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○ ISSUE 1 | ○ VOLUME 6 | ○ SPRING 2012



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BSIF



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# The OSFI Pillar

FROM THE OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS CANADA (OSFI)

## Boards of Directors and Risk Governance: Superintendent speaks to the Toronto Board of Trade

Superintendent Julie Dickson highlighted the importance of corporate governance in risk management to an audience of more than 250 people at the Toronto Board of Trade on April 5, 2012. She was presenting the likely elements of the forthcoming draft OSFI Corporate Governance Guideline, which focuses on the responsibility of boards for overseeing risk management and the system of internal controls.

The guideline reflects on the importance of areas such as board composition, competencies (e.g. relevant financial expertise) and third-party reviews, and has a focus on risk appetite. "Boards of directors are ultimately responsible for

the oversight of management and overall risk governance of financial institutions," said Dickson. "The job of the board is challenging, especially in light of today's environment when judgements about risk-taking can be so challenging. In such a climate, the role play by boards of directors is all the more crucial."

The draft guideline is expected to be released for public consultation this summer.

The complete speech is available on our website at: [www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca).

## Interview with Mark Zelmer, Assistant Superintendent, Regulation, on Draft Residential Mortgage Underwriting Guideline

On March 19, 2012, OSFI issued a draft guideline for consultation on residential mortgage underwriting practices and procedures for financially regulated financial institutions. The guideline is based primarily on the mortgage underwriting principles recently issued by the Financial Stability Board (FSB).

Mark Zelmer, Assistant Superintendent, Regulation Sector, recently discussed the guideline with Pillar staff.

### Why did OSFI issue this draft guideline?

Although financial institution mortgage portfolios continue to perform well, a number of vulnerabilities in the financial system exist, including record levels of household indebtedness. OSFI is acting in an effort to prevent these vulnerabilities from evolving into problems for the financial system.



Mark Zelmer  
Assistant Superintendent  
Regulation

(Continued on page 2...)

## Mark Zelmer on Residential Mortgage Underwriting *continued...*

### Does releasing this guideline suggest that OSFI has concerns about mortgages and debt?

Mortgages are usually the largest loans taken on by households and represent a large proportion of many lending institutions' balance sheets. The guideline is designed to highlight best practices that OSFI has seen in the industry.

The Minister of Finance has made a number of policy and legislative changes in recent years relating to mortgages. The Governor of the Bank of Canada has also made many statements regarding the growing level of household indebtedness. OSFI is doing its part to ensure that financial institutions are prudent in their lending activities.

### Why include the principle that federally regulated financial institutions have a board-approved residential mortgage underwriting policy, especially when you say most boards have already established such policies?

While some boards have established residential mortgage underwriting policies, OSFI found that some institutions were not following their own policies.

Housing is the largest asset class exposure of banks – almost 42 percent of total bank assets. One of the main risks to financial stability in Canada is financial stress in the Canadian household, and also the risk that comes from a prolonged period of low interest rates which could encourage imprudent risk-taking. Real estate secured lending is tied to both of these risks. So mortgage lending is clearly something we want boards of directors involved in, especially in today's environment.

### Why are you forcing Canadian federally regulated financial institutions to go beyond what is specified in the FSB's mortgage underwriting principles?

The FSB set minimum international standards. OSFI took these standards and adjusted them for the experience in Canada and the nature of our regulatory framework.

### Why did you include a change for the underwriting of Home Equity Lines of Credit (HELOCs)?

Some HELOCs were being offered at a loan-to-value (LTV) ratio of 80 percent and we don't think that's appropriate. Sound industry practice is to limit the HELOC component of a residential mortgage to a maximum LTV ratio of 65 percent.

### What has the reaction to the draft guideline been like so far?

Several stakeholders (industry, as well as several private citizens) have provided extensive comments on the draft guideline. As well, there has been much commentary in the media. OSFI is giving careful consideration to all of the comments received. In finalizing the guideline, while not all suggestions made will be incorporated, OSFI intends to summarize those received and explain why we included or rejected what we did.

The draft guideline is posted on our website at: [www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca).

A final version of the guideline will be made available this summer.

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## OSFI's Plan and Priorities for 2012—2015

OSFI has released its Plan and Priorities, the core document for its planning cycle that describes priorities, key challenges and risks.

The main areas of focus are:

- Addressing external risks – OSFI's Long-Term Priority remains focused on anticipating and addressing risks from economic uncertainty and regulatory change.
- Risks emanating from regulatory reform – We will continue to participate actively in international and domestic discussions to identify and respond to key issues arising from global financial events and adopt new proposals that strengthen our regulatory system. We will also create new standards for risk management, disclosure and corporate governance, as well as develop, communicate and begin implementation of a public roadmap outlining the future state of insurance reforms.
- Addressing internal risks – This includes implementing our Human Resources Plan to ensure the necessary skills and expertise are maintained and continuing to implement our Information Management / Information Technology Strategy and related Information Technology renewal initiative to support our evolving supervisory and regulatory activities.

