Notice relating to additional measures for deposit institutions and trust companies concerning capital and prudential standards – COVID-19

On March 31, 2020, the Autorité des marchés financiers (the "AMF") announced a series of measures to minimize the impact of COVID-19 on Québec's financial system, including specific measures for deposit institutions and trust companies.[1]

The AMF is monitoring the COVID-19 situation daily and is in frequent contact with the financial institutions concerned and other stakeholders. As part of its assessment of the operational capacity and actions of the financial institutions concerned to respond to the current environment, the AMF today is announcing additional measures in response to the extraordinary circumstances caused by COVID-19.

These additional measures are for trust companies, savings companies and other deposit institutions, credit unions not members of a federation, member credit unions of a federation and federations of credit unions governed, respectively, by the *Trust Companies and Savings Companies Act*[2] (TCSCA), as *An Act respecting financial services cooperatives*[3] (FSCA) and the *Deposit Institutions and Deposit Protection Act*[4] (DIDPA) (the "financial institutions concerned"). These measures are intended to provide the financial institutions concerned with the flexibility needed to deal with the current conditions and the tools they need to fully carry out their mission in view of the circumstances, while maintaining their financial resilience and stability. They are retroactive to March 31, 2020 and effective in the first quarter of the financial institution concerned beginning in 2020.

1. Leverage ratio

During these extraordinary circumstances, the AMF encourages the financial institutions concerned to temporarily exclude the following exposures from the leverage ratio exposure measure:

- central bank reserves; and
- sovereign-issued securities that qualify as High Quality Liquid Assets (HQLA) under the Liquidity Adequacy Guideline (LAG).

The financial institutions concerned that use a dealer or market maker to access the Bank of Canada asset purchase programs and which do not have a settlement account at the Bank of Canada are permitted to exclude the proceeds of sale of securities into the Bank of Canada's asset purchase programs from their leverage ratio exposure measure.

This treatment will remain in effect until April 30, 2021. Capital freed up through this measure must not be distributed (for example, as dividends, bonus payments or any other form of redistribution) but must be used to support lending and financial intermediation activities.

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[1] https://lautorite.qc.ca/fileadmin/lautorite/reglementation/assurances-inst-depot/2020/2020mars31-avis-allegement-institution-depots-fiducie-covid19-en.pdf

[2] CQLR, c. S-29.02.

[3] CQLR, c. C-67.3

[4] CQLR, c. I-13.2.2

2. Capital floor

The *Ligne directrice sur les normes relatives à la suffisance du capital de base* (Base Capital Adequacy Guideline) applicable to financial services cooperatives (COOP GL), section 1.9, sets out the requirements for the risk-weighted capital floor that applies to the financial institutions concerned that use the internal ratings-based (IRB) approach to credit risk. To support the ability of the financial institutions concerned to continue to provide lending in the current environment, the Authority is lowering the floor factor from 75% to 70%.

The floor factor of 70% is expected to stay in place until the implementation of the new Basel III capital floor on January 1, 2023. The 70% level ensures that the floor continues to protect against model risk while maintaining the risk sensitivity of the capital framework for the financial institutions concerned that are subject to the IRB approach.

3. Transitional arrangements for the regulatory capital treatment for accounting for Expected Credit Losses.

On March 31, 2020, the AMF introduced transitional arrangements for expected credit loss (ECL) provisioning. On April 3, 2020, the Basel Committee on Banking Supervision (BCBS) introduced its regulatory treatment of ECL accounting. [5]

Although the BCBS is allowing jurisdictions the option of applying a 100% add-back of allowances to Tier 1 base capital, the AMF is of the view that a maximum add-back of 70% is appropriate. Consequently, the AMF is not considering any changes to the treatment of allowances for the time being. The three-year transition set out in the March 31, 2020 notice will allow the financial institutions concerned the ability to phase-in the impact of the increased ECL allowances in CET1 capital while recognizing that these provisions have been made. Additional details on the ECL capital treatment and regulatory reporting are being published[6] concurrently with this notice.

4. Margin expectations for OTC derivatives not cleared by a central counterparty

On April 3, 2020, the BCBS and the International Organization of Securities Commissions (IOSCO) revised the framework for margin requirements for OTC derivatives not cleared by a central counterparty, extending the implementation of the initial margin requirements by one year. The AMF has revised its expectations introduced in the *Guideline on margins for over-the-counter derivatives not cleared by a central counterparty* accordingly, extending the deadline for the implementation of its expectations relating to initial margins to September 1, 2022, one year later than initially scheduled. This extended timeline will provide additional operational capacity for covered institutions to respond to the immediate impact of the COVID-19 pandemic and, at the same time, enable them to act diligently to achieve compliance with the expectations by the revised deadline.

For any questions or to report specific issues, please contact:

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[5] https://www.bis.org/press/p200403.htm

[6] https://lautorite.qc.ca/fileadmin/lautorite/reglementation/assurances-inst-depot/2020/2020avril09-avis-allegement-dispo-transitoires-pertes-en.pdf

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