Legend:
Insertion
~~Deletion~~
~~Moved from~~
Moved to

Statistics:	
	Count
Insertions	333
Deletions	319
Moved from	22
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I. Purpose and Scope of the Guideline

~~The purpose of this~~This guideline ~~is to communicate~~communicates OSFI's expectations with respect to corporate governance of federally~~-~~ regulated financial institutions (FRFIs). It applies to all FRFIs other than the branch operations of foreign banks and foreign insurance companies.[Footnote 1]

OSFI~~ **recognizes that FRFIs may have different**~~'s corporate governance expectations are principles-based and recognize that a FRFI's corporate governance practices ~~**depending**~~may depend on~~**: their**~~ its size; ownership structure; nature, scope and complexity of operations; ~~**corporate**~~ strategy; and risk profile.

This guideline complements:

- Relevant provisions of the *Bank Act*, the *Insurance Companies Act*, the *Trust and Loan Companies Act*, the *Cooperative Credit Associations Act* and associated regulations; and,
- OSFI's ~~*Supervisory Framework and Assessment Criteria*.~~

~~Section II of the guideline describes the importance and uniqueness of sound corporate governance for financial institutions. Sections III, IV and V, respectively, focus on three fundamental components of corporate governance for FRFIs:~~

- ~~The role of the Board of Directors (Board);~~*Supervisory Framework* and *Assessment Criteria* [Footnote 2]
- ~~Risk governance; and~~
- ~~The role of the Audit Committee.~~

~~Finally, Section VI discusses the critical role of corporate governance in the supervisory process and OSFI's supervisory assessment.~~

~~**OSFI expects Boards and Senior Management of FRFIs to be proactive, and to be aware of best practices related to corporate governance that are applicable to their institution. Where appropriate, FRFIs should adopt these best practices.**~~

~~II.~~

Corporate Governance for ~~FRFIs~~

~~Defining Corporate Governance~~Financial Institutions

~~The Organization for Economic Cooperation and Development (OECD) defines corporate~~Corporate governance ~~as: “~~is a set of relationships between a company’s management, its ~~board~~Board of Directors (Board[Footnote 3]), its shareholders, and other stakeholders. ~~Corporate governance~~It also provides the structure through which the objectives of the company are set, and through which the means of attaining those objectives and monitoring performance are determined. ~~Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring.”[Footnote 3]~~

~~Appropriate organizational structures, policies and other controls help promote, but do not ensure, good corporate governance. Governance lapses can still occur through undesirable behaviour and corporate values. Effective corporate governance is not only the result of “hard” structural elements, but also “soft” behavioural factors driven by dedicated directors and management performing faithfully their duty of care to the institution.~~

~~What makes organizational structures and policies effective, in practice, are knowledgeable and competent individuals with a clear understanding of their role and a strong commitment to carrying out their respective responsibilities.~~

~~The Board, Senior Management and the Oversight Functions[Footnote 4]~~

~~A FRFI’s Board and Senior Management are ultimately accountable for the FRFI’s safety and soundness, and its compliance with governing legislation. In this guideline, the roles of the Board and Senior Management are highlighted. The Board is responsible for providing stewardship, including direction-setting and general oversight of the management and operations of the entire FRFI. Senior Management is accountable for implementing the Board’s decisions, and is responsible for directing and overseeing the operations of the FRFI. This distinction in the responsibilities between the Board and Senior Management is critical.~~

~~In carrying out its responsibilities, Senior Management may delegate some of its responsibilities to the FRFI’s oversight functions. The oversight functions are responsible for providing enterprise-wide oversight of operational management.[Footnote 5]~~

~~The composition of the Senior Management of a FRFI will vary from institution to institution. Senior Management is composed of the Chief Executive Officer (CEO) and individuals who are directly accountable to the CEO. In addition to the CEO’s direct reports, such as the heads of major business platforms or units, Senior Management may also include the executives responsible for the oversight functions, such as the Chief Financial Officer (CFO), Chief Risk Officer (CRO), Chief Compliance Officer (CCO), Chief Internal Auditor, and Chief Actuary (CA)[Footnote 6].~~

~~The Uniqueness of Financial Institutions~~

The quality of FRFI corporate governance practices is an important factor in maintaining the confidence of depositors and policyholders, as well as overall market confidence. This guideline, therefore, draws attention to specific areas of corporate governance that are especially important for financial institutions (e.g., risk governance), owing to the unique nature and circumstances of financial institutions and risks assumed relative to other corporations. See **Annex A** for a description of the special nature of financial institutions.

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~~III~~II. The ~~Role of the~~ Board of Directors

The Board ~~**plays a pivotal role in the success of a FRFI through the approval of**~~is responsible for the FRFI's ~~**overall**~~business plan, strategy ~~**and**~~, risk appetite and culture, and ~~**its oversight of**~~oversees the FRFI's Senior Management and internal controls.

The Role of the Board ~~Responsibilities~~

In addition to the roles and responsibilities of the Board outlined in federal legislation[Footnote 4], the Board should discharge, at a minimum, the following essential duties~~:~~ in relation to the FRFI:

~~1.~~ **1. Approve** ~~the FRFI's~~**and oversee:**

Strategy

- ~~o~~ Short-term and long-term ~~enterprise-wide~~ business ~~objectives, strategy and plans (capital, financial, liquidity), including the Risk Appetite Framework.[Footnote 7]~~ plan and strategy;
- ~~o~~ Significant strategic initiatives ~~or transactions, such as~~(e.g., mergers and acquisitions);

Risk Management and Oversight

- Risk Appetite Framework;[Footnote 5]

- ~~o~~ Internal ~~control framework~~Control Framework;[Footnote 6]

- Significant policies, plans and strategic initiatives related to the management of, or that materially impact, capital and liquidity (e.g., internal capital targets, share issuance);

- Codes of ethics and conduct;

Board, Senior Management and Oversight Functions

- ~~o~~ Appointment, performance review, and compensation of the CEO and, where appropriate, other key members of Senior Management, including the heads of the ~~oversight functions;~~Oversight Functions;

- ~~o~~ Succession plans with respect to the Board, CEO and, where appropriate, other key members of Senior Management, including the heads of the ~~oversight functions;~~Oversight Functions;

- ~~o~~ Mandate, resources and budgets for the ~~oversight functions; and~~Oversight Functions;

Audit Plans

- ~~o~~ External audit plan, including audit fees and the scope of the audit engagement~~.~~; and

- Internal audit plan.

