



Unclassified

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Original by Mail

Ms. Deborah Crossman
Director, Banking Operations
Canadian Bankers Association
Box 34, Commerce Court West
Toronto, ON M5L 1G2

Dear Ms. Crossman:

Subject: Interim Approach to Reporting for adopting the AIRB Approach to Credit Risk

This letter advises all foreign bank subsidiaries on the availability of the interim approach to reporting for Basel II where the bank has formally communicated their plans to apply for use of the AIRB or FIRB approach to credit risk in fiscal 2009.

As a transitional measure, an interim approach to reporting was developed for use by large institutions with consolidated subsidiaries outside Canada planning to implement AIRB on implementation date (i.e., November 1, 2007). Its details were communicated in the Annex to the "Revised Instructions to OSFI February 2006" and published on OSFI's web site. Institutions must receive prior written approval from OSFI to use this approach which is available on a transitional basis for waiver or extension portfolios. Qualifying large institutions could be granted permission to use the interim approach for a period of no greater than three years after implementation (i.e. until end of fiscal year 2010).

Several foreign bank subsidiaries in Canada have asked OSFI if they might also use the Interim Approach to Reporting as a transition mechanism where the home supervisor of the parent bank has delayed implementation or where there is a timing difference in adoption by the parent and affiliates.



OSFI is prepared to approve a foreign bank subsidiary to use the Interim Approach to Reporting as a transition mechanism in the following circumstances:

1. The institution previously indicated to OSFI its commitment to implement AIRB in Canada before fiscal year 2010 but implementation will be delayed beyond November 1, 2007 because either:
 - a. The home supervisor will not have adopted the New Basel Framework by the date that the new CAR Guideline A-1 comes into effect in Canada or;
 - b. The parent bank has delayed implementation of the IRB approaches and the home supervisor will allow the parent bank to report non-IRB operations using an approach other than the Standardized Approach to credit risk on an interim basis.

Where an institution met the conditions above, OSFI would allow the institution to use the interim approach for a period up to and including the fourth quarter of fiscal 2009. Availability of the interim approach will not extend beyond fourth quarter of fiscal 2009, even where the home supervisor decides to retain Basel I either permanently or for a longer time frame. Banks approved to use the Interim Approach to Reporting will do so by completing and filing the BCAR reporting forms commencing with the first quarter of 2008.

Your assistance in circulating this letter to your members would be greatly appreciated.

Yours truly,

Robert Hanna
Acting Assistant Superintendent, Regulation Sector
Office of the Superintendent of
Financial Institutions Canada

c.c.: Ted Price
Ben Gully
Richard Gresser