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Proposed Approach: Transferring CUDIC Insured Deposits in Registered Plan Accounts

Discussion Paper

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Purpose

This discussion paper outlines the Credit Union Deposit Insurance Corporation of BC's ("CUDIC") proposed approach for the transfer of insured deposits in registered plan accounts in the event of a failure of a B.C. credit union ("credit union"). With the release of this discussion paper, BC Financial Services Authority ("BCFSA") and CUDIC have launched a consultation, seeking input from the credit union segment on the proposed approach.

Credit unions are invited to provide their feedback by responding to our [online survey](#). Responses to the online survey on the proposed approach outlined in this discussion paper will inform CUDIC's next steps. Please note that this discussion paper is intended only to facilitate feedback regarding CUDIC's proposed approach and does not bind BCFSA or CUDIC to any specific course of action in the future.

Please submit responses to the questions in the [online survey](#) by November 21, 2022.

BCFSA and CUDIC thank all respondents for their feedback.

Background

In 2018, BCFSA and CUDIC boards approved the CUDIC Payout Plan. The Payout Plan is designed to enable CUDIC to administer accurate and timely payments under the CUDIC deposit insurance guarantee in the event of a credit union failure. Since 2018, CUDIC has worked to operationalize the Payout Plan and ensure it is continuously updated, to enable BCFSA to wind-up a credit union and CUDIC to administer the deposit insurance payout in accordance with the authorities under the relevant statutes. CUDIC maintains operational capabilities and processes for communicating, determining, and processing payments of insured deposits.

Under the Payout Plan, the approach for making payments of insured deposits is as follows:

- By cheque for demand, term and GIC¹; and
- Transfer of registered plans (i.e., RRSPs, RRIFs, RESPs RDSPs, and TFSA) to another financial institution.

CUDIC has developed operational capabilities and processes to implement payments by cheque. Now, CUDIC is seeking input from the credit union segment in order to operationalize the proposed approach for the transfer of insured deposits in registered plan accounts, as outlined in this discussion paper.

¹ Potential expansion to electronic transfers in the future

Proposed Approach

CUDIC PAYMENT OF INSURED DEPOSITS IN REGISTERED PLAN ACCOUNTS

The proposed approach described here applies to deposits held in registered plans held at the failed credit union for which the failed credit union is either a Trustee, Administrator, or an agent of the Trustee or Administrator for the registered plans. It is not applicable to deposits placed at the failed credit union by a Trustee or agent of the Trustee for a registered plan at another financial institution (i.e., broker-trustee deposits). These deposits will be handled as trust accounts and paid by cheque to the Trustee who is the account holder.

Under the Canada Revenue Agency (“CRA”) rules, adverse tax consequences would result for plan holders or beneficiaries if CUDIC made direct payments of insured deposits held in registered plan accounts to plan holders. Furthermore, the failed credit union would no longer be able to continue to perform the functions of Trustee and Administrator roles to maintain the registration of the registered plans under CRA rules.

Therefore, CUDIC proposes the following approach: to fulfill CUDIC’s obligation under the deposit insurance guarantee, the insured deposits held in registered plan accounts would be transferred to another financial institution (the “Transferee”) with new registered plan accounts created to maintain the deposits within the registered plans. The Transferee will hold the insured deposit funds in demand accounts until instructed by the plan holders to re-invest the funds in the Transferee’s registered plans approved by the CRA or transfer the funds to another financial institution. CUDIC would facilitate the selection of a Transferee as well as a successor Trustee and a successor Administrator to act in the roles for the registered plans.

To facilitate the prompt transfer of deposit insurance payments and registered plans, BCFSAs intends to have the following requirements in place:

- CRA approval process;
- Credit union segment Transferee pool;
- Process for selecting a Transferee;
- Information requirements to the Transferee pool to act as Transferee; and
- Deposit data requirements for the transfer of registered plan accounts.

Details of how BCFSAs intends to establish these requirements are provided below:

CRA APPROVAL PROCESS

CUDIC has established a preliminary process with CRA to facilitate the prompt transfer of deposit insurance payments of registered plans to a Transferee.

CREDIT UNION SEGMENT TRANSFEREE POOL

CUDIC will establish and maintain a pool of credit unions willing to act as Transferee to assume the registered plans and deposits of a failed credit union. By transferring registered plans and deposits to another credit union, deposits are retained in the B.C. credit union segment and will continue to be insured under the 100 per cent guarantee provided by CUDIC.

As CUDIC may only provide a few weeks of advance notice, a Transferee should have the capacity to deal with a large influx of transactions and possibly customers in a short period of time.

CUDIC expects the Transferee to perform the following duties:

- Create new registered plan accounts for the insured deposit balances that will be transferred from the registered plans of the failed credit union (with funding from CUDIC);
- Assume the role of successor Trustee/Issuer, Administrator of the plans, holder of the deposit assets of the plans on behalf of a Trustee/Issuer, or a combination of these roles; and
- Process subsequent instructions from plan holders to re-invest registered plans and/or balances to CRA approved registered plans of the Transferee or transfer to another financial institution.

