ESTIMATES

Office of the Superintendent of Financial Institutions Canada

Performance Report

For the period ending
March 31, 1999

Canada

Improved Reporting to Parliament
Pilot Document

The Estimates of the Government of Canada are structured in several parts. Beginning with an overview of total government spending in Part I, the documents become increasingly more specific. Part II outlines spending according to departments, agencies and programs and contains the proposed wording of the conditions governing spending which Parliament will be asked to approve.

The *Report on Plans and Priorities* provides additional detail on each department and its programs primarily in terms of more strategically oriented planning and results information with a focus on outcomes.

The *Departmental Performance Report* provides a focus on results-based accountability by reporting on accomplishments achieved against the performance expectations and results commitments as set out in the spring *Report on Plans and Priorities.*

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Office of the Superintendent of Financial Institutions Canada

Performance Report

**For the
period ending
March 31, 1999**

James Peterson
The Secretary of State
(International Financial Institutions)

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Minister’s Message

The Office of the Superintendent of Financial Institutions (OSFI) exists primarily to safeguard policyholders, depositors and private plan members from undue loss. It advances and administers a regulatory framework that contributes to public confidence without unduly restricting the competitiveness of the regulated entities. A secondary function is to provide actuarial and other services to the Government of Canada.

In addition to its regulatory work, OSFI must formulate supervisory strategies to respond to key risk factors and identify and assess the emerging risks created by changing technological and market conditions. Looking ahead, OSFI’s prudential mandate will become ever more demanding, with recent or pending changes to the scope of its role. There are likely to include the regulation and supervision of foreign bank branches, and a number of new institutions, some of which may be riskier than those the Office has worked with in recent years, and financial holding company structures which will be more difficult to regulate and supervise.

OSFI also provides actuarial and other services to the Government of Canada; this activity is unrelated, however, to its supervisory mandate. In order to carry out this responsibility effectively, a separate organization unit, the Office of Chief Actuary (OCA), has been created. An Oversight Committee, made up of clients of the OCA and chaired by the Superintendent, oversees its administration.

Since OSFI’s regulatory activities are entirely funded by assessments and fees collected from financial institutions and pension plans, any cost increase for these activities would not be borne by the taxpayers. However, OSFI is mindful of the financial burden on the regulated entities and is committed to full and open dialogue with its stakeholders on the costs and benefits of its work.

Section I: Chart of Results for Key Commitments

The Office of the Superintendent of Financial Institutions		
To provide Canadians with:	**To be demonstrated by:**	**Achievement reported:**
Sound and responsive regulation and supervision of federally registered financial institutions and pension plans	• Safeguarding policy holders, depositors and pension plan members from undue loss • Putting in place supervisory and regulatory strategies that respond to emerging risks • Contributing to public confidence in Canadian financial institutions and pension plans • Taking into consideration the competitiveness of the entities supervised	Section III
Actuarial advice and other services	• Services are provided to Parliament and other federal programs and pension funds in a professional, cost-effective and timely manner	Section III

Section II: Departmental Overview

Mandate

OSFI derives its mandate from the *Office of the Superintendent of Financial Institutions Act*. It is responsible for regulating and supervising all federally registered banks, insurance, trust and loan companies, cooperative credit associations and fraternal benefit societies. OSFI also monitors federally regulated pension plans and provides actuarial advice to the Government of Canada. In addition, OSFI administers the following:

- *Bank Act;*
- *Insurance Companies Act;*
- *Trust and Loan Companies Act;*
- *Cooperative Credit Associations Act; and*
- *Pension Benefits Standards Act, 1985.*

The Office also has duties imposed by portions of the

- *Public Pensions Reporting Act; and*

  Canada Pension Plan.

Mission Statement

Mission

We are the primary regulator of federal financial institutions and pension plans. Our mission is to safeguard policyholders, depositors and pension plan members from undue loss. We advance and administer a regulatory framework that contributes to public confidence in a competitive financial system. We also provide actuarial services and advice to the Government of Canada.

We are committed to providing a professional, high quality and cost-effective service.

Objectives

Five strategic objectives flow from the mission statement. These five objectives form the basis of the accountability framework against which OSFI will assess progress in carrying out its mandate.

Safeguarding from Undue Loss

> We identify institution-specific risks and trends and intervene in a timely manner so as to minimize losses to policyholders, depositors and pension plan members.

Public Confidence

> We contribute to public confidence by enhancing the safety and soundness of the Canadian financial system. We evaluate system-wide risks and promote the adoption of sound business and financial practices.

Quality

> We continually improve the knowledge and skills of our people and the quality of our processes and systems to meet the challenges of a rapidly changing environment.

Cost-Effectiveness

> We maintain a full and open dialogue with our stakeholders on the costs and benefits of our work.

Competition

> We fulfil our regulatory mandate having due regard for the need to allow institutions to compete effectively.

Operating Environment and Challenges

At this stage in the economic cycle, the profitability level for financial institutions remains strong and the industry is generally sound. OSFI does not expect any severe economic downturn within the next three years that will drastically affect financial institutions.

