



Financial Consumer
Agency of Canada

Agence de la consommation
en matière financière du Canada

Value for Canadians



ANNUAL REPORT 2003 - 2004



Protecting Consumers  Informing Canadians

Canada 

Our mission

The Financial Consumer Agency of Canada is committed to improving Canada's financial marketplace by:

- supervising financial institutions efficiently and effectively with respect to meeting their obligations to consumers; and
- providing information that enables consumers to understand their rights and make informed financial decisions.

Contact information

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Enterprise Building
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Ottawa, Ontario K1R 1B9

September 22, 2004

The Honourable Ralph E. Goodale, P.C., M.P.
Minister of Finance
House of Commons
Ottawa, Ontario K1A 0M6

Minister:

I am pleased to submit to you the annual report of the Financial Consumer Agency of Canada for the period from April 1, 2003, to March 31, 2004, its second full year of operations.

Yours truly,

A handwritten signature in blue ink, appearing to read "William G. Knight".

William G. Knight
Commissioner

cc: The Honourable John McKay, P.C., M.P.
Parliamentary Secretary to the Minister of Finance

Canada



Letter from the *Commissioner*

The Financial Consumer Agency of Canada has now completed its second full year of operations. For us, the highlight of this year was undoubtedly the implementation of the Access to Basic Banking Services Regulations on September 30, 2003. These regulations established the legal right of Canadians to have access to basic banking services, including the right to a personal deposit account.

The new regulations now give the Agency the complete legislative authority to fulfil its mandate, which is to inform Canadians about their rights and responsibilities in the financial marketplace, and to supervise financial institutions in order to ensure that they meet their obligations to consumers. By carrying out its mandate and enforcing the new regulations, the Financial Consumer Agency of Canada provides value for both Canadians and the marketplace.

The evidence of this value is compelling. The Agency's activities are driven largely by a steadily increasing consumer demand for our services, a clear indication that Canadians are eager to obtain the help and information we offer them.

During 2003–04, requests for our print publications nearly doubled from the previous year, and there was an almost fivefold increase in downloads of electronic publications from the Agency's Web site.

The Financial Consumer Agency of Canada's relationship with Canadians provides an early warning system that alerts us to potential problems involving regulations or voluntary codes of conduct. As a result, we can take a proactive approach to such problems, dealing with them before they affect large numbers of people. This adds significantly to the value provided by the Agency since a Commissioner's decision in a single case can affect the financial situations of tens, or even hundreds, of thousands of Canadians.

During 2003–04, I made numerous decisions that demonstrated the Agency's vigorous enforcement of the regulations. Canadians expect a fair and competitive marketplace, and my decisions have reflected the Financial Consumer Agency of Canada's commitment to Canadian consumers.

Decisions during the past year touched on a number of important consumer rights and issues, including:

- coercive tied selling;
- failure to accurately disclose the cost of borrowing;
- failure to disclose credit card interest rates;
- failure to disclose mortgage rates;
- failure to display notices of charges; and
- failure to provide notice of branch closure.

My decisions resulted in the issue of numerous Letters of Reprimand, Compliance Agreements, Notices of Violation and an Administrative Monetary Penalty of \$50,000 (which is currently under appeal).

During the fiscal year 2004–05, our primary focus will be on compliance. We will strictly enforce the *Access to Basic Banking Services Regulations*. We will let consumers and financial institutions know that Canadians have the right to basic banking services, and that these rights must be respected.

At the same time, our enforcement of the regulations will be transparent. If we identify a violation that could have a far-reaching effect on consumers, we will inform the public as soon as a Commissioner's decision is final.

We will also continue to build partnerships that can help us reach Canadians and ensure that they recognize their entitlement to basic banking services. Among other initiatives, we will be working with organizations that seek to help vulnerable Canadians, especially those with lower literacy skills. In addition, we will be looking into the problems related to the obligations that banks have toward small businesses.

As I look back on what we achieved during 2003–04, I am impressed and delighted by the positive response of thousands of Canadians to the Agency's efforts. Their willingness to bring their concerns to our attention has contributed enormously to our success in fulfilling our mandate. A strong partnership has developed between the Financial Consumer Agency of Canada and Canadians; this is one of our major achievements.

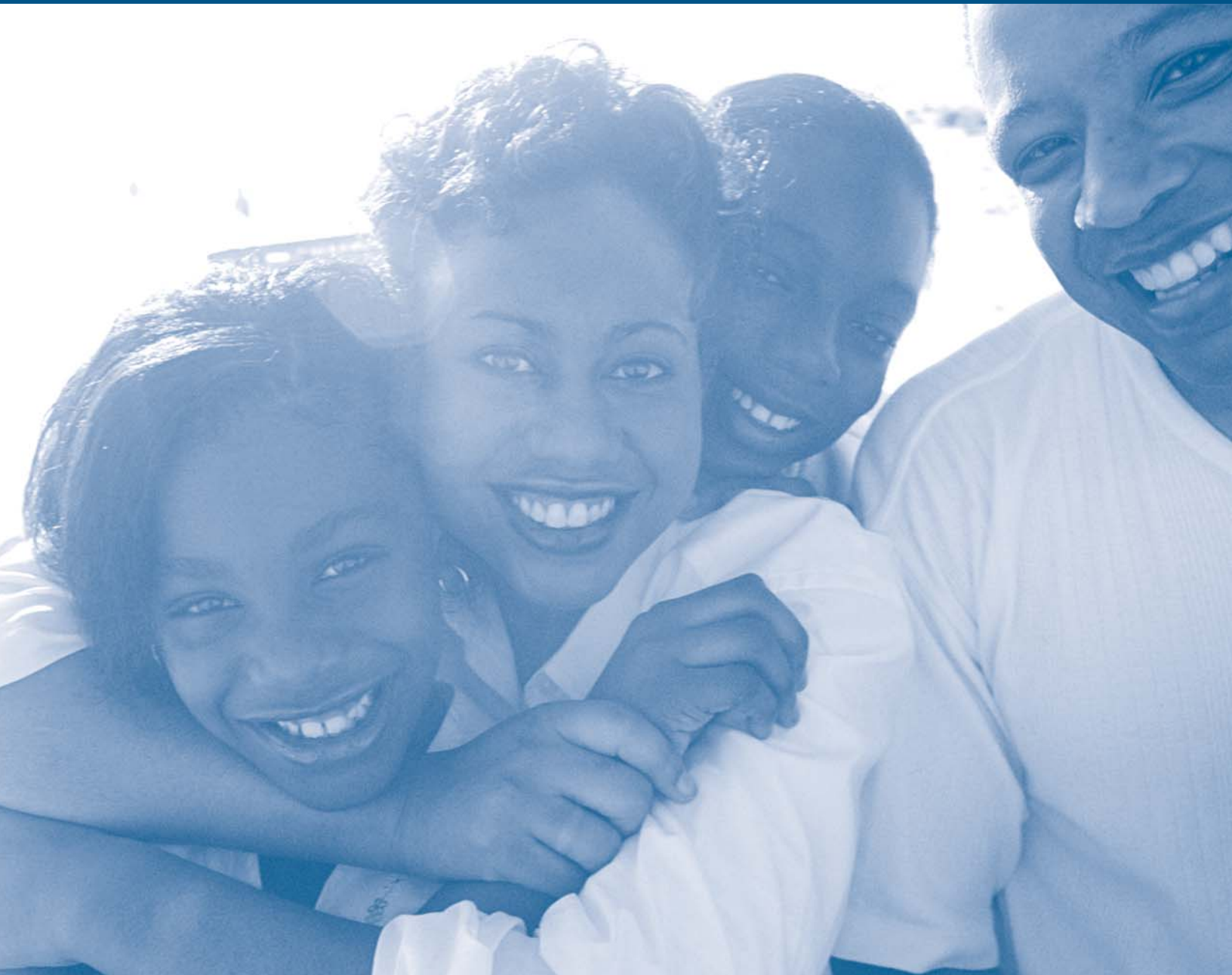
I wish to thank our many other partners and stakeholders, including the financial institutions we regulate, for their valuable contributions to creating a better financial marketplace for both industry and consumers.

In closing, I would like to acknowledge the outstanding work of the Agency's experienced, energetic and innovative staff during the past year. Without the dedication they have shown to the Financial Consumer Agency of Canada and its mission, our success would not have been possible.



William G. Knight, Commissioner
Financial Consumer Agency of Canada





The year in **review**

Overview

Canadians want to make their own choices about their financial affairs. At the same time, they see the importance of government supervision of financial institutions to ensure consumer protection. The Financial Consumer Agency of Canada (FCAC) is of notable value to Canadians because we help satisfy both needs.

At FCAC, our vision is a fair and competitive financial marketplace in which Canadians can easily obtain reliable, objective information to help them make informed financial decisions. We also believe in a marketplace where financial institutions meet their obligations to consumers, where transparency is the rule rather than the exception, and where non-compliance is dealt with swiftly and effectively.

The mandate of the Agency, along with the way in which it fulfils its mission of informing and protecting consumers, distinguishes it sharply from the mediation or ombudsperson services offered by the banks and other financial institutions. Such services are based solely on complaints received. They come into play after a consumer has encountered problems with the institution, and they respond to the specific consumer's situation. In contrast, FCAC's strategy is more proactive. We work to identify potential problems before they arise and then take pre-emptive measures to keep them from affecting large numbers of people.

Helping Canadians make informed decisions

FCAC is a gateway to plain-language information that lets consumers know their rights and responsibilities in the financial marketplace clearly and definitively. Equipped with this information, consumers can choose the financial tools and strategies that best suit their needs.

The significant growth in consumer requests for our print and electronic publications demonstrates how successful we have been in this area. Our distribution of printed brochures and booklets has nearly doubled, from 50,115 items during 2002–03 to 91,381 items during 2003–04. Downloads of Web-based information materials rose from 45,616 in 2002–03 to 221,682 — an increase of almost 500 percent.

Listening to Canadians

FCAC is listening and responding to consumers. We create our consumer education materials to address trends in the inquiries and complaints that we receive; in this way we can pinpoint and fill information gaps in the marketplace. Consumers are proving to be eager for the information we offer. During 2003–04, consumers contacted us a total of 17,880 times, compared with 14,505 times in 2002–03.

Improving the financial marketplace

FCAC is setting standards that improve the financial marketplace. We are moving toward greater transparency and disclosure, and are working with financial institutions to make sure that they provide complete, accurate and understandable information to consumers. We are also taking measures to ensure that the compliance framework we have put in place with the financial institutions is up to date.

Internally, we are setting standards for our own service performance. The results have been excellent: according to an independent survey carried out in late 2003, consumer satisfaction with FCAC is very high. Nearly 9 out of 10 survey respondents who used our Consumer Contact Centre felt that the staff they dealt with performed their jobs very well.



Consumer Education and Public Affairs Branch

Informing Canadians

During 2003–04, FCAC’s Consumer Education and Public Affairs Branch concentrated on increasing Canadians’ awareness of the new banking access regulations and advising consumers about how they can obtain information that will help them make wise financial choices.

Information products and tools for Canadians

In 2003–04, the Branch greatly expanded efforts to distribute consumer information material to various audiences, including consumers, consumer groups, Parliamentarians, libraries and financial institutions.

Consumer guides

The Branch’s two consumer guides, *Credit Cards and You* and the *Cost of Banking Guide*, continued to be in high demand during 2003–04.

- ***Credit Cards and You***

The Branch published two issues of this very popular guide in the past fiscal year. To make it as easy as possible to use, the publication was redesigned in January 2004 as a kit containing four plain-language booklets and 10 tables

describing different types of credit cards. The kit also includes an interactive worksheet that consumers can use when shopping for a credit card, plus a glossary of credit card terms.

The four booklets in the kit are:

- *Getting the Most from Your Credit Card: Understanding the Terms and Conditions*
- *Your Rights and Responsibilities: The Cost of Borrowing with a Credit Card*
- *Managing Your Money: How to Save with a Credit Card*
- *Playing it Safe: How to Protect Your Credit Card and Credit History*

The 10 tables compare the features and fees of different credit cards, such as standard and low-rate cards, student cards, secured cards, and gold or platinum cards.

- ***Cost of Banking Guide***

This user-friendly guide describes virtually all the banking service packages available from 14 Canadian financial institutions. It helps consumers compare the packages and choose the one that best suits their needs.

The interactive guide was designed in both Web and easy-to-use print formats. Both versions include information about student, youth, seniors' and low-fee accounts, and they provide tips and information to help consumers reduce their monthly banking fees.

Brochures and booklets

In its ongoing effort to promote awareness of the obligations of financial institutions and the responsibilities of consumers, FCAC published several new brochures and booklets:

- *Opening a Personal Bank Account*
- *Cashing Your Government of Canada Cheque for Free*
- *Your Rights and Responsibilities: What you should know when you open a bank account*
- *Considering an Investment Product Tied to the Stock Market's Performance? What you should know about index-linked deposits sold in Canada*
- *What you should know if your branch closes*

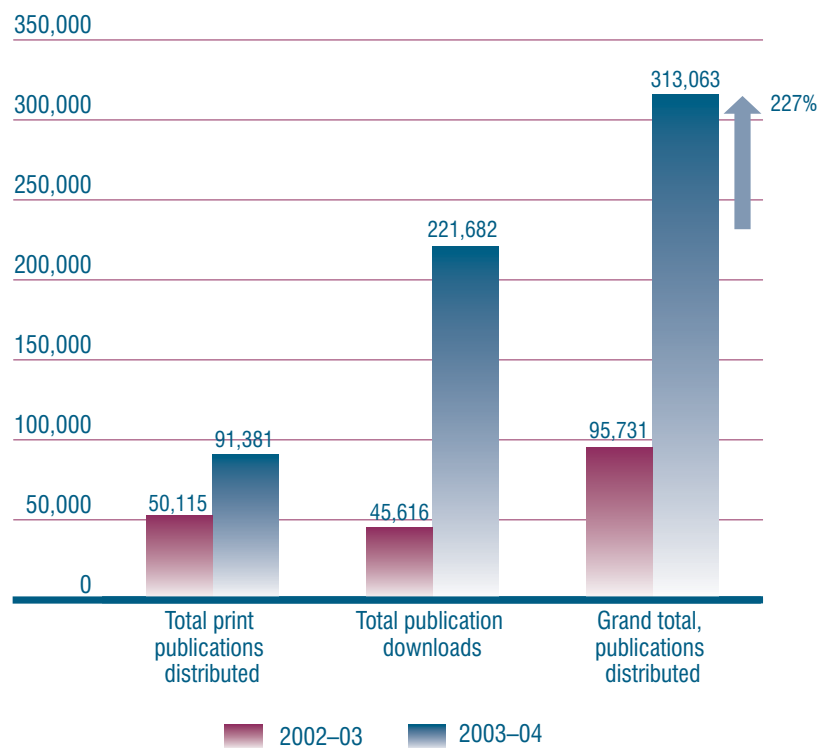
FCAC continued to distribute four previously published brochures, in both print and electronic format:

- *Protecting your interests*
- *Working to educate and protect consumers*
- *A new approach to helping consumers*
- *What you don't know can affect you*

The Branch also produced a new outreach poster to inform consumers about FCAC. Copies were distributed across Canada through various FCAC outreach partners (see "Outreach initiatives," p. 14).

Chart 1 shows the dramatic increase in the number of publications distributed by FCAC in print and through downloads from its Web site. The volume rose by a startling 227 percent in the past fiscal year.

Chart 1: Distribution of FCAC publications



Understanding the needs of lower-income, lower-literacy Canadians

To fulfil its mandate of protecting and informing consumers, FCAC must ensure that they fully understand the information given to them by the Agency.

During 2003–04, FCAC conducted several focus groups with lower-income and lower-literacy consumers to find out how they reacted to the Agency’s basic printed consumer-education materials. English- and French-speaking participants in Saint John, Montréal, Toronto and Vancouver viewed two FCAC publications — *Opening a personal bank account* and *Cashing your Government of Canada cheque for free*. The materials were written in plain language. Each publication was presented in three formats: as a brochure, a booklet and an information sheet.

The focus groups helped the Agency understand how these consumers use and comprehend its materials, and how the information can be made more accessible to them. The data obtained will be invaluable in the future development of materials for this audience. As a first step, we will revise the test brochures to incorporate lessons learned.

As the focus group exercise demonstrates, FCAC wants as many Canadians as possible to understand its publications. In pursuit of this goal, FCAC has established an editorial board to review specific publications and ensure that they meet plain-language standards.

We have been working as well with the Fédération canadienne pour l’alphabétisation en français. This organization has helped us assess the literacy levels of

our publications and has provided recommendations on how to make them more accessible to lower-literacy consumers.

Web site resources

The most frequently visited part of the FCAC Web site was the “For Consumers” section, followed by “Publications” and “Compliance Information.”

During the past year, the site averaged close to 700 visitors per day, nearly double the daily average for the previous year. There were over 250,000 visits to the Web site during 2003–04, up from approximately 132,000 in 2002–03 (see Chart 2, p. 12).

Since the launch of FCAC’s Web site in October 2001, there has been a steady rise in the number of visits per month (see Chart 3, p. 12). The peak month in the past fiscal year was January 2004, with 32,555 visits following the launch of the redesigned *Credit Cards and You*.

The documents and tools most often requested through the Web site in 2003–04 were *Credit Cards and You*, the *Cost of Banking Guide*, the *Annual Report* and the *Consumer’s Guide to Basic Banking Services*. There were 221,682 downloads of FCAC publications from the site, nearly five times the figure for 2002–03.

FCAC’s Web-based resources are described in the following sections.

