

Deposit-Taking Institutions Sector Consultation (DTISC) 2018-19

Final Report

Prepared for the Office of the Superintendent of Financial Institutions

Supplier name: Sage Research Corporation

Contract number: # 59017-180009/CY

Contract value: \$70,246.45 including HST

Award date: August 2, 2018

Delivery date: July 2019

Registration number: POR 025-18

For more information on this report, please contact the Office of the Superintendent of Financial Institutions at: information@osfi-bsif.gc.ca

Ce rapport est aussi disponible en français.

Copyright

Deposit-Taking Institutions Sector Consultation (DTISC) 2018-19

Final Report

Prepared for the Office of the Superintendent of Financial Institutions

July 2019

The Office of the Superintendent of Financial Institutions (OSFI) commissioned Sage Research Corporation to conduct a qualitative public opinion research study to explore perceptions of the Office of the Superintendent of Financial Institutions (OSFI) as the regulator and supervisor of federally regulated deposit-taking institutions. The objectives of the research included assessment of OSFI's guidance to the industry, its supervisory activities and its approvals process for regulatory approval applications. Interviews were completed with 63 executives from 38 deposit-taking institutions, between February 14 and May 8 2019. This publication reports on the findings of this public opinion research study.

Cette publication est aussi disponible en français sous le titre : Consultation du secteur des institutions de dépôts (CSID) 2018-2019

This publication may be reproduced for non-commercial purposes only. Prior written permission must be obtained from the Office of the Superintendent of Financial Institutions. For more information on this report, please contact the Office of the Superintendent of Financial Institutions at: information@osfi-bsif.gc.ca

Communications and Consultations Division
Office of the Superintendent of Financial Institutions
255 Albert St.
Ottawa, ON K1A 0H2

Catalogue Number:
IN4-31/2019E-PDF

International Standard Book Number (ISBN):
978-0-660-31849-3

Related publications (registration number: POR 019-18):
Catalogue Number IN4-31/2019F-PDF (Final Report, French)
ISBN 978-0-660-31850-9

© Her Majesty the Queen in Right of Canada, as represented by the Minister of Finance, 2019

Table of Contents

Executive Summary	1
Introduction.....	8
Approach and Methodology	8
Overall Impressions of OSFI	11
OSFI’s Guidance	16
OSFI’s Supervision.....	24
Approvals	29
Communications with OSFI	31
Appendix A: Invitation Letters	34
Appendix B: Interview Guide	39

Executive Summary

Purpose and Research Objectives

The primary purpose of the research was to explore perceptions of the Office of the Superintendent of Financial Institutions (OSFI) as the regulator and supervisor of federally regulated deposit-taking institutions. The objectives of the research included assessment of OSFI's guidance to the industry, its supervisory activities and its approvals process for regulatory approval applications.

Methodology

A total of 44 interviews were conducted with 38 deposit-taking financial institutions (DTIs) regulated by OSFI, ranging from small deposit-taking institutions to domestic systemically important banks (D-SIBs). A total of 63 individuals participated in the interviews. The participants were CEOs, CFOs, CROs, CCOs and other senior executives.

The interviews were conducted either in-person or by telephone between February 14 and May 8, 2019. The average interview length was 60 minutes.

Qualitative Research Caution

The research conducted was qualitative in nature and designed to reveal a rich range of opinions and interpretations rather than to measure what percentage of the target population holds a given opinion. As such, the results provide an indication of participants' views on the issues explored but cannot be generalized to the full population of senior executives representing those deposit-taking institutions regulated by OSFI. Rather, the findings from this research provide themes and direction. The findings cannot be used to estimate the numeric proportion or number of individuals in the population who hold a particular opinion because they are not statistically projectable.

Key Findings

Overall Impressions

Satisfaction with OSFI as the principal prudential regulator and supervisor of Canada's financial services industry

- Satisfaction with OSFI is widespread and included the following positive perceptions:
 - OSFI is a principles-based regulator and supervisor, which gives some ability to all DTIs to respond to guidance based on their nature, size and complexity. Those with experience with regulators in other countries often commented that they prefer this to the more rules-based regulation in some other countries.
 - There is a good working relationship with the OSFI supervisory team. The supervisory team is knowledgeable, professional, and engaged in developing a relationship with the DTI.
 - Communication is effective. OSFI is readily accessible, responsive and professional. Communication is frank, open and constructive. OSFI clearly communicates its expectations.
 - OSFI has good processes for consulting with the industry.

- OSFI is effective as a prudential regulator ensuring the soundness of the Canadian deposit-taking sector.

Focus on Risk Areas

- OSFI is perceived to be focusing on many appropriate areas of risk. These include what some described as its “traditional” risk areas, and also those addressed in recently issued/updated guidance.
- Assessment of OSFI is more mixed on how proactive it is on emerging issues. OSFI is seen to be proactive in some areas, but almost all participants had suggestions for where OSFI needs to do more than it has done to date.
- Opportunities for Improvement: The two most widely suggested priorities for OSFI in the next couple of years are:
 - *Cyber/Emerging technologies*: While OSFI is seen to have been focusing on this very important area in useful ways and building up resources, the focus and capacity build-up need to continue.
 - Some expressed concerns about OSFI’s ability to be competitive in attracting people with strong technology and banking expertise to address the magnitude of these issues.
 - It was suggested that guidance on outsourcing/third-party risk and on operational risk need updating to incorporate the impact and role of emerging technologies.
 - It was also suggested OSFI needs to do more to coordinate on cyber risks with other government authorities, because cyber risks outside the federally regulated financial sector can impact the sector.
 - *Unregulated financial sector*: “Shadow banking” was widely mentioned, particularly in the context of mortgage lending, and “fintech” was also often mentioned. By definition, it is recognized that OSFI does not have actual regulatory authority over these institutions. Nonetheless, because risk in these unregulated sectors can cause systemic problems, participants suggested that OSFI should at least monitor the risk in the unregulated sector in order to identify whether and how this might impact risk for federally regulated financial institutions (FRFIs).

Opportunities for improvement

In addition to prioritizing cyber/emerging technologies and the unregulated financial sector, the more common suggestions were:

- Continue to focus on enhancing consideration of DTIs’ nature, size, complexity and risk profile in guidance and supervision. Some observed that OSFI has improved in recent years, but there are still some who feel OSFI has room for improvement. This particularly pertained to (a) reporting and compliance requirements that are perceived to be onerous for smaller DTIs, and (b) some DTIs that are not retail deposit-taking institutions.
- Among D-SIBs: Give more consideration to the negative impacts of early adoption of international standards, particularly on competitiveness.

Guidance

Development of guidance

- OSFI has good processes in place for getting industry input, and is usually deliberate and thoughtful in developing guidance. Although, some said OSFI's process is sometimes too slow to release final guidelines.
- OSFI has been active in updating various guidelines in the last several years. However, some suggested some older guidelines need updating, including B-10, E-4B, B-8 and A-10.

Balancing prudential considerations with need to compete

- The large majority of participants had a generally positive view of OSFI developing guidance that strikes an appropriate balance between prudential considerations and the need for institutions to compete.
- Concerns expressed included:
 - D-SIBs: Early adoption of standards can adversely affect international competitiveness. Going forward, concern was about early adoption of the Basel III output floor standard, the Fundamental Review of the Trading Book (FRTB) and the Standardised Approach for Measuring Counterparty Credit Risk (SA-CCR).
 - Medium DTIs: Some said guidance, particularly related to liquidity requirements, sometimes favours D-SIBs, making it difficult for smaller institutions to compete.
 - Small DTIs: While OSFI is generally viewed positively on balancing the need to compete, good intentions do not always translate into practice.

IFRS 9 consultation and summary of stakeholder comments

- Participants were mostly positive about the IFRS 9 consultation process and the clarity and helpfulness of the summary of stakeholder comments. That said, some said OSFI could have done more to accept suggestions from the industry.
- Some D-SIBs used this discussion to voice concerns about the implementation of IFRS 9:
 - Some believed that OSFI gave different direction to different D-SIBs, resulting in differences in implementation and outcomes. A few attributed this in part to inadequate IFRS 9 subject matter expertise at OSFI.
 - A few expressed a concern that given the different outputs resulting from variability in models and processes across the D-SIBs, OSFI will now, after the fact, try to enforce uniformity among the D-SIBs without consideration of the nuances of the operations and approaches of the different D-SIBs.

B-20: Consultation process and communication of expectations

- There was widespread praise for the B-20 consultation process: it was an effective process for getting industry input, and OSFI responded to the industry's questions and suggestions – although not everyone agreed with OSFI's decisions.

- OSFI effectively communicated its expectations. The industry information sessions in December 2017 were helpful. OSFI staff at the sessions were well-informed and able to address questions.
- Some participants used this discussion to voice concerns about the implementation of B-20:
 - A few had the perception that not all DTIs went to full compliance at the same time. They believe it should have been OSFI’s role to ensure that all DTIs adopt B-20 on the same timeline.
 - A few were of the opinion that there was variation in how different DTIs implemented the B-20 Guideline such that it may have led to competitive advantages or disadvantages. They felt OSFI should have been more consistent in its requirements for different DTIs.

E-21: Communication of expectations, and usefulness of the self-assessment template (asked of Small and Medium DTIs)

- E-21 is perceived to be well-written, and in combination with interactions with OSFI about the guideline, most felt OSFI clearly communicated its expectations.
- Small numbers voiced some concerns, including:
 - Several said there was some confusion about the applicability of the Guideline to foreign bank branches.
 - Several participants said Guideline E-21 refers to “small” institutions (specifically, it refers to “smaller, less complex institutions with demonstrated low operational risk profiles”), but does not clearly define or clarify what “small” means and how this affects OSFI’s expectations.
- Most of those who used the self-assessment template found it useful to identify gaps in operational risk management and as a checklist during implementation.

E-23: Communication of expectations (asked of D-SIBs)

- All the D-SIBs felt that Guideline E-23 clearly communicated OSFI’s expectations to the industry.
- There were a few suggestions:
 - In addition to OSFI’s verbal feedback on a DTI’s self-assessment, it would have been useful to get written feedback that included both the institution-specific feedback and OSFI’s industry-wide observations on best practices.
 - A Q&A forum of some sort, perhaps similar to the industry information sessions held for B-20, would have been helpful to enhance understanding of Guideline E-23.

Consideration of Nature, Size and Complexity of DTIs

This topic was addressed in two contexts in the interview, once with respect to guidance (asked of Small and Medium DTIs), and again with respect to supervision (asked of all DTIs).

• *Guidance*

The majority of Small and Medium DTIs perceived there to be at least some consideration in OSFI’s guidance of the nature, size and complexity of DTIs:

- Within this group there was a range of opinion from “most guidelines do not consider nature/size/complexity, but a small number do”, to “some guidelines consider nature/size/complexity, but others do not.” The common view across this range is that OSFI needs to continue to do more to be sensitive to the characteristics of DTIs as guidance is introduced or updated.
- Some volunteered that they perceive OSFI to have gotten better in the last several years at incorporating nature/size/complexity into its guidance and supervisory recommendations. This includes some who also noted with approval that OSFI has set up a team focusing on Small and Medium DTIs.
- *Supervision*
 - Most of the D-SIB and Medium DTI participants were satisfied that OSFI’s supervisory activities take into consideration the nature, size, complexity and risk profile of their institution. A concern was that it appears that OSFI sometimes takes what it considers to be a best practice at one D-SIB and then requires all other D-SIBs to adopt it without taking into account the feasibility or applicability of this to the other institutions.
 - The majority of Small DTIs were satisfied that OSFI’s supervisory activities take into consideration the nature, size, complexity and risk profile of their institution, and indeed satisfaction was more positive for supervision than for guidance. Some noted that in cases where guidance does not take the institution’s characteristics into consideration, the supervisory team will help in applying the guidance appropriately to their institution. Some commented that OSFI’s risk based approach allows smaller DTIs to focus their resources on the most important areas.
- *Concerns*

Among the minority of smaller DTI participants who were less satisfied:

 - Some DTIs which offer specialized or non-traditional services said OSFI does not sufficiently adjust supervision to their business model or take into account the lower risk profile of their type of business.
 - A few said that while OSFI talks about taking the nature and size of the institution into account, this does not always show up in supervisory conclusions.
 - Reporting and compliance requirements are perceived by some to be onerous and disproportionate given the risk profiles and the limited resources at smaller DTIs.
 - Some said OSFI’s specialist teams do not always scale to the institution appropriately. A few commented that the supervisory team has helped mitigate this problem by working with the specialist teams, but a few others said it has been a challenge for them to make specialist teams understand their business.