OSFI is aware of the rapid changes in the financial sector. Financial institutions are adding new products and technologies, expanding into new businesses and geographic locations, as well as assuming new risks. There have been a number of acquisitions and business consolidations. At the same time new players, both regulated and unregulated, are entering the financial sector. OSFI must understand the implications of these developments and adjust, as necessary, its regulatory and supervisory process.

OSFI competes with the private industry in hiring and retaining qualified personnel that are essential for carrying out its mandate. Therefore OSFI must have the compensation regime and personnel policies that are commensurate with what the private industry offers. Although it has "separate employer" status, OSFI is currently subject to the *Public Service Employment Act* and is bound by certain Treasury Board and Public Service Commission policies affecting levels and methods of compensation and OSFI's ability to recruit, retain and deploy its people. OSFI will continue discussion with these two organizations to obtain the flexibility needed to accomplish its mission.

Section III: Departmental Performance

Plans, Priorities and Strategies

(A) Summary of Objectives

- Safeguarding depositors, policyholders, and pension plan members from undue loss caused by failure of financial institutions or private pension plans

- Provision of regulatory and supervisory services for financial institutions and private pension plans that are cost effective and do not unduly impede the competitiveness of regulated industries

- Provision of actuarial services regarding public pension plans that contribute towards maintaining the solvency and cost effectiveness of these plans

(B) Significant Initiatives Regarding Legislation and Regulations

Foreign Bank Branching

Throughout 1998-99, OSFI collaborated with the Department of Finance in developing legislative amendments that would permit foreign banks to operate in Canada on a branch basis. Until now, foreign banks have had to incorporate a foreign bank subsidiary (a Schedule II bank) or establish a representative office in order to carry out activities in Canada.

The Government originally announced its decision to permit foreign bank branching in February 1997. Because the MacKay Task Force on the Canadian Financial Sector planned to complete hearings and report its findings in September 1998, the Government decided to defer introducing branching amendments until the Task Force had commented on this issue. The MacKay Report endorsed foreign bank branching. After consultation with industry officials, legislation including branching amendments (Bill C-67) was tabled in February 1999 and came into force in June 1999.

Before the legislation was introduced, OSFI created a Foreign Bank Branch Supervision Division to help develop a regulatory and supervisory framework for the branching regime. As part of this process, OSFI's guidelines and regulations were reviewed to determine their appropriateness for bank branches and to make changes where necessary. To support the application process, OSFI released a *Guide to Foreign Bank Branching*. It sets out OSFI's approval criteria, application process and information requirements. One of the key elements of both the entry assessment and ongoing supervision of the branch is a thorough understanding of the supervisory system in the applicant's home country.

The development work in respect of foreign bank branching has involved considerable consultation with other government agencies and the industry. The supervisory methodology and approval process will continue to be refined as the regime progresses through its first year of implementation.

Assessments Levied on Financial Institutions: User Fees and Changes to Assessment Methodology

The regulations implementing the user fees were passed in April 1998. In December, OSFI released a communiqué informing stakeholders that user fees for selected activities would come into effect on January 1, 1999. The communiqué also indicated that in the future there would be a second phase of the user pay program, to introduce fees for an additional number of services. This second phase is expected to consider penalty fees for late or erroneous filings and user fees for services requested by administrators of private pension plans. As well, this phase will evaluate the fairness of OSFI's current assessment of fees to financial institutions. The communiqué also indicated that OSFI will consider introducing fees or assessment surcharges to recover the additional costs associated with enhanced supervision directly from problem institutions.

An improved Time Reporting System was developed in 1998-99. The data collected will be used to allocate the cost of regulatory and supervisory activities to the various industry sectors (passed through as assessments to the industry), and to support the user pay regime, i.e., to verify existing fees for services, and to set new fees. Looking ahead, data collected by the Time Reporting System will be used for a wide-ranging study of OSFI's methodology for recovering costs. This study is expected to begin in 1999-2000.

Northumberland General Insurance Company Regulations

The new Insurance Company Assessed Expenses Recovery Regulations permitting OSFI to issue refund cheques to insurance companies that contributed towards the liquidation expenses for Northumberland General Insurance Company came into force on April 15, 1999.

(C) Details by Program and Business Lines

OSFI has one program and two business lines. They are (1) Supervision of financial institutions and private pension plans, and (2) Provision of actuarial and other services to the government of Canada.

C-1: Supervision of Financial Institutions and Private Pension Plans

Objective

OSFI's primary objective is to safeguard policyholders, depositors and pension plan members from undue loss and to maintain public confidence in the Canadian financial system without unduly restricting the competitiveness of supervised entities.

External factors Influencing the Business Line

See "Operating Environment and Challenges" in Section II.

Key Plans and Strategies

In order to be successful in meeting its planned future, OSFI has targeted several key strategies. These strategies serve to identify priority areas for OSFI over the medium term and provide a bridge between its long term strategic objectives and its annual action plans. The strategies are listed below under their respective Strategic Objective.

