



July 18, 2019

To: Banks
 Bank Holding Companies
 Federally Regulated Trust and Loan Companies

Subject: Use of the Advanced Measurement Approach for Operational Risk Capital

OSFI is revising its capital requirements for operational risk applicable to deposit-taking institutions (DTIs) considering the final Basel III revisions published by the Basel Committee on Banking Supervision (BCBS) in December 2017. Institutions currently approved to use the Advanced Measurement Approach (AMA) will be required to use a revised Basel III Standardized Approach when the revised requirements are implemented in Canada in Q1 2021.

OSFI’s revised operational risk capital requirements will take effect starting Q1 2021. To facilitate implementation of the revised operational risk capital requirements, OSFI will provide a transition period for DTIs currently using AMA for operational risk capital purposes. During the transition period, DTIs *currently approved to use AMA for capital reporting* should report operational risk capital as follows:

Up to and including Q4 2019	Report using AMA (current approach)
Q1 2020 to Q4 2020	Report using current Standardized Approach outlined in Chapter 8 of OSFI’s <i>Capital Adequacy Requirements</i> Guideline
Starting Q1 2021	Report using revised Basel III Standardized Approach

Consistent with OSFI’s Guideline E-21 *Operational Risk Management*, OSFI expects larger, more complex banks to continue using internal and external loss data and scenario analysis in their operational risk management frameworks.

Banks currently using the AMA approach will no longer be required to use Business Environment and Internal Control Factors¹ in their operational risk management frameworks after Q4 2019.

Questions concerning the transition to OSFI’s revised operational risk capital requirements should be addressed to Neil Colligan in OSFI’s Capital Division by e-mail at neil.colligan@osfi-bsif.gc.ca.

Yours truly,

Bernard Dupont
 Acting Assistant Superintendent, Regulation Sector

¹ See paragraph 64 in Chapter 8 of OSFI’s Capital Adequacy Requirements

