

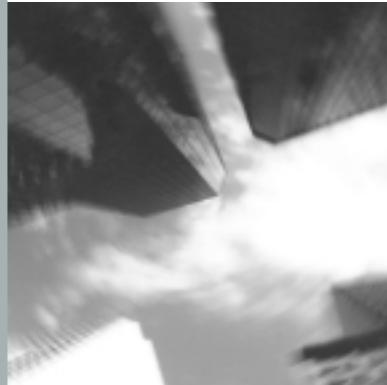
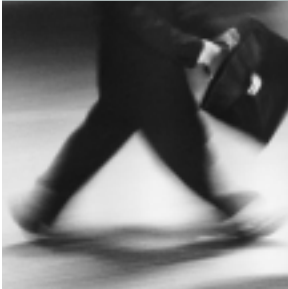


Office of the Superintendent  
of Financial Institutions

Bureau du surintendant  
des institutions financières



# Keeping Pace >



OSFI ANNUAL REPORT 2000.2001

Canada



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## OSFI's Mission



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To better focus on its legislated mandate and to provide a framework for accountability, OSFI has developed the following mission statement: *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.*

The Honourable Paul Martin, P.C., M.P.  
Minister of Finance  
Ottawa, Canada K1A 0A6

Dear Minister:

Pursuant to section 25 of the *Office of the Superintendent of Financial Institutions Act*, I am pleased to submit to you and the Secretary of State (International Financial Institutions) the Annual Report of the Office of the Superintendent of Financial Institutions for the period April 1, 2000 to March 31, 2001.

Yours very truly,

A handwritten signature in black ink, consisting of a large, stylized loop followed by a horizontal line that tapers to the right.

John R.V. Palmer  
Superintendent

Ottawa, August 2001

## Financial Institutions and Pension Plans Regulated by OSFI



	NUMBER <sup>1</sup>	ASSETS <sup>2,3</sup> (in millions)
<b>Banks</b>		
Domestic	13	\$1,524,835
Foreign bank subsidiaries	37	\$97,340
Foreign bank branches	9	\$3,844
<b>Trust and Loan Companies</b>		
Bank-owned	36	\$197,330
Other	29	\$9,646
<b>Cooperative Credit Associations</b>	7	\$9,489
<b>Life Insurance Companies</b>		
Canadian-incorporated	52	\$251,493
Foreign branches	67	\$23,546
<b>Fraternal Benefit Societies</b>		
Canadian-owned	13	\$7,067
Foreign branches	13	\$910
<b>Property and Casualty Insurance Companies</b>		
Canadian-incorporated	93	\$37,629
Foreign branches	111	\$17,092
<b>Pension Plans</b>	1187	\$93,451

<sup>1</sup> Number of regulated companies as at 31 March 2001. Includes institutions in the process of liquidation or termination and institutions limited to servicing existing business. A list of institutions regulated by OSFI can be found on OSFI's Web site at [www.osfi-bsif.gc.ca/eng/whoweregulate.asp](http://www.osfi-bsif.gc.ca/eng/whoweregulate.asp). <sup>2</sup> As at 31 March 2001 where available, otherwise 31 December 2000. <sup>3</sup> Total assets of the industries regulated by OSFI are not the simple sum of the above-noted figures. The figures for entities that report on a consolidated basis include subsidiaries whose assets may also be included in a different category.



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## Federally Regulated Financial Institutions



For OSFI, a federally regulated financial institution is any entity (public or private corporation, subsidiary, or branch) that has been created or allowed to offer services pursuant to one of the financial institution statutes promulgated by the federal government. Banks, for example, are incorporated or registered under the *Bank Act*, while insurance companies – both life companies as well as property and casualty insurers – are incorporated or registered under the *Insurance Companies Act*. Both Acts specify a number of requirements that govern the activities of these institutions in the public interest.

## Superintendent's Message



OSFI's annual report for 2000-2001 is the seventh and last to be issued during my term as Superintendent, which will be completed on August 31, 2001.

The theme of this year's annual report, "Keeping Pace," reflects the extraordinary amount of activity and development that has kept OSFI occupied since my appointment in 1994. Thinking back, I am struck by just how much OSFI and our team have been transformed during this seven-year period, which witnessed significant changes in Canada's financial sector as well as internationally.



John R.V. Palmer

Certainly, OSFI has been and remains challenged to keep up with the ever-quicken- ing pace of change within the financial sector, both domestically and internationally. In that sense, OSFI remains a "work in progress," although it is better positioned than ever to fulfil its current responsibilities.

In addition to reporting on major activities during the fiscal year, this year's annual report reviews OSFI's progress over the last seven years. Not only has OSFI succeeded in keeping pace with the financial sector, it is also regarded as one of the world's leading financial regulatory and supervisory bodies and as an example

to other countries. All of my colleagues at OSFI can take great pride in these accomplishments.

### Transformation of the Financial Sector

During my term as Superintendent, OSFI has seen major growth in the financial sector as the assets within the system increased substantially and off-balance sheet assets, including assets under management, grew even more rapidly.

In addition to growth, there has been continuing realignment in the sector. Banks acquired the last of the large trust companies, banks and life insurance companies continued to diversify



by moving aggressively into wealth management, and life insurance companies grew their stable of annuities and other banking-type products. Banks also grew their trading operations and proprietary trading became more significant as a source of banking income. Although the government turned down two proposed mergers of major banks, increasing concentration occurred in the banking, life insurance, and property and casualty insurance sectors as a result of a steady flow of smaller mergers and acquisitions and selective rationalization of business lines.

### Strengthened Financial Positions

In the face of these changes, the financial institutions and pension plans supervised by OSFI generally strengthened their financial positions over this period. Virtually every bank supervised by OSFI now meets our target standards for well-capitalized banks, which exceed the minimum international standards of the Basel Committee on Banking Supervision. A similar statement can be made about the trust companies we supervise. At the end of the year, virtually every insurance company supervised by OSFI exceeded its regulatory capital target, including a reasonable “prudential cushion” above minimum capital levels.

In addition to strong balance sheets, most companies in the banking/deposit-taking institution and life insurance sectors achieved record or near-record earnings over the past several years. However, results in the property and casualty insurance sector continued to weaken, reflecting cyclical factors, as well as weak investment returns and problems specific to particular markets.

In evaluating pension plans that it supervises, OSFI looks at solvency margins as one measure of health. At the end of the year 2000, few of the plans for which OSFI is responsible had negative solvency margins, and programs were in place to address these situations.

The current financial strength of the financial institutions and pension plans supervised by OSFI can be credited to Canada's strong economic performance in recent years and, of course, to the managements and governing bodies of these entities. OSFI has also played a supporting role by, for example, promoting good risk management practices and encouraging institutions to strengthen capital levels and reserves for losses. In addition, consistent with its early intervention mandate, OSFI initiated a variety of actions when it concluded institutions or pension plans were taking inappropriate risks, failing to limit or control those risks adequately, or facing potential solvency problems. These actions usually encouraged institutions and plans to address OSFI's concerns and allow for their removal from OSFI's “stages of intervention”.

In 1995, OSFI initiated “guides to intervention”<sup>1</sup> for the institutions and pension plans that it supervises. These guides describe OSFI's system for categorizing and dealing with institutions whose financial health had become a matter of concern or possible concern to OSFI. At March 31, 2001, OSFI was responsible for supervising some 500 financial institutions and 1,200 pension plans. Of these, 40 entities appeared on OSFI's stages of intervention, with

1 The first of these, for federal deposit-taking institutions, was issued jointly with the Canada Deposit Insurance Corporation.



most in the first, “early-warning” stage. This is the lowest number of staged entities since the guides to intervention were introduced.

### Transformation of OSFI – Keeping Pace

To make the contribution it has to the stability of the Canadian financial sector, OSFI found it necessary to transform many of its own operations and activities. The direction of this transformation was strongly influenced by 1996 legislative changes, which OSFI helped to shape.

Following the failure and near failure of a number of financial institutions in the early 1990s, the federal government undertook a review of financial sector regulation and supervision in Canada. As a result, in 1996, OSFI was given a clearer [mandate](#) in its legislation and, from that mandate, developed a mission statement and objectives that are summarized elsewhere in this report.

With a better-defined mandate, OSFI proceeded to develop a strategic plan and institute a number of performance measures and other evaluative processes for assessing its progress.

In summary, OSFI's strategy consists of:

1. Supervising institutions and pension plans in a cost-efficient manner by focusing on key risks and the quality of risk management and intervening promptly to help ensure that problems are resolved. This is accomplished by using a reliance-based approach<sup>2</sup> in order to minimize supervisory resources.
2. Working with the Government of Canada to create and enhance a regulatory framework that meets or exceeds internationally accepted

standards of practice, and to help ensure a safe and sound financial system that offers competitive financial services to Canadians.

3. Developing and maintaining the human resources necessary to carry out OSFI's demanding mandate by creating an open, collegial workplace, offering competitive compensation, providing timely and effective training and career development, and ensuring a continuing infusion of individuals with expertise in emerging risk areas to complement existing supervisory and regulatory expertise.
4. Supporting OSFI's supervisory and regulatory activities with the right information, delivered in a timely, efficient and secure manner using the appropriate technology.
5. Developing a reputation as a supervisor and regulator that is able to balance prudential soundness and competitiveness, being firm when needed, but always striving to be helpful and add value.

Throughout this annual report, as introductions to the major sections, we have attempted to summarize OSFI's progress in each of these key areas during my term as Superintendent, as well as to report in more depth on developments during the 2000-2001 fiscal year.

### Results Achieved

The evidence suggests that good progress has been made over the past seven years. OSFI has

<sup>2</sup> A reliance-based approach to supervision involves placing reliance on the quality of an institution's internal audit, risk management and compliance functions, as well as on opinions of the external auditor and appointed actuary.





been conducting surveys of senior executives in the financial sector, including those working at financial institutions as well as professionals serving the financial sector. The [survey conducted in 2000](#) showed improvement in most categories over a survey conducted two years earlier. It confirmed that OSFI is a well-respected regulator and seen as competent in carrying out its current responsibilities.

In 1999, the IMF conducted its first Financial Sector Stability Assessment of a major country, in the course of which it reviewed OSFI's compliance with internationally accepted standards of best practice. It concluded that OSFI met virtually all such standards for both bank and insurance supervision, and was highly complimentary of OSFI's work and the stability of Canada's financial system generally.

The Public Service Commission has been reviewing OSFI's compliance with the principles of the *Public Service Employment Act* and the Human Resources Framework negotiated by OSFI as part of its Memorandum of Understanding with the Public Service Commission. OSFI has received consistently good reports from the Commission.

The Office of the Auditor General (OAG) performed an update review in early 2000 to assess OSFI's progress in responding to recommendations from previous OAG special examinations. The Auditor General concluded in his October 2000 Report that OSFI had made good progress in addressing all recommendations.

As important as these external evaluations are, we also place importance on the quality of OSFI's workplace and the level of satisfaction of OSFI's

employees. Surveys conducted internally in 1997 and 1999 showed that while a number of issues need further work, there was considerable improvement over the two-year period and a significantly higher level of employee satisfaction.

