



Office of the Superintendent of Financial Institutions (OSFI) Overview of Industry Consultation Findings

As the primary regulator of federal financial institutions, OSFI interacts extensively with financial institutions and professionals who represent these institutions.

Since 1998, OSFI has commissioned regular consultations with key stakeholders to assess its effectiveness and fulfil its commitment to continuous improvement. The consultations are conducted by an independent consulting firm and comprise a series of confidential one-on-one interviews with senior executives and professionals representing a cross-section of the financial institutions regulated by OSFI.

Findings reported here are from the 2004 Industry Consultation Process, for which interviews were conducted in November and December of that year. OSFI undertook similar consultations in 1998, 2000 and 2002. Where possible, findings from these earlier consultations are compared with findings from 2004.

The primary objective of these consultations is to obtain an overall perspective of OSFI's performance as a regulator and the challenges it faces in discharging its mandate. Specific objectives of the consultations were to investigate perceptions of OSFI as they pertain to its:

- Profile among the general public and financial community;
- Strengths and opportunities for improvement;
- Effectiveness in carrying out its mandate;
- Performance as compared with similar international regulators on a number of issues.

The results show that ratings of OSFI's overall performance as a regulator and its performance on a number of specific measures relative to other regulators have improved. OSFI is seen as having improved its ability to effectively execute a principles-based approach, allowing for more flexibility and a greater focus on material issues. Another perceived point of strength for OSFI is the ability to facilitate a dialogue-based relationship with financial institutions and provide a clear perspective of its expectations through open communication and the development of guidelines. Interview respondents say that OSFI has gained visibility from being actively involved in international working groups, which has served to raise OSFI's and Canada's profile within other regulatory agencies.

Some other key findings:

- Overall satisfaction with OSFI as the principal regulator and supervisor of Canada's financial services sector is high at 92%, and has increased from 78% in 1998.
- The Supervisory Framework introduced in 1999 is perceived by 75% of respondents to have had a positive impact on the effectiveness of OSFI's monitoring and examinations processes.
- OSFI receives strong ratings for its contribution to public confidence in the financial industry based on the absence of failures in the recent past.
- There has been a significant and steady increase in the perception that OSFI has become more decisive in its interventions. And OSFI's treatment of struggling companies is perceived as being appropriate rather than being too severe or too complacent.

Some challenges were identified, including the need for further improvements in the level of staff knowledge and expertise, sector-specific sensitivity in OSFI's regulatory approach, and greater consultation with institutions on international accords. OSFI is addressing these issues and will monitor results at the time of our next consultation.

OSFI is the primary regulator of federal financial institutions and federally administered pension plans. OSFI's mission is to protect the rights and interests of depositors, policyholders, pension-plan members and creditors of financial institutions. OSFI advances and administers a regulatory framework that contributes to public confidence in a competitive financial system.

For further information, please contact OSFI at 1-800-385-8647.



The Strategic Counsel

A Report To The Office of the Superintendent of Financial Institutions (OSFI)

Industry Consultation Findings

February 2005

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Part I: Research Objectives And Methodology

Background

- ◆ OSFI, as the primary regulator of federal financial institutions and federally administered pension plans, interacts extensively with representatives of regulated institutions, and professionals who act on behalf of these institutions, in order to fulfil its mandate.
- ◆ Beginning in 1998, OSFI has engaged in a process of consultations with these stakeholders. The consultations, which are undertaken by an independent consultant, comprise a series of confidential one-on-one interviews with senior executives and professionals representing a cross-section of the institutions regulated by OSFI.
- ◆ Findings reported here are from the 2004 industry consultation process, for which interviews were conducted in November and December of that year. OSFI undertook similar consultations in 1998, 2000 and 2002. Where possible, findings from these earlier consultations are compared with findings from 2004.

Objectives

- ◆ The primary objective of the consultation is to obtain an overall perspective of both OSFI's performance as a regulator of federally regulated financial institutions* and the challenges it faces in discharging its mandate.
- ◆ Specific objectives are to investigate perceptions of OSFI as they pertain to its:
 - Profile among the general public and financial community.
 - Strengths and opportunities for improvement.
 - Effectiveness in carrying out its mandate.
 - Performance as compared with similar international regulators on a number of issues.

* OSFI's effectiveness as a regulator and supervisor of federally administered pension plans is dealt with in a separate consultation.

Methodology

- ◆ A total of 63 one-on-one interviews were conducted among senior executives and professionals who act on behalf of regulated institutions. CEOs, CFOs, Chief Internal Auditors, Chief Risk Officers, external actuaries, and external auditors were the target respondents of this consultation.
- ◆ Interviews were broken out by type of financial institution as shown in the table.
- ◆ OSFI provided *The Strategic Counsel* with a list of regulated institutions, external actuaries and external auditors and names of key contacts within each.
- ◆ OSFI also provided guidance on the distribution of interviews across the key categories of regulated institutions, in order to ensure all the largest institutions were included.
- ◆ The final sample of respondents was selected, contacted and interviewed by *The Strategic Counsel* independently of OSFI. Interviews were confidential. As such, OSFI does not know who was interviewed.
- ◆ Interviews were conducted primarily in-person, with a few undertaken by telephone (at the request of the respondent or due to the geographic location of the respondent).
- ◆ The average interview length was one hour.
- ◆ The 2002 interview guide formed the basis for the 2004 consultation, although it was significantly modified by adding and deleting some questions and by rewording others.
- ◆ Where there is no comparison with findings from previous consultations, this indicates that the question is new for 2004 or that the wording of the question asked in 2004 is substantially different from that asked previously and therefore no comparison is possible.



Distribution of Interviews	Number of Interviews Conducted	Number of FIs Sampled
Large Domestic Banks	11	6
Other Domestic Banks	6	5
Foreign Banks	9	9
Trust and Other	4	4
Large Life Insurance	6	3
Other Life Insurance	7	6
P&C Insurance	9	9
External Auditors	6	-
External Actuaries	5	-
Total	63	42

Methodology (continued)

- ◆ Some results have been recalculated to exclude those respondents who were not asked the question, who answered “don’t know”, or who did not offer a response, in order to be consistent with the analysis undertaken in previous consultations or where the results would have been skewed due to a large proportion who did not provide a response. Where such a recalculation has been made it is noted on the graph.
- ◆ **The sample sizes for the consultations are relatively small. Statistically significant differences are identified in the following manner:**

- **↑ indicates a significantly higher score (at the 95% confidence interval) than the previous reporting period.**
- **↗ indicates a directionally higher score (at the 90% confidence interval) than the previous reporting period.**
- **↓ indicates a significantly lower score (at the 95% confidence interval) than the previous reporting period.**
- **↘ indicates a directionally lower score (at the 90% confidence interval) than the previous reporting period.**

- ◆ Unless otherwise noted, the findings reported here emerged consistently across stakeholders.
- ◆ The small sample sizes allow only limited scope for subgroup analysis. However, where statistically significant or thematically consistent differences occur they are noted.
- ◆ Some graphs may add to slightly more or less than 100% due to rounding issues associated with small sample sizes.

