Autorité
des marchés
financiers

Supervisory Framework for Financial Institutions and Credit Assessment Agents

2026

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Table of Contents

Introduction

Mission of the Autorité des marchés financiers

In its role as regulator, the Autorité des marchés financiers (AMF) acts to maintain a financial sector that is dynamic, operates with integrity and warrants public confidence.

It regulates and supervises, in whole or in part, activities in the following sectors: insurance, deposit institutions, securities and derivatives, distribution of financial products and services, mortgage brokerage and credit assessment.

Mandate of the Surintendance des institutions financières

The mandate of the Surintendance des institutions financières (AMF Financial Institutions) is to:

- Ensure that financial institutions[1] (FIs) and credit assessment agents (CAAs), collectively referred to hereinafter as Regulated Entities, comply with the requirements applicable to them in regard to the right to practice, sound and prudent management practices, sound commercial practices and deposit insurance;
- Assess the financial soundness of Regulated Entities in order to prevent potential solvency issues;
- Develop and revise oversight tools, including regulations, guidelines, standards and notices relating to its area of responsibility; and
- Conduct exercises to simulate stress conditions that may faced by Regulated Entities.

1 Financial institutions include financial services cooperatives, trust companies, savings companies and insurers operating in Québec. This term also includes self-regulatory organizations and reciprocal unions carrying on insurer activities in Québec.

Goals of the supervisory framework

To maintain a financial system that is dynamic, operates with integrity and warrants public confidence, AMF Financial Institutions focuses its supervisory activities using its supervisory framework (Framework).

The Framework describes the AMF's approach in supervising Regulated Entities. The AMF uses a risk-based supervisory approach under which efforts are focused on risks having the most significant potential impacts on financial stability and the protection of client interests. Accordingly, the Framework is dynamic and adaptable to the many changes in the internal and external environments of Regulated Entities and opts for a forward-looking supervisory approach. This supports timely intervention and promotes transparent communications through ongoing dialogue.

However, ultimate responsibility for any decisions that are made regarding sound and prudent management practices and sound commercial practices rests with the board of directors and senior management of the Regulated Entities.

Alignment with domestic and international principles

The supervisory approach draws from the core principles and guidance published by the Basel Committee on Banking Supervision[2] and the International Association of Insurance Supervisors[3]. The AMF plays an active role in key domestic and international regulatory forums, which enables it to, among other things, continuously develop its supervisory approach.

Scope of application

The Framework applies to Regulated Entities governed by the following statutes:

- *Credit Assessment Agents Act,* CQLR, c. A-8.2;
- *Insurers Act,* CQLR, c. A-32.1;
- *Act respecting financial services cooperatives,* CQLR, c. C-67.3;
- *Deposit Institutions and Deposit Protection Act,* CQLR, c. I-13. 2.2;
- *Trust Companies and Savings Companies Act,* CQLR, c. S-29.02.

It applies to Regulated Entities that operate independently or are affiliated with a financial group.

Updates

The AMF continuously adjusts its supervisory approach to reflect best practices, developments in benchmarks and changes in the financial sector. The Framework is updated when a material change is made to the supervisory approach.

2 Basel Committee on Banking Supervision, "Core Principles for Effective Banking Supervision." This organization is part of the Bank for International Settlements (BIS).

3 International Association of Insurance Supervisors (IAIS), "Insurance Core Principles, Standards, Guidance and Assessment Methodology."

Risk-based supervisory approach

Guiding principles

The AMF's supervisory approach:

- **Is supported by the complete set of oversight tools**

  In carrying out its supervisory activities, the AMF ensures that risks are adequately identified and managed by ensuring compliance with the expectations and requirements set out in the oversight tools.

- **Supports forward-looking risk identification**

  The AMF's supervisory approach enables early identification of risks and trends so that issues can be detected quickly and timely action can be taken with Regulated Entities. Supervisory activities can be continuously adjusted to integrate evolving risks.

