ASSOCIATION DES BANQUIERS CANADIENS
CANADIAN BANKERS ASSOCIATION

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Secretariat of the Basel Committee
on Banking Supervision (BCBS)
Bank for International Settlements
CH-4002 Basel, Switzerland

Re: CBA[1] Comments on BCBS revisions to the *Core principles for effective banking supervision*

Thank you for the opportunity to comment on revisions to the *Core principles for effective banking supervision*.

CBA members would like to begin by highlighting key points on climate-related financial risks. We suggest adding a broader reference to financial and non-financial risks (including emerging risks) and limiting the number of specific references to 'climate-related financial risks'. Other new risks may emerge, and more specific wording may complicate future revisions to the Core Principles. Moreover, CBA members emphasize that climate-related financial risks are transverse in nature and embedded within other major risk categories and existing enterprise risk management frameworks at banks, rather than being standalone risks.

We also highlight the importance of considering different time horizons across major risk categories, and specifically a longer time horizon in relation to climate-related financial risks. We suggest that information be provided on a consolidated basis only for supervisory reporting in relation to climate-related financial risks to align with the ISSB's IFRS S2 and that the materiality assessment for climate-related financial risks be based on financial reporting to align with IFRS S2. In addition, we highlight the importance of managing supervisory and internal audit expectations given the preliminary stage of the work on internal control and audit of climate-related financial risks. Finally, we suggest the stress testing paragraph under Principle 15 – Risk Management focus on incorporating all material risks, and not be limited only to climate-related financial risks. We believe it is important not to conflate the two disciplines of stress testing and climate scenario analysis given that their purposes can be quite different.

Paragraph (7) under Principle 14 – Corporate Governance requires that the compensation system has appropriate incentives aligned with prudent risk-taking and are "*effective in addressing conduct that potentially results in losses*". The proposed wording is vague, in not defining what constitutes a 'loss'. It is also somewhat subjective (i.e., what is considered '*effective'* in addressing conduct that potentially results in losses). If compensation incentives are aligned with prudent risk-taking, does that not already address conduct that potentially results in losses? For these reasons, CBA members believe the proposed wording may be redundant. Paragraph (7) also refers to a compensation system that is 'transparent' and 'non-discriminatory'. Given the wide range of possible interpretations of these two concepts, clarification of what is meant by transparent and non- discriminatory in this context would be beneficial. The FSB Principles for Sound Compensation aim to ensure effective governance of compensation, alignment of compensation

[1] The Canadian Bankers Association is the voice of more than 60 domestic and foreign banks that help drive Canada's economic growth and prosperity. The CBA advocates for public policies that contribute to a sound, thriving banking system to ensure Canadians can succeed in their financial goals. www.cba.ca

with prudent risk taking, and effective supervisory oversight and stakeholder engagement in compensation. We suggest that any changes to the BCBS Core Principles align with the FSB Principles.

CBA members welcome the BCBS' introduction of the information and communication technology (ICT) framework and believe in the importance of taking a technology-neutral, principles-based, and outcomes focused approach to regulation. This provides our members with the flexibility to evolve and adapt to the changing technological landscape in a manner that is appropriate to their respective operations, business models and proportionate to the risk involved. We also believe that it would be helpful to clarify that the application of the Core Principles should be proportionate to the risk posed by a third-party and be risk-based, given the evolving nature of ICT.

We support the focus on the risk associated with third-party providers and caution against overly prescriptive mitigants that may result in increased operational complexity, which would contribute to additional operational and systemic risks that could ultimately be counter to regulators' policy intent of ensuring operational resilience. CBA members recommend that the BCBS standardize the references to 'service provider' with 'third-party', which will include market infrastructure or strategic partners. We believe that the focus should be on critical operations and high-risk third-parties.

CBA members would be pleased to discuss our response to the BCBS' revisions to the Core Principles further at your convenience.

Sincerely,

cc: Leo Bozza, OSFI