

SENIOR MANAGEMENT ASSESSMENT CRITERIA

(The Assessment Criteria should be read in conjunction with OSFI's Supervisory Framework)

ROLE OF SENIOR MANAGEMENT

Senior management is responsible for directing and overseeing the effective management of the institution's operations. Its key responsibilities include:

- Developing business objectives, strategies, plans, organizational structure and controls, and policies, for Board approval;
- Developing and promoting sound corporate governance practices, culture and ethics (in conjunction with the Board);
- Executing and monitoring the achievement of board-approved business objectives, strategies, and plans and the effectiveness of organizational structure and controls; and
- Ensuring that the Board is kept well informed.

QUALITY OF SENIOR MANAGEMENT OVERSIGHT

The following statements describe the rating categories for the assessment of Senior Management's oversight of the institution's activities and related risks, with due consideration to the institution's safety and soundness.

An overall rating of Senior Management considers both its characteristics and the effectiveness of its performance in executing its mandate, in the context of the nature, scope, complexity, and risk profile of the institution. Characteristics and examples of performance indicators that guide supervisory judgement in determining an appropriate overall rating are set out below.

Strong

The mandate, organization structure, expertise and practices of Senior Management meet or exceed what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. Senior Management has consistently demonstrated highly effective performance. Senior Management characteristics and performance are superior to generally accepted management practices.

Acceptable

The mandate, organization structure, expertise and practices of Senior Management meet what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. Senior Management performance has been effective. Senior Management characteristics and performance meet generally accepted management practices.

Needs Improvement

The mandate, organization structure, expertise and practices of Senior Management generally meet what is considered necessary, given the nature, scope, complexity, and risk profile of the institution, but there are some significant areas that require improvement. Senior Management performance has generally been effective, but there are some significant areas where effectiveness needs to be improved. The areas needing improvement are not serious enough to cause prudential concerns if addressed in a timely manner. Senior Management characteristics and/or performance do not consistently meet generally accepted management practices.

Weak

The mandate, organization structure, expertise and practices of Senior Management are not, in a material way, what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. Senior Management performance has demonstrated serious instances where effectiveness needs to be improved through immediate action. Senior Management characteristics and/or performance often do not meet generally accepted management practices.

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SENIOR MANAGEMENT CHARACTERISTICS*	
<p>The following criteria describe the characteristics to be used in assessing the quality of Senior Management oversight of the institution's activities and related risks, with due consideration to the institution's safety and soundness. The application and weighting of the individual criteria will depend on the nature, scope, complexity, and risk profile of the institution and will be assessed collectively, together with Senior Management performance, in rating its overall effectiveness.</p>	
Essential Elements	Criteria
1. Mandate	1.1 Extent to which the Board has delegated to the CEO responsibility for developing and implementing policies and practices for the effective management of the institution's operations. This may include, but is not limited to: <ul style="list-style-type: none"> a) Strategic management; b) Risk management; c) Liquidity and funding management; d) Capital management; e) Internal control environment; and f) Ethical business conduct.
	1.2 Adequacy of policies and practices to delegate responsibilities from the CEO to other members of Senior Management and to regularly review the appropriateness of the delegation.
	1.3 Appropriateness of the mandates for Senior Management positions and the extent to which they clearly define lines of authority, responsibility and accountability. Extent to which these mandates are communicated across the institution.
	1.4 With respect to the oversight functions on which it relies (e.g., Internal Audit), the extent to which Senior Management (a) approves the appointment of the function heads; (b) ensures that they have adequate authority, independence and resources to carry out their mandates; (c) provides appointees with unrestricted access to Senior Management and/or its committees; and (d) requires periodic independent reviews of the functions.
2. Organization Structure	2.1 Adequacy of policies and practices to regularly review Senior Management organization structure.
	2.2 Appropriateness of Senior Management organization structure.
3. Committees	3.1 Extent to which Senior Management committees are used to oversee the management of significant activities and related risks.
	3.2 Extent to which Senior Management committee mandates are clearly defined and communicated across the institution.
4. Expertise	4.1 Adequacy of policies and practices to regularly review the range of qualifications, knowledge, skills and experience required to fulfill Senior Management responsibilities.
	4.2 Appropriateness of the range of qualifications, knowledge, skills and experience available to fulfill Senior Management responsibilities.
	4.3 Adequacy of policies and practices for the selection, appointment and succession of Senior Management.
	4.4 Extent to which management development programs are available to Senior Management.