- **Is focused on risk mitigation**

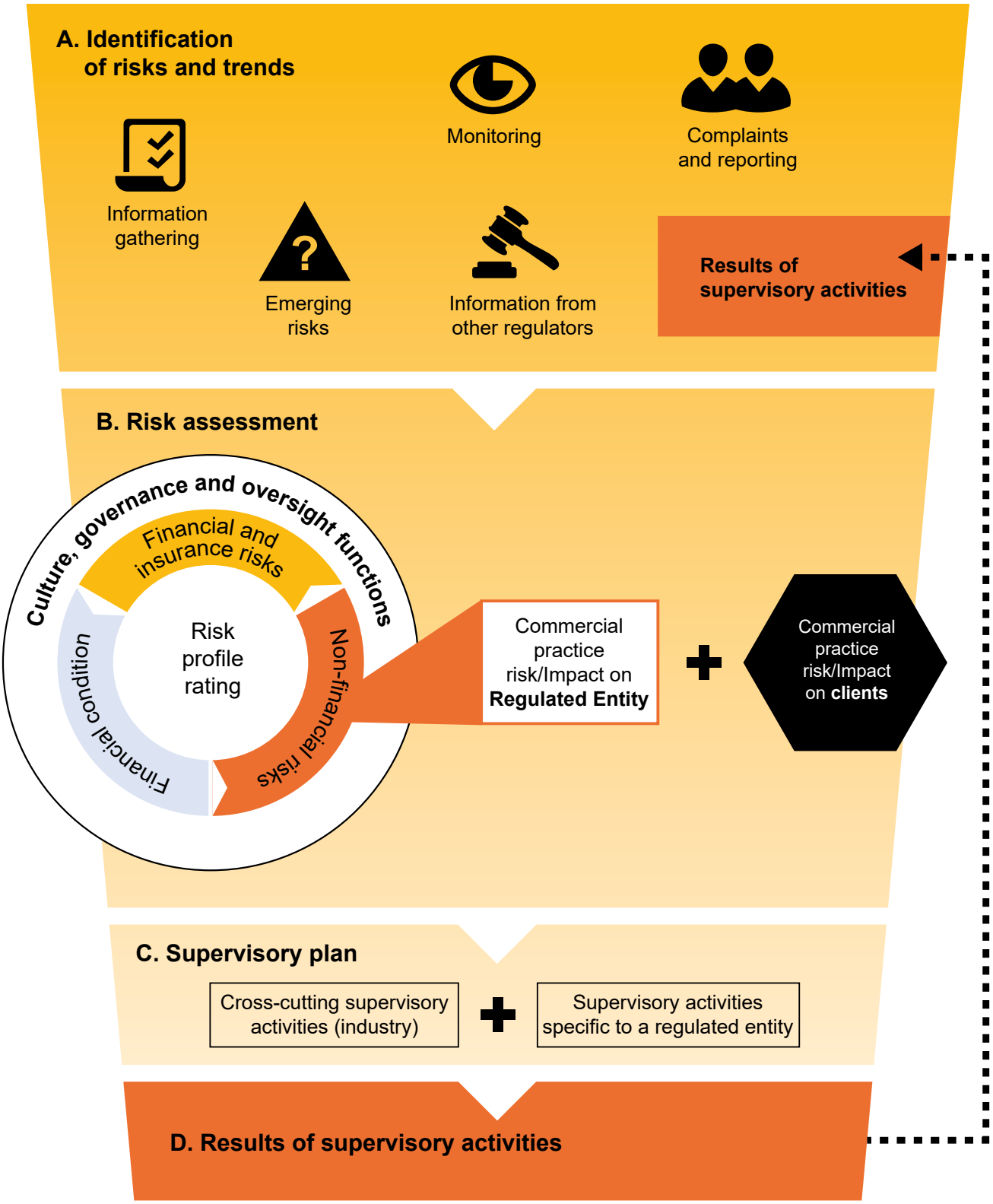
  Since risk-related decisions are the responsibility of a Regulated Entity's senior management and board of directors, the aim of the supervisory approach is to ensure that any measures put in place will reduce the likelihood a significant risk's occurrence and its impact of on the Regulated Entity and its clients. The AMF's supervisory approach therefore helps to reduce, but not eliminate, the likelihood of Regulated Entity failure.

- **Promotes communication and transparency with Regulated Entities**

  The AMF maintains transparent and open communications with Regulated Entities. It provides predictability by communicating regulatory and supervisory developments to Regulated Entities in a timely manner, and Regulated Entities promptly advise the AMF of any new initiatives and any new developments or incidents that could affect their respective risk profiles. The intensity of communications between the AMF and senior management and the board of directors of Regulated Entities may be increased according to the category assigned to them.

