April 15, 2020

OSFI outlines additional regulatory adjustments to foster financial resilience and stability during COVID-19

Further to the Office of the Superintendent of Financial Institution's (OSFI) March 27th letter, OSFI announced more adjustments to existing capital requirements for Federally Regulated Deposit-Taking Institutions and Insurers to ensure that these sectors have the financial flexibility to respond to on-going COVID-19 impacts.

Deposit-Taking Institutions (DTIs)

Temporary exclusions to the leverage ratio exposure measure

The following exclusions are effective as of April 9, 2020 and will remain in place until April 30, 2021:

- DTIs can temporarily exclude central bank reserves and sovereign-issued securities that qualify as High Quality Liquid Assets (HQLA) under the Liquidity Adequacy Requirements Guideline from the leverage ratio exposure measure.

- DTIs can exclude the proceeds of sale of securities to the Bank of Canada asset purchase programs if they use a primary dealer to access the programs and do not have a settlement account at the Bank of Canada.

Capital freed up through this measure should be used to support lending and financial intermediation activities and should not be distributed as dividends or bonus payments.

Lowered capital floor

OSFI lowered the floor factor to 70% on April 9, 2020 and the factor will remain until the domestic implementation of the Basel III capital floor in Q1 2023.

No adjustments to transitional arrangements for expected credit loss (ECL)

The ECL capital treatment outlined in the March 27th letter remains the same. OSFI stated that a maximum add-back of 70% is appropriate at this time. Additional details on the ECL capital treatment and calculation of the adjustment can be found here.

Implementation of the margin requirements for non-centrally cleared derivatives extended by one-year

OSFI extended the implementation deadline for the margin requirements for non-centrally cleared derivatives by one year. The final implementation phase will take place on September 1, 2022. From September 1, 2021, covered entities with an aggregate average notional amount of non-centrally cleared derivatives greater than $75 billion CAD will be subject to the requirements. The revised version of Guideline E-22 *Margin Requirements for non-centrally cleared derivatives* can be found here.

For more details on the above measures, see OSFI's April 9th letter to DTIs.

Federally Regulated Insurers (FRIs)

Payment deferrals due to COVID-19 will not increase capital charges

Payment deferrals for insurance premiums approved by FRIs will not be subject to high credit risk factors under the *Life Insurance Capital Adequacy Test* (LICAT), *Minimum Capital Test* (MCT) and *Mortgage Insurer Capital Adequacy Test* (MICAT) guidelines. The capital treatment applies to receivables from agents and brokers that have premiums flowing through them. In addition, this capital treatment is applicable to:

- installment premium receivables;
- receivables outstanding less than 60 days; and

- receivables outstanding 60 days or more, where the receipt of payment was in accordance with the deferral terms and conditions.

Similarly, payment deferrals for mortgage loans, leases, other loans granted by insurers due to COVID-19 impacts will not be subject to a higher credit risk factor under the LICAT guideline. FRIs granting payment deferrals may be subject to additional reporting requirements; OSFI will announce those requirements in the coming weeks.

Changes to LICAT interest rate risk requirements for par

Although the public consultation for the LICAT guideline is on hold due to COVID-19, OSFI introduced a change to the LICAT interest rate risk requirements for par. A par block in any given quarter will be equal to the average of the current requirement for the block, and the requirements over six quarters. Insurers have the flexibility to use current LICAT requirements or rolling averages to determine interest rate risk requirements for par at Q1 2020. The rolling average approach will be mandatory in Q2 2020.

For more details on the above measures, see OSFI's April 9th letter to FRIs.

Deadline extensions and implementation delays for regulatory filings

OSFI is offering extensions on a case-by-case basis to Federally Regulated Financial Institutions (FRFIs) that may need additional time to meet upcoming regulatory return deadlines. OSFI encourages FRFIs to be proactive in informing their OSFI lead supervisor of any filing challenges.

Where a return does not have a statutory due date and the FRFI is granted an extension, the return should be filed on or before the revised due date, otherwise OSFI may issue a *Notice of Violation*. Note that OSFI does not have the authority to provide filing extensions for returns with statutory due dates.

For DTIs, the following regulatory returns are subject to extended filing deadlines:

- The Bank of Canada *Balance Sheet by Booking Location (Z4)*, extended from 31 days to 45 days for the reference periods of March, April and May 2020.

- The Bank of Canada *Geographic Distribution of Assets and Liabilities Booked In/Outside of Canada (GR/GQ)* for the reference period of March 31, 2020; the GQ return is extended to 45 days; and the GR and T2 returns will be extended to 70 days.

OSFI will delay the implementation of changes to applicable regulatory returns and the introduction of new returns due to COVID-19. Details can be found in OSFI's letter entitled "Regulatory Filing Extensions in Response to COVID-19."

OSFI officials will be responding to technical questions from analysts about these measures by teleconference on Thursday, April 16.

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a cautionary note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.