Commissioner’s decisions

Since fall 2003, FCAC has posted on its Web site the final decisions made by the Commissioner on compliance cases involving a violation of the regulations or non-adherence to a code of conduct or public commitment. By making the decisions public, FCAC is meeting its objective of transparency and disclosure.

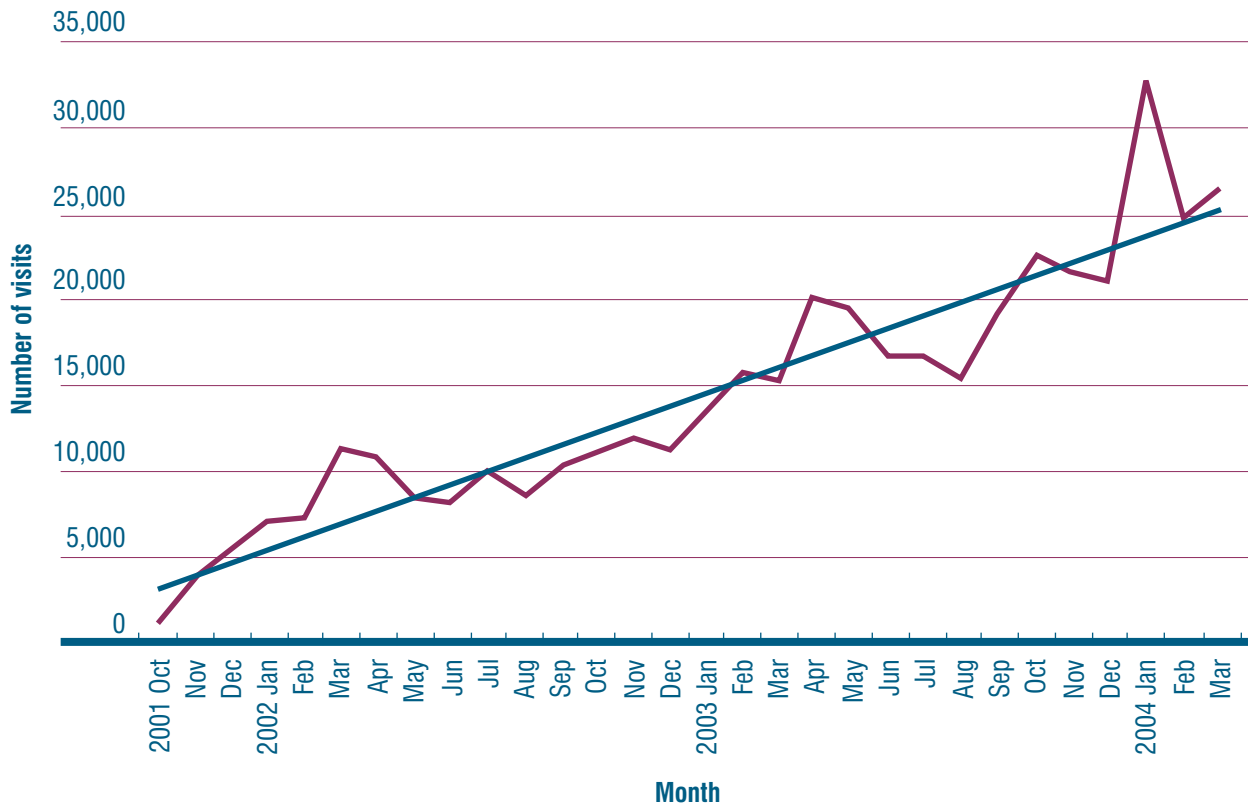
Chart 2: FCAC Web site usage

	Fiscal year		
	2001-02 ¹	2002-03	2003-04
Number of visits ²	34,718	132,197	254,854
Average number of visits per day	190	362	696
Average length of time per visit (minutes) ³	00:16:27	00:13:38	00:11:51
Median length of time per visit (minutes) ⁴	00:02:14	00:02:23	00:02:33

New interactive tools and quizzes	Number of visits, 2003-04
Rights and Responsibilities Quiz	3,412
Credit Card Quiz	3,181
Mortgage Quiz	10
Cost of Banking tool	14,744
TOTAL VISITS, INTERACTIVE TOOLS AND QUIZZES	21,347

- Figures are for the period of 5½ months from the opening of the Agency on October 14, 2001, to March 31, 2002.
- The **number of visits** is the total number of times that visitors came to FCAC's site. If a visitor is idle longer than the idle-time limit, it is assumed that the visit has been voluntarily terminated. If the visitor continues to browse the site after reaching the idle-time limit, a new visit is counted. The default idle-time limit is 30 minutes.
- The **average length of time per visit** is the total time spent on the site divided by the total number of visits.
- The **median length of time per visit** is the midpoint at which half the visit lengths are longer and half are shorter. This number is often closer to the typical visit length than is the average visit length.

Chart 3: FCAC Web site visits per month, since launch



Web-only guides and updates

• **ABM Fee Updates**

The Consumer Education and Public Affairs Branch continued its research on automated banking machine (ABM) fees and produced a consumer update on fees for ABM cash withdrawals.

• **Mortgage Facts and Tips**

This is a mortgage guide for consumers, covering:

- what consumers should know before applying for a mortgage;
- consumers' responsibilities related to mortgages;
- consumers' federal rights related to mortgages;
- what consumers should know after applying for a mortgage;
- the terms and conditions of mortgages; and
- ways of paying off a mortgage more quickly.

• **Protecting Yourself Against Debit Card Fraud**

This brochure, which was developed jointly with Industry Canada, is available both from that department's Web site and through a link from the FCAC Web site. It tells consumers what to do if they fall victim to debit card fraud and provides information about liability issues.

FCAC will provide access to an updated version of the Canadian Code of Practice for Consumer Debit Card Services as soon as amendments to the existing industry code come into force. FCAC is an observer on the Electronic Funds Transfer working group, which includes representatives of the federal government, provincial governments, financial institutions and industry. The group meets to review the code and make amendments, where warranted; the aim is to ensure that the code protects consumers and reflects current market practices.

• **Low-Cost Accounts**

This brochure describes the low-cost bank accounts available at eight Canadian financial institutions, and the features of each.

Interactive tools

• **Cost of Banking Guide**

Regularly updated, this guide allows users to enter their geographic location and consumer category. Once they do this, the guide tells them what banking service packages are available in their region for their particular needs. They can then compare packages and choose the one that suits them best.

• **Mortgage calculators**

During 2003–04, FCAC developed a Web-based mortgage calculator. The new Mortgage Qualifier Calculator:

- helps consumers determine whether they qualify for the home they want to buy, on the basis of their current income and debt levels;
- outlines how lenders calculate the ratios that help them decide whether a consumer qualifies for a mortgage; and
- provides tips for consumers on what to do if the calculator indicates that they do not qualify for a mortgage.

Quizzes

The Branch introduced two new interactive Web-based quizzes during 2003–04. The Credit Card Quiz and the Mortgage Quiz are plain-language products that help consumers learn about the quiz subject and their rights under federal law.

Questions and Answers

Located within the “For Consumers” section of the Web site, the “Questions and Answers” page is one of the most comprehensive databases of its kind in Canada, allowing consumers to search for financial information related to their particular interests. Nearly 7,000 visitors took advantage of this resource in 2003–04 — a very strong indicator of its success.

Outreach initiatives

FCAC is a small and relatively new organization. Outreach consequently is an extremely important part of our strategy to inform and protect Canadian consumers across the broadest possible economic, social and geographic spectrum.

The two most important factors in the dramatic success of our outreach program have been the unstinting help our partners gave us by distributing materials concerning the *Access to Basic Banking Services Regulations*, and the hard work of the FCAC outreach team coordinating the program. Nearly half the publications we distributed during 2003–04 were the two brochures created by FCAC to explain the regulations, which apply to opening personal bank accounts and cashing federal government cheques.

Protecting vulnerable Canadians

Canadians with lower incomes or lower levels of literacy were among the key groups targeted by FCAC’s outreach efforts during 2003–04.

To help us reach them, we looked for partners such as federal departments and not-for-profit organizations that were serving similar clients and with which we could forge strategic alliances. One indicator of the scope of our outreach program is that through it we distributed nearly 68,000 booklets and brochures.

In addition, there were large numbers of people to whom we spoke at community-based information sessions, trade shows, schools and conferences.

Government

• *Human Resources Development Canada*

In August 2003, FCAC began a pilot project with the former Human Resources Development Canada (HRDC). This included displaying FCAC information materials in HRDC offices in Winnipeg and using them in HRDC community outreach activities in southern Manitoba.

The response was positive and hundreds of publications were distributed. The project came to the attention of Service Canada program managers at HRDC headquarters. As a result, Service Canada outlets across the country began to stock the FCAC brochures *Opening a Personal Bank Account* and *A new approach to helping consumers*. In March 2004, FCAC was the “Feature of the Month” at Service Canada outlets nationwide, and thousands of FCAC brochures were distributed.

• *Canada Revenue Agency*

The former Canada Customs and Revenue Agency, now the Canada Revenue Agency (CRA), has extensive outreach operations; an example is the Community Volunteer Income Tax Program, which helps lower-income Canadians complete their tax returns. In late 2003, FCAC approached the CRA with an outreach proposal; the result was that the CRA distributed thousands of FCAC brochures about the new *Access to Basic Banking Services Regulations*.

During 2004–05, FCAC will take part in another CRA program: Teaching Taxes provides materials to help 5,000 high school teachers educate students about Canada’s tax system. Teachers will be invited to offer their students FCAC publications on credit cards and banking service packages that include information specifically for students.

- **Provincial ministries**

Late in 2003, FCAC made a special effort to reach out to all provincial ministries of social services. The reason was that the new banking access regulations may make it easier for lower-income Canadians to open bank accounts, to which their benefit payments could then be deposited directly. The goal was to place FCAC’s basic information — especially the access-to-banking brochures — in all provincial social service offices.

FCAC also undertook outreach to provincial consumer affairs ministries. The aim was to ensure that there were complete and up-to-date reciprocal links on their Web sites and ours, and that their call centres had information about FCAC. These initiatives will continue in 2004–05.

Non-governmental organizations

FCAC has begun to develop partnerships with various non-governmental organizations (NGOs) that serve lower-income Canadians. These include not-for-profit credit counselling agencies and public legal education and legal aid providers, such as the Public Legal Education Association of Canada and the People’s Law School in Vancouver. Once again the focus is on informing Canadians about their rights, especially those related to the banking access regulations.

For example, in a keynote address to the annual meeting of Credit Counselling Canada (CCC), the FCAC Commissioner expressed a desire for CCC and FCAC to work together to improve the financial literacy of less-educated and lower-income Canadians.

CCC members belong to provincial bodies, including the Ontario Association of Credit Counselling Services (OACCS). In October 2003, FCAC launched an initiative in which OACCS displayed FCAC brochures in its offices and used FCAC publications as resource materials. This initiative was expanded in early 2004 to include CCC members in Alberta, British Columbia, New Brunswick, and Newfoundland and Labrador.

FCAC also started exploring partnerships with NGOs that help immigrants. To draw on first-hand experience in reaching these groups, we contracted with an experienced financial educator of new Canadians to present four information sessions about FCAC to audiences in Toronto at the downtown YMCA and the Yorkdale Centre. A total of 230 people attended the sessions, which were very well received.

Trade shows

In 2003–04 the Consumer Education and Public Affairs Branch again was an exhibitor at the Financial Forum. This major financial-sector trade show attracted an estimated 6,000 visitors to its Toronto venue in January 2004, and an additional 3,000 visitors to its Vancouver venue in February. FCAC’s booth was updated in 2003–04 to reflect our new corporate look, and was stocked with various FCAC publications and promotional items. The new booth and the distribution of information materials greatly enhanced the Agency’s visibility at the Forum.

Briefing sessions

In January 2004, FCAC held its second annual round table with the leaders of Canada's major consumer groups, including:

- the Canadian Community Reinvestment Coalition;
- the Consumers Council of Canada;
- the Consumers' Association of Canada;
- Option consommateurs;
- the Public Interest Advocacy Centre; and
- the Union des consommateurs.

FCAC provided an analysis of trends and issues developing in the financial marketplace, and solicited participants' views and input on these subjects. We also briefed participants on our compliance operations, including the findings of FCAC's mystery shopping survey (see p. 19).

International initiatives

As part of its goal to keep abreast of international regulatory trends, FCAC continued to serve as the Secretariat for the International Forum on Financial Consumer Protection and Education, created in January 2003. The Forum now has 16 member agencies in 13 countries and includes the United Nations.

In November 2003, FCAC was pleased to welcome Verona Hanlon of the Irish Financial Services Regulatory Authority (the unitary regulatory body for all financial services in Ireland, including consumer issues), who visited Canada on an International Forum exchange.

Consumer services

Consumer Contact Centre

FCAC's Consumer Contact Centre is our major point of access for consumers. Nearly 87 percent of the Canadians who contact us do so through our toll-free numbers.

Contact Centre representatives answer questions and offer assistance in both official languages from 8:30 A.M. to 6:00 P.M. Eastern time, Monday through Friday. Callers may leave a message after hours, on weekends and on statutory holidays. Their messages are answered on the next business day.

Since consumers' first impression of FCAC comes from Contact Centre representatives, they must provide superior service. They are therefore trained to:

- be knowledgeable about all aspects of the Canadian financial services sector;
- be fully familiar with and able to explain the consumer provisions enforced by FCAC; and
- have detailed knowledge of the information in FCAC publications and on the Agency's Web site.

According to a late 2003 survey on consumer satisfaction with the Contact Centre, the inquiries officers give excellent service. For details of survey findings, see p. 43.

Correspondence

During 2003–04, consumers sent 2,013 letters and e-mail messages to FCAC. All correspondence is logged into the Agency's tracking system and passed to the Correspondence Unit, which acknowledges reception of each letter or e-mail.

A correspondence officer carefully checks whether the communication refers to a possible violation of the consumer provisions. If there appears to be a potential compliance issue, the file is given to a compliance officer for investigation. If the compliance officer decides there are no compliance issues involved, the file is returned to the correspondence officer for preparation of a reply.

The Correspondence Unit normally sends a letter in response to a letter, and an e-mail in response to an e-mail. However, if more information is required, or

the matter can perhaps be cleared up verbally, or the problem appears to be urgent, the officer may simply telephone the consumer. The resulting conversation will be followed up with either a confirmation letter or a note to the case file.

In their letters, FCAC correspondence officers try to respond sensitively to consumers' concerns and answer their questions fully and clearly. They include as much relevant information as is appropriate and, where applicable, enclose pertinent FCAC publications.

Some inquiries and complaints sent to us concern issues within another organization's mandate. In such cases, our correspondence officers include contact details for the appropriate regulators, ombudservices or dispute resolution organizations.

Media relations

FCAC coverage in the media

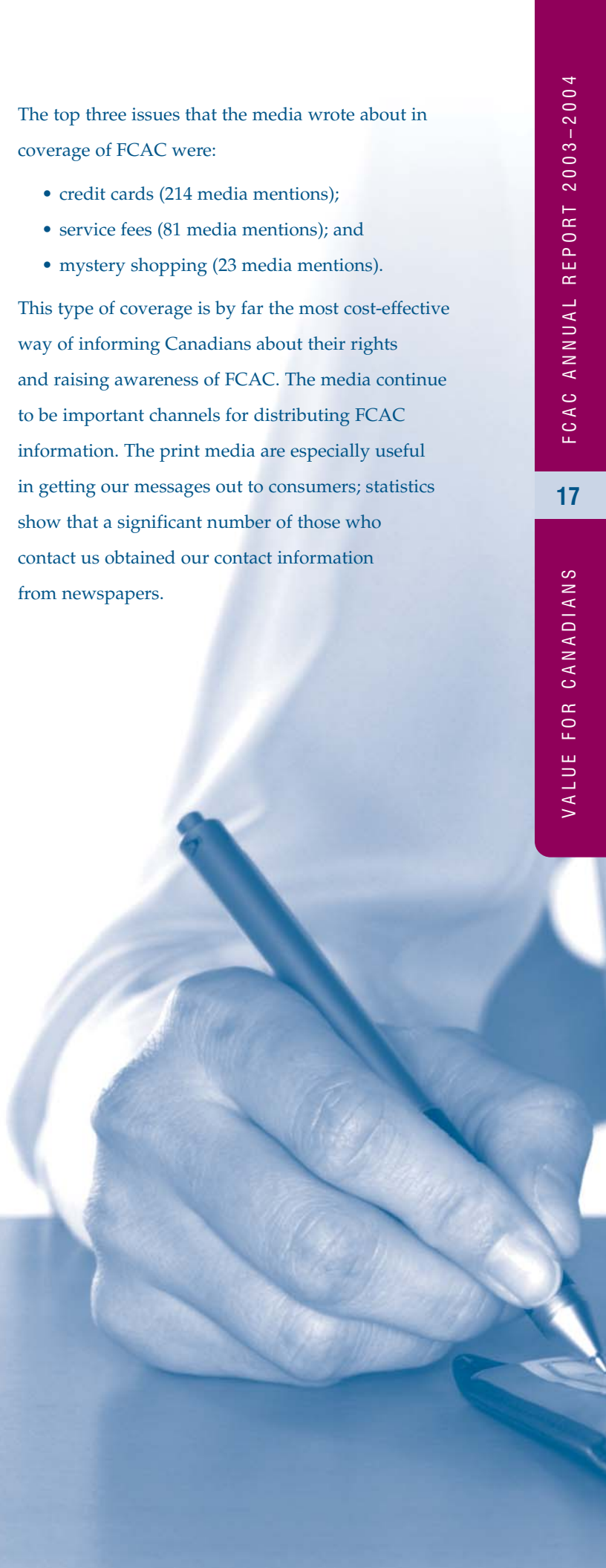
During 2003–04, the total volume of media coverage that FCAC received increased by 70 percent over the previous year. We were mentioned in more than 400 articles and news clips across Canada, resulting in approximately 46.7 million "audience impressions" — the number of readers multiplied by the number of times they saw an FCAC message.

