L3 Return- Operational Risk Event Data Reporting Guideline

Purpose
The operational risk event data return consolidates the information required by the Office of the Superintendent of Financial Institutions (OSFI), for the purpose of analyzing and monitoring the operational risk events experienced at the selected Federally Regulated Financial Institutions (FRFIs). The purpose of the return is for the FRFI to provide consolidated operational event data as at the last day of each fiscal quarter. Additionally, the return should also include year-to-date (“YTD”) data as at the end of the reporting quarter.

Statutory
Sections 628 and 600 of the Bank Act

Application
This return applies to selected banks using the Standardized Approach or Advanced Measurement Approach for operational risk capital measurement. Only banks requested by OSFI need to complete the L3 return.

Publication
Information from this return is not published

Frequency
Fiscal Quarterly

Method of submission
Return is to be submitted to OSFI through the REGULATORY REPORTING SYSTEM (RRS). For more information please consult the RRS Manage Financial Returns User Guide for Deposit Taking Institutions available on OSFI website.

Note: The template containing the information on the Top 5 Losses and the Reporting Thresholds should be submitted directly to OSFI via e-mail (refer below for the address).

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| Submission Dates and Deadlines | The return should be completed as at the last day of each fiscal quarter and submitted within 120 days.  
| Note, each return is to be treated as a separate filing. |
| Contact | Operational Risk Division (ORD)  
| E-mail: ORD@osfi-bsif.gc.ca |
| Contact Agency | OSFI |
Reporting Standards

Report Format

The L3 Return consists of two templates, and excludes data for Insurance businesses.

The first template (Refer to Appendix I) captures Operational Event Data by Basel Level 1 Business Lines and Event Types for the reporting quarter and fiscal YTD. (Refer to page 5 of Appendix II for the Basel Business Line and Event Descriptions).

The second template is a multi tab Excel spreadsheet that captures the following information (Refer to Appendix II):

- **Tab 1 - Summary Details** - captures the name of the Reporting institution; Submission Quarter (e.g. Q3, 2015 ending July 31, 2015 and **not the date the Return is submitted**); and details of the Internal Reporting Thresholds (refer to comments on Reporting Thresholds below).

Events that cross multiple Business Lines should be reported the way the loss was allocated by the Bank.

Events which occur in businesses for which there is no Basel business line, (e.g. corporate items) are to be reported under the “Not Otherwise Allocated” category.

- **Tab 2 – Top 5** - captures information on the top 5 events based on Net Loss (as defined below) for the current reporting quarter.

  Information required for the Top 5 events will include the following:

  a) Internal Reference #
b) Date of Occurrence
c) Date of Accounting (i.e. when a loss was first recorded in the General Ledger for this event)
d) Date of Detection (the date the error was discovered)
e) Basel Level I and Level II Business Line (refer to Page 5 of Appendix II)

  **Note: For events crossing multiple business lines:**

  - Enter “N/A” under the Basel Level I and Basel Level II columns. This indicates that the loss was allocated to more than one business line.
  - Enter the details for the various Basel Level 1 business lines under the “Internal Business Line” column.

f) Basel Level I and II Event Type
g) Net Loss (as defined below)
h) A brief description of the Loss Event and the actions/steps taken to address the operational event

- **Tab 3 – Significant Changes** – The purpose of this report is to provide continuity between the current quarterly submission and the submission(s) for the previous quarter(s). It is also used to explain significant differences between the sum of the quarterly
Net Loss figures and the amounts reported for the year-to-date losses. Consequently, if there is a significant change to the YTD Net Loss amounts as a result of a change to a previously reported quarter, then the details of the change should be reported on this report.

Each Bank should apply their own internal guidelines for reporting significant changes. **Please indicate on Tab 3 the criteria used for this category.**

Given that most significant changes will likely impact a Top 5 event, the format used for reporting on significant changes should be identical to that used for reporting on the Top 5 Events, and should provide a link back to a previously reported event.

If the change is not related to a previously reported Top 5 event, then all details (not just the change) should be reported.

If there are no significant changes to report for the quarter, then you should indicate “No Significant Changes” in the body of the return.

Furthermore, for any events that net to a significant gain (as defined by the FRFI) as result of an operational risk event, provide the details of the operational risk event and the gains resulting from such events.

- **Tab 4 – Additional Information** – This tab is to be used for additional information not included elsewhere in the return.

- **Tab 5 – Codes** – Description of Basel Level 1 and Level II Business Line and Event Codes

**Reporting Currency & FX Conversion**

All amounts must be reported in CDN$.

Each Bank is to use its internal exchange rate applicable at the Date of Recognition (as defined below) to convert amounts to CDN$.

**Reporting Thresholds**

The reporting thresholds should be greater or equal to $10,000 CAD.

**Foreign Subsidiaries**

Events occurring in foreign subsidiaries should be included in the Return.

**Basis for Reporting**

The event data for each quarterly submission should be based on the Date of Accounting, i.e. when the event was first posted to the General Ledger for the event.

**Definition of Net Loss**

Net Loss is defined as gross loss net of recoveries, excluding Insurance recoveries.
**Gains**  
Events that net to a significant gain overall, are to be included in Tab 3-Significant Changes for the purpose of this Return. Otherwise, net gains should be excluded from this Return.

**Boundary Events**  
Each Bank is to follow its current practices for identifying boundary events. However, for the purpose of the Return, only report the operational risk portion of the loss associated with the boundary event.

**Example:** An event was reported with a loss of $30M. Of this amount, $23M is credit related and the remaining $7M is operational risk related (e.g. the collateral on the loan was not registered correctly which resulted in the loss increasing from $23 to $30M; therefore for the L3 Return, only $7M will be included in the Gross Loss amount).

**Provisions**  
Sometimes a provision is booked to the P&L to reflect the impact of an operational risk event, before the event is closed, e.g. litigation matters.

If the provision was recorded in the Loss Database, then the amount should be included in the Net Loss numbers. The impact amount should be adjusted in subsequent periods if the size of the provision changes.