Strategic Objective 1: Safeguard from undue loss

Review and Re-challenge Regulatory and Supervisory Practices

OSFI's new organization structure (announced in the previous fiscal year) has greatly facilitated the implementation of OSFI's new Supervisory Framework. OSFI's methodology has long been risk-based, but the changes outlined in the Framework represent a further evolution in this direction. With this approach, an institution can in principle assume higher risks without attracting supervisory consequences — provided the quality of its risk mitigants, such as internal control procedures, is commensurately enhanced. As a result, OSFI's activities and associated compliance costs to institutions are more directly related to the Office's assessment of net risk levels.

These changes in methodology position OSFI to better deal with the increased complexity in the financial system and to supervise some of the new entities and corporate structures that are expected to emerge as a result of proposed changes to the regime that governs the financial sector. They foster better risk management and governance processes at regulated institutions, thus contributing to their financial soundness. Risk-focussed supervision also positions OSFI to better carry out its early intervention policy, since problems can often be identified before their consequences show up on the bottom line.

As well, OSFI takes action to mitigate cross-system risks, for example, by encouraging institutions to improve risk management practises and enhance their capital and reserves where necessary. To this end, OSFI also issues specific guidance to institutions.

The full deployment and fine-tuning of the risk-based methodology outlined in the Supervisory Framework is a multiyear process. In 1998-99, OSFI addressed two priorities.

The first priority was a comprehensive assessment of the inherent risks associated with the major activities of large institutions, and the quality of risk mitigants like control and governance systems. This assessment allowed OSFI to more clearly identify key areas for further investigation, and it will be further refined as the implementation of the new methodology is phased in over the next few years. In conducting this risk assessment, OSFI's new organizational structure — with groups assigned to supervise large deposit-taking conglomerates, life insurance conglomerates, as well as smaller institutions — allowed better comparisons of individual institutions with their peers. These peer comparisons, supplemented with general feedback to institutions, have proved to be important and effective tools for supervision.

The second priority was to take a more proactive stance in dealing with prudential concerns at financial institutions. This meant, for example, that companies with control deficiencies were rated at Stage One or worse, even if their financial condition was acceptable. (Stage One is the "Early Warning" stage, where deficiencies are identified and closer than normal supervisory monitoring is warranted.) In such cases, OSFI's concerns were conveyed forcefully to Boards of Directors and senior management. The Office also set aggressive timetables for certain institutions to begin implementing plans to rectify any deficiencies that had been identified

Detailed System Reviews

The Office undertook detailed system reviews in three areas in 1998-99. The first was related to Y2K readiness of financial institutions. The second covered trading risk management at major deposit-taking institutions. The third review was a continuation of the Office’s ongoing effort to improve the level of general allowances for credit risk and to enhance the methods for determining the allowances. General guidance was issued on this topic during 1998-99, including criteria against which to assess the adequacy of general allowances. At the same time, the focus was shifted from methodology to the adequacy of allowances, and OSFI worked actively with deposit-taking institutions to strengthen their allowances.

In 1999-2000, OSFI plans to focus again on the methodology issues, working on criteria that reflect best practices for determining general allowances. The Office has also emphasized that while it expects such allowances to be built up, it also anticipates they will be drawn down when economic or credit conditions deteriorate. As well, the Office is currently responding to the industry's request for further guidance on how this draw-down should operate.

Strategic Objective 2: Public Confidence

Review and Re-challenge Regulatory and Supervisory

See above

Capital Initiatives

Capital is the buffer provided by owners of financial institutions to protect against unexpected losses. It is an essential element in the protection of depositors and policyholders. During 1998-99, OSFI undertook a number of initiatives to improve the capital rules while recognizing the need for institutions to compete domestically and internationally. In particular, OSFI launched reviews of capital rules for the life and property and casualty insurance industries.

Industry innovations, global market developments and capital levels internationally led OSFI to suggest that for deposit-taking institutions to be considered strongly capitalized for regulatory purposes, they should have capital ratios of at least seven per cent for Tier 1 Capital and 10 per cent for total capital. OSFI also raised the maximum level of general allowances eligible for inclusion in Tier 2 capital from 0.625 per cent to 0.750 per cent of risk-weighted assets, and undertook to review this limit in conjunction with the capital treatment of deferred tax assets.

OSFI has also been working with industry associations and others to develop domestic guidance on the implementation of a Basel Committee on Banking Supervision interpretation that would allow banks to include certain innovative securities in Tier 1 capital. A draft set of principles was circulated to the industry in April 1999.

Throughout 1998-1999, OSFI contributed to the Basel Committee review of the 1998 Capital Accord, which seeks to better correlate regulatory capital requirements to risk and to enhance competitive equality. The proposed framework consists of three pillars: minimum capital requirements, a supervisory review process of bank practices and process, and expanded use of market discipline.

Help Key Stakeholders Understand What OSFI Can Realistically Accomplish

In September 1998 the MacKay Report was issued, containing 124 recommendations for reforms to the financial services marketplace. OSFI provided information and views on a number of issues to the Task Force. After the release of the report, OSFI worked closely with the Department of Finance, the Canada Deposit Insurance Corporation and the Bank of Canada in developing the government's response. The government's response, *Reforming Canada's Financial Services Sector*, was released in June 1999.