FCAC takes a proactive approach with the media, a strategy that is intended to raise awareness of the Agency's publications and its other initiatives. In 2003–04, FCAC also responded to hundreds of calls from journalists, who contacted us to obtain reliable information about issues affecting financial consumers.

The top three issues that the media wrote about in coverage of FCAC were:

- credit cards (214 media mentions);
- service fees (81 media mentions); and
- mystery shopping (23 media mentions).

This type of coverage is by far the most cost-effective way of informing Canadians about their rights and raising awareness of FCAC. The media continue to be important channels for distributing FCAC information. The print media are especially useful in getting our messages out to consumers; statistics show that a significant number of those who contact us obtained our contact information from newspapers.



In January 2004, the Consumer Education and Public Affairs Branch produced several articles on credit cards, ABM fees and the *Access to Basic Banking Services Regulations*, and circulated these to community and rural newspapers across Canada. In all, 164 articles appeared in a variety of community and local newspapers and on several Web sites, reaching a total audience of 3.6 million consumers.

In December 2003, the consumer magazine *50 Plus* featured a table of low-rate banking service packages for seniors, one of FCAC's key target groups. The table reproduced information posted on FCAC's Web site.

Consumer Inquiries and Complaints

FCAC receives many consumer calls, letters, e-mail messages and in-person visits on a wide variety of topics. One of our quarterly publications, *Consumer Inquiries and Complaints*, highlights the types of inquiries and complaints we receive; it is distributed

to media by e-mail and is available on our Web site. This on-line publication includes questions commonly asked by people who contact FCAC, along with easy-to-understand answers.

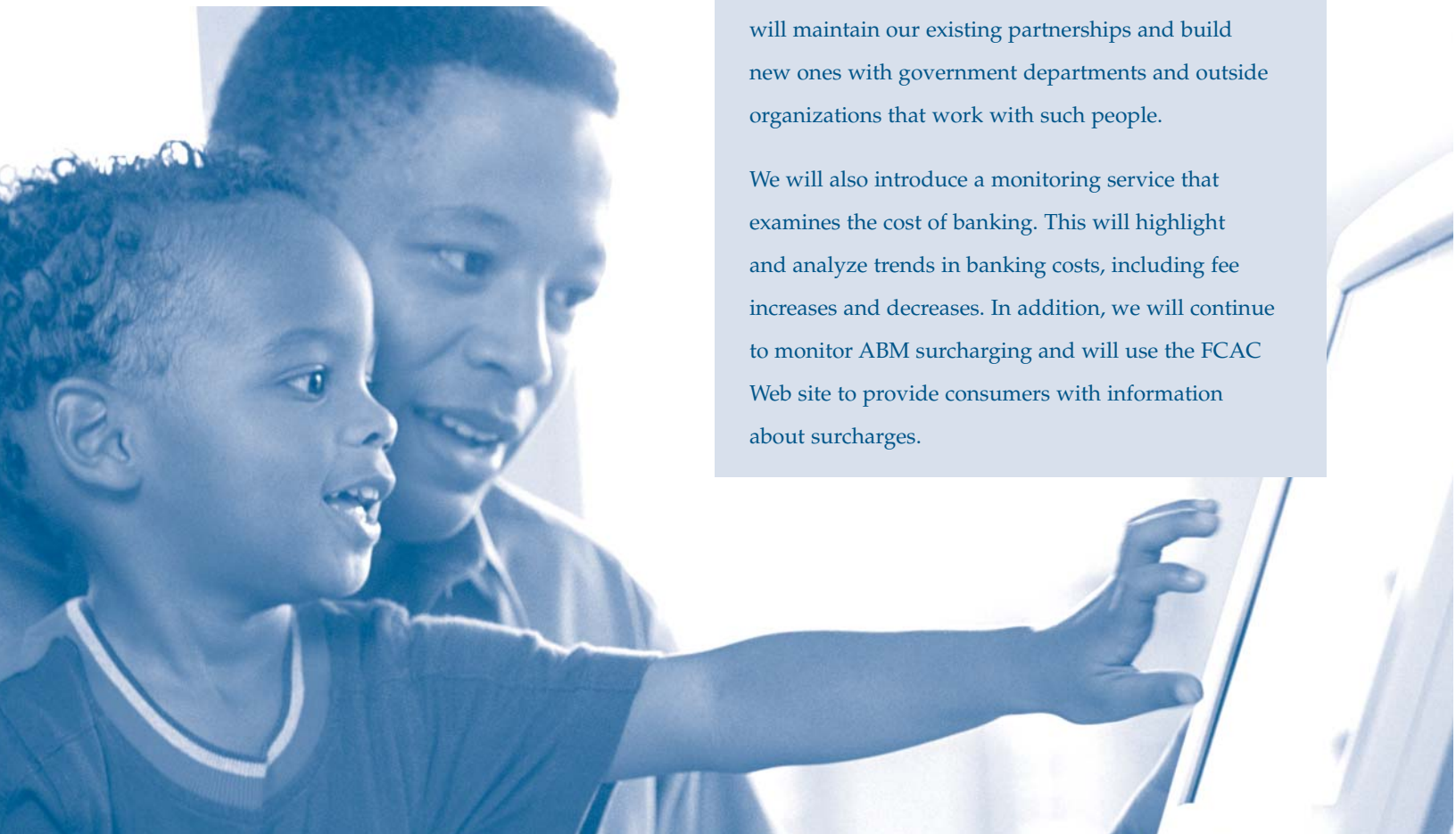
Looking forward

During 2004–05, a core activity of the Consumer Education and Public Affairs Branch will be increasing awareness of the *Access to Basic Banking Services Regulations* and informing Canadians about how the regulations ensure their right to these services.

Our major emphasis in this area will be on the needs of vulnerable — particularly lower-literacy — Canadians. To help them, we will expand and revise our “Basics” series of fact sheets that explain common banking products and services, including credit cards and bank accounts.

Outreach will also be important, helping us connect with vulnerable Canadians to ensure that they know their rights and are aware of FCAC as a source of trustworthy information. To reach this audience, we will maintain our existing partnerships and build new ones with government departments and outside organizations that work with such people.

We will also introduce a monitoring service that examines the cost of banking. This will highlight and analyze trends in banking costs, including fee increases and decreases. In addition, we will continue to monitor ABM surcharging and will use the FCAC Web site to provide consumers with information about surcharges.



Compliance and Industry Relations Branch

Protecting *consumers*

FCAC's Compliance and Industry Relations Branch monitors and enforces the legislation that protects consumers when they deal with financial institutions.

Implementing the *Access to Basic Banking Services Regulations*

The most important development of 2003–04 was the implementation of the *Access to Basic Banking Services Regulations* on September 30, 2003. The regulations prevent banks from refusing to open a basic personal deposit account for someone because that person does not have a job, is or has been bankrupt, or is not depositing money into the account. The regulations also require banks to cash Government of Canada cheques to a maximum of \$1,500 for non-customers at no charge, as long as proper identification is provided.

Now that the regulations are in force, FCAC can ensure that Canadians are able to obtain a service that is crucial to personal financial stability: a basic bank account.

FCAC mystery shopping survey

In spring 2003, FCAC conducted an extensive mystery shopping survey at more than 1,600 bank branches across Canada. The aim was to determine how banks were performing with respect to disclosure requirements and other practices.

A research firm hired by FCAC sent 250 mystery shoppers into bank branches, to ask questions typical of ordinary consumers. The questions covered matters such as interest rates, service charges and Public Accountability Statements. After the research firm compiled the results, we presented each bank with the findings related to its performance. Where weaknesses were identified, we worked with the bank to overcome them.

For the full report on the 2003 mystery shopping survey, visit our Web site at:

www.fcac.gc.ca/eng/compliance/default.asp

FCAC Commissioner's decisions in representative major cases

FCAC protects consumers by enforcing compliance with legislation, and monitoring adherence to voluntary codes of conduct and public commitments. In 2003–04, to help meet our objective of greater

transparency and informing consumers and the financial industry about issues that might affect them, we began to publish all the Commissioner's decisions on the FCAC Web site. These are the outcomes of cases where the Commissioner was required to make a final decision about a violation of regulations or non-adherence to a code of conduct or public commitment. Any one decision could affect hundreds of thousands of consumers. Following is a cross section of the decisions made by the Commissioner during 2003–04.

Coercive tied selling

A bank agreed to provide a customer with a line of credit and a mortgage loan. When the customer chose to obtain the mortgage loan at another institution, the bank withdrew its offer of a line of credit, stating that the approval had been conditional on the customer's acceptance of a mortgage with the bank.

Section 459.1(1) of the *Bank Act* stipulates that a bank cannot impose undue pressure on, or coerce, a person to obtain a product or service from that institution or any of its affiliates as a condition for obtaining another product or service from the same institution. Accordingly, a Letter of Reprimand was issued noting one violation by the bank.

Following the Letter of Reprimand, the bank provided redress to the customer, including renewal of its offer of a personal line of credit. The bank also provided direct guidance to branch staff, ensured that relevant compliance information was available to staff and customers, and delivered an enhanced training session to front-line staff.

Failure to accurately disclose cost of borrowing

In the cardholder agreement for its credit card accounts, a bank did not accurately disclose how it calculated interest in all cases. A Letter of Reprimand was issued, noting one violation by the bank.

At the time the Letter of Reprimand was issued, the bank was already changing its internal procedures to ensure proper disclosure of the way it charged interest and to inform customers of the changes.

By making certain that it calculates interest exactly as described in the cardholder agreement, the bank ensures that consumers have the information they require to understand the terms and conditions of the agreement.

Failure to disclose credit card interest rates

FCAC is working to improve the credit card marketplace by ensuring that consumers know the annual interest rate of a card before they apply for it. In a case currently under appeal, the Commissioner determined that a bank's credit card application form, indicating a "rate as low as," was in violation of the regulations since it failed to disclose an annual interest rate. The Commissioner issued a penalty of \$50,000.

Failure to disclose mortgage rates

A bank branch posted an advertisement in its front window indicating the rate for a mortgage, but it failed to disclose the term of the loan in the advertisement. A Letter of Reprimand was issued, noting one violation by the bank.

Once the bank was notified of the problem, it removed the sign and sent a circular to all of its branches, reminding employees of the existing policy that any advertisements must be approved by the corporate marketing department.

Failure to display notices of charges

A trust company failed to display notices of its charges at nine of its branches, in contravention of the regulations. A Letter of Reprimand was issued, noting nine violations by the trust company.

Following the Letter of Reprimand, the trust company took measures to display its statement of fees and charges at each location where it had offices. The trust company also reviewed its internal process for making the disclosure statements available, and it introduced procedures to ensure that the statement of fees and charges would be updated in a timely fashion on an ongoing basis, as required by the regulations.

Failure to provide notice of branch closure

A bank failed to provide the Commissioner with four months' notice of a proposed branch closure. The bank also failed to provide customers affected and the public with at least four months' notice of the closure. The notices sent to customers affected did not explain how the Commissioner could be contacted. In

addition, the bank did not inform consumers that the Commissioner could require a public meeting of the bank, FCAC and other interested parties to discuss the closure. A Letter of Reprimand was issued, noting four violations by the bank.

Following the Letter of Reprimand, the bank made changes to its internal procedures to ensure future compliance with the law.

Chart 4 shows the disposition of compliance problems brought to FCAC's attention. FCAC identified 39 violations of the regulations and concluded 1 Compliance Agreement. It issued 17 Letters of Reprimand and 3 Notices of Violation, and imposed 3 Administrative Monetary Penalties.

Chart 4: Compliance cases closed where action was taken, 2003–04

<i>Consumer provisions</i>	<i>Number of cases closed with violations</i>	<i>Number of violations identified</i>	<i>Commissioner's decision</i>
Accounts			
Disclosure of account information, charges or services to customers and the public	1	9	1 Letter of Reprimand
Branch closures			
Provision of required notice	7	16	6 Letters of Reprimand and 1 Notice of Violation and Administrative Monetary Penalty (\$10,000)
Credit cards			
Disclosure of changes to the cost of borrowing	1	1	1 Notice of Violation and Administrative Monetary Penalty (\$5,000)
Disclosure of required information in monthly statement	1	1	1 Letter of Reprimand and 1 Compliance Agreement
Disclosure of cost of borrowing, interest or fees for credit cards*	5	6	4 Letters of Reprimand and 1 Notice of Violation and Administrative Monetary Penalty (\$50,000)
Federal government cheques			
Fee charged for cashing	2	3	2 Letters of Reprimand
Loans			
Requirement to disclose cost of borrowing in advertising	2	2	2 Letters of Reprimand
Tied selling			
Coercive tied selling	1	1	1 Letter of Reprimand
GRAND TOTAL	20	39	

* One case is currently under appeal in federal court.

Advances in disclosure practices

Following are examples of FCAC's proactive approach. The Agency works to deal with compliance issues before they affect large numbers of Canadians.

Review of bank disclosure of mortgage prepayment penalties

In the case of the seven major banks, FCAC reviewed their documents disclosing the penalty for prepaying a mortgage; it sought to determine whether the disclosure documents were written in plain language and included all the information needed by the borrower. As a result of the review, several banks are taking steps to improve their mortgage disclosure documents.

Review of disclosure of credit card interest rates

FCAC reviewed credit card issuers' disclosure of interest rates on their credit card application forms. The law requires that consumers be made aware of the applicable interest rate through a disclosure statement when they apply for a card. FCAC discovered that certain credit card issuers do not disclose this information. The credit card agreements of the major credit card issuers in Canada are now being reviewed.

Review of banks' complaint procedures

In May and June 2003, the Compliance and Industry Relations Branch met with five large banks to obtain a better understanding of their internal complaint-handling procedures. The visits helped FCAC assess whether the banks were operating in accordance with

the self-reporting requirements of the FCAC compliance framework. As a result, FCAC received an increased volume of reportable complaints in the month following the review and some banks made changes to address shortcomings in their procedures.

Annual general examinations

In fall 2003, FCAC conducted its second annual general examination of all 422 federally regulated financial institutions to evaluate their compliance with applicable consumer provisions. FCAC found that the institutions were in overall compliance with the provisions and that any issues brought to their attention during the year had been addressed.

Updating the compliance framework

The compliance framework outlines how FCAC supervises financial institutions' compliance with legislated consumer provisions, and how the Agency monitors the institutions' compliance with voluntary codes of conduct and public commitments.

During 2003–04, one year after implementing the compliance framework, FCAC began consultations with the financial industry to update and amend the framework.

Compliance Connection

The Branch continued to issue its quarterly newsletter, *Compliance Connection*, which keeps the industry informed of compliance issues. To facilitate the circulation of important information and to minimize the environmental impact, the Branch is now distributing the newsletter electronically. This change has been welcomed by the industry.

Looking forward

The *Access to Basic Banking Services Regulations* have given FCAC the authority it needs to ensure that Canadians have access to essential banking services. In 2004–05, the Branch will focus on enforcing the regulations.

Other major areas of activity will include:

- further updating of the compliance framework;
- monitoring of the Undertaking on Unsolicited Services;
- completion of plain-language disclosure for mortgage documents and extension of plain-language disclosure to other documents;
- undertaking of a survey on access to basic banking; and
- reviewing of industry practices related to the debit card code.





Value for Canadians

FCAC offers a valuable service to Canadians by dealing effectively and efficiently with their concerns related to the financial marketplace.

The need for FCAC's services is demonstrated by the number of inquiries and complaints that consumers brought to us during 2003–04.

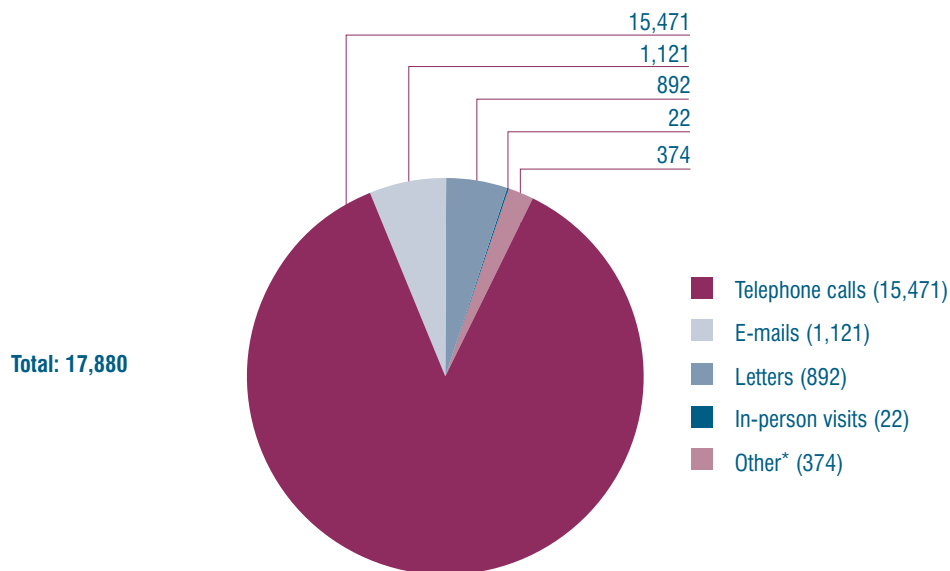
Issues that concern Canadians

FCAC tracks many different kinds of inquiries and complaints through our phone-in Consumer Contact Centre, through e-mail and regular mail, and as a result of comments from walk-in visitors. The following charts present the kinds of contacts that occurred between FCAC and Canadians during 2003–04 and the issues that concerned the people who contacted us.

