



Guide to Intervention for Federally Regulated Deposit-Taking Institutions

The Intervention Process

The objective of the intervention process is to enable OSFI and CDIC (where CDIC member institutions are involved) to identify areas of concern at an early stage and intervene effectively so as to minimize losses to depositors for OSFI and to minimize the exposure of CDIC to loss. The financial institutions' statutes¹ provide a wide range of discretionary intervention powers that allow OSFI and CDIC to intervene to address concerns that may arise with federally-regulated deposit-taking institutions. All assessments made throughout the intervention process consider the unique circumstances of the financial institution including: nature, scope, complexity and risk profile.

The roles of OSFI and CDIC

OSFI has primary responsibility for regulating and supervising federally regulated deposit-taking institutions. In exercising this responsibility, OSFI conducts risk-based assessments of the safety and soundness of these institutions. There are no regular supervisory interactions between CDIC and federal member institutions in the normal course of business as CDIC normally works through OSFI to address any concerns it may have about individual institutions. CDIC administers its Act and by-laws as required under its legislated mandate and exercises its discretion in dealing with problem member institutions. CDIC will monitor member institutions and take necessary action depending on the condition of the member institutions as assessed in accordance with CDIC's powers and objects.

Overview of the Guide to Intervention

The objective of the Guide to Intervention is to promote awareness and enhance transparency of the framework for intervening with federally regulated deposit-taking institutions. The Guide outlines the types of involvement that a federally regulated deposit-taking institution can normally expect from OSFI and CDIC by summarizing the circumstances under which certain intervention measures may be expected and describing the coordination mechanisms in place between OSFI and CDIC. The Guide may be updated in the future to reflect any changes to the intervention process or the roles/responsibilities of OSFI and CDIC in the intervention process.

While the primary purpose of the Guide is to outline the coordination mechanisms that take place between OSFI and CDIC with respect to federally-regulated deposit-taking institutions that are members of CDIC, OSFI also follows the activities outlined in the OSFI column of the Guide when dealing with federally regulated deposit taking institutions that are not CDIC members and CDIC follows similar processes to those outlined in the CDIC column of the Guide when it addresses provincially incorporated member institutions.

¹ *Bank Act, Canada Deposit Insurance Corporation Act, Office of the Superintendent of Financial Institutions Act, Trust and Loan Companies Act and Cooperative Credit Associations Act*

Interpreting the Guide to Intervention

The intervention process is not a rigid regime under which every situation is necessarily addressed with a predetermined set of actions. Circumstances may vary significantly from case to case and the Guide should not be interpreted as limiting the scope of action that may be taken by OSFI and/or CDIC in dealing with specific problems or institutions. The Guide aims to communicate at which stage an action/intervention would typically occur. However, interventions described at one stage are also used at later stages and, in some situations certain interventions may also take place at earlier stages than are set out in the Guide. Additionally, OSFI and CDIC may choose to implement their powers at different times and/or stages in different circumstances.

No significant problems/Normal activities – If OSFI determines that the institution’s financial condition, policies and procedures are sufficient and that practices, conditions and circumstances do not indicate significant problems or control deficiencies, the institution will not typically be staged.

When an institution is not staged, OSFI has determined that the combination of the institution’s overall net risk, capital and earnings makes the institution resilient to most normal adverse business and economic conditions. The institution’s performance has been satisfactory to good, with most key indicators comparable or in excess of industry norms. The institution may have access to additional capital and is able to address supervisory concerns that might arise.

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| <p>OSFI’s activities/responsibilities involve:</p> <p>Assessing the financial condition and operating performance of the institution.</p> <p>Reviewing information obtained from statutory filings, financial reporting requirements and management reporting to the board (including minutes of the board and board committee meetings).</p> <p>Conducting meetings with the institution.</p> <p>Conducting regular risk-based supervisory reviews of the institution.</p> <p>In some cases, OSFI officials attending board meetings of the institution to review supervisory review results.</p> <p>Providing the institution with a supervisory letter.</p> <p>Providing the chair of the audit committee with copies of the supervisory letter.</p> <p>Providing composite risk ratings to the institution.</p> | <p>Inter-agency activities/responsibilities may involve:</p> <p>OSFI providing CDIC with copies of the supervisory letter and risk assessment summary.</p> <p>OSFI and CDIC informing each other of changes in the intervention status of the institution.</p> <p>OSFI and CDIC holding regular meetings to discuss the institution.</p> <p>OSFI and CDIC discussing any remedial measures that either agency has requested the institution to undertake.</p> | <p>CDIC’s activities/responsibilities involve:</p> <p>Ongoing monitoring of selected individual member institutions via:</p> <ul style="list-style-type: none"> • information available from OSFI, the Bank of Canada and filed by the member institution with the Financial Information Committee comprised of OSFI, Bank of Canada and CDIC; • discussion and meetings with OSFI; • rating agency results; • results of OSFI’s annual examinations of member institutions; and, • other sources. <p>Ensuring compliance with the <i>CDIC Act</i> and CDIC by-laws.</p> |