### Challenges

Although OSFI has made considerable progress, the job is far from complete. OSFI's biggest task still lies in continuing to enhance its knowledge and competencies to be able to carry out its responsibilities successfully in the future. In the most recent survey of senior financial sector executives, released in 2000, respondents suggested OSFI will be challenged to keep pace. This has continuing implications for professional development, recruiting and human resource management.

The implementation of OSFI's supervisory framework and the completion of its rating methodology are also major challenges, requiring higher and more sophisticated levels of judgment than OSFI has had to engage in previously.

The financial strength of many of Canada's financial institutions, particularly their strong regulatory capital positions, has in some cases been achieved with the assistance of various risk transfer techniques such as securitization, credit derivatives and financial reinsurance. Not enough is known about the success of such techniques in stress scenarios. This requires more attention from the regulatory community.

Given the current economic slowdown and the length of time that has elapsed since the last recession, OSFI must be prepared for more



difficulties in its portfolio of financial institutions and pension plans, notwithstanding current strength. Preparing for problems must continue to be an important priority.

The passage of Bill C-8 creates some important new work for OSFI, including developing its supervisory program for regulated holding companies and preparing to welcome newly incorporated institutions to the financial system, some of which may have higher risk profiles than existing players. At the same time, through Bill C-8, OSFI received additional tools to deal with supervisory concerns, including the authority to remove directors and senior officers of federally regulated financial institutions and to levy administrative money penalties in specific circumstances.

The new Basel Capital Accord will also create significant challenges for banks and supervisors. Although OSFI's preparations are under way, more work remains. Additional effort needs to be applied to refine capital rules so they are consistent across all types of financial institutions.

OSFI has made considerable progress in enhancing the quality of its workplace, but there is still work to be done to improve coordination amongst working groups, and a better allocation of resources based on risks in the financial sector.

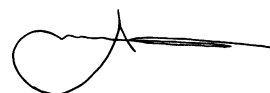
Technology is also an important issue for OSFI. While mapping out its directions and enhancing staff competencies, we have continued to implement our Information Management / Information Technology Strategic Plan. However, more can be done to enhance the contribution of technology to more efficient regulation and supervision.

A final challenge facing OSFI and the government is ensuring that OSFI can maintain an appropriate level of independence to be able to carry out its responsibilities. Legally, OSFI is not a fully independent agency. It is a government agency whose Superintendent is responsible to the Minister of Finance. OSFI has been provided independence by making it a separate employer within the government, by limiting the Minister's role in certain institution-specific decisions, and by giving the Superintendent a fixed seven-year tenure and an appointment "on good behaviour" rather than "at pleasure." Ultimately, the system works best when all parties, i.e., OSFI, Ministers and other agencies, use their judgement appropriately, which has been the case during my term of office. The independence of the regulator of financial institutions is an internationally accepted standard of best practice and is crucial to OSFI's continued success.

#### Last Words

It has been a privilege to serve Canada as its Superintendent of Financial Institutions. This extraordinarily rich professional experience was marked by challenging issues, difficult decisions and interesting, memorable people in the public and private sectors. For all that has been accomplished at OSFI while I have been Superintendent, I owe a great debt to my OSFI colleagues, who have shown a remarkable commitment to their important calling and mine.

Sincerely,



John R.V. Palmer  
Superintendent



## Role and Responsibilities



OSFI supervises and regulates all banks in Canada, and all federally incorporated or registered trust and loan companies, insurance companies, cooperative credit associations, fraternal benefit societies and pension plans. It was established in 1987 by an Act of Parliament, the *Office of the Superintendent of Financial Institutions Act*.

OSFI also provides actuarial advice to the Government of Canada and conducts reviews of certain provincially chartered financial institutions by virtue of federal-provincial arrangements or through agency agreements with the Canada Deposit Insurance Corporation (CDIC).

OSFI derives powers from and is responsible for administering the following legislation:

*Trust and Loan  
Companies Act*

*Cooperative Credit  
Associations Act*

*Bank Act*

*Insurance  
Companies Act*

*Pension Benefits  
Standards Act, 1985.*

Each of these Acts sets out the rules for the structure and operation of a federally regulated financial institution and standards for pension plans. The various Acts address the unique aspects of the sectors each governs, but are designed to be consistent with each other.

OSFI is organized into four sectors: Supervision, Regulation, Specialist Support and Corporate Services. The organization employs some 400 people in offices located in Ottawa, Montreal, Toronto and Vancouver.

OSFI is funded mainly through asset-based, premium-based or membership-based assessments on the industry and a modified user-pay program for selected services. A small portion of OSFI's revenue is derived from the Government of Canada for actuarial services relating to the Canada Pension Plan, the Old Age Security Plan, the Canada Student Loan Program and various public sector pension and benefit plans.



## Mandate and Objectives



OSFI is committed to providing professional, high-quality and cost-effective service. To accomplish its mission of safeguarding policyholders, depositors and pension plan members from undue loss, OSFI advances and administers a regulatory framework that contributes to public confidence in the financial system. At the same time, OSFI ensures the regulatory system does not unduly impede institutions from competing effectively.

OSFI has five objectives that are critical to achieving its mission

**Public confidence** - contribute to public confidence by enhancing the safety and soundness of the Canadian financial system through the evaluation of system-wide risks and promotion of sound business and financial practices. **Safeguard from undue loss** - identify institution-specific risks and trends, and intervene in a timely manner to minimize losses to policyholders, depositors and pension plan members. **Cost-effectiveness** - maintain a full and open dialogue with our stakeholders on the costs and benefits of our work. **Competition** - fulfil our regulatory mandate having due regard for the need to allow institutions to compete effectively. **Quality** - provide a high-quality service by giving employees the tools and professional development to meet the challenges of a rapidly changing environment.

## Milestones in OSFI's History



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### Late 1800s

Establishment of the Office of the Superintendent of Insurance (OSI), which subsequently became the Department of Insurance (DOI).

### 1925

Establishment of the Office of the Inspector General of Banks (OIGB).

### 1967

Introduction of legislation to establish the Canada Deposit Insurance Corporation (CDIC).

### Mid-1980s

Increased international competition, the failure of two Canadian banks and the subsequent enquiry into these failures by the Honourable Willard Z. Estey highlighted the need for changes in Canada's approach to handling the risks associated with the financial marketplace.

### July 1987

The Government of Canada proclaimed the *Financial Institutions and Deposit Insurance Amendment Act* and the *Office of the Superintendent of Financial Institutions Act*. The latter Act joined the DOI and the OIGB to form OSFI, which was given the powers to supervise and regulate all federally regulated financial institutions and pension plans.

### May 1996

Bill C-15 received Royal Assent. This legislation clarifies OSFI's prime responsibilities as helping to minimize losses to depositors, policyholders and pension plan members, and contributing to public confidence in the Canadian financial system.



OSFI'S BIGGEST CHALLENGE IN IMPLEMENTING ITS STRATEGIC PLAN HAS BEEN HUMAN RESOURCES – HAVING PEOPLE WITH CURRENT AND EXPERT

KNOWLEDGE OF THE FINANCIAL SECTOR AND THE VARIOUS BUSINESSES, PRODUCTS, RISKS AND RISK MANAGEMENT TECHNIQUES WITHIN THE SECTOR, AND WEDDING THEM WITH PEOPLE WITH EXPERIENCE IN SUPERVISION AND REGULATION, ESSENTIAL TO ACHIEVING OUR OBJECTIVES. TO MAINTAIN, ENHANCE AND ATTRACT THE KNOWLEDGE AND SKILLS REQUIRED, AND TO BE ABLE TO MANAGE ITS WORKFORCE MORE EFFECTIVELY, OSFI HAS MADE A NUMBER OF CHANGES, SOME OF WHICH WERE “FIRSTS” IN THE CANADIAN PUBLIC SERVICE. THEY INCLUDE:

# Strengthening Human Resources >



## Pursuing Excellence



- > Combining more than 20 separate pay classification systems into a single, universal classification system that applies to all OSFI employees. The new system created pay equity among employees and has facilitated the transfer of employees between positions.
- > Entering into a Memorandum of Understanding with the Public Service Commission, which permits OSFI to manage its workforce according to a human resources framework that meets OSFI's needs, yet reflects the values and objectives of the *Public Service Employment Act*.
- > Creating a more flexible compensation system featuring levels generally consistent with other federal government departments and agencies, but with latitude to go beyond government norms for specialized skills in high demand.
- > Introducing, with the support of its unions, a pay-for-performance compensation system that includes the possibility of re-earnable bonuses for employees at every level.
- > Conducting two employee surveys, the first in 1997 and the second in 1999, to measure satisfaction and identify opportunities to improve effectiveness and satisfaction in the workplace.
- > Developing and implementing an aggressive recruiting strategy directed at individuals most likely to be attracted by OSFI's particular strengths, which include interesting work, unparalleled learning opportunities and progressive attitudes to career and family issues.
- > Creating a Professional Development Division and delivering a suite of training programs geared to OSFI's required competencies.

The results have been encouraging. Turnover rates have dropped and highly skilled professionals from the private sector and other government bodies are approaching OSFI in search of opportunities.



## 2000–2001 Developments: Training, Recruitment and Succession Planning



OSFI made progress during 2000-2001 with the development of staff competency profiles, which provide OSFI's Professional Development and Training Division with a benchmark of knowledge and skills for each position.

During the period, OSFI also continued to adjust its recruitment approach to combine technical skill evaluations with more behavioural-based assessments. Tools for behavioural-based selection were developed to assist managers in assessing and selecting candidates who best meet both OSFI's current and future needs in terms of leadership ability and other key competencies.

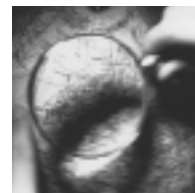
In 2000-2001, OSFI offered employees 155 separate courses and seminars and strove to provide training opportunities that are needs-based, timely, and closely linked to OSFI's competency profiles. This approach enables employees initially to focus their learning activities on the skills and knowledge required for their current positions and then look for learning activities that are more developmental in nature.

During 2000-2001, OSFI developed a three-year training curriculum for the Supervision Sector. The Supervision Training Program groups courses according to technical and behavioural competencies and begins when staff members assume supervisor roles. Managers and employees use the Training Program as a tool to plan an individual's upcoming training requirements for the year. Over the next two to three years, similar training programs will be developed for OSFI's other sectors.

Formal succession planning was conducted for key executive positions that identified emerging succession requirements and core leadership competencies to meet OSFI's strategic objectives. The findings will enable OSFI to manage the leadership pipeline in the context of the business planning process by developing talent strategies, assessing possible organizational capability gaps, remedying any weaknesses, and establishing action plans for development, coaching, succession planning and hiring.