Total number of inquiries and complaints received

Chart 5 shows how consumer inquiries and complaints reached FCAC. The most common mode of contact was telephone, followed at a considerable distance by e-mail.

Chart 5: Total contacts received by FCAC by source, 2003–04



* Cases initiated by FCAC concerning a potential compliance issue, as well as complaints reported.

Chart 6: Total contacts received by FCAC by type, 2003-04

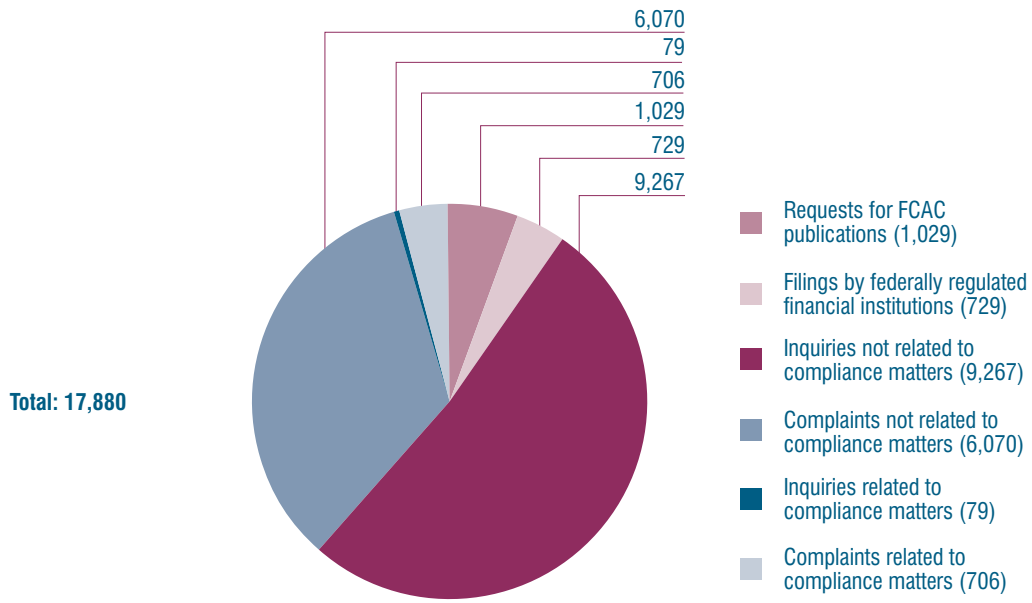
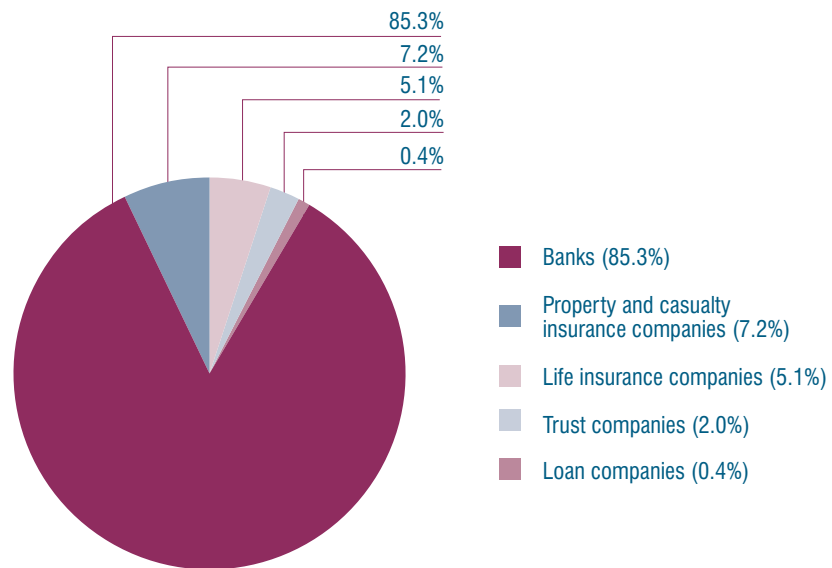


Chart 6 (above) breaks down total 2003-04 contacts by type. The two largest categories were general inquiries and complaints.

Chart 7 (below) shows that the greatest number of consumer contacts concerned issues with banks.

Chart 7: Total contacts received by FCAC by type of federally regulated financial institution, 2003-04

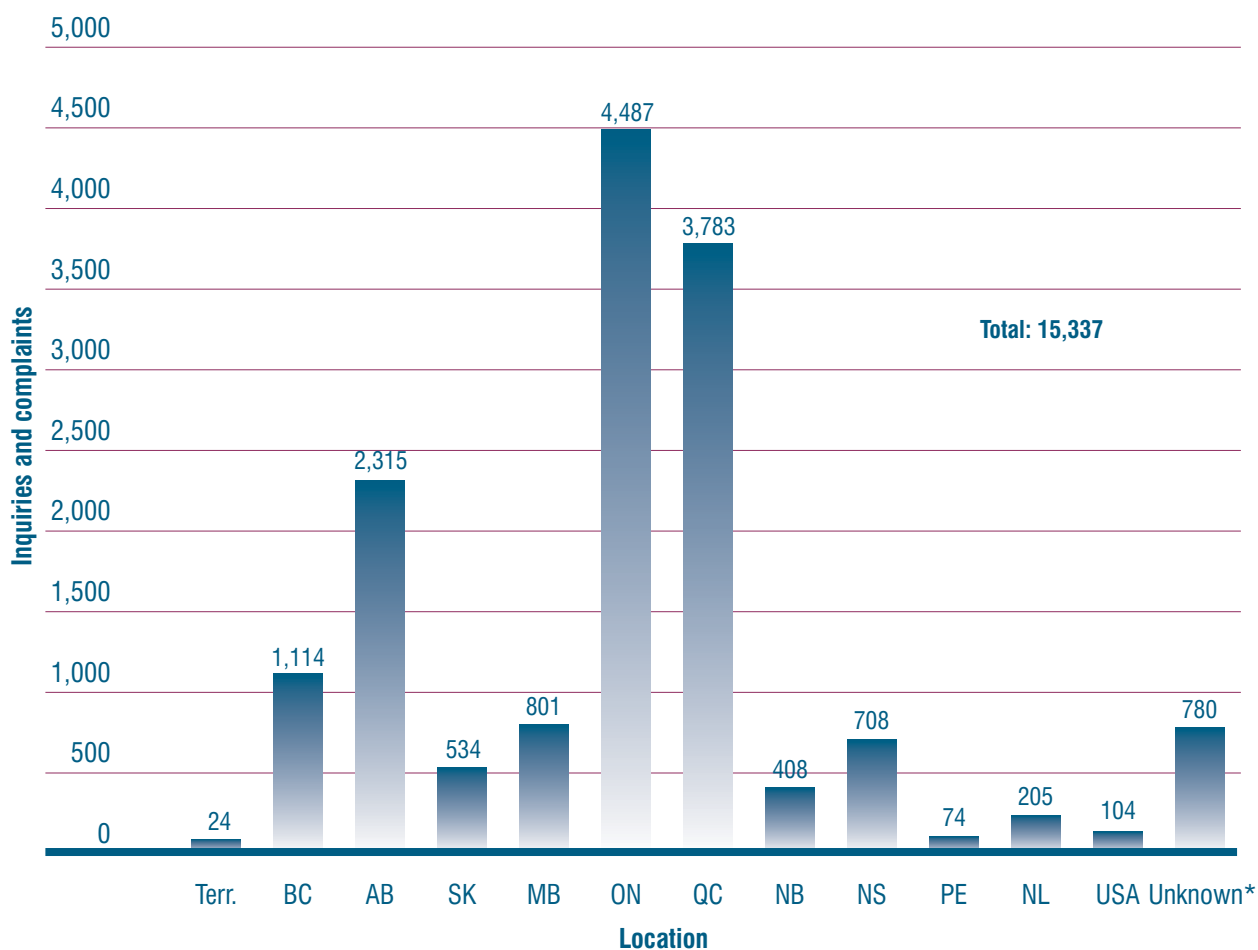


Inquiries and complaints received, excluding compliance matters

The information provided in Charts 8 to 11 concerns inquiries and complaints that did not relate to a consumer provision, code of conduct or public commitment. Data on compliance matters appear in the next section.

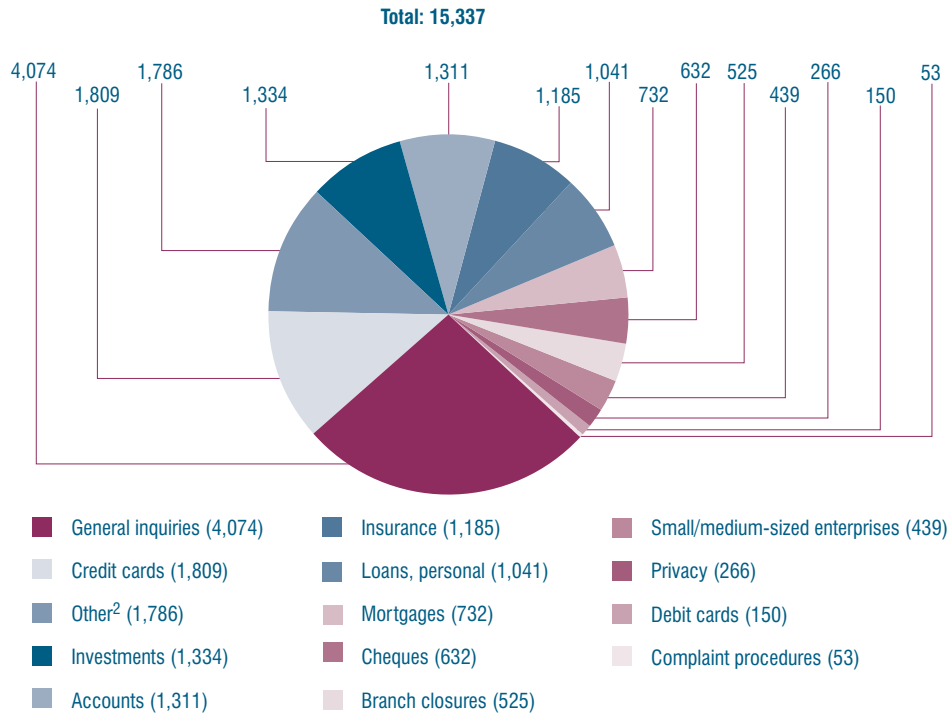
Chart 8 examines the geographic distribution of inquiries and complaints that did not relate to compliance. Ontario and Quebec together accounted for almost 54 percent of this type of contact.

Chart 8: Inquiries and complaints received excluding compliance matters, by location, 2003-04



* The location was not indicated by the person contacting FCAC.

Chart 9: Inquiries and complaints received excluding compliance matters,¹ by category, 2003–04



1 Also excluded are requests for publications.

2 Includes miscellaneous inquiries and complaints received regarding automated banking machines, bills, electronic and telephone banking, estate matters, exchange rates, identity theft, interest rates, quality of service, regulations, service fees and tied selling.

Chart 9 presents the total number of consumer contacts during 2003–04, according to category. Next to general inquiries (a category covering a broad variety of subjects), credit card issues were the largest single area of concern to consumers.

Chart 10 shows the types of inquiries about the financial marketplace that concerned consumers, apart from compliance issues, in 2002–03 and 2003–04. In the past fiscal year, general inquiries came first and credit cards second.

Chart 11 (p. 29) presents figures for types of complaints other than compliance-related ones in 2002–03 and 2003–04. Again, credit cards generated the most problems for consumers in the past fiscal year.

Chart 10: Inquiries received excluding compliance matters,¹ by type

Category	2002–03	2003–04
General inquiries	2,968	3,584
Credit cards	1,368	910
Investments	324	807
Accounts	297	513
Insurance	302	509
Loans	287	504
Credit bureau checks	0	438
Mortgages	196	321
Cheques	183	299
Small/medium-sized enterprises	81	269
Branch closures	189	267
Privacy	88	118
Debit cards	39	67
Complaint procedures	59	43
Other ²	501	618
YEARLY TOTAL	6,882	9,267

1 Also excluded are requests for publications.

2 Includes miscellaneous inquiries received regarding automated banking machines, bills, electronic and telephone banking, estate matters, exchange rates, identity theft, interest rates, quality of service, regulations, service fees and tied selling.

As part of its new data management system, FCAC now includes inquiries about interest rates, quality of service, and service fee inquiries under the categories of Accounts, Credit cards and Investments.

Chart 11: Complaints excluding those related to compliance matters,¹ by type

Category	2002–03	2003–04
Credit cards	584	899
Accounts	489	798
Insurance	559	676
Loans	363	537
Investments	347	527
General inquiries	311	490
Mortgages	338	411
Cheques	259	333
Branch closures	213	258
Small/medium-sized enterprises	118	170
Privacy	141	148
Credit bureau checks	0	95
Debit cards	59	83
Complaint procedures	11	10
Other ²	2,408	635
YEARLY TOTAL	6,200	6,070

1 Also excluded are requests for publications.

2 Includes miscellaneous complaints received regarding automated banking machines, bills, electronic and telephone banking, estate matters, exchange rates, identity theft, interest rates, quality of service, regulations, service fees and tied selling.

As part of its new data management system, FCAC now includes complaints about interest rates, quality of service, and service fee inquiries under the categories of Accounts, Credit cards and Investments.

Top five inquiries and complaints in 2003–04

For details on the top five inquiries and complaints, excluding compliance matters, received by FCAC during 2003–04, visit the “Publications” section of our Web site at: www.fcac.gc.ca

Compliance-related inquiries and complaints received

Charts 12 to 14 present information on the contacts we had with Canadians about compliance with consumer provisions and codes of conduct / public commitments.

Chart 12 shows FCAC’s history of compliance contacts received since its inception. During 2003–04 (our second full year of operations), such contacts increased by approximately 70 percent over the previous year.

Chart 13 (p. 30) gives an overview of the compliance caseload by type of compliance matter dealt with during 2003–04. Of 1,437 cases opened, 1,322 were closed by the year’s end.

Chart 12: Total compliance contacts¹ received by category

	2002–03	2003–04
Branch closures		
Provide required notice	17	4
Requests for public meetings on branch closures ²	133	40
Requests to vary branch closure notice requirements	6	6
Codes of conduct³ and public commitments⁴		
Complaints related to codes of conduct and public commitments	242	268
Inquiries related to codes of conduct and public commitments	48	44
Complaint procedures		
Provide complaint-handling procedures ⁵	8	0
Consumer provisions		
Complaints related to consumer provisions	170	440
Inquiries related to consumer provisions	21	33
Self-reported complaints	40	334
TOTAL COMPLIANCE CONTACTS FOR THE PERIOD	685	1,169

1 A contact is a communication received by FCAC from a person or an institution about an issue or concern. Included are complaints and inquiries. Excluded are routine filings.

