

# TAXPAYER PROTECTION AND BANK RECAPITALIZATION REGIME: CONSULTATION PAPER

## INVITATION FOR COMMENTS

Economic Action Plan 2013 announced the Government's intention to implement a comprehensive risk management framework for Canada's domestic systemically important banks, including a Taxpayer Protection and Bank Recapitalization (or "bail-in") regime for these institutions. This consultation paper outlines a proposed design for the Taxpayer Protection and Bank Recapitalization regime and seeks input on key elements of this regime.

The Department of Finance invites all Canadians to comment on this proposal. Comments can be e-mailed to: [ConsultationsFSS-SSF@fin.gc.ca](mailto:ConsultationsFSS-SSF@fin.gc.ca). Written comments can be forwarded to:

Financial Sector Division  
Financial Sector Policy Branch  
Department of Finance  
140 O'Connor Street  
Ottawa, Ontario  
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**All comments should be received by September 12, 2014.**

### *Confidentiality*

By submitting a response to this consultation, you consent that all or part of your response may become public and may be posted on the Department of Finance Canada website, to add to the transparency and interactivity of the consultation process. Where necessary, submissions may be revised or redacted to remove sensitive information. Should you post all or part of your response on your website, you consent that the Department of Finance Canada may post either all or part of your response on its website, or provide a link directly to your website.

As the Department of Finance Canada may wish to quote from or summarize submissions in its public documents and post all or part of them on its website, we ask persons making submissions to clearly indicate whether they wish us to keep all or part of their submission or their identity confidential. If you make a submission, please clearly indicate if you would like the Department of Finance Canada to:

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## **POLICY OBJECTIVES**

The Canadian financial system remained resilient throughout the 2008 global financial crisis, with no Canadian bank failures. In fact, Canadian banks were able to maintain their access to debt and equity markets through the crisis. Today, they are even stronger and better capitalized.

This experience demonstrated the value of Canada’s approach to financial sector regulation and supervision. Nevertheless, the crisis further highlighted that some banks are “systemically important”—so important to the functioning of the financial system and economy that they cannot be wound down under a conventional bankruptcy and liquidation process should they fail without imposing unacceptable costs on the economy. These institutions are commonly labelled as “too-big-to-fail.” Faced with inadequate tools to deal with failed major banks, many authorities in other jurisdictions were forced to rely on taxpayer-funded capital injections to support these institutions in the interests of broader financial and economic stability.

In addition to the direct costs to taxpayers associated with these bail-outs, the implicit public backing for some of the downside risks they are taking gives the banks’ managers an incentive to take on excessive risk, and allows them to borrow on more favourable terms. This in turn further contributes to taxpayer exposure by giving these banks an incentive to grow even larger (at the expense of smaller banks).

The solution to this problem is a special regime for systemically important banks. Such a regime should reduce the likelihood of failure for these banks and provide authorities with the means to restore a bank to viability in the unlikely event that it should fail without disrupting the financial system or economy and without using taxpayer funds.

The Government is putting in place such a regime in Canada: Economic Action Plan 2013 announced a comprehensive risk management framework for Canada’s domestic systemically important banks (D-SIBs).<sup>1</sup> This framework includes enhanced supervision by the Office of the Superintendent of Financial Institutions (OSFI—Canada’s federal prudential regulator), the development of institution-specific recovery plans as well as resolution plans, higher capital requirements<sup>2</sup> and the development of a Taxpayer Protection and Bank Recapitalization (or “bail-in”) regime.

The Taxpayer Protection and Bank Recapitalization regime for Canada’s D-SIBs would allow for the expedient conversion of certain bank liabilities into regulatory capital when a D-SIB fails (i.e., at the point when the institution becomes non-viable). It would thus enable a resolution strategy that protects taxpayers by ensuring that losses are borne by shareholders and creditors of the failed bank while preserving the same legal entity and contracts of the bank (i.e., keeping it open or “continuing”) and, in turn, maintaining the critical services the bank provides to its customers.

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<sup>1</sup> On March 26, 2013, the Office of the Superintendent of Financial Institutions (OSFI) identified Canada’s D-SIBs as Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada, and Toronto-Dominion Bank. Further details can be found on OSFI’s website: [http://www.osfi-bsif.gc.ca/eng/fi-if/rg-ro/gdn-ort/adv-prv/pages/dsib\\_nr.aspx](http://www.osfi-bsif.gc.ca/eng/fi-if/rg-ro/gdn-ort/adv-prv/pages/dsib_nr.aspx).