Methodology

This section describes the various facets of the approach relied upon by AMF Financial Institutions in conducting its supervisory activities.

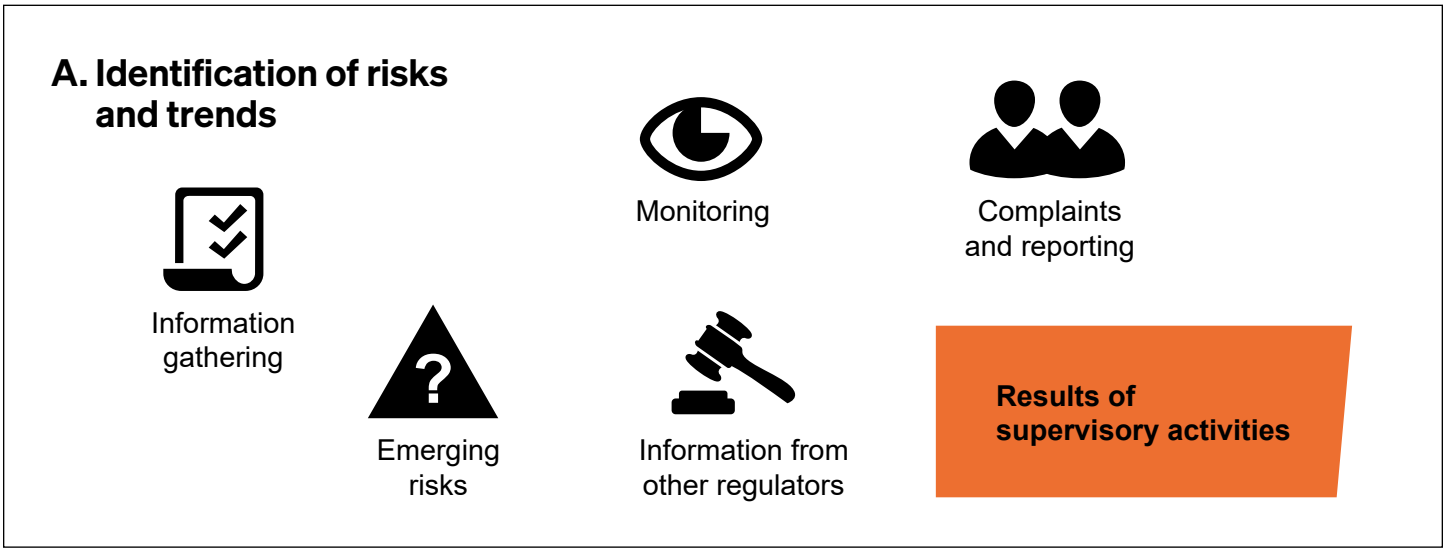


A. Identification of risks and trends

The AMF continuously monitors the internal and external environments of Regulated Entities to ensure that risk identification is current at all times, enabling it to respond proactively. The external environment is monitored for major trends that could result in increased risk exposure, particularly technological innovations and macroeconomic changes. Emerging risks are subject to specific monitoring.

With respect to the internal environment, the AMF identifies and tracks such aspects as changes and trends related to Regulated Entity strategies, products, governance and practices.

In addition to Regulated Entities' risk exposure, the AMF identifies and assesses the impact on clients of risks of inappropriate practices that could adversely affect the fair treatment of clients (FTC).



B. Risk assessment

A risk assessment is performed for each Regulated Entity using a risk profile consisting of four broad components. The impact of commercial practice risk on clients is also assessed.

As mentioned in the section Scope of application, the Framework operates differently for certain FIs and CAAs. CAAs are assessed according to the requirements applicable to them on two of the four risk profile components: Culture, governance and oversight functions and Non-financial risks. The impact of commercial practice risk on clients is also considered. In the case of self-regulatory organizations and reciprocal unions, only the Financial condition facet of the risk profile applies.

Although the risk profile is used by the AMF for internal purposes, its content may, be shared with the Regulated Entity concerned and, in some circumstances, other regulatory bodies.