THE METHODS BY WHICH OSFI SUPERVISES THE FINANCIAL INSTITUTIONS AND PENSION PLANS FOR WHICH IT IS RESPONSIBLE ARE CRUCIAL TO OSFI'S EFFECTIVENESS. AN EFFECTIVE SUPERVISION SYSTEM IS ESSENTIAL TO OSFI'S OBJECTIVE OF CONTRIBUTING TO PUBLIC CONFIDENCE IN THE CANADIAN FINANCIAL SYSTEM. IN ADDITION TO BEING PRACTICAL AND EFFICIENT, THESE METHODS MUST BE CONSISTENT WITH INTERNATIONAL STANDARDS OF BEST PRACTICE, AND SUITABLE TO THE CANADIAN FINANCIAL SECTOR. THEY MUST ALSO FACILITATE PROMPT INTERVENTION WHEN PROBLEMS APPEAR, WITHOUT BEING UNDULY INTRUSIVE. OSFI HAS ADDRESSED THIS CHALLENGE WITH A VARIETY OF INITIATIVES:



## Supervising More Effectively





## Interventionist but Balanced



- > As noted earlier, OSFI published guides to intervention for different types of financial institutions, and began to use its supervisory tools in accordance with these guides.
- > OSFI fundamentally changed its approach to pension supervision, moving from a compliance-based approach to a solvency orientation, in order to increase the emphasis on protecting the benefits to which pension plan members are entitled. This led to the development of a risk-based approach to pension plan supervision, which included more robust financial analysis, the use of early warning tests, enhanced on-site examinations and prompt intervention.
- > OSFI formed a separate Regulatory and Supervisory Practices Division to review its supervisory methodologies, study developments in the methodologies of other leading supervisors and recommend changes to OSFI's approach.
- > The research conducted by the Practices Division, working closely with Supervisory personnel, led to the publication in 1999 of OSFI's new Supervisory Framework, an enhanced risk-based approach that emphasizes the analysis of significant business activities and major risks and the evaluation of internal controls and other risk mitigants within an institution.
- > OSFI began to develop a ratings system consistent with the new supervisory framework. Ratings will be made available to the management and boards of directors of financial institutions to assist them in understanding the significance of OSFI's supervisory findings and how their institution compares with peer averages and ranges.
- > The supervisory function was reorganized and a separate Supervision Sector created to reduce overlap and duplication and better focus resources. Changes included the integration of examination and monitoring functions, the creation of relationship managers for each financial institution to better coordinate OSFI's activities vis-à-vis each institution, and the formation of conglomerate groups to concentrate the expertise necessary to supervise the largest and most complex institutions. Groups focusing on smaller and medium-size institutions were also formed.
- > A new Specialist Support Sector was created to assemble the specialist expertise necessary to assist OSFI supervisors and regulators in their work. OSFI's specialists work closely with members of the Supervision Sector in examining the activities of individual financial institutions.



These changes are having an impact in helping OSFI to keep pace with the institutions and pension plans that it supervises. OSFI has developed a system of measures and assessments to ensure that it is supervising according to its guides to intervention and in a consistent and balanced manner. The results show that OSFI is acting quickly when difficulties become apparent and serving as a catalyst to promote positive remedial actions by boards of directors and management. The new Supervisory Framework and the more focused supervisory reviews that result from it are leading generally to more useful supervisory findings, which often address weaknesses in risk management practices and internal controls.

## 2000–2001 Developments: Implementing the Framework



Over the past fiscal year, OSFI's top supervisory priority was implementing the Supervisory Framework. This framework requires assessment of the balance between risks assumed by an institution and the quality of the institution's processes to measure, manage and mitigate risks. Successful implementation has been a significant challenge, involving a deeper knowledge of financial institutions and their activities, risks and risk management practices than was required by previous approaches. Considerable progress has been made. Much time and effort was devoted to ensuring Supervision Sector staff had a firm and consistent understanding of the framework and the documentation and analysis required to make it work effectively. Also critical to success has been the coordination of personnel from the Supervision and Specialist Support Sectors to ensure that resources available for examinations are assigned in the most efficient and effective way.



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One outcome of the analytical framework has been a larger number of supervisory findings and recommendations to certain institutions, making it important to prioritize the recommendations to ensure that we communicate clearly to directors and management those that we consider to be the most significant. In many cases, these recommendations or requirements have stimulated material improvements in the operations of institutions. There is also clear evidence that the new framework is helping OSFI to more clearly recognize when institutions are operating well and focus more effectively on obtaining results when important deficiencies are identified.

During the year, five institutions were identified as requiring increased supervisory attention, leading to what we refer to as “staging” (placement on one of the stages of intervention described in OSFI's guides to intervention). As well, sufficient improvement in controls and/or other areas was achieved by 28 institutions, making it possible to remove them from “staged” status.

To assess progress in the implementation of the Framework, the Quality Assurance and Performance Standards Division carried out a review of the Framework's key analytical document, the Risk Assessment Summary, or RAS. This review, described elsewhere in this report, led to a number of useful findings for improving the quality and consistency of OSFI's risk analysis of institutions.

Work continued within the Supervision Sector and the Practices Division on the development of the ratings methodology. Criteria for assessing the effectiveness of risk management and risk mitigation are being developed in consultation with the industry. The initial version of the criteria was pilot-tested in selected institutions during the 2000-2001 year, and a second phase of pilot testing will take place over the coming year. OSFI plans to start implementing the ratings in the 2002-2003 supervisory cycle. When implemented, an institution will be provided with its composite risk rating and overall ratings for the applicable risk management control functions identified in the Supervisory Framework. However, to preserve OSFI's ability to effectively operate its early intervention mandate, financial institutions will be restricted by law from disclosing their ratings.

The demands of the new framework made it important for OSFI to fill some longstanding vacancies within the Supervision Sector, and vigorous and successful efforts were made to locate qualified candidates both within OSFI and externally. Recruiting continues to be a top priority. A review of staffing levels was also carried out to ensure that the supervisory resources applied by OSFI were appropriate to both institution-specific and systemic risks. As a result of this review, it was decided to increase staff levels within the Conglomerate Groups. This increase will take place over two years and will include the assignment of a full-time relationship manager for each major institution supervised by OSFI.



# Building the Organization



OSFI WAS CREATED IN 1987 TO BRING UNDER ONE ROOF THE SUPERVISION OF BANKS, TRUST AND LOAN COMPANIES, LIFE INSURANCE COMPANIES, PROPERTY AND CASUALTY INSURANCE COMPANIES, CREDIT UNION CENTRALS AND PENSION PLANS. BY 1994, THE REGULATION AND SUPERVISION OF THESE VARIOUS TYPES OF INSTITUTIONS WERE STILL HANDLED BY SEPARATE OSFI DIVISIONS. FOR SOME INSTITUTIONS, SUPERVISION WAS SEPARATED INTO OFF-SITE MONITORING AND ON-SITE EXAMINATION, AND THESE WERE HANDLED BY SEPARATE DIVISIONS, CREATING COORDINATION PROBLEMS. SPECIALIZATION WITHIN OSFI WAS BY INDUSTRY AND, BEYOND THE ACTUARIAL AND ACCOUNTING FUNCTIONS, THERE WERE FEW DEDICATED SUBJECT SPECIALISTS.

## Aligning Responsibilities and Resources



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To address these and other issues, the Office was reorganized in several stages.  
The reorganization:

- > Created a single Regulation Sector to address the regulatory requirements of all types of institutions.
- > Created a single Supervision Sector, responsible for the supervision of all types of institutions, and combined the off-site and on-site supervision functions.
- > Brought together under a single Relationship Manager all supervisory functions for an institution.
- > Established separate Conglomerate Groups within the Supervision Sector to deal with the unique requirements of large, complex financial groups with operations in more than one industry and often multiple legal jurisdictions.
- > Put in place a new Specialist Support Sector, which currently boasts specialists in eight subject areas to provide functional expertise to OSFI's supervisory and regulatory personnel.
- > Centralized all internal services within the Corporate Services Sector to enhance effectiveness and efficiency throughout our organization.

The net result of these changes has been to reduce overlap and duplication within OSFI, improve communication and coordination among OSFI staff, and enhance the expertise brought to bear on the regulation and supervision of financial institutions and pension plans.



## 2000–2001 Developments: Building the Specialist Support Sector



2000-2001 was the first full year of operation for several of the divisions within OSFI's Specialist Support Sector. Progress was made in building expertise within the Sector through internal transfers and recruitment from the private sector. To increase synergies, two divisions were recently merged to create the Accounting and Financial Information Division, and the Office of the Chief Actuary was formally linked to the Sector.

A key role of the Sector is to provide ongoing assistance with supervisory and regulatory issues. The bulk of this assistance takes the form of participation by several divisions, such as Credit Risk and Capital Markets, in regular, on-site examinations of institutions. Other work consists of transaction or issue-specific assistance. Significant progress was made during the year on developing methodologies to assess institutions' mitigation of risks, such as credit risk and information technology-related operational risk.

Considerable work was accomplished during the period on capital guidelines for financial institutions. Capital requirements were established for life insurers' segregated funds, and the comprehensive guideline for deposit-taking institutions was updated. Work continues on new capital tests for property and casualty insurers, in conjunction with provincial regulators and the industry, and on revisions to the capital requirements for life insurers.

Dialogue with the industry continued through several methods, such as presentations to industry groups on regulatory compliance, disclosure and risk management issues. For the first time, OSFI and the Canadian Institute of Actuaries presented a seminar for analysts, rating agencies and institutional investors on the interpretation of actuarial liabilities.

Substantial efforts were made to help advance international regulatory standards through participation in the Basel Committee for Banking Supervision, the International Association of Insurance Supervisors and the Joint Forum. There was also considerable activity, both domestically and internationally, regarding the establishment of accounting and actuarial standards. For example, OSFI provided input on the international discussion paper on fair value accounting for insurance contracts, accounting for financial instruments, and new Canadian actuarial standards for the valuation of life insurance liabilities.



The process of reviewing and rationalizing the information that OSFI collects from institutions was started during the year. Initial results included the elimination or improvement of several returns of non-financial information. Consultations were also held with industry on a system of financial penalties for the late or erroneous filing of information, which will be implemented on a test basis during the coming year.

OSFI's specialists will continue to be challenged by the rapid pace of change in the industry. New products, capital instruments and risk-transfer mechanisms must be identified and their prudential implications assessed. Legislative changes will provide more structural flexibility to institutions. This will require OSFI to take a fresh look at its financial reporting needs, capital requirements and risk assessment methodologies. Factors such as the increasing use of models as tools for risk management and the basis for calculating capital requirements have added to the complexity of OSFI's work and require specialized expertise.

## Strengthening Information Management and Technology >

During the period, OSFI made important progress toward implementing its Information Management/Information Technology (IM/IT) Strategic Plan and in adopting Treasury Board of Canada Government On-Line guidelines.

Significant achievements in this area included implementation of a more centralized, high-availability IM/IT infrastructure and enhanced use of Web-based technologies for internal and external applications. OSFI also continued to make progress in several other areas, including improvements to the overall security of information and the consolidation of data stores. Redesign of OSFI's Intranet and Web site facilitated the expansion of on-line services and enhanced internal and external information sharing capabilities.