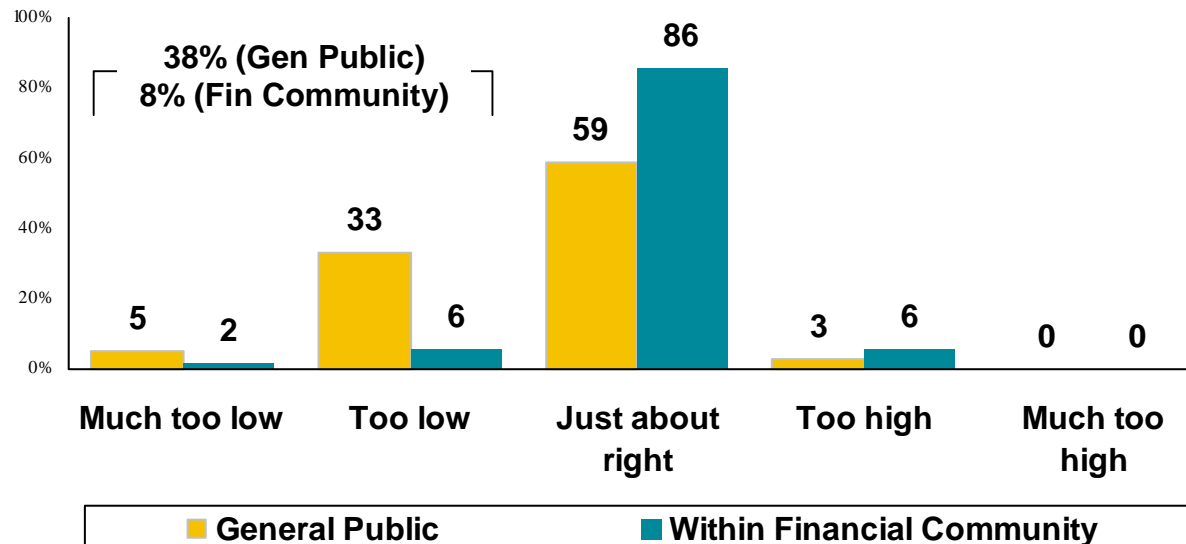
Part II: OSFI's Public Profile

Q1. Overall, what do you think of the Office of the Superintendent of Financial Institution's (OSFI's) profile in promoting its role in the financial industry to the general public?

Q2. Overall, what do you think of OSFI's profile within the financial community (e.g., its level of press coverage, its participation at industry fora)?

OSFI is perceived to have an appropriate profile among both the general public and the financial community.

View of OSFI's Profile



2004 (n=63)

- ◆ Most feel that OSFI has a relatively high profile in the financial community and believe this is appropriate. As such, the vast majority rate OSFI's profile in the financial community as "just about right".
- ◆ While the majority believe OSFI's profile among the general public is "just about right", a significant minority (over one-third) believe that it is too low.

Q1A. Why do you say [response to Q1]? / Q1. Overall, what do you think of the Office of the Superintendent of Financial Institutions (OSFI's) profile in promoting its role in the financial industry to the general public?

The majority believe that the general public are not aware of OSFI and its role. They also believe that this is appropriate.

- ◆ The majority of respondents (59%) believe OSFI's public profile is "just about right".
 - These respondents believe that the general public are not generally aware of OSFI and its role as a regulator.
 - Some further suggest that OSFI should continue to focus on its primary role - ensuring the safety and soundness of financial institutions - rather than seeking to increase its profile.
- ◆ A significant minority of respondents (38%), however, think OSFI's profile is too low.
 - They share the majority belief that Canadians are not aware that there is a regulator specific to Canadian financial institutions but not the belief that this is appropriate
 - These respondents suggest that greater public awareness of OSFI might increase confidence in Canada's financial institutions.
- ◆ CDIC is perceived to have a higher profile than OSFI. This is considered to be consistent with its responsibility to insure deposits and with its ongoing branding and informational activities.

Q2A. Why do you say [response to Q2]? / Q2. Overall, what do you think of OSFI's profile within the financial community (e.g., its level of press coverage, its participation at industry fora)?

OSFI is perceived to have a higher profile within the financial community than it does among the general public. This is considered appropriate.

- ◆ OSFI's profile within the financial community is perceived to be high given that most of those who work in financial services are aware of OSFI and its mandate.
 - The vast majority believe OSFI's profile within the financial community is “just about right”. In contrast to the majority belief that OSFI's profile among the general public should be low, most believe OSFI should have a high profile in the financial community.
 - A number of respondents note that OSFI has raised its profile within the financial services industry over the past couple of years.
 - OSFI is seen to be significantly more active in industry events such as forums and seminars.
 - OSFI's presence at industry association meetings (e.g., CBA, CIA) is viewed as appropriate and helpful.
 - It is seen as providing FIs with insight into the regulator's thinking and expectations.
 - For the most part, OSFI is perceived as appropriately visible and active within the financial community, and as not overly intrusive with individual institutions.
 - This was contrasted, by some, to the regulatory framework within the U.S. which finds regulators immersed in institutions for extended periods of time.

