



Letter

Title	Final Guideline E-20 - CDOR Benchmark-Setting Submissions
Category	Sound Business and Financial Practices
Date	September 12, 2014
Sector	Banks

Reference: Guideline for Banks submitting to the CDOR benchmark-setting process

To: CDOR Submitting Banks

The Office of the Superintendent of Financial Institutions (OSFI) announced earlier this year that it will supervise the governance and internal controls surrounding banks' Canadian Dollar Offered Rate (CDOR) submission processes.

On May 30, OSFI published for comment a draft version of the Guideline E-20, which is intended to assist CDOR submitting banks in establishing strong governance and controls in order to maintain confidence in CDOR as a robust interest benchmark in Canada.

Following a review of industry comments, OSFI is now issuing the final version of its Guideline on CDOR Benchmark-Setting Submissions. The annex to this letter summarizes key comments received from the public and provides an explanation of how these issues were dealt with in the final Guideline. Full implementation of the Guideline by CDOR submitting banks is expected no later than December 31, 2014.

OSFI will contact each submitting bank to discuss the supervisory work that will underpin this Guideline, including the nature of information that will be reviewed by OSFI and the frequency with which banks will be expected to provide such information.

Lastly, OSFI notes that the industry is working to strengthen governance of CDOR in order to meet [principles](#) established by International Organization of Securities Commissions. For example, the industry has released a submitters' code of conduct and announced the beginning of its process to establish an administrator for CDOR.



Questions concerning Guideline E-20 should be addressed to Philippe A. Sarrazin, Managing Director, Legislation and Policy Initiatives at 613-998-4190, or by email at philipe.sarrazin@osfi-bsif.gc.ca .

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Annex Guideline E-20 – Summary of Consultation Comments and OSFI Responses

Comment	OSFI Response
1. Introduction	
CDOR is no longer set by the dealers, but by the parent banks, hence the change in the name of the benchmark from “Dealer” to “Dollar.”	The industry announced the change of CDOR name on 2 June 2014, after the release of the draft Guideline. The final Guideline reflects this change.
2. Governance	
The draft Guideline should be less prescriptive, so that firms have the flexibility to design an appropriate governance structure. In carrying out its oversight and supervisory role over the bank’s governance and internal controls in respect of the bank’s rate submission, the Board should rely on assurances from Committees of the Board and/or Senior Management, rather than through direct involvement by the Board.	OSFI takes a principles-based approach in developing regulatory guidance for FRFIs. Accordingly, OSFI recognizes that the governance arrangements of FRFIs will vary depending on their size, risk profile, ownership structure, complexity, as well as the nature and scope of their activities. OSFI believes that the final Guideline provides adequate flexibility for FRFIs to implement new standards, while preserving the principle of effective Board oversight of benchmark-setting activities. For greater clarity, the final Guideline clarifies the term “Board” as either the entire Board or a committee of the Board that has been delegated a particular element of Board oversight.
Senior Management should not be required to report annually to the Board (or a Committee thereof) on the status of CDOR submission policies, processes and controls. The requirement should be focussed on reporting material issues to the Board or a Committee thereof in a manner that is consistent with OSFI’s Guideline E-13 (Regulatory Compliance Management).	OSFI’s Corporate Governance Guideline (CGG) provides an overarching framework for the responsibilities of the Board and Senior Management. It states that the Board should receive regular reports on, among other things, the general operations of FRFI and its financial conditions, and the performance of risk management and other control systems. In addition, the Board should seek assurances from Senior Management that prompt action is being taken to correct any material internal control deficiencies or breaches. Given the significance of CDOR to the Canadian financial system, it is OSFI’s view that Senior Management should provide assurances, at least annually, to the Board that CDOR submission policies, processes and controls are operating as intended. However, the Guideline notes that this should be done “consistent with Board reporting practices.” OSFI is currently reviewing industry comments in regard to the draft revised Guideline E-13 and will address any potential areas of overlapping requirements.

3. Internal Controls

OSFI's Corporate Governance Guideline (CGG) has a broad requirement for reporting to the Board in case of material deficiencies or breaches in internal controls, so the inclusion of a similar requirement in the Draft Guideline is redundant.

As noted above, the CGG provides an overarching framework for sound corporate governance for FRFIs. Accordingly, where other regulatory guidance documents make reference to corporate governance matters, consistency with the provisions of the CGG is important. In OSFI's view, drawing explicit references to key principles from other guidance documents promotes consistency and makes the linkages between certain guidance documents more apparent.

The draft Guideline appears to provide the bank with the flexibility in delegation of oversight of CDOR rate submissions to whichever internal group that the bank views as having the optimal expertise and ability to perform the oversight function.

OSFI recognizes the importance of allowing banks to determine internal oversight structure as they see fit (e.g., based on expertise and capacity). As such, the Guideline does not dictate the internal oversight structure for CDOR submission processes. However, to be effective, any oversight functions should be independent of operational management.

4. Reporting to OSFI

OSFI ought to be apprised of any "material breaches" in a timely and on-going basis. The supervisory role of OSFI would further be strengthened if the other items, including the banks' annual reviews of the CDOR submission process, conflict of interest policies and communications protocols, were also required to be communicated to OSFI on a timely and on-going basis. Further, the CDOR submission process reports ought to be submitted to OSFI as part of regular disclosure rather than on occasional basis and only when specifically requested by OSFI.

OSFI agrees that it should be apprised of any material breaches in internal controls of CDOR submission processes in a timely and on-going basis. As part of OSFI's supervisory program and consistent with the CGG, banks are currently expected to notify OSFI of **any** material breaches and associated remediation plans, beyond those relating to CDOR submission processes, in a proactive and timely manner. In addition, following the release of the final Guideline, OSFI will contact each submitting bank to discuss corresponding supervisory activities, including the nature of information that will be reviewed by OSFI and the frequency with which banks will be expected to provide such information.

