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| Title | Guideline B-11 on Pledging |
| Category | Prudential Limits and Restrictions |
| Date | May 30, 2003 |
| Sector | Banks Trust and Loan Companies Life Insurance and Fraternal Companies Property and Casualty Companies |
| Our File | P2200-19 |

To: Banks, Federally Regulated Trust and Loan Companies, Federally Regulated Cooperative Credit Associations, Federally Regulated Canadian Life Insurance Companies, Federally Regulated Canadian Property and Casualty Insurance Companies, Federally Regulated Canadian Fraternal Benefit Societies

This Guideline is intended to assist federally regulated financial institutions Banks, trust and loan companies, co-operative credit associations, Canadian insurance companies and Canadian fraternal benefit societies. (FRFIs) in establishing policies regarding the creation of security interests in their property and the acquisition of beneficial interests in property that is subject to security interests, hereafter referred to as "pledging." It replaces the February 2003 Draft Guideline.

Bill C-8, the *Financial Consumer Agency of Canada Act*, contained new provisions on pledging by FRFIs. When proclaimed into force, these provisions will require that the directors of a FRFI establish, and the FRFI adhere to, policies regarding pledging.

The current legislative provisions will continue to apply until the new legislative provisions on pledging come into force. The legislative provision requiring FRFIs to obtain OSFI's approval for pledging will be repealed when the new provisions are proclaimed into force. As a result, pledging will no longer require approval and OSFI approved limits will no longer apply. It is contemplated that the legislative provisions will be proclaimed into force at the beginning of January 2004. This would provide FRFIs with a period of time to formulate their internal policies prior to the new



provisions taking effect.

The Guideline outlines factors that OSFI expects the board of directors or committee of the board of a FRFI to consider in establishing pledging policies. These factors are aimed at ensuring that a FRFI's policies reflect its business operations and associated risks and that the policies are implemented effectively. The Guideline states that identifying business activity categories that require pledging and reporting pledged assets are key elements of a FRFI's pledging policies.

To facilitate implementation, OSFI proposed a process whereby interested industry associations, on behalf of their members, could act as the locus for implementation issues or questions encountered in formulating pledging policies.

The Guideline will supersede OSFI's 1994 Bulletin E-9, *Creation of Security Interests*, applicable to life and property and casualty insurers and OSFI's *Interim Pledging Policy Statement, # 1997-01*, when the new legislative provisions are proclaimed into force.

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