~~These~~The duties above are the primary ~~functions~~responsibilities of the Board, and should be the main focus of the Board's attention and activities.

~~2.~~ ~~Review and discuss~~2. Provide challenge, advice and guidance to the Senior Management of the FRFI~~'s:~~, as appropriate, on:

Operational and Business Policies

- ~~o~~ Significant operational ~~and~~, business and risk management policies~~;~~ of the FRFI, including those in respect of credit, market, operational[Footnote 7], regulatory compliance and strategic risks, and their effectiveness; and

  - ~~Business and financial performance relative to the Board-approved strategy and Risk Appetite Framework;~~

- ~~o~~ Compensation policy for all human resources~~, to be~~ that is consistent with the Financial Stability Board (FSB) *Principles for Sound Compensation*[Footnote 8] and related *Implementation Standards*;[Footnote 9]

  - ~~Implementation of internal controls, including their effectiveness;~~

  - ~~Organizational structure; and~~

  - ~~Compliance with applicable laws, regulations and guidelines~~

Business Performance and Effectiveness of Risk Management

- Performance of the FRFI relative to the Board-approved business plan and strategy;

- Effectiveness of the Risk Appetite Framework;
- Effectiveness of the Internal Control Framework;
- Effectiveness of the Oversight Functions; and
- Effectiveness of significant policies and plans related to management of capital and liquidity (e.g., ICAAP/ORSA report).

~~These functions~~The duties above are the responsibility of Senior Management. ~~However, through thorough review and discussion, the Board has a critical role in providing high-level guidance to Senior Management with respect to these matters.~~The Board has the discretion to decide the extent and nature of its input, and to provide challenge, advice and guidance on these matters and others.

The Board should be satisfied that the decisions of Senior Management are consistent with the Board-approved business plan, strategy and risk appetite of the FRFI, and that the corresponding internal controls are sound.

The Board and Senior Management

2. Senior Management is responsible for implementing the Board's decisions and directing the operations of the FRFI.

Senior Management is composed of the Chief Executive Officer (CEO) and individuals who are directly accountable to the CEO, such as the heads of major business platforms or units. In addition, Senior Management may also include the executives responsible for the Oversight Functions, such as the Chief Financial Officer (CFO), Chief Risk Officer (CRO), Chief Compliance Officer (CCO), Chief Internal Auditor, and Appointed Actuary.

Senior Management is responsible for directing the operations of the FRFI within the authority delegated to them by the Board, and in compliance with applicable laws and regulations.

In order to fulfil its responsibilities, the Board relies on Senior Management to provide sound advice on the organizational objectives, plans, strategy, structure and significant policies of the FRFI. Senior Management should set out information, options, potential trade-offs, and recommendations to the Board in a manner that enables the Board to focus on key issues and make informed decisions in a timely manner.

The Board should, in turn, understand the decisions, plans and policies being undertaken by Senior Management and their potential impact on the FRFI. ~~**It should probe, question and seek assurances from Senior Management that these are consistent with the Board-approved strategy and risk appetite for the FRFI, and that the corresponding internal controls are sound and implemented in an effective manner. The Board should establish processes to periodically assess the assurances provided to it by Senior Management.**~~

The Board ~~is not responsible for the on-going and detailed operationalization of its decisions and strategy. These should be matters for Senior Management to consider.~~

~~While Senior Management should have regular interaction with regulators with respect to the overall operations of the FRFI, the Board should ensure that regulators are promptly notified of substantive issues affecting the FRFI.~~

~~Board Responsibilities of FRFI Subsidiaries~~and the Oversight Functions

The Oversight Functions provide independent and objective assessments to the directors to allow them to fulfill their responsibilities. The Oversight Functions identify, measure, and report on the FRFI's risks, assess the effectiveness of the FRFI's risk management and internal controls, and determine whether the FRFI's operations, results and risk exposures are consistent with the FRFI's risk appetite.

The heads of the Oversight Functions should have sufficient stature and authority within the organization, and should be independent from operational management. The heads of the Oversight Functions should have unfettered access and a direct reporting line to the Board or the appropriate Board committee.

The Board should regularly assess the effectiveness of the FRFI's Oversight Functions.

Boards of ~~parent companies should determine what Board structures for the FRFI's subsidiaries would best contribute to effective oversight of subsidiary operations. Regardless of the composition of the Boards of subsidiaries, parent Boards~~Subsidiaries or with FRFI Subsidiaries

A FRFI that is part of a larger corporate group (another FRFI or company in Canada, or another company abroad) may be subject to or may adopt certain policies, practices or procedures of the parent that govern strategy, risk oversight and controls. In this situation, the subsidiary Board should be satisfied that these policies, practices, or procedures are appropriate for the FRFI's business plan, strategy and risk appetite, and comply with specific Canadian regulatory requirements.

If the parent is another FRFI, the parent Board should exercise adequate oversight of the activities of ~~subsidiaries to ensure~~the subsidiary FRFI to be satisfied that the parent Board can meet its enterprise-wide oversight responsibilities applicable to FRFIs under this guideline.

Board Effectiveness

3. An effective Board should~~, **through its collective expertise, skills, experiences and competencies, provide objective**~~ provide independent oversight of, and thoughtful guidance and constructive challenge to~~, **and oversight of**~~, Senior Management.

