



Fulfilling OSFI's oversight role: Avoiding obstacles and overlap through thoughtful coordination

**Opening remarks by Superintendent Jeremy Rudin
to the Cercle Finance du Québec**

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Introduction

Thank you, Clément, and thank you to the Cercle Finance du Québec for inviting me to speak to you today.

A visit to Québec City is always a treat for me, especially at this time of the year. The summer certainly has its charms, but in my opinion, winter is when *La Vieille Capitale* truly sparkles. For me, a visit to your beautiful part of the country is not complete without some downhill skiing.

And when I think of all the efforts that must be made to ski successfully, I cannot help but make a few parallels with the efforts necessary to succeed as a financial regulator and supervisor.

Maintaining a stable stance — balancing a twofold mandate

Let's start with balance.

Anyone who has ever taken a ski lesson remembers being told by their instructor that everything is a matter of balance, and for good reason. Without being in balance, staying upright is a challenge.

The legislation that governs OSFI establishes a clear mandate for the organization, one that requires us to balance two complementary elements. First, OSFI is to regulate and supervise financial institutions to protect the interests of depositors, policyholders and other creditors. Second, and simultaneously, OSFI is to be mindful of the importance of allowing financial institutions to compete and take reasonable risks.

Our Act makes this very clear. It is not simply a suggestion that OSFI balance these two aspects of its mandate — it is a requirement. The Act states that regulation and supervision must be carried out with regard for the fact that the provision of financial services requires risk taking, and that risk taking can lead to failures.

OSFI's challenge then is to restrain excessive risk taking, as was seen in some countries during the financial crisis, while encouraging institutions to take reasonable risks so as to provide consumers and businesses with financial services at competitive prices. We believe that the best way to achieve this balance is to use principles-based regulation whenever practicable.

We set high-level principles and then provide boards and senior management with the flexibility to apply those principles in a way that is best suited to their particular financial institution. Of course, our approach also includes some rules: “bright lines” that institutions are not allowed to cross, mainly in the areas of capital and liquidity requirements. But we favour using principles over rules whenever possible.

While a principles-based approach may appear to be aimed at making life easier for financial institutions, it is anything but. To adhere to principles-based regulatory measures, the institutions must put considerable thought into how best to apply these principles, and to create their own tailor-made approach.

Administering principles-based regulation is also a challenge for the supervisor. Canadian financial institutions vary considerably in terms of their size, complexity, risk profile and business models. This means that OSFI must work hard to determine whether the way in which each financial institution proposes to apply our principles in fact meets the objectives.

Sharing the slopes – working with our regulatory partners

This brings me to the second element of my skiing analogy — sharing the slopes.

Ski hills can get crowded and experienced skiers know they have to be mindful of everyone else on the hill.

Each regulatory body overseeing the Canadian financial system — whether federal or provincial — has its own role to play. Like a group of skiers going down the same run at the same time, we share a similar trajectory, but each regulatory body draws its own path, according to its distinct mandate. To avoid collisions and to ensure an incident-free run, it's necessary to maintain a safe distance, and to respect each other's territory. But how is this to be done?

If you look around the world, you will see two contrasting approaches for structuring the oversight of financial services. One approach is to have a single authority responsible for overseeing all aspects of the financial services industry — this is the model used in Japan, Switzerland and Sweden. As you know, that is also the model used here in Québec for financial services that fall within the province's jurisdiction.

The other approach is to have a number of organizations, each with a focused mandate overseeing specific aspects of the financial services industry. This is the model used in Australia, and in the European Union. This is also the path that the Government of Canada has chosen to take by creating a few agencies to regulate and supervise the delivery of federal financial services. The guiding principle underlying this approach is for each organization to have clear authorities and responsibilities with as little overlap as possible.

The structure of our federal system has been revamped several times since the creation of OSFI some 30 years ago, each time in order to strengthen this principle. When it was created, for example, OSFI had a mandate not only for prudential supervision, but also to administer the laws and regulations governing the interactions between banks and consumers.

In 2001, a new federal organization was created, the Financial Consumer Agency of Canada, and the government put that agency in charge of those responsibilities. That is, the federal government replaced one organization with a mixed mandate by two organizations, each with a well-targeted and distinct mandate.

A second example: at the time of OSFI's creation, there was some overlap between the supervisory responsibilities of OSFI and those of the Canada Deposit Insurance Corporation, or CDIC.

In 2005, this overlap was eliminated and several supervisory functions that were once shared were consolidated within OSFI. Since then, CDIC has concentrated on the provision of deposit insurance and as the resolution authority for banks.

Moreover, for many years, OSFI shared responsibility with provincial authorities for the supervision of the credit union centrals in some provinces. In 2015, the Government of Canada withdrew from joint supervision, so that provinces would be solely responsible for the regulation and supervision of provincial credit union systems.

Avoiding overlap and duplication is a principle that continues to guide our relationship with provincial agencies. And when you stay in your own lane and you do not encroach on your neighbour's territory, you can share the same slope, collision-free.

This policy allows us to work closely with our provincial counterparts without overlap or duplication. For example, Desjardins Group is regulated by the Autorité des marchés financiers here in Québec, yet we supervise four of Desjardins' subsidiaries that are incorporated under federal legislation: Zag Bank, Certas General Insurance, Certas Home and Auto Insurance Company, and The Personal.

In these cases, we engage with provincial authorities about current and emerging issues such as changes to accounting standards, the evolution of financial practices, and developments in relevant legislation. I want to make it clear here that there is no interference in our respective supervisory roles. We also work with our provincial counterparts on issues of mutual interest.

In my opinion, the best example of this practice is the development of the new capital regime for life insurance companies, the Life Insurance Capital Adequacy Test Guideline, or LICAT, which is the result of close cooperation between OSFI and its key partner, the AMF. The level of cooperation between our two agencies resulted in a close alignment of our capital frameworks — an outcome that will undoubtedly be appreciated by the life insurance industry in Canada.

Our two organizations are also in the same place with respect to the supervision of mortgage underwriting activities. As you undoubtedly know, the AMF recently announced an update to its mortgage lending guideline, just as we did last fall with revisions to our guideline B-20. It is a pleasure for us to have worked alongside the AMF, who is a leader in defining clear and up-to-date expectations about mortgage underwriting standards.

These examples show that it is possible to work closely together while still remaining in our own lanes.

To continue with my analogy, when the ski slopes are too crowded, we risk bumping into each other. This can happen, for example, in the regulation of derivatives.

The financial crisis demonstrated significant shortcomings in the regulation and supervision of derivative instruments. Since then, we have been working with the provincial securities regulators, including the AMF, to try to address those gaps without overlapping our respective regimes. We have been able to do this in other areas and I hope and expect we will achieve the same outcome for derivatives.

Conclusion

I hope this brief overview provides you with some context for the discussion to follow. I think Clément has some questions for me, so let's get started.