<sup>2</sup> Canada’s D-SIBs will be subject to a 1 per cent risk-weighted capital surcharge by January 1, 2016. Further details can be found in the following OSFI Advisory: [http://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/adv-prv/Pages/DSIB\\_adv.aspx](http://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/adv-prv/Pages/DSIB_adv.aspx).

Adoption of the Taxpayer Protection and Bank Recapitalization regime would be consistent with international best practices with respect to “bail-in” powers. The concept of bail-in is an important component of the Financial Stability Board’s [\*Key Attributes of Effective Resolution Regimes for Financial Institutions\*](#), which was endorsed by Group of 20 (G-20) Leaders in November 2011 as part of the G-20’s broader financial sector reform agenda. A number of jurisdictions have either already incorporated bail-in (or equivalent) powers into their resolution regimes (e.g., Denmark, the United Kingdom (U.K.), Switzerland and the United States (U.S.)<sup>3</sup>) or are actively working towards doing so. Most notably, the European Union (EU) is implementing a Bank Recovery and Resolution Directive that includes a bail-in regime, thereby introducing bail-in across the European banking sector.

The bail-in (or equivalent) powers introduced or planned in other jurisdictions reflect the way that major banks in those jurisdictions are structured. For example, the U.S. and U.K. have large banking groups that are organized with a non-operating holding company at the top of the group, and operating bank subsidiaries underneath. In contrast, Canadian banks are organized with an operating bank as the top-tier parent company. The Government welcomes views on the potential merits of a holding company model (similar to that of other major jurisdictions) in the context of reforms to strengthen Canada’s bank resolution framework.

The purpose of this consultation paper is to set out the major features of a proposed Taxpayer Protection and Bank Recapitalization regime for Canada. The overarching policy objective that drives the design of the regime is to preserve financial stability while protecting taxpayers. This objective is supported by the Taxpayer Protection and Bank Recapitalization regime by:

- Reducing the likelihood of a D-SIB failure by enhancing market discipline, limiting moral hazard and constraining incentives for excessive risk-taking by ensuring that bank creditors and capital providers bear losses in the event of a D-SIB becoming non-viable;
- Ensuring that, in the event that a D-SIB experiences severe losses leading to non-viability, it can be quickly restored to viability with no or minimal taxpayer exposure to loss through a resolution strategy which enables conversion of certain liabilities into additional equity capital; and,
- Supporting D-SIBs’ ability to provide critical services to the financial system and economy during normal times and in the event that a D-SIB experiences severe losses.

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<sup>3</sup> Title II of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* provides U.S. authorities with the ability to achieve the equivalent outcomes of bail-in through the application of “bridge institution” resolution powers.

## **THE TAXPAYER PROTECTION AND BANK RECAPITALIZATION REGIME AND CANADA'S BANK RESOLUTION FRAMEWORK**

In order to be able to achieve each of the policy objectives outlined above, the Taxpayer Protection and Bank Recapitalization regime would be incorporated into Canada's existing resolution framework for banks.

At the centre of Canada's bank resolution framework are the tools and powers of the Canada Deposit Insurance Corporation (CDIC)—Canada's federal deposit insurer and resolution authority for its member institutions (including the D-SIBs). A key example is CDIC's ability to establish a (CDIC-owned) bridge institution to take on and preserve the critical functions of a non-viable member institution. Under this approach, CDIC would be appointed as the receiver of the non-viable bank and would determine which of the bank's assets and liabilities should be passed to the bridge institution (including, at a minimum, all insured deposits). The assets not acquired by the bridge institution would remain in the failed bank, which would be placed into liquidation. The bridge institution could operate for up to five years<sup>4</sup> and would be terminated through a sale of assets or shares or through an orderly wind-down of business.

OSFI's Non-Viability Contingent Capital (NVCC) requirements represent another important element of Canada's resolution framework. NVCC is a non-common capital instrument that includes contractual provisions providing for a full and permanent conversion of the instrument into common shares upon a trigger event.<sup>5</sup> As of January 1, 2013, all Canadian banks' newly issued non-common capital must be NVCC in order to qualify as regulatory capital.

A significant feature of the Taxpayer Protection and Bank Recapitalization regime is its ability (when combined with NVCC and other resolution tools) to serve as the basis for a "continuing bank" resolution strategy: one that returns the bank to viability while preserving the same legal entity, its critical functions and associated contracts.

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<sup>4</sup> The bridge institution can operate for two years, with the possibility of three subsequent one-year extensions.

