over 50 years, CDIC has kept pace with depositor expectations and innovations in the sector

FROM NEXT BEST TO WORLD CLASS

*The People and Events That Have Shaped the
Canada Deposit Insurance Corporation
1967–2017*



C. Ian Kyer

(Our story @ CDIC.ca)

Recent Amendments to Deposit Protection

- Government of Canada (GC) concluded a review of the federal deposit insurance framework → *Budget Implementation Act no. 1* → Royal Assent on June 21, 2018
- Key amendments to the *CDIC Act*:
 - Extends coverage to:
 - deposits with terms >5yrs
 - deposits held in foreign currencies
 - Eliminates coverage for travellers cheques
 - Removes separate coverage for deposits in mortgage tax accounts
 - Updates coverage for deposits held in registered plans, including providing separate coverage for RESP & RDSP deposits
 - Allows CDIC to “see-through” to the ultimate beneficiary if registered deposit is held as a nested trust
 - Outlines new reporting/coverage requirement for deposits held in trust, including nominee brokered deposits
- Changes will come into force at a later date through order of the Governor in Council

Current Deposit Requirements

- Current coverage rules apply until changes come fully into force
- Member Institutions (MIs) must continue to:
 - Meet all requirements currently set out in the *CDIC Act* and by-laws
 - File Return of Insured Deposits (RID) as per most recent instructions and provide attestation regarding ongoing Data and System Requirement compliance
 - Implement recent changes to the *CDIC Deposit Insurance Information By-law* (DIIB) requirements by Sept 29, 2018
- Brokers must continue to disclose beneficiary information to MIs to ensure protection of client deposits

How CDIC Protects Deposits

Deposit insurance limit: \$100,000/DI category

INSURANCE CATEGORIES

One name (individual)  \$100,000

More than one name (joint deposits)  \$100,000

In trust for another person  \$100,000

Registered Retirement Savings Plans (RRSPs)  \$100,000

Registered Retirement Income Funds (RRIFs)  \$100,000

Tax Free Savings Accounts (TFSA)  \$100,000

For paying realty taxes on mortgaged property  \$100,000


Total Covered
by CDIC



Coverage in each category applies to eligible deposits that include:

- Savings and chequing accounts
- Guaranteed Investment Certificates (GICs) and other term deposits of five years or less
- Money order, travelers' cheques and bank drafts issued by CDIC members and cheques certified by members
- Debentures issued by loan companies that are CDIC members

How CDIC Protects Deposits (cont)

- Framework applies to brokered deposits based on how the broker operates:
 - ✓ as an agent (deposit recorded in client's name)
 - ✓ as a nominee (deposit recorded in broker's name in trust for client)
- This distinction has an important impact on how coverage protection extends to client deposits held at a CDIC member institution

How CDIC Protects Deposits (cont)

Trustee

Deposits made by a broker acting as a **trustee** (nominee) for their client are recorded in the name of the nominee broker, who is acting "in trust for" the client/beneficiary, and are subject to CDIC coverage under the trust deposit category.

One name (individual)

 \$100,000

More than one name
(joint deposits)

 \$100,000

Agent

Deposits made by a broker acting as an **agent** for their client are recorded in the name of the client and subject to CDIC coverage limits.

Deposits
made by a broker as
trustee (nominee)

In trust for another person

 \$100,000

RRSP, RRIF, TFSA deposits
made by a broker as
a **trustee** (nominee)

Registered Retirement
Savings Plans (RRSPs)

 \$100,000

Registered Retirement
Income Funds (RRIFs)

 \$100,000

Tax Free Savings Accounts
(TFSAs)

 \$100,000

RRSP, RRIF and TFSA deposits made by brokers acting as a **trustee** (nominee) for their clients receive separate coverage under one of the registered deposit categories.

For paying realty taxes
on mortgaged property

 \$100,000

Deposits
made by a broker as an **agent**

How Coverage Applies to Deposits Held in Trust

- Trust deposits receive separate coverage (aggregated up to \$100,000 per beneficiary, per MI)
- For trust deposits with several beneficiaries, separate coverage can extend to each beneficiary
 - **However, required info must be disclosed and on the records of the MI**
- Deposit insurance coverage applies equally to all valid trust deposits regardless of purpose or type of trust
- The trustee is considered the depositor; deposit insurance payments are made to the trustee and not to the underlying beneficiaries
- Separate coverage may not apply if the deposits are set up for the primary purpose of increasing coverage