The hallmarks of an effective Board~~, and its directors,~~ include demonstrated sound judgment, initiative, proactiveness, responsiveness and operational excellence. Board members should strive to facilitate open communication, collaboration and appropriate debate in the decision-making process.

~~**Judgment**~~

> ~~The Board should make sound and well-informed decisions, taking into consideration the FRFI's business objectives and risk appetite.~~

~~**Initiative**~~

> ~~The Board should exercise its responsibilities in a proactive and timely manner with a readiness to probe, challenge, as well as provide appropriate guidance to, Senior Management.~~

~~**Responsiveness**~~

> ~~The Board should be responsive to issues or deficiencies identified by Senior Management, the oversight functions of the FRFI, regulators or itself (through internal Board evaluations), and should oversee the rectification of those deficiencies.~~

~~**Operational excellence**~~

> ~~The Board should have practices and processes that permit open discussion, debate, and advance consideration of important FRFI matters and transactions based on relevant and timely information. The Board should periodically review the adequacy and frequency of the information needed in order for the Board to fulfill its duties.~~

The Board ~~**of a FRFI**~~ should regularly ~~**conduct a self-assessment of the effectiveness of Board and Board Committee practices, occasionally with the assistance of independent external advisors. The scope and frequency of such external input should be established by the Board**~~assess its practices, and those of the Board committees, and should pursue strategies to enhance its overall effectiveness.

Board ~~**Skills and Competencies**~~*Composition*

~~While OSFI expects all directors to play an effective role, it is recognized that the contribution of individual directors will vary based on their particular qualifications and experience. However, the~~The Board should, collectively, bring a balance of diversity, expertise, skills, experience, competencies and perspectives, taking into consideration the FRFI's strategy, risk profile, culture and overall operations. The contributions of individual directors will reflect their particular expertise, skills, experience and competencies.

Relevant financial industry and risk management expertise are key competencies for the ~~**FRFI**~~ Board. There should be ~~**reasonable**~~appropriate representation of these skills at the Board and Board ~~**Committee**~~committees levels.

~~In order to assess the skills and competencies required to oversee the FRFI's strategy, products, and risks, Boards~~The Board should have a skills and competency evaluation process~~, which should be reviewed annually and updated by the appropriate Board committee. The skills and competency evaluation process should be~~ that is integrated with the overall Board succession or Board renewal plans, ~~with~~and that pays particular attention to the positions of the Chair of the Board and Chairs of the Board committees.~~Directors should seek internal or external education opportunities in order to fully understand the risks undertaken by the FRFI, as well as developments in corporate and risk governance practices.~~ Diversity should also be a factor in these plans.

Board Independence

The Board, collectively, should be independent from Senior Management of the FRFI.[Footnote 10] ~~OSFI does not view any one Board structure or process as guaranteeing independence, beyond separating the roles~~Achieving independence can involve various Board structures and processes. Regardless of the approach, in all situations, OSFI views the separation of the Chair and CEO as critical (see next section). ~~However, it~~It is important that the Board's behaviour and decision-making ~~process be~~processes are objective and effective, taking into account the particular circumstances of the FRFI.

The Board's ability to act independently of Senior Management can be demonstrated through practices such as ~~having~~ regularly scheduled Board and Board ~~Committee~~committee meetings that include sessions without Senior Management present.

The Board should have a director independence policy that considers the specific shareholder/ownership structure of the institution, as well as director tenure. The recruitment process for new directors and the development of a director profile (both responsibilities of the Board) should emphasize the independence of Board members from Senior Management. ~~The FRFI Board should document and approve a director independence policy that takes into consideration the specific shareholder/ownership structure of the institution. Where appropriate, director tenure should also be factored into the independence policy.~~~~**Board Chair**~~

Board and Board Committee Chairs

4. The role of the Board Chair should be ~~separated~~separate from the CEO, as this is critical in maintaining the Board's independence~~, as well as~~ and its ability to execute its mandate effectively.

~~An effective~~Effective Boards and Board ~~requires~~committees require a Chair that is experienced, skillful and exhibits leadership that encourages open discussion and appropriate debate.

The ~~Board Chair is expected to spend more time in the role than is required of other Board members. The Chair~~Chair of the Board and the chairs of Board committees, should have frequent dialogue with, and a strong level of influence among, other Board members and Senior Management, as well as access to all FRFI information and staff. Given the critical ~~position~~nature of the role, the Chair ~~among Board members, he/she~~ should also foster direct and on-going dialogue with regulators.

~~Interface between the Board and Senior Management~~

~~The Board's primary interface with Senior Management is through the CEO. As well, the Board or individual Board members should meet regularly with the management of business units and the oversight functions with and without other members of Senior Management present.~~

~~The CEO and other members of Senior Management are responsible for directing and overseeing the effective management of the FRFI within the authority delegated to them by the Board and in compliance with applicable laws and regulations. In this regard, their skills, competence, integrity and experience are critical factors in the safety and soundness of the FRFI.~~

~~To fulfil its responsibilities, the Board relies on Senior Management to provide it with sound advice on the organizational objectives, strategy, structure and significant policies of the FRFI. Senior Management should set out and analyze options for the Board, identify potential trade- offs of each option, and make and support recommendations. Senior Management should ensure that the information and material presented to the Board is relevant, and packaged in a manner that enables the Board to focus on key issues and to make informed decisions.~~

~~Senior Management facilitates the Board's oversight role by providing relevant, accurate and timely information to the Board, enabling it to oversee the management and operations of the institution, assess policies, and determine whether the FRFI is operating in an appropriate control environment. Senior Management should provide assurances to the Board that policies, processes and controls are adequate, that they are operating appropriately, and that risk is appropriately controlled.~~

