

Market Risk Banking Book *Quantitative Impact Study*

Information Session

September 18, 2024



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(Tsleil-Waututh Nation)

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Speakers

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Agenda

1. Introduction – Market Risk Under Capital Modernization
2. Interest Rate Risk in Banking Book (IRRBB)
3. Quantitative Impact Study (“QIS”)
 - Methodology for QIS
 - Reporting for QIS
4. QIS Timeline & Next Steps
5. Question and Answer

Introduction

Market Risk Under Capital Modernization

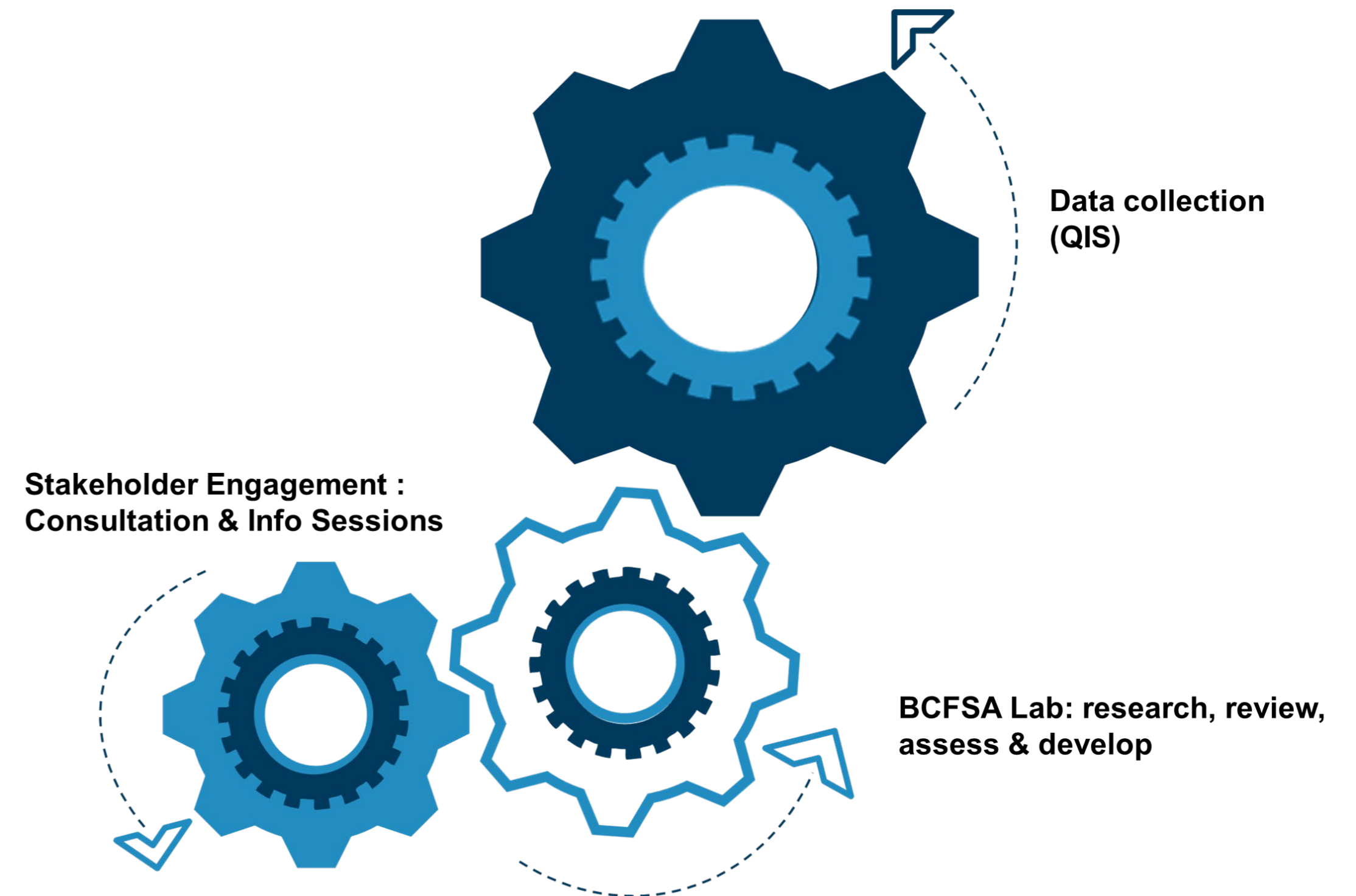
How is Market Risk addressed under the Capital Modernization Project?