Nominee brokered deposits

- To qualify for separate coverage, brokers must disclose vital information to member institutions:
 - **Trusteeship** (indicator of a valid trust),
 - ✓ often represented as “ITF” on MI records
 - **Name & address of nominee broker** (as trustee/depositor)
 - **Information about the beneficiaries** (i.e. broker client)
 - **The interest of each beneficiary** (amount or percentage) in the deposit, if there are multiple beneficiaries

Beneficiary information

- Many nominee brokers are eligible to provide alphanumeric identifiers in lieu of client names/addresses when making deposits with MIs

Identifier Requirements:

- Must be a **separate code** in respect of each client/beneficiary (one ID/client)
- Must be **used for each deposit** made by a broker at an MI for which client is a beneficiary
- Broker must **maintain up-to-date beneficiary names/addresses** on their records

Key Considerations:

- Account numbers may not constitute acceptable client IDs: may not be unique to a single client; client may have multiple account numbers, which is inconsistent with coverage requirements.
- Not using unique client IDs could result in reduced coverage and/or delayed reimbursements in the event of a failure

Using Alphanumeric Identifiers Impacts Coverage

DEPOSIT	ACCOUNT AT MI	AMOUNT	COVERED BY CDIC
1	BrokerABC ITF a/c1234	\$250,000	\$100,000
			+
2	BrokerABC ITF a/c2345	\$150,000	\$100,000
			+
3	BrokerABC ITF a/c3456	\$95,000	\$95,000
		\$495,000	TOTAL COVERED \$295,000

THERE IS A \$100,000 LIMIT/ACCOUNT

What we sometimes see now

On occasion, nominee brokered deposits have been identified using account numbers, which may or may not be unique client identifiers.

We cannot determine the number of beneficiaries underlying the deposit and therefore cannot pay on that basis.

If any or all of the information is missing from the records of an institution, a client's deposits may not receive full coverage

DEPOSIT	ACCOUNT AT MI	AMOUNT	COVERED BY CDIC
1	BrokerABC ITF a/c1234	\$250,000	
	Client A1	\$50,000	\$50,000
	Client B2	\$100,000	\$100,000
	Client C3	\$100,000	\$100,000
			+
2	BrokerABC ITF a/c2345	\$150,000	
	Client Z9	\$95,000	\$95,000
	Client E6	\$55,000	\$55,000
			+
3	BrokerABC ITF a/c3456	\$95,000	
	Client RD5	\$95,000	\$95,000
		\$495,000	TOTAL COVERED \$495,000

COVERAGE IS \$100,000/BENEFICIARY

What we expect to see

CDIC requires the use of unique client alphanumeric IDs to determine the amount of coverage for the beneficiary. Coverage is based on the aggregate (total sum) of the deposits purchased by the same broker for the same beneficiary.