Supervision

Overall evaluation

Overall evaluations of OSFI’s supervision are very positive, and are widespread across all sizes and types of DTIs. Positive assessments included:

- Good communication, in several respects:
 - Readily accessible
 - Responsive to requests
 - Open and frank dialogue that facilitates constructive interactions
 - Provides opportunities to discuss any issues of concern
- Professional
- Knowledgeable about the guidelines
- Engaged in developing a relationship with the institution and understanding its business
- Risk-based in setting priorities

Opportunities for improvement

Many participants are satisfied with their supervisory team, but there are relatively small numbers of DTIs where there are opportunities for improvement:

- *Consideration of nature, size, complexity, risk profile:* OSFI is perceived to have improved on this dimension, but some smaller DTIs, particularly those that are not traditional retail deposit-taking institutions, suggest there is room for improvement. Some smaller DTIs feel OSFI does not sufficiently take into account the implications of its requests and requirements as they relate to resources and technological requirements, and also how quickly smaller institutions can respond to requests from OSFI.
- *Turn-over, particularly in the Lead Supervisor:* Some DTIs that had experienced frequent turn-over (meaning turn-over in less than two years, and particularly multiple sequential instances of turn-over with each less than two years), complained about the disproportionate amount of time and effort that needs to be spent by the institution bringing the new person up to speed. Some suggested knowledge transfer to the new person should be improved.
- *Experience and expertise*
 - Several Small DTIs believe OSFI uses smaller institutions as a training ground for less experienced staff, and so they do not feel they are getting the benefit of experienced supervisors.
 - A few Small DTIs said that in their experience, there is not always a good fit between the institution and the team assigned to supervise them – the team members are perceived to have a big institution perspective and not to have a good understanding of the challenges faced by Small DTIs.
 - Some D-SIB participants expressed concerns about OSFI’s competitiveness to continue to attract specialists with strong technology expertise in light of the increasing impact of new technologies on the industry.

Approvals

- Satisfaction with the approval process is high. Most said OSFI set clear expectations in terms of what was required from institutions in their submissions, provided opportunities for discussion if needed, and processed the applications in a reasonable time given the nature of the requests.

- Among the small number who had concerns, the complaints were around long approval times for model approval or more complex types of requests, or OSFI stated a time frame for approval that was inaccurate, and was not proactive in communicating about the delay.

Communication

- OSFI is widely perceived to be strong on communication. This includes responding to enquiries on final guidance and other enquiries, and OSFI's written communication.
- One concern a small number of participants noted was OSFI sometimes will not put supervisory recommendations in writing. For example, a specific scenario mentioned was recommendations in an area where the relevant guideline has not been updated for many years and OSFI's supervisory expectations appear to have evolved. Not putting recommendations in writing can cause issues with internal auditors or the Board.
- Among DTIs headquartered outside of Quebec, all participants were satisfied with the ability to interact with OSFI in the language of their choice, which was English. Among DTIs headquartered in Quebec, there are no major issues. The DTIs there noted that some OSFI staff in Toronto and Ottawa do not speak French, but perceive OSFI to be motivated to try to provide service in French, including offering to have a translator present at meetings. A few DTIs in Quebec said it would be nice to have supervisory correspondence in English as well as French because they are bilingual organizations.

Cost of Research

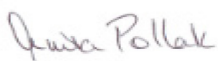
The cost of this research was \$70,246.45 (HST included).

How this information is expected to be used

The research findings will help OSFI assess how well it is achieving its mandate overall and will enable OSFI to improve on performance, as required, in its regulatory and supervisory activities as they pertain to federally regulated deposit-taking institutions.

Political Neutrality Statement

I hereby certify as Senior Officer of Sage Research Corporation that the deliverables fully comply with the Government of Canada's political neutrality requirements outlined in the Policy on Communications and Federal Identity and the Directive on the Management of Communications. Specifically, the deliverables do not contain any reference to electoral voting intentions, political party preferences, standings with the electorate, or ratings of the performance of a political party or its leaders.



Anita Pollak
President, Sage Research Corporation

Introduction

Background and Purpose

Since 1998, the Office of the Superintendent of Financial Institutions (OSFI) has commissioned consultations with senior members of the financial services community to obtain their assessment of OSFI's effectiveness as a supervisor and regulator. In 2018, OSFI commissioned Sage Research Corporation, an independent research firm, to undertake a consultation with key stakeholders in the deposit-taking institution (DTI) sector in order to explore perceptions of OSFI.

Research Objectives

The objectives of the research were to:

- Evaluate OSFI's overall performance and OSFI's effectiveness in performing against its mandate with respect to supervision and guidance
- Assess industry satisfaction with OSFI as Canada's principal prudential regulator and supervisor of the deposit-taking sector and any suggestions for areas in which OSFI might improve
- Examine areas of risk specific to the deposit-taking sector
- Identify emerging issues that key stakeholders believe should be top priorities for OSFI to address in the next couple of years in the regulation of the sector.

Approach and Methodology

Sample Composition

- Thirty-eight deposit-taking institutions participated in the research, representing nearly half of the total sample of DTIs regulated by OSFI. Seven of these institutions were Quebec-based and the remaining 31 institutions were in other parts of Canada.
- Forty-four interviews were conducted with these institutions, 39 in English and 5 in French.
- A total of 63 individuals participated in the interviews.

The following details the breakdown of the completed interviews by size and type of institution:

	<i>Number of Institutions</i>	<i>Number of Interviews</i>	<i>Number of Participants</i>
	N=38	N=44	N= 63
Size of Institution			
Large deposit-taking institutions (DSIBs)	6	12	17
Medium-sized deposit-taking institutions	8	8	13
Small-sized deposit-taking institutions	24	24	33
Type of Institution			
Domestic banks	16	22	28

Domestic trust companies	8	8	12
Foreign banks (full or branch)	14	14	23

The following summarizes the title or position of the individuals who participated in the interviews:

	<i>Number of Participants</i>
	N= 63
Title/Position of Participant	
CEOs/POs	14
CFOs	15
CROs	18
CCOs	10
Legal counsel	3
Other position	3

Approach

Sample: OSFI provided Sage Research Corporate with a list of names and contact information for 86 deposit-taking institutions. Sage Research recommended a sampling plan to OSFI. The target plan aimed to represent CEOs, CFOs, CROs and CCOs across deposit-taking institutions. Sage Research randomly selected potential interviewees across the different types and sizes of institutions.

Recruitment Process: The selected individuals were mailed a package containing:

- An invitation letter from the Superintendent of OSFI
- A letter from Sage Research providing some additional information on next steps
- A copy of the complete interview guide to allow participants to prepare in advance for the interview

Approximately one week after mail out, senior consultants from Sage Research who were also responsible for conducting the interviews, contacted each potential participant to confirm their willingness to participate in the consultation and to schedule a time for the interview. In some cases, the selected individual designated another person in their organization for the interview, and in other cases they requested the interview be conducted with more than one person in their institution (11 of the 44 interviews involved more than one participant).

In the Greater Toronto area (GTA) and Montreal, participants were given the choice of completing the interviews in person or by telephone. Those outside of these two areas where the interviewers are located were interviewed by telephone. Of the 44 interviews completed, 29 were conducted by phone and 15 were in person.

Method: Qualitative research using a semi-structured, one-on-one interview approach was used to provide a depth of insight that is not achievable through other research methods and, in particular, through strictly quantitative surveys. One-on-one interviews allow deep probing into underlying assessments of OSFI's effectiveness.

Interviewing:

- The interviews took place between February 14 and May 8, 2019.
- The average length of the interview was 60 minutes.
- Participants were asked permission to audio-record the interview. Out of the 44 interviews, 32 agreed to recording and 12 did not. The interviewers took detailed notes in instances when the interviewee(s) did not agree to audio-record the interview.
- Participants did not receive an honorarium for their participation. Following an interview, each participant was sent a thank you note from the Sage Research interviewer. At the end of the project, Sage Research sent participants a thank you note on behalf of the Superintendent of OSFI.
- A total of four interviewers were used for the research. Steps were taken to ensure all moderators were fully prepared and briefed on emerging themes across the various interviews.
 - Multiple moderators were required to ensure that interviews were conducted in the official language of choice of each participant.
 - Anne Kilpatrick has many years of experience conducting interviews for OSFI with this target group. To familiarize the research team with the process, English-language tandem interviews were done with two Sage Research team members, Anita Pollak and Rick Robson.
 - Prior to the first French-language interviews, Sylvain Laroche, the French-language interviewer, was provided multiple debriefings on the expected themes and on the results of the initial English-language interviews.
 - All moderators shared learning from the interviews on an ongoing basis.
- Six of the 39 English-language interviews were conducted as in-person tandem interviews. The remainder were conducted by a single interviewer in the language preference of the participant:
 - The tandem interviews involved Anita Pollak (5 interviews), Rick Robson (1 interview) and Anne Kilpatrick (all 6 interviews).
 - The English language individual interviews were conducted by Anita Pollak. The French-language interviews were conducted by Sylvain Laroche.
- The average length of the interview was 60 minutes.

Qualitative Research Caution

The research conducted was qualitative in nature and designed to reveal a rich range of opinions and interpretations rather than to measure what percentage of the target population holds a given opinion. As such, the results provide an indication of participants' views on the issues explored but cannot be generalized to the full population of senior executives representing those deposit-taking institutions regulated by OSFI. Rather, the findings from this research provide themes and direction. The findings cannot be used to estimate the numeric proportion or number of individuals in the population who hold a particular opinion because they are not statistically projectable.

Overall Impressions of OSFI

Overall Satisfaction with OSFI as the Principal Prudential Regulator and Supervisor

Q.1 Overall, how satisfied are you with OSFI as the principal prudential regulator and supervisor of Canada's financial services industry?

Satisfaction with OSFI is widespread. While to varying degrees some DTIs have certain issues or suggestions, the overall assessment is generally positive.

Widespread positive perceptions of OSFI include:

- OSFI is a principles-based regulator and supervisor, which gives some ability to all DTIs to respond to guidance based on their nature, size and complexity. Those with experience with regulators in other countries often commented that they prefer this to the more rules-based regulation in some other countries.
- There is a good working relationship with the OSFI supervisory team. The supervisory team is knowledgeable, professional, and engaged in developing a relationship with the institution.
- Communication is effective. OSFI is readily accessible, responsive and professional. Communication is frank, open and constructive.
- OSFI has good processes for consulting with the industry.
- OSFI is effective as a prudential regulator ensuring the soundness of the Canadian deposit-taking sector.

Some also comment positively on OSFI's good reputation with the international community making it an effective representative for the Canadian financial industry.

While overall impressions of OSFI are positive, some participants raised various issues or made suggestions for improvements OSFI should consider. These are noted in relevant sections of the report.

Focus on Areas of Risk in the Deposit-Taking Sector

Q.2 How would you assess OSFI on the extent to which it focuses on the appropriate areas of risk in the deposit-taking sector?

Q.3 How would you assess OSFI with respect to how proactive it is in responding to emerging issues pertaining to the deposit-taking sector?

Q.4 What one or two risk areas do you believe should be priorities for OSFI in the next couple of years pertaining to institutions in the deposit-taking sector?

Overview

OSFI is perceived to be focusing on many appropriate areas of risk. These include what some described as its “traditional” risk areas, and also those addressed in recently issued/updated guidance. Very few participants singled out what they considered to be currently an inappropriate or unnecessary risk focus.

Where assessment of OSFI is more mixed is on how proactive it is on emerging risk areas. OSFI is seen to be proactive in some areas, but almost all participants had suggestions for where OSFI needs to do more than it has done to date.

Several participants said OSFI has sometimes been overly reactive to an issue, particularly when it’s covered in the media – the example they cited was how OSFI responded to an issue a few years ago when concerns were raised about a DTI in the mortgage lending business, and they suggested OSFI over-reacted to the situation.

