Deposit Insurance in Québec

1967 to 2017

50 years

AUTORITÉ
DES MARCHÉS
FINANCIERS

Legal deposit – *Bibliothèque et Archives nationales du Québec*, 2017
ISBN 978-2-550-79540-7 (print)
ISBN 978-2-550-79541-4 (on-line)

This document is available on the AMF website at
www.lautorite.qc.ca.

Original text in French.


50 years

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PREFACE

Autorité des marchés financiers and deposit insurance in Québec

The *Autorité des marchés financiers* (the "AMF") is the body mandated by the Québec government to regulate Québec's financial sector and assist consumers of financial products and services. It administers all legislation governing Québec's financial sector, including the *Deposit Insurance Act*.

In order to foster the stability of the financial system in Québec, the AMF:

- Ensures the protection of deposits;
- Governs the soliciting and receiving of deposits;
- Administers a deposit insurance permit system;
- Manages the deposit insurance fund;
- Supervises registered institutions as going concerns;
- Takes preventive action to reduce the risk of insolvency of a registered institution; and
- Raises public awareness of the protection offered by deposit insurance.

MESSAGE FROM THE MINISTER OF FINANCE

Fifty years ago, the Government of Québec was among the first in the world to implement a deposit insurance plan. The primary objective of the plan, since its inception, has been to protect depositors in the event of the failure of a financial institution and to foster the stability of the financial system. This important responsibility, which was originally entrusted to the Deposit Insurance Board, was integrated within the A*utorité des marchés financiers* (the "AMF") in 2004.

The intervention powers and tools of Québec's deposit insurer have been used on nearly thirty occasions throughout its history, more specifically between 1975 and 1996. These interventions sometimes resulted in significant disbursements, and the financial losses sustained were fully assumed by the registered financial institutions.

Although no similar intervention has been required during the past twenty years, the nature of the plan and the context in which it could be called upon in the future have evolved enormously. Québec's financial sector proved to be resilient during the last financial crisis, and all necessary tools must continue to be available in order to meet any future challenges.

The Government of Québec views the deposit insurance plan as a key pillar of the financial safety net required to maintain the confidence of Québec consumers and businesses. Witness the importance of its legislative plans that aim, in particular, to furnish the AMF with all the modern means it needs, based on past experiences and the best international practices, to continue to fully carry out its mission.

On behalf of my Government, I would like to take this opportunity to thank everyone who participated in developing and updating Québec's deposit insurance plan over the past 50 years.

Carlos Leitão
Québec City, September 2017

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

A deposit insurance plan has been protecting Quebeckers for 50 years now.

This document looks back at the history of deposit insurance in Québec, highlighting its milestones and the activities that contributed to a stable Québec financial system. The history is divided into four major periods during which the plan was aligned with Québec's changing financial landscape.

In the first period, the foundation for deposit insurance was laid, including its mission, governance, powers, funding and coverage under the guarantee. As will be seen, this period was marked by the adoption of laws and regulations creating the legal framework of the plan.

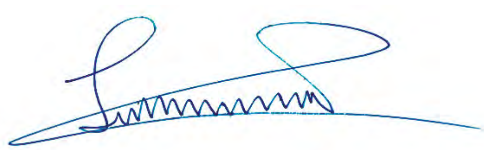
In the next period, the financial sector was rocked by turbulence and the deposit insurance plan was deployed on a few occasions. Despite the more difficult context, the plan effectively fulfilled its mission to protect depositors, but it also needed to be updated with respect to coverage, funding and intervention methods.

Québec's financial sector underwent profound change following the period of turbulence. The deposit insurance plan had to contend with the challenges of the deregulation of the financial sector amid a trend toward the integration of financial products and services. The entire framework of Québec's financial sector was overhauled in order to reflect this new reality. It was then that the AMF was established with the mandate to administer all laws governing Québec's financial sector, including in respect of the deposit insurance plan.

The 2007-2008 financial crisis stressed the need to take preventive measures to reduce the risk of failure and losses to which the deposit insurance plan could be exposed. The period from 2007 to 2017 was characterized by a wave of international regulatory reform. In its role as a deposit insurer, the AMF had to adapt with the adoption of modern tools. In addition to repaying deposits in the event of deposit institution insolvency, the AMF therefore required a broader framework for crisis prevention and management, including resolution planning in respect of domestic systemically important financial institutions.

As an integrated regulator of Québec's financial system, the AMF has leveraged the synergy of its expertise in order to meet this latest challenge. Its commitment and the activities it has carried out in recent years in the areas of resolution and deposit insurance at the national and international levels will also undoubtedly help it to fulfill its mandate.

I am therefore delighted to invite you to explore the history of Québec's deposit insurance plan, which has contributed to the stability of Québec's financial system and the confidence of all participants for the past 50 years.



Louis Morisset
President and Chief Executive Officer
Autorité des marchés financiers

Québec City, September 2017

LIST OF ABBREVIATIONS

AMF Act:	*Act respecting the Autorité des marchés financiers*, CQLR, c. A-33.2
AMF:	*Autorité des marchés financiers*
Board:	Québec Deposit Insurance Board
bp:	basis point
CDIC:	Canada Deposit Insurance Corporation
CDPQ:	*Caisse de dépôt et placement du Québec*
DIA:	*Deposit Insurance Act*, CQLR, c. A-26
DIF:	deposit insurance fund (or "reserve" before 1982)
D-SIFI:	domestic systemically important financial institution
FSB:	Financial Stability Board
IADI:	International Association of Deposit Insurers
IGFI:	Inspector General of Financial Institutions
M$:	millions of Canadian dollars
MIFCC:	*Ministère des Institutions financières, Compagnies et Coopératives*
registered institutions:	financial institutions registered under Québec's deposit insurance plan

NOTICE TO READERS

The definition of key concepts below will provide a better understanding of the terms commonly used in the resolution and deposit insurance field. For the most part, these terms are based on the glossary of the International Association of Deposit Insurers ("IADI").[1]

DEFINITION OF KEY CONCEPTS

DEPOSIT INSURANCE
A plan established to protect depositors against the loss of their insured deposits in the event that a deposit-taking institution is unable to meet its obligations to depositors.

DEPOSIT INSURANCE SYSTEM
Refers to the deposit insurer and its relationships with the financial safety net participants that support deposit insurance functions and resolution processes.

EARLY INTERVENTION
Any actions, including formal corrective action, taken by supervisors, resolution authorities or deposit insurers in response to weaknesses in a financial institution prior to entry into resolution.

FINANCIAL SAFETY NET
A framework that includes the functions of prudential regulation, supervision, resolution, lender of last resort and deposit insurance. In many jurisdictions, a department of government (generally a Ministry of Finance or Treasury responsible for financial sector supervision) is included in the financial safety net.

LIQUIDATION
The winding-down (or "winding-up" as used in some jurisdictions) of the business affairs and operations of a failed financial institution through the orderly disposition of its assets after its licence has been revoked and it has been placed in receivership. In most jurisdictions, it is synonymous with "receivership."

MANDATE
A set of official instructions describing the deposit insurer's roles and responsibilities as well as related powers. There is no single mandate or set of mandates suitable for all deposit insurers. When assigning a mandate to a deposit insurer, jurisdiction-specific circumstances must be taken into account.

1 Available on the IADI website: http://www.iadi.org/en/core-principles-and-research/publications/glossary/.

Mandates can range from narrow "Paybox" systems to those with extensive responsibilities, such as preventive action and loss or risk minimization or management, with a variety of combinations in between. These can be broadly classified into four categories:

- ***Paybox:*** The deposit insurer is only responsible for the repayment of insured deposits.
- ***Paybox Plus:*** The deposit insurer has additional responsibilities, such as certain resolution functions (e.g. financial support).
- ***Loss Minimizer:*** The deposit insurer actively engages in a selection from a range of least-cost resolution strategies.
- ***Risk Minimizer:*** The deposit insurer has comprehensive risk minimization functions, including risk assessment/management, a full suite of early intervention and resolution powers, and in some cases prudential supervision responsibilities.

RESOLUTION
The plan and process through which a non-viable financial institution is made viable again. Resolution may include: liquidation and depositor repayments, transfer and/or sale of assets and liabilities, the establishment of a temporary bridge institution and the write-down of debt or conversion to equity. Resolution may also include the application of procedures under insolvency law to parts of an entity in resolution, in conjunction with the exercise of resolution powers.

RESOLUTION AUTHORITY
A public authority that, either alone or together with other authorities, is responsible for the resolution of financial institutions established in its jurisdiction (including resolution planning functions).[2]

RESOLUTION POWERS
Powers available to resolution authorities, under their legal framework, for the purposes of resolution and exercisable without the consent of shareholders, creditors, debtors or the entity in resolution.[3]

SPECIAL POWERS[4]
Powers of intervention granted to a deposit insurer for the purpose of reducing a risk to it or averting or reducing a threatened loss to it, which may range from the ability to grant financial assistance to an institution in distress and the possibility of facilitating, or forcing, an amalgamation or acquisition, to the creation of a company to liquidate bad assets.

2 The *Autorité des marchés financiers* is the resolution authority for Québec-chartered financial institutions, of which Desjardins Group is the largest.

3 Under the *Deposit Insurance Act*, the AMF has special powers which may range from resolution functions (such as cash advances and debt guarantees) to resolution powers (such as applying to the Superior Court for an order to force the sale or amalgamation of a registered institution whose permit has been suspended or cancelled).