Risk profile

Component 1 - Culture, governance and oversight functions

Risk management is critical to the conduct of any Regulated Entity's business. It must form an integral part of the entity's culture and the tone must be set by the board of directors and senior management. The quality of risk management, for its part, relies on robust governance and independent and objective oversight functions. The AMF assesses the quality, effectiveness and interactions of the board of directors, senior management and the lines of defence,[4] including the risk management culture. The assessment of these functions is based, in particular, on the expectations set out in the guidelines and compliance with legal, regulatory and normative provisions.

This cross-cutting component is considered in assessing the overall risk profile.

4 The three separate levels of control within a regulated entity that are necessary to effectively manage and control risks.

Component 2 - Non-financial risks

The non-financial risks assessed in this component are:

- operational risk
- information and communication technologies risk
- compliance risk
- the Regulated Entity's commercial practice risk

The Non-financial risk assessment is used to anticipate, prepare for, and respond and adapt to disruptive events in a changing environment in order to deliver operations through disruption, move forward and take away lessons from the experience.

The non-financial risks are defined in Appendix 1.

Component 3 - Financial and insurance risks

The risks assessed in this component are:

- credit risk
- market risk
- liquidity risk
- insurance risk

The Financial and insurance risks are defined in Appendix 1.

Factors considered in the assessment of component 2 and component 3 risks (Financial and insurance risks and Non-financial risks)

- The risk assessment provides an evaluation of the level of exposure and quality of risk management for each risk that is analyzed.
- The level of risk exposure considers the Regulated Entity's business model and external factors. The business model encompasses such things as the Regulated Entity's overall strategy, including its strategic orientations; its risk appetite, including tolerance levels and limits; the products it distributes; and its client base, structure, resources (including the use of third parties) and distribution methods and channels.
- External factors include the various changes likely to occur in a Regulated Entity's external environment, such as economic, technological and regulatory factors and the emerging risks arising from them. Stress testing and Own Risk and Solvency Assessment (ORSA) programs are also considered in this assessment.
- The assessment of the quality of risk management provides assurance that risk management mechanisms are effective as well as an evaluation of the practices in place for identifying, quantifying, controlling and monitoring the risk that is analyzed.

Component 4 - Financial condition

This component considers the Regulated Entity's ability to meet its obligations and to contribute to its long-term viability. It is assessed at three levels: capital adequacy, capital management and capital generation.

Capital adequacy is assessed based on the risks to which the Regulated Entity is exposed and the entity's risk appetite. The assessment includes a review of the quality and quantity of capital and the qualitative and quantitative compliance of capital with laws, regulations, and guidelines. It also includes an assessment, based on crisis scenario severity, of the Regulated Entity's ability to withstand periods of stress.

The capital management assessment considers the Regulated Entity's capital management framework and practices, including the Own Risk and Solvency Assessment (ORSA), the stress testing program, capital target setting, and contingency plan and recovery plan quality, as applicable.

The assessment of capital generation considers the business model's ability to generate sufficient capital to support current and planned operations. This assessment is based, in particular, on an analysis of earnings and capital, as well as financial projections.

The Financial and insurance risks and Financial condition components provide an overall evaluation of a Regulated Entity's financial resilience.

Risk profile rating

After assessing each component, the AMF combines the assessments for the four components to establish the Regulated Entity's risk profile rating. The rating varies from "robust" to "critical" and reflects the impact that a significant risk might have on a Regulated Entity were it to materialize. The rating is based on a scale that gives prominence to deficiencies to be corrected. It is determined using a structured, data-based process that incorporates expert judgment.

Commercial practice risk for clients

Under its supervisory approach, the AMF assesses the client impact of Regulated Entities' commercial practices. The assessment of commercial practice risk for clients is underpinned by a structured, integrated and evolving process that combines the continuous collection of relevant information with an in-depth analysis of practices that could impact FTC.

Risk identification relies on a diversified collection of quantitative and qualitative inputs. The collection includes, without limitation:

- information provided by the Regulated Entities;
- data from prior supervisory activities;
- findings from thematic or issue-oriented reviews;
- information from annual disclosures, reports and reported complaints;
- interactions with various stakeholders;
- proactive monitoring of practices and observed market trends in the industry; and
- monitoring of emerging new risks.