The full document is available on our website at: [www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca).

## Mean Reversion in Models of Equity Returns

Following industry discussions, OSFI advised that it will not review requests for approval to use internal models that incorporate mean reversion of equity returns for determining regulatory capital requirements.

The rationale for this decision is explained in the paper, *Evidence for Mean Reversion in Equity Prices*, which was published so that industry participants and other stakeholders can better understand OSFI's views on this subject.

The paper and letter are available on our website at: [www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca).

## Revised BCBS Principles on Liquidity Risk Management included in updated Guideline

OSFI has updated its Guideline B-6 to incorporate the revised Basel Committee on Banking Supervision (BCBS) principles on international best practices on liquidity risk management. Applying to banks, bank holding companies and federally regulated trust and loan companies, the guideline will, in due course, be complemented by a set of quantitative liquidity standards, metrics and disclosure requirements.

OSFI continues to work with financial institutions to address rising domestic vulnerabilities and prepare for any potential spillovers from international developments.

The guidelines and accompanying letter are posted on our website at: [www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca)

## Draft Forms for Pension Plan Registration and Amendments

OSFI has issued draft Application for Registration and Plan Amendment Information Forms for Defined Benefit and Defined Contribution pension plans. These documents may be used while in draft form and replace the existing Registration Guide and Form issued in April 2007 and Declaration of Compliance (OSFI-522) and Addendum (OSFI-521). OSFI has asked that comments on the draft application and amendment forms be forwarded by September 30, 2012.

The draft guides and forms are posted on our website at: [www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca)

## New Member Appointed to Audit Committee

In February 2012, the Treasury Board of Canada Secretariat appointed Beverly Briscoe of Vancouver, B.C. as a member of the OSFI Audit Committee.

Ms. Briscoe is a Chartered Accountant with extensive industry experience, and is currently President of Briscoe Management Ltd. She provides consulting services to Boards and Management and is a director and audit committee chair of Goldcorp Inc. and of Ritchie Bros. Auctioneers Inc., as well as director of the Forum for Women Entrepreneurs and the Minerva Foundation.

The mandate of the Audit Committee is to provide objective advice and recommendations to the Superintendent regarding the sufficiency, quality, and results of assurance on the adequacy and functioning of OSFI's risk management, control and governance frameworks and processes, including accountability and auditing systems.

As a strategic resource to the Superintendent, the Audit Committee also provides advice and recommendations that may be requested by the Superintendent on specific emerging priorities, concerns, risks, opportunities, and/or accountability reporting.

The other members of the OSFI Audit Committee are Bernard Bougie and Michael Hasley. Mr. Hasley is also the current Chair.



**Beverly Briscoe**

More information is available on the OSFI website at [www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca).

# Instruction Guide for Preparing Actuarial Reports for Defined Benefit Pension Plans

OSFI has issued an Instruction Guide to inform the pension industry of its current filing and reporting requirements for actuarial reports for defined benefit plans filed pursuant to subsection 12(2) of the Pension Benefits Standards Act, 1985 (PBSA).

The guide came into force in April 2012 and replaces the draft guide that was issued in May 2011.

The guide is available on our website at: [www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca)

## Appearance before the Senate Committee for Review of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)*

Nicolas Burbidge, Senior Director, Anti-Money Laundering and Compliance Division, appeared before the Senate Standing Committee on Banking, Trade and Commerce in February 2012.

The invitation was to participate in the Parliamentary Review of the PCMLTFA Act, and the 10-year Evaluation of Canada's Anti-Money Laundering and Anti-Terrorist Financing (AML/ATF) Regime.

OSFI's supervisory program focuses on those institutions it considers most susceptible to money laundering and terrorist financing. Over time, OSFI has also developed a supporting role by notifying Canada's federally regulated financial sector of United Nations and Canadian sanctions imposed on designated individuals and organizations.

Mr. Burbidge's remarks are posted on our website at: [www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca)

## What's New Online ([www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca))

- Assessment of Pension Plans: the basic pension plan assessment for the year beginning April 1, 2012, has been revised.
- Philippe Sarrazin, Managing Director, Legislation and Policy Initiatives, speaks to the House Standing Committee on Finance on the five-year review of financial legislation – Bill S-5, *Financial System Review Act*
- Annual Information Returns (AIR) and Certified Financial Statements (CFS)
- Draft Revised Version posted of Guideline E-15 Appointed Actuary: Legal Requirements, Qualifications and Peer Review

More information is available on the OSFI website at [www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca)

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## The OSFI Pillar

The *Pillar* is published by the Communications and Consultations Division of the Office of the Superintendent of Financial Institutions Canada.

For a free subscription, or to provide feedback, please email OSFI Communications and Consultations at: [thepillar@osfi-bsif.gc.ca](mailto:thepillar@osfi-bsif.gc.ca)



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