4 This term was not drawn from the IADI glossary.

INTRODUCTION

This Report sets out the history and evolution of the deposit insurance plan in Québec, from 1967 to 2017. It ensues from the report titled *Les trente ans d'histoire de la Régie de l'assurance-dépôts du Québec*[5] ["History of the Québec Deposit Insurance Board"] published in 1997, when the plan had been in existence for 30 years. It provides a brief overview of the first 30 years of the Québec Deposit Insurance Board ("Board") and focuses on the past 20 years, highlighting in greater detail the establishment of the AMF and its mandate as a deposit insurer.

The Report is based on information obtained primarily from *Les trente ans d'histoire de la Régie de l'assurance-dépôts du Québec*, the annual reports of the Board for the years 1969 to 2004, the report titled *A Streamlined Regulatory Structure for Québec's Financial Sector*, published in 2001 by the Task Force on Financial Sector Regulation, and the annual reports of the AMF for the years 2004 to 2017.

For each of the four periods covered, key events and statistics are provided as an introduction, giving readers a glimpse of the evolution of deposit insurance over time.[6] All amounts in this Report are denominated in Canadian dollars.[7]

5 Available on the AMF website (in French only): www.lautorite.qc.ca.
6 The evolution of deposit insurance in numbers and the evolution of deposit insurance coverage from 1967 to 2017 are set out in Appendices 1 and 2, respectively.
7 At the undiscounted value, i.e., not adjusted to 2017 values.

HIGHLIGHTS

1 BEGINNINGS (1967-1972)

- Passage of the *Deposit Insurance Act* ("DIA")
- Creation of the Québec Deposit Insurance Board
- Establishment of deposit insurance coverage ($20,000 ceiling) funded by the Government of Québec
- Ratification of the 1969 Memorandum of Agreement between the Board and the Canada Deposit Insurance Corporation regarding the sharing of jurisdictions
- Grant of a $250 million borrowing limit by the Government of Québec
- Establishment of a $1 million reserve by the Government of Québec

2 INTERVENTIONS (1973-1997)

- First intervention by the Board
- Introduction of a premium payable by financial institutions and determined on the basis of guaranteed deposits
- Increase in the deposit insurance coverage to $60,000
- Increase in the borrowing limit granted by the Government of Québec to $700 million
- Expansion of the special powers of the Board

3 DEPOSIT INSURANCE WITHIN AN INTEGRATED REGULATOR (1998-2006)

- Creation of Québec's Task Force on Financial Sector Regulation
- Membership of the Board in IADI
- Passage of *An Act respecting the Autorité des marchés financiers*
- Establishment of the AMF with integration of five agencies, including the Board
- Increase in the deposit insurance coverage to $100,000

4 IN THE ERA OF SYSTEMIC CRISES (2007-2017)

- Expansion of the special powers of the AMF
- Elimination of the limit on borrowing from the Government of Québec
- Designation of Desjardins Group as a domestic systemically important financial institution and enhancement of supervision
- Assessment of Desjardins Group's recovery plan and development of its resolution plan
- Regulatory amendments regarding data requirements and modernization of the deposit insurance repayment system

Figure 1: Mandate of the Board or the AMF over various periods

1967-1972	1973-1997	1998-2006	2007- 2017
PAYBOX PLUS	***LOSS MINIMIZER*** Basis of mandate as Risk Minimizer	***RISK MINIMIZER*** Early powers as Risk Minimizer	Additional Risk Minimizer tools
• Repayment of deposits • A few special powers, primarily financial assistance to an institution in distress	• Repayment of deposits • Additional special powers • Deposit insurance and supervision under a single chain of command	• Repayment of deposits • Extended special powers • Integration of supervision and deposit insurance within a single legal entity	• Repayment of deposits • Extended and enhanced special powers • Integration of supervision with deposit insurance and resolution • Assessment of Desjardins Group's recovery plan • Resolution planning

1 BEGINNINGS (1967-1972)

OVERVIEW OF KEY EVENTS AND STATISTICS

- **1967** – Passage of the DIA and creation of the Board
- **1968** – Establishment of deposit insurance coverage at $20,000
- **1969** – Ratification of the Agreement between the Board and CDIC
- **1970** – Implementation of the deposit insurance plan

Number of registered institutions

(as at December 31, 1972)

1,637

Breakdown of registered institutions by type of charter

(as at December 31, 1972)

Québec charter
1,624

Federal charter
8

Other charters
5

Guaranteed deposits

(as at April 30, 1972)

$3.3 billion

Book value of the DIF

(as at December 31, 1972)

$1.5 million

Capitalization ratio of the DIF

(1972)

4.5 bps

BEGINNINGS

In the early 1960s, no deposit insurance plan was available in Québec or Canada, although the United States had already had one for several years. The difficulties and bankruptcies experienced by financial institutions led several governments to consider the protection of deposits.

Thus, at the end of 1965, the Government of Québec set up the Study Committee on Financial Institutions. It was given the mandate to make recommendations on the measures to be adopted in order to govern the activities of financial institutions so as to protect the interests of the public and foster the province's economic development. In its preliminary report, filed in March 1967, the Committee recommended the establishment of a deposit insurance plan and the creation of a centralized supervisory body -- the *Ministère des Institutions financières, Compagnies et Coopératives* (the "MIFCC").

By implementing a universal plan in 1967 in the form of a public service, the Government of Québec sought to protect all depositors in the event a financial institution were to fail within its territory. The objective was to deter bank runs and the resulting massive withdrawal of cash, which could have, depending on the scope of the crisis, negatively impacted the stability of the financial system and the economy. That same year, the Ontario and federal deposit insurance plans were established.

Creation of the Board

In June 1967, Québec's National Assembly passed the *Deposit Insurance Act* (the "DIA"), thereby creating the Board by giving it the mandate to guarantee the repayment of deposits and exercise control over the soliciting and receiving of deposits in Québec.

The creation of the Board and the deposit insurance plan took place over three years, until 1970. As of the enactment of the DIA, an interim board of directors was set up to determine how to implement the DIA as well as to co-ordinate the activities of the Board with those of the MIFCC and handle relations with the federal government.

Although the Board was legally separate from the MIFCC, it had administrative and financial ties to the MIFCC for reasons of operational efficiency and effectiveness. Thus, it was able to benefit from technical and administrative support and its operating expenses were paid out of the MIFCC's budget.

In carrying out its mandate, the Board had special powers with respect to financial institutions in distress in order to reduce the risk that it would have to disburse funds and, where applicable, avert or reduce its losses. In this regard, it could make temporary cash advances, guarantee the payment of debts, or acquire the assets of a registered institution or an institution whose permit had been suspended or cancelled. The Board could also act as liquidator or receiver.

Implementation of deposit insurance plan

Deposit insurance coverage

When it was first implemented, the plan covered, up to a maximum of $20,000, all eligible deposits of money made at an institution that held a deposit insurance permit or benefited from a guarantee policy. Further to a legislative amendment made in 1968, certain deposits made by any person at the same institution benefited from separate $20,000 guarantees if the person was acting on behalf of others or jointly with them.

Issuance of permits and guarantee policies

When the DIA was passed, it stipulated that any financial institution, excluding banks,[8] that solicited deposits of money from the public and carried out this type of activity in Québec had to hold a deposit insurance permit in order to receive deposits from the public. Institutions that held a permit were registered for deposit insurance and were required to display, conspicuously, the official sign of the Board in order to indicate that they were registered under the plan. Aside from the issuance of these permits, the Board could also issue policies guaranteeing deposits made outside Québec with Québec institutions. The issuance of these policies was intended to meet the requirements of certain provinces whereby a financial institution receiving deposits within their jurisdiction is covered by a deposit insurance guarantee.

As of 1970, the Board began to issue deposit insurance permits, renewable annually, to financial institutions that had met the conditions prescribed by regulation of the Board. Thus, with the coming into force of the sections of the DIA which stated that no one could solicit or accept deposits of money from the public in Québec and no institution was eligible to carry on these activities, without being registered under the DIA, the Board exercised control over the receiving of deposits of money.

8 The DIA exempts banks.

Funding and sufficient reserve

From 1967 to 1972, the Board collected premiums only on the guarantee policies issued to Québec-chartered financial institutions that received deposits outside Québec. It collected no premiums on deposits guaranteed in Québec, since coverage was offered as through a taxpayer-funded plan.

In 1969, the MIFCC contributed an amount of $1 million to the Board as a reserve.[9] This reserve was intended to cover the risk of repayment as well as the Board's other obligations. The Board's operating surplus was also earmarked for this reserve. If funds were insufficient, the Board could request up to $250 million from the government as cash advances or payment guarantees for its commitments. Moreover, the Board could seek financial assistance from the Canada Deposit Insurance Corporation (the "CDIC") under certain conditions stipulated in a memorandum of agreement entered into by the two parties in 1969 ("1969 Agreement").

Management of the reserve was entrusted to the *Caisse de dépôt et placement du Québec* ("CDPQ"). The Board's investment policy was focused on preserving capital and maintaining liquid assets in the portfolio.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

CDPQ, which was constituted in 1965, was designed to provide Québec with a new tool for economic and social development. The mission of the organization focuses mainly on two axes: (1) efficiently manage Quebeckers' assets; and (2) contribute to Québec's economic development. In 1969, the Board became one of CDPQ's first depositors.

In 2017, CDPQ managed more than $270 billion in an array of investments (bonds, shares, private placements, and real estate). These funds stem from 41 depositors, including pension funds, insurance plans and other public and parapublic bodies like the AMF.

Source: Website of the *Caisse de dépôt et placement du Québec*: www.cdpq.com.