Based on these inputs, the AMF conducts a structured assessment of commercial practice risk for clients. This analysis primarily focuses on: [5]

- clarity and relevance of information provided to clients over the entire product and service lifecycle;
- product design that considers the suitability of a product to the needs and profile of the target client group;
- effectiveness of conflict-of-interest management and complaint processing and dispute resolution mechanisms;
- quality of incentive arrangement management;
- adequacy of the claims handling process; and
- robustness of product and service distribution oversight mechanisms.

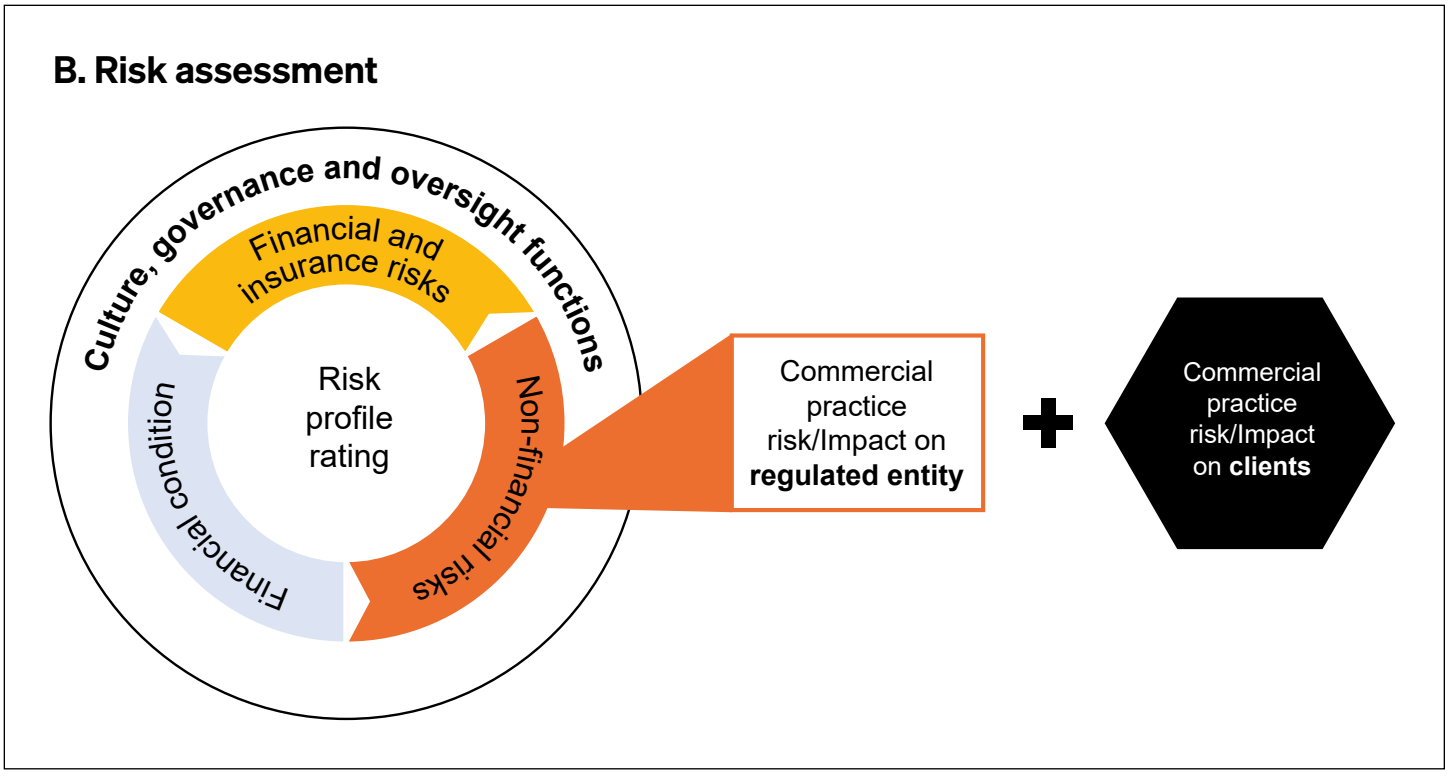
The assessment considers both the magnitude of potential client impacts (financial and non-financial), continued client confidence in the financial markets, and the number and vulnerability of individuals affected.

It also considers the organizational culture with respect to FTC, which is assessed, in particular, by taking into account the robustness of related internal controls and FTC governance.