2 Including multiple requests pertaining to the same branch.

3 For a definition, see Appendix A (Glossary).

4 For a definition, see Appendix A (Glossary).

5 For a definition, see Appendix A (Glossary).

Chart 13: Compliance matters relating to consumer provisions and codes of conduct / public commitments, 2003-04

<i>Consumer provisions</i>	<i>Cases pending at end of 2002-03</i>	<i>Cases opened during 2003-04</i>	<i>Cases closed during 2003-04</i>	<i>Cases pending at end of 2003-04</i>
Accounts				
Advance notice of increased or new fees	3	146	149	0
Disclosure of account information, charges or services to customers and the public ¹	4	10	13	1
Disclosure of charges for account maintenance		1		1
Disclosure of interest rates on accounts and method of calculation	1	3		4
Failure to display and make available charges for new and/or second accounts — Customers only		3	3	0
Failure to display and make available information on the <i>Access to Basic Banking Services Regulations</i>		3	2	1
Provision of account agreements and complaint procedures ²		2	2	0
Provision of notice of refusal to open account		2	1	1
Refusal to open account — General		39	23	16
Refusal to open account because of bankruptcy		12	5	7
Refusal to open account because of credit history		54	25	29
Refusal to open account because of lack of proper identification		20	15	5
Branch closures				
Provision of required notice	6	4	7	3
Requests for public meetings ³	16	40	52	4
Requests to change notice requirements	1	6	7	0
Compliance of affiliate				
		2	0	2
Cost of borrowing — General				
	6	8	13	1
Credit cards				
Disclosure in plain language		1	1	0
Disclosure of annual interest rate		16	2	14
Disclosure of changes to the cost of borrowing	1	25	22	4
Disclosure of cost of borrowing, interest or fees ^{4,5}	6	52	37	21
Disclosure of required information in credit card applications		10	6	4
Disclosure of required information in monthly statements ⁶	1	25	19	7
Disclosure relating to optional services	2	36	34	4
General ⁷	11	23	28	6
Provision of monthly statements	1	30	18	13
Repayments before due date prohibited		1	1	0
Requests to keep a minimum balance on credit card		2	1	1
Disclosure of charges	5	20	23	2
Disclosure of interest rates — General				
		3	3	0
Disclosure of interest rates in an advertisement				
	1	2	3	0
Establish complaint-handling procedures				
		1		1
Federal government cheques				
Failure to display and make available information on <i>Access to Basic Banking Services Regulations</i>		2	0	2
Fee charged for cashing	1	5	5	1
Refusal to cash		7	2	5
Holds on cheques deposited				
	1	33	34	0
Index-linked deposits				
	1	0	1	0
Loans				
Disclosure in plain language		2	2	0
Disclosure relating to optional services		2	1	1
General	3	21	21	3
Notification of changes or amendments to loan agreement or to cost of borrowing ⁸	3	21	15	9

Chart 13 (continued)

<i>Consumer provisions</i>	<i>Cases pending at end of 2002–03</i>	<i>Cases opened during 2003–04</i>	<i>Cases closed during 2003–04</i>	<i>Cases pending at end of 2003–04</i>
Loans (continued)				
Provision of monthly statements		2	0	2
Requirement to disclose cost of borrowing as rate per annum		1	1	0
Requirement to disclose cost of borrowing in advertising	4	2	3	3
Requirement to disclose cost of borrowing when loan issued ⁹	3	20	20	3
Requirement to provide 21 days' notice before mortgage renewal date	3	4	5	2
Requirement to provide information on loan repayments, rebates or charges		23	14	9
Third-party dispute resolution body for federally regulated financial institutions other than banks		3	0	3
Tied selling				
Coercive tied selling	1	20	17	4
Failure to display notices on tied selling		4	3	1
Subtotal for consumer provision cases	85	774	659	200
Codes of conduct / Public commitments				
	<i>Cases pending at end of 2002–03</i>	<i>Cases opened during 2003–04</i>	<i>Cases closed during 2003–04</i>	<i>Cases pending at end of 2003–04</i>
Access to basic banking services				
No minimum deposit or balance required		1	1	0
Refusal to open — General ¹⁰	2	14	16	0
Refusal to open because of bankruptcy	0	13	13	0
Refusal to open because of credit history ¹¹	6	53	59	0
Refusal to open because of employment status	1		1	0
Refusal to open because of lack of proper identification	1	6	7	0
Code of conduct for authorized insurance activities		3	2	1
Debit card code¹²	11	66	63	14
Public commitments by financial institutions				
Accessibility of complaint procedures		8	6	2
Commitment to cash federal government cheques		1	1	0
Credit cards	4	76	62	18
Investments		8	7	1
Other	1	4	5	0
Small Business Banking Code of Conduct		13	10	3
Undertaking on Unsolicited Services		2	0	2
Subtotal for codes of conduct and public commitments	26	268	253	41
Filings³				
Branch closures¹³				
In-store or satellite branches ¹⁴	5	138	142	1
Notice to Commissioner	15	193	200	8
Temporary closures ¹⁴		40	40	0
Complaint-handling procedures	8	12	16	4
Public Accountability Statements		12	12	0
Subtotal for filings	28	395	410	13
GRAND TOTAL, 2002–03	46	991	882	155
GRAND TOTAL, 2003–04	139	1,437	1,322	254

(Notes — see next page)

Chart 13 (continued)

- 1 There were 3 cases in last year's report versus 4 in the opening caseload this year. The classification was changed once we received more information.
- 2 There was 1 case in last year's report versus 0 in the opening caseload this year. The classification was changed once we received more information.
- 3 For a definition, see Appendix A (Glossary).
- 4 There were 7 cases in last year's report versus 6 in the opening caseload this year. The classification was changed once we received more information.
- 5 One of these closed cases is currently under appeal in federal court.
- 6 There were 0 cases in last year's report versus 1 in the opening caseload this year. The classification was changed once we received more information.
- 7 There were 12 cases in last year's report versus 11 in the opening caseload this year. The classification was changed once we received more information.
- 8 There were 2 cases in last year's report versus 3 in the opening caseload this year. One of the cases that was closed last year was re-opened when we received more information.
- 9 There were 4 cases in last year's report versus 3 in the opening caseload this year. The discrepancy was the result of a reclassification.
- 10 There was 1 case in last year's report versus 2 in the opening caseload this year. One of the cases that was closed last year was re-opened when we received more information.
- 11 There were 12 cases in last year's report versus 6 in the opening caseload this year. The classification was changed once we received more information.
- 12 There were 9 cases in last year's report versus 11 in the opening caseload this year. Two of the cases that had been withdrawn were re-opened during the year when consumers provided us with the information required for taking action.
- 13 There were 34 cases in last year's report versus 20 in the opening caseload this year. As a result of system enhancements and changes in FCAC's statistical reporting, last year's number had been overstated.
- 14 These filings were not required by legislation but were submitted by the financial institutions concerned to keep the Commissioner informed of changes in retail services.

Chart 14 shows how FCAC disposed of cases related to codes of conduct and public commitments in 2003–04. A total of 253 such cases were closed; the major issues were access to banking, debit card codes and credit card codes.

Chart 14: Compliance cases¹ closed relating to codes of conduct² and public commitments,³ by type of disposition, 2003–04

	Type of disposition			Total cases closed during 2003–04
	Adherence	Non-adherence	Withdrawn ⁴	
Access to basic banking services				
No minimum deposit or balance required			1	1
Refusal to open — General	9	1	6	16
Refusal to open because of bankruptcy	2	2	9	13
Refusal to open because of credit history	20	9	30	59
Refusal to open because of employment status			1	1
Refusal to open because of lack of proper identification	2	4	1	7
Code of conduct for authorized insurance activities	0		2	2
Debit card code	44	2	17	63
Public commitments by financial institutions				
Commitment to cash federal government cheques (to a maximum of \$1,500)	1			1
Complaint procedures	3		3	6
Credit cards	46	4	12	62
Investments	5		2	7
Other	4		1	5
Small Business Banking Code of Conduct	7		3	10
YEARLY TOTAL, CASES CLOSED BY TYPE OF DISPOSITION	143	22	88	253

1 For a definition, see Appendix A (Glossary).

2 For a definition, see Appendix A (Glossary).

3 For a definition, see Appendix A (Glossary).

4 Cases are often withdrawn when consumers do not respond to FCAC's attempts to contact them in order to continue with the complaint review.

Chart 15: Matters related to branch closures

	2002–03	2003–04
Closure notices filed by financial institutions	302 ¹	371
Complaints received related to branch closures²	213	258
Requests to change the branch closure notice requirements		
Granted ³	3	4
Not granted	0	3
Pending	3	0
Received	4	6
Requests for public meetings on branch closures⁴		
Meeting requests pending	7	4
Meeting requests received	133	40
Meeting requests withdrawn	0	6
Number of branches closing for which meeting requests were received, granted or not granted		
Branches for which meeting requests were received ⁵	23	18
Branches for which meetings were not required by the Commissioner ⁶	11	5
Branches for which meetings were required by the Commissioner	5	10

1 This is the total number of filings for closure of branches, including those not falling under the regulatory definition of a branch, as well as requests to vary the required notice.

2 These are complaints related to branch closures; the individuals were not requesting a meeting.

3 The Commissioner granted the financial institution's request to change the branch closure notice requirements.

4 Some were multiple requests pertaining to the same branch.

5 FCAC often receives multiple meeting requests for a single branch closure; one file is created for each request. In previous fiscal years, the primary file remained active until the Commissioner's decision on the meeting request was received. Cases on subsequent meeting requests, if any, were closed shortly after they were received. Under updated case processing guidelines, all meeting request cases remain active until the Commissioner's decision has been received.

6 Often, institutions will voluntarily hold a public meeting without a formal requirement from the Commissioner.

Chart 15 (above) presents how FCAC handled complaints about branch closures in 2002–03 and 2003–04.

In 10 cases, the Commissioner required a meeting to be held of the bank, FCAC and other interested parties in order to discuss the closure further.

Chart 16 (below) shows how cases were closed relating to the consumer provisions, by type of disposition. In total, there were 20 cases involving 39 violations (see also Chart 4, p. 21).

Chart 16: Cases closed relating to the consumer provisions, by type of disposition, 2003–04

<i>Consumer provisions</i>	<i>Non-violation</i>	<i>Violation(s)</i>	<i>Withdrawn</i>	<i>Granted</i>	<i>Not granted</i>	<i>Total cases closed during 2003–04</i>
Accounts						
Advance notice of increased or new fees	139		10			149
Disclosure of account information, charges or services to customers and the public	7	1	5			13
Failure to display and make available charges for new and/or second accounts — Customers only	2		1			3
Failure to display and make available information on the <i>Access to Basic Banking Services Regulations</i>	2					2
Provision of account agreements and complaint procedures	1		1			2
Provision of notice of refusal to open account	1					1
Refusal to open account — General	22		1			23
Refusal to open account because of bankruptcy	4		1			5
Refusal to open account because of credit history	15		10			25
Refusal to open account because of lack of proper identification	11		4			15

Chart 16 (continued)

<i>Consumer provisions</i>	<i>Non-violation</i>	<i>Violation(s)</i>	<i>Withdrawn</i>	<i>Granted</i>	<i>Not granted</i>	<i>Total cases closed during 2003–04</i>
Branch closures						
Provision of required notice		7				7
Requests for public meetings			14	30	8	52
Requests to vary the notice requirements				4	3	7
Cashing federal government cheques						
Fee charged for cashing		2	3			5
Refusal to cash	1		1			2
Cost of borrowing — General	12		1			13
Credit cards						
Disclosure in plain language	1					1
Disclosure of annual interest rate	2					2
Disclosure of changes to the cost of borrowing	17	1	4			22
Disclosure of cost of borrowing, interest or fees for credit cards ¹	27	5	5			37
Disclosure of required information in credit card applications	6					6
Disclosure of required information in monthly statements	18	1				19
Disclosure relating to optional services for credit cards	29		5			34
General	25		3			28
Provision of monthly statements	8		10			18
Repayments before due date prohibited	1					1
Requests to keep a minimum balance on credit card	1					1
Disclosure of charges	21		2			23
Disclosure of interest rates — General	3					3
Disclosure of interest rates in an advertisement	3					3
Holds on cheques deposited	25		9			34
Index-linked deposits	1					1
Loans						
Disclosure in plain language	2					2
Disclosure relating to optional services			1			1
General	15		6			21
Notification of changes or amendments to loan agreement or to cost of borrowing	10		5			15
Requirement to disclose cost of borrowing as rate per annum	1					1
Requirement to disclose cost of borrowing in advertising	1	2				3
Requirement to disclose cost of borrowing when loan issued	17		3			20
Requirement to provide 21 days' notice before mortgage renewal date	4		1			5
Requirement to provide information on loan repayments, rebates or charges	13		1			14
Tied selling						
Coercive tied selling	12	1	4			17
Failure to display notices on tied selling	3					3
TOTAL FOR CONSUMER PROVISION CASES²	483	20	111	34	11	659

¹ One case is currently under appeal in federal court.

² The 20 cases involved 39 violations (see also Chart 4, p. 21).

Addressing Canadians' concerns

How FCAC manages *a complaint*

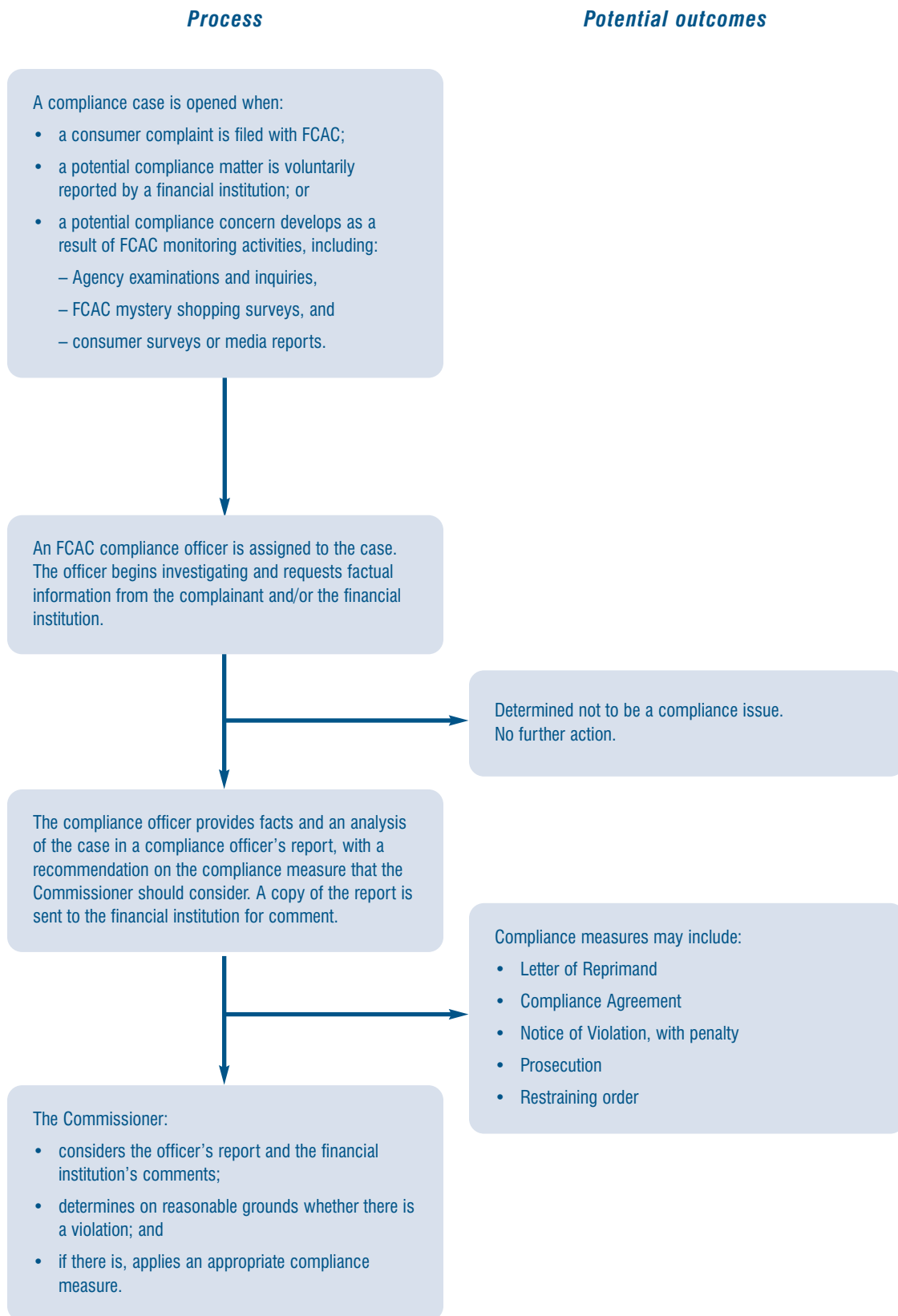
When a consumer contacts FCAC with a complaint, it is examined to determine whether it falls under the Agency's jurisdiction and whether it involves a possible contravention of the law. If research is required, the complainant will receive a call back within 48 hours.

Once the consumer's situation is understood and the jurisdiction established, the complainant is told of the options available. If the complaint involves a possible contravention of the law, an FCAC compliance officer

contacts the consumer's financial institution to discuss the complaint. If further action is recommended, an officer may request factual information in writing from the complainant and the institution.

We also inform the consumer about the institution's procedures for dealing with complaints. If the matter is not under our mandate, we direct the complainant to the organization best equipped to deal with the issue.



Figure 1: FCAC compliance case management process

FCAC's operations

Operational roles and responsibilities

Commissioner

The FCAC Commissioner is appointed for a period of up to five years. The first and current Commissioner is William (Bill) G. Knight. His responsibilities include:

- reporting to Parliament annually through the Minister of Finance, and to the Minister of Finance regularly, about FCAC's activities and findings;
- managing the operations of FCAC, including taking responsibility for all aspects of its program, finances, administration and human resources management;
- supervising approximately 420 federally regulated financial institutions to determine whether they are complying with applicable consumer protection legislation, and with their own voluntary codes of conduct and public commitments; and
- expanding national education initiatives to identify and meet consumers' needs for financial knowledge.

The FCAC Commissioner is an ex officio member of the Board of Directors of the Canada Deposit Insurance Corporation (CDIC) and a member of the Board's Governance Committee. He is also a member of both the Financial Institutions Supervisory Committee,

chaired by the Superintendent of Financial Institutions, and the Senior Advisory Committee, chaired by the Deputy Minister of Finance. In this latter capacity, the FCAC Commissioner advises on key consumer issues, offering important input for the policy advice that this committee provides to the Minister of Finance.

Consumer Education and Public Affairs Branch

The *Financial Consumer Agency of Canada Act* requires FCAC to promote consumer awareness about the obligations of financial institutions under the applicable consumer provisions, and to foster an understanding of financial services and related issues. To fulfil this requirement, FCAC's Consumer Education and Public Affairs Branch is responsible for:

- producing information materials to enhance consumers' knowledge of financial institutions' legal obligations, and of financial products and services;
- carrying out research and surveys;
- disseminating information via the media, the FCAC Web site and stakeholders;
- reaching out to community groups, associations and other stakeholders; and
- handling correspondence with consumers and operating a call centre (a joint venture with CDIC).

Compliance and Industry Relations Branch

The FCAC Compliance and Industry Relations Branch monitors financial institutions to ensure that they comply with the consumer provisions of the *Bank Act*, the *Trust and Loan Companies Act*, the *Insurance Companies Act* and the *Cooperative Credit Associations Act*. The Branch also monitors adherence to voluntary codes of conduct and public commitments put in place by financial institutions or their associations. Last, the Branch is responsible for promoting a culture of compliance within federally regulated financial institutions.

The consumer provisions are listed in Appendix B, p. 62. They deal with:

- opening retail deposit accounts;
- cashing federal government cheques;
- closing retail branches;

- coercive tied selling;
- disclosing cheque-holding policies;
- providing information to consumers about FCAC;
- establishing procedures for dealing with complaints; and
- disclosing the cost of borrowing.