9 In accordance with Order in Council No. 705 dated March 19, 1969.

Inspection of registered institutions

Under the DIA, the Board was required to inspect or ensure the inspection of registered institutions. Given that the MIFCC was already supervising financial institutions, the inspection duties were entrusted to it. The Board took into consideration the MIFCC's supervisory reports in order to make decisions regarding the issuance or renewal of deposit insurance permits. The Board also accepted inspections carried out by a federation, under certain conditions, such as the requirement that it obtain certification and submit a report of its activities to the MIFCC. The Board's collaboration with the MIFCC simplified its structure and ensured that registered institutions were not subject to duplicate supervision.

Public awareness of deposit insurance

It was important for the public to be aware of Québec's deposit insurance plan if it was to achieve its fundamental objective of promoting trust in, and the stability of, the financial sector, thereby preventing panic and liquidity runs in the event of a crisis. The importance of public awareness was acknowledged at the very beginning of deposit insurance in Québec. Advertising was placed in various newspapers and an informational pamphlet was widely distributed at events in which the MIFCC and the Board participated.

Sharing of jurisdictions between the Board and CDIC: The 1969 Agreement

In order to avoid duplication of guarantee and inspection for trust companies and loan companies that were required to be registered federally and provincially, the Board and CDIC signed an agreement in January 1969. The 1969 Agreement contained provisions regarding place of deposit, the supervision and inspection of institutions, and joint guarantee for deposits made partially in Québec and partially outside the province.

IN SUMMARY, from 1967 to 1972, many efforts were made in order to lay the foundation for a deposit insurance plan. The plan's governance structure, co-operation among the Board, the MIFCC and CDIC, the registration of institutions, the coverage provided under the guarantee, funding and public awareness of the plan formed its basis. The Board fulfilled a Paybox Plus type of mandate, because it had the power to ensure repayment of deposits in the event of insolvency and it was assigned certain special powers under the DIA.[10]

10 As illustrated in Figure 1.

2 INTERVENTIONS (1973-1997)

OVERVIEW OF KEY EVENTS AND STATISTICS

1975 – First intervention by the Board

1982 – Levying of an insurance premium on deposits guaranteed in Québec

1983 – Establishment of the IGFI and increase of the deposit insurance coverage to $60,000

1987 – Increase in the insurance premium

Number of registered institutions

(as at December 31, 1997)

1,327

Breakdown of registered institutions by type of charter

(as at December 31, 1997)

Québec charter
1,293

Federal charter
31

Other charters
3

Guaranteed deposits

(as at April 30, 1997)

$51.5 billion

Book value of the DIF

(as at December 31, 1997)

$138.7 million

Capitalization ratio of the DIF

(1997)

26.9 bps

INTERVENTIONS

The period from 1973 to 1997 was characterized by the occurrence of two major recessions in Québec. The economic turbulence affected all industries of the economy. Indeed, no less than 28 registered institutions grappled with serious financial difficulties that required some thirty interventions by the Board. The total gross amount of interventions was $285 million, of which $174.9 million was recovered, representing a net cost of $110.1 million. These interventions[11] took a variety of forms and involved the obligation to guarantee deposits and the use of the Board's special powers, as illustrated in the table below.

Table 1: Overview of Board interventions for the period from 1973-1997

(in millions of dollars)

Type of intervention	Gross cost	Amount recovered	Net cost
Obligation to guarantee deposits	45.9	39.9	6.0
Exercise of special powers			
Cash advances	93.3	86.1	7.2
Debt guarantees	124.0	48.0	76.0
Asset acquisitions	0.3	0.3	0.0
Agreements with an equivalent body or agency	21.5	0.6	20.9
Subtotal	**239.1**	**135.0**	**104.1**
Total	**285.0**	**174.9**	**110.1**

Source: The report titled *Les trente ans d'histoire de la Régie de l'assurance-dépôts du Québec*, the Board's annual reports from 1997 to 2004 and the AMF's annual reports from 1998 to 2007.

On a few occasions, due to the significant losses sustained by certain registered institutions, the Board obtained funding from the Government of Québec and CDIC in order to protect guaranteed deposits. In all cases, all cash advances received by the Board were reimbursed.

11 A complete list of interventions by registered institution is available in Appendix 3.

1981-1982 recession

With interest rates setting record highs at the early 1980s, Québec found itself in a serious economic recession: 5-year residential mortgage rates jumped from approximately 13% in June 1980 to more than 21% in September 1981.[12] As a result, Québec was hard hit by the slowdown in consumer spending, the marked decline in residential and commercial investments and the drop in housing starts. In addition, the recession generated large budget deficits for Québec, while the average unemployment rate bordered on 14%[13] in 1982 and 1983.

With this backdrop, a number of institutions experienced difficulties, and this led to one of the principal interventions by the Board, namely, the intervention involving the *Fédération des caisses d'entraide économique du Québec* (the "Federation") and its affiliated *caisses*.

INTERVENTION INVOLVING THE FÉDÉRATION DES CAISSES D'ENTRAIDE ÉCONOMIQUE DU QUÉBEC AND ITS AFFILIATED CAISSES

At the end of the 1980s, *caisses* were present in numerous regions in Québec, with 76 of them representing total deposits of $449.6 million, of which $256.7 million was guaranteed by the Board.

In early 1981, a televised report on the financial difficulties experienced by a number of *caisses* resulted in a loss of confidence by depositors. This caused a bank run which at the time was referred to as the "crise de l'entraide économique" (the "*caisses* crisis").

The Board repaid the guaranteed deposits of the liquidated *caisses* and granted the Federation and 59 of its affiliated *caisses* cash advances totalling $61.1 million in order to support the viable *caisses*. To fund its intervention, the Board had obtained a cash advance of $25.2 million from the Minister of Finance and had borrowed $30 million from CDIC. The Board reimbursed the amount to the Minister of Finance and CDIC within the prescribed time periods.

12 Source: Bank of Canada, Data and Statistics Office, *Chartered Bank Administered Interest Rates – Conventional Mortgage - 5 year, from 1973 to 2010*.

13 Source: Statistics Canada, *Labour Force Survey*, Infographic 1 - Unemployment rate in Québec, January 1976 to May 2017.

The crisis involving Québec *caisses*, including the Federation, emphasized the need to rethink a number of features of deposit insurance. Indeed, past experience and other factors, such as harmonization with its federal counterpart, prompted the Government of Québec to update a number of financial sector laws and regulations from 1981 to 1983. The amendments included the following:

- Raising the deposit insurance coverage to a maximum of $60,000;
- Levying a deposit insurance premium and the obligation to maintain a deposit insurance fund;
- Increasing the maximum cash advances made by the government;
- Appointing the Inspector General of Financial Institutions (the "IGFI");
- Expanding special powers of the Board and implementing a permanent permit system.

Raising the maximum coverage was intended to counter inflation-related erosion of the protection afforded to depositors and to harmonize provincial coverage with the larger coverage provided by the federal government. In addition, coverage was adjusted to reflect the growing popularity of deposits in registered savings accounts, by introducing a separate guarantee for registered retirement savings plans ("RRSPs") and registered retirement income funds ("RRIFs").

An analysis of the Board's interventions up to that point, particularly during the liquidity crisis involving *caisses*, highlighted the need to levy a premium on registered institutions and thereby put an end to deposit insurance as a form of social protection. In 1982, this premium was fixed at 1/30 of 1% of guaranteed deposits, or a minimum of $500; it was pushed up to 1/15 of 1% in 1987. The DIA also allowed any registered savings and credit union affiliated with a security fund corporation to obtain a reduction equal to half the premium. Other amendments to the DIA required the Board to maintain a fund for the performance of its obligations under guarantees and for the exercise of its special powers. As of then, the amounts that constituted the reserve became the deposit insurance fund (the "DIF").

In addition, the amount available from the government as cash advances to cover the Board's commitments was raised from $250 million to $700 million. This reflected inflation posted since 1969 and the growth in guaranteed deposits.

On April 1, 1983, the IGFI, which succeeded the MIFCC, began operations with the mandate to supervise and inspect financial institutions carrying on business in Québec. For purposes of efficiency and effectiveness, the Board co-existed and maintained close ties with the IGFI, and the Inspector General became the President and Chief Executive Officer of the Board. From then on, the basis was laid for the Board to take on a Risk Minimizer type of mandate, inasmuch as senior management was required to combine supervisory functions with deposit insurance functions in order to ensure the financial health of institutions.

That same year (1983), the Board was given new special powers for the purpose of reducing a potential risk to it or averting or reducing a threatened loss. From that point on, these powers allowed the deposit insurer to make a deposit or guarantee a deposit made with a registered institution, to guarantee a registered institution against any loss it might incur following an amalgamation with a registered institution, and to enter into an agreement concerning an institution whose deposits were guaranteed or insured partly by another body or agency. Moreover, as of June 1983, the deposit insurance permits issued by the Board for a period of one year became permanent.

At the same time, the deregulation of the financial sector in Québec formed part of the objectives of the amendments made to financial sector legislation. Indeed, the regulatory framework, which had long been compartmentalized by industry, namely, deposit institutions, insurance companies, trust companies, and securities brokerage firms, was decompartmentalized in order to allow, as of 1983, the acquisition of securities brokerage firms by financial institutions. This deregulation was extended to the insurance sector in 1984 and to trust companies in 1987.

This was accompanied by a large number of consolidations, marked primarily by the numerous mergers and acquisitions involving deposit institutions. In 1989, the *Savings and Credit Unions Act* was amended, thereby allowing a federation to hold subsidiaries with operations in all areas of the financial sector. As a cooperative financial group, Desjardins Group participated actively in this sector consolidation.

