



BOARD OF DIRECTORS ASSESSMENT CRITERIA¹

ROLE OF BOARD OF DIRECTORS

OSFI's [Corporate Governance](#) Guideline outlines the role of the Board of Directors. The Board's key responsibilities consist of approving and overseeing:

- The institution's short and long-term business plan, strategy, and significant strategic initiatives;
- Its Risk Appetite Framework, Internal Control Framework, codes of ethics and conduct, and significant policies and plans related to the management of capital and liquidity;
- The appointment, performance review, compensation and succession of the CEO and other key members of Senior Management including the heads of the Oversight Functions;
- The mandate, resources and budgets for the Oversight Functions; and
- Audit plans, both internal and external.

The Board should provide challenge, advice and guidance to Senior Management, as appropriate, on:

- Significant operational, business, risk, and crisis management policies and their effectiveness; and
- Business performance and the effectiveness of risk management.

QUALITY OF BOARD OVERSIGHT

The following statements describe the rating categories for the assessment of the Board of Directors in fulfilling its overall responsibilities of stewardship and oversight of management and operations of the institution, with due consideration to its safety and soundness.

The overall rating of the Board of Directors considers both the appropriateness of its characteristics and the effectiveness of its performance in carrying out its role and responsibilities in the context of the nature, scope, complexity, and risk profile of the institution. Characteristics and examples of performance indicators that guide supervisory judgement in determining an overall rating are set out below.

Strong

The characteristics of the Board meet or exceed what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. The Board has consistently demonstrated highly effective performance. Board characteristics and performance are superior to supervisory expectations.

¹ The Assessment Criteria should be read in conjunction with OSFI's Supervisory Framework.



Acceptable
The characteristics of the Board meet what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. Board performance has been effective. Board characteristics and performance meet supervisory expectations.
Needs Improvement
The characteristics of the Board generally meet what is considered necessary, given the nature, scope, complexity, and risk profile of the institution, but there are some significant areas that require improvement and may affect effectiveness in the future or under adverse conditions. Board performance has generally been effective but there are some significant areas where effectiveness needs to be improved. The areas needing improvement are not serious enough to cause prudential concerns if addressed in a timely manner. Board characteristics or performance do not consistently meet supervisory expectations.
Weak
The characteristics of the Board are not, in a material way, what is considered necessary, given the nature, scope, complexity, and risk profile of the institution and may affect effectiveness in the future or under adverse conditions. Board performance has demonstrated serious instances where effectiveness needs to be improved through immediate action. Board characteristics or performance often do not meet supervisory expectations.

BOARD CHARACTERISTICS²

The following criteria describe the characteristics OSFI uses when assessing the quality of Board stewardship and oversight of the institution. The application and weighting of the individual criteria will depend on the nature, scope, complexity, and risk profile of the institution and will be assessed collectively, together with Board performance, in rating its overall effectiveness.

Essential Elements	Criteria
1. Composition	1.1 Compliance with the provisions of enabling legislation.
	1.2 Adequacy of policies or practices to regularly determine Board size, range of directors’ qualifications, knowledge, skills, experience, and level of commitment required to fulfill Board responsibilities.
	1.3 Appropriateness of Board size, range of directors’ qualifications, knowledge, skills, experience and level of commitment available to fulfill Board responsibilities.
	1.4 Adequacy of policies or practices to recommend the selection, approval, renewal, and succession of directors.
	1.5 Adequacy of policies or practices to ensure that there is sufficient non-executive representation on the Board.
	1.6 Appropriateness of the independent director representation and diversity on the Board.
	1.7 Board and Board committee chairs are independent, non-executive directors.

² Examples of documentation that OSFI may review in formulating its assessment of the characteristics of the Board include: the curricula vitae of directors; Board mandates; Directors’ manual; Board work plans; meeting agenda and related presentation materials, minutes, and follow-up documentation related to committee decisions; and, self-assessment reviews completed by directors.

2. Role and Responsibilities	<p>2.1 Approving and overseeing:</p> <ul style="list-style-type: none"> i. Short-term and long-term business plans, strategies, and significant strategic initiatives; ii. The Risk Appetite and Internal Control Frameworks; iii. Significant policies, plans and strategic initiatives related to the management of, or that materially impact, capital and liquidity (e.g., internal capital targets, share issuances) and their effectiveness; iv. Codes of ethics and conduct; v. The appointment, performance review and compensation of the CEO and other key members of Senior Management, including the heads of Oversight Functions vi. Succession plans with respect to the Board, CEO and other key members of Senior Management, including the heads of the Oversight Functions; vii. Mandate, resources and budgets for the Oversight Functions; viii. External audit plan, including scope and fees of the audit engagement; and ix. Internal audit plan.
	<p>2.2 Providing challenge, advice and guidance:</p> <ul style="list-style-type: none"> i. Significant operational, business, risk, crisis management policies; ii. Compensation policy for all human resources consistent with the Financial Stability Board <i>Principles for Sound Compensation Practices</i>; and iii. Business performance and effectiveness of risk management.
3. Committees	3.1 Adequacy of policies or practices to regularly review the structure and composition of Board committees to ensure that they provide sufficient oversight.
	3.2 Adequacy of the Board Committee structure given the nature, size and risk profile of the institution.
	3.3 Adequacy of policies or practices to establish and regularly review Board committee mandates.
	3.4 Adequacy of policies or practices to ensure that there is sufficient diversity, independence and relevant expertise on Board committees.
	3.5 Nature and extent to which Board committee mandates promote independent and comprehensive oversight, with timely and regular reporting to the Board.
4. Practices	4.1 Adequacy of policies or practices to orient new directors, and periodically update existing directors on their responsibilities and on the institution's businesses and related risks.
	4.2 Adequacy of policies or practices to promote independence and effective and timely decision making, including practices related to the role of non-executive directors.
	4.3 Adequacy of policies or practices to establish and monitor work plans for fulfilling Board goals and responsibilities.
	4.4 Adequacy of policies or practices to set Board agendas and priorities, arrange and conduct meetings, and record its deliberations and decisions. Extent to which these practices promote transparency in Board accountabilities.