# Contributing to the Rules



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OSFI HAS TAKEN A NUMBER OF IMPORTANT STEPS TO IMPROVE THE EFFECTIVENESS OF THE REGULATORY FRAMEWORK WITHIN WHICH FEDERAL FINANCIAL INSTITUTIONS AND PENSION PLANS MUST OPERATE. THIS FRAMEWORK CONSISTS OF LEGISLATION, REGULATIONS AND VARIOUS FORMS OF GUIDANCE PROVIDED BY OSFI. LEGISLATION AND REGULATIONS ARE DEVELOPED IN CONJUNCTION WITH THE DEPARTMENT OF FINANCE.





## Building a Strong Regulation Capacity >

An important first step in improving the regulatory framework was to strengthen the capacity of OSFI's own regulation function:

- > Since 1995, OSFI has played a more active role in designing and drafting legislation, particularly those related more directly to OSFI's prudential mandate and on more technical legislative initiatives. This expanded role and the resulting competencies OSFI has developed to carry it out permitted OSFI to make important contributions to amendments to financial institution legislation and the *Pension Benefits Standards Act, 1985* and also to support the work of the Task Force on the Future of Canada's Financial Sector.
- > As noted elsewhere, OSFI combined the policy functions from several industry-specific divisions to create a single Regulation Sector, which is responsible for all of OSFI's rule-setting activities, including legislative support to the Department of Finance.
- > In dealing with 500 institutions and 1,200 pension plans, OSFI makes many regulatory and supervisory decisions, which are often complex and precedent setting. To ensure the most difficult decisions are informed by past precedents and the precedential nature of new decisions is fully considered, a Precedents Section was established within the Legislation Division to track and catalogue important decisions. This is improving both the quality and speed of OSFI's decision making.

## 2000–2001 Developments: Corporate Governance >

During 2000-2001, OSFI developed a draft *Reference Document for Assessing the Corporate Governance of Federally Regulated Financial Institutions*. (It was released for comment by institutions following the fiscal year end.) The reference document was designed to assist OSFI supervisors in assessing the effectiveness of corporate governance as part of the supervision program.

The reference document recognizes that governance practices in federally regulated financial institutions have generally improved in recent years and reached a high standard in many institutions. It also recognizes that individual institutions will adopt different approaches to governance. In assessing governance practices, supervisors will consider the size, complexity, nature and asso-



ciated risks of a financial institution's significant activities, and adjust their expectations accordingly. The development of the reference document reflects the crucial role of effective corporate governance practices in protecting the interests of depositors and policyholders. OSFI's reliance on effective governance lessens the need for more intrusive supervision. The reference document incorporates examples of best practices in corporate governance that OSFI has observed first-hand or drawn from other sources. The release of this draft document, which will be finalized in the fall of 2001, enables OSFI to be more transparent about the manner in which it evaluates the effectiveness of board and senior management practices.

## Financial Sector Policy Development >

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This fiscal year, OSFI devoted significant resources to the development and refinement of Bill C-8 and related regulations.

Although OSFI has consistently played a role in supporting the development of financial sector policy and the review of legislation and regulations governing federal financial institutions, it has increasingly been responsible for developing policy, legislative and regulatory proposals that relate to issues closely aligned with OSFI's mandate. This enhanced role has enabled OSFI to use its broad knowledge of financial sector issues to more effectively support government policy initiatives that can have a significant impact on how OSFI carries out its mandate.

## Bill C-8 >

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The new regulatory regime embodied in Bill C-8, which received Royal Assent in June 2001, is an important development in federal financial institution policy. This legislation is the result of a public policy decision to enable a more competitive environment through liberalization in several areas. During the year, OSFI's contributions to the development of the new framework included areas of policy and legislation dealing with prudential concerns.

Several initiatives, such as allowing new closely held and smaller banks, bank holding company structures and significantly expanded investment rules, could create new supervisory challenges and ultimately alter the risk characteristics of the financial sector. OSFI's responses to these challenges and its role in implementing the new legislation will be guided by its mandate, which includes recognition of the need for financial institutions to take reasonable risks so they can compete effectively. At the same time, through Bill C-8, OSFI received additional tools to deal with supervisory concerns, including the authority to remove directors and senior officers of federally regulated financial institutions and to levy administrative money penalties in specific circumstances.





OSFI CONTINUALLY ASSESSES ITS OPERATIONS TO ENSURE THEY MAKE SENSE IN THE CURRENT ENVIRONMENT AND ARE NOT ONLY EFFECTIVE, BUT ALSO HELPFUL TO THE PUBLIC AND TO FEDERALLY REGULATED FINANCIAL INSTITUTIONS. AS PART OF THIS PROCESS, OSFI HAS UNDERTAKEN SEVERAL INITIATIVES TO ENSURE WE KEEP PACE IN MAINTAINING AND IMPROVING SERVICES TO OUR STAKEHOLDERS. THESE HAVE INCLUDED:

# Improving Service to Stakeholders >



- > An active communications and public speaking program to make Canadians aware of what our system of prudential regulation and supervision can and cannot be expected to accomplish.
- > The establishment of one of the first Web sites by a financial sector regulator, which has become an increasingly important vehicle for keeping stakeholders informed of OSFI's activities.
- > A policy of reviewing annually with industry associations representing the institutions supervised by OSFI our budgets and business plans in order to provide an opportunity for input from those who bear OSFI's costs.

## 2000–2001 Developments: Deemed Approvals



OSFI is required to approve, or recommend that the Minister approve, many transactions by financial institutions. Over the last seven years, the number of transactions requiring approval has increased from approximately 200 per year to more than 700 in 2000-2001. The volume is continuing to grow. Included in these numbers are complex, multi-stage transactions and major undertakings such as demutualization. OSFI has sought to accommodate the growth in this activity without increasing Registration and Approvals Division staff. It has also sought to improve the level of service and speed of turnaround by re-engineering the approval process. As part of this re-engineering program, OSFI initiated, in October 2000, an eight-month pilot project to help prepare for the introduction of a streamlined system of deemed approvals that will take effect once Bill C-8 comes into force in the fall of 2001. Changes under the new legislation to help speed up approvals involve 25 corporate actions that require approval of the Superintendent as prescribed by the *Bank Act*, the *Trust and Loan Companies Act*, the *Insurance Companies Act* or the *Cooperative Credit Associations Act*.

Under the deemed approval process, when institutions file an application with OSFI, the Superintendent has a maximum 30-day period to raise concerns, seek further information or indicate that there will be a delay. If none of these actions is taken, the transaction will be deemed to have been approved. The Superintendent can also explicitly approve or deny the transaction before the end of the 30-day period.

A Guidance Note regarding the deemed approvals pilot project was posted to OSFI's Web site to assist applicants, along with an annex containing information requirements for the 21 types of applications that were evaluated during the pilot. The most prevalent received during the pilot project included applications for data processing outside Canada and the purchase or redemption of shares.



As at May 31, 2001, 91 applications had been tracked as if the new legislation were in place. Two-thirds of these applications were processed within 30 days. Longer processing times for the remaining applications mainly were due to delays in receiving required information from applicants, or because transactions formed part of a larger project for which a processing date beyond 30 days was requested.

Web site information about the deemed approval process will be updated to reflect lessons learned and include additional approval types that were not part of the pilot but are contained in the new legislation. To date, results of the pilot project demonstrate that OSFI is ready to administer the new deemed approval system, which will enhance the transparency of information requirements and reduce the turnaround time in dealing with applications.

## Streamlining of Guidance >

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Since its inception in 1987, OSFI has produced many documents as specific needs arose for reference by federally regulated financial institutions. These documents have included Guidelines, Bulletins, Guidance Notes, Discussion Papers, Supervisory Guides, Instruction Guides and Notices. Over time, the distinction between these groupings became blurred and sometimes made the intent of documents less clear.

To address this situation, OSFI's Regulation Sector began a project during the fiscal year to develop a transparent, user-friendly framework to house the guidance produced for our stakeholders. The new categories, which are expected to be introduced on OSFI's Web site before the end of 2001, will help users find the guidance documents of interest to them. Enhancements to the Web site, including improved search features and a redesigned navigational bar, will further assist users to quickly locate the information they require.

## Web Site >

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During 2000, OSFI undertook a major redesign of its Web site, which was re-launched in September of that year. The new site increases the transparency of OSFI's activities and takes better advantage of this medium's ability to make information readily accessible in a cost-effective manner to a wide range of audiences. Improvements will be made to the site on a regular basis, with the next wave of changes to occur in the latter part of 2001 in connection with the streamlining of guidance project (see previous section).



The revised site contains many new features, including a financial data section for all institutions, a subscriber function that permits users to receive automatic notification when significant new material is posted to the site, and an “On the Issues” section, which highlights recent major postings.

The number of visitors to the redesigned Web site has increased steadily since its launch. An average of nearly 1,000 visitors per day log on to OSFI’s Web site, with the vast majority originating from the Toronto area, followed by visitors from the Ottawa, Vancouver and Montreal regions. Visitors from financial institutions account for 65 per cent of the traffic on OSFI’s site, while government visitors represent 18 per cent. There were some 900 subscribers by the end of March 2001.

## Warning Circulars



Unregulated entities are prohibited from conducting business in Canada if they try to use a name that could suggest they are subject to government financial regulation. Furthermore, foreign financial institutions may carry on the business of a financial institution in Canada only if licensed under the *Bank Act* or the *Insurance Companies Act*.

OSFI issues warnings if Canadian or foreign businesses appear to be engaged in unauthorized financial activity and, where necessary, posts their names on its Web site, both as a warning to the public and an incentive to cease the unlicensed activity.

Warning Advisories are also mailed to the financial community, Canadian and international regulators and interested members of the public. Individuals who wish to be placed on the mailing list for such warnings should write to OSFI’s Compliance Division (see Consumer Information section of this report for OSFI’s Toronto office mailing address).



## Financial Consumer Agency of Canada



With the anticipated proclamation of Bill C-8, the Financial Consumer Agency of Canada (FCAC) will be created. Among the responsibilities of the new agency will be the provision of a toll-free telephone service from which consumers will be able to obtain information about the various types of institutions that operate in Canada’s financial services sector.

Because OSFI has been assisting consumers with their complaints and enquiries, it has been working closely with the FCAC transition team as the Agency prepares to start operating, likely in the fall of 2001. Once FCAC is operational, OSFI's consumer role will be restricted to responding to complaints and enquiries about federally regulated pension plans and issues related to OSFI's role as federal prudential regulator and supervisor.

## Change to Accrual Accounting

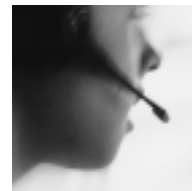


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OSFI changed its basis of accounting during the year from a modified cash system to accrual accounting as part of the Financial Information Strategy outlined by the Treasury Board of Canada. OSFI is one of the first small government agencies to make this move, which will support improved financial management throughout the organization and make OSFI's financial position and results more understandable to stakeholders. Audited financial statements prepared on this basis form a part of this report.