<sup>5</sup> The following events would trigger automatic conversion of NVCC:

- the Superintendent of Financial Institutions (the "Superintendent") publicly announces that the institution has been advised, in writing, that the Superintendent is of the opinion that the institution has ceased, or is about to cease, to be viable and that, after the conversion of all contingent instruments and taking into account any other factors or circumstances that are considered relevant or appropriate, it is reasonably likely that the viability of the institution will be restored or maintained; or
- a federal or provincial government in Canada publicly announces that the institution has accepted or agreed to accept a capital injection, or equivalent support, from the federal government or any provincial government or political subdivision or agent or agency thereof without which the institution would have been determined by the Superintendent to be non-viable.

Further details can be found in OSFI's Capital Adequacy Requirements Guideline (2014):

[http://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-ld/Pages/car\\_index.aspx](http://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-ld/Pages/car_index.aspx).

The ability for authorities to recapitalize a non-viable bank through the conversion of certain bank liabilities into regulatory capital—the core element of the Taxpayer Protection and Bank Recapitalization regime—would work in concert with the other elements of Canada’s bank resolution framework. More specifically, additional measures (e.g., temporary public control or ownership of the non-viable bank) would need to accompany the recapitalization of the bank in order to provide for a robust overall resolution strategy. As such, the Government is reviewing CDIC’s existing tools and powers in order to determine how best to integrate the proposed conversion power as part of CDIC’s toolkit (see *Review of Canada’s Bank Resolution Framework* below).

## **KEY FEATURES OF THE PROPOSED TAXPAYER PROTECTION AND BANK RECAPITALIZATION REGIME**

### ***1) Statutory Conversion Power***

The Government proposes that the cornerstone of the Taxpayer Protection and Bank Recapitalization regime be a statutory power allowing for the permanent conversion—in whole or in part—of specified eligible liabilities into common shares of a bank (see *Scope of Application* below) designated as a D-SIB by OSFI,<sup>6</sup> following certain preconditions (see *Sequencing and Preconditions* below). The power would also allow for (but not require) the permanent cancellation, in whole or in part, of pre-existing shares of the bank.<sup>7</sup>

### ***2) Sequencing and Preconditions***

The Government proposes that authorities be able to exercise the conversion power only following specific events.

First, there must be a determination by the Superintendent of Financial Institutions that the bank has ceased, or is about to cease, to be viable. Second, there must be a full conversion of the bank's NVCC instruments.<sup>8</sup>

Note that these are necessary, but not sufficient, preconditions for the exercise of the conversion power. Authorities would retain the discretion to not exercise the conversion power even if the preconditions had been met. For example, authorities may decide not to exercise the power if conversion of NVCC instruments were deemed to be sufficient to adequately recapitalize the bank.

In addition, as noted above, use of the conversion power would take place in the context of a broader resolution strategy that is appropriate to the particular circumstances of the bank.

### ***3) Scope of Application***

In order to allow for a smooth transition for affected market participants and to maximize legal clarity and enforceability of the Taxpayer Protection and Bank Recapitalization regime, the Government proposes that the conversion power only apply to D-SIB liabilities that are issued, originated or renegotiated after an implementation date determined by the Government. The regime would not be applied retroactively to liabilities outstanding as of the implementation date.

The Government proposes that “long-term senior debt”—senior unsecured debt<sup>9</sup> that is tradable and transferable with an original term to maturity of over 400 days—be subject to conversion

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<sup>6</sup> See footnote 1.

<sup>7</sup> For greater certainty, this power would only be applied to common shares of the bank which were outstanding prior to the point of non-viability.

<sup>8</sup> Note that alternatively, the automatic trigger for conversion of NVCC instruments related to acceptance by the bank of a capital injection (see footnote 5) would also serve as to satisfy these preconditions for exercising the statutory conversion power.

through the exercise of the statutory conversion power.<sup>10</sup> Authorities would also have the ability to cancel, in whole or in part, the pre-existing common shares of the bank in the context of exercising the conversion power.<sup>11</sup> This scope of application would minimize the practical and legal impediments to exercising a conversion in a timely fashion. It would also minimize any potential adverse impacts on banks' access to liquidity under stress and support financial stability more broadly.

#### 4) *Magnitude of Conversion*

The Government proposes that authorities have the flexibility to determine, at the time of resolution, the portion of eligible liabilities that is to be converted into common shares in accordance with the conversion power. All long-term senior debt holders would be converted on a pro rata basis—that is, each of these creditors would have the same portion (up to 100 per cent) of the par value of their claims converted to common shares.

