# Passion, Persistence and Effective Regulation and Supervision

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## Remarks by Superintendent Jeremy Rudin to the 2021 RBC Capital Markets Canadian Bank CEO Conference

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### Introduction

Passion and persistence. According to a recent bestselling book, these are the two elements that are essential to success in life. As I was reading that book over the holidays, what struck me most was just how relevant those ideas are for our own organization, OSFI, and especially at this very moment.

We need to *persist* with many of the exceptional steps that we took at the onset of the pandemic. We need to do that to make sure that the financial system is ready in case the economic disruptions caused by COVID-19 turn out to be deeper or more prolonged than we hope.

And we need to *persist* in completing the reform agenda arising from the global financial crisis of 2008. I hate to admit that there are still pieces of this puzzle to put into place. But that is all the more reason to make sure that we complete those reforms on schedule, before yet something else gets in the way.

According to the book, it is not enough just to be persistent. You also need to be *passionate* about what you do. We also need to tap the *passion* that led us to commit to being ever vigilant, and always improving. That will help us to address the new forces of change that could have the power to rock the financial sector in the coming years, most notably technology and climate.

I am going to expand on each of these in turn.

### Pandemic response

The pandemic has put the resilience of Canadian financial institutions to the test. And they have risen to this challenge, helped in no small measure by the extraordinary actions that the Government of Canada has taken to support the economy and financial markets through this very difficult period.

For our part, we released a large portion of the Domestic Stability Buffer, the additional capital requirement that we impose on our systemically important banks, early in the pandemic. At the same time, we put in place the expectation that all of the financial institutions we supervise not increase dividends, not increase total executive compensation nor pursue share buybacks until we see a very clear path to a durable recovery.

We also brought in a series of regulatory adjustments to ensure that our capital and liquidity requirements were appropriate for the extraordinary conditions created by the onset of the pandemic.

And we committed that all of our responses to the pandemic would be consistent, credible, necessary, and fit for purpose.

As the economy evolved over the ensuing months, we found that some of the extraordinary measures that we introduced in March no longer met those four tests. So we withdrew or adjusted them. For example,

after a gradual phase out **announced in August**, we ended the extraordinary capital treatment of loan deferrals in December. Also in December, **we announced** our willingness to sanction non-recurring payments of special -- or irregular -- dividends under exceptional circumstances.

That said, many of the measures that we announced in March are still in force. And they are still in force for a reason. We will persist with them as long as they continue to meet the four tests I set out earlier.

This includes our expectation that the institutions we supervise not increase regular dividends, not increase total executive compensation, nor undertake share buybacks. We will review these expectations when we have more clarity on the path out of the economic uncertainty created by the pandemic, and then we will communicate our decisions transparently. That review will not happen while lockdowns of uncertain duration are spreading across the country.

## Continued capital resilience

The resilience that we have seen in the Canadian banking system throughout COVID-19 has been supported by our efforts to strengthen the financial regulatory framework in the wake of the global financial crisis of 2008.

The quantity and quality of bank capital has increased, in Canada and around the world, and a new focus on liquidity and leverage has also improved resilience.

*Persistence* has been important. For example, we have stayed on track for implementation of one of the major puzzle pieces of the post-crisis reforms, despite COVID-19. The Total-Loss Absorbing Capacity (or TLAC) standard formalizes requirements for our systemically important banks to have sufficient loss absorbing capacity to support their recapitalization in the highly unlikely event that this is needed. We continue to expect all of our major banks to meet this requirement, on schedule, by November 1, 2021.

That said, the reform process has been excruciatingly drawn out over more than a decade. The Basel III standards were only declared final in December 2017, and the market risk framework was not actually put to bed until January 2019. As a result, none of those important initiatives have been fully implemented as yet. And in light of the pandemic, the international community agreed to put off the original implementation deadlines for those items by one more year.

Here in Canada, we are going to harness our *persistence* to insure that we meet, or beat, those new deadlines. We are committed to full, timely and consistent implementation of all aspects of the Basel III framework. And we welcome the commitments of our international partners to do the same. Doing this will help to lock in the benefits of these standards and so ensure that banks can withstand future crises.

While the Basel III agenda was set through international negotiations, OSFI has a long history of making sure that our adoption of those standards is done in a way that works for Canada. This approach enhances confidence in our internationally active banks while ensuring that our framework fits the size, complexity and risk profiles of all of our banks.

