Frequently asked questions

Title Frequently asked questions - Crypto assets

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Sector **Banks**

Cooperative Credit Associations

Foreign Bank Branches

Life Insurance and Fraternal Companies **Property and Casualty Companies** Trust and Loan Companies

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Capital and Liquidity Treatment of Crypto-asset Exposures (Banking) - Guideline

The following FAQs should be read in conjunction with the industry letter on the implementation and path forward for OSFI's crypto-asset guidance.

Banking FAQs

1. Scope of Exposures

What is to be captured within the scope of "indirect exposures" in paragraph 8 of the Capital and Liquidity Treatment of Crypto-asset Exposures (Banking) Guideline?



Paragraph 8 states that "Crypto-asset exposures include direct exposures to crypto-assets, as well as any indirect exposures whose value or risk is significantly determined by the value of one or more crypto-assets. These indirect exposures include all instruments referencing crypto-assets, such as (but not limited to) derivatives, mutual funds, exchange traded funds (ETFs), units of trusts and partnerships, or shares in a corporation. OSFI expects institutions to take a prudent approach to the interpretation of what constitutes a crypto-asset exposure".

Indirect exposures "... whose value or risk is **significantly determined** by the value of one or more crypto-assets" are meant to capture exposures that act and present risks that, in essence, are similar to a crypto-asset exposure. Included within the scope of this definition are entities (held through trusts, partnerships, or shares in a corporation) that hold a significant amount of crypto-assets.

An entity should not automatically be considered an indirect crypto-asset exposure simply by holding any amount of crypto-assets, or based solely on operating revenue generated by the entity from crypto-related activities (such as from providing crypto-asset infrastructure or services). Rather, OSFI expects institutions to take a prudent approach to assessing when an entity's value or risk is significantly determined by one or more crypto-assets.

2. Equities

Can equities recognized under the Group 2a hedging recognition criteria (Annex 3) be classified as Group 2a?

Equity exposures can be considered indirect group 2a crypto-asset exposures as long as the underlying crypto-asset meets the hedging recognition criteria, similar to how an exchange-traded fund (ETF) can be classified as Group 2a subject to the requirements set out in Annex 3 section 3.2. As such, if the equity has multiple underlying crypto-assets, footnote 22 should be taken into account (Footnote 22 states: "For derivatives or ETF/ETN that reference multiple crypto-assets, the portfolio allocation must consist of at least 75% crypto-assets that meet the hedging criteria described in this annex".)

3. Recognition of Hedging

How can hedging be recognized under the crypto-asset guideline?

Hedging can be recognized under the crypto-asset guideline for the purposes of calculating the minimum capital requirements for Group 2a crypto-assets, according to paragraphs 40-55 and 71. Hedging can also

apply when calculating the minimum capital requirements for Group 1 crypto-assets receiving the same treatment as the equivalent non-tokenized traditional asset.

Hedging must not be recognized for purposes of determining whether an exposure is a crypto-asset exposure or indirect exposure, or for calculating whether total Group 2 crypto-asset exposures are within the Group 2 exposure limit. Paragraph 78 outlines the methodology for calculating exposures under the limit, which is the same methodology that applies for determining the Group 2b capital treatment.

Hedging the risks of a direct or indirect crypto-asset exposure does not remove the exposure from the scope of the crypto-asset guideline, although it may reduce minimum capital requirements for the crypto exposure as described above.

Capital Treatment of Crypto-asset Exposures (Insurance) - Guideline

Insurance FAQs

The following FAQs should be read in conjunction with the <u>industry letter</u> on the implementation and path forward for OSFI's crypto-asset guidance.

1. Scope of Exposures

What is to be captured within the scope of "indirect exposures" in paragraph 6 of the <u>Capital and Liquidity</u> Treatment of Crypto-asset Exposures (Insurance) Guideline?

Paragraph 6 states that "Crypto-asset exposures include direct exposures to crypto-assets, as well as any indirect exposures whose value or risk is significantly determined by the value of one or more crypto-assets. These indirect exposures include all instruments referencing crypto-assets, such as (but not limited to) derivatives, mutual funds, exchange traded funds (ETFs), units of trusts and partnerships, or shares in a corporation. OSFI expects insurers to take a prudent approach to the interpretation of what constitutes a crypto-asset exposure."

Indirect exposures "... whose value or risk is **significantly determined** by the value of one or more crypto-assets" are meant to capture exposures that act and present risks that, in essence, are similar to a crypto-asset exposure. Captured within the scope of this definition are entities (held through trusts, partnerships, or shares in a corporation) that hold a significant amount of crypto-assets.

An entity should not automatically be considered an indirect crypto-asset exposure simply by holding any amount of crypto-assets, or based solely on operating revenue generated by the entity from crypto-related activities (such as from providing crypto-asset infrastructure or services). Rather, OSFI expects institutions to take a prudent approach to assessing when an entity's value or risk is significantly determined by one or more crypto-assets.

2. Equities

Can equities recognized under the Group 2a hedging recognition criteria (Annex 3) be classified as Group 2a?

Equity exposures can be considered indirect group 2a crypto-asset exposures as long as the underlying crypto-asset meets the hedging recognition criteria, similar to how an exchange-traded fund (ETF) can be classified as Group 2a subject to the requirements set out in Annex 3 section 3.2. As such, if the equity has multiple underlying crypto-assets, footnote 17 should be taken into account (Footnote 17 states: "For derivatives or ETF/ETN that reference multiple crypto-assets, the portfolio allocation must consist of at least 75% crypto-assets that meet the hedging criteria described in this annex".)

3. Recognition of Hedging

How can hedging be recognized under the crypto-asset guideline?

Hedging can be recognized under the crypto-asset guideline for the purposes of calculating the minimum capital requirements for Group 2a crypto-assets, according to paragraphs 33-35 and 37-38. Hedging can also apply when calculating the minimum capital requirements for Group 1 crypto-assets receiving the same treatment as the equivalent non-tokenized traditional asset.

Hedging must not be recognized for purposes of determining whether an exposure is a crypto-asset exposure or indirect exposure, or for calculating whether total Group 2 crypto-asset exposures are within the Group 2 exposure limit. Paragraph 45 outlines the methodology for calculating exposures under the limit, which is the same methodology that applies for determining the Group 2b capital treatment.

Hedging the risks of a direct or indirect crypto-asset exposure does not remove the exposure from the scope of the crypto-asset guideline, although it may reduce minimum capital requirements for the crypto exposure as described above.