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<p><b>THE LAW OF BANKING AND PAYMENT IN CANADA</b> Bradley Crawford, Q.C. Release No. 3, December 2025</p>
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**What’s New in this Update:**

This release features a new Chapter 45, “Model Risk Management”.

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**Highlights:**

**Model Risk Management**—On September 11, 2025, the Office of the Superintendent of Financial Institutions Canada (OSFI) published its final version of Guideline E-23 Model Risk Management 2027 (Final Guideline). The Final Guideline, will take effect on May 1, 2027. The primary focus is to require risk management protocols on the use of artificial intelligence (AI) models in federally regulated financial institutions (FRFIs). The FRFIs subject to the Final Guideline include banks, foreign bank branches, life insurance and fraternal companies, property and casualty companies, and trust and loan companies.

**Model Risk Management—Models and Model Risk**—Model risk assessment involves considering the risk of an adverse financial impact arising from the design, development, deployment and use of a model. The OSFI Guideline acknowledges that residual risk may remain after institutions have implemented controls and tools to identify, measure and mitigate model risk and does not seek perfection in application.

The Model Risk requirements need to fit with the enterprise-wide model risk management (MRM) frameworks. The Model Risk Management guideline requires FRFIs to develop risk-based policies and procedures for model use that are proportional to the size, risk profile, complexity of operations and interconnectedness in the financial system for that FRFI. The MRM basically requires FRFIs to:

- define processes and requirements to identify, assess, manage and monitor model risk
- establish methods for tracking model usage and decommissioning models that are no longer in use
- develop policies and procedures for the major components of the framework, including model identification, model inventory, model risk ratings and requirements for model lifecycle governance
- establish model risk reporting and review standards
- models or data sourced from external sources must also be considered consistent with OSFI Guideline B-10 Third-Party Risk Management Guideline
- a model inventory is required to record all models and their model risk rating.