Assessment of OSFI’s progress in addressing risk areas can be divided into several categories:

- Risk areas OSFI has appropriately focused on in the last several years
- Risk areas OSFI has focused on in the last several years, but more needs to be done
- Risk areas OSFI is perceived to have done little and needs to do more

Risk areas OSFI has appropriately focused on in the last several years

OSFI’s focus in the last several years, includes risk areas where OSFI has recently issued/updated guidance, such as liquidity (LAR – Liquidity Adequacy Requirements), corporate governance, model risk (E-23 Enterprise-Wide Model Risk Management for Deposit-Taking Institutions), and mortgage debt (B-20, Residential Mortgage Underwriting Practices and Procedures).

Some of these risk areas were flagged as perhaps in need of future revision or fine-tuning. However, unlike the risk areas in the next category, participants did not say the scope of attention needs to be expanded. For example, some participants suggested B-20 may need to be revised as the existing rules take effect and the housing market evolves. One suggested E-23 may need revision in the future as model usage evolves, including for example use of artificial intelligence and machine learning in developing models.

Risk areas OSFI has focused on in the last several years, but more needs to be done

Cyber/Emerging technologies: Many participants flagged this as a very important priority for OSFI to deal with. This includes not just cybersecurity, but also regulatory response to all the various developing technologies impacting the financial services industry. It is recognized and appreciated that OSFI has been focusing on this area and building up its resources. However, the magnitude of the issues and the rapid ongoing digitalization of financial services is such that they feel OSFI needs to continue a strong focus here and continue to build up its technical resources and expertise. Some feel OSFI has been slow to address cyber issues, and some expressed concerns about OSFI’s ability to be competitive in attracting people with strong technology and banking expertise.

Some participants noted other areas of guidance impacted by emerging technologies that they feel OSFI will need to prioritize on updating, including:

- *Outsourcing/third-party risk*: Examples mentioned included outsourcing to cloud services, and the impact of third-party payment services. In this context, a smaller DTI noted that some of these third parties are very large companies, and an institution of their size has very little clout by itself to impact the vendor's risk-related practices. They suggested OSFI can have a role to play here by setting standards for all FRFIs.
- *Operational risk*: Some suggested that increasing use of new technologies and reliance on third parties for technology services impacts operational risk. They suggested that OSFI's operational risk guideline should do more to incorporate risks from these factors.

Particularly D-SIB participants, but also some other DTIs, suggested OSFI needs to do more to coordinate on cyber risks with other government authorities. For example, references were made to the Department of Finance, the Bank of Canada, the Office of the Privacy Commissioner, Public Safety Canada and CSIS. Cyber risk is a broad-based issue, and cyber incidents outside of federally regulated DTIs can impact the federally regulated sector. Several said that sometimes it is unclear from a regulatory perspective what the boundaries are between OSFI and other authorities. Examples mentioned included the Bank of Canada with respect to cyber risks, and the Office of the Privacy Commissioner with respect to data breaches that affect data privacy.

Other suggestions, each made by a few participants, for roles OSFI could play related to cyber/emerging technology risk included:

- Facilitate information sharing among DTIs on experiences and best practices around cyber security.
- Conduct industry-level (i.e. not just a single institution) stress tests to simulate the impact of and the response to a broad-based cyber security incident. It was suggested this should include OSFI's role and response to the cyber security incident.
- Provide DTIs reassurance about OSFI's own cyber security, given the extensive information it maintains from individual institutions.

Culture and conduct risk: Some participants, spanning all institution sizes, felt OSFI needs to take a more proactive, systemic approach to culture and conduct risk. Several noted they have seen OSFI being more proactive on this area, but others said OSFI has been largely reactive to media coverage about this topic.

Risk areas OSFI is perceived to have done little and needs to do more

Unregulated financial sector: "Unregulated" here means not regulated by OSFI because the institution does not qualify as a FRFI. By definition, it is recognized that OSFI does not have actual regulatory authority over these institutions. Nonetheless, many participants across all institution sizes feel OSFI should be doing more than it is now. Their basic point is that risk in these unregulated sectors can cause systemic problems that impact risk for FRFIs, and therefore OSFI should be prepared to help mitigate risk coming from the unregulated financial sector.

“Shadow banking”, in the sense of unregulated lending, was widely mentioned, particularly in the context of mortgage lending. Also often mentioned was “fintech”, and the increasing role of technologically-driven companies outside of the FRFI space in providing financial services.

Participants suggested that OSFI should at least monitor the risk in the unregulated sector in order to identify whether and how this might impact risk for FRFIs. Several said they were concerned OSFI might not do this because of a “not in my back yard” mentality. Or, it was suggested that if OSFI does not feel it can take on this role alone, it should work with other authorities (e.g. Department of Finance, Financial Consumer Agency of Canada) to coordinate monitoring.

Open banking: Some suggested OSFI needs to do more to address open banking. It was acknowledged that the Department of Finance recently launched a consultation, but at present the perception is that OSFI has done little to address the impacts of open banking. A few participants were focused on the risks open banking can pose to such things as privacy and data protection, while a few others were concerned that OSFI may introduce regulations that overly restrict open banking.

Cannabis: A few participants suggested OSFI needs to address risks associated with the legalization of cannabis. An example was impact on correspondent banking relationships with FIs in countries where cannabis is not legal.

Opportunities for Improvement as a Regulator and Supervisor

Q.5 What one or two things does OSFI need to improve upon as a regulator and supervisor?

As noted previously, there was widespread overall satisfaction with OSFI as the principal prudential regulator and supervisor of the financial services industry. Keeping this in mind, the following are the more frequently mentioned suggestions for improvement.

- Continue to build the focus on cyber and emerging technologies. In connection with this, there was concern over OSFI’s competitiveness in attracting talent in these areas.
- Continue to focus on enhancing consideration of DTIs’ nature, size, complexity and risk profile in guidance and supervision. Some observed that OSFI has improved in recent years, but there are still some who feel OSFI has room for improvement. This particularly pertained to (a) reporting and compliance requirements that are perceived to be onerous for smaller DTIs, and (b) some institutions that are not retail deposit-taking institutions.
- Among D-SIBs: Give more consideration to the negative impacts of early adoption of international standards, particularly on competitiveness.

There were a variety of suggestions that were each made by one or a few participants:

- Coordinate with other regulators. There were varied motivations for the suggestion: ensure an effective regulatory regime for cyber risk, avoid duplication, establish clear boundaries on who regulates what.
- More focus on smaller DTIs in outreach:

- More information sharing forums on best practices. Two particular topics mentioned were cyber security and emerging technologies.
- Involve smaller DTIs in “preconsultations”, in addition to the D-SIBs.
- Ensure that smaller DTIs have an effective voice in consultations, given that they have fewer resources they can devote to this. In this context, a few said while the CBA is a good, inclusive organization, they perceive it to be more representative of the views of larger institutions in consultations, simply because larger institutions have more resources to provide input to the CBA.
- Hold more events in the West.
- Continue to focus on hiring staff with industry experience, as this can enhance understanding of and communication with DTIs.
- Always do a preconsultation with D-SIBs prior to a public consultation – the example mentioned where a participant felt this was not done was the Liquidity Adequacy Requirements (LAR).
- Better enforcement of cyber incident reporting to ensure OSFI has a comprehensive understanding of what is going on in the industry.
- After guidance is introduced, put Q&As or FAQs on the OSFI website.
- Move to more of a continuous improvement model with each institution, so that there is more at least informal conversation with an institution while it is implementing a change or something new.
- For required stress tests, OSFI should also provide input on what it might require of an institution should the scenario come to pass.

OSFI's Guidance

Response to Market Developments or to Industry Suggestions

Q.6 How would you assess OSFI with respect to responding in a timely manner to market developments or to industry suggestions that guidance needs updating?

Overall impressions of OSFI were generally positive, albeit with some specific exceptions. On the positive side, comments included:

- OSFI has been active in updating various guidelines in the last several years.
- OSFI listens to the industry and takes it seriously, and has good processes in place for getting industry input. There were specific references to OSFI working effectively with the Canadian Bankers Association (CBA) and the Trust Companies Association of Canada (TCA).
- OSFI is usually deliberate and thoughtful in responding to market developments, and does not rush to judgment. That said, several participants said OSFI can sometimes be overly reactive to stories in the media, and some said OSFI's process is sometimes too slow to release final guidelines.

As described earlier, there are some areas where a number of participants felt OSFI needs to do more, most notably on cyber/emerging technologies, and the unregulated financial sector.

There are some specific guidelines that some participants said have not been updated in a long time and they suggest need to be updated to keep up with where the market is now:

- *B-10 Outsourcing of Business Activities, Functions and Processes* (last revised in 2009): This was perceived to be substantially out of date given the now much greater role of technology and "fintech" in the financial sector.
- *E-4B Role of the Principal Officer and Record Keeping Requirements* (2005): Some foreign bank branch participants said this needs updating.
- *B-8 Deterring and Detecting Money Laundering and Terrorist Financing* (2008): Several participants said they think B-8 is in some cases inconsistent with current laws.
- *A-10 Capital Equivalency Deposit* (last revised in 2002).

Developing Guidance that Balances Prudential Considerations with Need to Compete

Q.7 How would you assess OSFI with respect to developing guidance that strikes an appropriate balance between prudential considerations and the need for institutions to compete?

Overall, the large majority of participants had a positive view of OSFI developing guidance that strikes an appropriate balance between prudential considerations and the need for institutions to compete. There were some variations in the results by size and type of DTI, as detailed below.

D-SIBs: D-SIBs are generally satisfied with OSFI striking a good balance, but with two specific exceptions:

- **Early adoption of standards relative to international competitors:** Participants from all of the D-SIBs said that OSFI sometimes adopts international standards earlier than FIs in other countries. They said that when the result is that Canadian banks are subject to tighter standards earlier than banks in other countries, Canadian banks can be at a competitive disadvantage, particularly in competing internationally.

Going forward, some specifically mentioned concern about the accelerated adoption of the Basel III output floor standard: instead of a 5 year transition starting in 2022, it would be fully adopted in Canada in 2022. A few participants said this would adversely impact the competitiveness of their corporate lending business.

A few also mentioned the early adoption of the SA-CCR (Standardized Approach to Counterparty Credit Risk), and of the FRTB (Fundamental Review of the Trading Book, also referred to as Basel 3.5 or Basel IV).

Some said they believe OSFI adopts standards ahead of other countries in order to bolster its reputation internationally as “the best regulator.”

- **B-20 implementation:** A few D-SIB participants said they have the impression that OSFI has not required all DTIs to implement B-20 in the same way, and were concerned this might impact their competitiveness.

Medium: Some of the Medium DTIs were satisfied with OSFI’s balancing of prudential considerations and the need for institutions to compete, while some others – mostly medium domestic banks - felt that guidance sometimes favours D-SIBs and can make it hard for smaller DTIs to compete. This was particularly perceived to be the case for some liquidity requirements.

Small: The large majority of Small DTIs were satisfied with OSFI’s balancing of prudential considerations and the need for institutions to compete. Factors mentioned that contributed to this positive view included:

- Principles-based regulation, combined with appropriate supervision, supports the ability to compete.
- Many of the small foreign bank branches said the limited nature of their business is such that the OSFI guidance that applies to them does not affect their ability to compete one way or another.

Among the remaining relatively small number of Small DTIs are less satisfied:

- Most said that OSFI is generally good on balancing need to compete or has good intentions, but does not always appear to take seriously input on guidance from Small DTIs, or OSFI’s good intentions do not always translate into practice.
- A few felt OSFI should do more to ensure Small DTIs have better access to services from big banks, such as access to lines of credit, and said in their experience big banks can be reluctant to provide services to smaller DTIs.

OSFI's Guidance Provides an Indication of OSFI's Expectations

Q.8 Overall, how effective do you think OSFI's guidance is in providing a clear indication of OSFI's expectations?

There is widespread satisfaction with how effective OSFI is in providing a clear indication of its expectations. As many noted, OSFI's guidance is principles-based, which means DTIs have some latitude to apply the guidance in a way suited to their organization. For those who found guidance not to be fully clear as to what is expected, many noted they have found it straightforward to ask for and get clarification. The supervisory team often plays an important and effective role in this regard. Some also mentioned that industry sessions, seminars and OSFI speeches can be helpful as well. So, the overall positive reaction is based on the written guidance itself plus the ease of getting clarification when necessary.