AMID THE EVER MORE RAPID PACE OF CHANGE IN THE CANADIAN AND GLOBAL FINANCIAL SERVICES INDUSTRIES, IT IS IMPORTANT FOR REGULATORS, AND THOSE TO WHOM THEY ARE OR SHOULD BE ACCOUNTABLE, TO ASSESS HOW WELL THEY ARE KEEPING PACE. AS AN AGENCY OF THE FEDERAL GOVERNMENT, OSFI IS ACCOUNTABLE IN A NUMBER OF WAYS, INCLUDING PERIODIC SPECIAL EXAMINATIONS BY THE AUDITOR GENERAL OF CANADA AND APPEARANCES BEFORE PARLIAMENTARY COMMITTEES SUCH AS THE HOUSE OF COMMONS STANDING COMMITTEE ON FINANCE, THE HOUSE OF COMMONS STANDING COMMITTEE ON PUBLIC ACCOUNTS, AND THE STANDING SENATE COMMITTEE ON BANKING, TRADE AND COMMERCE.



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# Being Accountable





One of OSFI's most important long-term undertakings in this regard has been to develop additional processes by which its performance can be evaluated. These processes include:

- > Regular surveys to measure public confidence in financial institutions.
- > Regular industry surveys to seek views on OSFI's own performance.
- > Internal employee surveys.
- > A regular internal qualitative and quantitative assessment of OSFI's operation of its guides to intervention.
- > A system of international peer review to assess compliance by supervisors with internationally accepted standards of best practice. This system was developed by the International Monetary Fund and the World Bank with assistance from OSFI. OSFI was the first major supervisory agency to be the subject of such a review, as part of a Financial Sector Stability Assessment.
- > A Quality Assurance and Performance Standards Division, established in late 1999.
- > A board of advisors, established in the summer of 2000.

## 2000–2001 Developments: Advisory Board

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In June 2000, OSFI established a board of advisors to advise the Superintendent on issues related to OSFI's internal operations and general accountabilities. It also has a role in providing feedback on and reviewing OSFI's work in assessing performance. The Advisory Board is made up of seven members with a wide range of financial sector expertise and senior management and operational experience. Members of OSFI's Advisory Board are:

- > Thomas I.A. Allen, Q.C., currently a senior partner with Ogilvy Renault;
- > Léon Courville, who retired as President of the National Bank of Canada in 1999;
- > Bernard I. Ghert, President of the B.I. Ghert Family Foundation;
- > Robert W. Korthals, who retired as President of The Toronto-Dominion Bank in 1995;
- > Yvon Lamontagne, who retired as President and Chief Executive Officer of Boreal Insurance Inc. in 1995, following its acquisition by AXA Insurance Canada; since then, he has served as an advisor to AXA's president;



- > Jane Milner, who recently retired as President and CEO of North Shore Credit Union;
- > Earl Orser, who retired as President and CEO of London Life Insurance Company in 1989.

In its first year of operation, the Advisory Board met three times in person and once by telephone to discuss and share views on a wide array of issues, such as human resource challenges, business planning, communication strategy and emerging risks/trends in the rapidly changing financial sector. In addition, two Board sub-committees were established: one looked at how OSFI utilizes technology, and the other examined OSFI's role in the regulation of capital markets. OSFI has also sought bilateral input from Board members on issues such as its *Reference Document for Assessing the Corporate Governance of Federally Regulated Financial Institutions*.

A primary objective of the Board is to provide the Superintendent with advice on appropriate plans and priorities to ensure OSFI is well positioned to meet its broad objectives. The Board has examined and commented on OSFI performance measures and has had several discussions with relevant third parties regarding OSFI's performance. The Advisory Board is not privy to institution-specific information held by OSFI, and individual Board members are subject to conflict-of-interest and confidentiality rules.

## Quality Assurance and Performance Standards



This was the first full year of operation for OSFI's Quality Assurance and Performance Standards (QAPS) Division. During the period, the Division undertook a number of initiatives consistent with its mandate, which is "to assist OSFI in developing a stronger results orientation, and enhancing accountability and effectiveness reporting to stakeholders." In 2000-2001, the Quality Assurance section of QAPS undertook a review of Risk Assessment Summary reports prepared by the Supervision Sector. This review resulted in specific recommendations to enhance and accelerate the implementation of the Supervisory Framework throughout OSFI.

The Performance Standards section of QAPS developed a structured process for the identification of key performance measures in OSFI's divisions. The process is being pilot tested in four divisions. Another project undertaken by the Performance Standards section was the development of an approach to compare operating costs with other regulators. The section's main goal for next year will be to apply this approach in conducting two surveys: one for selected Canadian regulators; the other for non-Canadian regulators.



# Leading by Example



THE GLOBALIZATION OF FINANCIAL MARKETS AND THE DEVELOPMENT OF MULTINATIONAL FINANCIAL INSTITUTIONS HAVE POSED SIGNIFICANT CHALLENGES FOR REGULATORS AND SUPERVISORS, INCLUDING OSFI. REGULATION IS A FUNCTION OF SPECIFIC LEGAL JURISDICTIONS – COUNTRIES OR EVEN PROVINCES OR STATES. THE POWERS OF REGULATORS RARELY GO BEYOND THEIR JURISDICTIONS, YET SOMEHOW THEY MUST NOW SUPERVISE INSTITUTIONS THAT OPERATE IN MULTIPLE JURISDICTIONS AND RESPOND TO GLOBAL MARKET FORCES. AT PRESENT, THE ONLY WAY THIS CAN BE DONE IS THROUGH HARMONIZATION OF REGULATORY AND SUPERVISORY STANDARDS, AND CLOSE COOPERATION AMONG REGULATORY BODIES AT ALL LEVELS, SOME OF WHICH ARE RESPONSIBLE FOR A SINGLE INDUSTRY. OSFI HAS BEEN A LEADER IN EFFORTS TO ACCOMPLISH BOTH OF THESE OBJECTIVES.



## International Initiatives



OSFI plays an active role within international supervisory bodies that set regulatory standards for their industries. In response to the Honourable Paul Martin's call for a new global financial architecture and the strengthening of systems of supervision around the world, OSFI has played a key role in developing a system of peer review of supervisors' compliance with standards of best practice. This proposal became part of the Financial Sector Assessment Program and the Reports on Observance of Standards and Codes, undertaken by the International Monetary Fund (IMF) and the World Bank.

OSFI also plays an active role on the Financial Stability Forum along with representatives of the Bank of Canada and the Department of Finance. The Financial Stability Forum was founded in 1999 in the wake of potentially serious regional financial crises. The organization consists of senior representatives from the G-7 countries and those with internationally significant financial sectors, and was set up to share information and identify sources of global financial instability.

OSFI was instrumental in the formation of a training institute for leaders of supervisory agencies around the world. The institute, called the Toronto International Leadership Centre for Financial Sector Supervision, was formed by the Schulich School of Business (York University), the World Bank and the Canadian Government, with active support and encouragement from OSFI. Later, the IMF and the Financial Stability Institute of the Bank for International Settlements joined the founders as the main funding bodies of the Centre. Recently, with the support of the Government of Canada, OSFI also began to develop a program of technical assistance for supervisors in developing countries.



## 2000–2001 Developments: Basel Committee on Banking Supervision



During 2000-2001, OSFI continued to play an active role in the Basel Committee on Banking Supervision, the G-10 grouping of bank supervisory agencies and central banks that develops supervisory guidance on key banking issues.

## New Capital Accord Proposals >

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The most prominent initiative during this period was the release, in January 2001, of a second consultative paper on the New Basel Capital Accord. The new Accord will replace the 1988 version, which has been adopted widely as the international bank capital standard. The new framework is intended to align capital adequacy assessment more closely with the key elements of banking risks, and to provide incentives for banks to enhance their risk measurement and management capabilities. The conceptual framework of the proposed New Basel Capital Accord is based on three pillars:

- > minimum quantitative requirements;
- > supervisory review; and
- > disclosure requirements.

The new framework will improve safety and soundness in the financial system by placing more emphasis on the banks' own internal control and management, the supervisory review process and market discipline. The new Accord will provide a spectrum of approaches to determine required capital levels, from simple to advanced methodologies for the measurement of both credit risk and operational risk. Providing a range of options has added a greater degree of complexity to the proposals. The new proposals refine current approaches to measuring credit risk under the first pillar, as well as the formulation of more risk-sensitive approaches to the treatment of collateral, guarantees, credit derivatives, netting and securitization. In addition, for the first time, the framework provides a quantitative capital charge for operational risk.

The New Basel Capital Accord is expected to be finalized by the end of 2002. To ensure OSFI understands the implications of the new Accord proposals for banks in Canada, it is working with the Canadian banking industry during the developmental stages and the consultation period for the Accord. OSFI will continue to consult with the banking industry to facilitate implementation of the new Accord, which is scheduled for 2005.



## Other Supervisory Guidance >

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OSFI participates in the Basel Committee's development of standards and guidance that touch on a broad spectrum of banking supervisory areas. As a participant in this process, OSFI reflects international guidance in the standards and guidance applicable to Canadian domestic deposit-taking institutions. During 2000-2001, the Basel Committee worked on a variety of topics and released papers on several subjects, including:

- > highly levered institutions;
- > the relationship between supervisors and external auditors (for consultation);
- > customer due diligence for banks (for consultation);
- > electronic banking;
- > principles for the management of credit risk;
- > best practices for credit risk disclosure;
- > managing settlement risk in foreign exchange transactions; and
- > internal audit in banking organizations.

All documents released by the Basel Committee are accessible via the link to the Bank for International Settlements from the “[Links](#)” section of OSFI’s Web site.

## International Association of Insurance Supervisors (IAIS) >

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During 2000-2001, OSFI was active in the affairs of the IAIS. In addition to being a member of the Executive Committee and the Technical Committee, OSFI was also represented on the Accounting Sub-Committee and the Task Force on Assessment and Implementation of Insurance Core Principles, and participated in the IAIS Core Principles self-assessment. In March 2001, an employee from OSFI’s International Liaison Division accepted a two-year secondment as Principal Administrator with the IAIS Secretariat in Basel to support the organization’s standards development and other activities.



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## Joint Forum >

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OSFI continued to work as part of the Joint Forum, whose initial focus on the supervision of financial conglomerates has more recently been expanded to include cross-sectoral supervision issues. Three Joint Forum working groups were active during 2000-2001, with OSFI playing a significant role in the working group examining Core Principles comparisons across the banking, insurance and securities industries. The two other groups focused on corporate governance, and risk management and definition of capital issues.

## Financial Stability Forum (FSF) >

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The Superintendent continued to serve as the Canadian banking supervisor representative on the FSF, which was created by G-7 Finance Ministers in 1999 to foster and coordinate international financial stability. During the year, the FSF continued to monitor potential vulnerabilities in the international financial system and a number of other initiatives, including progress on earlier recommendations concerning offshore financial centres and highly leveraged financial institutions.