- BCFSA gathered information about market risk exposures during the general consultation
- Proposed Capital Rule (effective Jan 1, 2026) does not include market risk. BCFSA plans to address market risk in future amendments of the Capital Rule
- Updating the ICAAP, Supervisory Review Process and reporting requirements
- BCFSA is committed to further consultation with stakeholders



BCFSA's Approach for Market Risk

- Gather information and data with a Quantitative Impact Study and perform an independent impact assessment
- ICAAP – update to ICAAP Guideline, consultation in Spring 2025
- Final decision on approach will be based on the QIS findings, and consultation with credit unions
- BCFSA plans to release consultation paper on market risk approach in early 2026



Interest Rate Risk in Banking Book (IRRBB)

Interest Rate Risk in the Banking Book (IRRBB)

INTEREST RATE RISK IS ONE OF THE PRIMARY RISKS WHICH THE B.C. CREDIT UNION SYSTEM IS EXPOSED TO

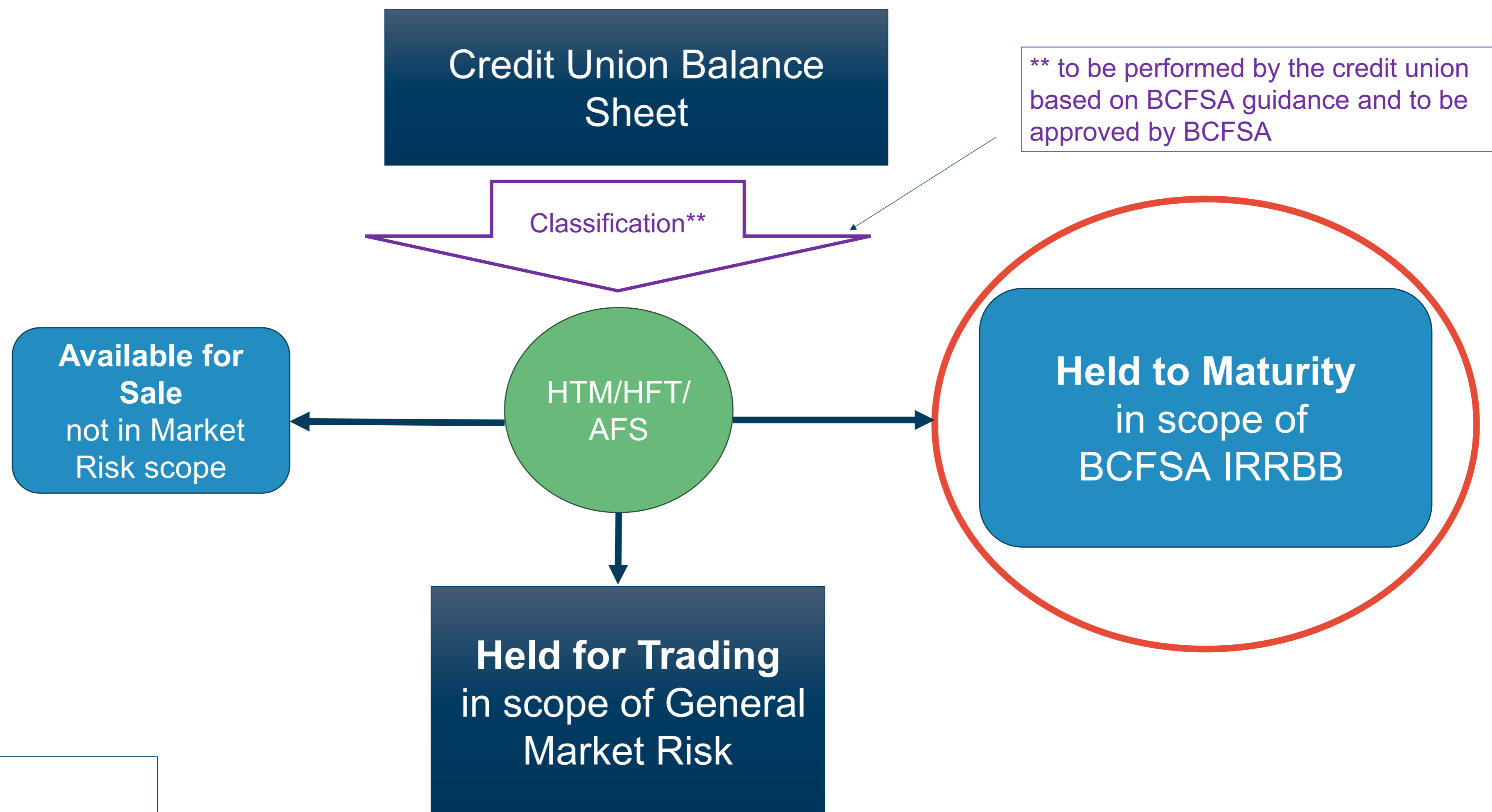
- Exacerbated by:
 - present volatility in market;
 - rapid shift in interest rate regime; and
 - shifting macroeconomic environment
- Identification, measurement, and control requires standardization across the B.C. credit union system

