



FINANCIAL ASSESSMENT CRITERIA¹

ROLE OF FINANCIAL

Financial is an independent function responsible for ensuring the timely and accurate reporting and in-depth analysis of the operational results of the operating units (including business lines) of an institution in order to support planning, strategy, performance measurement and decision-making by Senior Management and the Board. Its responsibilities include:

- Providing financial analysis of the institution’s and operating unit’s performance and the strategic initiatives, highlighting matters requiring either Senior Management or, as appropriate, Board attention;
- Ensuring an effective internal financial reporting and management information system;
- Ensuring the implementation of an effective Internal Control Framework; and
- Providing regular financial reporting to Senior Management and, as appropriate, the Board.

QUALITY OF FINANCIAL OVERSIGHT

The following statements describe the rating categories for the assessment of the Financial function. An overall rating of the Financial function considers both the appropriateness of its characteristics and the effectiveness of its performance in executing its mandate, in the context of the nature, size, complexity, and risk profile of the institution. Characteristics and examples of performance indicators that guide supervisory judgement in determining an overall rating are set out below.

Strong

The characteristics of the Financial function meet or exceed what is considered necessary, given the nature, size, complexity, and risk profile of the institution. Financial consistently demonstrates highly effective performance. Financial characteristics and performance are superior to supervisory expectations.

Acceptable

The characteristics of the Financial function meet what is considered necessary, given the nature, size, complexity, and risk profile of the institution. Financial characteristics and performance meet supervisory expectations.

Needs Improvement

The characteristics of the Financial function generally meet what is considered necessary, given the nature, size, complexity and risk profile of the institution, but there are some significant areas that require improvement and may affect effectiveness in the future or under adverse conditions. Financial 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. The function’s characteristics and/or performance do not consistently meet supervisory expectations.

¹ The Assessment Criteria should be read in conjunction with OSFI’s Supervisory Framework.



Weak

The characteristics of the Financial function are not, in a material way, what is considered necessary, given the nature, size, complexity, and risk profile of the institution and may affect effectiveness in the future or under adverse conditions. Financial performance has demonstrated serious instances where effectiveness needs to be improved through immediate action. Financial characteristics and/or performance often do not meet supervisory expectations.

FINANCIAL CHARACTERISTICS²

The following criteria describe the characteristics OSFI uses in assessing the quality of the Financial function's independent analysis and reporting of the institution's financial and operating results to Senior Management and the Board. The application and weighting of the individual criteria will depend on the nature, size, complexity, and risk profile of the institution and will be assessed collectively, together with the effectiveness of the Financial function's performance, in rating its overall quality.

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 oversee effectiveness and consistency of operating units' financial practices; c) Authority to carry out its responsibilities independently; d) Right of access to the institution's records, information and personnel; e) A requirement to provide analysis and recommendations on the institution's strategic and business opportunities/changes, risk appetite, as well as on financial management information systems and business process changes needed to enhance decision-making; and f) Authority to follow up on actions taken by management in response to identified issues and related recommendations. 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 to enable the function to be effective in fulfilling its mandate. 2.2. Extent to which the function head has direct access to the CEO, Senior Management and the Board (or a Board Committee). 2.3. Appropriateness of the function's organization structure based on the nature, size, complexity, and risk profile of the institution. 2.4. Extent to which the function is independent of the institution's operating units and is not involved in revenue-generating activities or the management or financial performance of a line of business or product line.
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 and in response to changes in the institution's business activities and strategies, as well as its operating environment; 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.

² Examples of documentation that OSFI may review in formulating its assessment of the characteristics of the Financial function include: mandates, policies and procedure manuals; resource plans; job descriptions and personnel profiles; reports and presentations prepared for Senior Management and the Board or any of its committees; meeting minutes and information packages; and financial management information systems.