1990-1992 recession

The prosperity that took hold in early 1983 gave way to an economic slowdown as of 1988. During this period, rising interest rates combined with an overvaluation of the Canadian dollar hurt exports and investments by Québec businesses. In addition, the real estate market faced difficulties amid stagnant property valuations in Québec. In this environment, financial institutions, particularly savings companies and trust companies, experienced a wave of mergers and acquisitions. In Québec, the most noteworthy case which required the Board's intervention was that of General Trust of Canada ("General Trust").

INTERVENTION INVOLVING GENERAL TRUST OF CANADA

In 1993, General Trust conducted traditional intermediation transactions (deposits and loans) exclusively in Québec. The institution held a block of poor quality assets that affected its profitability and left it in a position in which it no longer satisfied the required capital ratios.

Unable to raise capital internally or obtain a firm offer to purchase, General Trust was concerned about the possibility of defaulting on its creditors. At the time, the institution held deposits of approximately $3.5 billion, of which $2.7 billion was guaranteed by the Board.

Using its special powers, the Board developed an intervention strategy in respect of the institution in distress. It found a potential purchaser for General Trust and offered loss guarantees in order to facilitate the purchase; it also participated in the activities of the company that had been created to liquidate the bad assets. The intervention ended in 1996 and resulted in a net cost of $82.8 million drawn from the DIF.

Between 1991 and 1997, the Board also entered into four agreements with CDIC with respect to non-Québec chartered institutions that were receiving deposits both in Québec and in other provinces. Responsibility for these guaranteed deposits was shared with CDIC.

Further raising awareness of deposit insurance

From 1973-1997, the Board took part in a number of trade shows on savings and investments as well as government services in order to inform the general public about the existence of deposit insurance. Pamphlets were also distributed, particularly via registered institutions.

In early 1990, the Board, in collaboration with CDIC, ran two advertising campaigns in order to further raise awareness of its deposit insurance plan. Print and electronic media in Canada were the major communications tools used in these advertising campaigns.

IN SUMMARY, during this period, the Board intervened vis-à-vis several financial institutions in distress, using most of the special powers conferred on it under the DIA. Thanks to the additional special powers it obtained in 1983, the Board had a range of intervention tools at its disposal so it could choose the least costly resolution measures. At that time, the Board's mandate was that of Loss Minimizer.[14]

At the same time, the deregulation of the financial sector resulted in a significant consolidation of institutions and the emergence of diversified financial groups. The financial sector was overseen by a number of Québec regulators with compartmentalized missions, such as deposit insurance for the Board and supervision for the IGFI, to name but these two. The time had come to reorganize them into a structure better suited to market operations.

14 As illustrated in Figure 1.

3 DEPOSIT INSURANCE WITHIN AN INTEGRATED REGULATOR (1998-2006)

OVERVIEW OF KEY EVENTS AND STATISTICS

1998 — Creation of the *Bureau des services financiers*: First step toward regulatory reorganization

2001 — Québec's Task Force on Financial Sector Regulation

2002 — Founding member of IADI

2004 — Establishment of the *Autorité des marchés financiers*

2005 — Increase in the deposit insurance coverage to $100,000

Number of registered institutions

(as at April 30, 2006)

571

Breakdown of registered institutions by type of charter

(as at April 30, 2006)

Québec charter **535**

Federal charter **36**

Other charters **0**

Guaranteed deposits

(as at April 30, 2006)

$68.5 billion

Book value of the DIF

(as at March 31, 2006)

$345.3 million

Capitalization ratio of the DIF

(2006)

50.4 bps

DEPOSIT INSURANCE WITHIN AN INTEGRATED REGULATOR

The end of the 1990s was marked by consolidation within the Canadian financial sector stemming in part from the deregulation of the sector and growing reliance on information technologies.[15] In Québec, between 1998 and 2006, the number of institutions registered for deposit insurance fell by more than 50%, from 1,327 to 571, following a number of mergers, most of which were carried out within Desjardins Group. At the same time, Desjardins Group implemented a vast re-engineering initiative whose objective was to reduce structures, enhance performance and spur growth.

The new market dynamics favoured the emergence of larger financial institutions. In order to remain competitive and develop business, institutions sought to modernize their operations and break into new markets. However, regulation of the sector was not adapted to this new landscape. The Government of Québec therefore overhauled the regulatory framework and reorganized the regulators so as to reduce the regulatory burden on the sector and better protect consumers.[16] This restructuring led, among other things, to the establishment of an integrated regulator.

On the international scene, the period from 1998-2006 was marked by co-operation among the G7[17] countries in order to strengthen global financial stability. In this regard, the establishment of the Financial Stability Forum[18] and IADI were two important initiatives. As a founding member of IADI in 2002, the Board was involved, from the outset, in developing international deposit insurance practices.

Concurrently with the regulatory overhaul, the reorganization of the sector and the growth of co-operation, the Board began to consider a revision of its practices, particularly with respect to coverage and funding.

15 Government of Québec, *Québec focus on jobs: Shaping an innovative economy*, Action Plan to Promote the Development of the Financial Sector, 1998.

16 Government of Québec, Task Force on Financial Sector Regulation, *A Streamlined Regulatory Structure for Québec's Financial Sector*, 2001.

17 The G7 is composed of seven of the world's advanced economies: Canada, France, Germany, Italy, Japan, the United Kingdom and the United States, (http://international.gc.ca/world-monde/international_relations-relations_internationales/g7/index.aspx?lang=eng).

18 In 2009, the Financial Stability Board succeeded the Financial Stability Forum, which had been created in 1999.

Reorganization of regulators

An initial reorganization took place in 1998 with the creation of the *Bureau des services financiers* (the "BSF"), whose purpose was to bring together the regulation of the distribution of financial products and services within a single entity. The BSF was in charge of administering *An Act respecting the distribution of financial products and services*, which governs activities in insurance of persons, damage insurance, financial planning as well as group savings plan brokerage, investment contract brokerage and scholarship plan brokerage.

A few years later, in 2001, the Government of Québec set up a working group in order to review Québec's regulatory framework. In carrying out its work, the group was guided by the need to protect consumers of financial products and services and to reduce the administrative and regulatory burden on the financial sector. The result was the passage of *An Act respecting the Agence nationale d'encadrement du secteur financier* in December 2002. This statute established the *Agence nationale d'encadrement du secteur financier*, which in 2004 was renamed the *Autorité des marchés financiers*, a body that integrated the responsibilities of the Board, the IGFI's responsibilities in supervising financial institutions, the BSF, the *Commission des valeurs mobilières du Québec* (Québec securities commission) and the *Fonds d'indemnisation des services financiers* (financial services compensation fund). Following its integration within the AMF, the Board was dissolved.

Benefits of integration

By creating a one-stop service outlet serving consumers as well as the entire financial sector, the AMF's integrated model helped reduce the administrative burden and the irritants that had resulted from the existence of a number of regulators. In addition, by bringing together specialized expertise in securities, insurance, deposit institutions and the distribution of financial products and services, collaboration and the sharing of information became easier. A more comprehensive, 360-degree vision took hold, providing a better understanding of the complex realities of the markets as a whole and delivering concerted and enhanced supervision of the activities of sector participants.

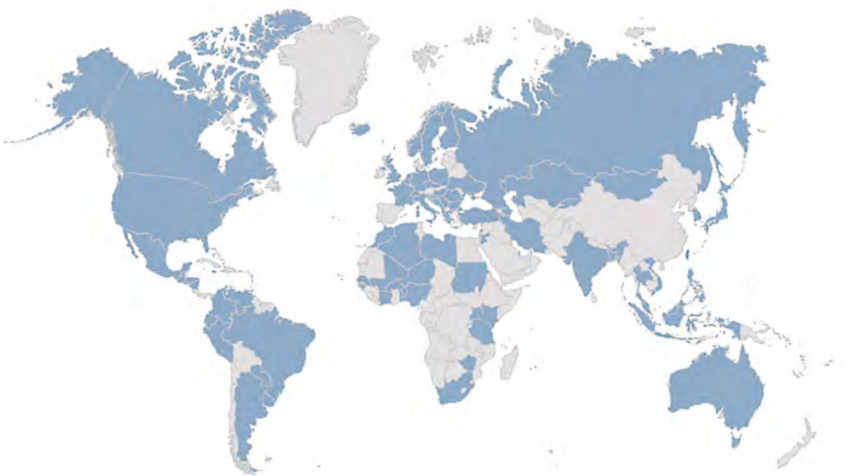
This vision was particularly beneficial for the deposit insurance sector. Although the Board and the IGFI had worked together to manage deposit insurance permits, inspections and the supervision of registered institutions, the integration facilitated exchanges and laid the foundation for the link between supervisory and deposit insurance functions. The integration of powers allows the AMF to effectively intervene in respect of deposit institutions in the event of a crisis. The AMF can therefore fully assume the mandate of Risk Minimizer.[19]

19 As illustrated in Figure 1.

International collaboration

The recessions that overclouded the period from 1973 to 1997 highlighted the need for international collaboration. Thus, in 1997, in order to bolster financial stability, conduct analyses of the situation and take preventive measures, the ministers of finance and the governors of the central banks of the G7 established the Financial Stability Forum (the "Forum"). Forum representatives then created working groups, including one dealing with deposit insurance.[20] The mandate of that working group was to develop core principles for an effective deposit insurance system, which core principles were presented in 2001 at a conference held in Basel, Switzerland. This gave rise to the idea of creating an international association devoted to deposit insurance. The idea came to fruition on May 6, 2002, with the creation of IADI[21] by 25 members, which included the Board.