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| <p>Requesting that the institution's management provide a copy of the supervisory letter to external auditors.</p> <p>Advising the institution of any corrective measures that the institution will be requested to undertake.</p> <p>Monitoring any corrective measures which may include requesting additional information and/or conducting follow-up supervisory reviews.</p> <p>Reporting to the Minister of Finance on an annual basis.</p> | | |
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Stage 1 -- Early warning – If an institution is categorized as Stage 1, OSFI has identified deficiencies in the institution’s financial condition, policies or procedures or the existence of other practices, conditions and circumstances that could lead to the development of problems described at Stage 2 if they are not promptly addressed.

The following conditions could lead to OSFI categorizing an institution as Stage 1:

- the combination of the institution’s overall net risk and its capital and earnings compromises the institution’s resilience.
- the institution has issues in its risk management or has control deficiencies that although not serious enough to present a threat to financial viability or solvency could deteriorate into more serious problems if not addressed.

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| <p>In addition to its normal activities, at Stage 1, OSFI’s activities/responsibilities may involve:</p> <p>Formally notifying management, board of directors and external auditor of the institution by way of a supervisory letter that the institution is at Stage 1 and that the institution is required to take measures to mitigate or rectify the identified deficiencies.</p> <p>Meeting with management, board of directors (or a committee of the board) and/or the external auditor of the institution to outline concerns and discuss remedial actions.</p> <p>Sending a notice of the assessment surcharge to the institution.</p> <p>Monitoring the institution on an escalating basis by increasing the frequency of reporting requirements and/or expanding the level of detail of information that the institution is required to submit.</p> <p>Conducting enhanced or more frequent supervisory reviews, or directing the</p> | <p>Inter-agency activities/responsibilities may involve:</p> <p>OSFI informing CDIC that it is staging the institution, the reasons for the staging and any action that OSFI is planning to take.</p> <p>OSFI sending intervention reports to CDIC.</p> <p>CDIC notifying OSFI if it places the institution on the CDIC Watchlist and/or contemplates that it will apply remedial measures to the institution.</p> <p>OSFI and CDIC holding frequent meetings to discuss the risk profile of the institution.</p> <p>OSFI and/or CDIC updating FISC and/or sub-FISC.</p> | <p>CDIC would not normally intervene with a member deposit taking institution at Stage 1.</p> <p>In addition to the above-mentioned activities/responsibilities, CDIC’s activities/responsibilities may involve:</p> <p>Requesting additional information from OSFI, if available, or from the member institution if necessary.</p> <p>Communicating its concerns to the member institution.</p> <p>Placing the member institution on the CDIC Watchlist and informing the institution that it has been placed on the CDIC Watchlist.</p> <p>Conducting or commissioning a CDIC special examination to obtain more information on the member institution so as to put CDIC in a position to assess the extent of the member institution's problem and CDIC's exposure if circumstances warrant. Note: CDIC may charge the cost of the CDIC special examination to the institution.</p> <p>Levying a premium surcharge after consulting with the Superintendent and giving the member</p> |

