AUTORITÉ DES MARCHÉS FINANCIERS

Notice relating to the normative treatment of the *Highly Affected Sectors Credit Availability Program* by deposit and trust institutions – COVID-19

On January 26, 2021, the Business Development Bank of Canada (BDC) set up the Highly Affected Sectors Credit Availability Program (HASCAP) to enable eligible businesses to obtain guaranteed low-interest loans and give them access to additional liquidity in order to face the COVID-19 pandemic.

The Autorité des marchés financiers (the "AMF") today is proposing a normative treatment in order to maintain the principle of comparability across Canadian financial institutions.

Treatment of exposures stemming from HASCAP

This section describes how such exposures must be treated by 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 (the "financial institutions concerned") under the Base Capital Adequacy Guideline applicable to financial services cooperatives (COOP GL) and the Capital Adequacy Guideline applicable to credit unions not member of a federation, trust companies and savings companies (TCSC GL).

1. Normative treatment[1]

The loan guarantees offered by the Business Development Bank of Canada (BDC) to the financial institutions concerned under HASCAP may be recognized as a guarantee for the purposes of the COOP GL and the TCSC GL as they satisfy the operational requirements set out in paragraphs 189 and 190 of section 4.1.5 of those guidelines. The guaranteed portion of the loan can be treated as an exposure to the Government of Canada. The remaining portion must be considered as an exposure to the borrower.

Where there are currency mismatches (between the currency of the BDC guarantee and that of the loan) or maturity mismatches (between the term of the BDC guarantee and that of the loan), the amount of the guarantee recognized for capital purposes must be adjusted in accordance with sections 4.1.5 (iv) and 4.1.6 of the COOP GL and TCSC GL.

As for the treatment of such exposures under the Standardized Approach to credit risk, the financial institutions concerned could then treat the guaranteed portion of the loan by applying the Government of Canada's risk weight (i.e., 0%) and the remainder of the loan would be treated as an exposure to the borrower.

Under the Internal Ratings-Based Approach to credit risk, the guaranteed portion could be treated as an exposure to the Government of Canada. The financial institutions concerned should therefore adopt the Probability of Default substitution approach or the Loss Given Default adjustment approach as outlined in section 5.8.7 (ix) of the COOP GL. The balance of the loan would be treated as an exposure to the borrower.

In calculating the leverage ratio, the entire amount of the loan will have to be included in the exposure measure.

2. Effective date and end date

The normative treatment announced today is effective as of its publication and, unless otherwise specifically indicated, will terminate upon expiry of the loan guarantees granted by the BDC under

[1] The treatment proposed by this new measure is consistent with the treatment for the measures in the notice dated March 31, 2020.

HASCAP. The AMF reserves the right to reassess this normative treatment as the COVID-19 pandemic evolves.

If you have any questions, please contact

Luc Naud
Director, Capital Oversight of Financial Institutions
Luc.Naud@lautorite.qc.ca

February 1, 2021