Two circumstances were mentioned that were associated with some frustration around clarity of expectations:

- Some participants commented that they may begin implementing principle-based guidance using their interpretation, but not be sure if OSFI actually approves of their implementation until some later date. For example, a few mentioned B-20 in this context: they noted they had implemented B-20, but said they would not really know if they got it right until OSFI reviews what they have done. One suggestion was for OSFI to post FAQs to help institutions plan how to implement guidance.
- A few participants said that in the case of guidance that has not been formally updated in a long time, what OSFI expects currently may not be clear, or may have changed. The result is that OSFI may ask them to do things that are not in the written guidance. Examples mentioned of guidance perceived to be outdated included E-4B (*Role of the Principal Officer and Record Keeping Requirements*, 2005) and A-10 (*Capital Equivalency Deposit*, 2002). (Note that in the discussion of Q.4, some participants identified other guidance they felt needed updating in addition to these two, so this issue may go beyond these two specifically.)

OSFI's Guidance and Consideration of Nature, Size and Complexity of Financial Institutions

Q.9 [ASKED ONLY OF SMSBs] How would you assess OSFI's guidance on the extent to which it considers the nature, size and complexity of financial institutions?

The interview guide had two general questions on the extent to which OSFI considers the nature, size and complexity of DTIs: Q.9 with respect to OSFI's guidance, and Q.18 with respect to OSFI's supervision. Overall, OSFI is perceived more positively on the supervision question than on the guidance question. The discussion here focusses on Q.9 guidance.

The majority of Small and Medium DTIs perceived there to be at least some consideration in OSFI's guidance of the nature, size and complexity of DTIs.

- Within this group there was a range of opinion from "most guidelines do not consider nature/size/complexity, but a small number do", to "some guidelines consider

nature/size/complexity, but others do not.” The common view across this range is that OSFI needs to continue to do more to be sensitive to the characteristics of DTIs as guidance is introduced or updated.

- Some participants explicitly noted that they perceive OSFI to have gotten better in the last several years at incorporating nature/size/complexity into its guidance and supervisory recommendations. This includes some who also noted with approval that OSFI has set up a team focusing on Small and Medium DTIs.

A minority of the participants representing Small and Medium DTIs said they do not perceive OSFI to be considering nature, size and complexity in its guidance. They believe they are subjected to the same requirements as D-SIBs, or that OSFI guidance does not take into consideration their type of business. This was particularly the case for some DTIs which offer specialized or non-traditional services. These participants feel the regulatory regime needs to be somewhat different for their types of business and risk profiles.

When there are complaints about lack of consideration of nature/size/complexity, these often focus on the reporting and compliance requirements in the guidance. Small and Medium DTIs say they do not have anywhere near the resources of D-SIBs to comply with the same requirements as D-SIBs. They feel applying the same requirements can be disproportionately onerous for Small DTIs.

IFRS 9 Financial Instruments and Disclosures Guideline

Q.10 Overall, how would you assess the consultative process OSFI followed in the development of the IFRS 9 Financial Instruments and Disclosures Guideline (e.g. means by which institutions could provide feedback, timing for feedback, timing of OSFI’s response)?

Some participants did not comment on the consultative process either because their institution was not involved in the consultation or the interviewees themselves were not involved. In some cases, the parent company or head office directed all efforts related to IFRS 9.

Among those who were able to offer an opinion about the IFRS 9 consultative process, the majority were satisfied with the process that OSFI put in place. There were no negative comments related to timelines nor to the means by which institutions could provide their input to OSFI.

There were some negative comments made about the consultation by a small number of participants:

- Some felt that while OSFI did consult the industry, it was not at the same time willing to make changes in response to industry feedback on its issues and concerns about IFRS 9. That said, some other participants said OSFI did make some changes in response to industry feedback, albeit not giving the industry everything it wanted.
- A few felt the consultation was more focused on the D-SIBs than on smaller DTIs.

Q.11 Accompanying the final IFRS 9 Guideline was a summary of stakeholder comments, which included an explanation of how OSFI dealt with the issues raised through the consultation process. How effective was the summary in communicating the decisions OSFI took on the issues raised by stakeholders regarding IFRS 9 Guideline?

Just over half did not comment on the summary of stakeholder comments because they had not seen it or did not recall it.

Among those who were able to offer an opinion, the majority felt the summary of OSFI's position in response to the issues raised by stakeholders was effective – it was perceived to be clear and helpful.

Some offered negative comments about the summary not in terms of clarity, but rather with the decisions OSFI made. They felt OSFI should have accommodated more of the industry's concerns.

While both the assessment of OSFI's consultative process and industry feedback mechanism were mainly viewed positively, there were some comments related to concerns about the implementation of the IFRS 9 Guideline. These comments were made exclusively by D-SIBs:

- There is a belief that OSFI gave different direction to different D-SIBs, resulting in differences in implementation and outcomes. A few attributed this in part to inadequate subject matter expertise at OSFI.
- A few expressed a concern that given the different outputs resulting from variability in models and processes across the D-SIBs, OSFI will now, after the fact, try to enforce uniformity among the D-SIBs without consideration of the nuances of the operations and approaches of the different D-SIBs.

B-20 Residential Mortgage Underwriting Practices and Procedures Guideline

Q.12 Overall, how would you assess the consultative process OSFI followed in the development of Guideline B-20 (e.g. means by which institutions could provide feedback, timing for feedback, timing of OSFI's response)?

Just under half of the Small and Medium DTI participants did not comment on the B-20 Guideline consultative process, either because they were not personally involved or because their institutions do not offer residential mortgages.

Among those who were able to offer an opinion about the B-20 consultative process, most were satisfied with the process that OSFI put in place. There was plenty of time to review the draft guidance and to provide input. OSFI responded to the industry's questions and suggestions. There were almost no negative comments related to timelines or to the means by which institutions could provide their input to OSFI.

Where there were some differences in opinion was in how OSFI revised B-20 in response to the consultation. The majority perceived OSFI to be reasonably responsive. Some, however, said that while OSFI ran a good consultation, there seemed to be a pre-determined desired outcome on

OSFI's part going in to the consultation and thus some felt that OSFI was not responsive to the concerns of the industry.

Q.13 Thinking about the final Guideline B-20, how effective was OSFI in communicating its expectations to the industry?

How useful were the industry information sessions that OSFI held in December 2017?

Among those institutions in the residential mortgage business, almost all felt that OSFI clearly communicated what was expected from the industry in the final B-20 Guideline issued in October 2017.

Most either attended the information sessions themselves or they were represented by someone else from their institution. They felt the guidance together with the industry information sessions were very useful to help understand OSFI's expectations for implementation.

Participants liked that the information session allowed the opportunity to ask questions and to get immediate responses. The OSFI staff at the sessions were well-informed and able to address questions.

A small number of participants voiced some complaints:

- The sessions were held very late given the required implementation date for B-20.
- Hand-outs of the slide presentation should have been provided to the attendees.
- Some important things came out in subsequent file reviews that were not mentioned in the information sessions.

There were a few negative comments related to OSFI's implementation of B-20:

- A few had the perception that not all DTIs went to full compliance at the same time. They believe it should have been OSFI's role to ensure that all DTIs adopt B-20 on the same timeline.
- A few were of the opinion that there was variation in how different DTIs implemented the B-20 Guideline such that it may have led to competitive advantages or disadvantages. They felt OSFI should have been more consistent in its requirements for different DTIs. In this regard, one institution suggested OSFI should have started reacting to reports of problems sooner rather than waiting for an institution's internal audit reports on compliance.

Guideline E-21 Operational Risk Management

Q.14 [ASKED ONLY OF SMSBs] In June 2016 OSFI released Guideline E-21: Operational Risk Management. Thinking about the final Guideline E-21, how effective was OSFI in communicating its expectations to the industry?

Some participants did not comment, in most cases because the interviewee was not directly involved with Guideline E-21.

Most of the DTIs, both Medium and Small, felt that it was a well-written document which clearly communicated OSFI's principles-based expectations for the industry. Among this group, quite a few referred to having some type of interaction with OSFI about this guideline which contributed to their better understanding of how to apply the guidance to their institution. Examples of interaction with OSFI included meetings with OSFI, an OSFI review and subsequent feedback, and an industry risk management day session. A few said that they were largely already in compliance and only needed to make minor adjustments after input from OSFI.

Some participants voiced a few issues:

- Several felt that while the final E-21 Guideline was well written, it was a challenge to interpret the principles-based guideline expectations from OSFI to specific requirements or actions required on the part of their institution.
- Several said there was some confusion about the applicability of the Guideline to foreign bank branches.
- Several participants said Guideline E-21 refers to "small" institutions (specifically, it refers to "smaller, less complex institutions with demonstrated low operational risk profiles"), but does not clearly define or clarify what "small" means and how this affects OSFI's expectations. One participant suggested that OSFI should develop best practices for the Small DTI sector based on feedback and reviews from the sector.

Q.15 [ASKED ONLY OF SMSBs] How effective was the self-assessment template (issued April 2017) in supporting your institution in assessing current practices against the principles outlined in Guideline E-21?

Some participants did not comment on the self-assessment template, in most cases because the interviewee was not directly involved in using it. A few did not use the template because they said they were already largely compliant prior to its release.

The majority of DTIs found the self-assessment template useful to identify gaps in their own practices and as a checklist during implementation. A few said they shared the template with the supervisory team and it helped them create a structure for discussions with the supervisory team and subsequently helped the supervisor and the institution with the plan for compliance.

A few participants observed that there is a need for considerable interpretation as to which template items they needed to apply to their institution, and how to apply them. These participants said that whether or not they correctly applied the guideline in light of this will only be evident once OSFI does its review.

Guideline E-23 Enterprise-wide Model Risk Management for Deposit-taking Institutions

Q.16 [ASKED ONLY OF DSIBs] In September 2017 OSFI released Guideline E-23: Enterprise-wide Model Risk Management for Deposit-Taking Institutions. Thinking about the final Guideline E-23, how effective was OSFI in communicating its expectations to the industry?

All the D-SIBs felt that Guideline E-23 clearly communicated OSFI's expectations to the industry. Some also referenced the value of CBA's involvement in the consultation process which led to the final guideline.

There were two suggestions on how the process could have been improved, each from one participant:

- In addition to OSFI's verbal feedback on the institution's self-assessment, it would have been useful to get written feedback that included both the institution specific feedback and OSFI's industry-wide observations on best practices.
- A Q&A forum of some sort, perhaps similar to the industry information sessions held for B-20, would have been helpful to enhance understanding of Guideline E-23.

OSFI's Supervision

Perceived Effectiveness of OSFI's Supervision

Q.17 Overall, how effective do you think OSFI is in supervising your institution (e.g. ongoing monitoring, on-site reviews including supervisory recommendations, reporting requirements, etc.)?

The overall evaluations of OSFI's supervision are very positive, and are widespread across all sizes and types of DTIs. Positive assessments included:

- Good communication, in several respects:
 - Readily accessible
 - Responsive to requests
 - Open and frank dialogue: As one participant put it, there is not a “gotcha” mentality. This allows for more constructive interactions. Some participants commented this is particularly important given OSFI's principles-based regulation, where open and frank dialogue is important for working out how to apply the principles to their institution.
- Knowledgeable about the guidelines
- Professional
- Engaged in developing a relationship with the institution and understanding its business
- Risk-based in setting priorities

One participant summed up the importance of the supervisory team and the Lead Supervisor as follows: *“For FIs, especially small ones, the relationship with the regulator is really dependent on who your Lead Supervisor is. If you get somebody who has a wealth of experience and street smarts and they bring a practicality to the table, your ability to deal with that regulator is a lot better than somebody who's more junior or inexperienced or is conservative.”*

Relatively small minorities of participants expressed concerns, of several different sorts:

- Frequent turn-over in the supervisory team, particularly in the Lead Supervisor position
Participants expect that there will be turn-over, and some commented this can be a good thing because it can be good from time to time to get a “fresh set of eyes” on the business. However, turn-over brings with it the potential for temporary minor disruption – or a “bump in the road” as one participant put it – as the new OSFI staff come up to speed. The large majority of participants did not view OSFI turn-over as an issue. The frequency of turn-over is acceptable, and/or there is good knowledge transfer to new team members. The participants who expressed concern or frustration were some of those who had what they considered to be frequent turn-over – meaning turn-over in less than two years, and particularly multiple sequential instances of turn-over with each less than two years. The result is a feeling that there is a disproportionate amount of time and effort spent bringing a new person up to speed. Among these participants, a related complaint is that they have not seen good knowledge transfer at OSFI to the new people.