Voluntary codes of conduct and public commitments are put in place by the financial institutions to protect consumers. They cover such topics as debit cards and credit relations with small businesses. FCAC monitors adherence to the codes and commitments, investigating complaints and publicly reporting its findings. FCAC also performs a preventive role by ensuring that the provisions of the voluntary codes and public commitments are implemented.



The responsibilities of the Compliance and Industry Relations Branch include:

- investigating and responding to complaints relating to the consumer provisions that fall under any of the acts within FCAC's jurisdiction;
- managing the compliance framework and ensuring that federally regulated financial institutions conform to it;
- monitoring adherence to voluntary codes of conduct or public commitments designed to protect the interests of consumers;
- monitoring FCAC's tracking systems to identify trends; and
- encouraging financial institutions to develop policies and procedures for implementing the consumer provisions that apply to them.

Among the Branch's tools for monitoring compliance are mystery shopping, consumer surveys, analysis of complaints and inquiries, annual and special examinations of federally regulated financial institutions, and studies by third parties.

FCAC ensures compliance with legislation and regulations by applying administrative measures, imposing fines, or publicly disclosing the nature of a violation, the name of the offender and the amount of the monetary penalty imposed. Among the factors determining the approach to a specific case are the severity and scope of the problem, the degree of intent or negligence, and the compliance history of the financial institution concerned.

To fulfil its mandate of maintaining close relations with the financial industry, FCAC meets regularly with financial institutions. Some of the contacts take

place quarterly to share information on topics of common interest, such as monitoring activities, industry-wide compliance issues and the Commissioner's position on compliance with legislation, regulations, voluntary codes and public commitments. The ultimate purpose of course remains to protect Canadian consumers of financial products and services, and to promote regulatory compliance. The backbone of this new compliance culture is unqualified cooperation on the part of the financial institutions.

Administrative Services Branch

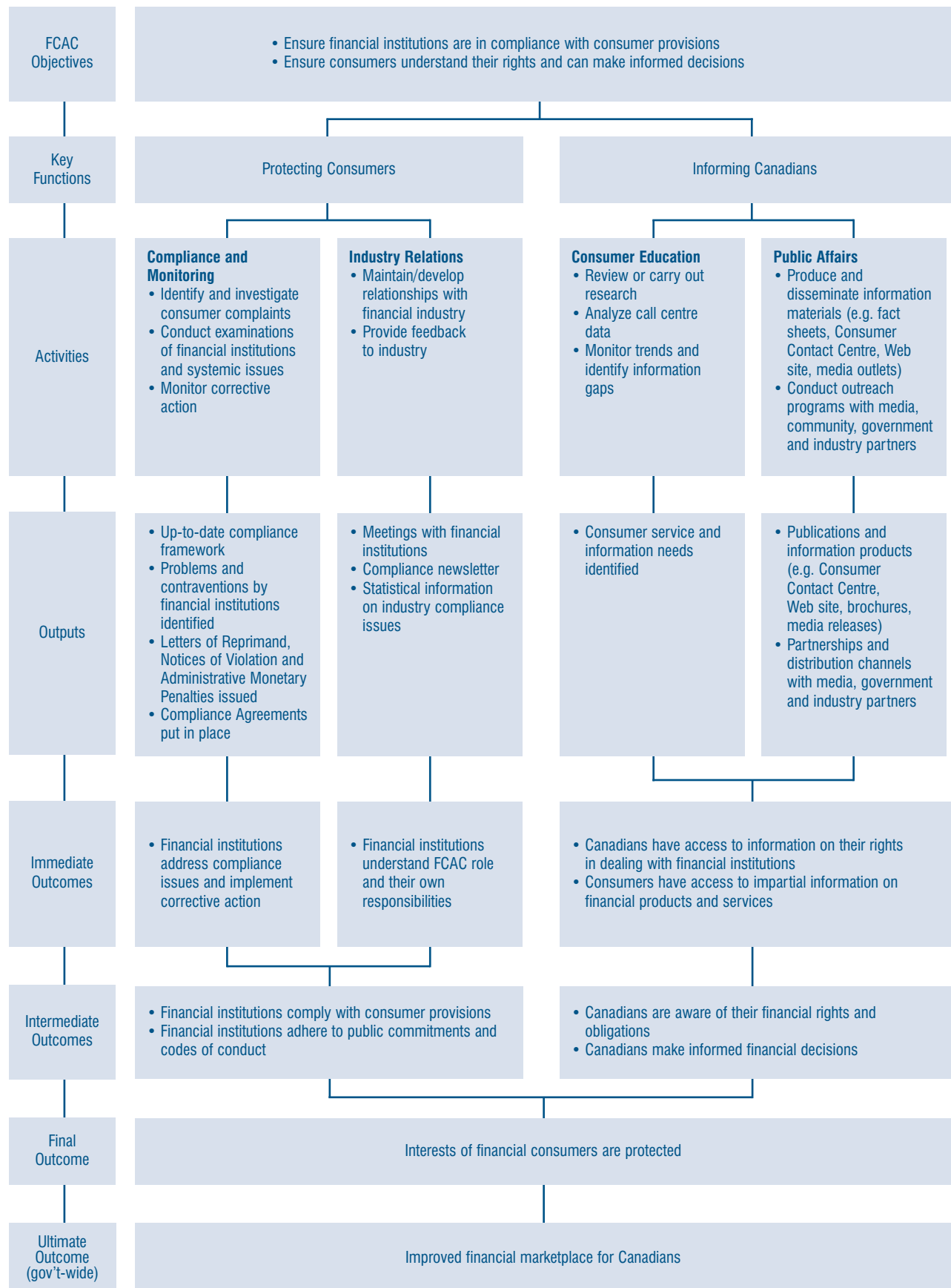
The Administrative Services Branch provides FCAC with such services as human resources, financial management, access to information and privacy, materiel management, facilities management, records management, informatics, security, occupational health and safety, mail, and courier.

FCAC contracts with the Office of the Superintendent of Financial Institutions for its human resources and financial services, and with Public Works and Government Services Canada for its technology and communications services.

Legal Services Branch

The federal Department of Justice provides legal services to FCAC. A senior counsel from Justice Canada is part of the management structure of FCAC and reports directly to the Commissioner. The senior counsel furnishes advice on all aspects of FCAC's mandate and operations.

Figure 2: FCAC's Results-based management accountability framework (RMAF)



FCAC's performance

FCAC monitors its internal performance to make sure that its procedures are efficient and effective, and that they provide the best possible service to Canadians. Two signs of FCAC's growing value to consumers are the higher call volume at our Consumer Contact Centre and the findings of our first caller satisfaction survey, which show that consumers are very pleased with help received from FCAC.

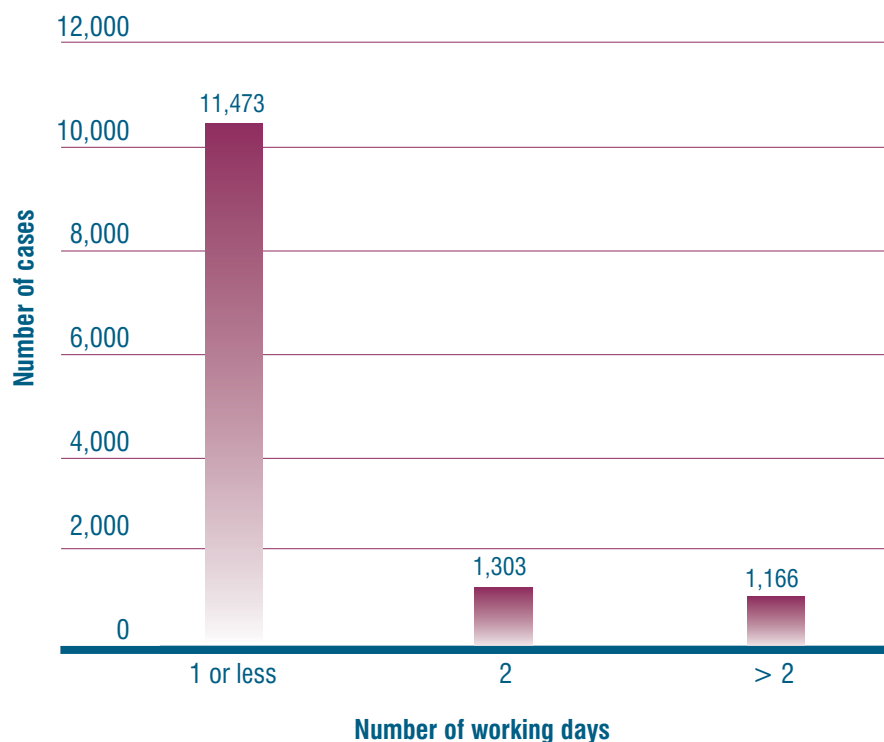
Consumer service performance

FCAC carries out statistical tracking of its service performance in three main areas: the Consumer Contact Centre; the Correspondence Unit; and the Compliance and Industry Relations Branch.

Consumer Contact Centre

During 2003–04, the Consumer Contact Centre received 15,471 calls, a 34 percent increase over the 11,520 calls received during 2002–03. The average call lasted about three minutes. For further performance statistics, see Chart 17.

Chart 17: Time taken to close a file related to a telephone call received by the Consumer Contact Centre, 2003–04



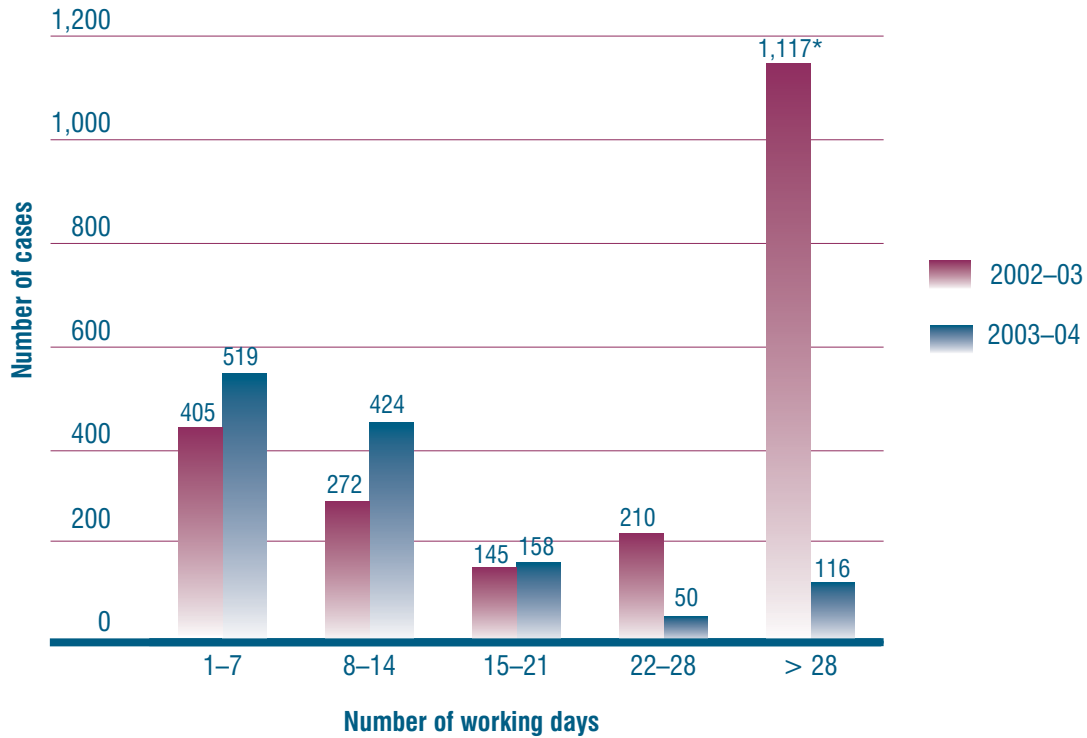
Correspondence Unit

The Correspondence Unit deals with e-mail messages and letters sent to FCAC by consumers. In 2003-04, we responded to 74.5 percent of all communications within 14 working days of their receipt. For details, see Chart 18.

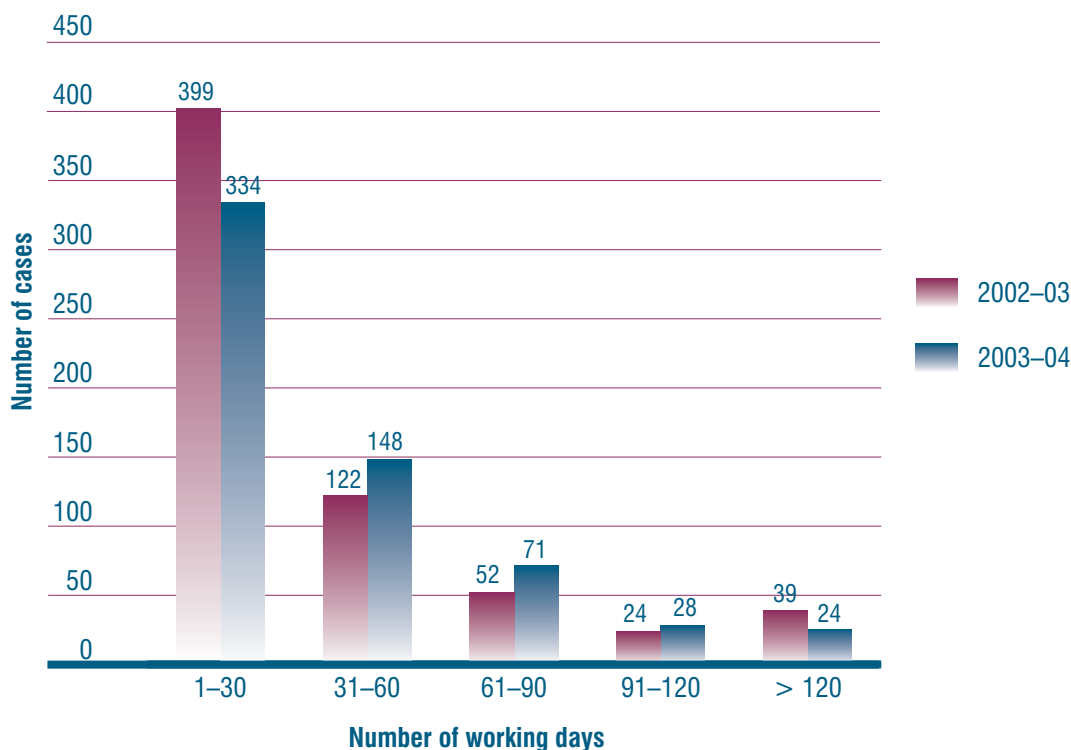
Compliance and Industry Relations Branch

The Compliance and Industry Relations Branch processes compliance-related files as expeditiously and effectively as possible. As shown in Chart 19 (right), more than half of the files (55 percent) were closed within 30 days of being opened. Almost 80 percent were closed within 60 days.

Chart 18: Time taken to close a file generated by a consumer's letter, e-mail or in-person visit for non-compliance related matters



* FCAC was given the opportunity to respond to an Option consommateurs petition. As a result, FCAC received more than 1,500 letters at one time. These were not subject to FCAC's regular response time standards.

Chart 19: Time taken to close a file related to a compliance matter

Caller satisfaction survey

In December 2003, FCAC hired an independent research company to survey Canadians who had telephoned our Consumer Contact Centre. Just over 600 consumers completed the interview.

Overall, the level of satisfaction with FCAC's role and staff was very high.

Since this was the first time FCAC conducted such a survey, it will serve as a benchmark for measuring improvement. FCAC intends to repeat the survey every two years.

Survey details:

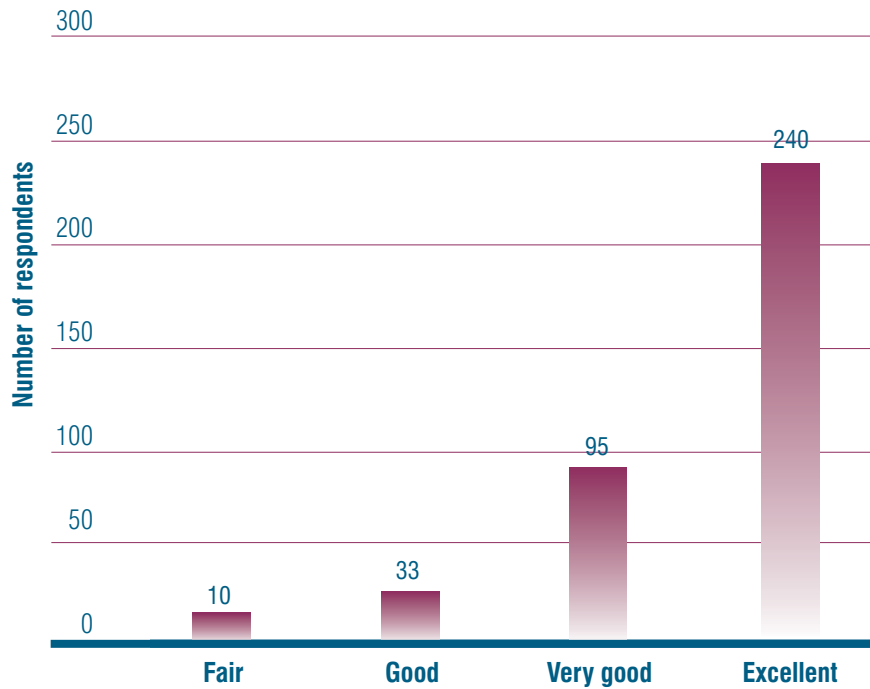
Respondents who felt there was a need for government supervision of financial institutions to ensure consumer protection	93%
Respondents who felt that the FCAC staff they dealt with performed their job very well	88%
Respondents who said that they would recommend FCAC to others who had issues with the banking industry	86%
Respondents who felt that the Centre was responsive to their needs	80%
Respondents who were satisfied with the accuracy of the information they received	75%
Respondents who were satisfied with the outcome of their most recent contact with FCAC	72%
Respondents who said that FCAC referred them to the appropriate organization	71%
Respondents who said that they found out easily how to contact FCAC	61%
Respondents who said that they knew where to find the service when they needed it	46%

Consumer evaluation of *Credit Cards and You*

In January 2004, we asked consumers to give us their impressions of the updated version of *Credit Cards and You*. While this was not a large-scale, exhaustive survey, it unmistakably found that consumers have an

extremely positive view of the publication's value and that our approach to satisfying their needs is bearing fruit. For details of the evaluation findings, see Chart 20.

