



Guideline Impact Analysis Statement

B-2 Large Exposure Limits (D-SIBs)

Date: April 2019

I. Background

OSFI's guideline on Large Exposure Limits (Guideline B-2) establishes limits for the aggregate exposure of a deposit-taking institution (DTI)¹ to a single counterparty or group of connected counterparties, measured as a percentage of capital.

II. Problem Identification

OSFI has noted inconsistent application of the existing guideline and has received many requests for interpretation, both indicating that the guideline would benefit from further clarity. As well, the guideline, which was issued in 1994, does not reflect more recent guidance on large exposure limits applicable to internationally active banks, such as those articulated in the Basel Committee on Banking Supervision (BCBS) standard on large exposures - *Supervisory Framework for Measuring and Controlling Large Exposures*, which was published in 2014.

III. Objectives

The revised guideline aims to incorporate the new BCBS standard and provide additional guidance on risk management practices that OSFI expects domestic systemically important banks (D-SIBs) to use for identifying, measuring, managing and monitoring large exposures.

IV. Options and Assessment

Option 1 – Create a revised Guideline B-2 for D-SIBs

This option would significantly revise Guideline B-2 to create a new version for D-SIBs. This version would align OSFI's expectations with those outlined in the revised BCBS standard and to provide clarifications in relation to areas that may have contributed to inconsistent application or requests for interpretation. OSFI would incur up front costs to redraft the guideline, and D-SIBs would need to assess their compliance with the revised expectations and make necessary changes where deficiencies are identified. However, this option would ensure Canada has up-to-date large exposure risk management guidance and would encourage consistent and robust practices amongst D-SIBs.

¹ This includes financial institutions incorporated under the *Bank Act* and the *Trust and Loan Companies Act*.



Option 2 – Make no changes to Guideline B-2

Under this option, OSFI would not have to devote resources to producing its own guidance to reflect the BCBS standard and other risk management practices, where appropriate. OSFI would communicate its expectations, as needed, during its supervisory engagements with the D-SIBs. However, institutions would not have the benefit of explicit OSFI guidance on its expectations for large exposure risk management practices. In the absence of additional domestic guidance, D-SIBs may interpret the Basel standard in different ways. As a result, OSFI may need to devote additional resources to determine if D-SIBs are consistently interpreting and implementing the new standard.

V. Consultations

OSFI issued a draft revised Guideline B-2 for public consultation in December 2018. A number of adjustments to the draft guideline have since been incorporated to reflect the results of additional analysis, including a review of comments by stakeholders. The cover letter to the final guideline includes a summary of material comments received along with OSFI's responses.

VI. Recommendations

It is recommended that Guideline B-2 be updated to incorporate the revised BCBS large exposures standard and to convey OSFI's expectations around the application of these requirements in Canada.

The revised guideline will apply to D-SIBs designated by OSFI. Until OSFI provides further guidance, all other federally regulated DTIs² remain subject to the original version of Guideline B-2.

VII. Implementation & Evaluation

The final guideline for D-SIBs will take effect November 1, 2019.

² This excludes subsidiaries of the Canadian D-SIBs that are incorporated under the *Bank Act* and the *Trust and Loan Companies Act*.