January 11, 2024

DELIVERED VIA ELECTRONIC MAIL

Office of the Superintendent of Financial Institutions
255 Albert Street, 12th Floor
Ottawa, Ontario K1A 0H2
Email: Consultations@osfi-bsif.gc.ca

Re.: Response to OSFI Consultation on Updating Guideline E-21: Operational Resilience & Operational Risk

The Canadian Credit Union Association (CCUA) is pleased to respond to the Office of the Superintendent of Financial Institutions' (OSFI) consultation on updating Guideline E-21: Operational Resilience & Operational Risk Management (the "Guideline"). The credit union sector welcomes the update and supports efforts to strengthen the effective operational risk management of FRFIs.

Background

CCUA is the national trade association that provides services to Canada's 197 credit unions, caisses populaires (outside of Quebec) – including Canada's three federally regulated credit unions – and five regional central organizations (Centrals). The credit union sector, outside Quebec, controls approximately $301 billion in assets – representing a 6.4 percent share of domestic assets held by all Canadian deposit-taking institutions – and serves more than 6 million Canadians. Credit unions are cooperative financial institutions that operate from 2,214 locations nationwide and are the only financial institutions in 380 Canadian communities.

Summary

The credit union sector welcomes OSFI's update to E-21, as resilience is a defining characteristic of long-term success for financial institutions. A strategic, enterprise-wide operational resilience framework will be critical to financial institutions' ability to manage new or intensified risks from disruption and remain resilient in today's complex environment.

The disruption caused by the COVID-19 pandemic illuminated the combined risks of interdependence of financial institutions, use of third parties suppliers, the expanded use of technology to deliver financial services to Canadians, increased cybersecurity attacks, and mass remote work. Given the impact of operational disruptions, which have the potential to harm consumers, threaten the viability of financial institutions, and add instability to market integrity, all financial institutions will benefit from a strategic, enterprise-wide operational resilience framework that seeks to mitigate such risks.

We appreciate the principles-based regulation contained in draft Guideline E-21, which recognizes that implementation of a FRFI's operational resilience approach and operational risk management should be proportionate to the FRFI's size, nature, scope, complexity of operations, strategy, risk profile, and interconnectedness to the financial system. In addition, the revised Guideline's expanded outcomes and principles strengthen the risk matrix of financial institutions by ensuring their long-term resiliency through disruption and, at times, compounded risks.

In general, the sector agrees with the proposed draft guidance; however, we offer the following suggestions to either reinforce the guideline or to seek clarification on OSFI's intent:

- *Holistic, end-to-end mapping of critical operations:* Clarity for smaller FRFIs on granularity and view toward concentration risk.
- *Frequency and intensity of testing is proportionate to risk and criticality:* suggest scenario testing every 2 years for smaller FRFIs, if there were no significant changes in the business operations or market occurred during that period, as well as suggest OSFI consider facilitating industry-wide testing for systemic events.
- *Recommendations on implementation:* a self-assessment for smaller FRFIs and clarity on implementation timeline.

Recommendations

Recommendations on Operational Resilience (s. 2)

2.1.1 Identify and assess critical operations

2.1.2 Holistic, end-to-end mapping of critical operations

The FRFI should engage in a holistic, end-to-end assessment of critical operations to comprehensively map internal and external dependencies. The mapping should be sufficiently granular to identify and document the people, technology, processes, information, facilities, third parties, and the interconnections and interdependencies among them, on which the FRFI relies to deliver critical operations. The level of granularity of the mapping should be sufficient to identify vulnerabilities and to support scenario testing and analysis (see Section 2.3). The FRFI should review and update the mapping of critical operations on a regular basis.

The sector seeks clarity related to the mapping of critical operations in two ways:

First, we seek clarity on the depth of granularity that smaller FRFIs may use when identifying and documenting the people, processes, technology, facilities and information that support the mapping of important business services. For example, should the financial institution (i) undertake a full detailed end-to-end analysis of a business service that is considered important, or (ii) simply identify and document the processes that are key/critical to providing the services and focus on key activities (e.g. payment or settlement).