~~The FRFI's CEO should ensure that the oversight functions have the resources and support to fulfil their duties, are sufficiently independent of operational management, and have the capacity to offer objective opinions and advice to the Board and to Senior Management.~~

~~Interface between the Board and the Oversight Functions~~

~~OSFI expects FRFIs to establish oversight functions that are independent from operational management. The size and sophistication of the oversight functions may vary based on the nature, size and complexity of a FRFI and its inherent risks. A Board will often oversee the FRFI's oversight functions through an appropriate committee, such as the Audit Committee or Risk Committee.~~

~~The heads of the oversight functions should have sufficient stature and authority within the organization and be independent from operational management. They should have unfettered access and, for functional purposes, a direct reporting line to the Board or the relevant Board committee (e.g., Audit, Risk).~~

~~In order to fulfil its duties, the Board relies on the objective advice of the oversight functions. These oversight functions help the Board to fulfil its role of stewardship and oversight of the FRFI's operations by validating whether the FRFI's controls within its business units are effective and whether the institution's operations, results and risk exposures are reliably reported. To be effective, these oversight functions should provide objective assessments.~~

~~The Board should approve the mandate, resources (amount and type) and budgets of the oversight functions and, where appropriate, approve the appointment, performance review and compensation of the heads of these functions.~~

~~The Board should review and discuss the findings and reports produced by the oversight functions, understand how material disagreements with Senior Management (or other parts of the organization) are being addressed, follow-up on any concerns or findings being raised by the oversight functions and track Senior Management's action plans.~~

~~In small, less complex FRFIs, in place of their establishing specific oversight functions, OSFI expects that the Board and Senior Management will ensure that other functions or processes within or external to the FRFI provide the level of compensating controls and independent enterprise-wide oversight required.~~

~~The Board should regularly assess the effectiveness of the FRFI's oversight functions and processes. Occasionally, as part of its assessment, the Board should conduct a benchmarking analysis of those functions or their processes with the assistance of independent external advisors. The scope and frequency of such external input should be established by the Board.~~

~~Board Oversight of Internal Controls~~

~~A FRFI's internal control framework (or "internal controls") encompasses all the personnel, policies, processes, limits, culture and other aspects of a FRFI that support the achievement of the FRFI's objectives. It facilitates the efficiency of operations, contributes to effective risk management, assists compliance with applicable laws and regulations, and strengthens the FRFI's capacity to respond appropriately to business opportunities and challenges.~~

~~The Board should approve the overall internal control framework and monitor its effectiveness. The Board should receive regular reports on the general operations of the FRFI and its financial condition, the performance of risk management and other control systems, and any ineffectiveness or significant breaches of these controls, the institution's code of conduct, or laws and regulations.~~

~~As a part of the evaluation of the adequacy and effectiveness of FRFI internal controls (for the FRFI as a whole and for individual business activities), the Board can utilize internal and external audit (e.g., audit reports), actuarial (report of the independent actuary), and regulatory opinions on the financial condition of the FRFI.~~

~~The Board should seek assurances from Senior Management that prompt action is being taken to correct any material internal control deficiencies or breaches, and that there is a process in place to monitor and report on the progress made to correct such deficiencies. The Board, along with Senior Management, should also proactively consider whether deficiencies identified in one area of the FRFI's operations may also be present in other areas.~~

Board committee chairs should be independent, non-executive[Footnote 11] directors.

~~IV~~III. Risk Governance

5. The Board and Senior Management, consistent with their specific roles and responsibilities and through their behaviours, actions and words, promote a risk culture that stresses integrity and effective risk management throughout the FRFI.

General

Risk taking is a necessary part of ~~financial institutions'~~a FRFI's business. ~~FRFIs'~~Accordingly, business strategies incorporate decisions regarding the risks the FRFI is willing to undertake and ~~the means with which~~how it will manage and mitigate those risks.

Risk governance is a distinct and crucial element of the FRFI's corporate governance ~~of FRFIs~~. Risks may arise from direct ~~exposure or through~~ exposures taken by the FRFI, subsidiaries, affiliates or ~~counter-parties~~counterparties, or indirectly through activities that create risks to the FRFI's reputation. FRFIs should be in a position to identify the significant risks they face, assess their potential impact and have policies and controls in place to manage them effectively. ~~This includes, as appropriate, the following risks: liquidity, credit, market, insurance, operational and any other risks applicable to the FRFI.~~

Risk Appetite Framework

~~**A**~~6. The FRFI should have a ~~**Board-approved**~~ Risk Appetite Framework that guides the risk-taking activities of the FRFI.

~~A~~The FRFI should develop a Risk Appetite Framework that is enterprise-wide and tailored to its domestic and international business activities and operations. The Risk Appetite Framework, as approved by the Board, should be well-understood throughout the organization and embedded within the culture of the FRFI. All operational, financial and corporate policies, practices and procedures of the FRFI should ~~support~~be guided by the Risk Appetite Framework.

The Risk Appetite Framework should set basic goals, benchmarks, parameters and limits (e.g., level of losses) as to the amount of risk ~~a~~the FRFI is willing to accept, taking into account various financial, operational and macroeconomic factors. It should consider the material risks to the FRFI, as well as the institution's reputation vis-à-vis policyholders, depositors, investors and customers.

The Risk Appetite Framework should be forward-looking and consistent with the FRFI's business model, overall philosophy, short-term and long-term ~~strategic plan, capital plan, financial plan, business objectives~~strategy and corresponding risk mitigation ~~strategy~~. It is intended to provide boundaries on the on-going operations of ~~a~~the FRFI with respect to asset class and liability choices, activities and participation in markets that are not consistent with the stated risk appetite of ~~an~~the institution. Refer to **Annex B** for further details.

The establishment of controls and a process to ensure their effectiveness are critical elements of the ~~risk appetite framework~~Risk Appetite Framework, as they help to ensure that the FRFI stays within the risk boundaries set by the Board.