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| <p>institution's internal specialists to conduct reviews that focus on particular areas of concern such as asset or loan security valuations.</p> <p>Entering into a prudential agreement with the institution for the purpose of implementing any measure designed to maintain or improve the safety and soundness of the institution.</p> <p>Requiring the financial institution to increase its capital.</p> <p>Imposing business restrictions on the financial institution in appropriate circumstances and/or issuing a direction of compliance in appropriate circumstances.</p> | | <p>institution an opportunity to make written representations if the member institution fails to comply with:</p> <ul style="list-style-type: none"> • the policy of deposit insurance that requires member institutions to: <ul style="list-style-type: none"> - have in place appropriate, effective and prudent practices with respect to corporate governance, risk management, liquidity and capital management, and controls; - provide CDIC with information; and, - maintain records and information. • the member institution's governing statute; or, • the terms of an undertaking that the member institution provided to CDIC. <p>Requesting that the member institution or entity that controls the member institution provide an undertaking to rectify areas of concern.</p> |
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Stage 2 -- Risk to financial viability or solvency – At Stage 2, the institution poses material safety and soundness concerns and is vulnerable to adverse business and economic conditions. OSFI has identified problems that could deteriorate into a serious situation if not addressed promptly, although the problems are not serious enough to present an immediate threat to financial viability or solvency.

One or more of the following conditions would likely lead OSFI to classify an institution as Stage 2:

- The combination of the institution’s overall net risk, capital and earnings makes it vulnerable to adverse business and economic conditions which may pose a serious threat to its financial viability or solvency unless effective corrective action is implemented.
- The institution has issues in its risk management that, although not serious enough to present an immediate threat to financial viability or solvency, could deteriorate into more serious problems if not addressed promptly.

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| <p>In addition to its activities at the preceding stages, OSFI’s activities/responsibilities may involve:</p> <p>Enhanced monitoring of remedial measures through imposing more frequent reporting requirements.</p> <p>Conducting follow-up supervisory reviews more frequently and/or enlarging their scope.</p> <p>Requiring the institution to incorporate in the business plan appropriate remedial measures aimed at rectifying problems within a specified time frame.</p> <p>Requiring the institution's external auditor to enlarge the scope of the review of the financial statements and/or to perform other procedures and prepare a report thereon. Note - OSFI may assign the cost of the external auditor's work to the institution.</p> <p>Requiring the institution to conduct a special audit to be performed by an auditor other than</p> | <p>Inter-agency activities/responsibilities may involve:</p> <p>OSFI informing CDIC of results and data obtained from enhanced supervisory reviews, expanded audits and enhanced monitoring.</p> <p>OSFI and CDIC commencing contingency planning (although in unusual circumstances, this could occur at Stage 1).</p> | <p>In addition to the above-mentioned activities/responsibilities, CDIC’s activities/responsibilities may involve:</p> <p>Sending the Chief Executive Officer or the Chairperson of the member institution a formal report pursuant to section 30 of the <i>CDIC Act</i> if the member institution is not in compliance with a CDIC by-law or is in breach of its policy of deposit insurance (including the condition requiring that member institutions have appropriate, effective and prudent practices with respect to corporate governance, risk management, liquidity, capital management and controls).</p> <p>If CDIC is not satisfied with progress made in rectifying the situation that was outlined in the formal report, CDIC must inform the member institution and the Minister. CDIC may, subject to the Minister's advice that it is not in the public interest to do so, terminate the member institution's policy of deposit insurance (with at least 30 days notice).</p> |

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| <p>the institution's external auditor. Note - OSFI may assign the cost of the auditor's work to the financial institution.</p> <p>Developing a contingency plan to enable OSFI to be ready to take rapid control of the assets of the institution or the institution itself in case of rapid deterioration.</p> | | <p>Conducting a preparatory examination with the approval of the Superintendent if CDIC believes that the making of a payment in respect of deposits held by a member institution is imminent and that it would be in the best interest of both the depositors with the member institution and CDIC that preparations be made to make that payment as soon as possible.</p> <p>Applying to Court for an order directing the member institution to comply with the <i>CDIC Act</i>, CDIC's by-laws or the policy of deposit insurance or restraining the member from breaching the <i>CDIC Act</i>, CDIC's by-laws and/or the policy of deposit insurance.</p> |
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Stage 3 -- Future financial viability in serious doubt – If an institution is categorized as Stage 3, OSFI has identified that the institution has failed to remedy the problems that were identified at Stage 2 and the situation is worsening. The institution has severe safety and soundness concerns and is experiencing problems that pose a material threat to its future financial viability or solvency unless effective corrective measures are promptly undertaken. One or more of the following conditions are present:

- The combination of the institution’s overall net risk, capital and earnings makes it vulnerable to adverse business and economic conditions which poses a serious threat to its financial viability or solvency unless corrective action is promptly undertaken.
- The institution has significant issues in risk management or control deficiencies, which present a serious threat to its financial viability or solvency unless effective correction action is promptly implemented.