Rationale

Protecting the B.C. credit union system from unexpected rate shocks is BCFS's main rationale for the IRRBB methodology

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Market Risk Process Flow



HTM: Held to Maturity
HFT: Held for Trading
AFS: Available for Sale
IRRBB: Interest Rate Risk in Banking Book

Interest Rate Risk in the Banking Book (IRRBB)

- Focus only on all credit unions' banking books
- Positions held to maturity (HTM) and hedges of such positions

NOT IN SCOPE

- Mandatory Liquidity Pool ("MLP") instruments not in scope of proposed BCFSA Market Risk regulations



IRRBB Methodology

REFINEMENT/DIVERGENCE

General alignment with Basel Committee on Banking Supervision (“BCBS”) /OSFI IRRBB methodology.

- Risk-free interest rate to be used for discounting cash flows
- Treatment of variable interest rate positions
- Treatment of non-maturity deposits (NMDs)
- Treatment of embedded automatic interest rate options

Changes added to BCFSA’s proposed IRRBB methodology to reflect credit unions’ business models and operational constraints.



Quantitative Impact Study (QIS) Overview

Quantitative Impact Study

IT IS A DATA COLLECTION, SCENARIO ANALYSIS, AND PROPOSED METHODOLOGY DRY RUN EXERCISE THAT WILL ALLOW US TO:

- Quantify capital impact vis-a-vis existing methodologies;
 - Calibrate methodology parameters; and
 - Incorporate any necessary modifications based on the QIS results
- BCFSA Interest Rate Risk in Banking Book regulations



QIS Reporting – all Credit Unions & C1

- Split Balance sheet classification of exposures into:
 1. Banking Book; or
 2. Trading Book