Oversight of Risk

Risk management systems and practices will differ, depending on the scope and size of the FRFI and the nature of its risk exposures. To manage risks effectively, ~~FRFI Boards~~the Board and Senior Management ~~need to have a full understanding of~~must understand the risks attendant to the FRFI's business model, including each business line and product, and how they relate to the FRFI's strategy and Risk Appetite Framework.

~~Senior Management should oversee regular reviews of risk management policies and practices to ensure that they remain appropriate and effective in light of changing circumstances and risks. The Board should seek assurances from Senior Management that these controls are operating effectively, and that the risk positions of the FRFI are in compliance with the delegated authorities and limits. It should establish processes to periodically assess the assurances provided to it.~~

Board Risk Committee

~~**Depending on the nature, size, complexity and risk profile of the FRFI, the**~~7. The Board should establish a ~~**dedicated**~~ Board Risk Committee[Footnote 12] to oversee risk management on an enterprise-wide basis.~~[Footnote 11]~~

Guided by the FRFI's Risk Appetite Framework, the Risk Committee should have ~~a sound~~an understanding of the types of risks to which the FRFI may be exposed, and ~~of~~ the techniques and systems used to identify, measure, monitor, report on and mitigate those risks.

The Risk Committee should have a clear mandate. All ~~committee~~Committee members, including the Chair, should be non-executives~~[Footnote 12]~~ of the FRFI~~, and an adequate number of committee members should have sufficient knowledge in the risk management of financial institutions. Where appropriate, the Committee should include individuals with technical knowledge in risk disciplines that are significant to the FRFI~~. There should be reasonable representation of key competencies for the Risk Committee, notably relevant financial industry and risk management expertise.

As part of its ~~duties~~duty to oversee risk management of the FRFI, the Risk Committee should seek assurances from the CRO (or equivalent) that the ~~oversight of the~~ risk management ~~activities~~function of the FRFI ~~are~~is independent from operational management, ~~are~~is adequately resourced, and ~~have~~has appropriate status and visibility throughout the organization.

The Risk Committee should receive timely and accurate reports on significant risks of the FRFI and exposures relative to the FRFI's risk appetite (including approved risk limits). It should provide input to the approval of material changes to the FRFI's strategy and corresponding risk appetite. As well, the Risk Committee should be satisfied with the manner in which material exceptions to risk policies and controls are identified, measured, monitored, ~~measured~~ and controlled, as well as ~~the remedial actions when~~how exceptions/breaches are ~~identified~~addressed.

Chief Risk Officer

~~**FRFIs**~~8. The FRFI should have a senior officer (CRO or equivalent[Footnote 13]) who ~~**has responsibility**~~is responsible for the oversight of all ~~**relevant**~~ risks across the firm ~~**(CRO or equivalent).**~~ ~~[Footnote 13]~~ ~~**The CRO should have sufficient stature and authority within the organization, and be independent from operational management. The CRO should have unfettered access and, for functional purposes, a direct reporting line to the Board or the Risk Committee**~~.

The CRO is the head of the FRFI's risk management function. The CRO and the risk management function are responsible for identifying, measuring, monitoring and reporting on the risks of ~~a~~the FRFI on an enterprise-wide and disaggregated level, independently of the business lines or operational management.

The CRO should have sufficient stature and authority within the organization, and should be independent from operational management. The CRO should have unfettered access and a direct reporting line to the Board or the Risk Committee.

The CRO and risk management function should not be directly involved in revenue-generation or ~~in~~ the management and financial performance of any business line or product of the FRFI. As well, the CRO's compensation should not be linked to the performance (e.g., revenue generation) of specific business lines of the FRFI.

While the CRO and the risk management function should influence the FRFI's risk-taking activities (e.g., to ensure that the FRFI's strategy or business initiative is operating within the stated risk appetite of the FRFI), the on-going assessment of risk-taking activities by the CRO and risk management function should remain objective.

The CRO should provide regular reports to the Board, the Risk Committee and Senior Management in a manner and format that allows them to ~~clearly~~ understand the risks being assumed by the FRFI. ~~He/she~~The CRO should provide an objective view to the Risk Committee ~~and~~or the Board, as appropriate, on whether the

FRFI is operating within the Risk Appetite Framework. The CRO should meet with the Risk Committee or the Board on a regular basis, with and without the CEO or other members of Senior Management present.

The CRO and risk management function should have processes and controls in place to assess the accuracy of any risk information or analysis provided by business lines in order to ~~be in a position to offer~~provide objective reporting to the Board, the Risk Committee and Senior Management. ~~The Board and the Risk Committee should periodically seek assurances from the CRO and risk management function as to the objectivity of such risk information or analysis.~~

~~V~~IV. The Role of the Audit Committee

Federal legislation requires that each FRFI establish an Audit Committee comprised of non- employee directors, a majority of whom are not "affiliated" with the institution. [Footnote 14] There should be reasonable representation of key competencies on the Audit Committee, notably relevant financial industry and risk management expertise.

The statutory duties of the Audit Committee, as described in ~~the *Bank Act, Trust and Loan Companies Act, Insurance Companies Act* and *Cooperative Credit Associations Act*~~federal legislation, include reviewing the annual statements of the FRFI, evaluating and approving internal control procedures for the institution, and meeting with the Chief Internal Auditor and/or the Appointed Actuary[Footnote 15] to discuss the effectiveness of the institution's internal controls and the adequacy of ~~reserving and~~practices for reporting ~~practices~~and determining financial reserves.[Footnote 16]

~~For insurers, the Audit Committee is required to discuss the Appointed Actuary's Report and the Dynamic Capital Adequacy Test report with the insurer's Appointed Actuary in order to consider the impact of the external and internal audit plans on the overall risk assessment of the FRFI.~~

The Audit Committee should review and approve the FRFI's audit plans (internal and external)~~ to ensure that they are appropriate,~~. Audit plans should be risk-based and address all the relevant activities over a measurable cycle~~, and that the~~. The work of internal and external auditors ~~is~~should be co-ordinated. Where part or all of the internal audit function is outsourced, the ~~Board~~Audit Committee should still ~~have responsibility to oversee~~be responsible for overseeing the performance of the FRFI's internal audit function as a whole.