- Several Small DTIs believe OSFI uses small institutions as a training ground for less experienced staff, and so they feel they are not getting the benefit of experienced supervisors.
- Some Small DTIs feel that OSFI does not take into account sufficiently the implication of its requests and requirements as they relate to resources and technological requirements. This is discussed further under Q.18.
- A few DTIs in Quebec have the impression that the Montreal OSFI office is not always kept up to date on developments happening in the Ottawa and Toronto OSFI offices. This is not a criticism of the Montreal office, which is perceived very positively. Rather, the concern is that decisions in the Ottawa and Toronto offices are not always conveyed to the Montreal office on a timely basis. The result is a belief that Toronto DTIs sometimes know things before those in Quebec. One participant said they have seen some improvement recently, but said there is still room for more improvement.
- A few larger institutions note that there is sometimes duplication of information requests. For example different OSFI teams may each request the same minutes of a Board meeting.

Supervision and the Nature, Size, Complexity and Risk Profile of DTIs

Q.18 How would you assess OSFI on the extent to which its supervisory activities (e.g., ongoing monitoring, on-site reviews, reporting requirements, etc.) are scaled to reflect the nature, size, complexity and risk profile of your institution?

Most of the D-SIB and Medium DTI participants were satisfied that OSFI's supervisory activities take into consideration the nature, size, complexity and risk profile of their institution. A concern was that it appears that OSFI sometimes takes what it considers to be a best practice at one D-SIB and then requires all other D-SIBs to adopt it without taking into account the feasibility or applicability of this to the other institutions.

The majority of Small DTIs were satisfied with OSFI's consideration of nature, size, complexity and risk profile. Some commented they have seen improvements in this regard in the past several years (note that some of the other participants had only been in their jobs for several years or less, and may not have a historical perspective on this). Some noted that in cases where the guidance does not explicitly refer to nature, size, complexity and risk profile, the supervisory team will help in scaling the principles-based guidance appropriately to their institution. Some commented that OSFI's risk based approach allows smaller institutions to focus their resources on the most important areas.

Among the minority of Small DTIs who had concerns:

- Some DTIs which offer specialized or non-traditional services said OSFI does not sufficiently adjust supervision to their business model or take into account the lower risk profile of their type of business.
- Reporting and compliance requirements are perceived to be onerous and disproportionate given the risk profiles and the limited resources at smaller institutions.

Some smaller institutions said OSFI's specialist teams do not always have a good understanding of their business. A few commented that the supervisory team has helped mitigate this problem by working with the specialist teams, but a few others said it has been a challenge for them to make specialist teams understand their business.

Supervisory Recommendations Balance FRFI Controls with Risks

Q.19 How would you assess OSFI on the extent to which its supervisory recommendations balance expectations of FRFI controls with the risks, and are scaled to reflect the nature, size and complexity of your institution?

Most participants are satisfied that OSFI supervisory recommendations balance expectations of FRFI controls with the risks.

The exceptions:

- Several participants (including participants from all three size categories) said sometimes there are findings with respect to matters the institution considers minor and as not material to ensuring safety and soundness which are overly costly and/or difficult to implement.
- As noted elsewhere, some DTIs which offer specialized or non-traditional services said OSFI does not sufficiently adjust supervision to their business model. The result is some lack of sensitivity to what the real risk areas are for their institution.

Opportunity for Discussion Prior to OSFI Coming to a Conclusion

Q.20 How would you assess OSFI with respect to providing an opportunity for your institution to discuss issues of concern with OSFI prior to OSFI coming to a conclusion?

As described earlier in Q.17, there is a widespread positive assessment of members of the OSFI supervisory teams being good communicators, in several respects:

- Readily accessible
- Responsive to requests
- Open and frank dialogue

Consistent with this, there is widespread positive assessment of OSFI providing an opportunity to discuss issues of concern prior to OSFI coming to a conclusion. There are occasional instances where this does not happen, but that is viewed as the exception, not the norm.

That said, a few smaller DTIs differentiated between their supervisory team and specialist teams: they said they have ample opportunity for discussion with their supervisory team, but have sometimes not had these opportunities with specialist teams.

Overall Knowledge of the Supervisory Team (*lead supervisor, other members of the supervisory team and/or supervisory specialists*)

Q.22 How would you assess the overall knowledge level of your supervisory team (e.g. knowledge of legislation; OSFI guidelines; regulatory policy; deposit-taking sector issues and risks; your institution)?

All participants reported that they have had dealings with their supervisory team in the past 12 months.

In all DTI segments, most participants gave an overall positive assessment of the knowledge level of the supervisory team. The team is perceived to be knowledgeable, and to bring in experts when necessary. Many – but not all – say the team has a good understanding of their institution and its business model.

The concerns expressed included:

- Turn-over in the team, particularly in the Lead Supervisor position, can cause a temporary decline in knowledge of the institution. There is a period of time the new person needs to become familiar with the institution. The large majority of participants did not view this as an issue, but some did – particularly those who had experienced frequent turn-over. This results in disproportionate time and effort being spent on their part in bringing the new person up to speed, and a related complaint is that OSFI did not ensure good knowledge transfer to the new people.
- Some D-SIB participants expressed concerns about specialist expertise:
 - Some expressed concern over OSFI’s competitiveness in attracting talent pertinent to emerging technologies. This was not a criticism of OSFI’s existing specialists, but rather more a concern that because of the increasing impact of new technologies in the sector, OSFI may have difficulty attracting top talent in the future, particularly when it’s competing with the private sector for many of these same people.
 - Several had concerns about the model risk division, but these concerns were disparate, with no single focus: concern over depth of expertise; good expertise but concern over ability to be pragmatic in application; concern over expertise related to IFRS 9.
 - A few said sometimes there is not good knowledge transfer between the supervisory team and a specialist team.
- Some Small DTIs – a minority – said the supervisory team does not have a good knowledge of their institution and its business model. Some said sometimes the supervisory team is good, but a specialist team does not have a good understanding of their institution, and this is not always mitigated by the supervisory team.

Suggestions for Improvements

Q.23 Thinking about your institution's interactions with your supervisory team, what, if anything, do you believe needs to be improved?

Note that participants who had dealings with their supervisory team in the past 12 months were directed to include *your Lead Supervisor, other members of the supervisory team and/or supervisory specialists* in responding to this question.

Participant concerns and suggestions related to supervision can be found in several parts of the report, including the other supervision questions (Q.17 to Q.22), and the questions on communication (Q.24 to Q.27). This section summarizes concerns and suggestions not already addressed in those other parts of the report.

- *Small DTIs and supervisory team "fit":* A few Small DTIs said that in their experience, there is not always a good fit between the institution and the team assigned to supervise them – the team members are perceived to have a big institution perspective and not to have a good understanding of the challenges faced by Small DTIs.
- *Conduct of examinations/on-site monitoring:* The following are suggestions from some larger DTIs on the conduct of examinations:
 - Provide feedback during the examination in order to give a sense of what will be in OSFI's report.
 - Have a general quality framework for the conduct of examinations so as to ensure overall consistency of approach across different examinations.
 - Lower level technical teams should be clear on what suggestions should be actioned versus what suggestions are subject to review and possible revision by higher levels at OSFI.
 - Space examinations to allow institutions to better allocate resources.
- *Supervisory recommendations:* Several participants said there were some instances when an important supervisory recommendation appeared in a report without any prior discussion or knowledge on the part of the institution. To mitigate any surprises, it was suggested that OSFI should not be putting anything important in a report that has not been discussed previously.
- *Prioritizing allocation of resources:* A few DTIs felt OSFI should improve communication of OSFI priorities on the issues DTIs should be focusing on so that they can allocate resources effectively.

Approvals

Processing of Applications for Regulatory Approval

Q.28 To the best of your knowledge, has your institution ever made a request for a regulatory approval from OSFI?

Q.29 Has your institution made a request for regulatory approval in the past 1-2 years?

Q.30 Overall, how satisfied are you with OSFI in processing applications from your institution?

With only a few exceptions, all DTIs have been involved in requests for regulatory approval and about two-thirds have been involved in the past 1 to 2 years.

A large majority of those involved in the past 1 to 2 years were satisfied with the processing of their applications. OSFI set clear expectations on what was required from institutions in their submissions, provided opportunities for discussion if needed, and processed the applications in a reasonable time given the nature of the requests.

There were some who were dissatisfied because they experienced some problems during the application process: These included:

- The length of time it takes OSFI to process certain types of applications, such as model approval or more complex types of requests for regulatory approval, is perceived to be too long. In most cases, the hold-up was attributed to OSFI and not to the Department of Finance.
Some suggested this could be due to insufficient staffing at OSFI.
- A few said they were initially given a time frame for approval that was much shorter than the actual time frame. One thought maybe the time frame applied only once OSFI started working on the request – but that did not happen for several months; another speculated maybe the time frame was for processing at the Department of Finance, but not for the first phase of processing by OSFI.
- A few said there was a lack of proactive communication from OSFI on the status of the applications, particularly when expected timelines committed to by OSFI were not met.

Communication of Information Required to Process Requests for Regulatory Approval

Q.31 How would you assess OSFI with respect to communicating its expectations as it relates to the information required in support of processing a request for a regulatory approval?

Among those involved in requesting regulatory approvals, almost all felt that OSFI was clear, detailed and precise in its instructions on the information that institutions needed to provide. A few also commented that in instances when more information or clarification may be required, it is easy to get this from OSFI.

Other Aspects Related to Applications for Regulatory Approval

Q.32 How well do you understand the basis on which OSFI makes decisions about your institution's applications?

Q.33 How would you assess OSFI with respect to responding to your institution's requests for updates on the status of applications?

Q.34 How would you assess OSFI with respect to providing an opportunity for your institution to discuss issues of concern with OSFI prior to OSFI coming to a conclusion?

Almost all said that the basis on which OSFI makes decisions about their institution's applications is clear.

A few participants said they would be interested in learning more about OSFI's decision-making process. They felt that having a better understanding of OSFI's process could help on future requests for regulatory approval.

Almost all of the DTIs who requested updates from OSFI felt that OSFI responded in a very timely manner.

Among those who had a need to discuss any concerns, OSFI was viewed as being very open to discussions. A few remarked positively on how during their discussions:

- OSFI was sensitive to the size and complexity of the institution
- OSFI brought relevant experts to the table to address the institution's concern

Communications with OSFI

Responsiveness to Questions on Final Guidance

Q.24 Overall, how would you assess OSFI with respect to responding to questions your institution has brought forward concerning final OSFI guidance, including questions related to interpretation (e.g., consistency, clarity, timeliness)?

Almost without exception, OSFI is rated highly on being responsive to questions brought forward on final guidance. OSFI is seen to be receptive and open to discussion on any questions institutions may have about final guidance and to respond to these types of enquires promptly and clearly.

While there is almost unanimous support for OSFI's principles-based regulatory approach, OSFI's response to a question on interpretation of the final guidance may fall short of giving concrete direction or of clarifying which parts of the final guidance may apply to a certain type of DTI.

Responsiveness to Other Enquiries

Q.25 Overall how would you assess OSFI with respect to responding to other enquiries your institution has brought forward (e.g. consistency; clarity; timeliness)?

As with enquiries about final guidance, most see OSFI as approachable and accessible as well as responsive to enquires in a clear and timely manner.

A few participants made the following observations:

- Related to timeliness, there are instances where there may be delays, for example waiting for feedback from a specialist team, and it was said that OSFI does not provide their institution with an update on when they can expect to receive a response.
- Related to clarity, it was noted that it is sometimes difficult to get answers on OSFI's position when it comes to evolving issues or on matters not codified by either OSFI's guidelines or instructions.

Written Correspondence

Q.26 Overall, how would you assess OSFI with respect to its written correspondence (e.g. clarity; timeliness; and, consistency between written and oral communications)?

Most participants gave OSFI high marks for the clarity and timeliness of its written correspondence and the consistency between oral and written communications.