Authorities' determination of the total amount of eligible liabilities to be converted would be based on ensuring that the D-SIB emerges from a conversion well-capitalized, with a buffer of capital above the target capital requirements set by OSFI.

Conversion of eligible liabilities would respect the hierarchy of claims in liquidation on a relative, not absolute, basis. For example, for every dollar of their claim that is converted, long-term senior debt holders would receive economic entitlements (in the form of common shares) that are more favourable than those provided to former NVCC subordinated debt investors, but NVCC subordinated debt investors would not be subject to 100 per cent losses in the context of exercising the conversion power.

In addition, unless investors agree to specific terms of conversion contractually, conversion of eligible liabilities would be subject to the principle that no creditor be worse off as a result of conversion than they would have been in a traditional liquidation (see *Right to Compensation* below).

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<sup>9</sup> In the case of senior unsecured debt instruments subject to a partial conversion as per specific contractual conversion terms, the residual (unconverted) portion of the claim would also be within the scope of the statutory conversion power.

<sup>10</sup> As noted in *Sequencing and Preconditions*, NVCC instruments would be subject to conversion as per their contractual terms and conditions. Any non-NVCC preferred shares or non-NVCC subordinated debt instruments that are issued or renegotiated *after the implementation date* for the Taxpayer Protection and Bank Recapitalization regime would be subject to conversion through the exercise of the conversion power. These instruments would be fully converted prior to conversion of any portion of long-term senior unsecured debt.

<sup>11</sup> See footnote 7.

## 5) Conversion Terms

As set out in OSFI's [Capital Adequacy Requirements Guideline \(2014\)](#), all NVCC instruments must feature contractual conversion terms that specify a formula for determining how many common shares would be received by the NVCC investor upon conversion of the instrument. These conversion formulas are to be tied to factors such as the market value of the bank's common shares at or just before the NVCC trigger event (i.e., the point of non-viability). While NVCC instruments must comply with certain regulatory principles, key features such as the conversion formulas are principally market-driven, allowing issuing banks and investors to determine in advance how the bank's value should be distributed in the event that the institution were to become non-viable.

Building on this approach, and to provide greater certainty and transparency to investors and creditors that may be subject to the statutory conversion power, the Government proposes to link the conversion terms it would apply with respect to eligible liabilities to those of outstanding NVCC instruments. Specifically, the number of common shares that would be provided for each dollar of par value of a claim that is converted would be tied to the conversion formulas of any outstanding NVCC instruments.

This approach would be communicated to all market participants in advance, and would be applied as follows: long-term senior debt holders would receive, for each dollar of par value converted, an amount of common shares determined as a fixed multiple,  $X$ , of the most favourable conversion formula<sup>12</sup> among the bank's NVCC subordinated debt instruments (or, if none exists, the bank's NVCC preferred shares<sup>13</sup>).<sup>14</sup>

As with the overall approach, the fixed conversion multiplier,  $X$ , would be set in advance by public authorities through regulation or guidance (and would thus be public information).<sup>15</sup>

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<sup>12</sup> In this context, "most favourable" should be interpreted in terms of most favourable *for the investor or creditor* (i.e., the holder of the security).

<sup>13</sup> Where the bank has no NVCC instruments outstanding in advance of a trigger event, the conversion formula applied to senior debt instruments in a conversion would be based on the most favourable conversion formula among all outstanding NVCC instruments issued by other D-SIBs.

<sup>14</sup> Note that conversion of any eligible non-NVCC preferred shares or non-NVCC subordinated instruments (see footnote 10) would also be tied to the conversion terms of outstanding NVCC instruments. Specifically, the following approach would apply to conversion of these instruments:

- Non-NVCC preferred shares would be converted on the basis of the same conversion formula as the least favourable conversion formula among the bank's NVCC preferred share instruments.
- Non-NVCC subordinated debt instruments would be converted on the basis of the same conversion formula as the least favourable conversion formula among the bank's NVCC subordinated debt instruments.

<sup>15</sup> For example, a potential range for the conversion multiplier would be 1.1 to 2.0.



## **6) *Right to Compensation***

The Government proposes that shareholders and creditors subject to conversion be entitled to be made no worse off than they would have been if the bank had been resolved through liquidation. The Government further proposes that the process for determining and, if necessary, providing compensation to shareholders and creditors that have been subject to conversion build on existing processes set out in subsections 39.23 to 39.37 of the *Canada Deposit Insurance Corporation Act*.

