

**Guide to Intervention
For Federal Financial Institutions**

Introduction

The financial institutions statutes administered by OSFI and the Canada Deposit Insurance Corporation Act provide a wide range of discretionary intervention powers to address situations that give OSFI and, when one of CDIC's member institutions is involved, CDIC cause for concern. The objective of the intervention process is to identify areas of concern early and intervene effectively to minimize problems and losses to depositors and other creditors, as the case may be, of financial institutions.

The document that follows provides an outline of the intervention processes applied to federally regulated deposit-taking institutions by OSFI and CDIC. It incorporates the measures proposed in the policy paper. A simplified schematic is also appended to assist those who are not familiar with the process. Similar processes are followed by CDIC in dealing with provincial deposit-taking institutions.

The objective of this document is to promote awareness and enhance transparency of the system of intervention for federal deposit-taking financial institutions and other interested parties. The document summarizes the circumstances under which certain intervention measures may be expected, and it describes the coordination mechanisms in place between OSFI and CDIC when dealing with federally regulated deposit-taking institutions.

Over time, this document will be updated, to expand, where appropriate, on the circumstances under which action may be taken, including the authorities' risk-rating systems, for example. In addition, more detail on the nature of extended and special exams carried out by OSFI and CDIC will be considered.

This document outlines what financial institutions can normally expect from OSFI and CDIC. However, circumstances can vary significantly from case to case, and this document should not be interpreted as limiting the scope of action that may be taken by OSFI or CDIC in dealing with specific problems or institutions. It is important to note the OSFI's and CDIC's intervention process is not a rigid regime under which every institution or every situation is necessarily addressed with a predetermined set of actions.

No problems/Normal activities -- Routine supervisory and regulatory activities pursuant to mandates of OSFI and CDIC. In addition, both agencies conduct research and analyze industry-wide issues and trends, appropriate to their respective functions.

OSFI Activities	Statutory and Inter-Agency Activities/Responsibilities	CDIC Activities
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<p>Incorporation of new financial institutions and issuance of orders to carry on business:</p> <ul style="list-style-type: none"> • review and assess all relevant documents and information • make recommendations to Minister. <p>Review and assess wide range of applications and requests for regulatory consents required by statutes including</p> <ul style="list-style-type: none"> • corporate reorganizations • changes in ownership • acquisitions of other financial institutions • transfers of business. <p>Ongoing monitoring of supervised institutions via information obtained from statutory filings and financial reporting requirements:</p> <ul style="list-style-type: none"> • consider compliance with statutory and other regulatory requirements 	<p>OSFI informs Minister of status of supervised institutions. OSFI reports to the CDIC on post examination results for individual deposit-taking member institutions and confirms material compliance with standards of sound business and financial practices. Monthly OSFI-CDIC inter-agency meeting held to discuss corporate governance and activities of member institutions.</p>	<p>Process application for policy of deposit insurance and obtain appropriate guarantees and undertakings. Ongoing risk assessment of selected individual institutions via:</p> <ul style="list-style-type: none"> • information available from OSFI, the Bank of Canada and, where necessary, individual financial institution reports • contacts with regulators • rating agency results • review and analysis of results of annual examinations of federal member institutions carried out by OSFI • other sources. <p>Ensure compliance with CDIC Act and standards of sound business and financial practices by laws, policy of deposit insurance and CDIC by-laws.</p>
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<ul style="list-style-type: none"> • assess financial situation and operating performance. <p>Periodic on-site examinations of supervised institutions as required by statutes:</p> <ul style="list-style-type: none"> • inform management and board of directors of findings • management requested to provide copy of report to external auditors • require that concerns be addressed by institutions • monitor remedial measures if required. 		
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Stage 1 -- Early warning -- Deficiency in policies or procedures or the existence of other practices, conditions and circumstances that could lead to the development of problems described at Stage 2. Situation is such that it can be remedied before it deteriorates into a Stage 2 problem.

<p align="center">OSFI Activities/Intervention</p>	<p align="center">Statutory and Inter-Agency Activities/Responsibilities</p>	<p align="center">CDIC Activities/Intervention</p>
<p>Management and board of directors of financial institution are formally notified of concerns and</p>	<p>Activities below are in addition to those previously mentioned.</p>	<p>CDIC risk assessment and interventions listed here are in addition to those mentioned previously.</p>