Figure 2: Worldwide representation of IADI membership, September 2017



Source: IADI: http://www.iadi.org/en/about-iadi/iadi-worldwide/

Moreover, that same year, the Board undertook to monitor the major trends and orientations in matters of deposit insurance in Canada and internationally, with a view to improving its practices. The Board also welcomed foreign delegations as of 1993 and shared its expertise on how to deal with financial cooperatives. This openness to outside jurisdictions, which the AMF continues to apply, allows the agency to learn from the experiences of its peers in order to constantly improve its operational ability in the event of a crisis.

Since international standards were developed primarily for the banking sector and given the presence of Desjardins Group, in particular, in Québec, the Board considered what adjustments would be required in order to tailor those standards to financial cooperatives.

20 The members of this working group, which was chaired by CDIC, were Argentina, Canada, Chile, France, Germany, Hungary, Italy, Jamaica, Japan, Mexico, the Philippines and the United States as well as the World Bank and the International Monetary Fund (http://www.iadi.org/en/assets/File/Core%20Principles/Consultation_Paper_English.pdf).

21 As at September 6, 2017, IADI was composed of 84 deposit insurers from 85 jurisdictions worldwide (http://www.iadi.org/en/).

Other features of the deposit insurance plan

Between 2000 and 2004, the Board, in concert with CDIC, carried out a television advertising campaign designed to increase awareness of the plan among depositors. In addition, the Board developed a website that included a registry of deposit institutions that consumers could consult on-line.

After Finance Canada raised the coverage for deposits insured by CDIC to $100,000, the Government of Québec did likewise in 2005. [22] This new ceiling increased consumer protection and ensured an equal playing field among all deposit-taking institutions operating in Québec, regardless of their charter.

With the continued aim of delivering a deposit insurance plan comparable to that offered by CDIC and thereby ensure the competitiveness of institutions registered under the DIA, the deposit insurance premium was lowered in 2006 from 1/15 of 1% to 1/25 of 1% of deposits guaranteed by the AMF. The reduction to half the premium for financial services cooperatives that are members of a security fund remained unchanged.

As well, with a view to ensuring effective management of the DIF, the AMF reviewed its investment strategy. The strategy shifted from one principally focused on demand deposits with CDPQ to investments in specialized portfolios of bonds and short-term assets. At the end of the period from 1998 to 2006, the AMF established an investment committee with a well-defined management framework.

IN SUMMARY, during this period, the reorganization of Québec's financial regulators gave rise to the AMF, an integrated regulatory body which now was charged with administering all legislation governing Québec's financial sector, including the DIA. The Board's integration within the AMF expanded the scope of the deposit insurer's intervention tools.

In addition, with an openness to international developments, as the Board had displayed and as the AMF continues to do so, these agencies were able to stand out by actively participating within the various groups working on the core principles of an effective deposit insurance system. With the integration in particular of the supervisory and deposit insurance functions, coupled with the AMF's powers and tools, the AMF was fully assigned the mandate of Risk Minimizer.[23]

22 Finances Québec, 2005-2006 Budget Speech (http://www.budget.finances.gouv.qc.ca/budget/2005-2006/en/pdf/BudgetSpeech.pdf).

23 As illustrated in Figure 1.

4 IN THE ERA OF SYSTEMIC CRISES (2007-2017)

OVERVIEW OF KEY EVENTS AND STATISTICS

2007 – Start of the financial crisis

2009 – Amendment to the DIA and publication of IADI's core principles

2011 – Publication of the Financial Stability Board's key attributes

2013 – Designation of Desjardins Group as a domestic systemically important financial institution

2016 – First version of the Desjardins Group resolution plan

2017 – Deployment of new computerized deposit insurance repayment system

Number of registered institutions

(as at April 30, 2017)

312

Breakdown of registered institutions by type of charter

(as at April 30, 2017)

Québec charter 286

Federal charter 26

Other charters 0

Guaranteed deposits

(as at April 30, 2017)

$101.4 billion

Book value of the DIF

(as at March 31, 2017)

$654.6 million

Capitalization ratio of the DIF

(2017)

64.5 bps

IN THE ERA OF SYSTEMIC CRISES

The financial sector continues to play a vital role in economic activity and employment in Québec, and the contribution of Desjardins Group, one of the world's strongest cooperative financial groups, as pointed out by Bloomberg,[24] is significant. With more than 47,600 employees, Desjardins Group was the largest employer in the financial sector in 2016 as well as the largest employer in Québec's private sector. Its assets in relation to Québec's gross domestic product ("GDP") amounted to 65.7% in 2016 compared with 47.1% in 2007,[25] which means that its assets grew at a faster rate than the GDP. This reflects Desjardins Group's ongoing growth and its importance in Québec's economy.

The activities of Desjardins Group continue to be predominantly concentrated in Québec, notwithstanding its acquisitions and expansion outside the province. Consequently, a major failure of Desjardins Group would be potentially catastrophic for Québec in general, and for Desjardins Group's seven million members and clients[26] in particular. For the AMF, restoring Québec's financial stability would require resources and innovative solutions unparalleled when compared with those used during the interventions previously carried out by the Board. This observation is further supported by the challenges and issues raised by the 2007-2008 financial crisis.

The crisis was triggered, among other things, by the failure of the subprime mortgage market in the United States. [27] It caused financial difficulties and resulted in the bankruptcy of a number of large financial institutions, thereby jeopardizing the stability of the financial system and undermining the global economy. To limit the effects of this crisis, referred to as a "systemic" crisis, support the failing financial institutions and restore investor confidence, many governments had to undertake massive injections of public funds.

The 2007-2008 crisis triggered disruptions in the international markets that resulted in a liquidity crisis in the third-party asset-backed commercial paper ("ABCP") market in Canada in August of 2007.[28] Québec was not sheltered from the systemic impact of the crisis. However, unlike other economies across the world, Québec avoided the worst, given that none of its financial institutions failed. Of course, some of the institutions operating within its boundaries endured a strain on their liquidities, but the AMF was not required to intervene as a deposit insurer.

24 Source: 2015 Bloomberg ranking, published in *Les Affaires*, July 30, 2015 (http://www.lesaffaires.com/bourse/nouvelles-economiques/desjardins-au-top-5-des-banques-les-plus-solides-du-monde/580529).

25 Information drawn from the AMF's 2016 *Annual Report on Financial Institutions* (available only in French, with an excerpt available in English) on the AMF website: www.lautorite.qc.ca.

26 Source: Desjardins website, consulted in July 2017: www.desjardins.com.

27 Subprime mortgage loans in the United States were converted into negotiable instruments on the financial markets. Faced with contractually required interest rate hikes and a slump in real estate prices, many borrowers defaulted on these loans. A number of investors held asset-backed securities based on these types of mortgages and their losses ballooned when the market for these securities collapsed. Source: Parliament of Canada, International Affairs, Trade and Finance Division, *Canada and the United States: The global financial crisis and its impact on Canada*, December 2008.

28 See the 2008-2009 Annual Report of the AMF (available only in French).

The crisis highlighted the relative importance of certain financial institutions (those "too big to fail") and the systemic risk that could result from their failure. It also drew attention to the importance of the links between the various areas of the financial sector and the real economy and the links among the economies of various countries.[29]

Consequently, regulators around the world undertook reforms in order to enhance the supervision of markets and financial institutions and reduce the likelihood of systemic crises.

For its part, the AMF maintained a constant watch and equipped itself with powerful tools to deal with a potential crisis. The following sections present the actions the AMF took with a view to implementing the bulk of the reforms.

Progression of Risk Minimizer functions

In order to properly fulfill its mandate as Risk Minimizer, [30] the AMF worked on continuously improving the regulation of registered institutions and developing powerful supervisory and resolution tools. The need to be ready to act in the event of a crisis—and a systemic one at that—was at the core of its work, and it raised its level of preparedness. The various projects it launched dealt with legislative reforms and the modernization of the repayment system as well as the integration of business systems.

The AMF contributed on an ongoing basis to the development of international deposit insurance standards and implemented the bulk of the international reforms. In addition, as part of the planning that went into formulating its crisis plan, the AMF developed and tested its tools for the supervision and resolution of institutions registered for deposit insurance.

29 *Autorité des marchés financiers*, 2008-2009 Annual Report (available only in French).
30 Appendix 4 highlights deposit insurance within the AMF.

2009 legislative reforms and legislative reforms under way

The amendments made to the DIA in 2009 gave the AMF additional special powers that it can exercise, on the conditions it determines, for the purpose of reducing a risk to the AMF or averting or reducing a threatened loss to it. Thus, the AMF can constitute a legal person or a partnership under a statute of Québec to carry out the winding-up of the assets acquired from a registered institution, it can acquire any security issued by a registered institution and it can apply to the Superior Court for an order to force the sale or amalgamation of a registered institution whose permit has been suspended or cancelled.

In addition, the amendments to the DIA required registered institutions to follow sound commercial practices and they gave the AMF the power to issue orders. As regards funding, the government increased the AMF's borrowing capacity by eliminating the $700 million ceiling.

In its 2016-2017 budget, the Government of Québec announced a reform of financial sector legislation, including the DIA. The AMF is actively participating in the legislative reform process by submitting its comments which, as regards deposit insurance, are intended to ensure that it has a complete range of resolution powers.