To establish the Transferee pool, BCFSA will issue a request for expression of interest to the credit union segment inviting interested credit unions to respond, specifying the roles they are capable of and interested in acting as (trustee/issuer, administrator and/or agent for a trustee/issuer). There will be no evaluation, ranking, pre-qualification or selection of credit unions based on the responses. All credit unions that respond to the request for expression of interest will be included in the Transferee pool.

CUDIC and BCFSA intend to refresh the pool every two years by reissuing the expression of interest request.

PROCESS FOR SELECTING A TRANSFEREE FROM THE POOL

CUDIC proposes a two-step process for the selection of a Transferee, as follows:

Step 1: In the event a Transferee credit union is required to assume the registered plan accounts of a credit union, CUDIC intends to have BCFSA issue a request for expression of interest to the Transferee pool with high level information about the registered deposits. The request will be made at least two weeks prior to the potential credit union winding-up, where feasible, with responses expected within five business days. Any credit union interested in acting as Transferee would be required to specify their capability and interest in acting as a Trustee/Issuer, Administrator, or agent for a Trustee/Issuer for each of the registered plans.

Step 2: Shortly after the initiation of the winding-up process, CUDIC will provide detailed information to the interested credit unions and request bids to be submitted within 72 hours for selecting a Transferee. CUDIC will review and evaluate the bids based on pre-established criteria.

A Transferee will be expected to have the capacity to commence setting up new registered deposit accounts within one calendar week of notification by CUDIC.

Selection Criteria

Selection criteria may include, but not necessarily be limited to the following:

- Capacity to create registered plan accounts in the required timeframe (within one calendar week);
- Capability to provide customer service; and
- Fees for administering the registered plan accounts.

Selection of the Transferee would also be subject to BCFSA approval based on factors such as maintaining regulatory capital levels and other prudential supervision requirements.

Following the selection of a Transferee, CUDIC will facilitate the transfer of insured deposits to the Transferee, and registered plans and depositor account data of registered plans to the successor Trustee and Administrator.

If there is no interest from the Transferee pool or none qualify based on the specified criteria, CUDIC and the liquidator may seek a trust-authorized financial institution outside the B.C. credit union segment. Alternatively, CUDIC could work with the liquidator to process transfer requests to financial institutions requested by depositors that would be funded by the deposit insurance payment.

INFORMATION FOR THE TRANSFEREE POOL

CUDIC intends to have BCFSa issue a request for expression of interest to the Transferee pool approximately two weeks in advance of a potential wind-up. To assist potential Transferees to determine whether they wish to respond to the request for expression of interest, CUDIC will provide details which may include:

- The registered plan deposit profile of the failed credit union, masked where possible such as through the use of ranges to maintain confidentiality;
- The evaluation criteria for selection of Transferee; and
- A draft transfer agreement.

Credit unions in the Transferee pool may also be required to provide a confidentiality undertaking.

DATA REQUIREMENTS FOR THE TRANSFER OF REGISTERED PLAN ACCOUNTS

Appendix 1 provides the data requirements for the transfer of registered plan accounts to the successor Administrator.

The data extract was developed with Central 1 Credit Union's ("Central 1") input and supplements the registered account data provided in the CUDIC Payout Data Requirements. This data extract is intended to facilitate the processing of the plan-holders' instructions to re-invest in the registered plans of the Transferee or to transfer the funds to another financial institution. The data will be extracted at time of winding-up, with assistance from the liquidator from the failed credit union's banking system and transferred to the successor Administrator. The liquidator will determine how the uninsured registered plan accounts should be handled.

A data extraction process should be developed to address these additional data requirements for registered plan transfers between Administrators. It will include the extraction of data elements from Central 1's registered plan management system to the Administrator's banking system. It will not include the extraction of RESP and RDSP contract information as these plans will continue to be recorded on the systems of Central 1, whether or not Central 1 administers those plans.

Request For Feedback

Credit unions are invited to provide feedback in this consultation on CUDIC's proposed approach by responding to the [online survey](#) by November 21, 2022.

Questions in the survey are organized as follows:

- Section 1: The Role of the Transferee;
- Section 2: Information for the Transferee Pool; and
- Section 3: Data Requirements for the Transfer of Registered Plan Accounts.

Survey feedback will be used to inform the approach for transferring insured deposits and registered plan accounts. BCFSA appreciates the time and effort of all respondents in contributing to this consultation process and we look forward to receiving your feedback. Once the consultation period concludes, staff will collate and review the input received. A consultation summary report will be posted on BCFSA's website following the consultation process.

If you have any questions or would like to discuss this further, please contact us at depositinsurance@bcfsa.ca

Next Steps

Once the survey closes and the consultation is concluded, CUDIC operations team members will collate the input received and consider revisions to the approach for transferring insured deposits of registered plan accounts, as required. Subsequently, a consultation feedback summary report will be published on the BCFSA website.

Following the consultation, BCFSA will issue an expression of interest request to the credit union segment inviting credit unions to indicate their interest in joining the Transferee pool. BCFSA will maintain the Transferee pool and update it every two years.