As part of our implementation of Basel III in Canada, we will be proposing a more tailored set of capital and liquidity requirements for small and medium-sized banks. The revisions to our framework will seek to strike the right balance between improving the risk sensitivity of our requirements and reducing their complexity. Like all of our actions, these new requirements will contribute to the protection of depositors and other creditors while allowing institutions to compete effectively and take reasonable risks.

You will see more precisely how we propose to do this when we launch our final consultation on implementing the Basel III reforms in March.

I am confident that our persistence in implementing Basel III will pay off for the Canadian banking system, and for Canadians.

### Technology risks

Completing our response to the pandemic, and to the global financial crisis that preceded it, will take*persistence*. Tackling the new risks that lie ahead of us will also take *passion*; a passionate drive to be ever vigilant and always improving.

In the near term, our focus will be on two emerging risks that are clearly inescapable: technology and climate.

Even prior to COVID-19, it was already a cliché to refer to "the unprecedented pace of technological change." And the pandemic has only accelerated that change. The move to physical distancing resulted in increased reliance on technology in general, and on third-party service providers in particular. The pandemic also altered the cyber security landscape, as did the revelation of the Solar Winds hack. Of course you know all this; you are living it every day in your own lives.

We have to be open to the idea that new technologies can be both key enablers for financial institutions and consumers, and new sources of financial and non-financial risks. And we have to be very alive to the possibility that these risks will manifest in ways that are as new as the technologies themselves.

With that in mind, we launched a **discussion paper on technology risk** in the financial sector in the fall. That paper focuses on three areas where we see new risks emerging: cyber security, the use of advanced analytic techniques including artificial intelligence and machine learning, and the use of third-party services including cloud computing. Underlying all of this is data, raising issues of data management, data integrity and data security.

We have received a great deal of valuable input in response to the paper, input that will help us to improve our regulatory and supervisory practices in these areas over the coming months. This will lead to consultations on proposals to ensure that our guidance is fit for 21st century risks.

### Climate-related risks

The other forward-looking risk that we need to discuss today is climate; a topic that elicits even more passionately held views than does technological change.

There is much that we do not know, indeed there is much that we *cannot* know, about how climate-related risks will affect the Canadian financial sector.

But we do know this:

We know that there is clear evidence that the climate is warming and that this irreversible change is in large part due to human influence on greenhouse gas emissions.

We know that the changing climate is leading to more extreme climate-related events in Canada and around the world.

And we know that by endorsing the Paris Agreement, Canada has committed to strengthening its policy efforts to help limit the global temperature rise this century, foster climate resilience, and transition to a low-greenhouse gas economy.

OSFI's unique role related to climate change is to ensure that Canadians will continue to enjoy financial stability while climate-related risks manifest in Canada. To do that we will need to ensure that the financial sector is prepared to manage through a wide range of plausible climate-related risk scenarios.

That is why I am very pleased that we are working with the Bank of Canada and a group of Canadian financial institutions on scenario analysis of the transition to a low-greenhouse gas economy. The Government of Canada's recently announced transition plan is an important piece of the puzzle.[1] It includes 64 new measures, and an additional $15 billion dollars in new investments.

At the same time, the plan foresees that many measures are still to be designed and implemented. And there is considerable uncertainty about how the various sectors of our economy will respond and adapt to this, and future, plans to reduce or eliminate greenhouse gas emissions.

I am also very pleased to draw your attention to our new and comprehensive **discussion paper** on the prudential issues arising from climate-related risks, a paper that we released just this morning.

We hope that this paper will be the launching pad for discussions with a wide range of stakeholders on topics such as these:

- how climate-related risks can affect financial institutions' safety and soundness;
- how institutions define, identify, measure and build resilience to climate-related risks; and
- the role OSFI can and should play to ensure institutions' preparedness for, and resilience to, these risks.

I encourage you all to read the paper and provide us your frank feedback.

## Conclusion

I will conclude by conceding that the risk landscape that I have sketched for you is sobering. The pandemic seems to be determined to get worse before it gets better. Technology risks seem to be even more serious than we had realized, all while accelerating. And we seem to be on the cusp of some profound economic changes in response to climate risks.

The good news is that the Canadian banking system continues to demonstrate the resilience for which it is known around the world. Of course, this is no reason for complacency, whether in the industry or at OSFI. But it is a good jumping off point for what lies ahead.

At OSFI, we will need to draw on our persistence to see through our response to the pandemic, and to the financial crisis that preceded it. And we will need to draw on our passionate commitment to our mandate and our vision to prepare for what lies ahead. But if passion and persistence are what makes an effective regulator and supervisor then we are in good shape, as we have both in abundance.

At this point, I will be glad to take a few questions.