

December 22, 2017

Ms. Carolyn Rogers
Assistant Superintendent
Regulation Sector
Office of the Superintendent of Financial Institutions Canada
255 Albert Street, 12th Floor
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E-mail: governance@osfi-bsif.gc.ca

Dear Ms. Rogers,

The Canadian Institute of Actuaries is pleased to offer the following comments on OSFI's recent consultation, Revised Corporate Governance Guideline (CGG).

About CIA

The Canadian Institute of Actuaries (CIA) is the national, bilingual organization and voice of the actuarial profession in Canada. Its members are dedicated to providing actuarial services and advice of the highest quality. The Institute holds the duty of the profession to the public above the needs of the profession and its members.

This submission is prepared by the Enterprise Risk Management Practice Committee (ERMPC) of the CIA. The ERMPC mandate is to be the primary source of risk management expert guidance for the actuarial profession, and as such we bring a unique risk-based perspective.

Introduction

We would like to compliment OSFI on reviewing the expectations for Boards and making necessary changes to ensure that the guidance improves governance and enables Boards to provide effective oversight.

The revised CGG focus on principles and outcomes is consistent with the approach taken in the more newly introduced and updated guidelines (E-19 Own Risk and Solvency Assessment, and E-21 Operational Risk Management). This appropriately allows flexibility for the size, ownership structure, nature, scope and complexity of operations, strategy and risk profile of an organization to be reflected in demonstrating the achievement of those desired outcomes.

The revised CGG maintains emphasis on the importance of the Risk Appetite Framework and we believe this will continue to further strengthen its effectiveness in influencing risk culture, strategy and risk-based decision making throughout the organization. The Guideline clearly states that the Board is responsible for the organization's risk culture, which will serve to reinforce the importance of the "tone from the top".

Changing "Review and discuss" to "Provide challenge, advice and guidance to Senior Management" in the section on The Role of the Board places greater responsibility on the

Board to lend its insights to improve these elements, while clarifying that the elements themselves remain the responsibility of Senior Management.

Emphasis on a Board's responsibility to "approve and oversee" strategy; risk management and oversight; Board, Senior Management and Oversight Functions; and audit plans serves to further reinforce the essential alignment between strategy and risk management (so that risk management is not simply seen as a compliance exercise, but as an important component of strategy development).

Positioning of Board "approval and oversight" of internal capital targets and Board "challenge, advice and guidance" regarding the effectiveness of policies and plans related to the management of capital as laid out in the ORSA report serves to provide the appropriate clarity on these elements. The ORSA report is clearly the responsibility of Senior Management and the Board has discretion to decide the extent and nature of its input.

The *Board Composition* section of the Guideline hits on two important considerations when selecting Directors: key competencies and diversity. The requirement for Directors to have relevant financial industry and risk management competencies will serve to strengthen Board composition and effectiveness. We applaud the emphasis on diversity given the numerous academic studies that support the fact that diversity contributes to better decision making.

Recommendations

Overall, we see the revised Guideline as an improvement to the OSFI's corporate governance framework, and the recommendations below serve to point out content that would benefit from additional clarification or explanation.

1. While it is more organized, focused and complete on specifying the Board's responsibilities, CGG may contradict the governance requirements laid out in the individual guidelines which have not yet been updated. **We recommend that OSFI clarify that the CGG supersedes any existing requirements.**
2. *The Board and Oversight Function* section of the Guideline (page 5) states that the heads of the Oversight Functions should have sufficient stature and authority within the organization, and should be independent from operational management. **We recommend that OSFI provide additional information regarding what constitutes sufficient stature and authority for the Oversight Function.** This could be done by identifying the outcomes the Oversight Function should be able to achieve to demonstrate that it has sufficient stature and authority. For example, escalation to the Board, inclusion in key strategic discussions that impact the risk profile of the organization in advance of the decision being finalized, etc.
3. The draft continues to appropriately emphasize that the Chief Risk Officer (CRO) role not be directly involved in revenue generation or the performance of any business line or product, which is consistent with the three lines of defence philosophy outlined in E-21 Operational Risk Management. *Footnote 13* states that "For small, less complex FRFIs, the CRO role can be held by another executive of the FRFI (i.e., the executive has dual

roles)”. **The principle of independence and objective oversight must be maintained within the same individual who may be acting in a dual-role capacity. Therefore, we propose that this footnote highlight that for executives who have dual roles, those roles must not compromise the independence required of the CRO** (i.e., the non-CRO aspect of the dual role must also not include direct involvement in revenue generation or performance).

Conclusion

Thank you for the opportunity to provide comments on the draft Guideline. We hope that you find this submission helpful. Please do not hesitate to contact Chris Fievoli, CIA staff actuary, communications and public affairs, at 613-656-1927 or chris.fievoli@cia-ica.ca if you require clarification of any element of the submission.

Yours truly,

Sharon Giffen, FCIA
CIA President