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Guide to Intervention

BC Trust Companies

BCFSA

Contents

(Please note: this Guide should be read in conjunction with BCFSA's Supervisory Framework)

Purpose

The Guide to Intervention ("Guide") promotes awareness and enhances transparency of the intervention process used by BC Financial Services Authority[1] ("BCFSA") to supervise a non-deposit taking trust company ("trust company"). It outlines the type of involvement that a trust company can normally expect from BCFSA and summarizes the circumstances under which certain supervisory actions may be taken.

Introduction

To establish an effective risk-based supervision framework, two key concepts must be addressed: risk assessment and intervention.

RISK ASSESSMENT

The Supervisory Framework sets out the principles, concepts, and core processes that BCFSA uses to guide its supervision of trust companies. BCFSA assesses a trust company's risk profile and assigns a corresponding Composite Risk Rating ("CRR").

Under the framework, BCFSA conducts the following normal supervisory activities:

- Periodic risk assessment reviews;
- Continuous monitoring of trust company specific information received and dialogue with management at the trust company;
- Review and consideration of macro-economic risk drivers that may influence the risk profile of the trust company; and
- Communicating CRR and Intervention Stage Ratings ("ISR") to each trust company in a supervisory letter.

  The intensity of these activities may vary based on the size, scope, and complexity of the trust company.

[1] References to BCFSA may include staff, the Superintendent, and the Authority.

INTERVENTION

The Guide is a resource that sets out levels for ISR that align with the CRR and are commensurate with a trust company's risk profile. Intervention strategies that are elements of the ISR help determine and organize supervisory actions, define specific supervisory expectations, outline clear timelines to meet those expectations, and identify problems that may pose a risk to beneficiaries and the trust company sector.

A fundamental aspect of risk-based supervision is the relationship between the risk profile of a trust company and the nature of supervisory actions taken in response to that assessment. This relationship is outlined in BCFSA's response matrix.

BCFSA's Response Matrix

The response matrix, shown below, illustrates the alignment of the CRR and ISR. The CRR and ISR are provided to a trust company's board of directors and senior management in BCFSA's supervisory letters.

Stage Rating	Composite Risk Rating (CRR)			
	Low	Moderate	Above Average	High
0				
1				
2				
3				
4				
5				

Intervention Stages — Response Matrix Definitions

This Guide describes the risk profile for each stage rating and indicates supervisory actions that may typically occur at any given stage. The intervention process is not fixed as circumstances vary from case to case, nor is it a rigid regime under which every situation is necessarily addressed with a predetermined set of actions.

The Guide aims to communicate at which stage an action would typically occur. However, the actions described at one stage are also used in later stages and, in some situations, certain actions may also take place at earlier stages than set out in the Guide. Staging occurs at the discretion of the Senior Vice President of Supervision.

The table below outlines risk profiles and typical supervisory actions for each stage rating:

STAGE 0 **Normal**	**RISK PROFILE** The trust company has a sound financial position (including capital and liquidity) and sufficient governance and risk control frameworks commensurate with its nature, scope, complexity, and risk profile. BCFSA has determined that the trust company's financial condition, policies, and procedures are sufficient and that practices, conditions, and circumstances do not indicate significant problems or control deficiencies. BCFSA will continue its normal supervisory activities. The trust company is not expected to fail and/or pose any undue risk to beneficiaries. **TYPICAL SUPERVISORY ACTIONS** **Stage 0 actions may include:** • Identifying issues or problems, from ongoing supervisory work (including continuous monitoring), and making recommendations for enhancements in risk management, governance, or internal controls; and • Carrying out other supervisory actions as required or at the discretion of the supervision and specialist teams.

STAGE 1 Elevated	
	RISK PROFILE The trust company has a sound financial position (including capital and liquidity); however, there are aspects of its operations or business model that expose vulnerabilities that, if left unaddressed, may lead to deterioration in the risk profile of the trust company and/or higher risk to beneficiaries under certain future circumstances. At Stage 1, the trust company is made aware of these vulnerabilities and expected to develop sufficient contingency plans or strengthen its capabilities to control and manage identified risks or concerns and commit to reducing its stage rating. BCFSA will intensify its supervisory monitoring of the trust company to determine when or whether early intervention is necessary. BCFSA expects a trust company to return to Stage 0 (normal) within the agreed timeframes established by the supervisory letter. A trust company categorized at this stage is not expected to fail or pose any immediate undue risk to beneficiaries. **TYPICAL SUPERVISORY ACTIONS** **In addition to normal activities, Stage 1 actions may include:** • More frequent and/or more targeted monitoring together with targeted follow-up reviews by supervision and specialist teams; • More frequent and detailed collection and analysis of data; • Communicating concerns to directors, senior management, and internal and external auditors; • Requests for stress testing revised business plans, trust arrangements, and risk appetites; • Special examinations by external experts; and • Receipt of a detailed action plan with timelines to address identified items.

