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OSFI's new expectations with respect to the governance of federally-regulated financial institutions

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The quality of corporate governance practices increasingly represents a key factor to maintaining the trust of depositors, policyholders and most stakeholders who are active on capital markets. Considering the unique features of financial institutions and the risks arising from their responsibilities, some aspects of corporate governance are particularly important for these institutions, including banks, insurers, trust companies, loan companies and cooperative credit associations.

On January 28, 2013, the Office of the Superintendent of Financial Institutions Canada (hereinafter "**OSFI**") published the final version of its *Corporate Governance Guideline*. OSFI previously issued for comment a draft guideline on August 7, 2012. Several comments submitted at that time were taken into account by OSFI.

The new version of this guideline is intended for all federally-regulated financial institutions (hereinafter "**FRFIs**"), which are supervised and regulated by OSFI. It does not include the Canadian branch operations of foreign banks and insurance companies since they have no board of directors in the country. However, OSFI expects their Chief Agent or Principal Officer, who oversee matters of corporate governance in Canada, to be acquainted with the Guideline.

OSFI has updated the former 2003 Guideline because it was no longer in accordance with OSFI's *Supervisory Framework*, revised in 2010, and to reflect the newly adopted best international standards and practices with regard to corporate governance. By updating the Guideline, OSFI is taking a stand on the global financial crisis that started in 2008 and the corporate governance of financial institutions, which has become an issue of growing importance in the last 10 years.

The new version of the Guideline focuses on the following core objectives:

- ensure that FRFIs have prudent corporate governance practices and procedures that contribute to their safety and soundness;
- promote industry best practices in corporate governance;
- harmonize the OSFI Guideline with the Supervisory Framework, revised in 2010 and in effect since 2011; and
- address international standards as articulated by a number of international organizations, such as the Financial Stability Board, the Organisation for Economic Co-operation and Development, the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors.

The Guideline was also updated to reinforce the role of boards and senior management, including

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as follows:

> enhance the effectiveness of boards, particularly with regard to their responsibilities and competencies;
> strengthen FRFIs' risk governance, including by developing a "Risk Appetite Framework"; and
> improve the overall internal control framework of FRFIs by clarifying the roles of the Chief Risk Officer and Audit Committee.

OSFI expects FRFI boards and senior management to be proactive and knowledgeable about the corporate governance best practices applicable to their institution. OSFI also expects FRFIs to assess their operations according to the Guideline and take appropriate action to ensure compliance. FRFIs are required to put in writing the results of their self-assessment and the related action plans by May 1, 2013. Self-assessments are to be retained by FRFIs and made available to OSFI upon request.

OSFI expects that all FRFIs will fully implement the Revised Guideline on corporate governance by January 31, 2014.

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