The Institute of Internal Auditors
L'Institut des auditeurs internes
Canada

October 30, 2026

Mr. Peter Routledge
Superintendent of Financial Institutions
Office of the Superintendent of Financial Institutions
255 Albert Street Ottawa ON K1A 0H2

Sent via electronic mail to pds-epn@osfi-bsif.gc.ca

RE: IIA Comments on the Consultative Document on a Proposed Senior Leader Regime

Dear Mr. Routledge:

On behalf of The Institute of Internal Auditors (The IIA), the international professional association representing more than 265,000 internal auditors, including more than 8,200 members in Canada, we appreciate the opportunity to comment on the Office of the Superintendent of Financial Institutions' (OSFI) Consultative Document on a Proposed Senior Leader Regime.

As the risks facing federally regulated financial institutions (FRFIs) grow more complex, clear, and well-understood, accountability for the decisions, conduct, and outcomes of senior leaders is fundamental to institutional stability and soundness. It is equally important to public confidence in the Canadian financial system. The IIA, therefore, supports OSFI's objective to modernize the accountability and suitability of senior leaders. Our comments draw on the perspective of internal audit practitioners, including Chief Audit Executives (CAEs) serving Canadian FRFIs, who provide independent assurance over governance, risk management, and control processes.

Internal audit plays a distinct role in the governance of financial institutions. Under The IIA's Three Lines Model, internal auditors provide the governing body and senior management with independent, objective assurance and advice on the adequacy and effectiveness of governance, risk management, and internal control. This third line responsibility is distinct from first line roles, held by business and operational management, which own and manage risks and operate controls. It is also distinct from the second line roles, such as risk management and compliance, which provide expertise, monitoring, and challenge. Internal auditors assess whether these duties are being discharged effectively and whether the institution's overall risk management and control framework is operating as intended.

To preserve its independence and objectivity, the CAE reports functionally to the governing body, typically through audit committee. Internal auditors do not assume responsibility for managing the risks or operating the controls it evaluates. OSFI's Corporate Governance Guideline recognizes this distinct position by identifying internal audit as an oversight function,

and the head of internal audit is, therefore, captured within the proposed definition of senior leaders.[1]

Internal auditors' relationship to the proposed Senior Leader Regime is twofold. First, the CAE will be an accountable senior leader under the regime, and the accountability expectations applied to that role must be consistent with the internal audit function's independent assurance mandate. Expectations that blur the line between assurance and risk ownership could compromise the independence that makes internal auditing valuable to the governing body. Second, internal auditors are well positioned to provide the governing body with independent assurance that the institution's Accountability Framework is designed and operated effectively.

Clearly articulating both dimensions in the final guidance would reinforce the separation between management's ownership of risk, the oversight responsibilities of risk management and compliance functions, and the internal audit function's assurance mandate. It would also strengthen the governing body's ability to hold management accountable, support the timely identification and remediation of deficiencies, and contribute to the resilience of FRFIs.

Recommendations

The IIA welcomes OSFI's principles-based, outcomes-focused approach. It gives institutions the flexibility to align the Accountability Framework with their own structures and risk profiles, and it is consistent with OSFI's broader supervisory philosophy. To ensure the regime is as effective as possible, we recommend that OSFI:

1. Define senior leaders by responsibility rather than title;
2. Clarify how accountability requirements apply to the CAE, given internal audit function's independent assurance mandate;
3. Clearly distinguish among accountability, responsibility, oversight, and assurance;
4. Recognize the role of internal auditing in assessing adherence to the Accountability Framework; and
5. Adopt a proportionate, phased implementation that limits unnecessary administrative burden.

Our detailed responses to the consultation questions are set forth below:

What are the current governance practices of institutions regarding the suitability and accountability of senior leaders? How is the effectiveness of these practices measured?

Current practices for assessing the suitability and accountability of senior leaders vary considerably across FRFIs. In the experience of CAEs serving Canadian institutions, these practices are generally spread across several processes rather than consolidated in a single

[1] Office of the Superintendent of Financial Institutions (OSFI), *Corporate Governance Guideline* (September 2018), https://www.osfi-bsif.gc.ca/en/guidance/guidance-library/corporate-governance-guideline-2018 .

framework. Because responsibility for these processes is distributed, accountability for a given risk or outcome is not always clearly documented or traceable to an individual senior leader.

Internal auditors are well positioned to address this gap. Under The IIA's Global Internal Audit Standards™, internal auditors provide independent assurance over governance, risk management, and control, which can extend to the design and operating effectiveness of accountability arrangements. Internal auditors can assess:

- whether responsibilities are clearly allocated and documented;
- whether suitability assessments are performed and periodically refreshed;
- whether accountability is applied consistently when deficiencies or incidents occur; and
- whether identified deficiencies are remediated in a timely manner.

This gives the governing body an objective view of accountability that management's self-assessment cannot provide on its own.

The IIA, therefore, recommends that OSFI's final guidance promote greater consistency in how accountability expectations are defined, documented, monitored, and independently assessed. That guidance should clearly distinguish management's responsibility for risk ownership, the oversight responsibilities of risk management and compliance functions, and internal auditors' independent assurance role.