STAGE 2

Early Warning

RISK PROFILE

The trust company's exposure to vulnerabilities is predicted to lead to a deterioration in the risk profile and/or pose undue risk to trust assets. Improvements are needed as the trust company's business operations or circumstances may potentially put its own assets and/or trust assets at risk.

At Stage 2, the trust company must address identified problems and implement remediation plans to reduce its stage rating. The board and senior management must demonstrate a commitment to improvement by establishing detailed mitigation plans with specific timelines for implementation. BCFSA expects a trust company to reduce its stage rating to “normal” or “elevated” within these timelines.

BCFSA will intensify its supervisory monitoring of key risk and governance metrics. Contact with management and the board will increase to ensure open, effective communication is maintained as the trust company's risk profile improves.

The trust company is unlikely to fail and/or pose undue risk to beneficiaries in the medium-term.

TYPICAL SUPERVISORY ACTIONS

In addition to activities in preceding stages, Stage 2 actions may include:

- Requiring detailed, time sensitive remediation strategies/plans;
- Revising business plans;
- Increasing capital or liquidity;
- Increasing insurance coverages;
- Issuing statutory orders;
- Entering into an undertaking or voluntary compliance agreement; and
- Placing conditions or prohibitions on business authorization.

STAGE 3 **Risk to Financial Viability, Solvency, or Trust Assets**	**RISK PROFILE** The trust company shows signs of safety and stability issues, concerns, or unacceptable risks to its own assets and/or trust assets under normal circumstances. Unless effective corrective action is implemented promptly, this situation poses a threat to the trust company's: • Financial viability or solvency; and/or • Assets held in trust. The problems, however, are not serious enough to present an immediate threat. In this stage, these corrective actions will be mandated by BCFSA. More intensified supervisory intervention is necessary to avert further risk or governance issues. At Stage 3, the trust company must address identified problems and implement corrective actions to rapidly reduce its stage rating. The board and senior management must demonstrate a commitment to improvement by establishing detailed mitigation plans with specific completion timelines. BCFSA expects a trust company to reduce its stage rating within these timelines. The trust company is unlikely to fail and/or pose undue risk to beneficiaries in the short-term. **TYPICAL SUPERVISORY ACTIONS** **In addition to activities in preceding stages, Stage 3 actions may include:** • Reviewing and updating recovery plans if necessary; • Issuing statutory orders; and • Considering potential transfer of trust assets.

STAGE 4	
Future Financial Viability and Solvency in Serious Doubt	**RISK PROFILE** The trust company has serious safety and stability issues or concerns and is experiencing financial problems that are expected to pose an undue risk to the trust company's assets and/or assets held in trust unless corrective measures are immediately undertaken. At Stage 4, the trust company has failed to remedy the issues identified in Stage 3 and its situation is worsening. BCFSA will direct the trust company to immediately resolve issues or concerns and implement mandated improvements. BCFSA expects the trust company's recovery plan actions to be immediately enacted to reduce its stage rating within mandated timelines. The trust company's future viability or solvency is in serious doubt. **TYPICAL SUPERVISORY ACTIONS** **In addition to activities in preceding stages, Stage 4 actions may include:** • Enacting the recovery plan; • Winding up voluntarily; • Selling the company; and • Reviewing and updating its resolution plan if necessary.

STAGE 5 **Non-viability / Insolvency Imminent**	**RISK PROFILE** The trust company is experiencing severe financial difficulties and has deteriorated to such an extent that there is insufficient capital to meet regulatory requirements and/or provide sufficient operating funds to continue administrative operations, placing trust assets at risk or preventing beneficiaries timely access to trust assets. The trust company is not expected to recover or remedy the issues or problems identified. BCFSA has determined that the trust company will become non-viable on an imminent basis. The trust company must execute its resolution strategy. **TYPICAL SUPERVISORY ACTIONS** **In addition to activities in preceding stages, Stage 5 actions may include:** • Initiating BCFSA resolution powers; • Withdrawing the business authorization; and • Liquidating the trust company.

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