The commercial practice risk assessment does not focus on an isolated observation but, rather, on an integrated reading of all available information. This approach ensures consistent judgment as to the risk an institution's commercial practices represents for clients and is used to determine the level of intensity and nature of supervisory interventions.

Updating the risk assessment

The risk assessment is updated continuously taking into account various inputs, including monitoring, analysis, supervisory activities and any other changes in a Regulated Entity's internal or external environment. When the assessment is updated, the supervisory strategy is adjusted to consider the most significant risks.



5 Comprehensive expectations are set out in the laws, regulations and guidelines administered by the AMF.

C. Supervisory plan

Categorization

The AMF assigns a category to each Regulated Entity based, in particular, on its size, complexity and systemic importance. The categories enable Regulated Entities to be classified according to the impact that the materialization of certain risks could have on the financial system and the protection of clients' interests. They guide the AMF in determining the nature and scope of supervisory efforts. Other factors are considered in prioritizing supervisory activities, as illustrated in the diagram of the supervisory approach on page 10.

Ongoing discussions

The AMF holds ongoing discussions with Regulated Entities. The discussions are an opportunity to share information about the risk environment and trends, including emerging risks, as well as about the Regulated Entity's own risk assessment.

The discussions may take place in meetings with the board of directors, senior management and persons in charge of oversight functions.

Supervisory plan

The AMF prepares a yearly supervisory plan that considers a range of criteria, including risk and trend identification, risk assessment and categorization.

The plan is meant to be dynamic. It is revised quarterly or as needed when an event occurs in the Regulated Entity's internal or external environment.

Supervisory activities

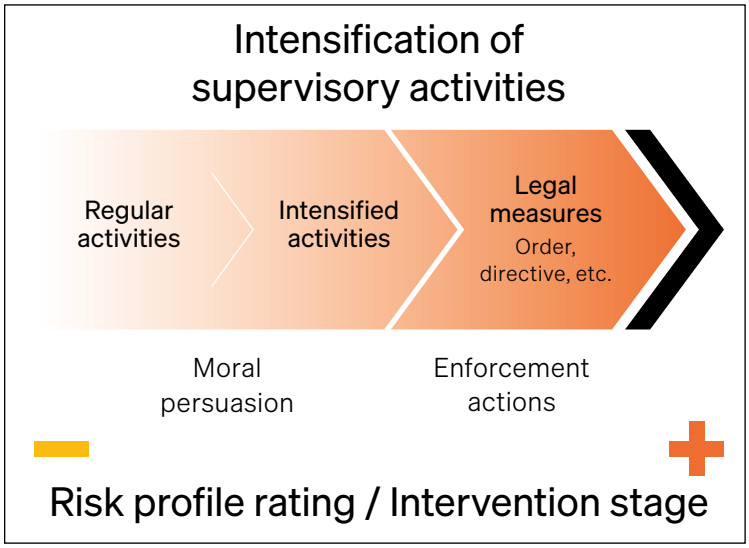
The following key principles underpin and guide the AMF's supervisory activities:

Gradation of supervisory activities

Supervisory activities are intensified when the measures put in place by the Regulated Entity do not mitigate risks to solvency, FTC or business continuity to an acceptable level. This gradation will be reflected in the AMF's determination of the risk profile and intervention stage.

At higher intervention stages, activities[6] and other measures set forth in applicable legislation are intensified and, where an insurer is involved, discussions with compensation bodies (Assuris and the Property and Casualty Insurance Compensation Corporation (PACICC)) are more frequent.

In the specific case of a domestic systemically important FI, increased supervision and capital and liquidity requirements are automatically implicit in the designation. The law grants the AMF specific powers for this purpose.



Accountability of Regulated Entities

The Regulated Entities are responsible for demonstrating that they have put in place sound and prudent management practices and sound commercial practices. The AMF assesses the quality and effectiveness of a Regulated Entity's lines of defence, senior management and governance bodies. These functions are assessed against the expectations set out in the AMF's guidelines. The AMF may also address aspects that are more operational in nature, such as client-facing documentation and processes, when assessing the Regulated Entity's commercial practices.