The Audit Committee, not Senior Management, should recommend to the shareholders the appointment, reappointment, removal and remuneration of the external auditor~~, and~~. It should also agree to the scope and terms of the audit engagement and approve the engagement letter.

~~The Audit Committee should satisfy itself that the level of the audit fees is commensurate with the scope of work undertaken. Where fee reductions are offered, the Audit Committee should ascertain whether these reductions continue to ensure a quality audit. The Audit Committee should also assess whether any change to the external auditor's materiality level and/or proposed scope continues to ensure a quality audit.~~

~~The Audit Committee should assess the skills, resources (amount and type) and independence of the external auditor, including the audit firm's internal policies and practices for quality control, and be satisfied with the content of the auditor's engagement letter prior to it being signed. The Audit Committee should put in place a governance framework to address any concerns raised by OSFI or other stakeholders about the external auditor's independence.~~

~~The Audit Committee should also establish criteria for the types of non-audit services that an external auditor can and cannot provide, including rules stipulating when advance approval by the Audit Committee is required for new contracts.~~

~~A FRFI's Audit Committee should assess whether the FRFI's accounting and actuarial practices are appropriate and within the bounds of acceptable practice. The Audit Committee should receive all substantive correspondence between the external auditor and Senior Management related to its audit findings.~~

~~The Audit Committee should probe, question and hold regular *in camera* meetings with the external auditor, the Chief Internal Auditor and the Appointed Actuary (for insurance companies), to understand all of the relevant issues and how these issues have been resolved.~~

The Audit Committee should discuss with Senior Management and the external auditor the overall results of the audit, the annual and quarterly financial statements and related documents, the audit report, the quality of the financial statements and any related concerns raised by the external auditor. ~~This should include, but not be limited to:~~

- ~~Key areas of risk for material misstatement of the financial statements, including critical accounting estimates or areas of measurement uncertainty;~~
- ~~Areas of significant auditor judgment, including accounting policies, accounting estimates and financial statement disclosures;~~
- ~~Whether the external auditor considers estimates/models to be "aggressive" or "conservative" within an acceptable range and, specifically, where there are options, the rationale for the final valuation decision and if the option is consistent with industry practice;~~
- ~~Significant or unusual transactions (e.g., restatements);~~
- ~~Difficult or contentious matters noted during the audit or other audit matters that would typically be discussed with an engagement quality control reviewer;~~
- ~~Changes in the audit scope or strategy;~~
- ~~Internal control deficiencies identified during the course of the audit;~~
- ~~Areas of financial statement disclosures that could be improved; and~~
- ~~The role of other audit firms (e.g., with respect to the audit of FRFI subsidiaries).~~

The Audit Committee should probe, question and seek assurances from the external auditor that the financial statements present fairly the financial position, the results of operations and the cash flows of the FRFI. Annually, the Audit Committee should report to the Board on the effectiveness of the external auditor.

~~VI~~V. Supervision of FRFIs

The Role of Corporate Governance in OSFI's Supervisory Process

Effective corporate governance is an essential element in the safe and sound functioning of ~~financial institutions~~FRFIs. The Board and Senior Management are designated as key ~~oversight functions~~Oversight Functions in OSFI's *Supervisory Framework*.

Effective oversight of the business and affairs of an institution by its Board and Senior Management is essential to the maintenance of an efficient and cost-effective supervisory system. It helps protect depositors and policyholders, and allows OSFI to use the work of the ~~institution~~FRFI's internal processes and functions, thereby reducing the amount of supervisory resources needed for OSFI to meet its mandate.[2]

In addition, in situations where a ~~financial institution~~FRFI is experiencing problems, or where significant corrective action is necessary, the important role of the Board is heightened and OSFI requires significant Board involvement in seeking solutions and overseeing the implementation of corrective actions.

OSFI's Supervisory Assessment

OSFI supervises FRFIs to assess their financial condition and monitor compliance with the applicable federal ~~laws and regulations~~legislation. Supervision is carried out within a framework that is risk-focused.[Footnote 17] OSFI has developed a comprehensive set of assessment criteria, key among which is the quality of oversight and control provided by the Board and Senior Management~~ of the FRFI~~.

OSFI conducts supervisory work and monitors the performance of FRFIs to assess safety and soundness, the quality of control and governance processes, and regulatory compliance. The Board and Senior Management are ultimately accountable for the safety and soundness of the FRFI, as well as its compliance with ~~governing~~federal legislation. As such, OSFI's reports and findings can provide useful input to the Board's own oversight of the FRFI. Open communication between the Board and regulators helps promote the mutual trust and confidence essential to the efficiency of ~~the~~OSFI's principles-based ~~system of~~approach to supervision~~ that OSFI follows~~.

~~A~~The Board ~~that carries out its responsibilities effectively will~~should understand the regulatory environment within which the FRFI and its subsidiaries operate~~, as well as~~. It should be informed of the results of supervisory work by OSFI and other regulators~~. The Board~~, and should follow-up ~~accordingly on the recommendations or findings identified by regulators, as well as Senior Management's action plans to address regulatory matters, and discuss with Senior Management to determine if weaknesses found are broader indicators that similar problems may exist elsewhere in the organization.~~with Senior Management accordingly.

~~A FRFI~~The Board should consider regulatory findings in its on-going evaluation of Senior Management and oversight function performance, recognizing that primary responsibility for identifying weaknesses rests with the Board and Senior Management.