Modernization of the repayment system and the business relationship management systems

In 2014, the AMF undertook to modernize its deposit insurance repayment system in order to be able to make repayments within seven business days, in accordance with international principles. Deposit insurance data requirement tables intended to standardize the data received from registered institutions were developed in June 2015, and the *Regulation respecting the application of the Deposit Insurance Act* was amended to include provisions relating thereto. [31]

In addition to its repayment functions in the event of an institution's failure, the repayment system makes it possible to periodically validate compliance with data requirements by registered institutions. Moreover, it would be used if the orderly resolution of Desjardins Group were ever required.

Throughout the process of implementing the repayment system, the AMF worked closely with deposit-taking institutions in order to ensure that their own systems could satisfy the new data requirements. The new system was officially launched on March 31, 2017 and the first compliance verification process took place in June 2017.

As regards business relationship management systems, the AMF equipped itself with a computer system to offer e-services on its website to the majority of its target clienteles. In addition, the system helps manage registrants' right to practise, which includes deposit insurance permits. In 2017, the AMF also worked on the possibility of transmitting the declaration of guaranteed deposits electronically.

31 *Autorité des marchés financiers*, Deposit Insurance Data Requirements (https://lautorite.qc.ca/en/professionals/deposit-insurance/deposit-insurance-data-requirements/).

Contributing to and implementing international reforms

The various reforms proposed in response to the crisis led to the development or enhancement of international standards. In 2009, IADI, together with the Basel Committee on Banking Supervision (Bank for International Settlements - BIS), published its *Core Principles for Effective Deposit Insurance Systems*, which were revised in November 2014.[32] As a member of IADI, the AMF contributed to this work.

Other publications dealt with the supervision of systemically important financial institutions, whose failure can threaten national or international financial stability. In this regard, in November 2011, the Basel Committee on Banking Supervision published *Global systemically important banks: assessment methodology and the additional loss absorbency requirement*.[33] Subsequently, a methodology applicable specifically to domestic systemically important financial institutions ("D-SIFIs") was published in October 2012 under the title *A framework for dealing with domestic systemically important banks*.[34]

Concurrently, the Financial Stability Board (the "FSB") published its *Key Attributes of Effective Resolution Regimes for Financial Institutions* [35] in November 2011 (revised in October 2014). Among other things, the document deals with resolution planning in order to foster the stability of the financial system and limit the use of public funds to absorb financial sector losses.

Over those years, the AMF keenly followed the changes to these standards and adapted its supervision and intervention framework in line with best practices. Given that most international principles pertain to banks, the AMF tailored them for application to the cooperative financial group Desjardins Group.

In order to foster the development of Québec's financial sector and promote its efficiency, the AMF has also focused on collaboration. Nationally, it has demonstrated its leadership in particular through its involvement within the Credit Union Prudential Supervisors Association ("CUPSA"). This association is "an interprovincial association composed of credit union deposit insurers and prudential supervisors across Canada. CUPSA works toward maintaining a sound and sustainable credit union sector through joint actions." [36] In addition, the AMF has taken steps to formalize its exchanges with domestic partners.

32 IADI, *Core Principles for Effective Deposit Insurance System*s, November 2014. Also available on-line: http://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf.

33 BIS, *Global systemically important banks: assessment methodology and the additional loss absorbency requirement* – Rules text, November 2011. Also available on-line: http://www.bis.org/publ/bcbs207.pdf.

34 BIS, *A framework for dealing with domestic systemically important banks*, October 2012 (http://www.bis.org/publ/bcbs233.pdf).

35 FSB, *Key Attributes for Effective Resolution Regimes for Financial Institutions*, November 2011 (http://www.fsb.org/what-we-do/policy-development/effective-resolution-regimes-and-policies/key-attributes-of-effective-resolution-regimes-for-financial-institutions/).

36 Drawn from the CUPSA website and available on-line: http://cupsa-aspc.ca/home.html.

Internationally, the AMF has assumed a leadership role through its continuous involvement within IADI. Over the years, the expertise developed by the AMF with respect to financial services cooperatives has generated growing interest within IADI. Given its desire to raise greater awareness of the specific issues associated with cooperatives, the AMF suggested the creation of a working group specific to this type of financial institution. As a result, in June 2014, IADI established the Subcommittee on Resolution Issues for Financial Cooperatives, a working group chaired by the AMF, which consists of 17 deposit insurers from around the globe.[37] The Subcommittee's work focuses on the issues pertaining to the resolution of financial cooperatives.

As part of this Subcommittee's work, the AMF led the drafting of a research paper that sets out the fundamentals of the issues faced in adapting resolution tools developed for banks to financial cooperatives. The document stems from collaboration that relied on the findings of a survey that was distributed to more than 100 deposit insurers and resolution authorities (IADI members and non-members), and on 16 case studies. At the time this Report was being drafted, the research document was in the process of being approved by IADI, with publication expected toward the end of 2017, but no later than early 2018.

The AMF is also involved in the work of several other IADI committees. More specifically, it officially sits on three committees, including a committee that considers the issues specific to North American deposit insurers.[38] The other two conduct research and develop and promote IADI's core principles[39] for the purpose of enhancing the effectiveness of deposit insurance plans. Since March 2017, the AMF has also participated in a working group dealing with the role of deposit insurers in crisis preparation and management within financial systems.[40]

Development of supervisory and resolution tools

The AMF's work pertaining to the assessment of D-SIFIs resulted in Desjardins Group being designated as such an institution.[41] This had a significant impact on the supervisory and resolution functions exercised by the AMF. As a result, these functions now form part of a more comprehensive early risk detection, early intervention and resolution planning framework intended to ensure the operational continuity of Desjardins Group in the event of a major failure.

37 As at July 18, 2017, the deposit insurers who were members of the Subcommittee on Resolution Issues for Financial Cooperatives were from Barbados, Brazil, British Columbia (Canada), Colombia, Czech Republic, India, Iran, Italy, Jamaica, Japan, Kenya, Poland, Québec (Canada), Taiwan, the United Kingdom, Trinidad and Tobago, and Ukraine.

38 The Regional Committee of North America.

39 These committees are, respectively, the Core Principles & Research Council Committee and the Research & Guidance Technical Committee.

40 The Subcommittee on Deposit Insurers' Role in Contingency Planning and System-wide Crisis Preparedness and Management.

41 *Autorité des marchés financiers*, *Notice related to designation of Desjardins Group as a domestic systemically important financial institution*, June 2013 (https://lautorite.qc.ca/en/general-public/media-centre/news/fiche-dactualites/amf-identifies-desjardins-group-as-a-systemically-important-financial-institution-for-quebec/).

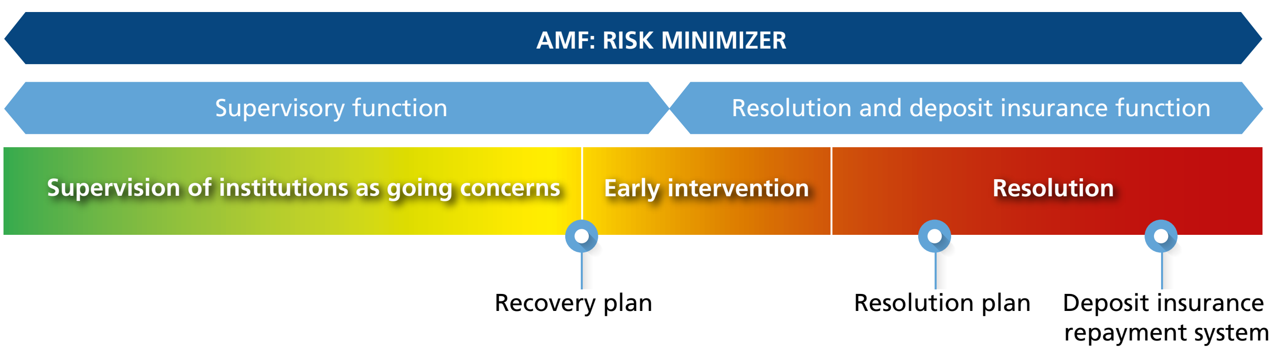
For Desjardins Group, this designation gave rise to higher capitalization and disclosure requirements as well as increased supervision by the AMF. In addition, the AMF required that Desjardins Group develop a restructuring plan, commonly referred to as a recovery plan, setting out the measures that would allow it to become financially viable once again in the event of a severe crisis. The recovery plan is currently in its third version and is being assessed by the AMF.

With respect to resolution,[42] in 2016 the AMF developed the first version of a Desjardins Group resolution plan, drawing inspiration from the FSB's key attributes. The resolution plan is the tool of last resort to maintain the operational continuity of Desjardins Group, in the event of a failure, and re-establish its financial position on a sustainable basis. The first version of the resolution plan underwent a simulation exercise in 2017 whose purpose was to test, among other things, the process for triggering the resolution procedure, the communications plan and the governance of the institution upon the AMF's assuming control. In addition, the resolution plan is expected to be the subject of annual simulations, based on different scenarios and parameters.

In short, a recovery plan and a resolution plan complete the AMF's increased supervision, early risk detection, prevention, and crisis management framework. The synergy between the supervisory, resolution and deposit insurance functions, while offering a 360-degree view of Desjardins Group, also allows the AMF to minimize risks as part of its mandate as a deposit insurer.

The figure below provides an overview of AMF interventions tied to its functions.

Figure 3: Link between supervisory, resolution and deposit insurance functions



42 As defined in the key concepts.

Other features of the deposit insurance plan

In 2009, coverage under the plan was extended to provide separate guarantees for deposits of money made into tax-free savings accounts ("TFSAs") and into property tax accounts.

Lastly, with respect to raising awareness of the plan, the AMF's objective is to run annual campaigns and survey the public on a regular basis. In this way, it will determine the reach and effectiveness of its awareness-raising activities and will be able to make any necessary adjustments.