## Integrated Financial Supervisors >

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In May 2000, OSFI hosted the second Integrated Financial Supervisors Conference, an ad hoc group of senior representatives from ten agencies around the world that are responsible for banking and insurance and, in some cases, securities supervision. Discussions focus primarily on the unique challenges of supervising more than one industry. The information gathered each year in preparation for the discussions is shared with other supervisors that might be preparing to meet such challenges.

## Toronto Centre >

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OSFI has expanded its support for and involvement in the activities of The Toronto International Leadership Centre in line with the Government of Canada's decision to increase its financial support for the Centre. The Centre has made impressive progress in the past year, particularly in its delivery of programs in different regions of the world and the development of remote participation programs using the Internet.

## Technical Assistance Program >

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In early 2001, OSFI took steps to create a technical assistance group to respond better to requests from foreign supervisors for assistance in strengthening their supervisory practices and regimes.





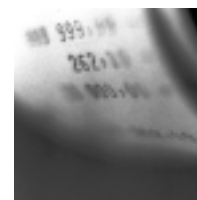
# Adding Value

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OSFI'S CORE BUSINESS IS THE REGULATION AND SUPERVISION OF FINANCIAL INSTITUTIONS AND PENSION PLANS. HOWEVER, IT ALSO PROVIDES ACTUARIAL ADVICE TO THE GOVERNMENT OF CANADA FOR VARIOUS PENSION PLANS AND SOCIAL PROGRAMS. THIS FUNCTION IS CARRIED OUT BY THE OFFICE OF THE CHIEF ACTUARY (OCA), WHICH IS NOW STRUCTURED AS A DIVISION WITHIN OSFI'S SPECIALIST SUPPORT SECTOR.





## Office of the Chief Actuary



The OCA has introduced a number of fresh approaches to carrying out its responsibilities. One of these innovations is the organization of a series of seminars to discuss the key assumptions to be used by the Chief Actuary in preparing his tri-annual report on the Canada Pension Plan. These seminars have featured presentations by experts, including leading economists, on such issues as labour force growth, labour force participation rates and changes in average income. These issues have been debated by participants that include officials from the federal and provincial governments.

## 2000–2001 Developments



The OCA provides actuarial services for the Canada Pension Plan (CPP) and Old Age Security (OAS), and pension and benefits plans covering members of the federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police, federal judges and Members of Parliament. During 2000-2001, the Office was asked to provide an actuarial report on the Canada Student Loans Program.

In addition to preparing statutory actuarial reports on the financial status of the plans, the OCA provides relevant government departments with actuarial advice on the design, funding and administration of these plans. OCA clients include Human Resources Development Canada, Finance, Treasury Board, Public Works and Government Services, the Canadian Forces, the RCMP and Justice.

In November 2000, the OCA hosted “Demographic and Economic Perspectives of Canada, Years 2000-2050,” the second seminar designed to broaden the OCA’s sources of advice and opinions concerning the assumptions made in preparing the CPP report.

Seven third-party requests for actuarial information and services were received during the year and handled according to the Service Charges Regulations under the OSFI Act. An OSFI policy that guides OCA’s treatment of all such third-party requests has been in force since April 2000. The policy ensures OCA applies standardized practices and provides transparency for its operations.



Specific services provided by OCA during the year included:

- > a presentation on the financial sustainability of the CPP, delivered in March 2001 to the Income Security Programs, Outreach, Human Resources Development Canada;
- > actuarial reports on the Public Service Pension Plan, the RCMP Pension Plan and the Public Service Life Insurance Plan, tabled in March 2001;
- > actuarial advice in the design and costing of the various pension and insurance proposals for judges, as part of Bill C-12, provided at the request of both the Department of Justice and the Judicial Compensation and Benefits Commission; and
- > ongoing advice and support given to the Public Sector Pension Investment Board, as well as to the Pension Advisory Committees of the Public Service, the Canadian Forces and the RCMP. Each Committee provides advice to the relevant Minister on the design, administration and funding of the plan.



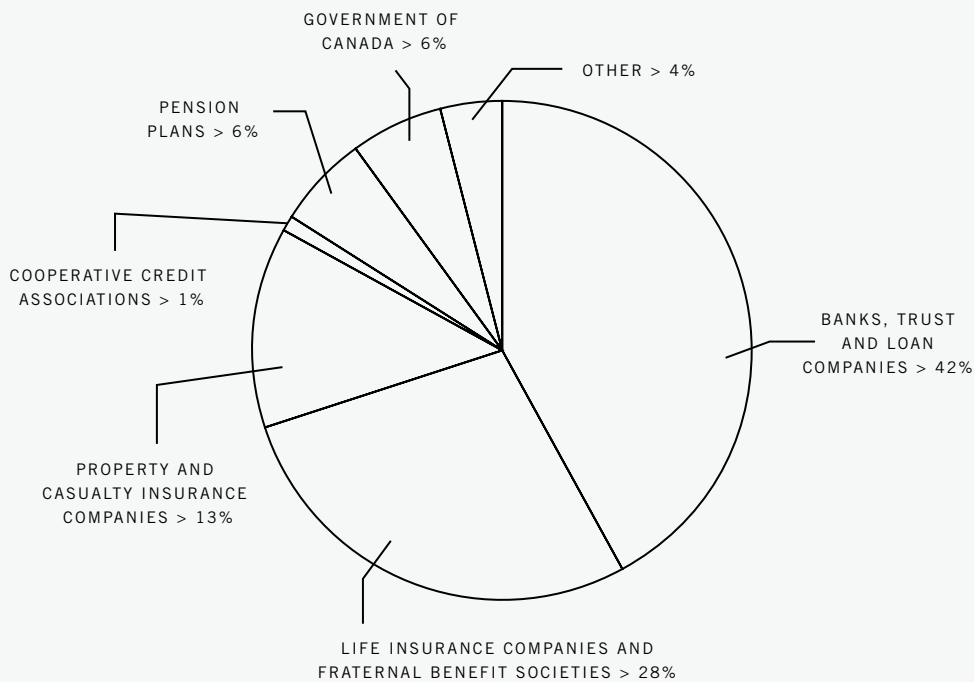
## Financial Highlights



**Accrual Accounting** In 2000-2001, OSFI converted its financial records and systems to accrual accounting, thereby complying with Canadian generally accepted accounting principles. In previous years, financial records were kept in accordance with the modified cash accounting policies of the federal government. This accounting change was consistent with the Government-wide Financial Information Strategy, aimed at improving the financial information available to managers, stakeholders and the general public. As a consequence of the move to accrual accounting, OSFI sought an independent audit, carried out by the Auditor General of Canada.

**Revenues** As part of OSFI's accountability framework, a full and open dialogue is maintained with OSFI's stakeholders on the costs and benefits associated with fulfilling its mandate. Each year, OSFI reviews its budget and priorities with industry stakeholders. In addition, OSFI seeks industry input regarding the asset- or premium-based assessments on the industry and the supplementary user-pay assessments from which OSFI secures the bulk of its revenue.

Breakdown of Revenue by Industry Type



**Expenditures** Canada's financial sector is growing in size and complexity. New products, new technologies and new risk transfer mechanisms present challenges for the regulator. OSFI is responding to these challenges by adding expertise and enhancing its employee mix, with the resulting cost implications. OSFI's operating expenditures increased in 2000-2001 by approximately 9 per cent over 1999-2000 on the former modified cash basis. This trend is forecast to continue as OSFI improves training and career opportunities for its employees and recruits individuals from the financial sector with the specialized skills and knowledge required by OSFI to carry out its increasingly demanding mandate.

**Cash Entitlement** OSFI's cash entitlement is comprised of the unspent cumulative assessments related to its regulation and supervision operations. When OSFI was established by merging the Inspector General of Banks and Department of Insurance, it was credited with the assessments that recovered the costs of its predecessor organizations. This helped fund OSFI's first year of operations and established a pool of working capital necessary to support OSFI's annual assessment and expenditure cycle.

**Accounts Receivable** Accounts receivable decreased by \$12.8 million in 2000-2001. This decrease was largely attributable to the payment by four life insurance companies of costs incurred by OSFI relating to the demutualization of the companies. Under an agreement with OSFI, these companies had agreed to assume responsibility for such demutualization costs.

**Insurance Company Liquidations** Previous to recent amendments to the *Insurance Companies Act* and the *Winding-Up Act*, the courts appointed the Superintendent of Financial Institutions as the liquidator of several failed insurance companies. The Superintendent then hired agents to carry out the liquidation work. Some of these liquidations are still ongoing. On behalf of the remaining active institutions, OSFI pays all expenses related to the liquidations and then recovers these costs from active institutions through special assessments. As the liquidations are settled and recoveries received, funds are deposited into a Specified Purpose Account. OSFI will redistribute all recoveries to the institutions that paid the special assessments.

**Office of the Chief Actuary** In 2000, the Office of the Chief Actuary was asked by the Government to provide actuarial services to the Canada Student Loans Program operated by Human Resources Development Canada. To carry out this new responsibility, the Office of the Chief Actuary increased its staff by approximately 20 per cent. The cost of this increase was recovered from Human Resources Development Canada.



## 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 OSFI management.

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 OSFI 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 the OSFI, and reports on her audit to the Minister of Finance.



John R.V. Palmer  
Superintendent



Edna M. MacKenzie  
Assistant Superintendent  
Corporate Services

Ottawa, Canada  
June 22, 2001

AUDITOR GENERAL OF CANADA



VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Finance

I have audited the statement of financial position of the Office of the Superintendent of Financial Institutions as at 31 March 2001 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 Office'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 Office as at 31 March 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink, appearing to read 'John Wiersema'.

John Wiersema, CA  
Assistant Auditor General  
for the Auditor General of Canada

Ottawa, Canada  
22 June, 2001

## Statement of Financial Position



As at March 31, 2001 with comparative figures as at April 1, 2000

## ASSETS

Assets	2001	2000
Cash Entitlement	\$ 37 578 910	\$ 28 035 979
Accounts Receivable	304 324	13 135 171
Capital Assets <sup>5</sup>	3 649 700	3 104 606
TOTAL ASSETS	\$ 41 532 934	\$ 44 275 756

## LIABILITIES AND EQUITY OF CANADA

Liabilities	2001	2000
Accounts Payable & Accrued Liabilities	\$ 4 397 228	\$ 2 916 353
Accrued Salaries and Benefits	3 830 235	4 265 028
Unbilled Assessments	431 779	5 069 511
Employee Future Benefits	5 284 723	4 238 462
	13 943 965	16 489 354
Equity of Canada	27 588 969	27 786 402
TOTAL LIABILITIES AND EQUITY OF CANADA	\$ 41 532 934	\$ 44 275 756

Commitments and Contingencies <sup>7, 8</sup>

**John R.V. Palmer**  
Superintendent of Financial Institutions

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.



