



**Remarks by Julie Dickson, Acting Superintendent  
Office of the Superintendent of Financial Institutions Canada (OSFI)  
to the  
House of Commons Standing Committee on Finance**

**Ottawa, Ontario  
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For additional information contact:

Jason LaMontagne  
Communications Specialist  
Communications and Public Affairs  
[jason.lamontagne@osfi-bsif.gc.ca](mailto:jason.lamontagne@osfi-bsif.gc.ca)  
[www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca)



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## **Opening**

Good afternoon, Mr. Chairman, members of the Committee.

Thank you for the opportunity to appear before you today to discuss OSFI's budget for 2007-2008, and our Plan and Priorities.

## **Mandate**

The Office of the Superintendent of Financial Institutions (OSFI) was created to contribute to public confidence in the Canadian financial system. Canada's robust regulatory regime has assisted in creating one of the strongest financial systems in the world. The strength of this system is critical for continued development and innovation in our economy, and in protecting the savings of Canadians. Therefore, maintaining our status as a world-class prudential regulator is an OSFI priority.

OSFI is mandated to supervise institutions and pension plans to determine whether they are in sound financial condition, and are complying with their governing law and supervisory requirements. In the event we perceive any material deficiencies, we advise institutions and require them to take necessary corrective measures. OSFI also monitors system-wide or sectoral issues that may have a negative impact on institutions, and we advance and administer a regulatory framework that promotes the adoption of policies and procedures designed to control and manage risk.

## **Priorities**

Canadian financial institutions are operating in an increasingly complex international environment. To meet its mandate, OSFI must monitor Canadian institutions' ability to manage the risks of operating in this environment. OSFI's priorities for the coming year, and beyond, build on our commitment to world-class regulation.

*Basel II Capital Accord* – This year, alongside many other countries, Canadian banks will integrate the Basel II Capital Accord into their business processes.

Adherence to Basel II will be mandatory for all Canadian banks, but at OSFI, we want the institutions to see it as more than a mere exercise in compliance. We want them to integrate risk management into the way they do business. As such, OSFI will work closely with the banks in the coming year as implementation of the Basel II Capital Accord moves forward.

*International Reviews* – Canada is being reviewed by the International Monetary Fund (IMF) under its Financial Sector Assessment Program (FSAP), as well as by the Financial Action Task Force (FATF). For the IMF review, OSFI will work with Canadian banks, as well as the Bank of Canada, to assist the IMF in assessing our compliance against four recently revised banking standards. The objective is to receive a successful assessment, and to be in a position to deal with any resulting feedback. For the FATF review, OSFI will provide input to an international evaluation of Canada's anti-money laundering / anti-terrorist financing regime (This evaluation is being coordinated by the Department of Finance).

*Enhancing the framework* – A five-year project to develop and agree on a capital framework for Canadian life insurance companies has been initiated. [These rules are known as Minimum Continuing Capital Surplus Requirement (MCCSR)]. Similar to the Basel II Capital Accord for banks, this framework will allow life insurance companies to better align their risk with their capital requirements.

OSFI is also preparing for a move to International Financial Reporting Standards (IFRS), and will soon begin to determine the implications for Canadian financial institutions and supervisors. This will include developing a process for handling changes to accounting standards in data collection and reporting systems, and determining the impact fair value accounting will have on the sector.

*Pensions Systems and Processes* – OSFI will continue work on initiatives in the area of pension regulation. This will include acceleration of the approval process, upgrading our information technology system, and contributing to policy analysis of the *Pension Benefits Standards Act, 1985*. OSFI will also focus on monitoring, and determining the implications of, court decisions affecting private pension plans. These activities will enhance OSFI's ability to perform as required in an increasingly complex environment.

*Readiness Planning* – As a prudential regulator, OSFI is constantly monitoring the impact of changes in the economic environment on the risk profile of financial institutions. OSFI must have the resources in place to identify and deal with an economic downturn as well as any other unexpected events such as a pandemic outbreak. As part of enhancing its preparedness, OSFI will carry out table-top exercises against various scenarios, and will emphasize the institutions' stress-testing capabilities. This is essential to meeting OSFI's ongoing responsibility of accurate risk assessment and timely, effective intervention.

## **Budget**

OSFI's costs of regulation and supervision are almost fully recovered from industry. As well, the Canadian International Development Agency (CIDA) currently funds approximately \$1.3 million of our annual costs for the assistance we provide to foreign supervisors through our International Advisory Group (IAG). The costs of the Office of the Chief Actuary (OCA) are largely funded by the organizations for which it does actuarial work. An annual appropriation of approximately \$780,000 covers the actuarial services the OCA provides to various public service pension plans.

OSFI's overall costs will rise by 6.5 per cent between 2006-2007 and 2007-2008. The increases are due to normal inflationary and merit adjustments and continued technology investments related to the implementation of the Basel II Capital Accord, and to support our monitoring of private pension plans.

## **Accountability Framework**

OSFI's accountability framework has a variety of elements. OSFI's internal audit group conducts assurance audits based on a comprehensive five-year risk-based plan. Audit results are reviewed by OSFI's executive, and the Audit Committee, at regularly scheduled meetings. OSFI strengthened its internal audit program considerably in 2006-2007 in accordance with the new Treasury Board audit policy. Effective the first quarter of 2006, OSFI appointed four external members to its Audit Committee, who serve with the Superintendent. The independent members represent a majority of the Committee.

Internationally, as mentioned previously, OSFI participates in reviews jointly led by the World Bank and International Monetary Fund to determine whether OSFI is meeting internationally established principles for prudential regulators. OSFI also regularly conducts anonymous surveys of knowledgeable observers on its operations, consults extensively on its regulatory rules before they are finalized, issues an annual report, and has its financial statements and related control processes audited annually by the Auditor General of Canada.

OSFI also discusses its budget with financial institutions and pension plans every spring.

## **Conclusion**

OSFI's mandate, coupled with the powers provided to it by Parliament, has gone a long way in contributing to a safe and sound financial system in Canada. But we are always mindful of the fact that the financial services sector is dynamic and

ever changing. OSFI will continue to do its part to maintain and further develop a strong prudential regulatory regime that will have the confidence of all Canadians.

I would be pleased to answer any questions the Committee might have.