6 For more information concerning the measures and actions that may be taken with Regulated Entities, please refer to the *Intervention Guidelines for Authorized Deposit Institutions*, the *Intervention Guidelines for Québec P&C Insurers and PACICC Member Companies* or the *Intervention Guidelines for Québec Life Insurers and Assuris Member Companies*.

Information confidentiality

In the course of the AMF's supervisory activities, the Regulated Entities are required to disclose confidential and sensitive information. Information confidentiality is of the utmost importance for the AMF, and it therefore implements measures to protect the information it obtains in the course of its activities. Such information includes any recommendations or reports by the AMF relating to the Regulated Entities and, conversely, any report prepared by a Regulated Entity at the AMF's request. Discussions between the AMF and the Regulated Entity's directors, officers and managers regarding such information are also protected by laws and regulations. Furthermore, such information may not be disclosed by a Regulated Entity as part of civil or administrative proceedings except as permitted by law.

Coordination of activities and sharing of information

In certain situations, information may need to be shared or actions coordinated with other Canadian or foreign regulators or with compensation corporations. The AMF has ratified memorandums of understanding that formalize the framework for sharing information and that support the respective roles of the signatories in the areas of prudential policy, supervision and resolution.

Work of third parties

The AMF also relies on the work of third parties, such as the Regulated Entity's external auditor, when it deems it appropriate.

Nature of the activities

Supervisory activities are carried out on an ongoing basis and can take various forms, including an analysis of periodic disclosures or ad hoc requests (financial or non-financial), self-assessments, questionnaires, periodic meetings with various Regulated Entities, specific mandates, or follow-up of previous recommendations.

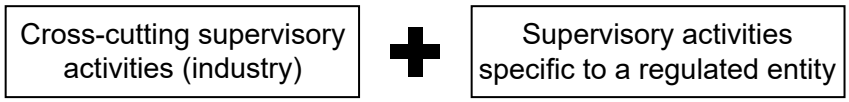
In connection with its activities, the AMF is authorized by law to request any information or document that it needs to review the activities of a Regulated Entity or the industry.

Activities resulting from a risk assessment may cover multiple Regulated Entities at the same time or focus on one Regulated Entity. Supervisory activities may be conducted in a coordinated manner with other regulators.

Coordination of communications

Various channels of communication may be established depending on the nature of the supervisory activities and the size of the Regulated Entity. To ensure effective coordination of communications, the AMF designates a person to be in charge of relations with the Regulated Entity, whom the Regulated Entity can contact at any time.

C. Supervisory plan



D. Results of supervisory activities

The AMF communicates the results of its supervisory activities by various means (reports, letters or other means that are deemed appropriate).

When a supervisory report is prepared, the information communicated usually consists of a summary of the supervisory activities carried out, an overall assessment, expectations and observations, and recommendations prioritized according to the degree of urgency of the expected corrective actions.

The results of a supervisory activity are usually sent to the chief executive officer of the Regulated Entity with a copy to the chair of the audit committee or another board committee and to the Regulated Entity's attorney, where applicable.

Before being finalized, the observations and recommendations are presented to and discussed with the Regulated Entity's senior management in a verbal exchange. The AMF may, if it deems necessary, meet with the Regulated Entity's board of directors to present the report's contents and discuss other supervisory matters, including its evaluation of the Regulated Entity's financial condition, degree of cooperation and culture.

With respect to supervisory activities that are industry-wide in scope, the AMF may publicly communicate the overall results of its supervisory activities when it deems appropriate. Proceeding in this way helps highlight the AMF's observations and recommendations, promote good practices in the industry and raise client awareness. It also helps Regulated Entities benchmark themselves to their peers and identify areas for improvement.

The AMF may also contact the Regulated Entity annually to share its in-progress risk assessment and recommendations.

Prioritization of recommendations

The recommendations are generally prioritized from "low" to "very high" based on the degree of urgency of the corrective measures that are expected to be taken with respect to such aspects as:

- the implementation and application of policies and procedures
- compliance with internal and external rules governing the Regulated Entity
- internal controls
- management practices and commercial practices
- the role of the oversight functions represented by the lines of defence, senior management and the board of directors
- financial condition

The recommendation prioritization scale is presented in Appendix 2.

Action plan in response to the AMF's recommendations

Generally, the Regulated Entity must respond to the recommendations by presenting an action plan, with a timetable, within 45 days of the date the communication is received.

