



Guideline

Subject: CDOR Benchmark-Setting Submissions

Category: Sound Business and Financial Practices

Date: September 2014

I. Introduction

The Canadian Dollar Offered Rate (CDOR) is a key financial benchmark in Canada that is calculated on the basis of interest rates submitted by a group of major Canadian banks. The Canadian Heads of Regulatory Agencies (HoA)¹ is working to develop an enhanced CDOR oversight framework. HoA members have agreed that the Office of Superintendent of Financial Institutions (OSFI), consistent with its mandate and expertise, will be responsible for supervising the governance and internal controls surrounding the rate submission process within banks that are involved in setting the CDOR benchmark rate (“submitting banks”). Strong governance and internal controls help maintain confidence in CDOR as a robust interest rate benchmark in Canada.

Since the global financial crisis, OSFI has increasingly worked with banks to enhance corporate governance and risk management domestically to meet new international standards. Consistent with this work, this Guideline sets out OSFI’s expectations for CDOR submitting banks in respect of the governance and internal controls surrounding the activities and processes of their rate submissions.

This Guideline complements OSFI’s [Supervisory Framework](#) and [Corporate Governance Guideline](#).

II. Governance

In respect of CDOR benchmark-setting submissions, Senior Management² of a submitting bank should be responsible for developing and implementing a governance and Internal Control Framework³.

Please refer to OSFI’s *Corporate Governance Guideline* for OSFI’s expectations of submitting banks’ Boards of Directors in regards to operational, business, risk and crisis management policies.

¹ The HoA consists of: the Bank of Canada, Department of Finance, OSFI, Ontario Securities Commission, Autorité des marchés financiers, Alberta Securities Commission, and the British Columbia Securities Commission.

² The composition of a bank’s Senior Management, as defined in the Corporate Governance Guideline, will vary from institution to institution. Senior Management is composed of the Chief Executive Officer (CEO) and individuals who are directly accountable to the CEO. In addition to the CEO’s direct reports, such as the heads of major business platforms or units, Senior Management may also include the executives responsible for the oversight functions, such as the Chief Financial Officer (CFO), Chief Risk Officer (CRO), Chief Compliance Officer (CCO), Chief Internal Auditor, and Chief Actuary (CA).

³ Refer to OSFI’s Corporate Governance Guideline for additional guidance in this area.



III. Internal Controls

OSFI expects oversight functions that are independent of operational management to control a submitting bank's CDOR submission process.⁴ This includes maintaining sufficiently robust systems to identify, assess, monitor, and report all relevant risks in its benchmark submission activities. Such systems should be supported by on-going analysis and review of the bank's submissions (e.g., post-submission analysis and review of CDOR rates) to ensure the reliability and quality of the methodology and inputs used for determining the submitted rates. Material breaches in the submission process and procedures identified by the bank's oversight functions should be documented, reviewed, and escalated immediately.

Prompt action should be taken to correct any material internal control deficiencies or breaches in regard to the submission process, and there should be processes in place to monitor and report on the progress made to correct such deficiencies.

Internal controls and procedures covering the CDOR submission process, including submission methodology, should be clearly documented, reviewed at least annually, and updated as necessary. In addition, a bank's CDOR submission performance should be discussed regularly with relevant internal stakeholders, including the business units involved in the submission process.

Submitting banks should establish and provide training on a clear and effective conflict of interest policy that applies to all employees involved in submission activities. The conflict of interest policy should include protocols for internal and external communications related to rate submissions.

IV. Internal Audit

Submitting banks are expected to include in their annual audit plans sufficient work to provide independent assurances to Senior Management and the Board on the quality and effectiveness of the bank's internal control, risk management, and governance systems and processes regarding the CDOR submission processes and compliance with the expectations in the Guideline.

V. Supervisory Assessments

As part of OSFI's risk-based supervisory framework, a submitting bank's oversight and controls for the CDOR submission process will be evaluated against the expectations contained in this Guideline. In this regard, OSFI may request that the submitting banks share copies of reports concerning the CDOR submission process. OSFI may also discuss findings directly with the bank's Senior Management, the Board of Directors, and the oversight functions.

⁴ As defined in OSFI's Supervisory Framework, operational management is responsible for planning, directing and controlling the day-to-day operations of a bank. Oversight functions are responsible for providing independent, enterprise-wide oversight of operational management.