## Statement of Operations and Equity of Canada

&gt;

For the year ended March 31, 2001

## REVENUES

Assessments	\$43 257 461	
Pension Plan Fees	3 765 180	
Service Charges	5 279 611	
<b>TOTAL REVENUES</b>		<b>\$52 302 252</b>

## EXPENSES

Human Resources	\$40 184 752	
Professional Development	1 387 028	
Travel	2 152 101	
Professional Services	1 001 073	
Facilities	4 391 595	
Information Management/Technology	3 148 832	
Administration	2 407 410	
<b>TOTAL EXPENSES</b>		<b>54 672 791</b>

NET RESULTS OF OPERATIONS BEFORE GOVERNMENT FUNDING		(2 370 539)
Government Funding <sup>6</sup>		2 173 106
NET RESULTS OF OPERATIONS FOR THE YEAR		(197 433)
EQUITY OF CANADA, BEGINNING OF YEAR		27 786 402
<b>EQUITY OF CANADA, END OF YEAR</b>		<b>\$27 588 969</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.





## Statement of Cash Flows



For the year ended March 31, 2001

## OPERATING ACTIVITIES

Net Results of Operations	\$ (197 433)
<b>Non-Cash items included in operations</b>	
Amortization of Capital Assets	1 363 641
Employee related liabilities	611 468
<b>Change in assets/liabilities</b>	
Decrease in accounts receivable	12 830 847
Decrease in unbilled assessments	(4 637 732)
Increase in accounts payable and accrued liabilities	1 480 875
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>11 451 666</b>

## INVESTING ACTIVITIES

Acquisition of capital assets	(1 908 735)
<b>CASH APPLIED TO INVESTING ACTIVITIES</b>	<b>(1 908 735)</b>

<b>INCREASE IN CASH ENTITLEMENT</b>	<b>9 542 931</b>
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<b>CASH ENTITLEMENT, BEGINNING OF YEAR</b>	<b>28 035 979</b>
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<b>CASH ENTITLEMENT, END OF YEAR</b>	<b>\$ 37 578 910</b>
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THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

## Notes to the Financial Statements



For the year ended March 31, 2001

## 1. &gt; AUTHORITY AND OBJECTIVE

I ) The Office of the Superintendent of Financial Institutions (“OSFI”) was established by the *Office of the Superintendent of Financial Institutions Act* (“OSFI Act”) in 1987 to regulate and supervise all federally regulated financial institutions. For OSFI, a federally regulated financial institution is any entity that has been created or is allowed to offer financial services pursuant to one of the financial institution statutes promulgated by the federal government and includes banks, trust and loan companies, federally registered insurance companies, cooperative credit associations, fraternal benefit societies and pension plans. Pursuant to the *Financial Administration Act* (“FAA”), OSFI is a department of the Government of Canada for the purposes of that Act and is listed in schedule I.1 of the Act.

II ) The Office of the Chief Actuary (“OCA”), a division of OSFI, provides actuarial advice to the Government of Canada. The OCA performs actuarial services for a variety of public insurance and pension programs as required under the *Canada Pension Plan Act* and the *Public Pensions Reporting Act*.

III ) In addition, OSFI has responsibilities under the following legislation:

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

IV ) Under previous provisions of the *Insurance Companies Act* and the *Winding-Up Act*, OSFI acted as liquidator of failed insurance companies when appointed by Court Order. Under these circumstances, the Superintendent hired agents to carry out the liquidation work in each case. However, under the new provisions of the *Winding-Up and Restructuring Act* (Section 23.3), the Superintendent can no longer be appointed as liquidator of a failed institution.

## 2. &gt; SPENDING AND BORROWING AUTHORITY

Pursuant to section 17 of the OSFI Act, the Minister may spend any revenues collected under sections 23 and 23.1 of the OSFI Act to defray the expenses associated with the operation of OSFI. The Act also establishes a ceiling for the expenses and sets this ceiling at \$40,000,000 above the amount of revenue collected.

OSFI revenues are comprised of assessments, fees, and service charges. The expenses against which assessments may be charged include those in connection with the administration of the *Bank Act*, the *Cooperative Credit Associations Act*, the *Insurance Companies Act*, the *Green Shield Canada Act*, and the *Trust and Loan Companies Act*. The formula for the calculation of assessments is included in regulations.

The *Pension Benefits Standards Act, 1985* (“PBSA, 1985”) provides that fees may be charged for the registration and supervision of pension plans and for the supervision, including inspection, of registered pension plans. The amount of the fees is set annually by regulation pursuant to section 25 of the PBSA, 1985.

Section 23.1 of the OSFI Act provides that the Superintendent may assess against a person a prescribed charge (“service charge”) and applicable disbursements for any service provided by or on behalf of the Superintendent for the person’s benefit or the benefit of a group of persons of which the person is a member. “Person” includes individuals, corporations, funds, unincorporated associations, Her Majesty in Right of Canada or of a province, and a foreign government. The service charges are detailed in the regulations.

Pursuant to section 16 of the OSFI Act, Parliament annually provides appropriations to support the operations of the Office of the Chief Actuary.



### 3. > SIGNIFICANT ACCOUNTING POLICIES

#### a) Basis of Presentation

The financial statements of OSFI have been prepared in accordance with Canadian generally accepted accounting principles.

#### b) Revenue Recognition

Revenue is recorded in the accounting period in which it is earned whether or not it has been billed or collected.

OSFI charges interim assessments based on its budgeted expenditures and forecast industry results. Final assessments are billed in the subsequent fiscal year, based on the actual results from the prior year. Pension plan fee rates are set annually based on budgeted expenditures, forecast pension plan membership and actual results from the previous year.

#### c) Cash Entitlement

OSFI does not have its own bank account. The financial transactions of OSFI are processed through the Consolidated Revenue Fund (CRF) of Canada. OSFI's cash entitlement represents the amount the Office is entitled to withdraw from the CRF without further authority. This amount does not earn interest.

#### d) Capital Assets

Capital assets are recorded at historical cost less accumulated amortization. Amortization is recorded using the straight-line method over the estimated useful lives of the assets as follows.

Assets	Useful life
Leasehold Improvements	Remaining life of the lease
Furniture and Fixtures	7 years
Office Equipment	4 years
Informatics Hardware	3 years
Informatics Infrastructure (Network)	3 years
Informatics Software	5 years
Motor Vehicles	5 years

#### e) Contributions to Public Service Superannuation Plan

OSFI's eligible employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Both the employees and OSFI contribute to the cost of the Plan. OSFI's contribution in the year was \$4,512,534. Contributions by OSFI in respect of current service are expensed in the year in

which payments are made. OSFI is not required under present legislation to make contributions with respect to any actuarial deficiencies of the Public Service Superannuation Plan.

#### f) Employee Future Benefits

On termination of employment, employees are entitled to certain benefits provided for under their conditions of employment through a severance benefits plan. OSFI recognizes the cost of future severance benefits over the periods in which the employees render services to OSFI, and the liability for these benefits is recorded in the accounts as the benefits accrue to the employees. OSFI's current year expense is \$1,046,261.

#### g) Specified Purpose Account

OSFI has an interest-bearing specified purpose account within the Consolidated Revenue Fund for insurance company liquidations. Previous to recent amendments to the *Insurance Companies Act*, the courts appointed the Superintendent as the liquidator of several failed insurance companies. In this capacity, OSFI pays, on behalf of the remaining active institutions, all expenses related to the liquidation, and then recovers these costs from active institutions. The revenues and expenses related to these accounts are not included in the OSFI statement of operations.

#### h) Use of Estimates

These financial statements are prepared in conformity with Canadian generally accepted accounting principles, which require that OSFI management make estimates and assumptions that affect the amounts reported in these financial statements. Human resources related liabilities, useful life of capital assets and contingent liabilities are the most significant items for which estimates are used. Actual results could differ from those estimates.

### 4. > COMPARATIVE FIGURES

In previous years, OSFI prepared its financial results on a cash basis. This is the first year that a set of financial statements including Statement of Financial Position, Statement of Operations and Equity of Canada and Statement of Cash Flows have been prepared in accordance with Canadian generally accepted accounting principles. It is neither practical nor cost effective for OSFI to show comparative amounts because the information is not readily available and any estimation of previous year amounts would not be able to be substantiated with any degree of precision.



## 5. &gt; CAPITAL ASSETS

Cost	April 1, 2000	Additions	March 31, 2001
Leasehold Improvements	\$ 589,629	\$ 135,250	\$ 724,879
Furniture and Fixtures	890,334	522,420	1,412,754
Office Equipment	85,496	118,742	204,238
Informatics Hardware	859,298	440,912	1,300,210
Informatics Infrastructure	717,431	261,551	978,982
Informatics Software	2,912,871	429,860	3,342,731
Motor Vehicle	21,757	-	21,757
<b>TOTAL</b>	<b>\$ 6,076,816</b>	<b>\$ 1,908,735</b>	<b>\$ 7,985,551</b>

Accumulated amortization	April 1, 2000	Amortization	March 31, 2001
Leasehold Improvements	\$ 109,195	\$ 123,670	\$ 232,865
Furniture and Fixtures	279,054	164,507	443,561
Office Equipment	30,093	36,217	66,310
Informatics Hardware	358,710	342,716	701,426
Informatics Infrastructure	281,599	230,664	512,263
Informatics Software	1,893,978	463,691	2,357,669
Motor Vehicle	19,581	2,176	21,757
<b>TOTAL</b>	<b>\$ 2,972,210</b>	<b>\$ 1,363,641</b>	<b>\$ 4,335,851</b>

6. > **GOVERNMENT FUNDING** OSFI receives an annual parliamentary appropriation pursuant to section 16 of the OSFI Act to support its mandate relating to the Office of the Chief Actuary. In this fiscal year, OSFI was granted \$1,773,103 in parliamentary appropriations to defray the expenses associated with the provision of service by the Office of the Chief Actuary, and \$400,000 in appropriations to defray the cost of implementing the government-wide Financial Information Strategy (FIS). Among other things, FIS represents a move from reporting on a modified cash basis to full accrual accounting.

7. > **COMMITMENTS** OSFI has entered into lease agreements for office space in four locations across Canada. The minimum aggregate annual payments for future fiscal years are as follows:

	2001-02	\$ 3,392,160
	2002-03	3,340,301
	2003-04	3,173,410
<b>TOTAL</b>		<b>\$ 9,905,871</b>

8. > **CONTINGENCIES** During the fiscal year 2000/01, OSFI was named in a suit requesting an order that the decision of the Canadian Human Rights Tribunal concerning pay equity be applied to separate employers, such as OSFI. In the opinion of management, the outcome is not determinable at this time.



## 9. &gt; SPECIFIED PURPOSE ACCOUNT

During the year, the following activity occurred in this account.

## Specified Purpose Account: Insurance Company Liquidations

	Opening Balance	\$ 88,147
	Recoveries deposited	6,521,745
	Interest earned*	102,400
CLOSING BALANCE		\$ 6,712,292

\* Interest was due from the Government of Canada on March 31, 2001

10. > RELATED PARTY TRANSACTIONS OSFI is related in terms of common ownership to all Government of Canada departments and Crown corporations. OSFI enters into transactions with these entities in the normal course of business and on normal trade terms. OSFI had expenses of \$12,717,066 and revenues of \$3,008,329 incurred from transactions in the normal course of business with other Government departments during the year.