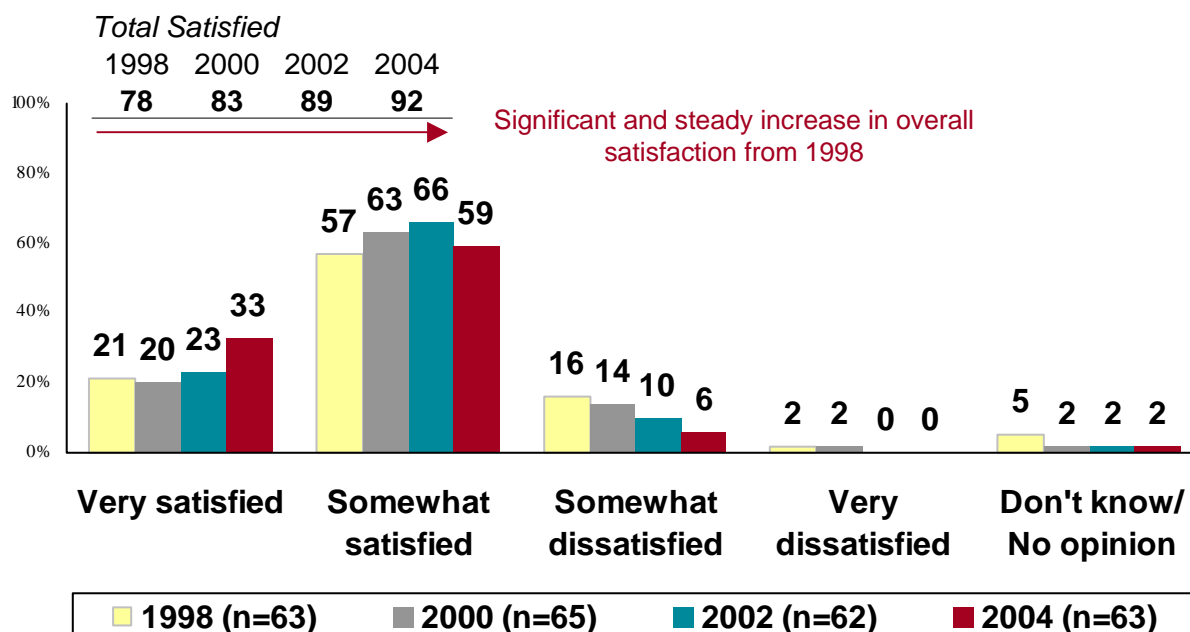
Part III: Overall Impressions Of OSFI's Performance

Q8. Overall, how satisfied is your institution with the Office of the Superintendent of Financial Institutions (OSFI) as the principal regulator and supervisor of Canada's financial services sector?

Satisfaction with OSFI as the principal regulator and supervisor of Canada's financial services sector is high.

- ◆ The vast majority are “very” or “somewhat” satisfied with OSFI's performance as a prudential regulator (92%). The greatest proportion express moderate satisfaction (59%).
- ◆ There has been a significant and steady increase in reported levels of overall satisfaction with OSFI since tracking of this measure began in 1998.

Overall Satisfaction with OSFI



Q8A. Why do you say [response to Q8]? / Q8. Overall, how satisfied is your institution with the Office of the Superintendent of Financial Institutions (OSFI) as the principal regulator and supervisor of Canada's financial services sector? Why do you say that?

Most attribute their positive ratings to OSFI's ability to remain focused on maintaining FI safety and soundness.

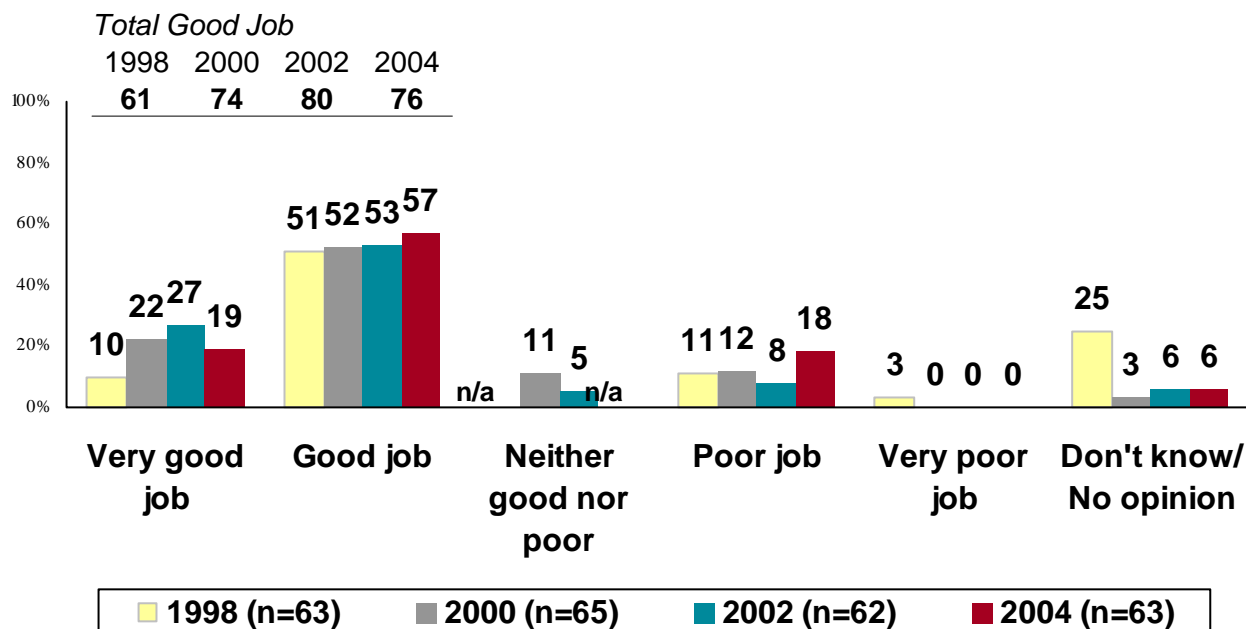
- ◆ Ratings are generally attributed to OSFI's discharge of its prudential mandate. Stakeholders express that OSFI:
 - Maintains a strong focus on safety and soundness.
 - Keeps an eye on risk issues.
 - Has put in place a strong supervisory process.
 - Executes a principles-based approach to regulation.
- ◆ Positive ratings tend to be more moderate due to concerns raised by some that OSFI:
 - Is prone to micro-management; and,
 - Does not always focus on material issues.

Q9. Overall, how would you say that OSFI performs in terms of contributing to Canadians' confidence in Canada's financial services industry? Do they do a...?

OSFI is perceived to contribute to public confidence in Canada's financial services industry.

- ◆ Consistent with previous research, a majority rate OSFI's performance in contributing to the public's sense of confidence in the financial services industry as good.
 - External auditors and actuaries are the most likely to hold this view.

OSFI's Contribution to Public Confidence in Canada's Financial Services Industry



Q9A. Why do you say [response to Q9]? / Q9. Overall, how would you say that OSFI performs in terms of contributing to Canadians' confidence in Canada's financial services industry? Do they do a very good job, good job, poor job, very poor job.

Through successful execution of its mandate, OSFI is perceived to contribute to public confidence in the financial services industry.

- ◆ As the general public is perceived to be largely unaware of OSFI, the main way in which OSFI is viewed as contributing to public confidence is through its success in maintaining the safety and soundness of Canada's financial institutions.
 - Many of those who gave a good or very good rating suggest that the stability of Canadian financial institutions and the absence of failures enhances public confidence.

