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

Dear Basel Committee members:

Re: CBA[1] Comments on behalf of the Domestic Systemically Important Banks (D-SIBs) on the BCBS consultative document: *Stress testing principles*

We thank you for the opportunity to provide comments on the BCBS's consultative document *Stress testing principles*. Overall, we are supportive of the principles and the Committee's intent to state the principles at a high enough level to be applicable across many banks and jurisdictions. We also agree that the principles should be robust enough to withstand developments in stress testing practices over time.

We have some suggestions and requests for clarification on the principles and/or the "Additional points" noted in the consultative document as highlighted in our attached comments.

We thank you in advance for your consideration of our comments, and we would be pleased to discuss our submission at your convenience.

Sincerely,

Attachment

cc: Tamara VanDeWalle, Director, Deposit Taking Supervision Sector, OSFI
Savio Remedios, Senior Manager, Stress Testing, Deposit Taking Supervision Sector, OSFI
Charles Gaa, Director, Financial Stability Department, Bank of Canada
Brian Rumas, Director, Capital Division, OSFI
Sungchul Shin, Senior Analyst, Capital Division, OSFI

[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.

CBA Members' Comments and Requests for Clarification
Proposed text of the revised stress testing principles (p. 6)
Introduction (p. 6)
We found the introduction to be helpful in defining the core elements of stress testing frameworks.
1. Stress testing frameworks should have clearly articulated and formally adopted objectives (p. 6-7)
We note that Board approval is obtained on banks stress testing policies but not on the frameworks. The Board also has ultimate responsibility rather than "an appropriately senior-level governance body".
2. Stress testing frameworks should include an effective governance structure (p. 7 - 8)
• We suggest that the stress testing framework should "encourage" rather than "ensure" collaboration of all necessary stakeholders. • We request clarification on what the "engagement structure" refers to. We also suggest that "credible challenge" be replaced with "effective challenge".
3. Stress testing should be used as a risk management tool and to inform business decisions (p. 8 – 9)
Under "Additional points for authorities", there is mention that "they should also consider the appropriate supervisory responses…, which may include expectations for additional capital…". We suggest the wording be updated to "including ensuring a proper assessment of capital adequacy".
4. Stress testing frameworks should capture material and relevant risks and apply stresses that are sufficiently severe (p. 9 – 10)
• Under "Additional points for banks", there is mention that "When looking at risks at a bank-wide level particular attention should be paid to risk concentrations". We suggest that "risk profile" be used rather than "risk concentration".
5. Resources and organizational structures should be adequate to meet the objectives of the stress testing framework (p. 10 – 11)
No comments

CBA Members' Comments and Requests for Clarification
6. Stress tests should be supported by accurate and sufficiently granular data and by robust IT systems (p. 11 – 12)
We note that this principle is much more detailed in the updated version. We appreciate that banks need to have a robust data infrastructure, but it is not clear whether processes and governance arrangements of risk data infrastructure should fall under stress testing. In some instances the level of segmentation and granularity of data requested by supervisors has no impact on the output of the stress test and is time consuming for both banks and authorities in terms of providing and reviewing the information . In addition, more granular segmentation does not always lead to a more accurate outcome, but will increase complexity.
7. Models and methodologies to assess the impacts of scenarios and sensitivities should be fit for purpose (p. 12 – 13)
We suggest that language be added to the principle to reflect that models and methodologies to assess the impacts of scenarios and sensitivities should be fit for purpose "within a reasonable amount of time" to acknowledge the time required to adopt new requirements.
8. Stress testing models, results and frameworks should be subject to challenge and regular review (p. 13 – 14)
No comments
9. Stress testing practices and findings should be communicated within and across jurisdictions (p. 14)
There is mention that "disclosure of results of stress tests, …, can help to improve market discipline and provide confidence in the resilience of the banking sector to identified stresses." We would like to confirm that the BCBS is not trying to promote or encourage disclosure of stress test results. OSFI currently has a practice of NOT disclosing results and we want to be sure this language is consistent with OSFI's practice.
Annex 1: Comparison of current principles and proposed new principles (p. 15 – 17)
No comments