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# Guideline

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**Subject: Classification of Loans Guaranteed by a Parent of the Bank**

**No: B-3 Date: April 1991**

This guideline is unchanged from the version published in November 1989. It provides direction to Schedule II banks about the conditions under which assets covered by a guarantee from the parent of the bank will be exempt from normal supervisory requirements. References here to "parent" include all affiliates outside the bank's consolidated Canadian operations and other non-arm's-length parties.

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## **General Principle**

As a general principle, a guarantee from a parent of a bank is not an acceptable substitute for capital and will not normally exempt a Schedule II bank from classifying a loan to non-accrual status or from creating a specific provision against loss.

## **Exemption from Supervisory Requirements**

A Schedule II bank may, in special circumstances, be granted an exemption (which may be temporary) from supervisory requirements by virtue of a guarantee from its parent. For an exemption to be granted, the guarantee shall contain (a) such terms and conditions normally found in guarantees between unrelated parties; and (b) such additional terms and conditions as may be specified by the Superintendent.

Without limiting this generality, the guarantee shall be unconditional, legally binding and provide for the timely payment by the guarantor of overdue interest and principle on the guaranteed asset. The guarantee shall also provide for the purchase by the guarantor, of the entire principal and accrued interest of the asset under conditions specified by the Superintendent.

An exemption shall be in writing and signed by the Deputy Superintendent, Deposit-Taking Institutions, Office of the Superintendent of Financial Institutions.

Notwithstanding the above, assets that fall under the country risk provisioning guidelines issued by this Office will not be exempted from normal supervisory requirements by virtue of a guarantee from a parent of the bank.

## **Re-booking of Assets**

Where an asset guaranteed by the parent is removed from the books of a Schedule II bank and placed with the bank's parent, subsequent re-booking of the asset with the Schedule II bank shall require prior approval of the Superintendent. Approval shall be contingent upon the asset meeting the criteria applicable to granting new credits.

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