Q3. In your view, what one or two things does OSFI do well?

A number of key organizational strengths are identified. In particular, OSFI is viewed as having improved its communications with regulated institutions in the past few years.

- ◆ Communications related to the day-to-day regulatory process:
 - There has been an improvement in the extent of communication on several levels:
 - Informing institutions of progress/issues in the examination process.
 - Communicating OSFI's priorities/expectations.
- ◆ Prudential approach to regulation:
 - Similar to the commentary regarding satisfaction with OSFI, respondents often identify OSFI's ability to effectively carry out its prudential mandate as one of its core strengths.
 - An example of this is the principles-based approach to risk assessment and supervision which allows more flexibility in the examination process and greater focus on material issues.
- ◆ Collaborative/interactive approach:
 - Consistent with findings from the Approvals Process Consultation, OSFI is viewed to have adopted a more collaborative approach with financial institutions than was evident in the past.
 - There is a greater openness to dialogue with FIs in the supervision and approvals processes.
 - RMs have been instrumental in fostering this approach.
 - FIs note that OSFI staff keep them abreast of issues that may affect examinations or other aspects of regulation.
 - OSFI staff are accessible for consultation – receptive to answering questions.

Q3. In your view, what one or two things does OSFI do well?

OSFI's participation in international fora is also viewed as a strength.

◆ Leadership in international fora

- A number of banks identify OSFI's participation and leadership role in the Basel II negotiations as an area of strength.
- It is noted that OSFI has garnered respect from international regulators due to its regulatory approach and its role in the development of the BIS Capital Accord.

Q4. And in your view, what one or two things does OSFI need to improve on?

Expertise of staff is viewed as a key area for improvement. In addition, there is a call for OSFI to be aware of and take into account sectoral and FI size differences in its framework and examinations.

◆ Staffing

- The calibre of OSFI’s staff is perceived to have improved over the past 3-5 years.
- However, many suggest that knowledge levels and experience of staff, particularly supervisory staff, require further improvement and remain an impediment to effective regulation.
- Concerns were primarily expressed about mid to lower level staff members:
 - Staff members were criticized for being too theoretical in their approach to FI assessment (staff has “book learning” but little industry experience to foster an informed perspective).
 - They were seen as lacking the expertise necessary to fully assess risk.

◆ “One-size fits all” approach to regulation

- There is a perception that OSFI is not sufficiently sensitive to institutional differences in its examination and supervisory practices:
 - For instance, smaller FIs complain that they are expected to undertake methods/strategies adopted by larger institutions. However, in many cases, adoption is viewed as impractical/inappropriate for smaller institutions.
 - Adoption can be burdensome from a budgetary and human resource perspective.
 - The methods/practices may not be consistent with an institution’s strategic priorities or culture.
 - Some believe that cross-sector differences are not taken into account (e.g., capital requirements for insurers versus banks).

Q4. And in your view, what one or two things does OSFI need to improve on?

Although recognized for carrying out its prudential mandate, OSFI is perceived by some to be exceeding that mandate in an inappropriate manner.

◆ Moving beyond prudential mandate

- The approach taken in the supervisory process is seen by some as inconsistent with the spirit of OSFI's overall principles-based approach.
 - OSFI is perceived to be moving towards a more prescriptive approach to regulation.
 - Some respondents suggested that OSFI is moving beyond its prudential mandate by providing advice on management processes.

Part IV: Risk Areas In The Future and Opportunities For Best Practices

Q5. What one or two risk areas do you believe should be priorities for OSFI in the next couple of years?

Operational and reputational risk, along with governance, are most often cited as key risk areas for OSFI in the next couple of years.

- ◆ The two risk areas cited more than any others are:
 - Operational risk
 - The speed and scope with which technologies are advancing is leading to greater vulnerability in these areas.
 - Reputational risk
 - The impact of unintended operational and other risk issues and the current focus on corporate governance are all identified as factors that can affect the reputation of, and hence confidence in, financial institutions.
- ◆ Other risk areas noted less often are:
 - Credit risk
 - While OSFI is seen as strong in this risk area, some believe continued vigilance will be required going forward.
 - This is one area of risk where OSFI's staff expertise is viewed to be strong.
 - Complex products/transactions
 - Derivatives/reinsurance are often cited as examples of more complex products/transactional activity that should be higher on OSFI's radar going forward.
 - Money laundering
 - With the U.S. emphasis on money laundering, stakeholders believe that OSFI must take a proactive role on this issue in order to ensure cross-border requirements are met.

Q6. In what specific risk areas, if any, do you believe OSFI needs to improve its assessment abilities?

Opportunities for improvement in operational and market risk assessment are often identified. Overall, however, effectiveness in assessing different risk areas is related to depth of staff expertise.

- ◆ Operational risk
 - By a two-to-one margin, operational risk is the risk area identified most often as the one in which OSFI needs to improve its assessment skills.
 - It is noteworthy that several insurers suggested that in focusing on this risk area OSFI should take into consideration the differences between insurer and bank risk.
- ◆ Market risk is also mentioned quite often as an area in which OSFI assessment abilities could be strengthened.
- ◆ Other risk areas identified by at least several respondents were:
 - Credit
 - Derivatives
 - Complex products
- ◆ In order to achieve greater assessment strength in these different areas, a number of respondents indicated that OSFI will require a greater depth of skilled staff members.

Q7. In what specific areas do you believe it would be useful for OSFI to issue best practices, whether your company would benefit or not?

OSFI best practices sharply divide stakeholders. Smaller institutions are more receptive to best practices while larger institutions have strong reservations about OSFI's role in this area.