## **7) *Disclosure Requirements***

In order to promote transparency for investors and creditors that may be subject to conversion, the Government proposes that all D-SIBs be required to:

- include specific disclosures related to the conversion power in any agreement governing an eligible liability as well as any accompanying offering documents; and,
- include a clause in the contractual provisions governing any eligible liability through which investors provide express submission to the Canadian Taxpayer Protection and Bank Recapitalization regime, notwithstanding any provision of foreign law to the contrary.

## **8) *A Higher Loss Absorbency Requirement for D-SIBs***

In order for conversion of NVCC and long-term senior debt to be effective as the basis for resolving a D-SIB and restoring it to viability, D-SIBs must have sufficient loss absorbing capacity so that they can withstand severe, but plausible, losses and emerge from a conversion adequately capitalized with a buffer above target capital requirements. The Government therefore proposes that D-SIBs be subject to a Higher Loss Absorbency (HLA) requirement to be met flexibly through the sum of regulatory capital (i.e., common equity and NVCC instruments) and long-term senior debt (see *Scope of Application* above) that is directly issued by the parent bank.

To avoid contagion in the event of a conversion, investments in the long-term senior debt of other banks or in a bank's own long-term senior debt would be deducted from that bank's amount of debt outstanding for the purposes of meeting the HLA requirement under a corresponding deduction approach.<sup>16</sup>

The Government proposes that there be a uniform and public minimum HLA requirement applicable to all D-SIBs.

The HLA requirement would be administered by OSFI. The Government would retain the discretion to require higher target levels of loss absorbency than the minimum HLA requirement for specific banks where it is deemed necessary for financial stability reasons.

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<sup>16</sup> Where a D-SIB has insufficient eligible debt to satisfy the deduction, the shortfall would be deducted from the next tier of capital (i.e., if a bank does not have enough eligible debt outstanding to satisfy the deduction, the shortfall would be deducted from Tier 2 capital for the purposes of meeting the HLA requirement).

The Government proposes that the HLA requirement be set at a specific value (as opposed to a range). The Government further proposes that this value be between 17 and 23 per cent of risk-weighted assets (RWA). For example, a HLA requirement at the low end of this range (17 per cent of RWA) would ensure that banks could absorb losses of 5.5 per cent of RWA and emerge from a conversion with common equity of 11.5 per cent of RWA (Basel III minimum Total Capital Ratio of 10.5 per cent plus a buffer of 1 per cent). Setting the HLA requirement at higher levels within the range would effectively insure against higher potential losses and/or allow for higher levels of capitalization for the bank following a conversion.

For greater certainty, the HLA requirement would not replace the target and minimum capital regulatory capital requirements prescribed by OSFI, and capital which is used to meet those requirements would also be eligible for the purposes of meeting the HLA requirement.

### **9) *Transition***

As noted in *Scope of Application*, the Government proposes to only have the Taxpayer Protection and Bank Recapitalization regime apply to liabilities that are issued, originated or renegotiated after an implementation date determined by the Government. It would not be applied retroactively to liabilities outstanding as of the implementation date (i.e., these liabilities would be “grandfathered”), in order to allow for a smooth transition for affected market participants and to maximize the legal clarity and enforceability of the regime.

The Government further proposes to provide for a transition period between the initial implementation date of the Taxpayer Protection and Bank Recapitalization regime and a future date on which D-SIBs would be required to meet the HLA requirement and conversion powers would come into force.

### **10) *Consumer Deposits***

The Government is committed to ensuring that Canada’s deposit insurance framework adequately protects the savings of Canadian consumers. In this regard, deposits will be excluded from the Taxpayer Protection and Bank Recapitalization regime. As announced in Economic Action Plan 2014, the Government plans to undertake a broad review of Canada’s deposit insurance framework by examining the appropriate level, nature, and pricing of protection provided to deposits and depositors.

## **REVIEW OF CANADA’S BANK RESOLUTION FRAMEWORK**

The Government is reviewing CDIC’s existing tools and powers in order to determine how best to integrate the conversion power as part of CDIC’s toolkit. This review is aimed at ensuring that conversion can form part of a robust overall resolution strategy (or strategies). Such a resolution strategy should meet the objectives for the Taxpayer Protection and Bank Recapitalization regime itself as outlined at the beginning of this paper, including the overarching objective of preserving financial stability while protecting taxpayers, as well as the following additional objectives:

- Enable the bank to quickly attract new funding from the private sector following a conversion;
- Minimize contagion to other financial institutions;
- Address the underlying problem(s) which contributed to the bank’s failure;
- Maximize preservation of the bank’s assets and franchise value; and,
- Enable the bank to return to private sector control, in a manner that would be consistent with the preservation of financial stability, as quickly as possible.

