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# Letter

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**Title** OSFI's Near-Term Plan of Prudential Policy for Federally Regulated Financial Institutions and Federally Regulated Private Pension Plans

**Date** May 6, 2021

**Sector** Banks

- Bank Holding Companies
- Foreign Bank Branches
- Life Insurance and Fraternal Companies
- Property and Casualty Companies
- Trust and Loan Companies

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**To:** Federally Regulated Financial Institutions, Federally Regulated Private Pension Plans

## OSFI's Mandate and Strategic Goals

OSFI acts to protect the rights and interests of depositors, policyholders, financial institution creditors and pension plan beneficiaries while having due regard for the need to allow financial institutions to compete effectively and take reasonable risks. Among other things, OSFI issues guidance for federally regulated financial institutions (FRFIs) and federally regulated pension plans (FRPPs) that sets prudential expectations for their management and mitigation of risk.



OSFI's *Strategic Plan* focuses on improving FRFI and FRPP preparedness and resilience to financial risks both now and in the next stress event, and preparing them to deal with non-financial risks before they negatively affect their financial condition. OSFI also aims to improve its agility and operational effectiveness and preserve the support of Canadians and the financial industry.

In support of the *Strategic Plan*, this document sets out, a near-term plan of guidance priorities for FRFIs and FRPPs for the next year until March 31, 2022, the references below reflect the calendar quarters for this time period.

## Background on OSFI Guidance

### What is OSFI Guidance?

Guidance forms a key component of OSFI's regulatory framework. It establishes OSFI's expectations in terms of prudential limits, capital and liquidity adequacy, disclosures, legislative and reporting requirements, and sound risk management practices.

OSFI guidance may take a number of forms, depending on the circumstances and objectives. **Guidelines** for FRFIs set OSFI's main expectations, and are principles-based and proportionate to FRFIs of different size, complexity and risk profile. In the case of FRPPs, OSFI's guidelines typically provide clarity on rules and requirements set out in legislation and regulation. OSFI uses **Advisories** and **Rulings** (for FRFIs) or **Newsletters** (for FRPPs) to clarify existing legislation or expectations in guidelines, or bridge a transition to more enduring guidance. From time-to-time, as required, OSFI also issues **Letters** that highlight timely issues or concerns and articulate OSFI expectations.

## OSFI's Forward Agenda

### Guidance Priorities

OSFI has divided its guidance priorities into four streams *Risk Management Guidance for FRFIs and FRPPs*, *Risk Management Guidance for FRFIs*, *Capital and Accounting Guidance for FRFIs* and *Guidance for FRPPs*.

During the coming year we will continue delivering on OSFI's mandate by designing and setting policy priorities that reflect the risk environment as well as meeting our operational responsibilities in private pension plans and

regulatory approvals. Our plan is centered on the need to be relevant, responsive and realistic. While conditions have become more stable, risks and uncertainty remain in the financial sector. We are planning for the new business-as-usual, but in all cases remain vigilant so that our prudential priorities continue to ensure that Canada's financial system remains strong and resilient.

The timelines indicated below are reflective of the current OSFI strategic plans. Plans may be subject to change or amended due to external factors. In that event, OSFI will reconsider the dates for the guidance impacted.

## Risk Management Guidance for both FRFIs and FRPPs

### Deposit-Taking Institutions, Insurance Companies, and Private Pension Plans

Timeframe	Guidance Initiative	Purpose and Background
Q3 2021	Industry Letter on Climate-related Risks	Summarizes feedback received on OSFI's Climate-related Risks Discussion Paper issued in Q1 2021 and setting out OSFI's proposal for future climate related risk initiatives.

## Risk Management Guidance for FRFIs

### Deposit-Taking Institutions and Insurance Companies

Timeframe	Guidance Initiative	Purpose and Background
Q2 2021	Industry Letter on Technology Risk	Summarize feedback received on OSFI's Technology Risk Discussion Paper issued in Q3 2020 and sets out future guidance initiatives.
	Industry Letter on Anti-Money Laundering and Terrorist Financing	Summarize feedback received from a consultation on Guideline E-13 and B-8 conducted in Q4, 2020 and sets out next steps for Guideline B-8.
	Final Guideline E-4 for foreign branches	Establish OSFI expectations for all foreign branches; and replace E4A for Chief Agents of foreign insurance company branches and E4B for Principal Officers of foreign bank branches.
Q3 2021	Industry Letter on Operational Resilience	Seek views on integrating new Basel Committee on Banking Supervision Principles for Sound Management of Operational Risk and Principles for Operational Resilience into OSFI's guidance.
Q4 2021	Final Guideline B-2 on property and casualty large exposures	Establish OSFI's expectations with respect to large exposures of property and casualty insurance companies.
	Final Guideline B-3 on insurance practices and procedures	Establish OSFI's expectations related to reinsurance practices.
	Draft Guideline on Technology Risk / Cyber	Develop OSFI's expectations for technology and cyber risk management.
Q1 2022	Draft revised Guideline B-10 on third party risk	Develop OSFI's expectations for third party risk.
	Industry Letter on advanced analytics and model risk	Develop OSFI's expectations for advanced analytics and model risk.
	Consultative document on culture and reputation risk	Develop OSFI's expectations for culture and reputation risk.