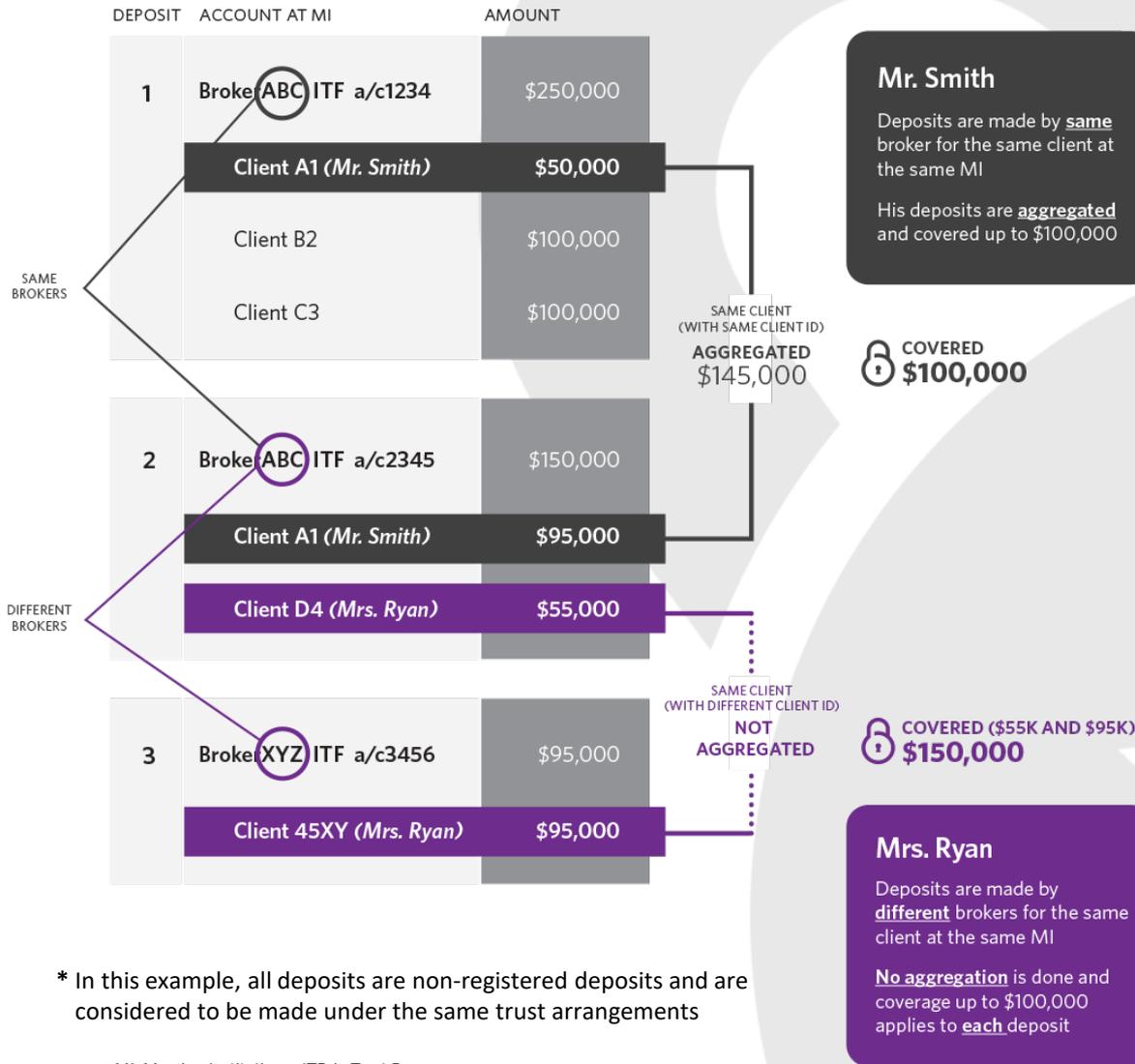
* In this example, all deposits are non-registered deposits.

MI: Member Institution ITF: In Trust For

Aggregation: Multiple brokered deposits

- Coverage for multiple deposits held for the same client would be based on the **aggregate** of deposits purchased by the **same broker** for the **same client** at a **single MI**
 - Each individual deposit is considered to be made under the same trust arrangement (a bare trust), regardless of when the deposit was made or whether the client is the sole beneficiary or one of multiple beneficiaries
 - Aggregation would be done across all deposits made by the same broker for the same client at the MI
 - Brokers would need to show that different deposits for the same client are subject to distinct trust arrangements in order for aggregation to be reconsidered
 - CDIC would not be able to determine that a separate trust arrangement exists based on the information on the records of the member institution
 - Brokers would need to provide additional information about the separate trust arrangements post-failure for CDIC to determine if a subsequent reimbursement is required
- Deposits held by **different nominee brokers** for the same individual at a single MI are not aggregated for coverage purposes, as the depositor (i.e. the broker) for each deposit is different

Aggregation: Multiple brokered deposits



* In this example, all deposits are non-registered deposits and are considered to be made under the same trust arrangements

MI: Member Institution ITF: In Trust For

Beneficiary information: Reporting

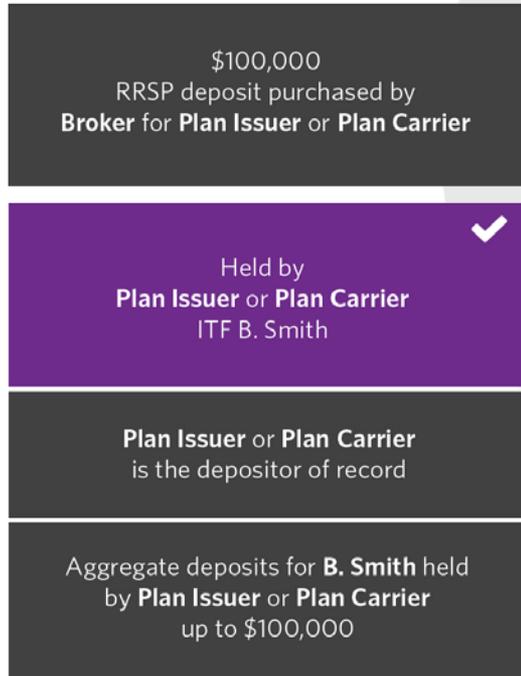
- Brokers/trustees can meet disclosure requirements by providing beneficiary info to the MI at any point prior to a failure
 - Ideally, when the deposit is set up
 - By using the annual update request to provide/update information if it has changed or is missing
 - Provided in a format that permits reconciliation with MI records (i.e., in electronic format)
- The risks of waiting
 - May not have time to provide beneficiary info if a failure occurs quickly
 - Can only update beneficial interest post-failure; not number of beneficiaries
 - Not providing beneficiary info may result in some brokered deposits not being eligible for separate coverage or coverage may be reduced