The incorporation of the conversion power into Canada’s resolution toolkit will also take into account developments in other jurisdictions in this area. With the shared goal of ensuring that systemically important banks can be safely resolved should they fail, different jurisdictions have taken or are contemplating approaches that reflect their unique circumstances and the structures of their financial institutions.

In the U.S., Title II of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* provides the U.S. Federal Deposit Insurance Corporation (FDIC) with strengthened powers to resolve systemically important financial institutions. The FDIC has set out a resolution strategy<sup>17</sup> that it proposes to apply to its largest, most complex banks in the event of their failure.

This strategy is predicated on a holding company structure for major U.S. banks. First, the FDIC would be appointed as receiver of the top-tier, parent holding company of the financial group following its failure. Second, the FDIC would transfer sound operating subsidiaries to a newly established “bridge” financial holding company (or companies), which would be initially owned and controlled by the FDIC itself. Losses would be assigned to shareholders and unsecured creditors of the failed holding company by leaving them in the receivership. Finally, the FDIC may convert some of the claims of creditors of the failed holding company into equity in the new bridge financial company in the context of returning it to the private sector. Thus, the outcome for shareholders and creditors of such a resolution strategy may be similar to the outcomes of a resolution strategy based on direct bail-in of the failed holding company.

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<sup>17</sup> Further information can be found on the FDIC’s website:  
<http://www.fdic.gov/news/news/press/2013/pr13112.html>  
<http://www.fdic.gov/about/srac/2012/gsifi.pdf>

U.K. authorities are also developing a resolution strategy for systemically important U.K. banks that is facilitated by the existence of a holding company structure.<sup>18</sup> In resolution, U.K. authorities would apply bail-in first to holding company debt in order to recapitalize the group. Unlike the U.S. approach, however, the U.K.'s resolution strategy does not necessarily entail the creation of a "bridge" holding company, and instead allows the existing holding company to be recapitalized directly through bail-in.

Resolution strategies targeted at a top-tier holding company include certain key elements. For example, it is important that the holding company be a "non-operating" entity with limited activities beyond issuance of equity and debt securities and holding investments in subsidiary companies (e.g., no direct participation in financial market infrastructures). There must also be sufficient equity and debt at the top holding company level which can absorb losses in resolution, something which U.S. authorities have acknowledged, noting that regulation may be adopted to ensure sufficient loss absorbency in this regard.<sup>19</sup>

No Canadian D-SIB currently has a holding company structure. Rather, they each have an operating bank at the top of their organizational structures. The Government will consider the merits of a holding company structure for Canadian banks (e.g., through the use of a non-operating bank or a regulated holding company) as a means of strengthening authorities' ability to resolve them successfully in the event of failure, taking into account implications for banks' operations on a going concern basis.

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<sup>18</sup> <http://www.bankofengland.co.uk/publications/Documents/speeches/2013/speech685.pdf>

<sup>19</sup> Such a requirement would serve the same purpose as the HLA requirement proposed in this paper for Canadian D-SIBs.

## Questions for Consultation

1. Is the proposed scope of securities and liabilities that would be subject to the conversion power appropriate? Why / why not?
2. Is the proposed minimum term to maturity at issuance of 400 days appropriate for the purpose of differentiating between short-term and long-term liabilities?
3. Does the proposed regime strike the correct balance between flexibility for authorities and clarity and transparency for market participants?
4. Is the proposal for a fixed conversion multiplier appropriate? Why / why not? What considerations should be taken into account when setting the value of a fixed conversion multiplier as proposed?
5. Is the proposed form of the Higher Loss Absorbency requirement appropriate? What considerations should be taken into account when setting this requirement?
6. Should authorities have the flexibility to provide compensation to written-down creditors in the form of preferred shares in the bank (i.e., instead of common shares)? Why / why not?
7. What would be an appropriate transition period for implementation of the Taxpayer Protection and Bank Recapitalization regime?
8. Are the proposed objectives for the review of existing resolution powers and incorporation of the conversion power into Canada's bank resolution framework appropriate? What additional considerations should be taken into account to maximize the effectiveness of the conversion power as part of the overall resolution framework?
9. Could a holding company model provide advantages in the application of the bridge bank powers (i.e., akin to the U.S. approach) or conversion powers (i.e., akin to the U.K. approach)?