As at March 31, the accounts receivable and payable with other Government entities and unrelated external parties were as follows:

	Other Government Departments	External Parties	Total
<b>2001</b>			
Accounts Receivable	\$ 65,928	\$ 238,396	\$ 304,324
Accounts Payable	\$ 610,077	\$ 3,787,151	\$ 4,397,228
<b>2000</b>			
Accounts Receivable	\$ -	\$ 13,135,171	\$ 13,135,171
Accounts Payable	\$ 143,150	\$ 2,773,203	\$ 2,916,353

## 11. &gt; SEGMENTED INFORMATION

	Supervision of Financial Institutions and Pension Plans	Office of the Chief Actuary	Total
Assessments	\$ 43,257,461	\$ -	\$ 43,257,461
Pension Plan Fees	3,765,180	-	3,765,180
Service Charges	4,133,585	1,146,026	5,279,611
TOTAL REVENUES	51,156,226	1,146,026	52,302,252
Human Resources	37,942,556	2,242,196	40,184,752
Other Operating Expenses	13,613,670	874,369	14,488,039
TOTAL EXPENSES	51,556,226	3,116,565	54,672,791
NET RESULTS OF OPERATIONS BEFORE GOVERNMENT FUNDING	(400,000)	(1,970,539)	(2,370,539)
Government funding	400,000	1,773,106	2,173,106
NET RESULTS OF OPERATIONS	\$ -	\$ (197,433)	\$ (197,433)



## Appendix 1 – Complaints and Enquiries



Under the terms of its Act, OSFI is required to include in its annual report information respecting complaints and enquiries from consumers of financial institutions who have contacted us.

Since 1992, financial institutions have been required by law to establish specific procedures for handling customer complaints. These procedures must be readily available to customers and include information on how to contact OSFI. When someone contacts us, a complaints and enquiries officer analyzes the situation and, whenever possible, offers suggestions on how it can best be handled. Officers often respond directly to enquiries that are of a general nature. Complaints or enquiries that are more specific or relate to a specific institution are directed to individuals in the relevant institution. OSFI's toll-free telephone service is still the most popular way for consumers to contact us; however, we also receive complaints and enquiries through the mail and via the Internet. In particular, e-mail contacts are on the rise, with 849 received in 2000-2001, a 15 per cent increase over last year's figure of 736.

As indicated in the following tables, during 2000-2001, OSFI received 12,103 enquiries and 4,465 complaints, for a combined total of 16,568 contacts. The number of enquiries is down substantially from the previous year's total of 20,512, because some 8,300 calls related to the demutualization of four of Canada's life insurance companies were included in the figure for 1999-2000. The complaints total is up slightly from the 4,014 recorded in 1999-2000.

### 1. Complaints by Sector – For the period of April 1, 2000 to March 31, 2001

	BANKS	TRUST	LIFE	P&C	PENSIONS	LOAN	CO-OP.	OTHER	TOTAL
<b>Complaints</b>									
ABMs	80	4	1	0	0	1	0	5	91
Accounts	873	55	0	0	0	1	0	36	965
Cost of Borrowing	20	0	0	0	0	0	0	0	20
Credit Cards	391	17	1	0	0	0	0	19	428
Estate Issues	34	14	0	0	0	0	0	0	48
Financial Status/Stability	2	0	1	0	0	0	0	0	3
Floating Issues	0	1	1	0	9	0	0	0	11
General Information	53	4	29	2	62	0	0	11	161
Insurance Policy	4	4	186	120	1	0	0	38	353
Investment Products	299	56	17	2	0	1	0	4	379
Legislation/Regulations/ Guidelines	12	1	1	0	5	0	0	9	28
Loans/Mortgages	597	41	7	0	0	6	0	10	661
Non-OSFI-Related Issues	5	0	0	1	0	0	0	178	184
OSFI-Related Issues	5	0	2	0	0	0	0	1	8
Privacy Issues	40	5	4	1	0	0	0	2	52
Quality of Service/ Internal Policies	550	29	22	4	1	2	0	21	629
Service Fees/Charges	262	9	2	2	0	0	0	1	276
Small Business Issues	156	7	0	0	0	0	0	0	163
Tied Selling Issues	5	0	0	0	0	0	0	0	5
<b>TOTAL COMPLAINTS</b>	<b>3388</b>	<b>247</b>	<b>274</b>	<b>132</b>	<b>78</b>	<b>11</b>	<b>0</b>	<b>335</b>	<b>4465</b>



## 2. Enquiries by Sector – For the period of April 1, 2000 to March 31, 2001

Enquiries	BANKS	TRUST	LIFE	P&C	PENSIONS	LOAN	CO-OP.	OTHER	TOTAL
ABMs	16	0	0	0	0	0	0	2	18
Accounts	186	13	0	0	2	0	0	8	209
Cost of Borrowing	9	1	0	0	0	0	0	0	10
Credit Cards	137	3	0	0	0	0	0	7	147
Estate Issues	9	3	0	0	0	0	0	1	13
Financial Status/Stability	213	39	45	24	0	2	0	38	361
Floating Issues	2	0	1	0	6	0	0	0	9
General Information	913	166	536	99	1246	25	1	759	3745
Insurance Policy	3	1	90	10	3	0	0	65	172
Investment Products	39	12	8	0	2	1	0	3	65
Legislation/Regulations/ Guidelines	361	56	20	9	373	8	0	325	1152
Loans/Mortgages	93	6	1	1	0	1	0	7	109
Non-OSFI-Related Issues	39	4	7	3	13	1	0	5225	5292
OSFI-Related Issues	193	50	45	17	42	10	0	301	658
Privacy Issues	13	1	0	0	0	0	0	0	14
Quality of Service/ Internal Policies	55	1	0	0	0	0	0	5	61
Service Fees/Charges	28	2	0	0	0	0	0	1	31
Small Business Issues	18	0	0	0	0	0	0	4	22
Tied Selling Issues	5	0	0	0	4	0	0	6	15
<b>TOTAL ENQUIRIES</b>	<b>2332</b>	<b>358</b>	<b>753</b>	<b>163</b>	<b>1691</b>	<b>48</b>	<b>1</b>	<b>6757</b>	<b>12103</b>

## 3. Combined Complaints and Enquiries by Sector – For the period of April 1, 2000 to March 31, 2001

	BANKS	TRUST	LIFE	P&C	PENSIONS	LOAN	CO-OP.	OTHER	TOTAL
<b>TOTAL</b>	<b>5720</b>	<b>605</b>	<b>1027</b>	<b>295</b>	<b>1769</b>	<b>59</b>	<b>1</b>	<b>7092</b>	<b>16568</b>

## 4. Requests by Type

Written	891
Telephone	14820
Personal Interview	8
Internet	849
<b>TOTAL</b>	<b>16568</b>



## Appendix 2 – Disclosure of Information



Under the OSFI Act, the Superintendent is required to report to Parliament each year on the disclosure of information by financial institutions and the state of progress in enhancing the disclosure of information in the financial services industry.

### OSFI's Role in Enhancing Disclosure

OSFI contributes to and promotes effective disclosure by publishing financial information directly, providing guidance to institutions on their disclosure, and contributing as members of international supervisory groups that provide industry with guidance on best practices.

For several years, OSFI has released selected financial regulatory information on federally regulated financial institutions through Ivation Datasystems Inc., a private sector, commercial database company that makes the information available to the public for a fee. In addition, OSFI publishes on its Web site a year-end balance sheet and income statement for each institution. During the year under review, OSFI began work on a project to increase the amount of financial data available on its site, with completion slated for the fall of 2001.

In 1997, OSFI issued disclosure guidelines to federally regulated deposit-taking and life insurance institutions. The guidelines cover minimum levels of disclosure of financial information, as well as information relating to risk management and control practices. The guidelines are intended to supplement the disclosures required by the Canadian Institute of Chartered Accountants (CICA) Handbook and other OSFI guidelines. In March 2001, a draft Guideline for property and casualty insurance companies was released to the industry for final comment, with the expectation it will be published in definitive form in the fall of 2001 for use in disclosing 2001 financial information.

With the demutualization of several large life insurers in 1999-2000, trading in the shares of an important group of Canadian companies was opened to investors. To foster market discipline in the insurance industry and to aid financial analysts in understanding the operations of these companies, OSFI and the Canadian Institute of Actuaries conducted a one-day seminar for analysts. The seminar consisted of explanations of actuarial reserving, the analysis of gain and loss by source, and embedded value. OSFI, with the cooperation of the Institute, is developing a format for the planned disclosure by all Canadian insurance companies of annual gain and loss by source. In addition, the larger Canadian life insurers have initiated annual disclosure of their respective embedded values.

Among other relevant international activities, OSFI participates in the Transparency Group of the Basel Committee on Banking Supervision. The mandate of the Transparency Group focuses on





promoting market discipline. In fulfilling this mandate, the group develops best-practice guidance for disclosure by banks and conducts surveys on annual report disclosures made by large, internationally active banks. Historically, OSFI's detailed reviews of the major Canadian banks' annual report disclosure have resulted in generally favourable findings when compared to their international peers.

As a member of the International Association of Insurance Supervisors (IAIS), OSFI has been involved in the development of a guidance paper on public disclosure for insurers. The purpose of the paper, which will be tabled for adoption by the Executive Committee of the IAIS at its General Meeting in September 2001, is to enhance disclosure, thereby improving transparency and promoting market discipline in the insurance industry.

OSFI also took part in the Working Group of the Basel Committee on Banking Supervision, the Committee on Global Financial System of the Group of Ten central banks, the IAIS and the International Organization of Securities Commissions, which formed the Multidisciplinary Working Group on Enhanced Disclosure in January 1999. The group's mandate was to assess the feasibility and utility of enhanced public disclosure by financial intermediaries. Following a pilot study of 44 private-sector financial institutions in nine countries, the working group issued a final report in February 2001, which is available on the IAIS Web site at [www.iaisweb.org](http://www.iaisweb.org).

## Consumer Information



Canada enjoys one of the most advanced and well administered financial systems in the world. It is evolving steadily due to new technologies and increased competition that offer more choice and opportunities for consumers and benefit Canadian society as a whole.

### Financial Consumer Agency of Canada (FCAC)

Consumers with questions relating to financial institutions may wish to contact the new FCAC, which will be created with the proclamation of Bill C-8 and is scheduled to begin operating in the fall of 2001. FCAC will enforce the consumer-oriented provisions of the federal financial institution statutes, newly expanded by Bill C-8. This is a responsibility formerly assigned to OSFI. FCAC will ensure that consumers, in their day-to-day dealings with financial institutions, fully benefit from the consumer protection measures the government provides for in legislation. The agency will have the authority to impose penalties on financial institutions for non-compliance with these measures. FCAC will also monitor and report on industry self-regulatory initiatives. Following proclamation of Bill C-8, the toll-free telephone number for FCAC will be available by calling the Government of Canada's reference service at 1-800-O-Canada.