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| <p>In addition to its activities at the preceding stages, OSFI’s activities/responsibilities may involve:</p> <p>Directing external specialists or professionals to assess certain areas such as quality of loan security, asset values, sufficiency of reserves, etc.</p> <p>Enhancing the scope of business restrictions that have already been imposed on the institution and/or expanding the level of detail of information that the institution is required to submit to OSFI.</p> <p>OSFI staff being present at the institution to monitor the situation on an ongoing basis.</p> <p>Expanding contingency planning.</p> <p>Communicating to management and the board of directors of the institution the importance of considering resolution options such as restructuring the institution or seeking a prospective purchaser.</p> | <p>Inter-agency activities/responsibilities may involve:</p> <p>CDIC and OSFI conducting more in depth and more frequent discussions regarding the institution.</p> <p>Holding regular meetings of sub-FISC and FISC as required to discuss the evolving situation and contingency planning.</p> | <p>In addition to the above-mentioned activities/responsibilities, CDIC’s activities/responsibilities may involve:</p> <p>Minimizing the exposure of CDIC to loss by providing support for a restructuring transaction by taking such measures as:</p> <ul style="list-style-type: none"> • acquiring assets from the member institution; • making or guaranteeing loans or advances with or without security, to the member institution; and, • making or guaranteeing a deposit with the member institution. |

Stage 4 – Non-viability/ insolvency imminent – If an institution is categorized as Stage 4, OSFI has determined that it is experiencing severe financial difficulties and has deteriorated to such an extent that:

- the institution has failed to meet regulatory capital requirements in conjunction with an inability to rectify the situation on an immediate basis;
- the statutory conditions for taking control have been met; and/or,
- the institution has failed to develop and implement an acceptable business plan, resulting in either of the two preceding circumstances becoming inevitable within a short period of time.

At Stage 4, OSFI has determined that the financial institution will become non-viable on an imminent basis.

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| <p>In addition to its activities at the preceding stages, OSFI activities/responsibilities may involve:</p> <p>Assuming temporary control of the assets of the institution and the assets under its administration if the statutory conditions for taking control of assets exist.</p> <p>Taking control of assets of the institution and the assets under its administration or taking control of the institution if the statutory conditions for taking control exist unless the Minister advises OSFI that it is not in the public interest to do so.</p> <p>Requesting that the Attorney General of Canada apply for a winding-up order in respect of the institution where the assets of the institution are under the control of the Superintendent or the institution is under the control of the Superintendent.</p> | <p>Inter-agency activities/responsibilities may involve:</p> <p>Holding regular FISC meetings, focusing on coordinated implementation of intervention measures.</p> <p>In order to initiate a FIRP, the following is required:</p> <p>Where the Superintendent is of the opinion that:</p> <ul style="list-style-type: none"> • the institution has ceased, or is about to cease to be viable, and the viability of the institution cannot be restored or preserved by the exercise of the Superintendent’s legislative powers; or • circumstances exist that would | <p>In addition to the above-mentioned activities/responsibilities, CDIC’s activities/responsibilities may involve:</p> <p>Cancelling the policy of deposit insurance of a member institution if CDIC is of the opinion that the member institution is or is about to become insolvent, subject to the Minister’s advice that it is not in the public interest to do so, and after notifying the Superintendent.</p> <p>Initiating a “FIRP” following receipt of the formal Superintendent’s report to the effect that the institution has ceased, or is about to cease, to be viable or circumstances exist that would allow the Superintendent to take control and grounds would exist to make a winding-up order. This involves CDIC asking the Minister of Finance to recommend that the Governor in Council issue a "FIRP" order under the financial institutions restructuring provisions of the <i>CDIC Act</i> if a restructuring transaction is likely to be expeditiously entered into and is consistent with</p> |