It should also confirm internal auditors' role in providing periodic independent assurance over the Accountability Framework, supported by its independence and unrestricted access to the governing body. The IIA would welcome the opportunity to share its professional standards and the experience of its members as OSFI finalizes the regime.

What are your reactions to OSFI's proposal? Will the proposed guidance enhance leadership suitability standards, governance, and public confidence?

The IIA supports the proposal. The focus on enhanced accountability and suitability for senior leaders is timely, given the increasing complexity of risks and governance challenges facing FRFIs. The IIA believes the proposed guidance can strengthen leadership suitability standards and governance, as well as increase public confidence in the Canadian financial system.

The IIA agrees that clear lines of accountability, supported by responsibility maps integrated into governance and risk management frameworks, may help eliminate areas of unaccountable risk.

Are there any alternatives to our proposal, or specific elements you think we should include, prioritize, or omit in our guidance? For example, is the scope of our definition of "senior leaders" adequate? Is there a need to expand or reduce it?

The IIA supports OSFI's objective of strengthening individual accountability. In our view, guidance will be most effective if it rests on a single organizing principle: accountability should follow authority. The first four recommendations below, from the scope of "senior leaders" to enforcement, flow from that principle. The final two address implementation and disclosure. We regard the first three as foundational and recommend that OSFI prioritize them in the final guidance.

1. **The scope of "senior leaders" should be defined by responsibility, not title -** The current definition does not need to be broadly expanded or reduced as much as re-anchored. Titles vary widely across institutions and are an unreliable guide to who shapes outcomes. We recommend that OSFI define senior leaders by their responsibilities, focusing on the most senior decision makers with direct authority over strategic, financial, and operational outcomes. Within that group, accountability should be proportionate to each individual's authority, decision-making responsibilities, risk ownership, and ability to influence outcomes. It should not be inferred from hierarchy, title, or membership in a senior management group alone. A responsibility-based definition would capture the right individuals consistently across institutions of different sizes and structures, without drawing in roles that lack decision-making power.

2. **The Chief Audit Executive requires distinct treatment -** The inclusion of the Chief Audit Executive illustrates why this matters. The CAE's mandate is independent assurance. Consistent with the principle that accountability follows authority, the CAE should be accountable for what the CAE controls: the independence, quality, and coverage of the internal audit function, its conformance with professional standards, and timely reporting to the governing body. The CAE does not own the risks or controls that internal auditors review and should not be held accountable for management's performance in those areas. OSFI should clarify how the requirements apply to the CAE in a way that preserves that independence. The guidance should also recognize internal auditors' role in providing the governing body with independent assurance over the institution's adherence to its Accountability Framework, which reflects the CAE's genuine contribution to the regime.

3. **The guidance should include clear definitions of core concepts -** Applying the principle consistently requires a shared vocabulary. We recommend that OSFI clearly distinguish four concepts that are often used interchangeably. Accountability rests with the individual who owns an outcome. Responsibility lies with those who carry out the work. Oversight is the monitoring of that work. Assurance is an independent evaluation of whether it is effective. These distinctions lead to a straightforward test of fairness: no individual should be held accountable for an outcome they lacked the authority, resources, or decision-making power to control.

4. **Assessment and enforcement should be fair and proportionate -** The same principle should govern how accountability is assessed after the fact. Decisions should be judged on the circumstances and information reasonably available at the time, including reliance on appropriate subject matter expertise, escalation processes, and collective decision-making. An adverse outcome should not automatically be attributed to an individual. The proposal refers to disciplinary measures, and we recommend that OSFI clarify the enforcement mechanisms and how consequences will be scaled to the seriousness of a breach, so that outcomes are consistent and predictable.

5. **Implementation should be practical, proportionate, and phased -** A framework built on clear principles also needs to be workable. Developing and maintaining accurate responsibility maps can require significant resources, particularly for large institutions, and OSFI should set out minimum expectations for completeness and reasonableness. OSFI should also phase implementation, for example, by sequencing requirements according to institution size and complexity, so that institutions have adequate time to build and test their frameworks. Institutions should be encouraged to integrate accountability standards within their existing risk appetite statements and governance policies rather than build a parallel structure. We also welcome OSFI's reference to international frameworks, which supports Canada's competitiveness and alignment with global standards; guidance on harmonizing these requirements with other jurisdictions' accountability regimes would reduce duplication for institutions operating internationally.

6. **Public disclosure should remain high-level -** Finally, we recommend limiting public disclosure of accountability frameworks to a high-level description, with detailed frameworks kept confidential.

As the global standard setter for the internal audit profession, The IIA supports OSFI's efforts to strengthen individual accountability in Canada's financial sector. A senior leader regime grounded in the principle that accountability should follow authority, and supported by independent assurance, will strengthen the resilience of Canada's financial institutions and the confidence Canadians place in them. Internal auditors have a direct stake in that outcome. The head of internal audit will be accountable under the regime, and internal audit can give governing bodies independent assurance that accountability frameworks are working as intended.

Should you or your staff have any questions regarding this submission or wish to discuss ways in which the internal audit profession can support OSFI's work, please contact Ryan Singh, IIA Director of Advocacy (Canada), at Ryan.Singh@TheIIA.org.

Thank you for your consideration of our comments.

Sincerely,





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