OSFI will undertake a number of approaches, including discussions with the Board, Board committees, Senior Management and ~~oversight functions~~Oversight Functions, as well as the review of Board and Board committee material, in order to assess the effectiveness of the FRFI's corporate governance processes. OSFI will seek evidence that processes exist, are operating effectively and that the Board is able to fulfil its roles and responsibilities. OSFI will look to gain insight into the discussions and deliberations at the Board and Committee level, including those with and without Senior Management. This may include understanding the Board's behaviour and assessing the objectivity, degree of challenge and independence in the decision making process.

Where separate ~~oversight functions~~Oversight Functions do not exist, OSFI will look to other functions, processes or controls to assess the independent oversight provided.

Changes to the Board ~~and~~or Senior Management

OSFI recognizes that FRFIs make independent decisions regarding the nomination of Board members or appointment of Senior Management in the course of conducting their day-to-day business.

As part of ~~the~~OSFI's on-going supervisory process, however, FRFIs should notify OSFI, as early as possible in the process, of any potential changes to the membership of the~~ FRFI~~ Board and Senior Management, and any circumstances that may adversely affect the suitability of Board members and Senior Management.

The process and criteria used by the FRFI in the selection process for Board and/or Senior Management members should be transparent to OSFI. Information regarding the expertise and character of candidates of the Board and Senior Management should be provided to OSFI.

Annex A – The Special Nature of Financial Institutions

A number of factors set financial institutions apart from other business firms, and has led them to be subject to generally higher levels of regulation, including:

- The effectiveness of the economy depends significantly on how well its financial services sector functions. Relative to non-financial businesses, the failure of a financial institution can have a greater impact on members of the public who may have placed a substantial portion of their life savings with the institution and who may be relying on that institution for day-to-day financial needs. There is also potential in some circumstances for system- wide impacts from failures or material impacts in selected markets, given the interconnectedness of the financial system. Safety and soundness concerns are, therefore, of particular importance for financial institutions~~;~~.

- Financial institutions may have high ratios of debt-to-equity (leverage), making them more vulnerable to unexpected adverse events~~;~~.

- Financial institutions can experience severe liquidity problems if their customers or counterparties lose confidence in their safety and soundness~~;~~.

- Financial institutions may accept funds from the public and often deal in long-term financial commitments, which are predicated on a high degree of confidence in the long- term stability and soundness of the institutions making these commitments~~;~~.

- The value of many financial institutions' assets and liabilities can be volatile and may be difficult to price accurately. Similarly, financial institutions may issue and trade in complex financial instruments, which can be difficult to evaluate properly and can materially and rapidly affect the risk profile of an institution~~; and~~.

- Financial institutions can have large mismatches between the term of their assets and liabilities. This can result in material funding or investment risks.

These characteristics create unique challenges for the governance of financial institutions and underscore the importance of effective risk management systems and rigorous internal controls. They point to the need for knowledgeable, independent oversight exercised by or on behalf of the Board, along with the additional assurance of regulatory oversight, to provide assurance to markets on the reliability of reporting and disclosure. Also, as a consequence of being a regulated industry, the governance processes of financial institutions are subject to review and may be influenced by the views of OSFI and other regulatory bodies.

Finally, many financial institutions have complex organizational structures with a large number of entities (some of which may not be regulated) used to deliver different financial products and services. For these organizations, the relationship between the parent company and its subsidiaries merits special consideration and the effective governance of subsidiaries should be a high priority for ~~directors~~the Board and Senior Management.

Annex B – Risk Appetite Framework

The Risk Appetite Framework should contain a risk appetite statement and risk limits, as well as an outline of the roles and responsibilities of those overseeing the implementation of the Risk Appetite Framework. The Risk Appetite Framework is an integral part of the FRFI's overall enterprise-risk management framework.

Risk Appetite Statement

The risk appetite statement reflects the aggregate level and type of risk that ~~a~~the FRFI is willing to accept in order to achieve its business objectives. Key features of the risk appetite statement are:

- It should be linked to the ~~firm~~FRFI's short-term and long-term strategic, capital and financial plans, as well as compensation programs~~;~~.
- It includes qualitative and quantitative measures that can be aggregated and disaggregated~~;~~.
    - Qualitative measure may include:
        - Significant risks the ~~firm~~FRFI wants to take and why;
        - Significant risks the ~~firm~~FRFI wants to avoid and why;
        - Attitude towards regulatory compliance; and
        - Underlying assumptions and risks.
    - Quantitative measures may include:
        - Measures of loss or negative events (such as earnings, capital or liquidity, earnings per share at risk or volatility) that the FRFI is willing to accept.
- It should be forward-looking~~;~~.
- It should consider normal and stressed scenarios~~; and~~.
- It should aim to be within the FRFI's risk capacity (i.e., regulatory constraints).

Risk Limits

Risk limits are the allocation of the FRFI's risk appetite statement to:

- Specific risk categories (e.g., credit, market, insurance, liquidity, operational);
- The business unit or platform level (e.g., retail, capital markets);
- Lines of business or product level (e.g., concentration limits); and
- More granular levels, as appropriate.

Risk limits are often expressed in quantitative terms, and are specific, measurable, frequency- based and reportable.

Implementation of the Risk Appetite Framework

Once approved by the Board, the Risk Appetite Framework should be implemented by Senior Management throughout the organization as an integral part of the overall enterprise risk management framework of the FRFI. The Risk Appetite Framework should align with the organization's ~~corporate~~ strategy, its financial and capital plans, its business unit strategies and day-to-day operations, as well as its risk management policies (e.g., risk limits, risk selection/underwriting guidelines and criteria, etc.) and compensation programs.

Where the Risk Appetite Framework sets aggregate limits that will be shared among different units, the basis on which such limits will be shared should be clearly identified and communicated.