The action plan must be drafted by a representative of the Regulated Entity's senior management and then approved by the Regulated Entity's board of directors or a board committee when required by the AMF. Depending on the importance of the recommendations and/or the response provided, either a shorter timetable or corrective actions in addition to or different from those presented in the action plan may be required.

The AMF follows up on action plan progress to ensure that actions are coherent, adequate and implemented according to the timetable provided in the action plan. As part of this follow-up, the Regulated Entity must provide supporting documents and evidence demonstrating implementation of the action plan. Any changes made to the corrective actions and/or the timetables in the action plan must be communicated to the AMF.

Appendix

Appendix 1 – Risks included in the profile

The following are the definitions of the risks addressed systematically in the risk profile. It is not an exhaustive list of the risks faced by regulated entities. In its activities and analyses, the AMF considers risks other than those indicated here.

Credit Risk

Credit risk is the risk of loss if a borrower or counterparty does not meet its financial or contractual obligations. This risk arises from uncertainty about the counterparty's or client's capacity or willingness to meet its obligations. Counterparties include issuers, debtors, brokers, underwriters, reinsurers, guarantors, and the contracting parties for OTC derivatives.

Market Risk

Market risk is the risk of loss from changes in market prices, interest rates, foreign exchange rates, credit spreads, the correlations among them and their levels of volatility. Exposure to this risk may result from trading, asset-liability management, investment and other activities that create on- and off-balance sheet positions.

Liquidity Risk

Liquidity risk results from the inability to obtain the funds needed to meet its financial obligations in a timely manner at reasonable prices by either disposing of its assets or increasing its liabilities. Financial obligations include liabilities to depositors and policyholders, payments due under derivatives contracts, settlement of securities borrowing and repurchase transactions, lending and investment commitments, and any other on- or off-balance sheet payments due.

Insurance Risk

Insurance risk is the risk that paying out benefits and other amounts to policyholders or beneficiaries on insurance contracts in excess of expected amounts in order to meet commitments under such contracts will affect financial condition. Exposure to this risk results from adverse events or uncertainties that could affect cash flows related to contracts, excluding risks associated with investment activities.

Operational Risk

Operational risk is the risk of loss due to the inadequacy or failure of processes or systems, human error or external events. This definition includes legal risk[7].

7 Legal risk is the risk of harm to which a regulated entity is exposed due to the application of a legal standard or the performance of a contractual commitment in combination with the occurrence of an event (internal or external) that could impact its civil, contractual or penal liability.

Information and Communication Technologies (ICT) Risk

ICT risk is business risk arising from the ownership of, use of and reliance on ICT, networks and/or connected objects, data and electronic communications. This includes outsourced technology.

Compliance Risk

Compliance risk is the risk of potential legal, administrative or disciplinary sanctions or penalties arising from failure to meet expectations or requirements relating to legal or regulatory compliance. This risk does not include ethical risks.

Commercial Practice Risk

Commercial practice risk is the risk of economic loss or other adverse consequences for the Regulated Entity or the financial system as a whole if a Regulated Entity does not treat clients fairly in its dealings with them or causes them harm.

Appendix 2 – Prioritization of recommendations

Priority	Description
Low	The recommendation concerns one or more deficiencies that are not expected to have a material impact on the assessment of one or more components of the Regulated Entity's risk profile but that require improvement. The AMF will require that corrective actions be taken in accordance with the timetable established by the Regulated Entity.
Medium	The recommendation concerns one or more deficiencies that are not expected to have a material impact in the short term on the assessment of one or more components of the Regulated Entity's risk profile. The AMF will require that corrective actions be taken in accordance with the timetable established by the Regulated Entity.
High	The recommendation concerns one or more repetitive deficiencies or deficiencies with a material impact that may, if not addressed, change the assessment of one or more components of the Regulated Entity's risk profile. The AMF will require that corrective actions be taken within the prescribed time periods. If the AMF considers it necessary, the action plan will need to be approved by the board of directors or a board committee.
Very high	The recommendation concerns one or more deficiencies with a material impact that may, if not immediately addressed, change the assessment of one or more components of the Regulated Entity's risk profile. The action plan will need to be carried out within the time periods prescribed by the AMF, which will assess the actions taken and may require adjustments. The action plan will also need to be approved by the board of directors or a board committee.

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