OSFI's primary interest, consistent with its mandate, has been in proposals that might increase risk in the financial sector, such as the creation of new holding companies for large financial institutions, changes to ownership policies, and lower capital levels for new entrants. OSFI has stressed on many occasions that some of its strategic objectives counterbalance others. In the case of the government's proposals, some measures to increase competition can be expected to increase risk in the financial system. OSFI recognizes that from a public policy perspective, the potential benefits of these proposals outweigh potential costs. OSFI will use the active implementation of its early intervention policy — coupled with a focus on key risk areas when monitoring institutions and certain regulatory changes proposed by the government — in striving to carry out its mandate of safeguarding policyholders and depositors in a potentially higher risk environment.

Contribute to the Development of Stronger International Regulatory and Supervisory Framework for Financial Institutions

The Canadian financial sector is tightly integrated into the world marketplace. Domestic banks source 35 per cent of their income (interest and other) from outside the country. Canadian life insurers write 58 per cent of their premiums abroad. As well, foreign banks and insurers play an important role in the Canadian marketplace, offering an additional measure of choice and competition to consumers. In the property and casualty industry, for example, foreign owned companies accounted for some 67 per cent of net premiums written.

The international financial crisis that started in Asia in 1997 — and that subsequently spread to other continents — has highlighted the importance of strong banking systems and effective banking supervision. Supervisory agencies such as OSFI are increasingly drawn into discussions with finance ministries, central banks, the IMF, the World Bank and others on how to help countries ensure their regulatory and supervisory regimes can withstand the challenges of the global financial marketplace. In 1998, OSFI participated in the G-22 Working Group on Strengthening Financial Systems. This group's recommendations led to the creation of the Financial Stability Forum which now meets regularly to assess issues and vulnerabilities affecting the global financial system, and identify and oversee the actions needed to address them. The Superintendent is a member of the Forum.

OSFI has also played a key role in the creation of The Toronto International Leadership Centre for Financial Sector Supervision, and continues to participate in its program delivery and governance. Created in 1997 in collaboration with the World Bank and the Schulich School of Business at York University, it delivered its first program for bank supervisors in 1998. It provides a unique forum where senior financial sector supervisors from around the world can share their experiences in handling supervisory challenges — including failures of major financial institutions — and also enhance their skills in implementing effective supervisory regimes. The Centre, which now also receives support from the Canadian International Development Agency and the International Monetary Fund, is planning to extend its program to securities supervisors in 1999, and to insurance supervisors in the year 2000. It will collaborate closely with the new BIS Financial Stability Institute as its program expands.

Strategic Objective 3: Quality

As OSFI changes the way in which it regulates and supervises financial institutions and pension plans, it has made some important administrative changes in support of these initiatives. In 1998, 17 separate pay groups were combined into one new Universal Classification System, one of the first such systems to be introduced in a federal government department. This will make it easier to redeploy talent within OSFI and has also removed some classification and compensation anomalies throughout the organization. In addition, OSFI was one of the first federal agencies to introduce a performance compensation program including re-earnable bonuses for all qualifying employees.

Employer of Choice

The rapid changes occurring in Canada's financial sector required OSFI to change its organizational structure and to improve work and management practices.

These changes created opportunities for advancement, allowing staff to assume more responsibility and broaden their experience. Coupled with an emphasis on continuous learning — in both formal settings and on the job — OSFI continues to work towards its goal of becoming an "employer of choice."

A number of key initiatives were involved in these changes. First, a more flexible organization structure was created, with most divisions reorganized and most OSFI employees assigned to tasks that were new or substantially revised. The role of divisions was changed and smaller teams were created. As well, the Winnipeg Office was closed, with the work reassigned to other groups. New functional and industry specialists groups were formed into a Specialist Support Sector. It is expected that these specialist groups will continue to evolve and grow to meet OSFI's changing demands.

In seeking to become a learning organization, OSFI is developing a comprehensive suite of training and self-learning programs, closely linked to on-the-job requirements, recruiting, and career planning. These programs seek to respond to the needs of OSFI employees in both technical and non-technical areas. Training budgets have been increased, with a commitment to provide a minimum of five days training per year per employee.

OSFI is also encouraging a coaching/facilitating style of management. With smaller divisions, managers can now work more closely with their staff. Responsibilities are better defined throughout OSFI, and goal commitment documents are now commonly used in planning. As well, OSFI's values of commitment, teamwork, professionalism and integrity have been articulated and steps are being taken to incorporate them into our work on a day-to-day basis.

Human Resource Management

To link the management of human resources to the OSFI Strategic Plan, OSFI has developed a medium term plan entitled *Your Vision - Our Mission* which provides linkages and direction for the continuing evolution of human resource management programs.

Employee mobility between sectors and divisions has been facilitated by appointing management personnel to levels rather than positions. A rotation program has been started. The Career Management Program, which recruits new employees directly from universities and manages the early stages of their careers through on-the-job and external training, was enhanced with additional participants and more program development.

As part of an increased emphasis on performance management, the performance evaluation process was improved and performance pay was put in place at all levels of the organization, with effect from April 1, 1999 based on performance in 1998-99.