<p>are requested to take measures to rectify situation.</p> <p>Monitoring of remedial actions may involve requests for additional information and/or follow-up examinations.</p> <p>OSFI may require that institution's external auditor enlarge scope of examination of institution's financial statements or that external auditor perform other procedures, and prepare a report thereon. OSFI may assign cost of external auditor's work to institution.</p>	<p>OSFI and CDIC coordinate on requested remedial measures to deal with concerns and on establishment of time frame within which situation should be remedied.</p> <p>OSFI's post-examination report to CDIC identifies issues requiring remedial measures, including any material breaches of standards of sound business and financial practices, regardless of whether such issues are treated as formal qualifications to OSFI's report. The status of such issues is reviewed at monthly inter-agency meetings.</p> <p>CDIC notifies OSFI of contemplated intervention measures, discusses results of special examinations with OSFI, and coordinates communications with the institution about its status and placement on "watchlist".</p>	<p>mentioned previously.</p> <p>Depending on CDIC's assessment of situation</p> <ul style="list-style-type: none"> • CDIC may request additional information from OSFI if available, or from the institution if necessary • CDIC may communicate its concerns to institution and may place it on its preliminary "watchlist" and inform institution of that fact • If circumstances warrant CDIC may conduct or commission a special examination to obtain more information on the member institution and to be in a position to assess the extent of the institution's problem and CDIC's exposure • Institution may pay higher CDIC premiums, related to increased risk. <p>CDIC may levy a premium surcharge if the institution does not remedy any of the</p>
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		<p>following:</p> <ul style="list-style-type: none"> • failure to follow CDIC's standards of sound business and financial practices • failure to comply with its governing statute • failure to fulfill the terms of an undertaking provided to CDIC • failure to maintain records and information pursuant to provisions of the policies of deposit insurance. <p>CDIC may request an undertaking from institution or from entity that controls the institution to rectify areas of concern.</p>
<p><i>Stage 2 -- Risk to financial viability or solvency</i> -- Situation or problems that, although not serious enough to present an immediate threat to financial viability or solvency could deteriorate into serious problems if not addressed promptly, as evidenced by:</p> <ul style="list-style-type: none"> • concerns over the institution's ability to meet capital and surplus, or vesting requirements on an ongoing basis • deterioration in the quality or value of assets, or the profitability of the business undertaken by the financial institution • undue exposure to off-balance sheet risk • poor earnings or operating losses or questionable reporting of earnings or expenses • low level of accessible liquidity or poor liquidity management in context of the institution's situation • less than satisfactory management quality or deficiency in management procedures or controls (including material breaches of standards of sound business and financial practices) 		

<ul style="list-style-type: none"> • other concerns arising from: <ul style="list-style-type: none"> -- a financially weak or troubled owner -- rapid growth -- non-compliance with regulatory requirements -- credit rating downgrades. -- systemic issues 		
OSFI Activities/Intervention	Statutory and Inter- Agency Activities/Responsibilities	CDIC Activities/Intervention
<p>Senior OSFI officers meet with management and board of directors of financial institution and with external auditor of institution to outline concerns and discuss remedial actions. Management and board of directors are formally notified of the fact that institution is being placed on the regulatory >watchlist'. External auditor of institution may be required to perform a particular examination relating to the adequacy of the institution's procedures for the safety of its depositors, other creditors or shareholders, or any other examination that may be required in the public interest, and report thereon to OSFI. OSFI may assign cost of external auditor's work to institution. Scope of on-site examination and/or frequency of onsite examinations may be</p>	<p>Activities below are in addition to those previously mentioned. CDIC and OSFI coordinate communications with the institution. OSFI immediately notifies CDIC of situation when uncovered, with a formal report to follow. Institution is placed on "watchlist". OSFI sends a "watchlist" progress report at least monthly to CDIC and Minister; report is discussed in regular meeting with Minister. Progress on remedial measures discussed at monthly OSFI CDIC interagency meeting. Institution may be discussed at Financial Institutions Supervisory Committee. Contingency planning commences.</p>	<p>CDIC risk assessment and intervention listed here is in addition to those previously mentioned. CDIC informs management and board of directors of member institution of situation and of the fact that institution is being placed on CDIC's "watchlist" leading to more vigorous monitoring. If institution is in breach of CDIC's standards of sound business and financial practices, policy of deposit insurance, bylaws, CDIC may send the CEO or the Chairman of the institution a formal report pursuant to Section 30 of the CDIC Act. CDIC may advise institution that if CDIC is not satisfied with progress made in rectifying the situation referred to in the above mentioned formal report, CDIC may seek (federal institutions) Minister's permission to terminate the institution's policy or deposit</p>

<p>enlarged or increased. Monitoring of financial institution is enhanced as to frequency of reporting requirements and/or the level of detail of information submitted. Institution must produce a business plan acceptable to both OSFI and CDIC that reflects appropriate remedial measures that will rectify problems within a specified time frame. Business restrictions appropriate to circumstances may be imposed on institution via undertakings provided by the institution, restrictions on the institution's order to carry on business or via direction of compliance covering such matters as:</p> <ul style="list-style-type: none"> • payments of dividends or management fees • lending or investment powers • level of deposits and other indebtedness • interest rates paid on deposits • other restrictions tailored to circumstances <p>Progress of remedial measures is monitored via reporting requirements and/or follow-up examinations.</p>		<p>insurance.</p>
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Stage 3 -- Future financial viability in serious doubt -- Situations or problems described

