



**Remarks by Julie Dickson, Acting Superintendent
Office of the Superintendent of Financial Institutions Canada (OSFI)
to the
Senate Standing Committee on Banking, Trade and Commerce**

**Ottawa, Ontario
Wednesday, January 31, 2007**

CHECK AGAINST DELIVERY

For additional information contact:

Jason LaMontagne
Communications Specialist
Communications and Public Affairs
jason.lamontagne@osfi-bsif.gc.ca
www.osfi-bsif.gc.ca



OSFI
BSIF

Remarks by Julie Dickson, Acting Superintendent,
Office of the Superintendent of Financial Institutions Canada (OSFI)
to the Senate Standing Committee on Banking, Trade and Commerce
Ottawa, Ontario
January 31, 2007

Mr. Chairman, Honourable Members of the Committee:

I would like to thank you for this opportunity for the Office of the Superintendent of Financial Institutions (OSFI) to provide information as part of your consideration of hedge funds.

I have some brief opening remarks outlining OSFI's role in financial sector regulation, and then I would be pleased to answer any questions you might have.

OSFI is the prudential regulator of federal financial institutions. Prudential means we are concerned with the safety and soundness of financial institutions such as the large banks, and appropriate risk management by financial institutions, which contributes to the overall stability of the financial system. Our mandate does not extend to market conduct or investor protection issues, which are the responsibility of other organizations in the provincial and federal sphere.

With our prudential mandate, OSFI is primarily interested in the market and credit risks that banks might face as a result of their business dealings. OSFI is paid to be vigilant, and to do something if we think that the entities we regulate and supervise are engaged in unsafe or unsound activity, or not fully understanding the potential risks in their businesses (or in the case of the issue at hand, not adequately assessing the risk in their hedge fund exposure).

OSFI uses a risk-based methodology in its regulation and supervision. An institution can in principle assume higher risks without attracting supervisory attention, provided the quality of its risk management is commensurately enhanced. How does OSFI know if the proper risk mitigants are in place? We ask questions, we verify answers, and we follow up. During our regular assessments of financial institutions we focus on their risk management strategies, changes in their risk appetite, and changes in their risk profile.

In this context, a review of the major banks' exposure to hedge funds, and their management of that exposure, was completed recently. This review indicated that the exposure of the banks to hedge funds is relatively small, and that risk management practices are adequate. Canadian banks are found to be taking a cautious approach to hedge funds.

While OSFI does not currently have any concerns with the participation of Canadian financial institutions in hedge funds, activity in this area will continue to be evaluated as part of OSFI's ongoing supervisory process.

Further, we meet with our international counterparts on a regular basis to discuss issues, including hedge funds. With respect to hedge funds, we pay particular attention to the work and views of regulators in the United States and United Kingdom, as those countries are where the bulk of hedge fund activity occurs.

I would be happy to take any questions the committee might have.