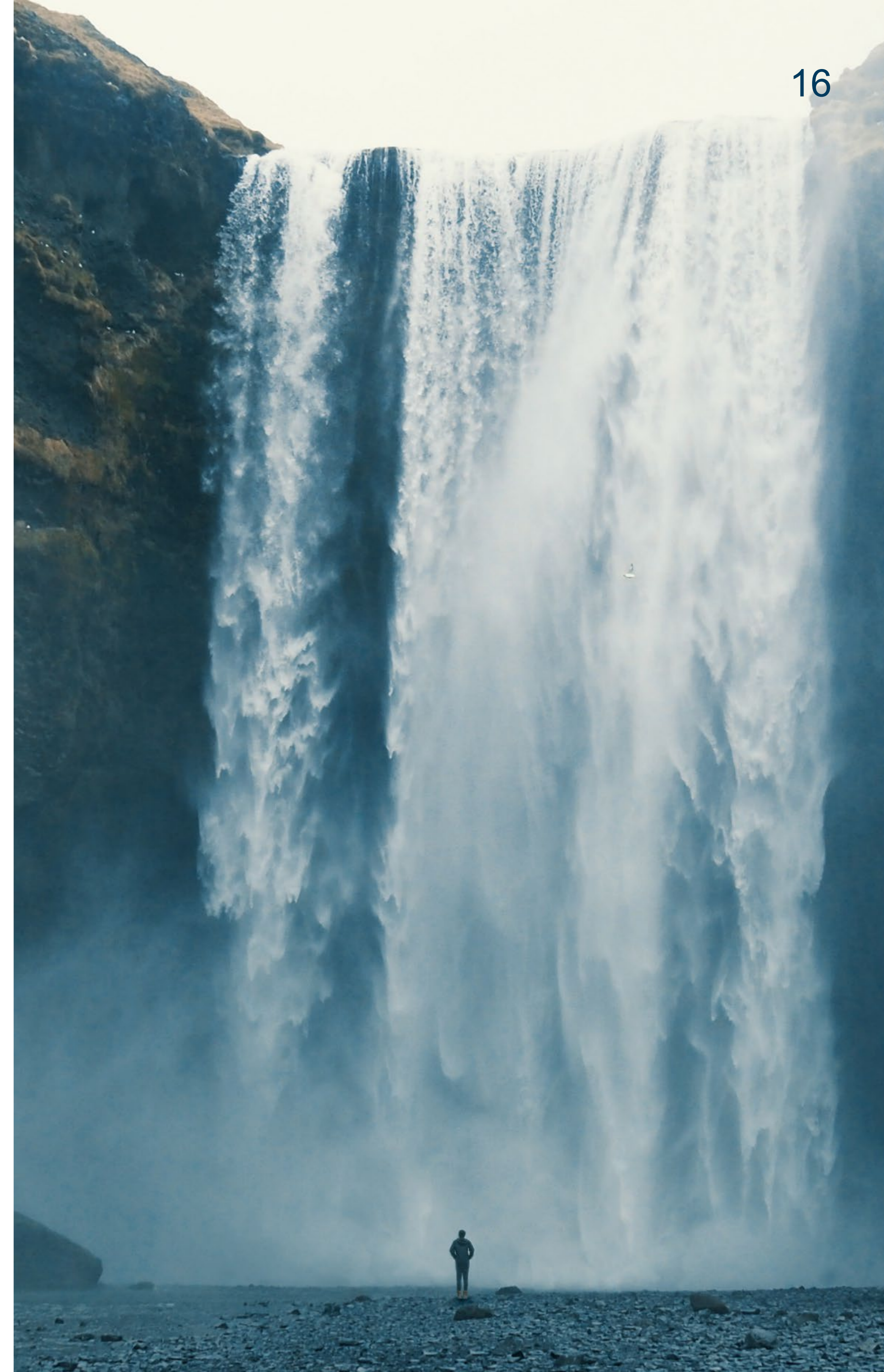
Key metrics:

Economic Value of Equity (“EVE”): measures the theoretical change in the net present value of the balance sheet excluding equity due to yield-curve perturbations

Net Interest Income (“NII”): the difference between total interest income and total interest expense, taking into account hedging activity (e.g. derivatives)

Reporting Δ EVE and Δ NII metrics under:

1. Proposed approach; and
2. Existing methodology used by all credit unions at present.



Existing ALM Reporting

ALL CREDIT UNIONS AND CENTRAL 1

- Balance sheet analysis at a minimum quarterly
- In-house or through third party providers
- Calculation of EVE or NII or both metrics based on CU specific scenarios and methodology
- Select credit unions perform stochastic projection of yield curves to calculate Earnings at Risk (“EaR”)



QIS – IRRBB Reporting

ALL CREDIT UNIONS AND CENTRAL 1

- Calculation of both EVE and NII for defined scenarios and under standardized methodology
- Articulate classification of NMDs into Basel defined categories and back-testing of assumptions against realized data
- Articulate prepayment assumptions and back test them
- No calculation of Earnings at Risk (EaR) or Economic Value at Risk (EVaR)