A project to develop competency profiles for all jobs at OSFI was initiated and should be completed in the next two to three years. Competency profiles are expected to enhance the Office's ability to recruit candidates — both internally and externally — for vacant positions.

A comprehensive Employee Opinion Survey was carried out in 1997 to establish a benchmark for periodic assessment of employee satisfaction at OSFI. Since then, an Employee Advisory Committee has made recommendations for improvements at OSFI to respond to the results of the survey. Work has begun on the next survey, scheduled for late 1999. Its results will be reported in the 1999-2000 Annual Report.

Service Level Agreements

As part of the Office's development of performance standards and measures, the Information Technology (IT) Division has begun to implement Service Level Agreements (SLAs) with the other OSFI divisions that are its "customers." Within the SLA initiative, the IT Division identified 10 core services that it is able to provide, given the resources available. For each core service, specific service levels or standards were established, together with tracking mechanisms and measurement tools.

In 1999-2000, the IT Division will introduce SLAs to all OSFI divisions, starting with a pilot in the first two quarters of the year, but with full office implementation over the final two quarters. Implementation will involve negotiation with individual divisions or sectors to identify specific services and/or service levels; awareness sessions with all OSFI staff; implementation of tools and reports to measure performance; and continuous refinement of service delivery. The SLAs will be re-visited and re-negotiated on an annual basis as part of the Office's business planning process.

Corporate Information Database

Considerable progress was made during 1998-99 in developing a database of non-financial, or "corporate" information on all federally regulated financial institutions, to complement OSFI's existing financial reporting and analysis database applications.

Currently scheduled for completion in the fall of 1999, this new database will provide the entire organization with ready access to accurate corporate information, replacing a number of existing (and often duplicative) stand-alone, limited-access electronic and paper-based systems. Already the application is proving its value, recording all significant events (such as incorporations, amalgamations, name changes, and dissolutions) affecting institutions. It also feeds data to other internal systems, including the Time Reporting System and some of the performance measures the Office is now using.

Strategic Objective 4: Cost Effectiveness

New Business Management Model

The business planning process was redesigned during 1998-99. Using the OSFI Strategic Plan, full business plans were developed for all cost centres. To facilitate this process, new business planning software was designed and implemented. Looking to the current year (1999-2000), an improved quarterly review of financial plans is being implemented.

Strategic Objective 5: Competitiveness

OSFI moved forward proactively in 1998-99 with a number of initiatives intended to foster increased competition in the Canadian financial marketplace. These included demutualization, foreign bank branching, and accounting rules for business combinations.

Demutualization

In March 1999, the government passed legislation and made regulations allowing Canada’s large mutual insurance companies to convert into companies with publicly traded common stock – a process called “demutualization”. In converting to a stock company, eligible policyholders become shareholders and the company gains greater access to capital markets. As of early September 1999, one company had completed this process, another was close, and two others had made significant process.

The legislative regime allowing demutualization includes several measures to protect the interests of policyholders. For example, OSFI is required to approve material that is sent to policyholders to help them form a reasoned judgement on demutualization. OSFI has worked with the companies to ensure that policyholder information was prepared in a plain language format. OSFI also required the companies to include expert opinions on the value of the company and whether the method of allocating that value to policyholders was fair and equitable. To help OSFI evaluate the reports and opinions provided by the companies, their investment bankers, and the independent actuaries, the Office engaged its own actuarial and financial advisors. As well, OSFI’s supervisory staff have reviewed the progress made by the companies in launching their investor relations operations, in anticipation of the companies completing their proposed demutualizations.

OSFI also established a 1-800 number to assist in responding to policyholder questions on demutualization. In addition, OSFI indicated that it would make public any instances where the Superintendent provided demutualizing companies with exemptions from the regulations. At the time of writing, only one exemption had been granted, allowing a company to use, in its policyholder information documents, financial statements that at the date of mailing to policyholders, were more than 120 days beyond their effective date. OSFI issued a guidance note explaining the circumstances under which similar exemptions would be considered.

Foreign Bank Branching

Throughout 1998-99, OSFI collaborated with the Department of Finance in developing legislative amendments that would permit foreign banks to operate in Canada on a branch basis. Until now, foreign banks have had to incorporate a foreign bank subsidiary (a Schedule II bank) or establish a representative office in order to carry out activities in Canada.

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The development work in respect of foreign bank branching has involved considerable consultation with other government agencies and the industry. The supervisory methodology and approval process will continue to be refined as the regime progresses through its first year of implementation.

Accounting for Business Combinations

As concluded by the Task Force on the Canadian Financial Sector, Canadian financial institutions are placed at a competitive disadvantage in North America by the significant differences in Canadian and U.S. accounting standards for mergers and acquisitions (i.e. "business combination".

OSFI is concerned that accounting rules should not be a factor in management decisions on the rationalization of financial institutions in North America. Under Canadian rules, accounting for many such mergers and acquisitions results in lower reported earnings and returns on equity than if they were completed under U.S. accounting rules. While the best solution is for accounting standards setting bodies to harmonize rules, the Task Force recommended that the Superintendent be ready to use his authority to put in place special accounting rules if these bodies could not act in a timely manner.

