



Guideline impact analysis statement

Title	Guideline E-20 - CDOR Benchmark-Setting Submissions - Guideline impact analysis statement (2014)
Category	Sound Business and Financial Practices
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I. Background

The international regulatory community has recently turned its attention to weaknesses identified in the determination of major global financial benchmarks such as the London Interbank Offered Rate (LIBOR). The investigative findings of national authorities abroad have raised concerns regarding the integrity of some major global benchmarks.

The Canadian Dollar Offered Rate (CDOR) is a key industry-determined financial benchmark in Canada. There is, however, an important distinction between CDOR and LIBOR. CDOR is a committed *lending* rate, while LIBOR is a *borrowing* rate. CDOR is the rate at which contributors are willing to extend credit to corporate clients utilizing a Bankers' Acceptance facility (typically priced at CDOR plus a stamping fee determined by each client's credit risk). In



contrast, LIBOR is intended to reflect the rate at which a contributor believes it can borrow from other financial institutions.

There have not been reports of problems with CDOR similar to those with LIBOR. Nevertheless, given the importance of CDOR to the Canadian financial system, Canadian authorities are working to enhance oversight of CDOR. As CDOR submissions are coming solely from within major Canadian banks, OSFI intends to supervise the effectiveness of governance and internal controls surrounding banks' CDOR submission processes.

II. Problem Identification

Further to the modernization of its [Corporate Governance Guideline](#) (2013), OSFI has determined that it needs to be more specific in terms of its expectations with respect to the effectiveness of governance and internal controls of banks' CDOR submission processes.

III. Objectives

The main objectives of the Guideline are to:

- Provide CDOR submitting banks with clarity about OSFI's expectations in respect of their governance and internal controls surrounding the rate submission processes;
- Complement OSFI's Corporate Governance Guideline (2013); and
- Enhance confidence in CDOR as a robust financial benchmark in Canada.

IV. Options and Assessment

Option 1 – Status Quo

Under this option, OSFI would communicate its expectations as needed, during its supervisory engagements with the submitting banks. However, this option lacks transparency and could lead to inconsistent expectations being applied to different submitting banks. This approach could also lead to expectations being applied reactively rather than proactively.



Option 2 – Legislation

Under this option, the governance and internal controls surrounding banks' CDOR submission processes would be legislated. Although the government has regulation-making authority in this area, no decision has been made on whether it will exercise such authority. Until such time as a decision is taken in this regard, the CDOR submission process would continue to face similar issues as those noted in Option 1.

Option 3 – Develop a New Guideline for CDOR Submitting banks

Under this option, OSFI would develop a new guideline for CDOR submitting banks. It would complement the Corporate Governance Guideline and would reflect OSFI's findings from recent reviews of CDOR processes performed at submitting banks. A new guideline would, therefore, more appropriately address the specific governance and internal controls surrounding the banks' CDOR submission processes. It is also the best vehicle for ensuring the same expectations are applied to all submitting banks, and that they are delineated in a clear and transparent manner in a public document.

V. Recommendation

Option 3 addresses all of the objectives outlined above and provides the most effective means of clearly disseminating OSFI's expectations regarding the governance and internal controls surrounding the rate submission process within the submitting banks.

VI. Consultations

OSFI issued a draft guideline for public consultation from May 30, 2014 to July 11, 2014. Two submissions were received from the public. The guideline was subsequently amended, as appropriate. A summary of stakeholder comments and OSFI's associated responses has been attached to the covering letter accompanying the final version of the guideline.



VII. Implementation

Full implementation of Guideline E-20 by CDOR submitting banks is expected by no later than December 31, 2014.