Some participants rated OSFI as being generally good when it comes to written correspondence, but also made the following observations:

- *Timeliness:* A Quebec based DTI noted that they believe that they receive communication from OSFI later than their English-language counterparts, perhaps because of the need for translation of the correspondence.
- *Consistency between oral and written communications:* A few DTIs noted that sometimes there is an inconsistency not in the content of the written correspondence but rather in the tone of some written recommendations on areas for improvement. The oral communication conveyed “here are some things you need to improve on.” However, the tone of the written recommendations implied these were major problems that needed to be dealt with. This can, for example, cause problems with the Board’s perception of OSFI’s recommendations.

Several participants responded to this question with concerns about OSFI’s reluctance to put things in writing in some circumstances:

- OSFI will sometimes state requirements but not put these in writing, or will not provide written approval of actions taken by the institution in response to OSFI’s recommendations. This can create problems of various types for the institution. For example, a foreign bank or branch may need to justify certain actions to its Head Office, or may need to justify certain actions to its Board or to internal auditors. Not having written direction from OSFI can cause difficulties for providing justifications to these other parties who did not hear OSFI’s oral recommendations. This can particularly be the case when compliance requires a substantial investment.
- In the case of guidelines that have not been updated for a long time, OSFI may give oral guidance that is not in the written guidelines, but not put these in writing. The interpretation of this is that OSFI’s views have evolved since the guideline was published and supervision is based on these updated views, but the supervisor is not yet prepared to commit to this in writing.
- Sometimes OSFI’s written recommendations are unclear as to whether these are requirements or suggestions, which can create problems with the internal audit team.

There were some other suggestions made by a few DTIs related to better preparation for meetings with the supervisory team:

- Provide a written work calendar, in addition to the verbal calendar given at the quarterly meeting with the supervisory team, especially for new or non-routine reviews.
- Provide a written agenda well in advance of the meeting to allow for better preparation.

Capacity to Interact in Official Language of Choice

Q.27 Thinking about your dealings with OSFI’s staff on any supervisory or regulatory matter, how satisfied are you with OSFI’s capacity to interact with you in the official language of your choice (i.e. English or French)?

27b) [If dissatisfied] In which areas are you dissatisfied (e.g. OSFI’s capacity to speak, write or read materials in the official language of my choice)?

Among DTIs headquartered outside of Quebec, all participants are satisfied with their interactions with OSFI in English.

Among Quebec based DTIs, there are no major concerns:

- The participants noted that some OSFI people in the Toronto and Ottawa offices, e.g. on specialist teams, do not speak French. However, they perceive OSFI to be motivated to try to provide service in French, including offering to have a translator at meetings if desired.
- A few DTIs noted that they are bilingual organizations and it would be “nice to have” supervisory documents in both English and French to ensure nuances of meaning are captured in each language. Currently all such correspondence is in French, and they have not actually requested bilingual correspondence. Another DTI noted that OSFI has been very accommodating when they have requested correspondence in both official languages.

Appendix A: Invitation Letters

OSFI Letter to CEOs/POs

I am writing to invite you to participate in an important confidential study that is being conducted by *Sage Research Corporation*, an independent research firm, on behalf of the Office of the Superintendent of Financial Institutions (OSFI) with representatives of the deposit-taking institutions we regulate and supervise. Since 1998, OSFI has commissioned consultations with senior members of the financial community to obtain their assessment of its effectiveness as a regulator and supervisor. The results of this consultation will help OSFI to improve its performance, which we believe will be of ultimate benefit to you and your organization.

This consultation among deposit-taking institutions differs from the short *Financial Institutions Survey (FIS)* that you may have recently completed online. The deposit-taking consultation comprises one-on-one interviews among senior executives of deposit-taking institutions intended to obtain in-depth feedback about OSFI in areas such as guidance and supervision, whereas the FIS is conducted with all federally regulated financial institutions every two years to help track progress over time on key performance measures.

Within the next week, a representative of *Sage Research Corporation* will contact you to arrange a suitable time for an interview of about one hour in length. Prior to the interview, we ask that you review the enclosed interview guide as it will form the basis of the questions you will be asked. Please feel free to canvass your colleagues for their views to obtain a broader perspective, if you feel this would be helpful.

OSFI is committed to a confidential consultation process, which includes ensuring that the identities of those who participate are not disclosed to us. Although I have signed this letter personally, it has been addressed and mailed to you by *Sage Research Corporation*. In addition, the report that OSFI will ultimately receive from *Sage Research Corporation* will include only summary form, non-attributable feedback. The findings from this consultation will be posted on OSFI's website in 2019.

If you would like to discuss the study at any time during the process, please contact Anita Pollak, President, *Sage Research Corporation* at (905) 577-4040 ext. 3, or Laura Buckland, Manager of OSFI Consultations, at (613) 990-9959.

We hope we can count on your participation.

Sincerely,

Jeremy Rudin
Superintendent

Encl.

La présente a pour but de vous inviter à prendre part à une importante étude confidentielle qui sera administrée par le cabinet de recherche indépendant *Sage Research Corporation* pour le compte du Bureau du surintendant des institutions financières (BSIF) auprès de représentants d'institutions de dépôts que nous réglementons et surveillons. Depuis 1998, le BSIF s'enquiert de l'opinion des dirigeants du secteur financier au sujet de son efficacité à titre d'organisme de réglementation et de surveillance. Les résultats de cette étude l'aideront à améliorer sa prestation, ce qui, en bout de ligne, sera bénéfique pour vous et votre organisme.

Permettez-moi de préciser que l'étude auprès des institutions de dépôts diffère du *Sondage auprès des institutions financières* auquel vous avez peut-être répondu en ligne récemment. L'étude se déroule sous forme d'entretiens personnalisés avec des dirigeants d'institutions de dépôts et vise à obtenir une image aussi précise que possible de l'impression qu'ils ont du BSIF, notamment au chapitre des directives qu'il émet et de la surveillance qu'il exerce, alors que le *Sondage auprès des institutions financières* est un exercice biennal auquel toutes les institutions financières fédérales sont conviées et qui vise à suivre les progrès réalisés à l'égard de ses principales mesures de rendement.

Dans quelques jours, un représentant du groupe *Sage Research Corporation* communiquera avec vous pour planifier un entretien d'une soixantaine de minutes. Nous vous demanderons de bien vouloir prendre connaissance du guide d'entrevue que vous trouverez en pièce jointe avant la date convenue, duquel sont tirées les questions de base qui vous seront posées. N'hésitez pas à demander l'opinion de vos collègues pour avoir une perspective plus vaste si vous le désirez.

Le BSIF accorde une grande importance à la confidentialité du processus, ce qui exige notamment qu'il n'y ait aucun moyen pour lui de connaître l'identité des participants. Ainsi, bien que cette lettre soit signée de ma main, je tiens à préciser qu'elle vous est adressée et transmise par *Sage Research Corporation*. Qui plus est, les réponses dont *Sage Research Corporation* rendra compte dans son rapport seront présentées sous forme de condensé ne pouvant être attribué à qui que ce soit. Les résultats de cet exercice seront publiés sur notre site Web en 2019.

Pour obtenir des précisions au sujet de cette étude à tout moment durant le processus, je vous invite à appeler M. Sylvain Laroche, associé principal, *Sage Research Corporation*, au 514-572-1489, poste 3, ou M^{me} Laura Buckland, gestionnaire, Consultations – BSIF, au 613-990-9959.

Espérant pouvoir compter sur votre participation.

Mes meilleures salutations,

Jeremy Rudin
Le surintendant

p.j.

OSFI Letter to CFOs, CROs, CCOs

I am writing to invite you to participate in an important confidential study that is being conducted by *Sage Research Corporation*, an independent research firm, on behalf of the Office of the Superintendent of Financial Institutions (OSFI) with representatives of the deposit-taking institutions we regulate and supervise. Since 1998, OSFI has commissioned consultations with senior members of the financial community to obtain their assessment of its effectiveness as a regulator and supervisor. The results of this consultation will help OSFI to improve its performance, which we believe will be of ultimate benefit to you and your organization.

Within the next week, a representative of *Sage Research Corporation* will contact you to arrange a suitable time for an interview of about one hour in length. Prior to the interview, we ask that you review the enclosed interview guide as it will form the basis of the questions you will be asked. Please feel free to canvass your colleagues for their views to obtain a broader perspective, if you feel this would be helpful.

OSFI is committed to a confidential consultation process, which includes ensuring that the identities of those who participate are not disclosed to us. Although I have signed this letter personally, it has been addressed and mailed to you by *Sage Research Corporation*. In addition, the report that OSFI will ultimately receive from *Sage Research Corporation* will include only summary form, non-attributable feedback. The findings from this consultation will be posted on OSFI's website in 2019.

If you would like to discuss the study at any time during the process, please contact Anita Pollak, President, *Sage Research Corporation* at (905) 577-4040 ext. 3, or Laura Buckland, Manager of OSFI Consultations, at (613) 990-9959.

We hope we can count on your participation.

Sincerely,

Jeremy Rudin
Superintendent

Encl.

La présente a pour but de vous inviter à prendre part à une importante étude confidentielle qui sera administrée par le cabinet de recherche indépendant *Sage Research Corporation* pour le compte du Bureau du surintendant des institutions financières (BSIF) auprès de représentants d'institutions de dépôts que nous réglementons et surveillons. Depuis 1998, le BSIF s'enquiert de l'opinion des dirigeants du secteur financier au sujet de son efficacité à titre d'organisme de réglementation et de surveillance. Les résultats de cette étude l'aideront à améliorer sa prestation, ce qui, en bout de ligne, sera bénéfique pour vous et votre organisme.

Dans quelques jours, un représentant du groupe *Sage Research Corporation* communiquera avec vous pour planifier un entretien d'une soixantaine de minutes. Nous vous demanderons de bien

vouloir prendre connaissance du guide d'entrevue que vous trouverez en pièce jointe avant la date convenue, duquel sont tirées les questions de base qui vous seront posées. N'hésitez pas à demander l'opinion de vos collègues pour avoir une perspective plus vaste si vous le désirez.

Le BSIF accorde une grande importance à la confidentialité du processus, ce qui exige notamment qu'il n'y ait aucun moyen pour lui de connaître l'identité des participants. Ainsi, bien que cette lettre soit signée de ma main, je tiens à préciser qu'elle vous est adressée et transmise par *Sage Research Corporation*. Qui plus est, les réponses dont *Sage Research Corporation* rendra compte dans son rapport seront présentées sous forme de condensé ne pouvant être attribué à qui que ce soit. Les résultats de cet exercice seront publiés sur notre site Web en 2019.

Pour obtenir des précisions au sujet de cette étude à tout moment durant le processus, je vous invite à appeler M. Sylvain Laroche, associé principal, *Sage Research Corporation*, au 514-277-6297, ou M^{me} Laura Buckland, gestionnaire, Consultations – BSIF, au 613-990-9959.

Espérant pouvoir compter sur votre participation.

Mes meilleures salutations,

Jeremy Rudin
Le surintendant

p.j.

Sage Research Corporation Cover Letter

Re: OSFI's Consultation with Institutions in the Deposit-Taking Sector

OSFI has commissioned consultations with senior members of the financial community and their professional advisors to obtain their assessment of its effectiveness as a regulator and supervisor since 1998. Sage Research Corporation has been commissioned by OSFI to conduct the 2018/2019 consultation among Canada's deposit-taking institutions.

As the accompanying letter from the Superintendent of Financial Institutions notes, we will contact you within the coming weeks to arrange a suitable time for an interview. The interview will take approximately one hour. Prior to the interview, we would request that you review the enclosed interview guide, as it will form the basis for the interview.

Rest assured that the responses you provide during the interview will remain completely confidential. To preserve confidentiality, OSFI will receive a report that presents responses in summary form with no attribution to individuals or the institutions they represent. OSFI will not know what specific institutions have said about it, nor will it have access to interview notes or recordings. As part of OSFI's commitment to transparency and accountability, the findings from the research will be posted on OSFI's website.

We will request your permission to audio record our interview with you. The recordings will be available only to Sage Research Corporation's research team and used solely for the purpose of developing the final report. Once the report has been completed, the audio recordings will be destroyed. Should you prefer that the interview not be recorded, we will take only written notes.

If you would like to discuss this matter at any time during the process, please call me at 905-577-4040, ext. 3 or email me at anita.pollak@sageresearch.ca.