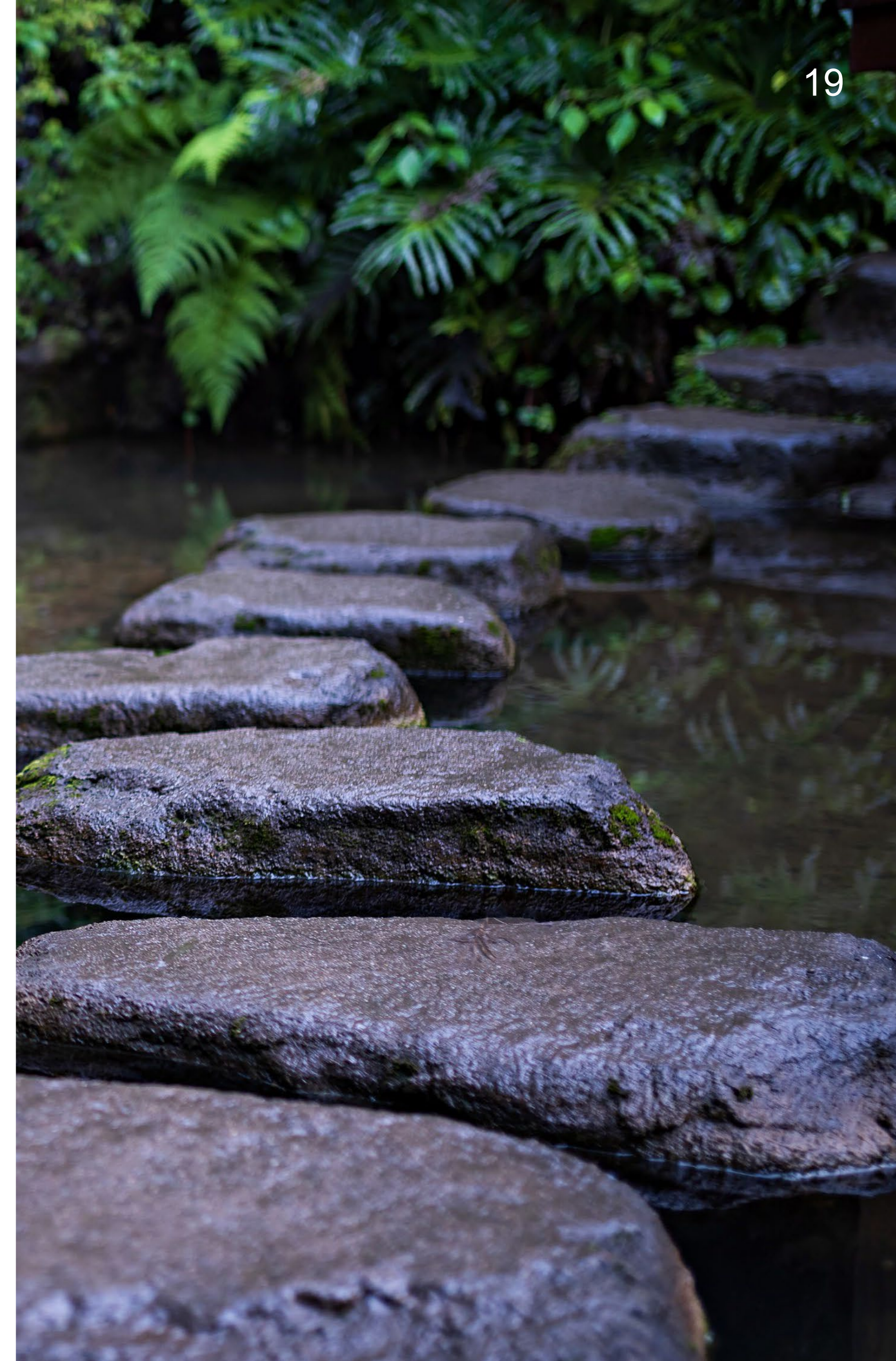
QIS Reporting Requirements

Standardization of:

- Calculation methodology
- Interest rate shocks
- Position treatment
- Reporting

