

Agenda Item 4(a)(iii)
April 26/22 EOC Meeting

**OSFI Consultation on “Culture Risk Management”: In-Scope or Out-of-Scope for
CAFII Response Submission? (Submission Deadline: May 31/22)**

Background

On 15 March, 2022 OSFI issued a letter to “all federally regulated financial institutions.” It is noteworthy that this is a pre-consultation:

OSFI plans to issue a principles-based, outcomes-focused culture risk management guideline for consultation in late 2022. This letter seeks comments on proposed outcomes of effective culture risk management that will form the basis of OSFI’s future guidance and supervisory expectations.

OSFI is laying out its principles concepts and is asking five specific questions, with stakeholders able to answer up to May 31, 2022:

1. *What are your views on OSFI’s proposed culture risk management outcomes? Are there other outcomes OSFI should consider?*
2. *Which of the outcomes outlined above is your organization currently overseeing as part of its culture risk management? How is your organization measuring and assessing culture risks in these areas?*
3. *Is your organization proactively disclosing culture risk management information as part of its published annual reports? Why or why not? Do you foresee any challenges if OSFI were to expect FRFIs to enhance existing annual reporting requirements to include this information?*
4. *Does a FRFI’s size, nature, complexity, risk profile or various sub-cultures (e.g., differences between geographies, business units or functions) give rise to specific culture risk management issues that OSFI should consider?*
5. *How do culture risks influence the way FRPPs are managed and administered? What are the benefits of similar outcomes-focused guidance for FRPPs?*

The deadline for submissions is 31 May, 2022. Further information can be found at:

https://www.osfi-bsif.gc.ca/Eng/fi-if/in-ai/Pages/crmg_let.aspx

Issue

CAFII is exploring whether this pre-consultation is in-scope for the Association. Our members who are regulated by OSFI may have their parent organization make a submission, and so the division that CAFII represents may not be the right source for a submission. Another consideration is what CAFII will be able to contribute that the CBA and CLHIA would not already cover. On the other hand, if there are credit protection insurance issues that are specific to culture risk management, there may be value to CAFII making a submission.

Analysis

OSFI is focusing its approach on six key culture risk management & oversight dimensions—is commentary on an institution’s exhibiting these characteristics best made at the CAFII member level, or at the corporate level? The six dimensions are:

- **Leadership:** *Leaders, at all levels, consistently promote and reinforce the desired culture through their words, actions and decisions.*
- **Compensation, People Management & Incentives:** *The FRFI acquires, develops, retains, compensates, and incentivizes executives, material risk-takers and all other employees to promote and reinforce its desired culture, effective culture risk management, and achieve sound financial and non-financial outcomes.*
- **Accountability & Ownership:** *Individuals have a clear understanding of their roles and responsibilities, have capacity and autonomy to fulfill them, take ownership of their decisions and actions, and are held accountable for them.*
- **Risk Mindsets & Behaviours:** *Risk mindsets and behaviours within the FRFI align with and support the structures in place to ensure financial and non-financial risks are effectively managed.*
- **Group Dynamics & Decision-Making:** *The work environment enables individuals to feel safe to speak up, openly communicate and work together to make sound decisions and achieve financial and non-financial outcomes.*
- **Resilience:** *Individuals are vigilant towards known and unknown threats, notice and effectively respond to problems and opportunities, and continuously learn, improve, and adapt to changing conditions.*