Implementation of Support Principle to Replace Requesting Letters of Comfort

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Support Principle

The statutes governing federal financial institutions require that the Minister, in determining whether or not to approve an application to incorporate or acquire a controlling interest in a federally regulated financial institution (FRFI), must take into account all matters that the Minister considers relevant. One of these is an expectation that a person controlling a FRFI will provide ongoing financial, managerial or operational support to its subsidiary should such support prove necessary (the "Support Principle"). Without limiting the scope of the Support Principle, this ongoing support may take the form of additional capital, the provision of managerial expertise or the provision of support in such areas as risk management, internal control systems and training.

The Support Principle is consistent with OSFI's mandate to protect the rights and interests of policyholders and depositors of a FRFI and to contribute to public confidence in the Canadian financial system. The Superintendent considers the Support Principle important in assessing the ongoing viability of the institution.

At the time a FRFI's application is being considered, the Superintendent will require the person controlling the FRFI to acknowledge the Support Principle. The legislation governing financial institutions gives the Minister and the Superintendent broad discretion in requiring any such information, material and evidence to support an application as the Minister or the Superintendent may require. This will generally include, inter alia, ownership information, detailed financial statements and a business plan.

OSFI will discuss the Support Principle with each applicant at the beginning of the application process. OSFI will also identify which person controlling the FRFI should acknowledge the Support Principle. This acknowledgement will be effected by the provision of a letter (see appendix) duly signed by a senior officer.

The provision of the letter is intended to ensure that the person controlling the FRFI is aware of the importance and relevance of the Support Principle in the consideration of the application. However, the letter does not create a legal obligation on the part of the person to provide the support.

Additional Commitments

As a matter of practice, the Superintendent may also seek express commitments or undertakings (which will be legally enforceable and binding obligations) from a FRFI and/or a person controlling a FRFI to ensure that regulatory and supervisory requirements concerning any aspect of an institution's operations are being appropriately met. These commitments or undertakings will be consistent with, and in addition to, the Support Principle, and may be required as a condition of the approval of the application, or at any time thereafter.

LETTER HANDED TO APPLICANT AT FIRST MEETING TO DISCUSS APPLICATION

Dear Applicant:

Subject: Application to (*incorporate **or** acquire a controlling interest in*) **a federally regulated financial institution (FRFI)**

The approval to *(incorporate **or** acquire a controlling interest in)* a FRFI is granted by the Minister of Finance to those who have the required financial resources, knowledge, skills and expertise. Underpinning this approval is the expectation that a person controlling the FRFI will provide it with ongoing support.

In this regard, the Superintendent expects that, if the application to *(incorporate **or** acquire a controlling interest in) (name of **FRFI**)* is granted, you will provide it with ongoing financial, managerial and operational support (the Support Principle). The role of the Office of the Superintendent of Financial Institutions (OSFI) is to ensure that the Support Principle is maintained as long as the FRFI operates in Canada.

This support may take one or more of the following forms:

- injecting additional capital should the FRFI's capital fall below minimum requirements established by the Superintendent;
- meeting the FRFI's liquidity requirements;
- providing management and technical expertise;
- establishing, monitoring and assessing internal control systems, including the risk management function;
- training the FRFI's employees so they have the knowledge and skills to perform their responsibilities; and
- providing the FRFI with other non-financial resources or support should a weakness be identified that cannot be corrected by the FRFI on its own.

This letter, including your acknowledgement that you understand and accept the Support Principle, is not intended to and does not create a legal obligation, and does not constitute a basis for a legal claim. Nevertheless, the Support Principle is a very important factor in the Superintendent's review of the application. As such, we ask that you acknowledge that you understand and accept the Support Principle described in this letter by having a senior officer sign in the designated space below.

Yours sincerely,

ACKNOWLEDGEMENT

Provided in respect of the application to *(incorporate **or** acquire a controlling interest in):*

_____

Name of FRFI

_____

Name of person controlling FRFI

_____

Signature of senior officer

_____

Name of senior officer and title

_____

Date