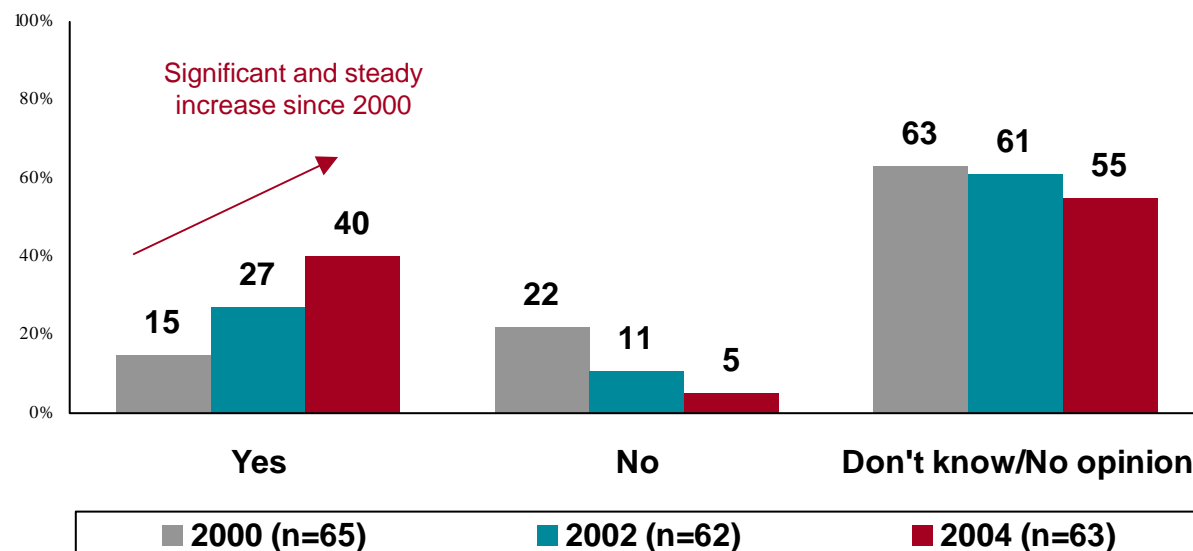
- ◆ There are differences between larger and smaller institutions on this issue:
 - Larger institutions, both banks and insurance companies, express reservations about OSFI's role in developing best practices.
 - There is concern that OSFI “cherry picks” best practices without a clear rationale as to their value.
 - Further, it is perceived that OSFI assumes that these practices have merit across institutions, without taking into account differences in culture and strategic priorities.
 - By contrast, smaller institutions often identify best practices as beneficial to them because they are restricted from becoming leaders/innovators in many areas due to budget or human resource limitations.
 - They express concern, however, that they may be expected to adopt best practices initially devised for much larger institutions that would place an unreasonable burden on their resources.
- ◆ Best practices becoming standards
 - While OSFI presents best practices as optional, institutions sometimes feel pressured by OSFI staff to adopt them.
 - Concerns are raised that best practices may become requirements.

Part V: OSFI's Effectiveness In Discharging Its Mandate

Q10. The OSFI Act was amended in 1996 to give OSFI an early intervention mandate. Since this amendment was made, do you believe that OSFI has become more decisive in its interventions?

OSFI is increasingly seen as decisive in its interventions.

Decisiveness of OSFI's Interventions

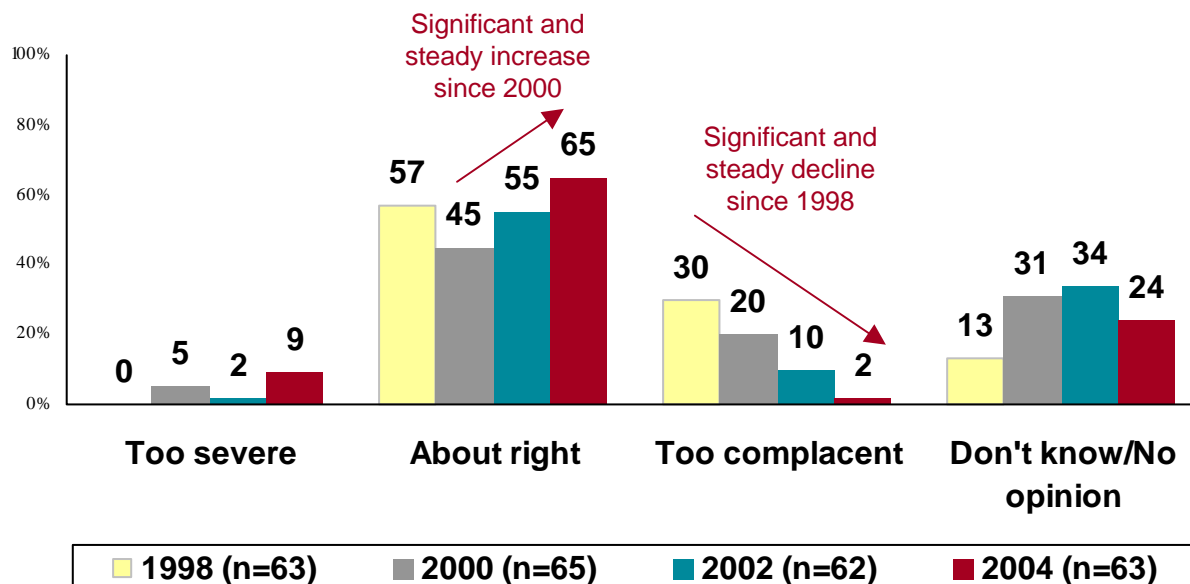


- ◆ Consistent with previous years, a majority continue to be unable to provide an informed response to this question. Many who declined indicated that they are not aware of any OSFI interventions since 1996.
- ◆ A significant minority (40%) believe that OSFI has become more decisive in its interventions since the 1996 amendment to the OSFI Act.
 - This perception has grown steadily and significantly over the past four years.

Q11. Going by what you know, or have heard, how would you characterize OSFI's treatment of companies experiencing financial difficulties?

OSFI's treatment of companies experiencing financial difficulties is increasingly seen as appropriate.

OSFI's Treatment of Companies Experiencing Financial Difficulties



- ◆ The perception that OSFI's treatment of companies experiencing financial difficulties is "about right" has steadily and significantly increased since 2000.
 - A commensurate decline in the assessment of OSFI as "too complacent" is also evident.
- ◆ Notably, one-quarter of respondents decline to provide a rating for this measure – a proportion consistent with previous years.
 - The primary reason for lack of informed opinion and reluctance to comment is the presumption that OSFI is discreet.

Q11A. Why do you say [response to Q11]? / Q11. Going by what you know, or have heard, how would you characterize OSFI's treatment of companies experiencing financial difficulties? Too severe, about right or too complacent.

OSFI is perceived to intervene at an early stage and to work collaboratively with FIs experiencing difficulties in order to mitigate further deterioration.