Sincerely,

Anita Pollak
President

Re: Consultation du BSIF auprès des institutions de dépôts

Le BSIF a commandé des consultations auprès de cadres supérieurs de la communauté financière et de leurs conseillers professionnels afin d'obtenir leur appréciation de son efficacité à titre d'organisme de réglementation et de supervision depuis 1998. Sage Research Corporation a été mandaté par le BSIF pour mener la consultation 2018/2019 auprès des institutions de dépôt.

Comme l'indique la lettre de présentation du surintendant des institutions financières, nous communiquerons avec vous au cours de la prochaine semaine pour fixer un moment convenable pour l'entrevue. Celle-ci devrait durer environ une heure et, au préalable, nous vous demandons de lire le guide joint qui servira de base.

Soyez assuré(e) que tous vos propos recueillis pendant l'entrevue demeureront entièrement confidentiels. Le BSIF recevra un rapport qui présentera uniquement un sommaire des réponses sans en identifier les auteurs (personnes et institutions qu'elles représentent); la confidentialité sera ainsi préservée. Le BSIF ne saura pas non plus ce que des institutions précises ont dit à son sujet et n'aura pas accès aux notes ou aux enregistrements des entrevues. Les résultats de l'étude seront disponibles au site Web du BSIF pour respecter son engagement en matière de transparence et de responsabilité.

Nous vous demanderons sans doute la permission d'enregistrer l'entrevue. Seule l'équipe de recherche de Sage Research Corporation aura accès à cet enregistrement audio, et celui-ci servira uniquement à la rédaction du rapport final. Une fois celui-ci complété, les enregistrements audio seront effacés. Si vous préférez que l'entrevue ne soit pas enregistrée, l'interviewer ne prendra que des notes manuscrites.

Si à tout moment pendant le déroulement de l'étude vous désirez en discuter, n'hésitez pas à communiquer avec moi en composant le 514-572-1489 ou en m'envoyant un courriel à sylvainlaroche@videotron.ca.

Cordialement,

Sylvain Laroche
Associé principal

Appendix B: Interview Guide

Introduction

Sage Research Corporation has been retained by the Office of the Superintendent of Financial Institutions (OSFI) to conduct this consultation with senior executives of federally regulated institutions in the deposit-taking sector.

Since 1998, OSFI has commissioned consultations with senior members of the financial community and their professional advisors to obtain their assessment of its effectiveness as a supervisor and regulator. OSFI is committed to monitoring how well it is achieving its strategic objectives, both to be accountable to stakeholders and to help improve effectiveness. It is for these reasons that we are asking your institution to participate in this research.

You can be assured that *Sage Research Corporation*, as an independent third party, will hold your comments in strict confidence. Your answers will remain anonymous. OSFI will not know who was interviewed or what specific institutions have said about it.

As a standard industry practice, *Sage Research Corporation* has put in place secure communication and usage procedures to ensure that confidentiality is maintained at all times.

***Sage Research Corporation* will provide OSFI with a full report aggregating the findings from this consultation.**

The discussion is divided into the following six parts:

- Part 1 – Overall Impressions
- Part 2 – Guidance
- Part 3 – Supervision
- Part 4 – Communications with OSFI
- Part 5 – Approvals
- Part 6 – Final comments

OSFI's role and mandate

OSFI's mandate is to:

- Ensure that federally regulated financial institutions are financially sound, and are complying with their governing law and OSFI's requirements;

- Promptly take action or advise institutions to take prompt corrective action when material deficiencies have been identified;
- Build and maintain a regulatory framework that promotes the adoption of policies and procedures meant to control and manage risk;
- Monitor and evaluate system-wide or sectoral issues that may impact institutions negatively.

OSFI regulates by developing rules, interpreting legislation and regulations and providing regulatory approvals for certain types of transactions. It also contributes to new accounting, auditing and actuarial standards. All of this must balance the goals of safety and soundness with the need for institutions to operate within a competitive marketplace.

OSFI supervises by analyzing financial and economic trends to identify emerging issues that could adversely affect institutions. It assesses an institution's financial condition, material risks and the quality of its governance, risk management and compliance. When weaknesses are identified, OSFI intervenes early and works with executive management and boards to correct matters.

Part 1 - Overall Impressions

1. Overall, how satisfied are you with OSFI as the principal prudential regulator and supervisor of Canada's financial services industry?
2. How would you assess OSFI on the extent to which it focuses on the appropriate areas of risk in the deposit-taking sector?
3. How would you assess OSFI with respect to how proactive it is in responding to emerging issues pertaining to the deposit-taking sector?
4. What one or two risk areas do you believe should be priorities for OSFI in the next couple of years pertaining to institutions in the deposit-taking sector?
5. What one or two things does OSFI need to improve upon as a regulator and supervisor?

Part 2 – Guidance

From time to time, OSFI develops Guidance (which may include guidelines and advisories) for institutions in the deposit-taking sector.

6. How would you assess OSFI with respect to responding in a timely manner to market developments or to industry suggestions that guidance needs updating?
7. How would you assess OSFI with respect to developing guidance that strikes an appropriate balance between prudential considerations and the need for institutions to compete?

8. Overall, how effective do you think OSFI's guidance is in providing a clear indication of OSFI's expectations?
9. [ASK ONLY OF SMSBs] How would you assess OSFI's guidance on the extent to which it considers the nature, size and complexity of financial institutions?

The following series of questions focus on several different work streams related to Guidance that OSFI issued in 2016 and 2017.

The following questions focuses on communications and consultation with the industry regarding the *IFRS 9 Financial Instruments and Disclosure (IFRS 9) Guideline*. In connection with the release of the *IFRS 9 Guideline*, OSFI issued:

- Draft IFRS 9 Guideline (March 10, 2016)
- Final IFRS 9 Guideline (June 16, 2016)

10. Overall, how would you assess the consultative process OSFI followed in the development of the *IFRS 9 Financial Instruments and Disclosures Guideline* (e.g. means by which institutions could provide feedback, timing for feedback, timing of OSFI's response)?
11. Accompanying the final *IFRS 9 Guideline* was a summary of stakeholder comments, which included an explanation of how OSFI dealt with the issues raised through the consultation process. How effective was the summary in communicating the decisions OSFI took on the issues raised by stakeholders regarding *IFRS 9 Guideline*?

The following questions focus on communications with the industry regarding the *B-20 Residential Mortgage Underwriting Practices and Procedures Guideline*. In connection with the release of the *Guideline B-20*, OSFI issued:

- Draft Guideline B-20 (July 7, 2017)
- Final Guideline B-20 (October 17, 2017)

12. Overall, how would you assess the consultative process OSFI followed in the development of *Guideline B-20* (e.g. means by which institutions could provide feedback, timing for feedback, timing of OSFI's response)?
13. Thinking about the final *Guideline B-20*, how effective was OSFI in communicating its expectations to the industry? How useful were the industry information sessions that OSFI held in December 2017?
14. [ASK ONLY TO SMSBs] In June 2016 OSFI released *Guideline E-21: Operational Risk Management*. Thinking about the final *Guideline E-21*, how effective was OSFI in communicating its expectations to the industry?

15. [ASK ONLY TO SMSBs] How effective was the self-assessment template (issued April 2017) in supporting your institution in assessing current practices against the principles outlined in Guideline E-21?
16. [ASK ONLY TO DSIBs] In September 2017 OSFI released Guideline E-23: Enterprise-wide Model Risk Management for Deposit-Taking Institutions. Thinking about the final Guideline E-23, how effective was OSFI in communicating its expectations to the industry?

Part 3 – Supervision

The following questions pertain to OSFI’s supervision as it relates to your institution.

17. Overall, how effective do you think OSFI is in supervising your institution (e.g. ongoing monitoring, on-site reviews including supervisory recommendations, reporting requirements, etc.)?
18. How would you assess OSFI on the extent to which its supervisory activities (e.g., ongoing monitoring, on-site reviews, reporting requirements, etc.) are scaled to reflect the nature, size, complexity and risk profile of your institution?
19. How would you assess OSFI on the extent to which its supervisory recommendations balance expectations of FRFI controls with the risks, and are scaled to reflect the nature, size and complexity of your institution?
20. How would you assess OSFI with respect to providing an opportunity for your institution to discuss issues of concern with OSFI prior to OSFI coming to a conclusion?
21. Have you had any dealings with your supervisory team over the past 12 months? This may include, for example, your lead supervisor, other members of the supervisory team and/or supervisory specialists.
 - Yes, have had dealings with supervisory team
 - No, have not had any dealings with supervisory team (If you have not dealt with your supervisory team in the past 12 months, please skip to Q.24)
22. How would you assess the overall knowledge level of your supervisory team (e.g. knowledge of legislation; OSFI guidelines; regulatory policy; deposit-taking sector issues and risks; your institution)?
23. Thinking about your institution’s interactions with your supervisory team, what, if anything, do you believe needs to be improved?

Part 4 – Communications with OSFI

24. Overall, how would you assess OSFI with respect to responding to questions your institution has brought forward concerning final OSFI guidance, including questions related to interpretation (e.g. consistency, clarity; timeliness)?
25. Overall how would you assess OSFI with respect to responding to *other* enquiries your institution has brought forward (e.g. consistency; clarity; timeliness)?
26. Overall, how would you assess OSFI with respect to its written correspondence (e.g. clarity; timeliness; and, consistency between written and oral communications)?
27. Thinking about your dealings with OSFI's staff on any supervisory or regulatory matter, how satisfied are you with OSFI's capacity to interact with you in the official language of your choice (i.e. English or French)?
- 27b. [If dissatisfied] In which areas are you dissatisfied (e.g. OSFI's capacity to speak, write or read materials in the official language of my choice)?

Part 5 – Approvals

As you know, OSFI's Superintendent, and in some cases, the Minister of Finance, must approve certain transactions or initiatives which institutions in the deposit-taking sector wish to undertake. The following questions pertain to OSFI's approval process as it relates to your institution.

28. To the best of your knowledge, has your institution ever made a request for a regulatory approval from OSFI?
 - Yes
 - No (If no, go to question 35)
29. Has your institution made a request for a regulatory approval in the past 1-2 years?
 - Yes
 - No (If no, go to question 33)

Thinking about request(s) for a regulatory approval your institution has submitted in the past 1-2 years.....

30. Overall, how satisfied are you with OSFI in processing applications from your institution?
31. How would you assess OSFI with respect to communicating its expectations as it relates to the information required in support of processing a request for a regulatory approval?

32. How well do you understand the basis on which OSFI makes decisions about your institution's applications?
33. How would you assess OSFI with respect to responding to your institution's requests for updates on the status of applications?
34. How would you assess OSFI with respect to providing an opportunity for your institution to discuss issues of concern with OSFI prior to OSFI coming to a conclusion?

Part 6 – Final Comments

35. Are there any other comments or suggestions for improvements you would like to make concerning the issues raised today, or concerning any other issues you feel are particularly relevant at this time?

On behalf of OSFI, Sage Research Corporation would like to thank you for your participation.

Introduction

Le Bureau du surintendant des institutions financières (BSIF) a chargé le cabinet *Sage Research Corporation* de réaliser le présent exercice de consultation auprès de cadres de direction d'institutions de dépôts fédérales.

Depuis 1998, le BSIF commande des consultations auprès de dirigeants des milieux financiers et de leurs conseillers professionnels pour s'enquérir de leur opinion au sujet de sa prestation à titre d'organisme de réglementation et de surveillance. Le BSIF s'est engagé à faire le point sur son rendement par rapport à ses objectifs stratégiques de manière à pouvoir en rendre compte à l'ensemble de ses interlocuteurs et à accroître son efficacité. Voilà pourquoi nous sollicitons la participation de votre institution.

À titre de tierce partie indépendante, *Sage Research Corporation* s'est engagé à traiter vos réponses de façon strictement confidentielle. L'identité des répondants ne sera pas dévoilée au BSIF et celui-ci ne pourra associer aucune réponse à une institution précise.

Conformément aux normes de pratique professionnelles du secteur des enquêtes d'opinion, *Sage Research Corporation* a mis en place un système de communication sécurisé et des procédures d'utilisation visant à garantir en tout temps la confidentialité de l'information transmise.

Sage Research Corporation rendra compte au BSIF des résultats de cet exercice de consultation sous forme de rapport complet.