During the summer of 1998, OSFI carried out extensive consultations on this issue. Both written and verbal responses supported OSFI's initiative to develop and release interim standards. The temporary use of the U.S. approach was the alternative most favoured by respondents.

OSFI has consistently maintained that the preferred solution would be for the Accounting Standards Board (AcSB) to deal with the competitive disadvantages faced by the financial institutions by amending its standard. In September 1998, after discussions with the AcSB and the Canadian Institute of Chartered Accountants, OSFI agreed to hold in abeyance any move on its part to prescribe special accounting rules for mergers and acquisitions while these accounting bodies committed to an accelerated process to address the competitive imbalance by the end of 1999.

OSFI has been actively monitoring the process, urging the adoption of interim solutions in advance of full harmonization. The Office, however, is in a position to act should the standard-setting process fail to deal adequately and expeditiously with the issue.

Performance Measures

The development of a meaningful measure to gauge how OSFI's activities affect the competitive nature of Canada's financial marketplace is a complex challenge. Many of the interrelated variables that such a measure would encompass are subjective in nature, and the formal definition of some of the variables would involve public policy considerations that extend beyond OSFI's prudential mandate.

OSFI has reviewed the work of a number of organizations on the subject of regulatory impact, in an effort to find a mechanism for measuring the impact of its own regulatory activities on competition in the Canadian marketplace and the competitiveness of Canadian institutions. Nothing suitable has yet been found, and OSFI will be commissioning further research in this complex area. Results will be reported as they become available.

Results Achieved in 1998-99

OSFI's Loss Recovery Index is a cumulative index, based on completed liquidations or liquidations where the liquidator is reasonably confident about projecting the ultimate level of recovery. Using data accumulated since OSFI was formed in 1987, it expresses, as a percentage of the amount owing, the amount that depositors or policyholders can expect to receive, discounting for the time value of money. The calculation does not include any top-up payments made by industry guarantee plans on insured products. The current index is 91 per cent, which represents a slight improvement over the level calculated at the end of the previous year. There were no new failures or liquidations in 1998-99, and the loss recovery position was strengthened by the finalization of the recovery from the liquidation of Confederation Life Insurance Company in which policyholders are expected to be fully paid.

Confederation Life has been the largest and one of the most complex insolvencies in North America, involving consolidated assets (including assets under administration) of some $30 billion. In April 1999, the liquidator, KPMG Inc., announced that Canadian policyholders would receive full payment on their policies, with interest. The U.S. rehabilitator is also hopeful of a full recovery for U.S. policyholders. Full recovery by policyholders confirms that the regulatory system worked as intended to minimize losses to policyholders.

C-2: Provision of Actuarial and Other Services to the Government of Canada

Summary Financial Information by Business Line

Planned Spending (1998–99 RPP)*	$1,626,000
Total Authorities	$1,626,000
1998–99 Actuals	**$1,668,821**

***Report on Plans and Priorities

Objective

The objective is to provide actuarial and other services to the Government of Canada in a professional, efficient, cost effective and timely manner.

External Factors Influencing the Business Line

OSFI provides actuarial reports, advice and services on public pension plans like the Canada Pension Plan (CPP), Old Age Security (OAS) as well as other plans for the Public Service, Members of Parliament, Canadian Forces etc. Annual contribution and taxes for these programs is about $43 billion and total liabilities amounts to about one trillion dollars. The ageing of the Canadian population and fluctuation in disability claims will put increasing cost pressure on public pension plans. It is absolutely essential to provide the government with objective and accurate assessment of the plans' financial situation and the effect of any proposed changes so that the right decisions can be made.

Key Plans & Strategies

Since the objective of this business line is significantly different than the objective of OSFI's primary business objectives, a separate organization structure is required to carry out this function effectively. The Office of the Chief Actuary (OCA) responsible for this business line has been structured as a distinct activity, still legally part of OSFI, but operationally quite separate from it. OCA has taken on its own separate identity and has its own Oversight Committee made up of senior representatives of the Department of Finance, the Treasury Board Secretariat and Human Resources and Development Canada, all "clients" of the OCA. The Superintendent of Financial Institutions chairs this committee. The function of the committee is to provide the Superintendent with advice on issues normally considered by a Board of Directors. This change was effective April 1, 1998.

Results Achieved in 1998-99

In December 1998, the Seventeenth Actuarial Report on the CPP was tabled in Parliament. It was then formally reviewed by a panel of three experienced independent actuaries, who issued their report in April 1999. Both of these reports confirmed that changes contained in Bill C-2 have put the Plan in a financially stable position. (Bill C-2, *An Act to Amend the Canada Pension Plan*, became law in 1997, and included changes to benefit eligibility, contribution levels, and investment policies of the Plan.) The review panel also made several suggestions for improving future actuarial reports on the CPP, which are under consideration.

Statutory actuarial reports were completed on several public sector plans, including the Fourth Actuarial Report on the Old Age Security Program. In addition, the OCA was actively involved in assessing the cost and administrative implications of significant changes proposed to the Public Service, Canadian Forces and RCMP pension plans.

