

COMPLIANCE ASSESSMENT CRITERIA

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

ROLE OF COMPLIANCE

The Compliance function provides independent oversight of the management of the institution's compliance with laws, regulations, and guidelines relevant to the activities of the institution in the jurisdictions in which it operates.

QUALITY OF COMPLIANCE OVERSIGHT

The following statements describe the rating categories for the assessment of the Compliance function's oversight of the institution's compliance with applicable laws, regulations and guidelines.

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

Strong

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

Acceptable

The mandate, organization structure, resources, methodologies and practices of the Compliance function meet what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. Compliance performance has been effective. Compliance characteristics and performance meet generally accepted industry practices.

Needs Improvement

The mandate, organization structure, resources, methodologies and practices of the Compliance function 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. Compliance 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. Compliance characteristics and/or performance do not consistently meet generally accepted industry practices.

Weak

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

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COMPLIANCE CHARACTERISTICS*	
<p>The following criteria describe the characteristics to be used in assessing the quality of the Compliance function's oversight of the management of the institution's compliance with applicable laws, regulations and guidelines. 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 the Compliance function's performance, in rating its overall effectiveness.</p>	
Essential Elements	Criteria
1. Mandate	1.1. Extent to which the function's mandate establishes: <ul style="list-style-type: none"> a) Clear objectives and enterprise-wide authority for its activities; b) Authority to carry out its responsibilities independently; c) Right of access to the institution's records, information and personnel; d) A requirement to express an opinion on the adequacy and effectiveness of the compliance processes and status of compliance; and e) Authority to follow-up with management on issues identified and recommendations made related to compliance.
	1.2. Extent to which the mandate is communicated within the institution.
2. Organization Structure	2.1. Appropriateness of the stature and authority of the function head within the organization for the function to be effective in fulfilling its mandate.
	2.2. Extent to which the function head has direct access to the CEO and the Board (or a Board Committee).
	2.3. Appropriateness of the function's organizational structure.
	2.4. Extent to which the function is independent of the institution's business activities and day-to-day compliance processes.
3. Resources	3.1. Adequacy of the function's processes to determine the required: <ul style="list-style-type: none"> a) Level of resources necessary to carry out responsibilities; b) Qualifications and competencies of staff; and c) Continuing professional development programs to enhance staff competencies.
	3.2. Adequacy of the function's resources and appropriateness of its collective qualifications and competencies for executing its mandate.
	3.3. Sufficiency of staff development programs.
4. Methodology and Practices	4.1. Adequacy of policies and practices to ensure that the function's approach and practices are in line with industry and regulatory compliance practices and are appropriate for executing its mandate.
	4.2. Adequacy of policies and practices to keep abreast of new and changing legislation and changes in the institution's risk profile.
	4.3. Adequacy of policies and practices to promptly develop or amend the institution's compliance policies as legislation is introduced or amended or as new or changing business activities impose different legislative requirements on the institution.
	4.4. Adequacy of policies and practices to document new or amended compliance policies and communicate them across the institution on a timely basis.
	4.5. Adequacy of policies and practices to assist management in identifying, addressing and integrating significant legislative or regulatory requirements into their business activities through appropriate procedural controls.

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COMPLIANCE CHARACTERISTICS*	
Essential Elements	Criteria
4. Methodology and Practices (Cont'd)	4.6 Adequacy of policies and practices to monitor adherence to applicable laws, regulations and guidelines across the institution in order to ensure that significant issues are identified and brought to Senior Management's attention for timely resolution, as well as to support Senior Management's opinion on the status of compliance.
	4.7 Adequacy of policies to review compliance practices regularly for continued effectiveness.
5. Senior Management and Board Oversight	5.1. Extent to which Board (or a Board committee) and Senior Management approval is required for: <ul style="list-style-type: none"> a) The appointment and/or removal of the function head; and b) The function's mandate and resources.
	5.2. Adequacy of policies and practices to report periodically to the Board (or a Board committee) and Senior Management on compliance issues, recommendations and status of compliance.
	5.3. Adequacy of policies and practices to perform periodic, independent reviews of the function, and to communicate results to the Board (or a Board committee) and Senior Management.

COMPLIANCE PERFORMANCE
<p>The quality of the Compliance function's performance is demonstrated by its effectiveness in overseeing management of the institution's compliance with applicable laws, regulations and guidelines.</p> <p>The assessment will consider the effectiveness with which the Compliance function actively promotes compliance with applicable laws, regulations and guidelines throughout the institution, ensuring that breaches are identified and resolved on a timely basis. OSFI will look to indicators of effective performance to guide its judgement in the course of its supervisory activities. These activities may include: discussions with directors and management, including the Chief Compliance Officer; review of practices to detect and dispose of breaches of compliance; review of reports of independent assessments of the function; the institution's regulatory correspondence file; etc.</p> <p>Examples of indicators that could be used to guide supervisory judgement include the extent to which Compliance:</p> <ul style="list-style-type: none"> a) Develops, documents and actively communicates new and amended compliance policies or requirements to all impacted areas of the institution; b) Proactively assists management in identifying, addressing and integrating significant legislative or regulatory compliance requirements into its business activities; c) Actively monitors adherence to applicable laws, regulations and guidelines across the institution; d) Escalates significant breaches of compliance requirements to Senior Management and the Board; e) Proactively follows up to ensure that significant issues are addressed on a timely basis; and f) Periodically reviews compliance practices for continuing effectiveness.

* Examples of documentation that OSFI may review in formulating its assessment of the characteristics of the Compliance function include: mandate, policies, processes, standards of practice and planning; personnel's curricula vitae; training programs; assessment reports; management committee minutes and related presentations; Board presentations; and Compliance self-assessment reporting.