Chart 20: Overall impression by consumers of *Credit Cards and You*, January 2004 issue



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Financial **statements**

Financial highlights

The Financial Consumer Agency of Canada (FCAC) is funded by assessments paid by federally regulated financial institutions. Banks pay more than 90 percent of FCAC's costs since most of the consumer provisions overseen by the Agency apply to them.

This annual report presents information on FCAC's second full year of operations. Although the budget for 2003–04 was originally projected at \$7.3 million, the total expenditures amounted to \$6.2 million. For the previous fiscal year the figure was \$5.4 million.

As we put in place the Agency's programs, expenditures are closely managed and continue to be below budgeted projections. This reflects a prudent approach to financial management, as well as our ability to use partnerships to share or economize on costs.

During 2003–04 FCAC's workload increased substantially in the area of compliance, as well as in correspondence and outreach. In response, we added 5 full-time equivalent employees (FTEs), for a total of 35 FTEs — 2 more than had been projected in the 2003–04 business plan. The additional resources were needed to handle a greater-than-expected rise in demand for our services by Canadians.

The Compliance and Industry Relations Branch required more resources than expected to carry out and complete several industry examinations and reviews in such areas as credit cards, mortgages, follow-up to mystery shopping findings and implementation of the compliance framework. Work on these projects was in addition to a sharply increasing complaint caseload. The *Access to Basic Banking Services Regulations*, which came into force in September 2003, are generating more compliance

cases than expected; to assist with the workload, a compliance officer and a support person were hired.

In the Consumer Education and Public Affairs Branch, we added a statistical officer to deal with internal and external demands for analysis and reporting on consumer and compliance trends. Two FTEs were hired to meet the increased volume of consumer correspondence and to extend our outreach efforts. As a result of a change in management strategy, FCAC decided to increase outreach capacity in order to better target our initiatives, instead of raising the Agency's profile through paid advertising in the media at this time.

On the basis of our knowledge of the issues that have emerged over the past year, it is still projected that the Agency will require annual expenditures of \$7 to \$8 million for a modest but complete program of activities that directly support our mandate of protecting and educating consumers across Canada. At the same time, we are continuing operational efficiencies through common services agreements with the Office of the Superintendent of Financial Institutions (for financial and human resources administration), the Canada Deposit Insurance Corporation (for a joint call centre), and Public Works and Government Services Canada (for turnkey support for information technology). In addition, we are developing partnerships that support our outreach initiatives and offer cost-sharing opportunities.

We are striving to put in place an effective program that meets the expectations of Parliament and Canadian consumers, while remaining committed to the efficient use of the resources provided to the Agency.

Management's responsibility for the financial statements

Responsibility for the integrity and objectivity of the accompanying financial statements and the consistency with all other information contained in this annual report rests with the management of the Financial Consumer Agency of Canada (FCAC).

These financial statements, which include amounts based on management's best estimates as determined through experience and judgement, have been prepared in accordance with Canadian generally accepted accounting principles. Management has developed and maintained books of accounts, records, internal controls, management practices, and information systems designed to provide reasonable assurance that the assets are safeguarded and controlled, resources are managed economically and efficiently in the attainment of corporate objectives, and that transactions are in accordance with the *Financial Administration Act* and regulations as well as FCAC policies and statutory requirements.

The Auditor General of Canada, the independent auditor for the Government of Canada, has audited the transactions and financial statements of FCAC, and reports on her audit to the Minister of Finance.



William G. Knight
Commissioner,
Financial Consumer Agency of Canada



Jim Callon
Deputy Commissioner,
Financial Consumer Agency of Canada

Ottawa, Canada

May 28, 2004



AUDITOR'S REPORT

To the Minister of Finance

I have audited the statement of financial position of the Financial Consumer Agency of Canada as at March 31, 2004 and the statements of operations and equity of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

John Rossetti, CA
Principal
for the Auditor General of Canada

Ottawa, Canada
May 28, 2004

Statement of Financial Position

As at March 31

	2004	2003
ASSETS		
Current		
Cash Entitlement	\$ 2,002,702	\$ 2,050,040
Assessments Receivable	130,569	27,994
Other Current Assets	1,741	1,625
Other Assets	92,713	81,571
Capital Assets (note 5)	576,235	683,367
Total Assets	\$ 2,803,960	\$ 2,844,597
LIABILITIES		
Current		
Accounts Payable and Accrued Liabilities (notes 6, 7)	\$ 577,785	\$ 720,308
Unearned Revenue	624,110	650,052
Loan Payable (note 6)	1,500,000	1,350,000
Employee Future Benefits	102,065	124,237
Total Liabilities	\$ 2,803,960	\$ 2,844,597
Equity of Canada	—	—
TOTAL LIABILITIES AND EQUITY OF CANADA	\$ 2,803,960	\$ 2,844,597

Commitments (note 8)

Approved by:



William G. Knight
Commissioner, Financial Consumer Agency of Canada

The accompanying notes are an integral part of these Financial Statements.

Statement of Operations and Equity of Canada

For the year ended March 31

	2004	2003
REVENUE		
Assessments	\$ 6,176,587	\$ 5,382,358
Other Revenue	985	1,094
Total Revenue	6,177,572	5,383,452
EXPENSES		
Salaries and Benefits (note 4)	3,365,851	2,848,840
Professional Services (note 7)	1,083,708	835,886
Accommodation (notes 7, 8)	652,047	616,611
Other	467,683	262,976
Information Management / Information Technology Costs (note 7)	424,478	611,526
Interest	126,017	101,950
Travel	115,960	88,669
Employee Future Benefits	(22,172)	16,994
Total Expenses	6,213,572	5,383,452
Operating Results before Administrative Monetary Penalties and Government Funding	(36,000)	—
Administrative Monetary Penalties (note 9)	17,000	—
Parliamentary Appropriations — Modern Comptrollership (note 10)	36,000	—
Net Operating Results	17,000	—
EQUITY OF CANADA, BEGINNING OF YEAR		
Administrative Monetary Penalties earned on behalf of the Government	(17,000)	—
EQUITY OF CANADA, END OF YEAR	\$ —	\$ —

The accompanying notes are an integral part of these Financial Statements.

Statement of Cash Flows

For the year ended March 31

	2004	2003
OPERATING ACTIVITIES		
Net Operating Results	\$ 17,000	\$ —
Non-Cash items included in net operating results		
Amortization of Capital Assets (note 5)	172,525	151,328
Accrued Employee Future Benefits	(22,172)	16,994
Changes in working capital		
(Increase) / Decrease in Assessments Receivable	(102,575)	6,801,115
(Increase) in Other Assets	(11,142)	(50,195)
(Increase) in Other Current Assets	(116)	(1,625)
(Decrease) in Accounts Payable and Accrued Liabilities	(142,523)	(568,759)
(Decrease) in Unearned Revenue	(25,942)	(3,040,537)
Administrative Monetary Penalties Remitted to the Consolidated Revenue Fund	(17,000)	—
Cash Flows (used for) / provided by Operating Activities	(131,945)	3,308,321
INVESTING ACTIVITIES		
Acquisition of Capital Assets (note 5)	(65,393)	(115,607)
Cash Flows (used for) Investing Activities	(65,393)	(115,607)
FINANCING ACTIVITIES		
New Borrowings during the year	6,000,000	1,350,000
Repayments during the year	(5,850,000)	(7,000,000)
Cash Flows provided by / (used for) Financing Activities	150,000	(5,650,000)
CASH ENTITLEMENT		
(Decrease) in cash entitlement during the year	(47,338)	(2,457,286)
Cash Entitlement, Beginning of Year	2,050,040	4,507,326
Cash Entitlement, End of Year	\$ 2,002,702	\$ 2,050,040

The accompanying notes are an integral part of these Financial Statements.

Notes to the Financial Statements

For the year ended March 31, 2004

1. Authority and objectives

On October 24, 2001, the *Financial Consumer Agency of Canada Act* (the Act) came into force, establishing the Financial Consumer Agency of Canada (FCAC, or the Agency). The Financial Consumer Agency of Canada is responsible for strengthening the oversight of consumer protection measures in the federally regulated financial sector and for expanding consumer education activities. The Agency is a department of the Government of Canada and is listed in schedule I.1 of the *Financial Administration Act*.

FCAC's mandate is specifically set out in the *Financial Consumer Agency of Canada Act*. It must:

- a) **supervise** financial institutions to determine whether they are in compliance with the consumer provisions applicable to them;
- b) **promote** the adoption by financial institutions of policies and procedures to implement consumer provisions applicable to them;
- c) **monitor** the implementation of financial institutions' publicly available voluntary codes of conduct that are designed to protect the interests of their customers, and monitor any public commitments made by financial institutions to protect the interests of their customers;
- d) **promote** consumer awareness about the obligations of financial institutions under consumer provisions applicable to them; and
- e) **foster** an understanding of financial services and issues relating to financial services, in cooperation with any department, agency or agency corporation of the Government of Canada, or of a province, financial institution, or consumer or other organization.

Section 18(3) of the Act provides that the Agency's costs of operations are to be assessed to the industry. FCAC's operations are typically funded entirely through this process.

FCAC assessment revenues are charged in accordance with the *Financial Consumer Agency of Canada Assessment of Financial Institutions Regulations*, which outline the methodology used to determine each institution's assessment.

The Agency manages its working capital requirements by borrowing funds from the Government of Canada as authorized under Section 13.1 of the Act.

2. Summary of significant accounting policies

a) Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The Agency is dependent on its assessments of financial institutions to fund its costs of operations, including those related to employee future benefits.

b) Revenue recognition

FCAC matches its revenue to its operating costs. Any assessments that have been billed and for which costs have not been incurred are classified as current liabilities (unearned revenue) on the statement of financial position.

Assessments are billed annually based on an estimate of the current fiscal year's costs of operations together with an accounting of the previous year's assessed costs against actual costs incurred. The assessment process is undertaken before December 31 in each year, in accordance with Section 18(1) of the Act. As a result, at March 31 of each year, amounts may have been collected in advance of the incurrence of costs or, alternatively, funds may be owed to the Agency to fund its costs of operation.

c) Employee future benefits

i) Pension benefits

FCAC's eligible employees participate in the Public Service Superannuation Plan (the Plan) administered by the Government of Canada. Both employees and FCAC contribute to the cost of the Plan. The Agency's contribution amount is currently based on a multiple of employees' required contributions, and may change over time depending on the experience of the Plan. These contributions represent the total pension obligations of the Agency and are charged to operations on a current basis. FCAC is not required under present legislation to make contributions with respect to any actuarial deficiencies of the Plan.

ii) Severance benefits

On termination of employment, employees are entitled to certain benefits provided for under their conditions of employment through a severance benefits plan. The cost of these benefits is periodically actuarially determined and is accrued as employees render the services necessary to earn severance benefits.

The cost of the severance benefits is actuarially determined using the projected benefit method prorated on services. The valuation of the liability is based upon a current market discount rate and other actuarial assumptions, which represent management's best long-term estimates of factors such as future wage increases and employee resignation rates.

In those years where no actuarial review is performed, management prepares an estimate of the closing employee future benefits liability, based on the most recent actuarial report and current employee information.

d) Cash entitlement

The Financial Consumer Agency of Canada does not deposit cash into or issue cheques from its own bank account. The financial transactions of the Agency are processed through the Consolidated Revenue Fund (CRF), a banking facility administered by the Receiver General for Canada. FCAC's cash entitlement represents the amount the Agency is entitled to withdraw from the CRF without further authority. This amount does not earn interest.

e) Assessments receivable

Assessments receivable are stated at amounts expected to be ultimately realized and represent a debt due to Her Majesty.

f) Capital assets

All capital assets are initially recorded at acquisition cost. Amortization of capital assets is calculated on a straight-line basis over the estimated useful life of the asset, as follows:

<i>Asset class</i>	<i>Amortization period</i>
Office equipment	4 years
Furniture and fixtures	7 years
Informatics hardware	3 years
Informatics software	5 years
Leasehold improvements	lesser of useful life or term of the lease

3. Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant item involving the use of estimates and assumptions is the Agency's allowance for employee future benefits. This liability was actuarially determined for the fiscal year ended March 31, 2004, and was estimated by management for the year ended March 31, 2003.

4. Pension Benefits

The estimated employer contributions to the Public Service Superannuation Plan during the year were \$324,052 (2003 — \$259,631).

5. Capital assets

Category	Gross book values			Accumulated amortization			Net book values	
	Opening balance	Additions	Closing balance	Opening balance	Amortization expense	Closing balance	2004	2003
Leasehold improvements	\$ 375,810	\$ 7,033	\$ 382,843	\$ 116,227	\$ 87,053	\$ 203,280	\$ 179,563	\$ 259,583
Furniture and fixtures	392,884	40,550	433,434	74,084	56,615	130,699	302,735	318,800
Office equipment	36,845	14,817	51,662	10,409	10,146	20,555	31,107	26,436
Informatics hardware	7,650	2,993	10,643	3,612	2,716	6,328	4,315	4,038
Informatics software	79,974	—	79,974	5,464	15,995	21,459	58,515	74,510
Total	\$ 893,163	\$ 65,393	\$ 958,556	\$ 209,796	\$ 172,525	\$ 382,321	\$ 576,235	\$ 683,367

6. Loan payable

FCAC funds its ongoing operations with cash advanced from the Consolidated Revenue Fund. The terms and conditions of the loan agreement for funds advanced as at March 31, 2004, together with comparatives for the preceding year, are as follows:

Principal amount:	\$1,500,000	(2003 — \$1,350,000)
Maturity date:	Feb. 23, 2005	(2003 — Feb. 21, 2004)
Interest rate:	2.25%	(2003 — 3.38%)

Interest is due upon maturity, and is recorded in Accounts Payable and Accrued Liabilities. Interest paid during the year was \$127,298 (2003 — \$158,303).

7. Related party transactions

FCAC is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Agency has entered into service agreements with several departments and one Crown corporation for the supply of key services to the Agency and its staff in carrying out its mandate. FCAC currently works with the following partners:

- Public Works and Government Services Canada (PWGSC)
- Canada Deposit Insurance Corporation (CDIC)
- the Office of the Superintendent of Financial Institutions (OSFI)

FCAC also enters into transactions with other government entities in the normal course of business and on normal trade terms applicable to all individuals and enterprises. The following table summarizes the impact of the Agency's significant related-party transactions for the year on total expenses. The transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

<i>Expenses</i>	<i>2004</i>	<i>2003</i>
Treasury Board — Employee Benefits	\$ 628,079	\$ 507,813
PWGSC — Accommodation	\$ 467,388	\$ 458,803
PWGSC — Information Management / Information Technology	\$ 350,562	\$ 557,500
CDIC — Professional Services (Call Centre Administration)	\$ 259,369	\$ 246,496
Department of Finance — Interest on Loans from the Consolidated Revenue Fund	\$ 125,947	\$ 101,668
PWGSC — Translation Services	\$ 123,245	\$ 63,687
OSFI — Professional Services (Financial Services)	\$ 110,008	\$ 102,060
OSFI — Professional Services (Human Resources Services)	\$ 92,525	\$ 98,232

At the end of the year, amounts due to (from) the above related parties are as follows:

<i>Accounts payable / (Accounts receivable)</i>	<i>2004</i>	<i>2003</i>
PWGSC — Information Management / Information Technology	\$ (60,438)	\$ 136,000
CDIC — Professional Services (Call Centre Administration)	\$ 70,726	\$ 82,103
Treasury Board — Employee Benefits	\$ 62,117	\$ —
Department of Finance — Interest Payable	\$ 3,462	\$ 4,813
PWGSC — Translation Services	\$ 5,279	\$ 6,784
OSFI — Professional Services (Human Resources Services)	\$ —	\$ 8,489
OSFI — Professional Services (Financial Services)	\$ —	\$ 8,820

8. Commitments

Contractual commitments arising from service agreements entered into with various departments and one Crown corporation for the supply of key services to the Agency, as well as future minimum lease payments for the remaining term of the Agency's lease for office space, are outlined below.

<i>Year ending March 31</i>	<i>Service agreements</i>	<i>Operating lease</i>	<i>Total</i>
2005	\$ 123,464	\$ 291,347	\$ 414,811
2006	100,465	291,347	391,812
2007	105,489	—	105,489
Total	\$ 329,418	\$ 582,694	\$ 912,112

9. Administrative Monetary Penalties

The Commissioner of the FCAC may issue Notices of Violation and impose an administrative penalty in cases where he believes that there has been a violation of the consumer provisions or non-compliance with any compliance agreement entered into under an Act listed in Schedule 1 to the *Financial Consumer Agency of Canada Act*. The penalty amount may be as high as \$50,000 for an individual and \$100,000 for an institution.