IN SUMMARY, during this period, the 2007-2008 financial crisis and the growth of Desjardins Group presented the AMF with new challenges. To meet those challenges, the AMF adopted new tools for the effective management of financial crises. By drawing on international best practices in matters of supervision, resolution and deposit insurance, the AMF is ensuring that it fully performs its mandate as a Risk Minimizer.[43]

43 As illustrated in Figure 1.

CONCLUSION

It can truly be said that, at the end of its first 50 years in operation, Québec's deposit insurance plan has achieved its objectives. Consumers have been protected and institutions that failed have been resolved in an orderly manner, without causing any significant loss of confidence in the financial system.

However, in this area of activity, we can never say "mission accomplished." Local, national and international experience has over time shown that, even within the most sophisticated financial systems, the most solid and largest institutions, even those that have existed for over a century and have excellent human, technological and financial resources, can suddenly find themselves in serious danger and even disappear.

Despite the relative stability seen here during the latest financial crisis, it would be rash to state that Québec is immune to such risks. It would also be rash to presume that the intervention powers and methods that worked in the past will once again be effective in the event of another crisis. Moreover, the absence of recent failures within Québec's jurisdiction adds to the challenge of building operational teams with the concrete and up-to-date experience required for action in such situations.

This is why, despite the fact that the last intervention involving deposit insurance in Québec dates back more than 20 years, a great deal of work has been carried out in order to continue to develop and update the AMF's ability to fully perform the important mission entrusted to it in 2004.

Comparing the AMF's insights and methods with those of other deposit insurers elsewhere in Canada and around the world who, in several instances, have had to intervene in respect of institutions in distress in the recent past has allowed AMF teams to furnish Québec's financial safety net with a plan that is constantly being enhanced, based on the most effective and current practices.

In addition, the AMF's cutting-edge expertise regarding the particular features of the cooperative model—given that it is the resolution authority for one of the largest financial groups of its kind in the world—is also shared with, and recognized by, deposit insurers elsewhere who face similar issues.

The fiftieth anniversary of such a plan presents a unique opportunity to take stock of the efforts and achievements logged along the way, the lessons learned and future challenges. The mandate and powers associated with deposit insurance have evolved gradually over the years and, today, thanks to the integrated framework of the AMF, they represent the most complete model there is, that of Risk Minimizer.

The ability to anticipate emerging issues and adapt to them in a timely manner has certainly been a key factor in the success of Québec's model. As such, Québec is well positioned to meet the challenges of tomorrow.

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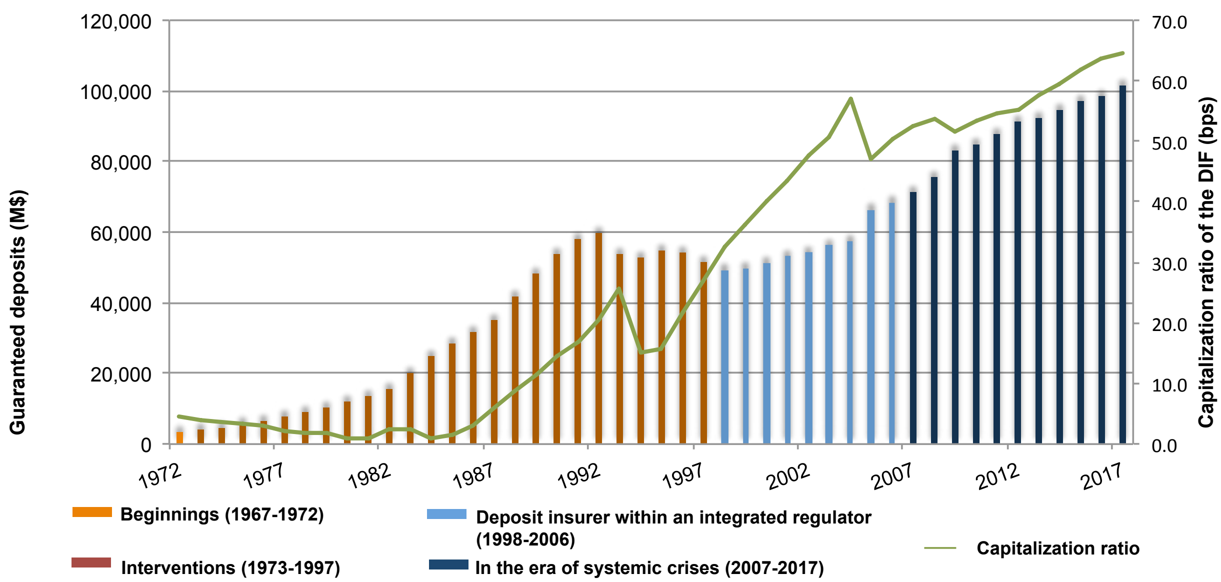
APPENDIX 1

Evolution of deposit insurance in numbers

- The deposit insurance plan was implemented during the period from 1967 to 1972. By the end of the period, the Board insured $3.3 billion of deposits and could draw on a $1.5 million reserve, largely funded by the initial contribution of the Government of Québec.
- During the following period, from 1973 to 1997, guaranteed deposits were up by $48.2 billion, while the DIF[44] grew by $137.2 million. At the end of 1997, guaranteed deposits amounted to $51.5 billion, the DIF held $138.7 million and the capitalization ratio stood at 26.9 bps.
- During the period from 1998 to 2006, guaranteed deposits were up by $17 billion, while the DIF grew by $206.6 million. At the end of 2006, guaranteed deposits amounted to $68.5 billion, the DIF held $345.3 million and the capitalization ratio stood at 50.4 bps.
- During the period from 2007 to 2017, guaranteed deposits were up by $33 billion, while the DIF grew by $309.3 million. As at March 31, 2017, guaranteed deposits amounted to $101.5 billion, the DIF held $654.6 million and the capitalization ratio stood at 64.5 bps.

Figure 4: Evolution of guaranteed deposits and DIF's capitalization ratio

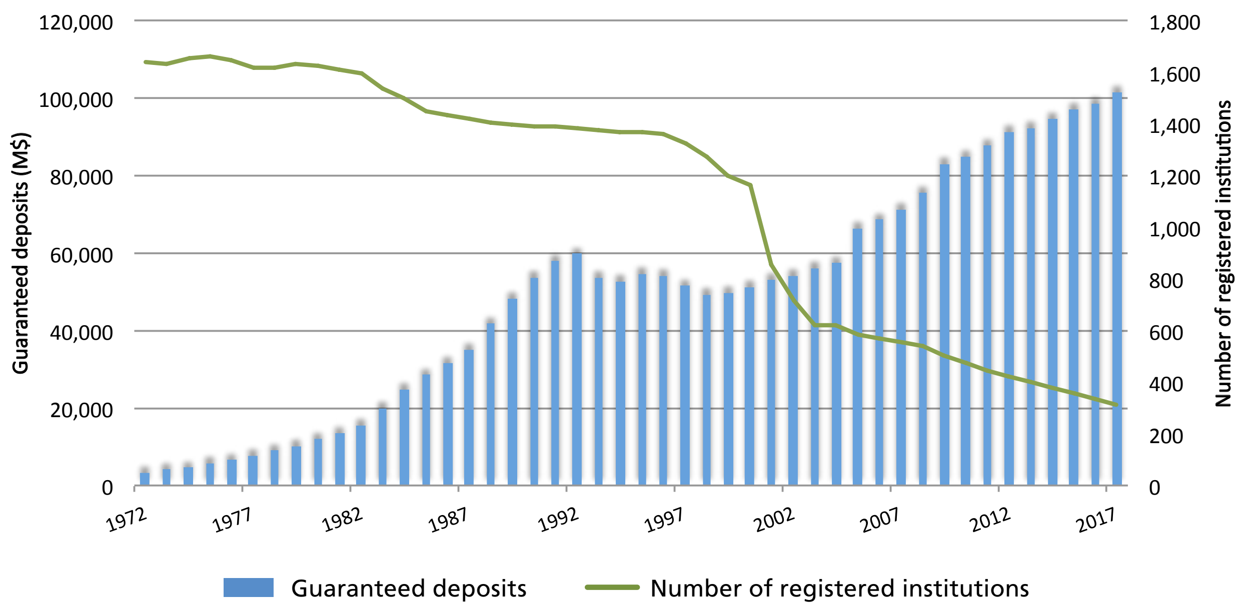


Note: Financial data from 1967 to 1971 not compiled. The DIF's capitalization ratio for each of the years in the graph was obtained by dividing the book value of the DIF by the guaranteed deposits of all institutions registered for deposit insurance.

44 In 1982, the sums that comprised the reserve became the DIF.

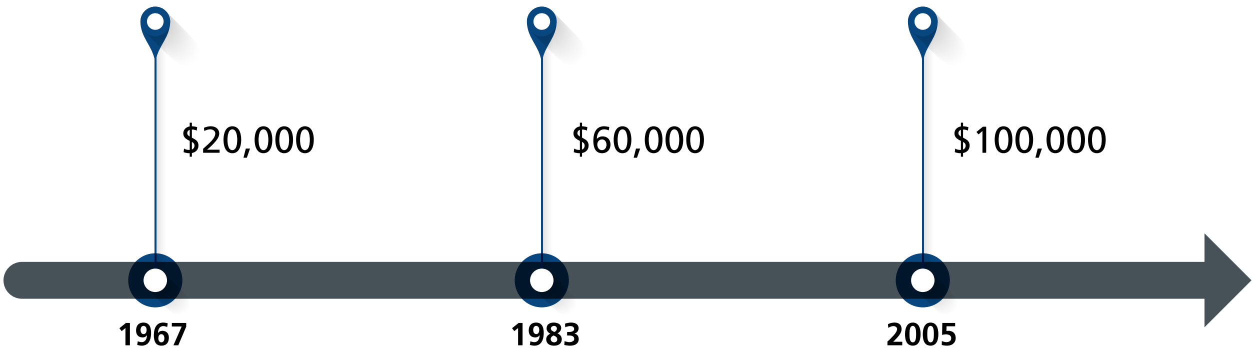
- During the period from 1972 to 2017, the number of registered institutions decreased from 1,637 to 312, reflecting the consolidation that occurred within the financial sector over time.
- During the same period (1972 to 2017), the amount of guaranteed deposits rose from $3.3 billion to $101.5 billion.

