



Office of the Superintendent of
Financial Institutions Canada

Bureau du surintendant des
institutions financières Canada

OSFI Capital Markets and Model Analysis & Approvals

Mandate, Monitoring & Themes

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OSFI
BSIF

Canada 

Office of the Superintendent of Financial Institutions

- **Canadian prudential regulator**
 - Principle based
- **Supervision and regulation of:**
 - Deposit-Taking Institutions;
 - Insurance companies; and
 - Federally regulated pension plans.

Our mandate is focused on

- Protecting the rights and interests of depositors, policy holders, pension plan beneficiaries, and creditors of financial institutions; and
- Contributing to public confidence in a safe and sound financial system.

Our mandate does not include promotion of industries, or business conduct.



OSFI
BSIF

What do we do?

- Identify and communicate emerging market, liquidity risks and model risk
- Identify acceptable practices for market and liquidity risk mitigation, and encourage their adoption by Financial Institutions
- Working with other regulators, share and harmonize supervisory and regulatory practices where appropriate
- Contribute to development of effective rules, guidelines and frameworks*

**OSFI Supervisory Framework available at www.osfi-bsif.gc.ca*



Capital Markets Risk Assessment Services (CMRAS)

CMRAS contributes to OSFI's mandate by:

- **Carrying out monitoring;**
- **On-site reviews; and**
- **Early intervention activities at financial institutions.**

With respect to market and liquidity risk and the associated capital requirements.



What does CMRAS monitor?

Trading Book

- Interest Rate
- Credit Spread
- Equity (Specific & General)
- FX
- Commodity

Non-Trading Book (Banking)

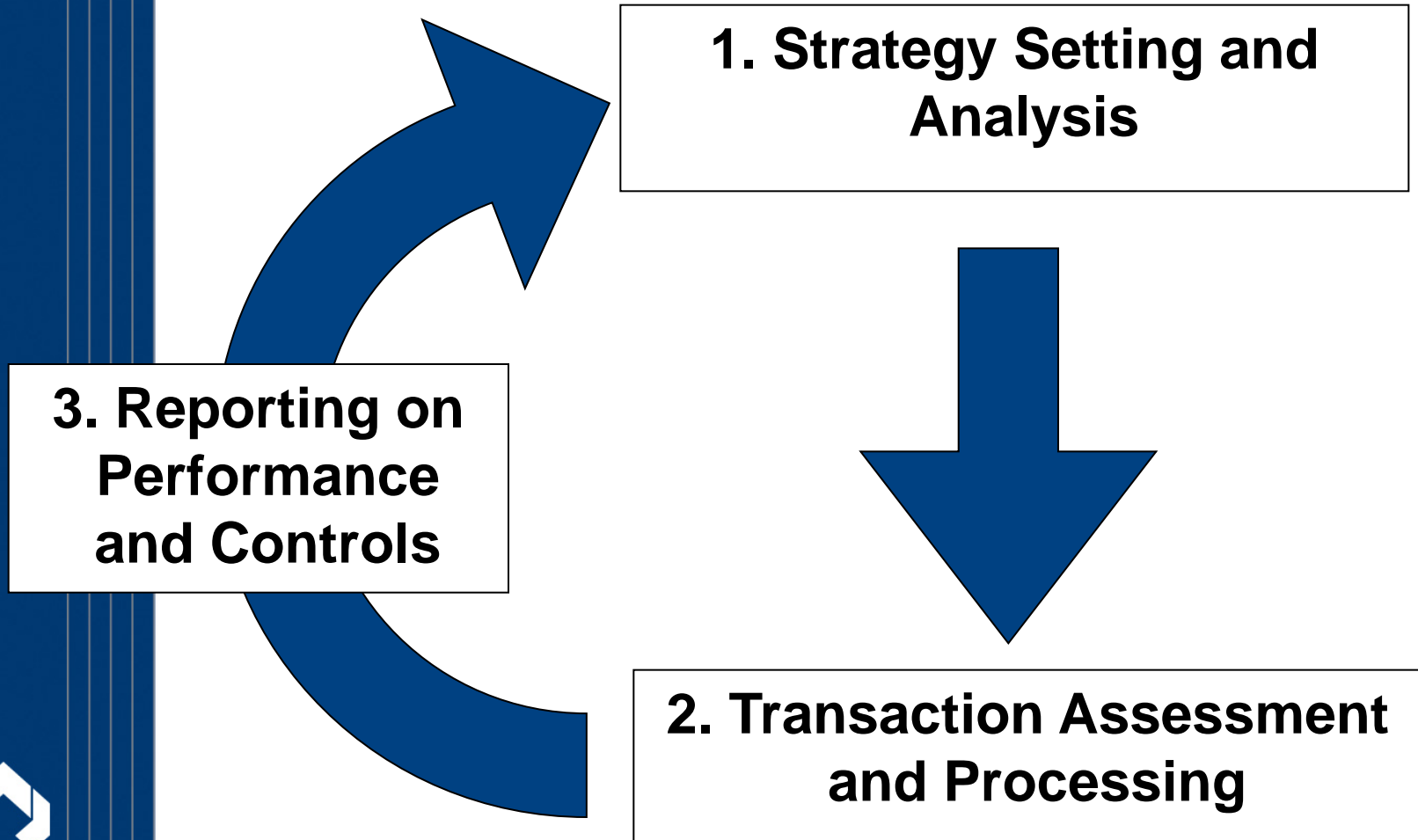
- Structural Interest Rate Risk
- Liquidity

Insurance

- Market Risk



Capital Markets Risk Assessment Framework



2013 CMRAS Themes

- Expanding oversight and supervision of market risk outside of trading businesses
- Challenges in the current volatile interest rate environment
- Regulatory changes / System initiatives
- Complex products
- Collateral Management
- Liquidity Adequacy Requirements (LAR)



Liquidity Adequacy Requirements (LAR)

The LAR is currently open for public consultation.

