

May 31, 2023
Office of the Superintendent of Financial Institutions (OSFI)
121 King St W,
Toronto, ON
M5H 3T9

Re. OSFI Response to Culture and Behaviour Risk Guideline

Dear Sir/Ma'am,

On behalf of The Institute of Internal Auditors (IIA) Canada, I am pleased to submit the following comments for consideration, in relation to OSFI's updated [Culture and Behaviour Risk Guideline](#). For over 80 years, The IIA and its now more than 230,000 members across the globe, with more than 7,000 members in Canada, have aided sound governance and risk management in public- and private-sector organizations, encouraging strong internal controls and an enterprise-wide approach. The IIA is recognized as the internal audit profession's leader in standards, certification, education, research, and technical guidance throughout the world.

Internal audit functions are well-positioned to provide independent assessments of contributing factors in determining federally regulated financial institutions' (FRFIs) risk culture health. The proposed guideline and defined outcomes will assist internal auditors by providing transparency around the criteria used to assess culture from an objective and unbiased perspective.

On behalf of IIA Canada, we support more formalized OSFI guidelines to be used in managing expectations of culture risk management in FRFIs. These guidelines should align with and leverage existing regulatory requirements and oversight bodies to achieve consistent outcomes and avoid duplicative requirements.

Having responded to OSFI's previous consultation on this guideline, we thank you for considering the feedback provided and we urge OSFI to further consider the following recommendations which were not integrated in the updated proposal.

Regarding Question 4 *“Does a FRFI's size, nature, complexity, risk profile or various sub-cultures (e.g., differences between geographies, business units or functions) give rise to specific culture risk management issues that OSFI should consider?”*

In our previous response, we noted that assessing sub-cultures in different business units and geographies is a critical consideration in culture risk management. However, there has been no reference to this assessment in the updated guidance.

Each organization has a unique culture, which can be influenced by its varying degrees of sub-cultures separated internally by business unit or seniority, or geographically by level of globalization or remote employees. As discussed in the OSFI letter, support from middle management is the primary factor in ensuring alignment between the “tone from the top” and the “echo from the bottom” within these sub-cultures. This approach would also allow for improved analysis of the alignment between culture and corporate strategy. While it may be difficult for the OSFI to define organizational sub-cultures and the risks



present in each due to their uniqueness, we feel that not acknowledging the possible presence of these factors could result in a lack of consideration and potential blind spots in organizational culture risk management. Oversight and management of these risks must be tailored to the organization, but they cannot be disregarded. Furthermore, we propose the following new recommendation for consideration in relation to the updated guidance proposed.

1. [Under section 1.1 Governance](#): OSFI refers to responsibilities across all lines in the ‘management of culture and behaviour risks’. We recommend that the word “identification” be added to the language used.
 - i. Recommended Amendment: Governance structures should include clear responsibilities for key roles and functions across all lines in the identification and management of culture and behaviour risks, supported by adequate human and financial resources.
2. [Under section 3.1 Identify behavioural patterns](#) and [3.2 Assess for behaviour risks](#): We recommend that the quality and comprehensiveness of reporting to management and board on culture risks (similar to other risk factors) should be added as a requirement. The additional oversight provided by internal auditors, and other lines (e.g., risk management), will support the quality and comprehensiveness of reporting on the topic of culture.
 - ii. Recommended Amendment to section 3.2: Reporting and oversight on behaviour risks should be consistent with reporting and oversight on other risks within the FRFI.

The IIA welcomes further engagement with OSFI regarding the proposed Culture and Behaviour Risk Guideline and any other matters related to governance in Canada’s financial services industry. If you have any questions regarding this letter or issues related to internal audit or organizational governance, I’d kindly ask you to please contact me.

Sincerely,

Jillian Fernandez
Director, Advocacy (Canada)
The Institute of Internal Auditors Canada