Section IV: Consolidated Reporting

Measures Taken to Foster Year 2000 Readiness at Financial Institutions

Since 1996, OSFI has been working with federally regulated financial institutions to help ensure that they will be Year 2000 (Y2K) ready. In January 1999, the Office issued a letter describing Y2K milestones that institutions must meet. Those milestones are consistent with guidance issued by leading regulators in other jurisdictions, and required internal testing and implementation of critical systems by March 31. Testing of external interfaces, contingency plans and reviews of borrower and counterparty readiness must have been done by June 30. In May, the Office issued additional guidance on liquidity contingency planning.

Almost all federally regulated institutions have reported to OSFI that they were progressing on schedule and had met its milestones. The few outliers (institutions lagging in their Y2K preparations) operate in relatively limited markets, and have been subjected to a more intense supervisory focus.

It is possible that the Y2K issue may give rise to some problems; however, based on the information OSFI has gained to date through its supervisory activities, the Office does not expect significant issues to arise in the Canadian financial services sector.

During the remainder of 1999, the industry is completing any outstanding Year 2000 changes as well as testing and re-testing systems, interfaces and contingency plans to ensure that they are ready. OSFI will continue ongoing monitoring, periodic examinations, and use of appropriate supervisory intervention tools in order to keep institutions focussed on Year 2000 readiness. In this way we can take any appropriate actions in advance of the millennium date change. OSFI itself is finalizing its own contingency plans so it can act if necessary to protect policyholders and depositors, should any serious Y2K problems arise at regulated financial institutions.

OSFI also participates with other international regulatory organizations, such as the Bank for International Settlements Joint Year 2000 Council, to share information on supervisory approaches.

Internal Year 2000 readiness

A Year 2000 task force was established to develop and test its business resumption plan. This plan addresses OSFI's requirements for recovering from any possible business disruption caused by a Year 2000-related failure. The plan identifies business-critical services, and the human, financial and other resources required to provide these services during a crisis period.

OSFI has provided the Treasury Board of Canada with a report outlining OSFI's adherence to Year 2000 standards regarding its internal information technology infrastructure.

Section V: Financial Performance

Financial Table 1: Summary of Voted Appropriations

A. Authorities for 1998–99

Financial Requirements by Authority (thousand of dollars)

		1998–99 Planned Spending	1998–99 Total Authorities	1998–99 Actual
Vote	**Program Name**			
	Office of the Superintendent of Financial Institutions			
40	Program Expenditures	1,626	1,626	1,669
	Total Department	**1,626**	**1,626**	**1,669**

Financial Table 2: Comparison of Total Planned Spending to Actual Spending

Departmental Planned versus Actual Spending by Business Line (thousands of dollars)

Business Lines	FTEs	Operating	Capital	Voted Grants & Contri-butions	Subtotal: Gross Voted Expendi-Tures	Statutory Grants and Contri-butions	Total Gross Expen di-tures	Less: Respend-able Revenue	Total Net Expendi-tures
Supervision of Financial Institutions and private pension plans									
Planned Spending	385	43,697	*1,349*	–	45,064	–	45,064	45,064	-
(Total Authorities)	*404*	*43,697*	*1,349*	–	*45,064*	–	*45,064*	*45,064*	-
(Actuals)	**363**	**48,880**	**451**	–	**49,331**	–	**49,331**	**44,136**	**5,195**
Actuarial and other services to the Government of Canada									
Planned Spending	25	1,611	*15*	–	1,626	–	1,626	-	1,626
(Total Authorities)	*25*	*1,611*	*15*	*3.7*	*1,626*	–	*1,626*	-	*1,626*
(Actuals)	**19**	**1,654**	**15**	**3.3**	**1,669**	–	**1,669**	**-**	**1,669**
Total									
Planned Spending	410	45,308	1,367	0.1	46,675	–	46,675	45,064	1,626
(Total Authorities)	*429*	*45,308*	*1,367*	*4.0*	*46,675*	–	*46,675*	*45,064*	*1,626*
(Actuals)	**382**	**50,534**	**466**	**3.5**	**51,000**	–	**51,000**	**44,136**	**6,864**
Cost of Services Provided by Other Departments									
Planned Spending									93
(Total Authorities)									*93*
(Actuals)									**93**
Net Cost of the Program									
Planned Spending									1,719
(Total Authorities)									*1,719*
(Actuals)									**6,957**

Financial Table 3: Historical Comparison of Total Planned Spending to Actual Spending

Departmental Planned versus Actual Spending by Business Line (thousands of dollars)					
Business Lines	1996–97 Actual	1997–98 Actual	1998–99 Planned Spending	1998–99 Total Authorities[1]	1998–99 Actual
Supervision of Financial Institutions and private pension plans	(2,451)	(805)	0	0	5,195
Actuarial and other services to the Government of Canada	2,466	(1,759)	1,626	1,626	1,669
Total	**15**	**954**	**1,626**	**1,626**	**6,864**