Registered deposits: RRSP/RRIF/TFSA

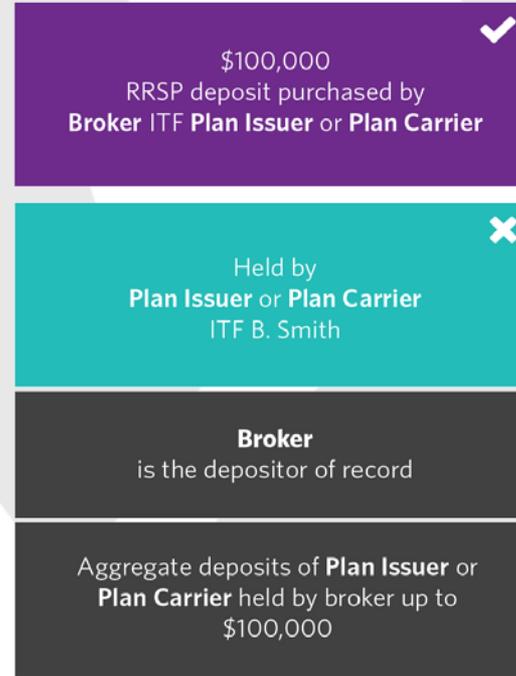
- Deposits made by nominee brokers for their clients into either RRSPs, RRIFs, or TFSAs can receive separate coverage from other eligible deposits held at the same MI
- Coverage is also separate from that provided to other registered deposits that an individual may hold directly with the same MI
- Coverage is further determined by who is the depositor of record for the registered brokered deposit. For example, a depositor could be:
 - a broker who purchases deposits on a client's behalf under a registered plan
 - a trust company that may hold assets for the owner of the registered plan (i.e. a trustee plan)
- If CDIC identifies more than one registered deposit held at an MI in the name of the same nominee broker and held for the same beneficiary, CDIC would aggregate these deposits to determine coverage.
 - CDIC would not aggregate deposits held by different nominee brokers, even though the ultimate beneficiary of the deposits might be the same person.

Non-Nested Versus Nested Trusts

Non-nested trust



Nested trust



In the non-nested trust example, **B. Smith** is covered under a trustee RRSP. In nested trust example, the broker has purchased a deposit "in trust for a trust"

Nested trust

When **Broker** is acting as a nominee for the **Plan Issuer** or **Plan Carrier** for the deposit at the MI, two layers of trusteeship are created.

Deposit insurance coverage is determined at the first trusteeship layer.

Registered deposits: RESP/RDSP

- Nominee brokered deposits held in RESPs or RDSPs receive separate coverage as **trust deposits** for up to \$100,000
 - Not separate coverage as for RRSP/RRIF/TFSA deposits
- Brokers must meet the same disclosure requirements as for other trust/brokered deposit they hold for their clients to ensure coverage
- Aggregation for nominee brokered RESP/RDSP deposits would follow the same approach as for multiple nominee brokered deposits (see slide 15)
- CDIC would reimburse the depositor of record (e.g., the plan trustee, the broker, etc.) who would be responsible for reimbursing their beneficiaries

Jointly-Held Brokered Deposits

- Trust and joint deposits can be eligible to receive separate coverage up to \$100,000 per deposit category
- Nominee brokered deposits held in trust for clients who themselves jointly-own the deposit are considered multiple beneficiary trust deposits for coverage purposes
 - Coverage is provided as a trust deposit (not a joint deposit)
 - The nominee broker is the depositor; each joint owner is a beneficiary to the deposit
 - Eligible for coverage up to \$100,000 per beneficiary, if disclosure requirements are met
 - beneficiary name/address or unique client ID; beneficial interest
- Aggregation for jointly-owned nominee brokered deposits would follow the same approach as for multiple nominee brokered deposits (see slide 15)

CDIC Info & Guidance for Brokers

- Guidance document available on CDIC.ca
 - Outlines current deposit insurance framework
 - Information for brokers to make sure client deposits are protected
 - Prepare for transition to new DI framework
- More information will be made available to highlight key steps in implementation of the new DI rules.
- www.cdic.ca will be updated to reflect new information as it becomes available
 - For example, the CDIC Act amendments coming-into-force date

questions@cdic.ca

Thank you!

Questions?