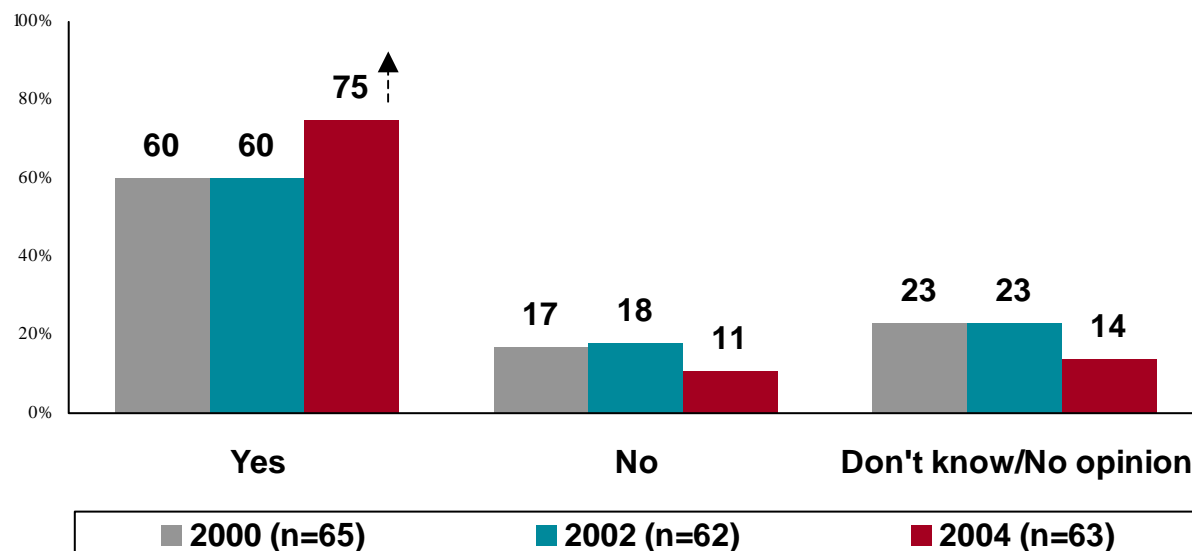
- ◆ Some respondents assume that OSFI is acting appropriately as there have been no failures in the industry in the recent past.
- ◆ Endorsement of OSFI's treatment of companies experiencing some difficulty is attributed to its approach of working with FIs that are exhibiting weaknesses to rectify problems rather than waiting until the situation is too far advanced to be remedied.

Q12. In 1999, OSFI introduced its Supervisory Framework. Do you believe this framework has improved the effectiveness of OSFI's monitoring and examination processes?

The Supervisory Framework is perceived to have had a positive impact on the efficacy of OSFI's monitoring and examinations processes.

- ◆ A strong majority believe the Framework has improved the supervision process.

Impact of Supervisory Framework on Efficacy of Monitoring/Examination Processes



Q12A. Why do you say [response to Q12]? / Q12. In 1999, OSFI introduced its Supervisory Framework. Do you believe this framework has improved the effectiveness of OSFI's monitoring and examination processes?

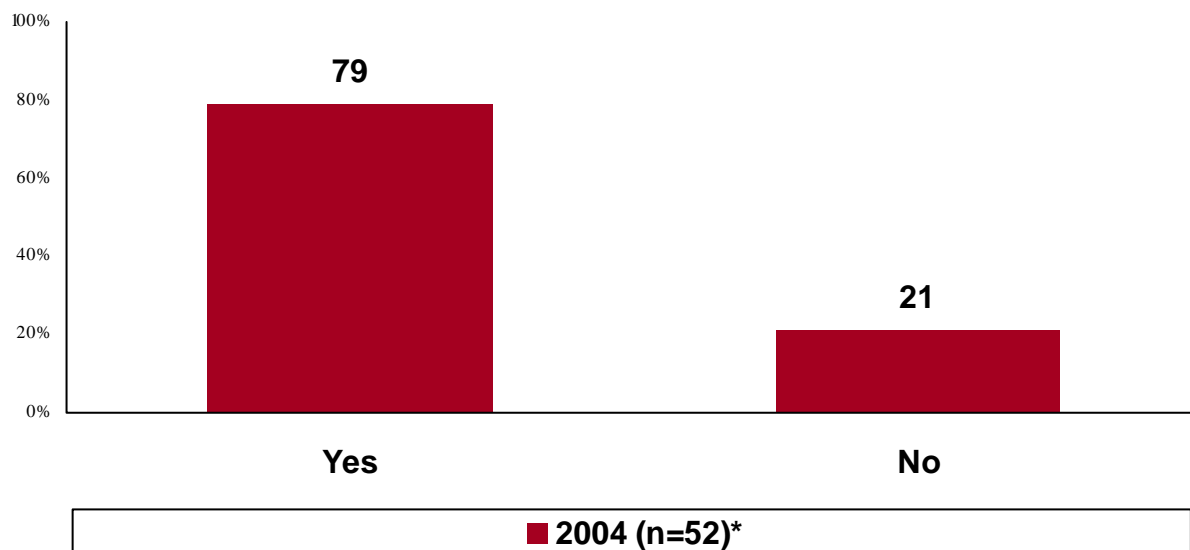
The Framework has provided supervisory staff with clear roles and responsibilities and FIs with a clear understanding of criteria for examinations.

- ◆ Respondents believe that the Framework contributes to focusing OSFI efforts by:
 - Establishing a clear risk orientation.
 - Outlining a more standardized approach to monitoring institutions.
 - Contributing to efficiencies.
- ◆ Further, the Framework has value to financial institutions in that it provides greater clarity concerning the basis on which OSFI monitors and examines. The supervision process is therefore viewed as more transparent and the risk assessment criteria are clearer.

Q13. Do you believe that the composite risk rating assigned by OSFI to your institution is a reasonable assessment of its risk profile? / Q13A. (If no, probe:) Why do you say that?

The strong majority feel that their institution's composite risk rating is appropriate.