Financial Table 4: Crosswalk Between Old Structure and New Structure

Not Required

Financial Table 5: Resource Requirements by Organization and Business Line

Organization	Supervision of Financial Institutions and Pension Plans	Actuarial and Other Services to the Government of Canada	TOTALS
Regulation Sector	-	-	
Planned Spending	-	–	-
(Total Authorities)	-	–	-
(Actuals)	-	–	-
Supervision Sector			
Planned Spending	-	–	-
(Total Authorities)	-	–	-
(Actuals)	-	–	-
Specialist Support Sector			
Planned Spending	-	–	-
(Total Authorities)	-	–	-
(Actuals)	-	–	-
Corporate Services Sector			
Planned Spending	-	–	-
(Total Authorities)	-	–	-
(Actuals)	5,195	–	5,195
Regulatory and Supervisory Practices Division			
Planned Spending	-	–	-
(Total Authorities)	-	–	-
(Actuals)	-	–	-
Office of Chief Actuary			
Planned Spending	-	1,626	1,626
(Total Authorities)	–	1,626	1,626
(Actuals)	–	1,669	1,669
TOTALS			
Planned Spending	-	1,626	1,626
(Total Authorities)	-	1,626	1,626
(Actuals)	5,195	1,669	6,864
% of TOTAL	75.7%	24.3%	100.0%

Financial Table 6: Respendable Revenues

Respendable Revenues by Business Line (millions of dollars)					
Business Lines	**1996–97 Actual**	**1997–98 Actual**	**1998–99 Planned Spending**	**1998–99 Total Authorities**	**1998–99 Actual**
Supervision of financial institutions and private pension plans	39,478	39,189	45,064	45,064	43,114
Actuarial and other services to the Government of Canada	1,375	1,069	1,300	1,300	1,022
Total Respendable Revenues	40,853	40,258	46,364	46,364	44,136

Financial Table 7: Non-Respendable Revenues

Non-respendable Revenues by Business Line					
Business Lines	**1996–97 Actual**	**1997–98 Actual**	**1998–99 Planned Spending**	**1998–99 Total Authorities**	**1998–99 Actual**
Supervision of financial institutions and private pension plans	-	-		-	-
Actuarial and other services to the Government of Canada	1,374	1,000	-	-	-
Sub-total	**1,374**	**1,000**	-	-	-
Unplanned			-	-	-
Total Non-respendable Revenues	**1,374**	**1,000**	-	-	-

Financial Table 8: Statutory Payments

This table does not apply to OSFI

Financial Table 9: Transfer Payments

Not Required

Financial Table 10: Capital Spending by Business Line

Capital Spending by Business Line ($ thousands)					
Business Line	Actual 1996-97	Actual 1997-98	Planned Spending 1998-99	Total Authorities 1998-99	Actual 1998-99
Supervision of financial institutions and private pension plans	1,083	493	1,349	1,349	451
Actuarial and other services to the Government of Canada	82	77	15	15	15
Total	1,165	570	1,367	1,367	466

Financial Table 11: Capital Projects

Not required.

Financial Table 12: Status of Major Crown Projects

Not required.

Financial Table 13: Loans, Investments and Advances

Not required.

Financial Table 14: Revolving Fund Financial Summaries

Not required.

Financial Table 15: Contingent Liabilities

Contingent Liabilities ($ thousands)		
List of Contingent Liabilities	**Amount of Contingent Liability**	
	March 31, 1998	**March 31, 1999**
Loans	–	–
Claims and Pending and Threatened Litigation		
Litigation	2,500	5,500
Total	**2,500**	**5,500**

Section VI: Other Information

Contacts for Further Information and Departmental Web Sites

Name	Title	Address	Phone	Fax
Supervision of Financial Institutions and Pension Plans				
John Palmer .	Superintendent of Financial Institutions	255 Albert Street, Ottawa, Ontario K1A 0H2	(613) 990-7500	(613) 993-6782
John Thompson	Deputy Superintendent	255 Albert Street, Ottawa, Ontario, K1A 0H2	(613) 990-8010	(613) 993-6782
Nick Le Pan	Deputy Superintendent	255 Albert Street, Ottawa, Ontario K1A 0H2	(613) 990-7628	(613) 993-6782
Edna MacKenzie	Assistant Superintendent	255 Albert Street, Ottawa, Ontario K1A 0H2	(613) 990-7491	(613) 993-6782
Actuarial and Other Services to the Government of Canada				
John Palmer .	Superintendent of Financial Institutions	255 Albert Street, Ottawa, Ontario K1A 0H2	(613) 990-7500	(613) 993-6782
Website: http://www.osfi-bsif.gc.ca				

Legislation and Associated Regulations Administered by the Minister of Finance

Bank Act *S.C. 1991, c.46*

Cooperative Credit Associations Act S"C" 1991, c.48

Insurance Companies Act S.C. 1991, c.47

Office of the Superintendent of Financial Institutions Act R.S. c. 18 (2nd Supp.), Part I

Pension Benefits Standards Act, 1985 R.S. c. 32 (2nd Supp)

Trust and Loan Companies Act S.C. 1991, c. 45