	3.3. Sufficiency of staff development programs.
4. Policies, Practices and Methodologies	4.1. Adequacy of the function’s policies, practices and methodologies for collecting, analyzing and providing operating and financial information (including regulatory, tax, etc.).
	4.2. Adequacy of the function’s policies, practices and methodologies for measuring performance against objectives (e.g., using appropriate key performance indicators) and identifying adverse trends.
	4.3. Extent to which policies, practices and methodologies are aligned with strategic, capital, and liquidity management policies and practices and the Risk Appetite Framework.
	4.4. Extent to which policies, practices and methodologies are documented, communicated, and effectively implemented by the institution’s operating units.
	4.5. Extent to which analysis uses understandable formats, commentary and appropriate key performance indicators (i.e., derived from the key business drivers contained in the strategic and/or business plans, quantifiable, and both financial and non-financial in nature), as well as is structured to be timely, accurate and able to identify significant issues.
	4.6. Adequacy of the function’s capacity for preparing ad hoc analysis for Senior Management and the Board on a timely basis.
	4.7. Adequacy of the function’s policies to review its practices, methodologies, reports and key performance indicators regularly to ensure that they continue to meet the needs of the institution.
	4.8. Adequacy of the function’s policies, practices and methodologies to ensure an effective financial management information system to enable management to identify significant performance issues in a timely manner.
5. Reporting	5.1. Adequacy of the policies, practices and methodologies for producing the required reporting, including identified issues along with recommendations, to operating units, Senior Management, and the Board, as appropriate.
	5.2. Adequacy the policies and practices to monitor and follow up on the resolution of identified issues.
6. Internal Audit Oversight	6.1. Extent to which Internal Audit’s program includes reviews of the Financial function and its key controls, it has appropriate resources to carry out the reviews, and the scope and frequency of its reviews are sufficient to assess the effectiveness of the Financial function.
	6.2. Adequacy of Internal Audit’s communication of its recommendations and follow-up with respect to the Financial function.
7. Senior Management Oversight	7.1 Adequacy of policies and practices for Senior Management to support the Board (or Board Committee) on the: <ul style="list-style-type: none"> a) Appointment and/or removal, performance review, compensation and succession plan of the function head; b) Function’s mandate, budget and resources (staffing and skill sets); and c) Function’s annual work plan including any material changes to that plan.
	7.2 Adequacy of policies and practices to assess the effectiveness of the function, including communicating results to Senior Management and, as appropriate, the Board (or a Board committee).
	7.3 Adequacy of policies and practices to report periodically to Senior Management on issues and recommendations with escalation to the Board, as appropriate.
	7.4 Adequacy of the processes related to talent development and succession planning for function key roles.
8. Board (and Board Committee) Oversight	8.1 Adequacy of policies and practices for the Board (or Board Committee) to approve: <ul style="list-style-type: none"> a) The appointment, performance review, compensation and succession plan of the head of the oversight function; b) The function’s mandate, budget and resources (staffing and skill sets); and

	c) The function's annual work plan including any material changes to that plan.
	8.2 Extent to which the Board (or Board Committee) receives periodic reporting on trends or pervasive risk impacting the organization.
	8.3 Extent to which the Board (or Board Committee) demonstrates an ability to act independently of Senior Management through practices such as regularly scheduled Board (or Board Committee) meetings that include sessions without Senior Management present.
9. Relationships with Other Oversight Functions	9.1. Adequacy of the formal integration of the Financial function's role and defined responsibility with other oversight functions as appropriate.

FINANCIAL PERFORMANCE	
<p>The quality of the Financial function's performance is demonstrated by its effectiveness in providing:</p> <ul style="list-style-type: none"> • Oversight of operating unit analysis and reporting of the institution's financial and operating results; and • Independent analysis and reporting to Senior Management and the Board. <p>The assessment will consider the effectiveness with which the Financial function ensures timely, accurate and insightful information, including comprehensive analysis that supports effective planning, strategy and decision-making to Senior Management and the Board. OSFI will look to indicators of effective performance to guide its judgement in the course of its supervisory activities. Supervisory work may include:</p> <ol style="list-style-type: none"> a) discussion with directors and management, including line management and the Chief Financial Officer; b) review of internal audit reports and discussions with internal auditors, Chief Risk Officer, external auditors and appointed actuaries; c) review of the information provided to Senior Management and the Board; etc. <p>Examples of indicators that OSFI may use to guide its supervisory judgement include the extent to which the Financial function:</p> <ol style="list-style-type: none"> a) Is viewed by the Audit Committee and Senior Management as being effective in executing its mandate. b) Regularly engages the Audit Committee on the continued appropriateness of the Financial function's budget, resources (staffing and skill sets) and plan; c) Provides regular, relevant reports, independently of the business areas being reported upon, for Senior Management and the Board that <ul style="list-style-type: none"> • Are accurate, thorough, timely, understandable and meaningful; • Include an appropriate analysis of results against objectives using key performance indicators, and any adverse trends; and • Highlight matters requiring Senior Management and, as appropriate, Board attention. d) Proactively conducts insightful analysis and provides recommendations to Senior Management and the Board on strategic and/or business opportunities; e) Proactively obtains input from operating units on financial issues for potential broader institution impact; f) Proactively and effectively responds to identified issues and follows up to ensure that they are addressed on a timely basis; g) Actively engages (in collaboration with Senior Management and others) in the development of, and contribution to, an appropriate Risk Appetite Framework consistent with the institution's short- and long-term strategic, financial and capital plans; h) Proactively adheres to the approved Risk Appetite Framework process, where appropriate, and escalates breaches in a timely manner; i) Actively engages the Board in discussions on business and financial performance relative to the Board-approved strategy and risk appetite; j) Responds quickly and appropriately to requests for ad hoc reports; k) Actively engages Senior Management and the Board in discussions to confirm that its reports and presentations continue to meet their needs; l) Proactively assesses, on a regular basis, the adequacy of financial management information systems to enable management to identify significant performance issues in 	

a timely manner;

m) Carries out its policies, practices and methodologies effectively to ensure that they are:

- Aligned with strategic, capital and liquidity management policies; and
- Integrated with day-to-day business activities of operating units.

n) Proactively updates its policies, practices and methodologies in response to changes in the industry and in the institution's strategy, business activities and risk appetite;

o) Responds to Internal Audit findings in a complete and timely manner;

p) Is assessed by Internal Audit as being effective;

q) Is recognized by Senior Management and the Board as contributing to their understanding of the operations of the institution, including providing resources as necessary, acting on recommendations, etc.; and

r) Is recognized by operating units as helpful in providing effective oversight and advice.