La discussion est divisée en six parties :

- Partie 1 – Impressions globales
- Partie 2 – Consignes
- Partie 3 – Surveillance
- Partie 4 – Communications avec le BSIF
- Partie 5 – Agréments
- Partie 6 – Observations finales

Rôle et mandat du BSIF

Les objectifs du BSIF sont les suivants :

- veiller à ce que les institutions financières soient en bonne santé financière et qu'ils se conforment aux lois qui les régissent et aux exigences de surveillance du BSIF;
- lorsque des lacunes importantes sont constatées, prendre des mesures correctives sans attendre ou obliger les institutions à le faire;
- mettre en place un cadre de réglementation incitant à l'adoption de politiques et de procédures destinées à contrôler et à gérer le risque et le tenir à jour;
- surveiller et évaluer les questions systémiques ou sectorielles qui pourraient avoir des répercussions négatives sur les institutions.

Pour exercer ses activités de réglementation, le BSIF élabore des règles, interprète des lois et des règlements et assure l'agrément de certains types d'opérations. Il contribue en outre aux nouvelles normes comptables, actuarielles et d'audit. Tout cela doit concilier les objectifs de sûreté et de solidité avec l'obligation qu'ont les institutions d'exercer leurs activités sur un marché concurrentiel.

Pour exercer ses activités de surveillance, le BSIF analyse les tendances financières et économiques pour cerner les questions émergentes qui pourraient avoir une incidence négative sur les institutions. Il évalue la situation financière d'une institution, les risques importants qui pèsent sur elle, de même que la qualité de ses pratiques de gouvernance, de gestion du risque et de conformité. Lorsqu'une faiblesse est mise au jour, le BSIF intervient rapidement et travaille avec les cadres supérieurs et les membres du conseil d'administration afin de corriger la situation.

Partie 1 – Impressions globales

1. Dans l'ensemble, quel est votre degré de satisfaction à l'égard de la prestation du BSIF en qualité de principal organisme de réglementation et de surveillance prudentielle du secteur canadien des services financiers?
2. Que pensez-vous de la prestation du BSIF en ce qui a trait à la pertinence des secteurs de risque des institutions de dépôts sur lesquels il axe ses efforts?
3. Que pensez-vous de la prestation du BSIF en ce qui a trait à la proactivité dont il fait preuve à l'égard des nouveaux enjeux du secteur des institutions de dépôts?
4. En un point ou deux, à quels secteurs de risque des institutions de dépôts le BSIF devrait-il accorder la priorité dans les deux prochaines années?
5. En un point ou deux, quelles améliorations le BSIF pourrait-il apporter à sa prestation en qualité d'organisme de surveillance et de réglementation?

Partie 2 – Consignes

Le BSIF émet des consignes ponctuelles et périodiques (sous forme de lignes directrices et de préavis) à l'intention des institutions de dépôts.

6. Que pensez-vous de la prestation du BSIF en ce qui a trait au temps qu'il met à réagir aux changements qui se produisent sur les marchés ou aux suggestions de ses interlocuteurs voulant que ses consignes aient besoin d'être mises à jour?
7. Que pensez-vous de la prestation du BSIF en ce qui a trait à l'élaboration de consignes qui tiennent à la fois compte des facteurs de nature prudentielle et de la nécessité, pour les institutions financières, de faire face à la concurrence?
8. Dans l'ensemble, selon vous, dans quelle mesure les consignes du BSIF traduisent-elles clairement ses attentes?
9. [QUESTION POUR LES PMIB SEULEMENT] Que pensez-vous de la prestation du BSIF en ce qui a trait à la mesure dans laquelle ses consignes tiennent compte de la nature et de la taille des institutions financières, et de la complexité de leurs activités?

Les questions suivantes portent sur divers dossiers relatifs aux consignes que le BSIF a émises en 2016 et en 2017.

Les questions suivantes portent sur les interactions entre le BSIF et les institutions financières, du point de vue des communications et de la consultation, concernant la ligne directrice sur la norme IFRS 9, Instruments financiers et exigences en matière de divulgation financière. Lorsqu'il a produit sa ligne directrice sur la norme IFRS 9, le BSIF a publié deux documents :

- La version à l'étude de la ligne directrice sur la norme IFRS 9, le 10 mars 2016
 - La version définitive de la ligne directrice sur la norme IFRS 9, le 16 juin 2016
10. Dans l'ensemble, dans quelle mesure êtes-vous satisfait du processus de consultation qu'a appliqué le BSIF lors de l'élaboration de sa ligne directrice sur la norme IFRS 9, Instruments financiers et exigences en matière de divulgation financière (p. ex., moyens pour les institutions financières de faire part de leurs commentaires, les délais fixés à cette fin et le temps mis par le BSIF à répondre aux commentaires)?
 11. Un résumé des commentaires des instances compétentes avec explication de la façon dont le BSIF avait tenu compte des questions soulevées pendant le processus de consultation était joint à la version définitive de la ligne directrice sur la norme IFRS 9. Selon vous, dans quelle mesure le sommaire des commentaires traduisait-il efficacement le raisonnement du BSIF à l'égard des questions soulevées par les instances compétentes au sujet de la ligne directrice sur la norme IFRS 9?

Les questions suivantes portent sur les communications concernant la ligne directrice B-20, Pratiques et procédures de souscription de prêts hypothécaires résidentiels. Lorsqu'il a produit sa ligne directrice B-20, le BSIF a publié deux documents :

- La version à l'étude de la ligne directrice, le 7 juillet 2017
 - La version définitive de la ligne directrice B-20, le 17 octobre 2017
12. Dans l'ensemble, dans quelle mesure êtes-vous satisfait du processus de consultation qu'a appliqué le BSIF lors de l'élaboration de sa ligne directrice B-20 (p. ex., moyens pour les institutions financières de faire part de leurs commentaires, les délais fixés à cette fin et le temps mis par le BSIF à répondre aux commentaires)?
 13. Toujours en pensant à la ligne directrice B-20, que pensez-vous de la prestation du BSIF en ce qui a trait à l'efficacité des mesures qu'il a prises pour communiquer ses attentes à l'industrie? Dans quelle mesure les séances d'information sectorielles que le BSIF a tenues en décembre 2017 ont-elles été utiles?
 14. [QUESTION POUR LES PMIB SEULEMENT] En juin 2016, le BSIF a publié la ligne directrice E-21, Gestion du risque opérationnel. En pensant à la ligne directrice E-21, dans quelle mesure le BSIF a-t-il, à votre avis, communiqué efficacement ses attentes à l'industrie?
 15. [QUESTION POUR LES PMIB SEULEMENT] Dans quelle mesure la grille d'autoévaluation (diffusée en avril 2017) a-t-elle été efficace pour aider votre institution à évaluer ses pratiques courantes en fonction des principes énoncés dans la ligne directrice E-21?
 16. [QUESTION POUR LES DSIB SEULEMENT] En septembre 2017, le BSIF a publié la ligne directrice E-23, Gestion du risque de modélisation à l'échelle de l'entreprise dans les institutions de dépôts. En pensant à la ligne directrice E-23, dans quelle mesure le BSIF a-t-il, à votre avis, communiqué efficacement ses attentes à l'industrie?

Partie 3 – Surveillance

Les questions qui suivent portent sur les mesures de surveillance que le BSIF applique à votre institution.

17. Dans l'ensemble, que pensez-vous de la prestation du BSIF en ce qui a trait à l'efficacité des mesures de surveillance qu'il applique à votre institution (p. ex., surveillance continue, examens sur place, y compris recommandations en matière de surveillance et exigences relatives à la production de rapports)?
18. Que pensez-vous de la prestation du BSIF en ce qui a trait à la mesure dans laquelle il tient compte de la nature et de la taille de votre institution, de la complexité de ses activités et de son profil de risque lorsqu'il exerce ses fonctions de surveillance (p. ex., surveillance continue, examens sur place, et exigences redditionnelles)?
19. Que pensez-vous de la prestation du BSIF en ce qui a trait à la mesure dans laquelle il concilie dans ses recommandations de surveillance les mécanismes de contrôle et les risques des IFF et qu'il tient compte de la nature et de la taille de votre institution et de la complexité de ses activités?
20. Que pensez-vous de la prestation du BSIF en ce qui a trait à la mesure dans laquelle il offre à votre institution la possibilité d'exprimer ses préoccupations dans le cadre d'un dialogue avant de tirer des conclusions?
21. Avez-vous eu des rapports avec l'équipe de surveillance de votre institution financière au cours des 12 derniers mois, par exemple le chargé de surveillance, d'autres membres de l'équipe de surveillance et/ou des spécialistes de la surveillance?
 - Oui, nous avons eu des rapports avec l'équipe de surveillance
 - Non, nous n'avons pas eu des rapports avec l'équipe de surveillance (Si vous n'avez pas eu des rapports avec votre équipe de surveillance au cours des 12 derniers mois, veuillez passer à la question 24)
22. Que pensez-vous de la prestation de l'équipe de surveillance de votre institution financière en ce qui a trait à l'étendue de ses connaissances (p. ex., connaissance des mesures législatives, des lignes directrices du BSIF, des mesures de réglementation, des questions et des risques propres au secteur des institutions de dépôts et à votre institution)?
23. Selon vous, quelles améliorations y aurait-il lieu d'apporter aux rapports que l'équipe de surveillance entretient avec votre institution financière, s'il y a lieu?

Partie 4 – Communications avec le BSIF

24. Dans l'ensemble, que pensez-vous de la prestation du BSIF pour ce qui est de répondre aux questions de votre institution au sujet de la version définitive des consignes, y compris de l'interprétation (p. ex., clarté, uniformité et ponctualité)?
25. Dans l'ensemble, que pensez-vous de la prestation du BSIF pour ce qui est de répondre aux *autres* questions de votre institution (p. ex., clarté, uniformité et ponctualité)?
26. Dans l'ensemble, que pensez-vous de la prestation du BSIF en ce qui a trait à la correspondance écrite (p. ex., clarté, ponctualité et uniformité des communications écrites et orales)?
27. En songeant aux rapports que vous avez eus avec le personnel du BSIF au sujet de questions de surveillance ou de réglementation, quel est votre degré de satisfaction à l'égard de la capacité de son personnel de s'entretenir avec vous dans la langue officielle de votre choix (c'est-à-dire en anglais ou en français)?
- 27b) [Si insatisfait] À quels égards êtes-vous insatisfait de la prestation du BSIF (p. ex., capacité de s'exprimer oralement ou par écrit, ou de lire des documents dans la langue officielle de votre choix)?

Partie 5 – Agréments

Comme vous le savez, le surintendant du BSIF et, parfois, le ministre des Finances, doit approuver certaines opérations ou mesures que les institutions de dépôts veulent entreprendre. Les questions qui suivent portent sur le processus d'agrément du BSIF en ce qui a trait à votre institution.

28. À votre connaissance, votre institution a-t-elle déjà présenté une demande d'agrément réglementaire au BSIF?
 - Oui
 - Non (Si la réponse est non, veuillez passer à la question 35.)
29. Votre institution a-t-elle présenté une demande d'agrément réglementaire au cours des 12 ou 24 derniers mois?
 - Oui
 - Non (Si la réponse est non, veuillez passer à la question 33.)

En ce qui a trait aux demandes d'agrément réglementaire que votre institution a produites au cours des 12 ou 24 derniers mois

30. Dans l'ensemble, quel est votre degré de satisfaction à l'égard de la prestation du BSIF en ce qui a trait au traitement des demandes d'agrément de votre institution?
31. Que pensez-vous de la prestation du BSIF en ce qui a trait à la communication de ses attentes concernant l'information dont il a besoin pour traiter une demande d'agrément réglementaire?
32. Dans quelle mesure comprenez-vous le fondement des décisions du BSIF au sujet des demandes d'agrément provenant de votre institution?
33. Que pensez-vous de la prestation du BSIF pour ce qui est de répondre aux questions que lui adresse votre institution concernant l'état de ses demandes?
34. Que pensez-vous de la prestation du BSIF en ce qui a trait à la mesure dans laquelle il offre à votre institution la possibilité d'exprimer ses préoccupations dans le cadre d'un dialogue avant de tirer des conclusions?

Partie 6 – Observations finales

35. Avez-vous d'autres remarques ou suggestions d'amélioration à faire au sujet des points dont il a été question aujourd'hui, ou de toute autre question que vous jugez particulièrement pertinente actuellement?

Au nom du BSIF, *Sage Research Corporation* vous remercie de votre participation.