Penalties levied by FCAC are non-respondable and are to be remitted to the Consolidated Revenue Fund. The funds are not available to FCAC and are not included in the balance of the Cash Entitlement. As a result, the penalties do not reduce the amount that FCAC assesses the industry in respect of its operating costs.

FCAC levied \$17,000 (2003 — nil) in administrative monetary penalties during fiscal year 2003-04.

10. Parliamentary Appropriation

During fiscal year 2003-04, FCAC was granted a non-recurring appropriation of \$36,000 (2003 — nil) to be applied to activities consistent with the Government Modern Comptrollership initiative.



Appendix A

Glossary

Adherence (to a voluntary code of conduct or public commitment)

After investigation of a complaint, a finding by the Financial Consumer Agency of Canada (FCAC) that the actions of the financial institution concerned are consistent with that institution's voluntary code of conduct or public commitment governing such actions.

Administrative Monetary Penalty

A monetary penalty that the Commissioner can impose. This could be as high as \$50,000 for an individual or \$100,000 for an institution. The amount is determined on the basis of three criteria: the degree of intent or negligence of the violator, the harm done by the violation and any history of previous violations.

Case

A file opened by FCAC's Compliance and Industry Relations Branch pertaining to a compliance matter, such as an alleged contravention of a consumer provision, code of conduct or public commitment. Circumstances surrounding the matter are reviewed and assessed by the Branch.

Closed case

Compliance case investigated by FCAC and concluded by March 31.

Code of conduct

A code adopted by a financial institution or an industry association and made publicly available (for example, on its Web site), designed to protect the interests of customers of that financial institution or industry association. FCAC monitors adherence by federally regulated financial institutions to their voluntary codes of conduct.

Coercive tied selling

The action of coercing or using undue pressure in order to induce an individual to obtain a product or service from a particular person, bank or affiliate as a condition for obtaining another product or service from that same source.

Complaint-handling procedures

Procedures that federally regulated financial institutions are required by law to put in place for dealing with complaints made by persons who have requested or received products or services from a financial institution in Canada.

Compliance framework

A framework outlining how FCAC supervises financial institutions' compliance with legislated consumer provisions, and how it monitors the institutions' compliance with voluntary codes of conduct and public commitments.

Consumer provision

A provision of federal legislation/regulations identified as a consumer provision in section 2 of the *Financial Consumer Agency of Canada Act*. When designated by regulation, contravention of such a provision constitutes a violation.

Examination, annual

An examination conducted by FCAC once in each calendar year for the purpose of satisfying the Commissioner that a financial institution is in general compliance with the consumer provisions applicable to that institution.

Examination, special

An examination conducted by FCAC, as circumstances require, for the purpose of satisfying the Commissioner that a financial institution is complying with specific consumer provisions applicable to that institution.

Filing

A document that a federally regulated financial institution is required by legislation (the *Bank Act*, the *Cooperative Credit Associations Act*, the *Insurance Companies Act* or the *Trust and Loan Companies Act*) to file with FCAC.

Letter of Reprimand

An administrative measure, provided for in FCAC's compliance framework. It may be used in cases where a violation by a financial institution involves an isolated problem and has limited impact on the consumer, but where a Notice of Violation is not required. In a letter sent to the institution, the Commissioner notes the violation and confirms that proper corrective action has been taken.

Non-adherence

After investigation by FCAC, a determination that a complaint has merit and that the actions of a particular financial institution do not comply with the terms of a voluntary code of conduct or a public commitment applicable to that institution.

Notice of Violation

A notice provided for by law and issued by the Commissioner, informing a financial institution that it has violated a consumer provision. The *Financial Consumer Agency of Canada Act* requires the notice to state the name of the institution that committed the violation, the nature of the violation and the amount of the Administrative Monetary Penalty levied against the institution by FCAC. The Commissioner may also publicize the violation.

Opened case

Case entered into FCAC's tracking system.

Pending case

Compliance case still under investigation by FCAC as of March 31.

Public Accountability Statement

A statement that each large financial institution is required by law to publish annually and file with the FCAC Commissioner. It describes the contributions made by that institution to Canada's economy and society.

Public commitment

A commitment made publicly by a financial institution or an industry association (for example, on its Web site), designed to protect the interests of customers of that institution or association. FCAC monitors adherence by federally regulated financial institutions to their public commitments.

Self-reported complaint / Reportable complaint

A complaint involving a consumer provision, escalated by a financial institution to the reportable level of that institution's complaint-handling procedure. FCAC's compliance framework requires federally regulated financial institutions to inform the Agency of any reportable complaint (as defined in the framework) that involves a consumer provision.

Violation

The contravention of a consumer provision, as defined by the *Financial Consumer Agency of Canada Designated Regulations*.

Withdrawn case

A case on which action has been discontinued, either because the consumer who lodged the complaint has requested that FCAC not proceed any further with its investigation or because the consumer did not respond to FCAC's attempts to contact him or her in order to continue its investigation.



Appendix B

Consumer provisions and regulations

The *Financial Consumer Agency of Canada Act* identifies consumer provisions under the following legislation:

- the *Bank Act*;
- the *Insurance Companies Act*;
- the *Trust and Loan Companies Act*; and
- the *Cooperative Credit Associations Act*.

The following table summarizes the legislated consumer provisions that the Agency administers, and the types of federally regulated financial institutions affected by each provision.

<i>Type of consumer provisions</i>	<i>Banks</i>	<i>Trust and loan companies</i>	<i>Insurance companies</i>	<i>Retail associations</i>
Requirement to disclose interest and charges applicable to deposit accounts	X	X		X
Requirement to disclose the cost of borrowing	X	X	X	X
Requirement to have procedures for protecting customer information (no regulations in effect)	X	X	X	X
Requirement to open retail deposit accounts	X			
Requirement to provide notice that deposits are not insured when bank is not a member of CDIC	X			
Requirement to offer a standard low-cost account (not in effect) <i>Note: Instead of a regulatory approach to bring this provision into effect, eight financial institutions have voluntarily committed to providing a low-cost account within guidelines established by the government.</i>	X			
Within 14 days of opening a retail deposit account by telephone, consumer's right to close the account without charge	X	X		X
Prohibition on charging for cashing government cheques	X	X		X
Obligation to cash government cheques to a maximum of \$1,500, as specified by regulation	X			
Requirement to provide notice before closing a retail branch	X	X		X
Requirement for large institutions (with equity of \$1 billion or more) to file Public Accountability Statements	X	X	X	
Requirement to set up complaint procedures and to file a copy of those procedures with FCAC	X	X	X	X
Requirement to join a separate complaints resolution organization		X	X	X
Restriction concerning coercive tied selling	X			

<i>Type of consumer provisions</i>	<i>Banks</i>	<i>Trust and loan companies</i>	<i>Insurance companies</i>	<i>Retail associations</i>
Requirements to disclose information to consumers as required by regulation (e.g. regulations on index-linked deposits, cheque holding policies)	X	X	X	X
Consumers' right to prepay loans	X	X	X	X
Institution to provide information about FCAC when consumers have complaints about the institution's compliance with consumer provisions	X	X	X	X

<i>Related matters</i>	<i>Banks</i>	<i>Trust and loan companies</i>	<i>Insurance companies</i>	<i>Retail associations</i>
Requirement for FCAC to monitor industry codes of conduct and public commitments (e.g. codes dealing with debit cards or with small and medium-sized businesses)	X	X	X	X
Requirement for FCAC to report annually, in aggregate form, on the number and types of complaints brought to its attention	X	X	X	X
Requirement for institutions to provide information to the Commissioner, as necessary	X	X	X	X
Requirement for annual compliance examination and reporting	X	X	X	X
Ability to enter into Compliance Agreements	X	X	X	X
Requirement to pay assessments for funding of FCAC	X	X	X	X
Ability to designate contraventions that are subject to administrative penalties	X	X	X	X

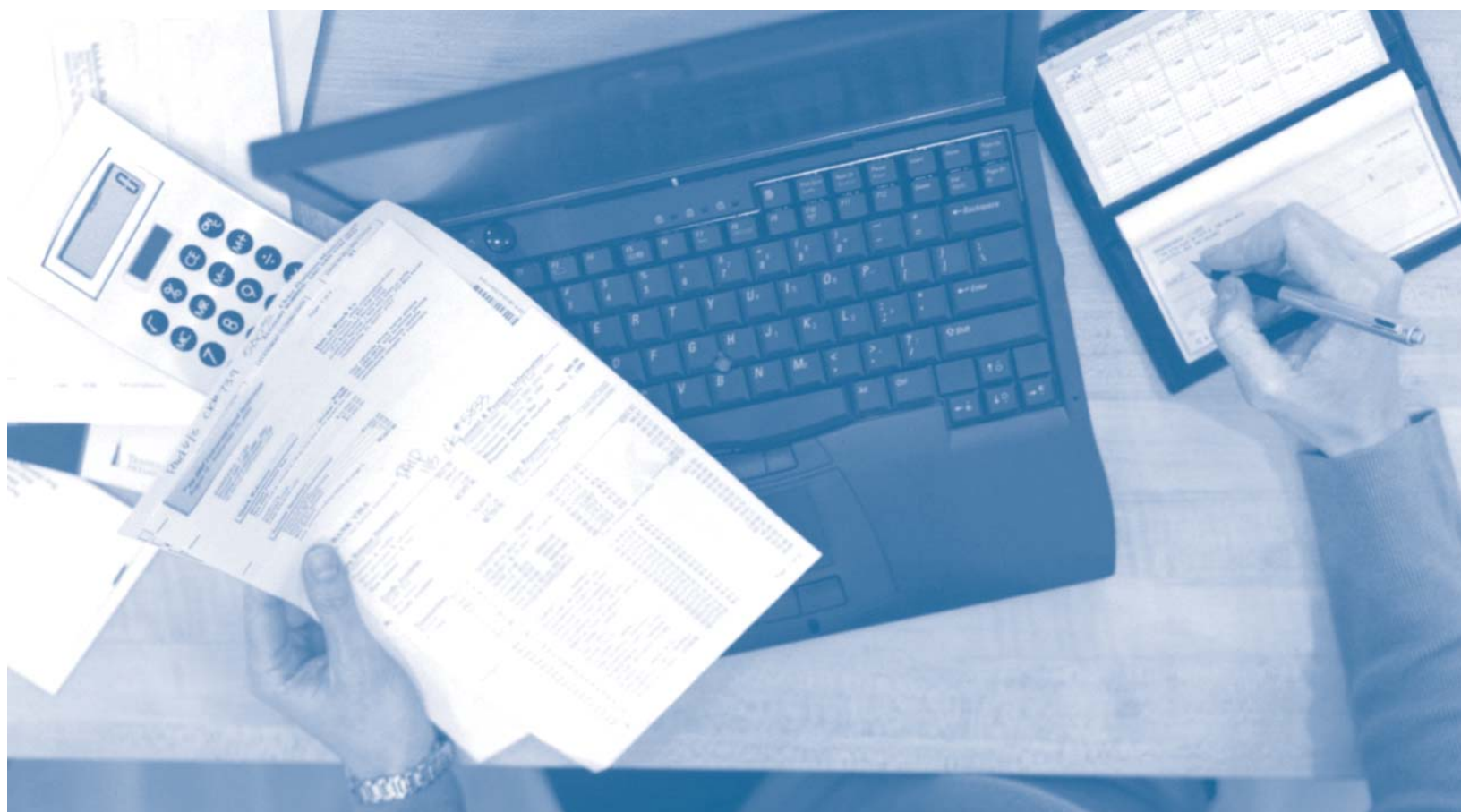


Appendix C

Status of consumer provision regulations as of March 31, 2004

<i>Name of regulations</i>	<i>Status</i>	<i>Reference No.</i>
<i>Access to Basic Banking Services Regulations</i>	in force	SOR/2003-184
<i>Cheque Holding Policy Disclosure (Banks) Regulations</i>	in force	SOR/2002-39
<i>Complaint Information (Authorized Foreign Banks) Regulations</i>	in force	SOR/2001-370
<i>Complaint Information (Banks) Regulations</i>	in force	SOR/2001-371
<i>Complaint Information (Canadian Insurance Companies) Regulations</i>	in force	SOR/2001-373
<i>Complaint Information (Foreign Insurance Companies) Regulations</i>	in force	SOR/2001-372
<i>Complaint Information (Retail Associations) Regulations</i>	in force	SOR/2001-374
<i>Complaint Information (Trust and Loan Companies) Regulations</i>	in force	SOR/2001-375
<i>Cost of Borrowing (Authorized Foreign Banks) Regulations</i>	in force	SOR/2002-262
<i>Cost of Borrowing (Banks) Regulations</i>	in force	SOR/2001-101
<i>Cost of Borrowing (Canadian Insurance Companies) Regulations</i>	in force	SOR/2001-102
<i>Cost of Borrowing (Foreign Insurance Companies) Regulations</i>	in force	SOR/2001-103
<i>Cost of Borrowing (Retail Associations) Regulations</i>	in force	SOR/2002-263
<i>Cost of Borrowing (Trust and Loan Companies) Regulations</i>	in force	SOR/2001-104
<i>Disclosure of Charges (Authorized Foreign Banks) Regulations</i>	in force	SOR/99-278
<i>Disclosure of Charges (Banks) Regulations</i>	in force	SOR/92-324
<i>Disclosure of Charges (Retail Associations) Regulations</i>	in force	SOR/2003-297
<i>Disclosure of Interest (Authorized Foreign Banks) Regulations</i>	in force	SOR/1999-272, as amended by SOR/2001-468
<i>Disclosure of Interest (Banks) Regulations</i>	in force	SOR/1992-321, as amended by SOR/2001-469
<i>Disclosure of Interest (Retail Associations) Regulations</i>	in force	SOR/2003-298
<i>Disclosure of Interest (Trust and Loan Companies) Regulations</i>	in force	SOR/1992-322, as amended by SOR/2001-470

<i>Name of regulations</i>	<i>Status</i>	<i>Reference No.</i>
<i>Disclosure on Account Opening by Telephone Request (Authorized Foreign Banks) Regulations</i>	in force	SOR/2001-471
<i>Disclosure on Account Opening by Telephone Request (Banks) Regulations</i>	in force	SOR/2001-472
<i>Disclosure on Account Opening by Telephone Request (Retail Associations) Regulations</i>	in force	SOR/2003-299
<i>Disclosure on Account Opening by Telephone Request (Trust and Loan Companies) Regulations</i>	in force	SOR/2001-473
<i>Financial Consumer Agency of Canada Assessment of Financial Institutions Regulations</i>	in force	SOR/2001-474
<i>Financial Consumer Agency of Canada Designated Violations Regulations</i>	in force	SOR/2002-101
<i>Index-linked Deposits Interest Disclosure Regulations</i>	in force	SOR/2002-102
<i>Notice of Branch Closure (Banks) Regulations</i>	in force	SOR/2002-104, as amended by SOR/2003-70
<i>Notice of Branch Closure (Cooperative Credit Associations) Regulations</i>	in force	SOR/2002-105, as amended by SOR/2003-70
<i>Notice of Branch Closure (Trust and Loan Companies) Regulations</i>	in force	SOR/2002-106, as amended by SOR/2003-70
<i>Notices of Uninsured Deposits Regulations</i>	in force	SOR/99-388, as amended by SOR/2002-338
<i>Public Accountability Statements (Banks, Insurance Companies, Trust and Loan Companies) Regulations</i>	in force	SOR/2002-133



Appendix D

Major codes of conduct and *public commitments* *monitored by FCAC*

Codes of conduct

Canadian Bankers Association (CBA) Code of Conduct for Authorized Insurance Activities

Outlines the banks' standards for branch employees to offer credit, travel and personal accident insurance. Deals with training, disclosure, promotion practices, customer privacy protection and customer redress.

Canadian Code of Practice for Consumer Debit Card Services

Outlines industry practices and consumer/industry responsibilities. Designed to protect Canadian consumers who use debit card services.

Codes of Conduct for Bank Relations with Small and Medium-Sized Businesses

Each bank develops and applies its own code to the business activities it conducts with small and medium-sized enterprise (SME) customers. Every code includes the key elements of the CBA Model Code of Conduct, the minimum standard for banks dealing with SMEs.

Principles of Consumer Protection for Electronic Commerce: A Canadian Framework

Intended to guide the actions of businesses, consumers and governments in Canada to develop a consumer protection framework for electronic commerce over open networks, including the Internet.

Public commitments

Credit Cards

Several financial institutions have made formal commitments to protect consumers from the unauthorized use of credit cards. These commitments outline consumers' liability for fraudulent transactions.

Guidelines for the Transfer of Registered Plans

Explanation of the maximum time that banks may require to process transfers of deposit-type registered plans.

Low-Cost Accounts

Eight Canadian financial institutions have undertaken to offer accounts that meet guidelines set out by the federal government since February 2001, with the aim of ensuring that Canadians have access to affordable banking services.

Plain-Language Mortgage Documents

Reflect the banks' commitment to improving the understandability of residential mortgage documents.

Undertaking on Right of Rescission of Index-linked Deposits Purchased by Telephone

For telephone purchasers of index-linked deposits who have not received the required written statement prior to purchase, seven Canadian financial institutions have committed to allowing the opportunity to rescind the purchase within 48 hours from the actual or deemed receipt of such a statement, whichever is earlier.

Undertaking on Unsolicited Services

Six Canadian financial institutions have committed to implementing procedures designed to protect consumers when offering unsolicited services.

Note: For definitions of the terms "code of conduct" and "public commitment," see Appendix A (Glossary).





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