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’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

<table>
<thead>
<tr>
<th>INSURANCE CATEGORIES</th>
<th>Coverage in each category applies to eligible deposits that include:</th>
</tr>
</thead>
<tbody>
<tr>
<td>One name (individual)</td>
<td>• Savings and chequing accounts</td>
</tr>
<tr>
<td>More than one name (joint deposits)</td>
<td>• Guaranteed Investment Certificates (GICs) and other term deposits of five years or less</td>
</tr>
<tr>
<td>In trust for another person</td>
<td>• Money order, travelers' cheques and bank drafts issued by CDIC members and cheques certified by members</td>
</tr>
<tr>
<td>Registered Retirement Savings Plans (RRSPs)</td>
<td>• Debentures issued by loan companies that are CDIC members</td>
</tr>
<tr>
<td>Registered Retirement Income Funds (RRIFs)</td>
<td></td>
</tr>
<tr>
<td>Tax Free Savings Accounts (TFSA)s</td>
<td></td>
</tr>
<tr>
<td>For paying realty taxes on mortgaged property</td>
<td></td>
</tr>
</tbody>
</table>

Total Covered by CDIC

$100,000

| INSURANCE CATEGORIES | | |
|----------------------|------------------|
| cdic sadc | |
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.

- 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

**RRSP, RRIF, and TFSA deposits**
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
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

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

<table>
<thead>
<tr>
<th>DEPOSIT</th>
<th>ACCOUNT AT Mi</th>
<th>AMOUNT</th>
<th>COVERED BY CDIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>BrokerABC ITF a/c1234</td>
<td>$250,000</td>
<td>$100,000</td>
</tr>
<tr>
<td></td>
<td>Client A1</td>
<td>$50,000</td>
<td>$50,000</td>
</tr>
<tr>
<td></td>
<td>Client B2</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td></td>
<td>Client C3</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>2</td>
<td>BrokerABC ITF a/c2345</td>
<td>$150,000</td>
<td>$100,000</td>
</tr>
<tr>
<td></td>
<td>Client Z9</td>
<td>$95,000</td>
<td>$95,000</td>
</tr>
<tr>
<td></td>
<td>Client E6</td>
<td>$55,000</td>
<td>$55,000</td>
</tr>
<tr>
<td>3</td>
<td>BrokerABC ITF a/c3456</td>
<td>$95,000</td>
<td>$95,000</td>
</tr>
<tr>
<td></td>
<td>Client RDS</td>
<td>$95,000</td>
<td>$95,000</td>
</tr>
</tbody>
</table>

TOTAL COVERED: $495,000

- 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.

- 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
• 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

<table>
<thead>
<tr>
<th>DEPOSIT</th>
<th>ACCOUNT AT MI</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Broke ABC ITF a/c1234</td>
<td>$250,000</td>
</tr>
<tr>
<td></td>
<td>Client A1 (Mr. Smith)</td>
<td>$50,000</td>
</tr>
<tr>
<td></td>
<td>Client B2</td>
<td>$100,000</td>
</tr>
<tr>
<td></td>
<td>Client C3</td>
<td>$100,000</td>
</tr>
<tr>
<td>2</td>
<td>Broke ABC ITF a/c2345</td>
<td>$150,000</td>
</tr>
<tr>
<td></td>
<td>Client A1 (Mr. Smith)</td>
<td>$95,000</td>
</tr>
<tr>
<td></td>
<td>Client D4 (Mrs. Ryan)</td>
<td>$55,000</td>
</tr>
<tr>
<td>3</td>
<td>Broke XYZ ITF a/c3456</td>
<td>$95,000</td>
</tr>
<tr>
<td></td>
<td>Client 4SXY (Mrs. Ryan)</td>
<td>$95,000</td>
</tr>
</tbody>
</table>

Mr. Smith
- Deposits are made by same broker for the same client at the same MI
- His deposits are aggregated and covered up to $100,000

Mrs. Ryan
- Deposits are made by different brokers for the same client at the same MI
- No aggregation is done and coverage up to $100,000 applies to each deposit

* 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 TFSA 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 trusteed 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

In the non-nested trust example, B. Smith is covered under a trusteed RRSP. In nested trust example, the broker has purchased a deposit “in trust for a trust”.

**Non-nested trust**
- $100,000 RRSP deposit purchased by Broker for Plan Issuer or Plan Carrier
- Held by Plan Issuer or Plan Carrier
- Plan Issuer or Plan Carrier is the depositor of record
- Aggregate deposits for B. Smith held by Plan Issuer or Plan Carrier up to $100,000

**Nested trust**
- $100,000 RRSP deposit purchased by Broker ITF Plan Issuer or Plan Carrier
- Held by Plan Issuer or Plan Carrier ITF B. Smith
- Broker is the depositor of record
- Aggregate deposits of Plan Issuer or Plan Carrier held by broker up to $100,000

**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?