



## Supplementary Key messages BANC S-243 Appearance (6 Dec, 2023)

**Issue:** OSFI Superintendent Peter Routledge and Managing Director of the Climate Risk Hub, Stephane Tardif, will appear before the [Standing Senate Committee on Banking, Commerce and the Economy \(BANC\)](#), in support of their examination of [Bill S-243, An Act to enact the Climate-Aligned Finance Act and to make related amendments to other Acts](#).

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## OSFI's Mandate

- Created in 1987, OSFI is an independent federal agency that regulates and supervises federally regulated deposit-taking institutions, insurance companies, and private pension plans.
- We regulate and supervise more than 400 federally regulated financial institutions and 1200 pension plans to ensure they are in sound financial condition and meet their requirements.
- Through the application of this mandate, OSFI contributes to public confidence in the Canadian financial system.
- To deliver on this, we work to ensure that banks can make loans and deposits available to Canadians; that insurance companies can pay policyholders; and that pension plans can continue to make payments to retirees.
- We do this by regulating how institutions manage risks and build resilience in the face of financial and non-financial risks.

## B-20 / Housing

- Risks in the housing market can be a key contributor to overall financial system vulnerability. We watch it closely to understand how those risks can affect financial institutions that provide residential mortgage loans.
- We expect lenders to align their policies and practices with the 5 fundamental principles of Guideline B-20:
  1. Comprehensive residential mortgage underwriting policies
  2. Due diligence regarding borrower identity, background, and willingness to service debt obligations
  3. Assessment of borrower capacity to service debt obligations on a timely basis
  4. Sound collateral management and appraisal processes
  5. Effective credit and counterparty risk management practices and procedures
- OSFI's actions are guided by the principle that sound mortgage underwriting and proactive account/portfolio management is critical to the long-term stability of the mortgage lending industry.
- At OSFI, our job is to ensure that federally regulated financial institutions are prudently lending and managing their mortgage portfolios, thus contributing to a mortgage lending industry in Canada that is resilient and well capitalized and thereby supporting financial stability throughout the sector. Our actions to date have done just that.

## OSFI's expanded mandate relating to integrity and security, including foreign interference

- New legislation (C-47) expanded OSFI's mandate upon receiving Royal Assent on June 22, 2023. The legislation includes two key provisions:
  - The requirement for Federally Regulated Financial Institutions (FRFIs) to establish and adhere to policies and procedures to protect themselves against threats to its integrity or security, including foreign interference.
  - The requirement for OSFI to report annually to the Minister on the adequacy of, and adherence to FRFIs' policies and procedures.
- With these provisions set to come into force in January 2024, work is already underway to ensure we deliver on these important new responsibilities.

## Enhanced Draft Guideline E-21, Operational Resilience and Operational Risk Management

- Enhanced Guideline E-21 sets expectations for operational resilience. It modernizes OSFI's guidance on operational risk management, including new expectations for business continuity management, crisis management, change management, and data risk management.
- It builds on the consultation we held in 2021 and supports Guideline B-13, Technology and Cyber Risk Management and Guideline B-10, Third-Party Risk Management. There will be a four-month public consultation on this enhanced guideline. Input can be sent to [resilience@osfi-bsif.gc.ca](mailto:resilience@osfi-bsif.gc.ca) until February 5, 2024.
- These two consultations are being announced at the same time given that operational resilience and operational risk management contribute to the integrity and security of financial institutions.

## Proposed Alberta Pension Plan

- The Chief Actuary is an independent unit within OSFI that provides a range of actuarial valuation and advisory services to the Government of Canada.
- The OCA's role is to provide checks and balances on the future costs of the different pension plans and social programs that fall under its responsibility, including the Canada Pension Plan.
- We are aware of Alberta's proposed pension plan, but it would be inappropriate for me to comment on the proposed plan and any possible outcomes.

## HSBC-RBC

- OSFI, as the body responsible for prudential regulation and supervision of federally regulated financial institutions and private pension plans, is committed to maintaining the stability and integrity of the Canadian financial sector.

- While the Superintendent has provided a recommendation regarding the RBC-HSBC acquisition and amalgamation, the final decision resides with the Minister of Finance.
- Due to legislative requirements, OSFI is unable to discuss specific business or affairs of financial institutions it supervises, including specific approvals granted by the Minister or the Superintendent.
- If the proposed acquisition and amalgamation is approved by the Minister, OSFI will follow standard procedures, which include publishing the issuance of Letters Patent of Amalgamation in the Canada Gazette. This practice underscores OSFI's commitment to transparency and adherence to statutory procedures.
- OSFI continues to work closely with other regulatory bodies and the Minister of Finance to ensure decisions are made in the best interests of the Canadian financial system and its consumers.

### New Supervisory Framework

- OSFI's new Supervisory Framework aims to provide greater transparency through the communication of ratings to institutions. Our goal is to focus on the most critical risks to viability, respond promptly and to signal any supervisory concerns if necessary.
- Financial institutions will receive a rating according to an expanded eight-point scale. We're also introducing tier ratings to reflect factors including size and complexity.

### Consultation on crypto-asset exposure disclosures by FRFIs

- On November 20, OSFI launched a consultation on the public disclosure of crypto-asset exposures by federally regulated financial institutions (FRFIs) in Canada.
- Digital innovation is transforming how we transact, manage money, and view value but poses risks to our financial system. Recent crypto events underscore risks of unregulated financial innovation. Public disclosures enhance transparency, comparability of data, and market discipline for a safer financial system.
- The Basel Committee on Banking Supervision (BCBS) is seeking feedback from internationally active banks through its own consultation. This consultation allows industry to provide feedback on BCBS proposals, ensuring guidelines align with the Canadian context.
- OSFI will issue draft guidelines on public disclosures by fall 2024. Final guidelines will be communicated by winter 2025, taking effect in Q4 2025.

## Fall Economic Statement

### CONTEXT

The Fall Economic Statement was released November 21st. Its focus is primarily on housing costs and the affordability crisis. OSFI's primary areas of coverage are around perceived barriers to buying/maintaining mortgages.

#### **Canadian Mortgage Charter**

- Residential mortgage lending was identified as a top risk in our Semi-Annual Risk Outlook.
- OSFI monitors the housing market to better understand risks facing federally regulated financial institutions (FRFIs).
- This year, and over the next few, we anticipate that many Canadian borrowers will renew their contracts at appreciably higher interest rates.
- Lenders OSFI supervises hold nearly 80% of all residential mortgages issued in Canada. Residential mortgage loans account for almost 30% of the total assets held by these lenders.
- We have policy tools (Guideline B-20), supervisory capacity, and ongoing monitoring targeting this risk.

#### **OSFI's recent actions**

- We're looking at ways to address elevated risk to lenders resulting from high household indebtedness. We've recently released the summary of stakeholder feedback on the consultation that launched in January.
- We are making changes to capital requirements that 1) ensure both lenders and mortgage insurers are holding adequate capital for the risks presented by negative amortization, and 2) set incentives for lenders to prevent negative amortizations to begin with. Published October 20<sup>th</sup> and coming into effect in fiscal Q1, 2024.
- We continue to work closely with our federal partners. We ensure our policies and supervisory actions are consistent with those federal partners, including the Financial Consumer Agency of Canada (FCAC).
- Existing measures, like the Minimum Qualifying Rate (MQR), have served Canadians well, helping manage risks related to debt serviceability. The MQR helps manage risks associated with a borrower's ability to repay the loan, including rising mortgage interest rates and other expenses, or a loss of income.