Appendix 1: Data Requirements For Transfer Of Registered Plan Accounts

This appendix provides the data requirements for the transfer of registered plan accounts to the successor Administrator. This data extract was developed with Central 1 Credit Union's ("Central 1") input and supplements the registered account data provided in the CUDIC Payout Data Requirements. This data will be extracted at the time of winding-up. This data extract is not part of the CUDIC Payout Data Requirements.

No:	Field	Description
1	Effective Date	Effective date of data transfer. This is the date the information is extracted from the credit union banking system or Central 1 system.
2	Fair Market Value	The fair market value as recorded on the transferor's banking system for the registered account holder, consisting of the sum of cash or term balance, and accrued interest.
3	Fair Market Value at Date of Death	The fair market value on the date of death, if applicable.
4	Cash/Variable and Term Balance	The value of cash recorded on the transferor's banking system for the registered account holder.
5	Accrued Interest on Cash Balance	Interest accrued since the last payment of interest. This should be included in the fair market value of the account. Additionally, it should be provided as a separate line item for the deposits including terms and GICs.
6	Qualified Deposits for Current Year TFSA	Current year transactions split mid year between systems may need to be reconciled. This is required if the new institution is filing all information for entire tax year.
7	Qualified Withdrawals for Current Year TFSA	Current year transactions split mid year between systems may need to be reconciled. This is required if the new institution is filing all information for entire tax year.
8	Entry Date of Current Year Contributions and Withdrawals	Current year transactions split mid year between systems may need to be reconciled. This is required if the new institution is filing all information for entire tax year.
9	Effective Date of Current Year Contributions and Withdrawals	Current year transactions split mid year between systems may need to be reconciled. This is required if the new institution is filing all information for entire tax year.
10	Taxable Withdrawals for Current Year Gross	Current year transactions split mid year between systems may need to be reconciled. This is required if the new institution is filing all information for entire tax year.
11	Taxable Withdrawals for Current Year Net	Current year transactions split mid year between systems may need to be reconciled. This is required if the new institution is filing all information for entire tax year.
12	Withholding Tax for Current Year Withdrawals	Current year transactions split mid year between systems may need to be reconciled. This is required if the new institution is filing all information for entire tax year.
13	Election to Use Spouse Birthday for RIF Flag	This flag should be set to "Yes" if elected to use spouse's age for minimum RIF withdrawal.

14	Pre 93 RIF Flag	This flag should be set to "Yes" if the RRIF was funded before Jan 1, 1993, RRSP funds were not added after that date, or funds were not transferred from RRIFs first funded after January 1, 1993.
15	Plan Value January First	The plan value of the RRIF on January first for minimum value calculation purposes.
16	Minimum Calculation	The minimum amount the annuitant must withdraw for RRIF/LIF RLIF/Prescribed RRIF.
17	Maximum Calculation	The maximum amount the annuitant can withdraw for LRIF/LIF RLIF/Prescribed RRIF.
18	Systematic Withdrawals Start Date	The systematic withdrawal plan ("SWP") allows an investor to withdraw a fixed or variable amount on a pre-set date monthly, quarterly, semi-annually or annually. This is the start date of the SWP.
19	Systematic Withdrawals End Date	The end date of the SWP.
20	Systematic Withdrawals Frequency	How often the SWP is withdrawn. Such as on a pre-set date monthly, quarterly, semi-annually or annually.
21	Systematic Withdrawals Gross Payment	The gross amount withdrawn. Withholding tax will be applied on amounts withdrawn in excess of the minimum.
22	Systematic Withdrawals Net Payment	The net amount withdrawn net of withholding taxes.
23	Systematic Withdrawals Next Date.	The date in which the next SWP is scheduled to be withdrawn.
24	Successor Annuitant Flag	This flag should be set to "Yes" if a successor annuitant is designated for RRIF or a successor holder is designated for TFSA.
25	Beneficiary First Name	The first name of the beneficiary for registered plan products.
26	Beneficiary Last Name	The last name of the beneficiary for registered plan products.
27	Beneficiary SIN	The beneficiary SIN number for registered plan products.
28	Beneficiary Relationship	Beneficiary relationship to annuitant for registered plan products, if applicable.
29	Specimen Number	CRA specimen number assigned to the plan.
30	Business Number	Business or legal entity business number (BN). The BN within the CRA account number. CRA account number is comprised of 3 parts; a nine-digit BN, a two-letter program identifier and a four-digit reference number.
31	First 60 Days Contributions	Contributions made for the first 60 days of the year for RRSP's.
32	Remainder of Year Contributions	Contributions made after the first 60 days of the year until December 31, for RRSP's.
33	Spouse First Name	First name of the spouse.
34	Spouse Last Name	Last name of the spouse.
35	Spouse SIN	Spouse's SIN number.
36	Spouse Birthdate	Spouse's birthdate.
37	Province of Administration	The province for locked-in plans. The pension legislation for administration whether federal or provincial.
38	Restriction Flag	This flag should be set to "Yes" for both RLIF and RLSP products if not differentiated in the plan type field. The purpose of this flag is to identify RLIF and RLSP as those cannot participate in unlocking transfers.
39	Agent Code	The code of the credit union to identify the depositor agent



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