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| | <p>allow the Superintendent to take control of the institution, and if such control were taken, grounds would exist for the making of a winding-up order,</p> <p>the Superintendent, after providing the federal member institution with a reasonable opportunity to make representations, reporting to CDIC in writing.</p> | <p>CDIC's objects.</p> <p>Applying for a winding-up order under the <i>Winding-up and Restructuring Act</i> where, in the opinion of CDIC, the member institution is or is about to become insolvent, unless the Minister advises that it would not be in the public interest to do so. Note - CDIC may act as a liquidator or receiver of a member if appointed as such.</p> <p>CDIC giving public notice of the termination or cancellation of the member institution's policy of deposit insurance in the manner and through any news media that it considers appropriate if, in CDIC's opinion, the public interest requires that such notice be given.</p> |
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Glossary of Selected Terms

The glossary provides definitions of selected terms that are used in the *Guide to Intervention for Federally Regulated Deposit-Taking Institutions*. The items described in the glossary contain information regarding the business or affairs of financial institutions. Please note that all information regarding the business or affairs of institutions that is obtained or produced by OSFI and/or CDIC shall be treated as confidential pursuant to legislation. Institutions are also prohibited from disclosing these documents to the extent that they contain supervisory information as defined in the relevant regulations.

CDIC Special Examination – A Special Examination is an examination of the affairs of a member institution conducted by or on behalf of CDIC for a specified purpose at such times as CDIC may require.

Composite Risk Ratings (CRR) – CCR is OSFI's overall assessment of an institution's safety and soundness. There are four ratings for composite risk: 'low', 'moderate', 'above average' and 'high'. The determination of CRR is guided by a set of assessment criteria that were developed in consultation with the industry.

Direction of Compliance – A Direction of Compliance is a direction issued to an institution, or a person with respect to an institution, by the Superintendent where in the opinion of the Superintendent, the institution or person is committing, or is about to commit, an act that is an unsafe or unsound practice in conducting the business of the institution or is pursuing or is about to pursue any course of conduct that is an unsafe or unsound practice in conducting the business of the institution. A Direction of Compliance may direct an institution or person to: cease or refrain from committing an act or pursuing a course of conduct; and/or perform such acts as in the opinion of the Superintendent are necessary to reedy the situation.

FIRP - FIRP means the institution restructuring provisions of the *CDIC Act* whereby an order may be made by the Governor in Council, on the recommendation of the Minister, to vest the shares and subordinated debt of a federal member institution in CDIC and/or appoint CDIC as receiver of the member for purposes of carrying out a transaction or a series of transactions to restructure a substantial part of the business of the member.

Notice of Assessment Surcharge – A Notice of Assessment Surcharge is a notice in writing that is sent by the Superintendent to an institution advising that an assessment surcharge has been issued to the institution. The assessment surcharge is a surcharge that is assigned to an institution that has been assigned a "stage" rating pursuant to the *Guide to Intervention for Federally Regulated Deposit-Taking Institutions* or in accordance with the principles set out in the Guide. The amount of the assessment surcharge is determined by regulation.

Prudential Agreement – A prudential agreement is an agreement between the institution and the Superintendent for the purpose of implementing any measure designed to maintain or improve the safety and soundness of the institution.

Risk Assessment Summary (RAS) – The RAS is an executive summary of essential supervisory information about an institution. The RAS sets out the assessment of the risk profile of an institution and presents a high-level overview of the institution that provides the context for the assessment.

Premium Surcharge – A premium surcharge is an additional premium charged to a member institution, where, in the opinion of CDIC, the member is engaging in a practice that is prescribed in the CDIC by-laws as warranting such an additional premium. The amount of the premium surcharge must be fair in the circumstances and in no case can it exceed an amount equal to one sixth of one per cent of the member's insured deposits for the year.

Preparatory examination – A Preparatory examination is an examination by CDIC or by a person designated by CDIC, of the books, records and accounts of a member institution relating to its deposit liabilities, where CDIC believes that the making of a deposit insurance payment is imminent, and that it would be in the best interest of both the depositors and CDIC that preparations be made to make that payment as soon as possible.

Supervisory Letter – A Supervisory Letter is a letter issued by OSFI to a institution to report the findings and recommendations resulting from OSFI's supervisory work and to communicate its Composite Risk Rating (CRR) and intervention stage rating (if the institution is staged). An institution is issued a supervisory letter at least once a year, and more often if there are changes in the institution's CRR or intervention stage rating.
