OSFI Capital Markets and Model Analysis & Approvals

Mandate, Monitoring & Themes

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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.
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

VaR, Stress, Greeks, Volumes, P&L, Limits
Capital Markets Risk Assessment Framework

1. Strategy Setting and Analysis

2. Transaction Assessment and Processing

3. Reporting on Performance and Controls
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)
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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

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<thead>
<tr>
<th>Principle 1</th>
<th>Approvals are performed on a consolidated basis.</th>
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<tr>
<td>Principle 2</td>
<td>The decision to seek approval driven by the institution.</td>
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<td>Principle 3</td>
<td>Applications submitted when capital models are ready for use.</td>
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<td>Principle 4</td>
<td>Approval applications should cover all applicable minimum requirements.</td>
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<td>Principle 5</td>
<td>The approval process should support the approval of new capital models.</td>
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<td>Principle 6</td>
<td>Approvals will be performed in coordination and cooperation with applicable foreign country supervisors.</td>
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### Phases of the Approval Process

<table>
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<tr>
<th>Phase</th>
<th>Description</th>
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<tr>
<td>Preparing</td>
<td>Activities related to pre-application discussions and package</td>
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<tr>
<td>Applying</td>
<td>Bank submits a formal application</td>
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<tr>
<td>Reviewing</td>
<td>OSFI reviews the Bank’s application</td>
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<tr>
<td>Recommending</td>
<td>OSFI arrives at an approval decision</td>
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<tr>
<td>Monitoring</td>
<td>OSFI develops and implements a monitoring approach</td>
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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?