Second, we seek clarity on OSFI's view toward mapping of shared services and potential for concentration risk among FRFIs. As cooperative financial institutions, shared payments and group clearer services are a key element of the credit union system. Other examples of potential shared services which are common among smaller FRFIs and relate to internal services that are critical to their operations may include:

- architecture and underlying technology provided centrally;
- operational processes, such as transactions booking or risk-management;
- audit and other second line of defence functions; and
- IT services.

Specifically, to what extent ought the above factors be considered important business services and to what extent should factors such as the risk of potential contagion should be part of an institution's treatment of the business function throughout the mapping process.[1]

2.3.3 Frequency and intensity of testing is proportionate to risk and criticality

The design of scenario testing should be commensurate with the size, complexity, business, and risk profile of the FRFI, as well as its level of interconnectedness to the financial system. In most cases, testing should occur at least annually and in response to a significant change in the risk environment.

We offer two suggestions related to testing. First, for smaller FRFIs, such as federal credit unions, it may not be feasible to test all scenarios at the same time. As testing requirements will likely impact business-as-usual operational needs, establishing a staggered cycle for testing schedules and priorities would be beneficial to smaller FRFIs. We respectfully recommend that, where there have been no significant changes in the FRFI's business operations or the market, FRFIs of a smaller scale be permitted to review and update their scenario testing every two years.

In addition, some scenarios posited by OSFI may have industry-wide implications – i.e. large-scale technology failures and power outages, critical third-party service interruptions, cyber incidents, as well as pandemics and natural disaster. To that end, we suggest OSFI consider industry-wide testing facilitated by OSFI.

Recommendations on Implementation

The credit union sector offers suggestions related to the implementation of the E-21 Guideline in two ways. First, we seek clarity on the length of time for implementation that OSFI intends to provide FRFIs to implement this guideline. Second, we request that OSFI consider developing a self-assessment to provide certainty related to expectations for smaller FRFIs as well as consistency for benchmarking of smaller FRFIs, such as federal credit unions. The existing Guideline E-21 includes as Annex 1 a list of operational risk management tools subject to the following caveat: "The following sound practices are primarily for consideration of larger, more complex FRFIs. However, some of the practices are more widely applicable and may be helpful as concrete examples of industry practice."

Although OSFI states that FRFIs should design their operational resilience approach and operational risk management to be proportionate to the FRFI's size, nature, scope, operational complexity, strategy and risk profile, among other things, OSFI may expect certain tools and practices that would have previously only been utilized by larger, complex FRFIs to now be implemented, or at the minimum considered, by smaller FRFIs. As a result, a self-assessment may prove helpful for smaller financial institutions to adopt this expanded guideline.

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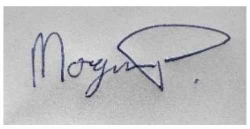
[1] We note that the FCA in the United Kingdom made a distinction between services delivered direct to consumer and corporate business functions, of which the latter was not considered "important business services." We acknowledge that OSFI has not made the same distinction; however, we believe this is important to seek clarity. In reference to the shared services noted above, the FCA wrote: "We consider that such services are unlikely to constitute important business services. These enable the provision of an important business service and should be identified by firms when they carry out their mapping exercises. Services can only be identified as important business services where they are provided by a firm, or by another person on behalf of the firm, to one or more consumers." Financial Conduct Authority, *Building operational resilience: Feedback to CP19/32 and final rules*, 2021, pp. 13.

Conclusion

The Canadian credit union sector appreciates the opportunity to participate in OSFI's consultation on updating Guideline E-21, and we welcome guideline's focus on advancing resiliency in Canada's financial sector.

Please do not hesitate to reach out if you have any questions regarding this submission or if we can provide further information.

Sincerely,



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