## Capital and Accounting Guidance for FRFIs

### Deposit-Taking Institutions and Insurance Companies

Timeframe	Guidance Initiative	Purpose and Background
Q2 2021	Discussion Paper on the assurance of capital, leverage and liquidity returns	Develop OSFI's expectations on assurance of DTI and insurance capital, leverage and liquidity returns.
Q4 2021	Draft Guideline on assurance of capital, leverage and liquidity returns	Develop OSFI's expectations on assurance of DTI and insurance capital, leverage and liquidity returns.
Q1 2022	Final Guideline on assurance of capital, leverage and liquidity returns	Develop OSFI's expectations on assurance of DTI and insurance capital, leverage and liquidity returns.

## Deposit-Taking Institutions

Timeframe	Guidance Initiative	Purpose and Background
Q2 2021	Data Maintenance Expectations for Institutions Using the Standardized Approach for Operational Risk	Draft expectations for data maintenance for institutions that are using the Standardized Approach for operational risk under Chapter 3 of the Capital Adequacy Requirements Guideline.
	Advisory regarding Global Systemically Important Banks (G-SIB) Disclosure Requirements	This clarifies the implementation of the disclosure requirements on G-SIB indicators in Canada.
	Draft Guideline – Credit Valuation Adjustment (CVA) risk	Covers potential changes related to CVA risk.
Q3 2021	Draft Guideline – Pillar 3 disclosure expectations for small and medium-sized deposit-taking institutions	Draft guideline outlining a more proportional set of Pillar 3 disclosure requirements for small and medium-sized banks to coincide with the implementation of the Basel III reforms.
Q3 2021	SMSB survey with respect to Pillar 2 Capital and Liquidity Requirements	Intended to inform potential future revisions to OSFI's processes and guidance for Pillar 2 capital and liquidity expectations for small and medium sized banks.
Q4 2021	Consultation document on unencumbered assets and pledging	Considers possible changes to OSFI's current regulatory guidance and monitoring practices pertaining to unencumbered assets and pledging activities.
	Final Guidelines - Domestic implementation of the Basel III Reform Package, including Pillar 3 disclosure expectations	Final guidance related to credit risk, operational risk, market risk, CVA risk, the output floor, the leverage ratio, the definition of capital, and Pillar 3 disclosures.
	Final Guidelines - Proportionality of requirements for small and medium-sized deposit-taking institutions, including Pillar 3 disclosure expectations.	Final guidelines outlining a more proportional set of capital and liquidity requirements for small and medium-sized banks to coincide with the implementation of the Basel III reforms and Pillar 3 disclosures.
Q1 2022	Draft Guideline on unencumbered assets and pledging	Considers possible changes to OSFI's current regulatory guidance and monitoring practices pertaining to unencumbered assets and pledging activities.

## Insurance Companies

Timeframe	Guidance Initiative	Purpose and Background
Q1 2021	Semi-annual IFRS 17 progress reporting	Insurers reporting to OSFI on IFRS 17 implementation progress.
Q2 2021	Final IFRS 17 Regulatory Returns	Regulatory Returns reflecting impact of adopting IFRS 17.
	Draft LICAT, MCT, MICAT guidelines, for IFRS 17	Covers updates to the capital frameworks for insurers triggered by IFRS 17.
Q3 2021	Semi-annual IFRS 17 progress reporting	Insurers reporting to OSFI on IFRS 17 implementation progress.
	Consultation on draft methodology for determining capital requirements for Segregated Fund Guarantee (SFG) Risk	QIS 5 and public consultation of the draft Chapter 7 of LICAT (i.e. the draft standard approach) and SFG-related regulatory returns

## Guidance for FRPPs

### Private Pension Plans

Timeframe	Guidance Initiative	Purpose and Background
Q2 2021	Final instruction guides for pension plan terminations	Establishes OSFI's expectations related to filing and reporting requirements for defined benefit and defined contribution pension plan terminations.
Q3 2021	Conclusion of consultation process and instruction guides for pension plan registrations	Establishes OSFI's expectations related to filing and reporting requirements for defined benefit and defined contribution pension plan registrations.
Q4 2021	Conclusion of consultation process and instruction guide for the preparation of actuarial reports (incorporates changes that adjust liabilities for plans using replicating portfolios)	Sets out the reporting requirements of actuarial reports filed with OSFI for defined benefit pension plans.
	Final instruction guide for authorizing benefit reductions	Sets out the factors that OSFI considers with respect to an application seeking the Superintendent's authorization for a benefit reduction.
Q1 2022	Discussion Paper – Pension Plan Investment Risk Management	Considers possible changes to OSFI's current guidance pertaining to pension plan investment risk management.