

August 11, 2020

Ref. No.: 0435

To: Chief Executive Officers, BC Provincially Regulated Financial Institutions

RE: New Regulatory Guidance Terminology

As part of its commitment to clear and consistent communications, BCFSA is standardizing regulatory guidance terminology across all of the entities and individuals it regulates. Effective August 15, 2020, the BCFSA will use the following terminology:

- *Rules* to create legal requirements with which regulated entities and individuals **must** comply;
- *Regulatory Statements* to provide details on **how** regulated entities and individuals **must** comply with legislation;
- *Guidelines* to establish practices/principles that regulated entities and individuals are **expected** to implement or follow; and
- *Advisories* to communicate BCFSA news/updates and other relevant **information** to sector participants.

BCFSA is undertaking a project, expected to be completed by April 1, 2021, to clarify where prior regulatory communications fall within the new terminology. Also, by September 2020, BCFSA will release a Regulatory Roadmap that sets out its regulatory priorities and timelines for specific initiatives for the fiscal year ending March 31, 2021. The Roadmap will help regulated entities and individuals to understand the expected timing for the development and release of new Rules, Regulatory Statements and Guidelines and allow them to time to plan and respond as appropriate.

Please see the attached table for further details. If you have questions regarding BCFSA's new regulatory guidance terminology, please contact Rob O'Brien Manager, Policy at (604) 505-5896 or by email at Rob.O'Brien@bcfsa.ca.

Regards,

Frank Chong
VP and Deputy Superintendent, Regulation

Regulatory Guidance

Type	Definition/Example of Use	What is the impact of the Guidance on regulated entities and individuals?
Rule	<p><i>The Financial Institutions Act (FIA)</i> was recently amended to provide BCFSA with the authority to make Rules with which regulated entities must comply. Rules have the same legal weight as those contained in an Act or Regulation created by the Government.</p> <p>For example, BCFSA could create a Rule in the future requiring all financial institutions above a specific size (assets, deposits) to file recovery and resolution plans with BCFSA.</p>	<ul style="list-style-type: none"> Regulated entities and individuals are legally obligated to comply with Rules. In the case of the non-compliance with a Rule, BCFSA can apply regulatory sanctions (escalating upwards from administrative penalties to more serious outcomes).
Regulatory Statement	<p>Regulatory Statements provide instructions on how regulated entities and individuals must comply with legislation. While both Rules and Regulatory Statements legally require compliance, Regulatory Statements are used by BCFSA to provide further details/direction related to a Government established requirement.</p> <p>For example, section 127(1) of the <i>Financial Institutions Act</i> states that “...within 90 days after the end of its financial year in each year, a financial institution must file with the superintendent a return in the form established by the superintendent outlining its financial condition and affairs during that financial year...” A Regulatory Statement would outline the specific risk-based metrics that a financial institution must submit (e.g. Liquidity Coverage Ratio) and provide instructions on how these metrics would be calculated. Prior to the new terminology being introduced, these instructions would have been issued as Information Bulletins and contained in Guides.</p>	<ul style="list-style-type: none"> Regulated entities and individuals must follow the instructions/directions, including using the prescribed templates/forms, that are set out in a Regulatory Statement. In the case of non-compliance with a Regulatory Statement, BCFSA can apply regulatory sanctions (escalating upwards from administrative penalties to more serious outcomes).
Guidelines for Financial Institutions	<p>Guidelines establish principles that regulated entities are expected to implement or follow. Guidelines are commonly used in the regulation of financial institutions and address potential risks such as governance, capital, liquidity, and market conduct.</p> <p>For example, BCFSA published a Liquidity Management Guideline that outlines BCFSA’s expectations for Credit Union’s liquidity management frameworks.</p>	<ul style="list-style-type: none"> Regulated entities and individuals are expected to follow Guidelines, even though they are not legally binding. BCFSA has a number of options when regulated entities and individuals fail to follow a Guideline. For example, where a failure by a financial institution to follow the principles established in a Guideline increases the risk facing the financial institution, BCFSA can adjust a financial institutions’ risk rating. Where an individual or regulated entity's actions or conduct might reasonably be expected to harm the interests of insureds or depositors for whom the financial institution

		acts in a fiduciary capacity, the Authority may take necessary actions to remedy the situation.
Advisory	<p>Advisories communicate general information/topics of interest to regulated entities and individuals. Advisories <u>do not, as a general matter,</u> mandate action by a regulated entities and individuals.</p> <p>For example, a notice of an upcoming consultation would be included in an Advisory.</p>	<ul style="list-style-type: none"> Regulated entities and individuals should monitor Advisories for topics of interest including news related to consultations