	<p>4.5 Adequacy of policies or practices ensuring that directors receive timely, relevant, accurate and complete information (including access to independent advice) enabling them to:</p> <ul style="list-style-type: none"> a) Determine that responsibilities delegated to Board committees and Senior Management are being discharged effectively; and b) Make informed and sound decisions.
	<p>4.6 Extent to which the directors' compensation promotes prudent decision making while taking into account the objectives of the institution.</p>
	<p>4.7 With respect to the Oversight Functions on which the Board relies (i.e., Internal Audit, Risk Management, Financial, Compliance and Actuarial), the extent to which it:</p> <ul style="list-style-type: none"> a) Approves the appointment, dismissal and succession plans for the heads of Oversight Functions; b) Ensures that heads of Oversight Functions have adequate authority, independence and resources to carry out their mandates; c) Provides appointees with unrestricted access to the Board or its committees; and d) Provides challenge, advice and guidance on the effectiveness of Oversight Functions.
	<p>4.8 Extent to which the Board of a subsidiary reviews policies of the parent applied to the subsidiary for appropriateness to the subsidiary's business plan, strategy and risk appetite and compliance with specific Canadian regulatory requirements.</p>
5. Assessment	<p>5.1 Adequacy of the Board's assessment of its practices and those of the Board committees.</p>
	<p>5.2 Appropriateness of strategies to enhance the Board's effectiveness.</p>

BOARD PERFORMANCE

The overall assessment of the Board represents OSFI's view of its effectiveness in executing its oversight responsibilities for the institution. OSFI's assessment puts an emphasis on the Board's effectiveness and considers potential Board characteristics that may affect effectiveness in the future or under adverse environments. OSFI focuses on the following corporate governance outcomes arising from the Board's stewardship, and its oversight of the management and operations of the institution.

1. Clear, aligned and consistent direction regarding the firm's strategy, risk appetite and controls;
2. Open Board discussion and well-managed information flows;
3. An accountable and effective Senior Management;
4. Independent and effective Oversight Functions with demonstrated stature and authority; and
5. An independent and capable Board operating within an effective governance structure.

OSFI will look to indicators of effective Board performance to guide its judgement in the course of its supervisory activities. These activities may include:

1. conversations with directors and management to determine the nature and extent of discussion and challenge provided at Board meetings;
2. the nature and topics of discussions at meetings of non-executive directors;
3. the extent of interaction of Senior Management with the Board or its committees;
4. reviews of how particular issues are dealt with by the Board;
5. assessments of Board practices; reviews of minutes, etc.

Examples of indicators that OSFI may use to guide its supervisory judgement include the extent to which the Board:

- a) Performs a regular, in-depth review and evaluation of the institution's business objectives and strategies, as well as events and transactions that could pose significant risks to the institution, with a view to balancing business objectives with appropriate controls and governance;
- b) Is actively involved in the selection and performance review of the CEO, and other Senior Management, including heads of Oversight Functions, as appropriate;
- c) Promotes a risk culture that stresses integrity and effective risk management and the performance of duties in an ethical manner across the institution;
- d) Oversees, on a regular basis, the appropriateness of the overall risk appetite, major business activities and risks of the institution;
- e) Establishes thresholds for the type and significance of issues to be brought to its attention (including adverse results, deficiencies in or breaches of limits, controls or policies, and changes in the external environment);
- f) Proactively follows up on issues identified by management, internal or external audit, risk management, appointed actuaries, OSFI or other regulators in order to satisfy itself that appropriate action has been taken or resolution achieved;
- g) Defines and periodically assesses for continued relevance, the type, comprehensiveness and frequency of information and reporting it needs to monitor and act on a timely basis; ensures any needed changes to information and reporting are made;
- h) Actively engages in the review of materials presented by Senior Management for information purposes or for Board approval, appropriately weighing salient issues and alternatives, engaging in discussions, challenging Senior Management's underlying assumptions, and requesting additional information or explanation;
- i) Ensures its meetings provide a balanced focus on key issues and ongoing governance requirements;
- j) Ensures there is sufficient opportunity for non-executive directors to meet 'in camera', and carefully considers the output of such meetings;
- k) Proactively engages in reviewing the mandates, resources, scope of work, and effectiveness of the Oversight Functions upon which it relies for risk management, control and compliance assurances, and ensuring that Senior Management appropriately supports these functions; and
- l) Regularly assesses its practices, and those of the Board committees, and pursues strategies to enhance its overall effectiveness.