Appropriateness of Composite Risk Rating



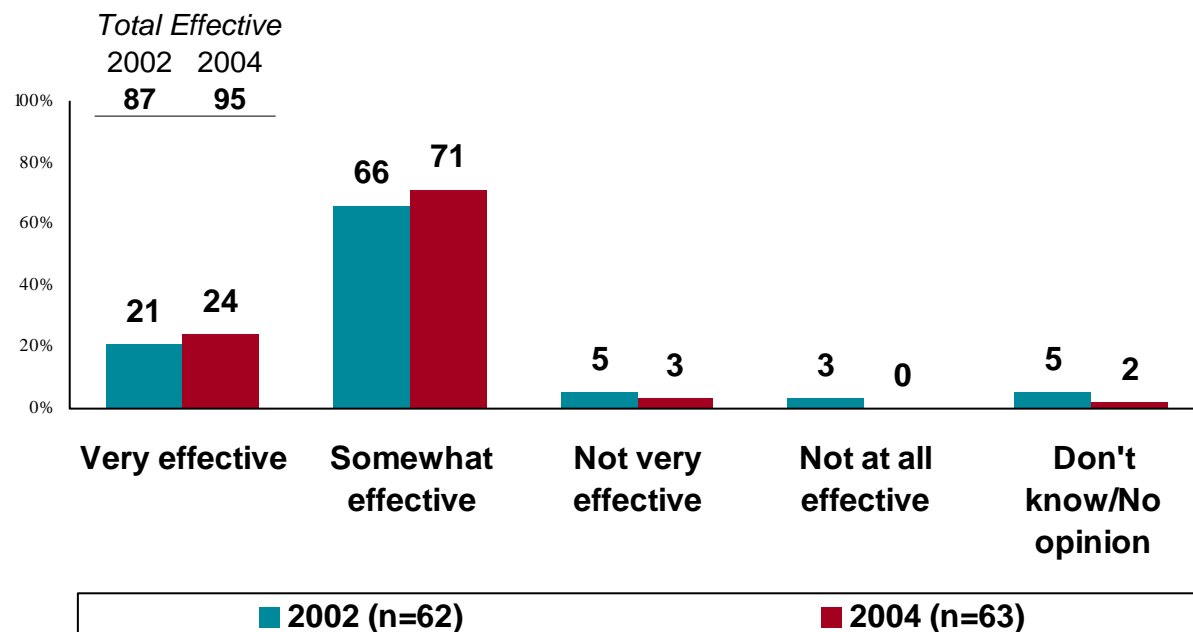
**Note: This question was not asked of external auditors and external actuaries*

- ◆ While there is general acceptance of the Risk Rating, a number of respondents would like further insight into OSFI's approach to establishing the rating. Specifically:
 - An explanation of the overall factors that contributed to the institution's rating.
 - Disclosure of the scores for the composite rating's sub-elements.
- ◆ Some of those who feel they have not received a reasonable assessment believe that the rating places too much emphasis on certain types of risk without taking into account the overall risk profile of their institution.

Q14. To what extent do you believe that OSFI's activities have contributed to making Canada's financial institutions stronger than they were in the past? Do you think that OSFI's activities have been...?

OSFI is perceived to have a positive impact on the strength of Canadian financial institutions.

Impact of OSFI's Activities on Strength of Financial Institutions



- ◆ The strong majority believe that OSFI's activities have effectively contributed to making Canada's financial institutions stronger than they were in the past.
 - External auditors and external actuaries are particularly likely to hold this perception.
- ◆ The greatest proportion (71%) rate OSFI as “somewhat effective” on this measure.

Q14A. Why do you say [response to Q14]? / Q14. To what extent do you believe that OSFI's activities have contributed to making Canada's financial institutions stronger than they were in the past? Do you think that OSFI's activities have been...? Very effective, somewhat effective, not very effective or not at all effective?

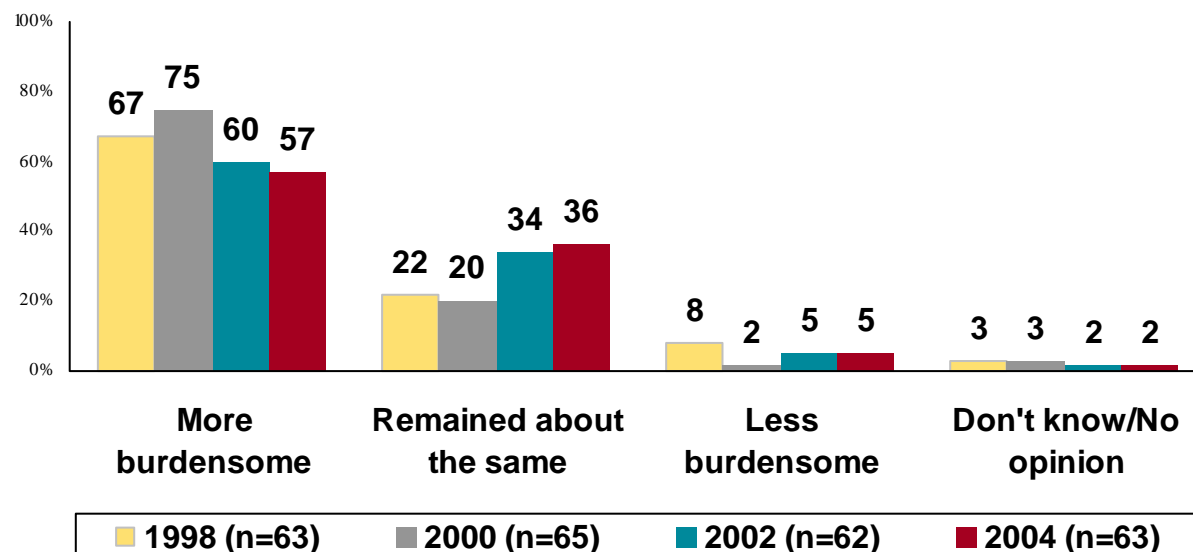
Market factors are identified as important drivers of stronger FIs. OSFI is also seen as having made a significant contribution.

- ◆ There are a number of external factors, such as economic forces, market requirements and more advanced risk management systems that are considered to be primary drivers in strengthening FIs.
- ◆ However, the absence of FI failures in the recent past suggests to respondents that OSFI is also helping to strengthen these institutions. According to most respondents, OSFI's role in this area has been to:
 - Dissuade FIs from undertaking inappropriately risky initiatives. In this sense, OSFI does not directly strengthen FIs, but rather acts to mitigate weakness.
 - Introduce guidelines and systematized and regular monitoring procedures that focus FIs on developing solid policies and procedures and formalizing their approach to risk management – adding to their overall strength.
 - Clearly set out regulatory expectations and work collaboratively with institutions to increase their likelihood of overcoming any difficulties they may be facing.

Q15. Overall, have OSFI's requirements become more or less burdensome over the past two years, or have they remained about the same?

OSFI's requirements continue to be perceived as increasingly burdensome.

Burdensomeness of OSFI's Requirements



- ◆ The majority of respondents feel that OSFI's requirements have become more burdensome over the past two years.
 - Directionally, large banks are the most likely to provide this assessment.
- ◆ Consistent with 2002 findings, just over one-third (36%) believe that OSFI's requirements have remained about the same.

Q15. Why do you say [response to Q15]? / Q15. Overall, have OSFI's requirements become more or less burdensome over the past two years, or have they remained about the same?

U.S. priorities, Basel II, and increasing complexity of the financial services marketplace are linked to the more burdensome requirements.