Effective control, monitoring and reporting systems and procedures should be developed to ensure on-going operational compliance with the Risk Appetite Framework, including the following:

- The CRO (or equivalent) should ensure that aggregate risk limits are consistent with the ~~firm~~FRFI's risk appetite statement.
- The CRO (or equivalent) should include in regular reports to the Board or Risk Committee, and Senior Management, an assessment against the risk appetite statement and risk limits~~; and~~.
- Internal Audit should routinely assess compliance with the Risk Appetite Framework on an enterprise-wide basis and in its review of units within ~~a~~the FRFI.

The Board and Senior Management~~ of a FRFI~~ should receive regular reports on the effectiveness of, and compliance with, the Risk Appetite Framework. These reports should include a comparison of actual results versus stated Risk Appetite Framework measures. Where breaches are identified, action plans should exist and be communicated to the Board. The Risk Appetite Framework should be an integral part of the Board's discussions and decision-making processes.

Footnotes

Footnote 1

Branches do not have ~~Boards~~a Board of Directors and, accordingly, ~~it would be inappropriate to apply the specific provisions of~~ this guideline ~~directly~~does not apply to branch operations. OSFI looks to the Chief Agent or Principal Officer of a branch to oversee the management of the branch, including matters of corporate governance. ~~These individuals are recognized as having overall responsibility for their respective branches and, therefore, should be aware of this guidance.~~ The Chief Agent and/or Principal Officer of branches should refer to Guideline E-4A and Guideline E-4B, as appropriate.

~~Return to footnote 1 referrer~~Return to footnote 1

Footnote 2

The terms "Senior Management", "Operational Management" and "Oversight Functions" are used throughout this guideline, and are defined in OSFI's Supervisory Framework.

Return to footnote 2

Footnote 3

In this ~~document~~guideline, the term "Board" refers to either the entire FRFI Board or a committee of the FRFI Board that has been delegated a particular element of the Board~~ oversight~~'s role and duties.

~~Return to footnote 2 referrer~~

~~Footnote 3~~

~~See *OECD Principles of Corporate Governance*, revised in April 2004.~~

~~Return to footnote 3 referrer~~Return to footnote 3

Footnote 4

~~For the purpose of this guideline, the oversight functions include: Financial; Risk Management; Compliance; Internal Audit; and Actuarial.~~This includes the *Bank Act, Trust and Loan Companies Act, Insurance Companies Act* and *Cooperative Credit Associations Act*.

~~Return to footnote 4 referrer~~Return to footnote 4

Footnote 5

~~As defined in OSFI's *Supervisory Framework*, "operational management" is responsible for planning, directing and controlling the day-to-day operations of a FRFI. The oversight functions are "independent" of operational management.~~

~~Return to footnote 5 referrer~~

~~Footnote 6~~

~~The Chief Actuary is frequently the head of the Actuarial function, although in some circumstances it may be the Appointed Actuary. Note that the role of the head of the Actuarial function would generally include responsibilities beyond the legal requirements of the Appointed Actuary.~~

~~Return to footnote 6 referrer~~

~~Footnote 7~~

Refer to **Annex B** for a description of the Risk Appetite Framework.

Return to footnote 5

Footnote 6

Refer to the framework developed by the Commission of Sponsoring Organizations of the Treadway Commission (COSO), U.S., as a general reference for effective Internal Control Frameworks.

Return to footnote 6

Footnote 7

This includes money laundering and terrorist financing risk.

~~Return to footnote 7 referrer~~Return to footnote 7

Footnote 8

~~The~~ *Principles for Sound Compensation Practices* ~~were published by the Financial Stability Forum (FSF) in April 2009 (the FSF is now the "FSB" –~~, Financial Stability Board~~).~~ (FSB), 2009.

~~Return to footnote 8 referrer~~Return to footnote 8

Footnote 9

~~The~~ *Principles for Sound Compensation Practices: Implementation Standards* ~~were published by the FSF in September~~, FSB, 2009.

~~Return to footnote 9 referrer~~Return to footnote 9

Footnote 10

The notion of "independent", as it applies in this ~~guidance~~guideline, is much broader than the notion of "non-affiliated", as defined in the federal financial institution statutes. It has been described and elaborated upon in various legal and international documents (e.g., securities law, international standards, and reports).

~~Return to footnote 10 referrer~~Return to footnote 10

Footnote 11

A non-executive director is a member of the Board who does not have management responsibilities within the FRFI.

Return to footnote 11

Footnote 12

For small, less complex FRFIs, in place of establishing a separate Risk Committee, the Board should ~~ensure~~be satisfied that it has the collective skills, time and information (i.e., appropriate reporting) to provide effective oversight of risk management on an enterprise-wide basis.

~~Return to footnote 11 referrer~~

~~Footnote 12~~

~~A "non-executive" director is a member of the Board who does not have management responsibilities within the firm.~~

~~Return to footnote 12 referrer~~Return to footnote 12

Footnote 13

For small, less complex FRFIs, the CRO role can be held by another executive of the FRFI (i.e., the executive has dual roles). Some FRFIs may not have a CRO position *per se*, but nonetheless can clearly identify an individual within the ~~firm~~FRFI that is accountable to the Board and Senior Management for the same functions.

~~Return to footnote 13 referrer~~Return to footnote 13

Footnote 14

As defined in the federal legislation and the *Affiliated Persons Regulations* associated with each financial institution's governing statute.

~~Return to footnote 14 referrer~~Return to footnote 14

Footnote 15

The role of the Appointed Actuary is outlined in OSFI's ~~Guideline E-15~~Guideline E-15, *Appointed Actuary: Legal Requirements, Qualifications and Peer Review*.

~~Return to footnote 15 referrer~~Return to footnote 15

Footnote 16

FRFIs should ensure that they are in compliance with the relevant securities requirements in respect of the Audit Committee in the relevant jurisdictions.

~~Return to footnote 16 referrer~~Return to footnote 16

Footnote 17

Refer to OSFI's *Supervisory Framework* ~~*(2011)*~~.