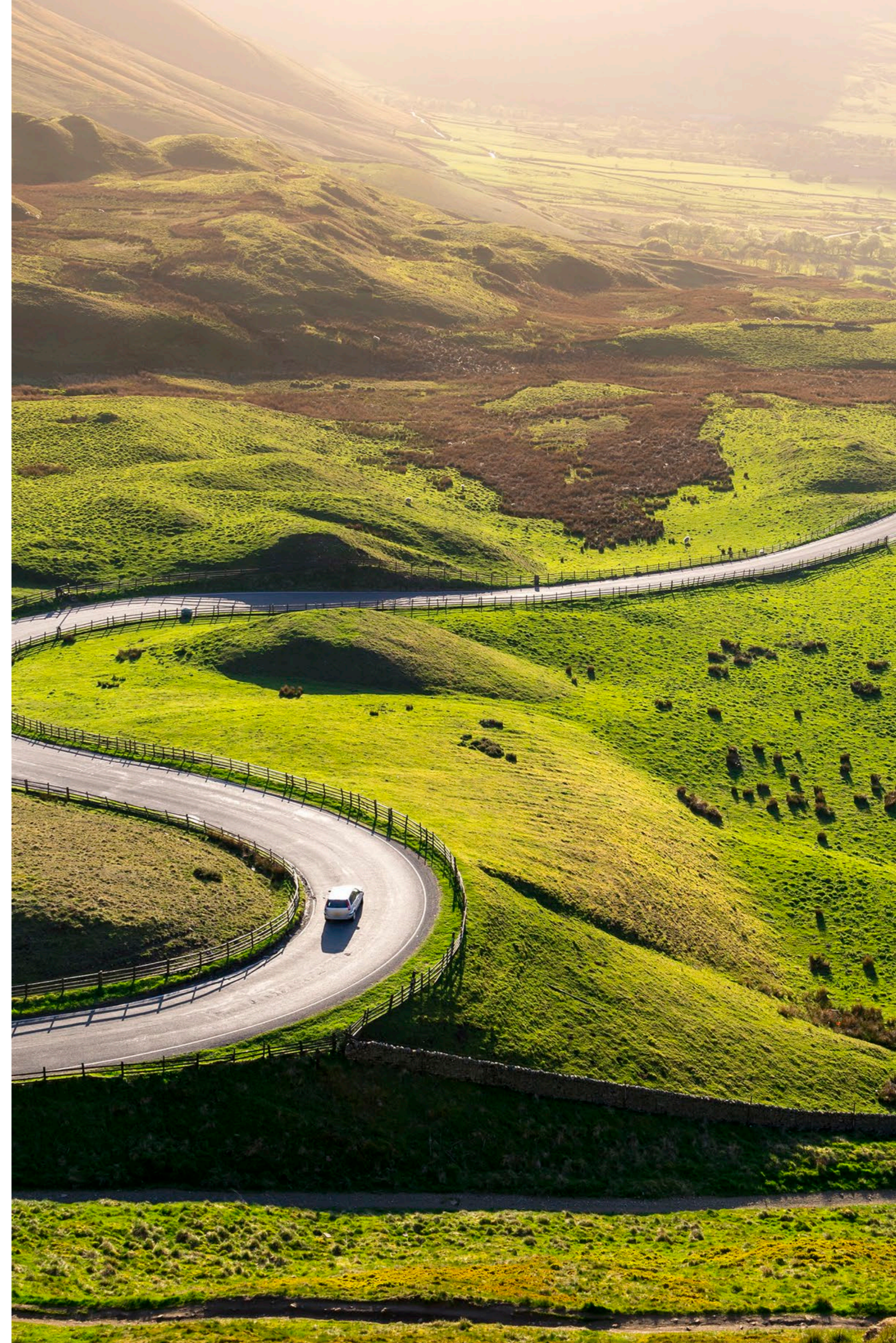
IRRBB Quantitative Impact Study Timeline

- **First submission: November 15, 2024**
- Submission via IRIS
- Quarterly submission for five consecutive quarters:
 - September 2024 (submit by November 15, 2024);
 - December 2024 (submit by February 10, 2025);
 - March 2025 (submit by April 30, 2025);
 - June 2025 (submit by July 31, 2025); and
 - September 2025 (submit by October 31, 2025)



Next Steps

- **BCFSA will host the next Information Session on October 3rd**
 - Focus on the QIS and completing the Excel template
 - Please pass on the invitation and materials to your Treasury Staff or service providers who will be working on the QIS reporting
- **BCFSA will send QIS materials to all credit unions:**
 - Introduction to BCFSA Interest Rate Risk in Banking Book Methodology
 - BCFSA Interest Rate Risk in Banking Book Quantitative Impact Study (QIS)
 - Excel Reporting Template
- Final decision on approach will be based on the QIS findings, and consultation with credit unions
- BCFSA plans to release consultation paper on market risk approach in early 2026



Questions?

Contact: CUCapital@bcfsa.ca

Please reach out to CUCapital@bcfsa.ca if you have detailed questions following the session



Thank you.