A Playbook for FIs and Vendors to Best Adapt to OSFI Guideline B15

CLA and Sustainable Finance in Canada

Canadian Lenders Association represents and advocates for over 300 companies across Canada that participate in SMB, consumer, home, equipment, automotive and mortgage financing. We host the Sustainable Finance Roundtable which has bank and non-bank member companies. The CLA plays an active role in advocating and supporting new generation business models and technology across all lending and lending adjacent sectors.

A Playbook for FIs and Vendors to Best Adapt to OSFI Guideline B15

This document outlines the most valuable components to be included within a comprehensive playbook for financial institutions (FIs) and vendors on effectively adapting to the Office of the Superintendent of Financial Institutions (OSFI) Guideline B-15. Drawing upon insights from interviews with both non-bank and bank lenders across Canada, the playbook aims to navigate the regulatory landscape introduced by Guideline B-15, ensuring that all parties are well-prepared to meet its standards. The guide outlines strategic approaches and best practices for enhancing risk management and operational resilience, crucial for maintaining competitive edge and regulatory compliance in the financial sector. By focusing on the integration of these guidelines into existing systems and processes, this playbook provides a roadmap for FIs and vendors to innovate and scale their services, all while adhering to the stringent requirements set forth by OSFI.

Overview

1. Understand

Understand the Regulatory Guidelines:

- Thoroughly review the regulatory guidelines provided by OSFI regarding climate-related risks.
- Ensure all relevant stakeholders within the FRFI are familiar with the guidelines and their implications.

2. Assess

Assessment of Climate Risks:

- Conduct a comprehensive assessment to identify and understand the physical and transition risks specific to the FRFI's transaction operations, identify existing portfolio exposure and market context, this would need to be sectoral.
- Evaluate the potential impact of climate-related risks on the FRFI's short-term and long-term strategic, capital, and financial plans and lines of business.

3. Governance

Create a Governance Structure:

- Establish appropriate governance structures and control functions to oversee climate risk management, including assigning senior management accountability for climate risk management that would need to be aligned or integrated with existing risk management framework.

4. Incorporate

Incorporate Risks into Business Model and Strategy:

- Integrate the implications of climate-related risks into the FRFI's business model, strategy and risk framework.
- Develop and implement a Climate Transition Plan aligned with the business plan and strategy for existing exposures identified, assessing achievability under different climate-related scenarios.

5. Risk Integration

Risk Management Framework:

- Integrate climate-related risks into the FRFI's Risk Appetite Framework and Enterprise Risk Management (ERM) framework.
- Update internal control frameworks, compliance policies, and practices to reflect climate-related risks and assign clear roles and responsibilities for managing these risks.

6. Data Management

Data Collection and Analysis:

- Identify, collect, and utilize reliable, timely, and accurate data relevant to climate-related risks, such as geophysical location data and GHG emissions data and other industry specific criteria.
- Implement relevant tools and models, including climate scenario analysis, to measure and assess climate-related risks, ensuring understanding of data, methodologies, and limitations. **much further elaboration required here.*

7. Implement Control Functions

Monitoring and Reporting:

- Incorporate climate-related risks into internal monitoring and reporting processes to assess business performance and risk management effectiveness.
- Develop capabilities to aggregate climate risk data and report on climate-related exposures to support strategic planning and risk management.

8. CSA

Climate Scenario Analysis and Stress Testing:

- Undertake climate scenario analyses considering plausible and relevant models and scenarios over various time horizons.
- Consider both physical and transition risks and understand the methodology and approaches used in scenario analyses.

9. Capital

Capital and Liquidity Adequacy:

- Incorporate climate-related risks into the Internal Capital Adequacy Assessment Process
- Assess the impact of climate-related drivers on liquidity risk profile and integrate climate-related stress events when evaluating liquidity buffers.

10. Continuous Improvement

Continuous Improvement and Compliance:

- Continuously monitor and incorporate developments in climate-related risk management to enhance resilience and adaptability.
- Ensure compliance with regulatory requirements and regularly review and update climate risk management practices as needed.

11. Report

Reporting to OSFI:

- Conduct Climate scenario exercises and report results to OSFI on a periodic basis as required by the regulatory guidelines going forward.
- Ensure transparency and accuracy in reporting to OSFI.

This list of category specifications outlines a comprehensive approach to facilitating the creation of a "playbook" guide for financial institutions (FIs) and vendors on effectively adapting to the Office of the Superintendent of Financial Institutions (OSFI) Guideline B-15.

About the Canadian Lenders Association

The Canadian Lenders Association (CLA) supports the growth of bank and non-bank companies that are in the business of lending. We also support lending adjacent sectors including BaaS, Core Banking, Open Banking, DE&I and Sustainable Finance Frameworks. We currently represent and advocate for over 300 companies across Canada that participate in SMB, consumer, home, equipment, automotive and mortgage financing. *The CLA does not represent the Payday lending sector.*

https://www.canadianlenders.org/sustainable-finance-roundtable/