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Essential Elements	Criteria
5. Practices	5.1 Adequacy of policies and practices to establish business objectives, strategies and plans, and to monitor the institution's performance against them.
	5.2 Adequacy of policies and practices to regularly review the institution's liquidity, funding and capital management policies, and to obtain assurances that approved policies are being adhered to.
	5.3 Extent to which risk management policies and practices are: <ul style="list-style-type: none"> a) Enterprise-wide; b) Co-ordinated with strategic, capital and liquidity management; c) Prudent in the context of the risk profile of the institution; d) Reviewed regularly for appropriateness; and e) Communicated to appropriate individuals across the institution.
	5.4 Adequacy of processes, techniques and criteria used to consistently identify, measure, monitor, control and report significant risks, and to ensure that approved risk management policies and practices are adhered to.
	5.5 Adequacy of policies and practices to ensure regular review of the organizational and procedural control environment.
	5.6 Adequacy of policies and practices to ensure compliance with applicable laws, regulations and guidelines.
	5.7 Extent to which human resource policies and practices give priority to attracting, developing and retaining high-calibre staff, and promoting good morale within the institution.
	5.8 Extent to which compensation programs promote prudent risk taking and are aligned with the long-term strategic objectives for the institution.
	5.9 Adequacy of policies and practices for communication and disclosure to stakeholders.
	5.10 Extent to which management policies and practices promote sound corporate governance and ethical business conduct.
6. Board Oversight	6.1 Extent to which Board (or a Board committee) approval is required for: <ul style="list-style-type: none"> a) The institution's organization structure and changes thereto; b) Senior Management organization structure and changes thereto; c) Senior Management appointments and mandates; d) Business objectives, strategies and plans; e) Liquidity, funding and capital management policies; f) Policies and practices for managing significant activities and related risks; g) Significant human resource policies and practices; and h) Communication and disclosure policies and practices.

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Essential Elements	Criteria
6. Board Oversight (Cont'd)	6.2 Adequacy of policies and practices to promote full, open and timely disclosure to and discussion with the Board (or its committees) on all significant issues.
	6.3 Adequacy of policies and practices established by the Board (or a Board committee) to regularly review Senior Management's performance and compensation.

SENIOR MANAGEMENT PERFORMANCE
<p>The quality of Senior Management's performance is demonstrated by its effectiveness in overseeing the execution of approved strategies and effective management of the institution's operations, with due regard to the institution's safety and soundness.</p> <p>The assessment will consider the ability of Senior Management to achieve the institution's business objectives effectively while maintaining an appropriate governance and control culture. OSFI will look to indicators of effective Senior Management performance to guide its judgement in the course of its supervisory activities. These activities may include: discussions with directors and management; assessment of Senior Management oversight practices and how particular issues are dealt with; assessment of business plans; review of management information and audit reports; review of Senior Management minutes, etc.</p> <p>Examples of indicators that could be used to guide supervisory judgement include the extent to which Senior Management:</p> <ol style="list-style-type: none"> a) Develops strategies and plans for the attainment of business objectives that are appropriate and prudent, in the context of the regulatory, competitive and economic environment, and regularly monitors the execution of approved plans to ensure that objectives are achieved or strategies are appropriately adjusted to deal with changes in business or economic conditions; b) Actively monitors adherence to approved policies, organizational and procedural controls, and compliance requirements; ensures that appropriate and timely action is taken to remedy any deficiencies that may arise, including issues brought to it by other control functions and regulators; and ensures that management information systems provide timely and relevant information to support its oversight responsibilities; c) Is successful in attracting, developing and retaining high- calibre staff and in maintaining good morale and ensures that direct reports clearly understand their responsibilities and holds them accountable for discharging them; d) Sets an appropriate "tone from the top", performing its duties in an ethical manner and expecting the same from individuals across the institution; and e) Keeps the Board and its committees fully apprised, on a timely basis, of market conditions, strategic opportunities and concerns, operating performance and issues that could significantly affect the well-being of the institution. This includes the quality of information provided to the Board.

* Examples of documentation that OSFI may review in formulating its assessment of the characteristics of Senior Management include organizational charts, mandates, job descriptions, core competencies and personnel profiles; succession plans; conflict of interest policy; corporate policies, authorities and limits; new product and initiative framework; compensation programs; strategic plans and related documents; and board minutes and information packages.