Instructions

Subject: **Operational Risk Self-Assessment Template Instructions for TSA & AMA Institutions**

Category: **Capital**

No: A-1 **Date: December 2005**

Canada

Table of Contents

1. Self-Assessment Process

1.1. Scope

As part of OSFI's Assessment Process[1], institutions[2] are required to submit a self-assessment within its formal application package. OSFI has provided a standard self-assessment template for all institutions targeting the Standardized Approach ("TSA") or Advancement Measurement Approaches ("AMA") to operational risk. Institutions are required to populate and submit to OSFI the attached self-assessment template.

The self-assessment template is based on the minimum criteria as defined in OSFI's Draft Capital Adequacy Requirements (CAR) Guideline A and A-1 and the Sound Practices for the Management and Supervision of Operational Risk[3] ("Sound Practices paper"). The self-assessment template will indicate to OSFI, and the institution, its progress towards meeting the operational risk minimum requirements outlined in the CAR Guidelines A and A-1. OSFI recognizes that criteria in the Sound Practices paper are not a requirement for Basel II implementation. However, institutions are encouraged to meet these criteria, consistent with the size and complexity of an institution's business activities, as it provides for an effective operational risk management framework.

The purpose of the self-assessment process is to determine if institutions have:

(i) A clear understanding of minimum requirements,
(ii) Appropriate measures of success,
(iii) Adequate closure strategies for any gaps, and
(iv) Clearly defined roles and scope of work required for operational risk implementation.

The self-assessment template provides an effective tool for an institution to assess its current implementation status against the minimum operational risk requirements and the Sound Practices paper.

1.2. Timelines

Institutions will complete and submit the self-assessment template to OSFI in two phases prior to the implementation date (first day of fiscal year 2008). The timeline for self-assessments align with the three assessment phases defined in OSFI's Operational Risk Assessment Process implementation note.

There are two submission dates for the self-assessment prior to the implementation date. An institution is required to submit its first self-assessment as part of the final application package

---

[1] Draft Operational Risk Assessment Process Document, September 2005.
[2] Banks and bank holding companies to which the *Bank Act* applies and federally regulated trust or loan companies to which the *Trust and Loan Companies Act* applies are collectively referred to as "institutions".
[3] Sound Practices for the Management and Supervision of Operational Risk, February 2003, available at www.bis.org.

by February 1, 2006[4]. The second submission is due by May 1, 2007[5]. OSFI does not expect the institution to repopulate the self-assessment template in the second submission, but rather provide an assessment update, as appropriate. Please note that the second submission must be independently reviewed by internal audit.

1.3. *Responsibilities*

1.3.1. *Role of Business Unit/Risk Management*

The self-assessment process requires the institution's risk or business management functions (as applicable) to populate the self-assessment template. Once the institution has populated the template, senior management must sign off before it is submitted to OSFI.

1.3.2. *Role of Internal Audit*

The institution's Internal Audit function will be required to provide OSFI with the findings of its formal independent review of the institution's self-assessment. This is only required for the second submission of the self-assessment to OSFI.

2. Self-Assessment Template Instructions

2.1. *Structure*

OSFI's assessment process for TSA and AMA is structured around the key areas of operational risk and has been divided into work streams. Accordingly, the self-assessment template is structured in the form of work streams. Each work stream is addressed in the self-assessment template. Work streams are Operational Risk Governance, Gross Income Mapping, Loss Data Collection, Risk and Control Self-Assessment and AMA methodology. In addition to the work streams, the template addresses the sound practices of outsourcing, disaster recovery planning and business continuity planning. The self-assessment template is in the format of a Microsoft Excel workbook and is made up of 7 worksheets:

     (i)   Title page
     (ii)   A. Operational Risk Governance
     (iii)   B. Gross Income Mapping
     (iv)   C. Loss Data Collection
     (v)   D. Risk and Control Self-Assessment
     (vi)   E. Outsourcing, Disaster Recovery Plan and Business Continuity Plan
     (vii)   F. AMA Methodology

Worksheets A to E are to be populated by all TSA institutions. AMA institutions are to populate worksheets A to F. Institutions targeting AMA by 2010 should also populate Worksheet F if the information is available.

---

[4] April 1, 2006 for institutions with Dec 31 year-end.
[5] July 1, 2007 for institutions with Dec 31 year-end.

2.2. Column Definitions

For worksheets A to F, the template structure is identical. The following are explanations for each of the columns in the worksheets:

Column	Explanation
Area of Assessment	Key area consisting of criterion within a work stream that requires an assessment from the institution.
Reference	Provides a reference to the corresponding paragraphs in the CAR Guidelines and Sound Practices paper.
#	Each criterion is assigned a number within the worksheet
Criteria	Minimum requirements from the CAR Guidelines and the criteria from the Sound Practices paper.
Information Request*	Institutions are to provide the requested information to supplement the assessment rating and rationale. An institution should also provide any information, in addition to the information listed in the template that supports the rating assessment. *Note: Institutions that were part of OSFI's operational risk gap analysis in 2004 need not provide the requested information if this information was provided during that time.*
Assessment Rating	Institution's rating assignment (as defined in section 2.3 of this document) for the respective criteria.
Rating Rationale	Institution's rationalization for each assigned assessment rating. *Note: If the institution has rated itself as" 1" or "2" for a specified criteria, identify the closure strategy and its status.*

* When appropriate, an institution may refer to its rollout plans and past material that has been submitted to OSFI.

2.3. Rating Definitions

The institution is required to use the following ratings for the self-assessment template ("Assessment Rating" column in worksheets A to F):

(i)   **1** – Significant gaps in meeting the criterion
(ii)   **2** – Some gaps remain for the criterion however this is not key area.
(iii)   **3** – Meets the criterion.
(iv)   **4** – Meets the criterion, however further developments/enhancements are continuing (or have been implemented) to approach best practice.
(v)   **N/A** – This criterion is not applicable to the institution.

3. Foreign Subsidiaries

3.1. Information Exchange with Home Country Supervisors

In accordance with the Basel Committee's principles for cross-border implementation of the new Basel framework, OSFI will work together with the home country supervisors of foreign subsidiaries in Canada. Through bilateral communications, OSFI will provide the home supervisors with a copy of the self-assessment template. Home supervisors will be requested to use the self-assessment template as a basis for determining if they possess the appropriate information regarding the foreign subsidiary and, if so, its availability for sharing with OSFI.

3.2. Completion of Self-Assessment Template

Foreign subsidiaries will be required to complete the self-assessment template as outlined in this instructions document. However, when completing the "Information Request" column, if the information requested resides with the parent operations, and the material has been previously submitted to the home country supervisor, this should be indicated by the foreign subsidiary. In such a case, it is not necessary for the foreign subsidiary to re-submit this material to OSFI as part of the self-assessment.

OSFI recognizes that the implementation of an operational risk management framework may be led by a foreign subsidiary's parent operations. If certain criteria outlined in the self-assessment template are the responsibility of the parent operations, the foreign subsidiary should specify this in the "Rating Rationale" column and describe the role of both the parent institution and the foreign subsidiary in meeting these criteria. OSFI will communicate with the home country supervisor to determine the nature of any information exchange, as appropriate, based on the foreign subsidiary's description of parent responsibilities, as appropriate.