- **Liquidity Coverage Ratio (LCR)**
- **Net Stable Funding Ratio (NSFR)**
- **Net Cumulative Cash Flow (NCCF)**
- **Liquidity monitoring tools, for example:**
 - The contractual maturity mismatch
 - The concentration of funding
 - Metrics related to available unencumbered assets
 - LCR by significant currency
 - The market related monitoring tools
- **Intraday liquidity monitoring tools**



Risk Management and Analytics Assessment Services (RMAAS)

RMAAS contributes to OSFI's mandate by:

- **Assessing the appropriateness of institutions' request to use risk models/analytics for the calculation of regulatory capital against applicable minimum requirements;**
- **Assessing institutions' use, and associated control of, risk measurement and analytics within FRFIs;**
- **Carrying out monitoring; and**
- **Supporting supervisory activities at financial institutions.**

With respect to an institution's use of a model for calculating regulatory capital.



How does RMAAS monitor?

- **Approval reviews;**
- **Ongoing monitoring of approved models;**
- **Ongoing compliance reviews;**
- **Common benchmarking; and**
- **Conducts follow up reviews with respect to the remediation of issued conditions / recommendations.**



6 Principles to Capital Model Approvals

Principle 1

- Approvals are performed on a consolidated basis.

Principle 2

- The decision to seek approval driven by the institution.

Principle 3

- Applications submitted when capital models are ready for use.

Principle 4

- Approval applications should cover all applicable minimum requirements.

Principle 5

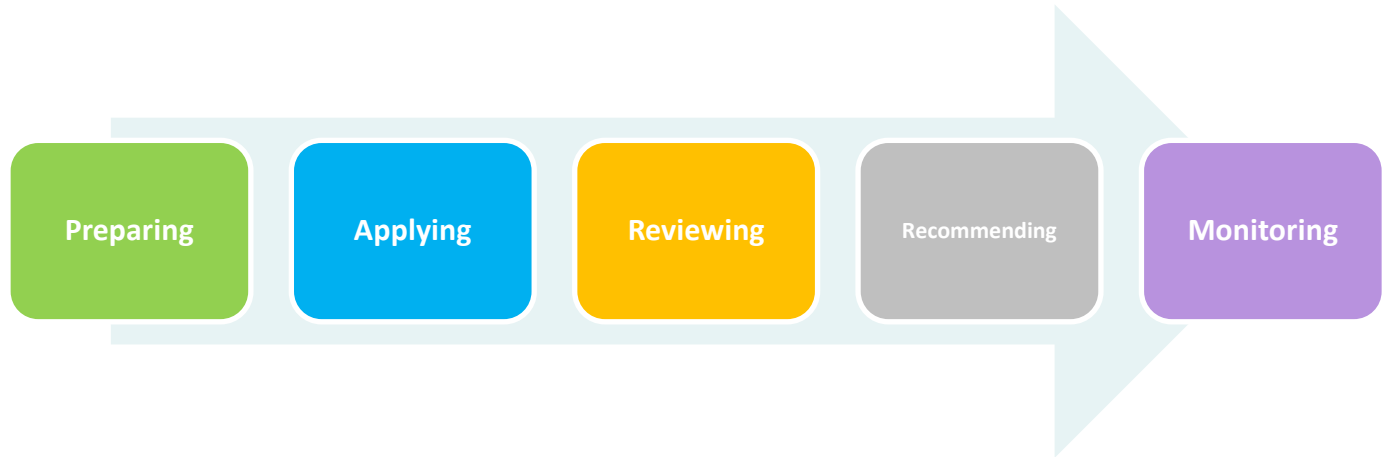
- The approval process should support the approval of new capital models.

Principle 6

- Approvals will be performed in coordination and cooperation with applicable foreign country supervisors.



Phases of the Approval Process



Phase	Description
Preparing	Activities related to pre-application discussions and package
Applying	Bank submits a formal application
Reviewing	OSFI reviews the Bank's application
Recommending	OSFI arrives at an approval decision
Monitoring	OSFI develops and implements a monitoring approach



2013 RMAAS Themes

- **Observed slippage in maintaining ongoing compliance with requirements.**
- **Legacy system infrastructure is a challenge.**
- **Pursuing capital relief without commensurate risk measurement.**



RMAAS Observations

Banks need to:

- **Establish a robust review procedure to confirm ongoing compliance with approval requirements and identify any potential gaps or slippage;**
- **Inform Senior Management and the Board of identified errors, gaps, and other challenges that may increase model risk; and**
- **Ensure that there is a sufficient number of resources supporting the approved capital models.**



Questions?



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