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# Guideline impact analysis statement

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Title	E-21 Operational Risk Management - Guideline impact analysis statement (2016)
Category	Sound Business and Financial Practices
Date	June 30, 2016
Sector	Banks Foreign Bank Branches Life Insurance and Fraternal Companies Property and Casualty Companies Trust and Loan Companies
Guideline Number	E-21

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## Table of Contents

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### [I. Background](#)

### [II. Objectives](#)

### [III Options and Assessment](#)

- [Option 1 – Status Quo](#)
- [Option 2 – Rely on International Operational Risk Guidance](#)
- [Option 3 – Issue Guideline E-21](#)

### [IV. Applicability to Varying Institutions](#)

### [V. Consultation](#)

### [VI. Recommendations](#)

### [VII. Implementation & Evaluation](#)

## I. Background

OSFI is issuing the *Operational Risk Management* Guideline (Guideline E-21), which applies to all Federally Regulated Financial Institutions (FRFIs). As part of its program of risk-based supervision, OSFI evaluates FRFIs' risk management



frameworks. The evaluations are made pursuant to the approaches outlined in OSFI's *Supervisory Framework*, which was revised in December 2010.

## II. Objectives

Guideline E-21 is intended to provide consolidated guidance for operational risk management, across all FRFIs. Elaboration of OSFI expectations, in a principle-based manner, and emerging sound practices, should aid in consistency of application across industries and institutions. The guideline is consistent with the OSFI Corporate Governance guideline (2013) and reflects international risk management standards.

## III Options and Assessment

### *Option 1 – Status Quo*

Although institutions have generally improved their operational risk management functions in recent years, current OSFI operational risk guidance is not comprehensive and is dispersed across various guidelines making it difficult for FRFIs to access all of the related guidance. Further, current guidance is not consistent in its application to all types of FRFIs, which requires OSFI to communicate supervisory expectations more informally to some industry sectors.

### *Option 2 – Rely on International Operational Risk Guidance*

Relying on international standards directly can be an efficient approach that highlights existing and widely accepted guidance. However, international operational risk guidance varies considerably, particularly between industry sectors. This variance does not appear to be justified on the basis of differences in operational risk exposure and management between sectors. In addition, the guidance is not available in a central location and does not reflect OSFI supervisory expectations in this area.

### *Option 3 – Issue Guideline E-21*

Under this option, Guideline E-21 would:

- Enhance the effectiveness of the risk-based approach outlined in OSFI's *Supervisory Framework*;
- Reinforce OSFI's expectations in a principles-based manner ( i.e. provide FRFIs with flexibility to implement the expectations in a manner that is appropriate to their individual circumstances);
- Provide a comprehensive reference document for all OSFI guidance related to operational risk;
- Support the continual improvement of internal control frameworks at FRFIs;
- Establish a more level playing field across industry regarding the mitigation of operational risk.

Issuing Guideline E-21 would contribute to the harmonization of OSFI's published guidance for all FRFIs and provide additional guidance on key functions in operational risk management. Issuing Guideline E-21 would not impose significant incremental costs on the financial services industry because FRFIs have largely made significant improvements to their operational risk management practices over the last several years.

## IV. Applicability to Varying Institutions

OSFI recognises that FRFIs may have different operational risk management practices depending on their: size; ownership structure; nature, scope and complexity of operations; corporate strategy; and risk profile. All FRFIs are expected to demonstrate effective and comprehensive adherence to the four high-level principles outlined in the guideline. At the same time, for example, OSFI supervisory expectations will have greater flexibility for smaller, less-complex institutions with demonstrated low operational risk profiles. In a number of cases, specific areas of flexibility are indicated directly within the guideline. In all cases, FRFIs are encouraged to discuss with their supervisors the applicability of best practices to their individual circumstances.

## V. Consultation

OSFI posted a draft version of the guideline for public consultation in August 2015. OSFI reviewed all submissions and, as a result, has made a number of revisions to the final version of the guideline. A summary of material comments received from industry stakeholders and an explanation of how they have been addressed is available in an annex attached to the cover letter that accompanies the final version of the guideline.

## VI. Recommendations

Option 3 addresses all of the objectives outlined above and is the most effective means to communicate OSFI's expectations for operational risk management at FRFIs.

## VII. Implementation & Evaluation

Since Guideline E-21 aligns with supervisory expectations already in place, full implementation of the Guideline by FRFIs is expected by June 2017.

