

OSFI's Supervisory Framework

The Office of the Superintendent of Financial Institutions' (OSFI's) activities can be divided into two broad functions: regulation and supervision. Supervision involves assessing the safety and soundness of federally regulated financial institutions and using supervisory powers to intervene in a timely manner to protect the rights and interests of policyholders. OSFI supervises in accordance with its Supervisory Framework. As outlined in the Supervisory Framework, a risk-based approach is used in assessing the safety and soundness of the consolidated operations of regulated financial institutions. OSFI focuses on higher-risk significant activities, assessing the level of risk and factoring in the quality of risk management. Institutions that are well managed relative to their risks will require less supervision.

OSFI carries out routine supervisory and regulatory activities pursuant to its mandates, as well as conducting research and analyzing industrywide issues and trends. Routine supervisory activities include:

- Ongoing monitoring of supervised institutions via information obtained from statutory filings and financial reporting requirements:
 - Consider compliance with statutory and other regulatory requirements.
 - Assess financial situation and operating performance.
 - Assess the quality of risk management functions and of senior management and board oversight.
- Periodic on-site examinations of supervised institutions are performed, which include:
 - Interviews with key management staff to ensure an adequate control environment is maintained as an integral part of the institution's operations.
- Written reports to senior management and, depending on the scope of the review, to the board of directors including findings and recommendations.
- A request to management to provide copies of OSFI reports to the institution's external auditors.
- Recommendation or requirement that concerns be addressed by institutions.
- Follow-up to monitor that agreed-upon remedial measures are implemented.

OSFI is granted by statute a wide range of discretionary intervention powers to address its concerns regarding an institution. OSFI has defined a graduated and progressive set of intervention levels it will impose

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on an institution, depending on the degree of weakness perceived. The objective of the process is to employ an early intervention approach to effectively protect policyholder rights while minimizing business disruption.

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