<p>at Stage 2 are at a level where, in the absence of mitigating factors such as unfettered access to financial support from a financially strong financial institution parent, unless effective corrective measures are applied promptly, they pose a material threat to future financial viability or solvency.</p>		
<p>OSFI Activities/Intervention</p>	<p>Statutory and Inter-Agency Activities/Responsibilities</p>	<p>CDIC Activities/Intervention</p>
<p>Management, board of directors and external auditor of institution are informed of problems.</p> <p>A special audit may be required from an auditor other than the institution's own external auditor if OSFI is of the opinion that it is required. OSFI may assign cost of external auditor's work to institution.</p> <p>If financial institution is a deposit-taking institution, examination and monitoring responsibility is transferred to an internal special work-out group within OSFI.</p> <p>Enhanced examinations may be carried out focusing on particular areas of concern such as asset or loan security valuations. Such examinations may involve any of the following:</p> <ul style="list-style-type: none"> • substantial increase in sampling of credit files 	<p>Activities below are in addition to those previously mentioned.</p> <p>OSFI immediately notifies CDIC of any material new findings or developments, with a formal report to follow.</p> <p>Results and data from enhanced examinations, expanded audits, etc. and from enhanced monitoring are discussed with CDIC.</p> <p>If financial institution is a deposit-taking institution and it is deemed to be, or is about to become, non viable, OSFI sends a formal report to CDIC to that effect.</p>	<p>CDIC risk assessment and interventions listed here are in addition to those mentioned previously.</p> <p>CDIC may seek Minister's permission to terminate the institution's policy of deposit insurance.</p> <p>In order to minimize risk to deposit insurance fund, CDIC may provide institution with temporary financial assistance or provide support for a restructuring transaction by such measures as:</p> <ul style="list-style-type: none"> • acquiring assets from the institution • making or guaranteeing loans or advances with or without security, to the institution • making or guaranteeing a deposit with the institution. <p>Following receipt of formal OSFI report to the effect that institution has ceased, or is about to cease, to be viable, CDIC may initiate a restructuring by asking the Minister of Finance to</p>

<ul style="list-style-type: none"> • more in-depth review of files • engagement of specialists or professionals to assess certain areas such as quality of loan security, asset values, sufficiency of reserves, etc. <p>Depending on situation, OSFI examination staff may be posted at financial institution to monitor situation on an ongoing basis.</p> <p>Business plan must reflect appropriate remedial measures that will rectify problems within a set time frame so as to avoid triggering impaired viability or impaired solvency procedures (See Stage 4).</p> <p>OSFI may order institution to increase its capital.</p> <p>Monitoring of institution may be further enhanced as to frequency of reporting requirements and/or the level of detail of information submitted so as to monitor progress of remedial measures.</p> <p>Follow-up examinations may be carried out as required.</p> <p>Depending on circumstances, business restrictions may be enhanced or additional</p>		<p>recommend that the Governor in Council issue a "FIRP" order, under the financial institutions restructuring provisions of the CDIC Act.</p>
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<p>ones imposed on institution. Depending on circumstances, pressures may be exerted on management and board of directors to restructure institution or to seek out an appropriate prospective purchaser. OSFI develops contingency plan in order to be able to take rapid control of the assets of the financial institution if changes in circumstances so warrant.</p>		
<p>Stage 4 -- Nonviability/ insolvency imminent -- Severe financial difficulties resulting in</p> <ul style="list-style-type: none"> • failure or imminent failure to meet regulatory capital and surplus requirements in conjunction with inability to rectify the situation within a short period of time <p>OR</p> <ul style="list-style-type: none"> • statutory conditions for taking control being met <p>OR</p> <ul style="list-style-type: none"> • failure to develop and implement an acceptable business plan, thus making either of the two preceding circumstances inevitable within a short period of time. 		
<p>OSFI Activities/Intervention</p>	<p>Statutory and Inter-Agency Activities/Responsibilities</p>	<p>CDIC Activities/Intervention</p>
<p>New business restrictions may be imposed on institution or existing restrictions may be expanded. Pressure to rectify situation is exerted on management and board of directors of financial</p>	<p>Other relevant regulatory agencies (provincial or foreign) are notified of proposed regulatory intervention measures to be applied to institution. If the institution meets any of the conditions that would make it eligible to be wound up</p>	<p>If CDIC is of the opinion that the institution is or is about to become insolvent, CDIC may seek Minister's approval to cancel the institution's policy of deposit insurance.</p>

<p>institution through frequent meetings with senior OSFI officers. OSFI notifies management and board of directors of institution of intended regulatory intervention measures that will be taken unless situation is rectified imminently.</p> <p>If statutory conditions for taking control of assets exist and if circumstances are such that there is an immediate threat to the safety of depositors and other creditors, OSFI may take control of the assets of the institution for a short period.</p> <p>If statutory conditions exist, such as failure to comply with order to increase capital, and subject to representation to the Superintendent, OSFI may maintain control of assets or take control of the institution.</p>	<p>pursuant to the Winding-up Act, the institution itself may voluntarily seek a winding-up order. Alternatively, either OSFI or CDIC, working in collaboration with the other agency, may seek a winding-up order. Minister may overrule this decision on grounds of public interest only. All intervention measures applied to deposit-taking institutions at this stage, whether initiated by OSFI or CDIC, are the subject of close coordination between the two agencies.</p>	
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