Figure 5: Evolution of the number of registered institutions



APPENDIX 2

Evolution of deposit insurance coverage from 1967 to 2017



COVERAGE UNDER THE DEPOSIT INSURANCE PLAN IN 2017

According to the definition of the term "deposit of money,"[1] the AMF guarantees certain deposits made by persons with registered institutions. The deposits that are guaranteed, up to a certain maximum, include primarily:

- Deposits held in one or more savings accounts and chequing accounts;
- Term deposits and certificates of deposit;
- Drafts or certified cheques; and
- Traveller's cheques issued by registered institutions.

In order to be guaranteed, deposits must be made and be payable in Québec and in Canadian currency. In addition, deposits whose term exceeds 5 years must be repayable on demand by the depositor after 5 years. Moreover, certain deposits are separately guaranteed, up to a maximum amount. A separate guarantee applies to deposits held in the following categories:

- Deposits in a TFSA;
- Deposits in an RRSP/RRIF;
- Deposits in a joint account;
- Deposits in a trust/mandate account;
- Deposits reserved for the payment of property taxes.

1 Under section 1 of the *Regulation respecting the application of the Deposit Insurance Act*, the term "deposit of money" means the unpaid balance, including interest thereon, of funds received by a registered bank or institution in the normal course of receiving cash deposits from the public for investment purposes, where the obligation of the registered bank or institution to repay is evidenced by a credit to the depositor's account, by a deposit certificate or by any other instrument issued by the registered bank or institution.

APPENDIX 3

Financial interventions

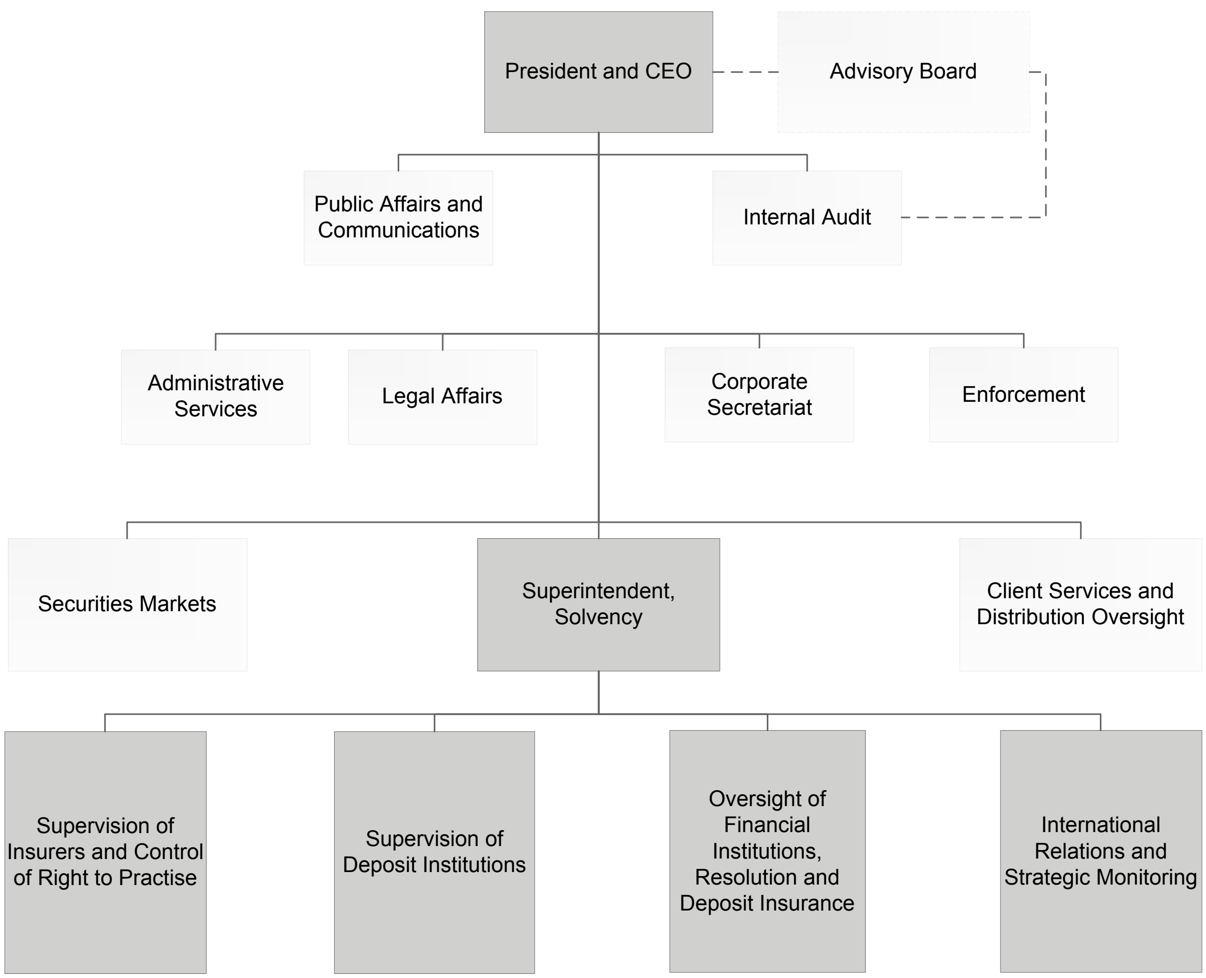
Year	Registered institution	Type of intervention
1975	Caisse d'économie du Taxi de Montréal	Deposit guarantee
1977	Aircraft Employees Credit Union	Cash advance
1977	Caisse d'économie du Transport Provincial	Cash advance
1978	Caisse d'économie Tobex, Tobex Credit Union	Cash advance
1978	Caisse d'économie Five Star Credit Union	Asset acquisition
1979	Caisse d'économie des employés des Hôtels de Montréal	Deposit guarantee
1979	Québec Credit Union League	Debt guarantee
1980	Le Prêt Hypothécaire	Deposit guarantee
1981	Caisse d'entraide économique de Ste-Agathe	Deposit guarantee
1981	Caisse d'établissement de Vaudreuil-Soulanges	Cash advance
1981	Fédération des caisses d'entraide économique du Québec and its 59 affiliated *caisses*	Cash advance
1981	Québec Credit Union League	Cash advance
1982	Société d'entraide économique de La Tuque	Deposit guarantee
1983	Fédération des caisses d'établissement du Québec	Cash advance
1983	Société d'entraide économique de KRT	Deposit guarantee
1984	Société d'entraide économique de Chandler	Deposit guarantee
1984	Société d'entraide économique de Napierville-Laprairie	Deposit guarantee
1985	Société d'entraide économique de Brôme-Missisquoi	Deposit guarantee
1985	Société d'entraide économique de Dorchester	Deposit guarantee
1985	Société d'entraide économique de La Capitale	Cash advance
1986	Fédération des caisses d'établissement du Québec	Cash advance
1986	Société d'entraide économique de La Capitale	Asset acquisition
1986	Société d'entraide économique du Québec Inc.	Cash advance
1989	La Financière, prêts-épargne inc.	Cash advance
1991	Crown Trust Company	Board-CDIC Agreement
1992	Financial Trust Company	Board-CDIC Agreement
1993	General Trust of Canada	Debt guarantee
1994	First City Trust Company	Board-CDIC Agreement
1994	General Trust of Canada	Cash advance
1996	North American Trust Company	Board-CDIC Agreement

APPENDIX 4

Deposit insurance within the AMF

In 2010-2011, the deposit insurance function was transferred from the *Surintendance de l'assistance à la clientèle et de l'indemnisation* ("AMF Client Services and Compensation") to the *Surintendance de l'encadrement de la solvabilité* ("AMF Solvency"). The latter is charged with the supervision and regulation of insurance companies, trust companies, savings companies and financial services cooperatives carrying on business in Québec. In this capacity, it serves to protect consumers, bolster confidence in Québec's financial sector and promote its development. More specifically, AMF Solvency is responsible for the resolution and deposit insurance function in respect of one of the seven systemically important financial institutions in Canada, which is also one of the largest cooperative financial groups in the world. The AMF's integrated regulator model thereby allows it to minimize the risk of failure by institutions and strengthen the financial stability of Québec and Canada. To this end, the *Direction de la résolution et de l'assurance-dépôts* ("AMF Resolution and Deposit Insurance"), which is part of the *Direction principale de l'encadrement des institutions financières, de la résolution et de l'assurance-dépôts* ("AMF Oversight of Financial Institutions, Resolution and Deposit Insurance") has been responsible for the operation of the deposit insurance plan.

Figure 6 : Simplified AMF organization chart



Source: AMF, September 2017.
A complete organization chart (in French only) can be found on the AMF website: www.lautorite.qc.ca.

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