- ◆ There is a perception that increasing regulatory burdens are not entirely driven by OSFI.
- ◆ The reasons most often associated with the increasing burden are:
 - The need to accommodate the greater emphasis placed on reputational risk and money laundering by the United States.
 - Basel II has lead to significant preparation requirements for Canadian banks.
 - With the increasing complexity in the financial services marketplace and OSFI's focus on risk, there are more complex reporting requirements.
- ◆ A number of smaller institutions feel that it is particularly difficult to keep up with requirements as they do not have the breadth and depth of resources available to larger institutions.

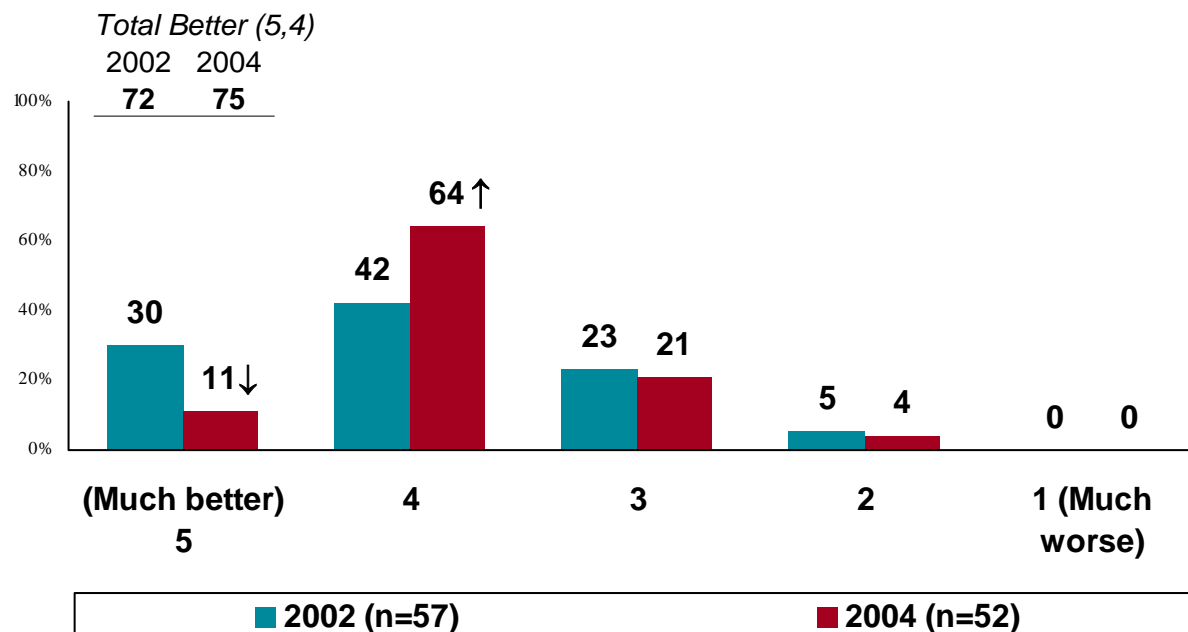
Part VI: Comparative Evaluations of OSFI and Other Regulators

Q16. Overall, how does OSFI compare with other financial regulatory agencies in Canada? Using a scale of 1 to 5 with 1 being “much worse” and 5 being “much better”, overall how would you rate OSFI?

OSFI is perceived as superior to other Canadian financial regulatory agencies.

- ◆ OSFI continues to be rated as better than other financial regulatory bodies in Canada.
- ◆ However, there has been a significant decline since 2002 in the proportion rating OSFI as “much better”, and a commensurate increase in ratings of “better” (4 out of 5).

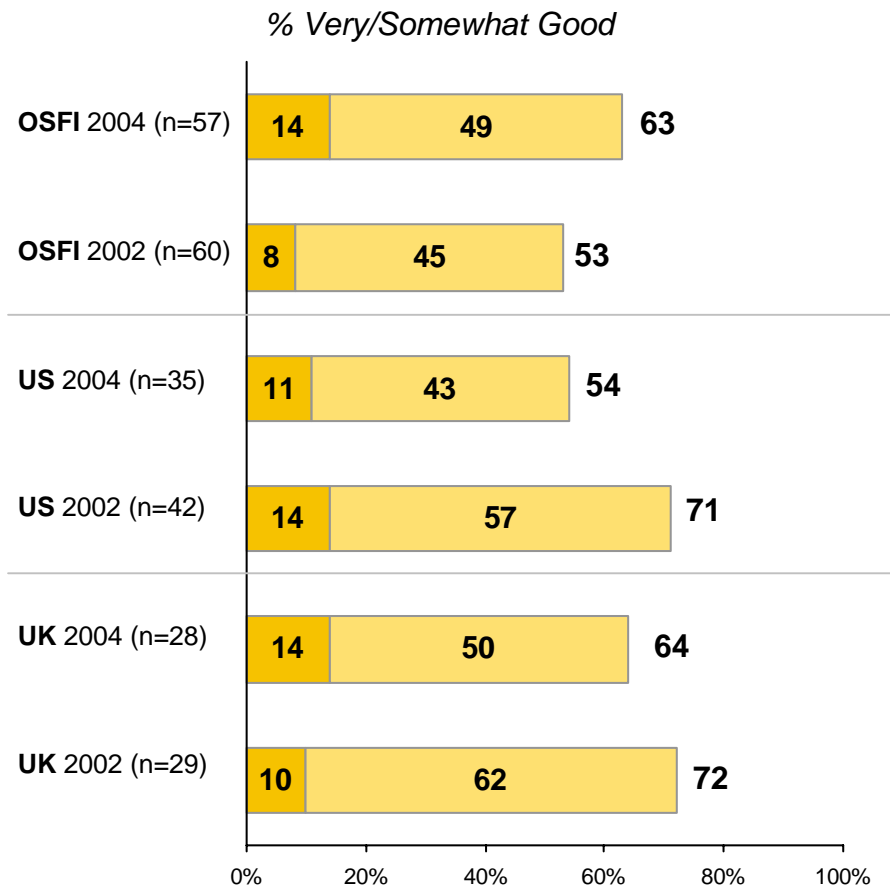
OSFI in Comparison with Other Canadian Regulators



Note: Among those with an opinion

Q17-23, 25-29 For the next series of questions, please rate OSFI and U.S. and U.K. regulators using a 1 to 5 scale, with 1 being “very poor” and 5 being “very good”.

Comparative Evaluations of OSFI and Other Regulators - *Knowledge*



Industry knowledge
of staff overall in the
areas for which they
are responsible (Q.17)

- ◆ OSFI staff are considered moderately knowledgeable, with the greatest proportion rating OSFI as “somewhat good” (49%) on this measure.
- ◆ Overall, knowledge levels among staff at both U.S. and U.K. regulators are comparably rated.

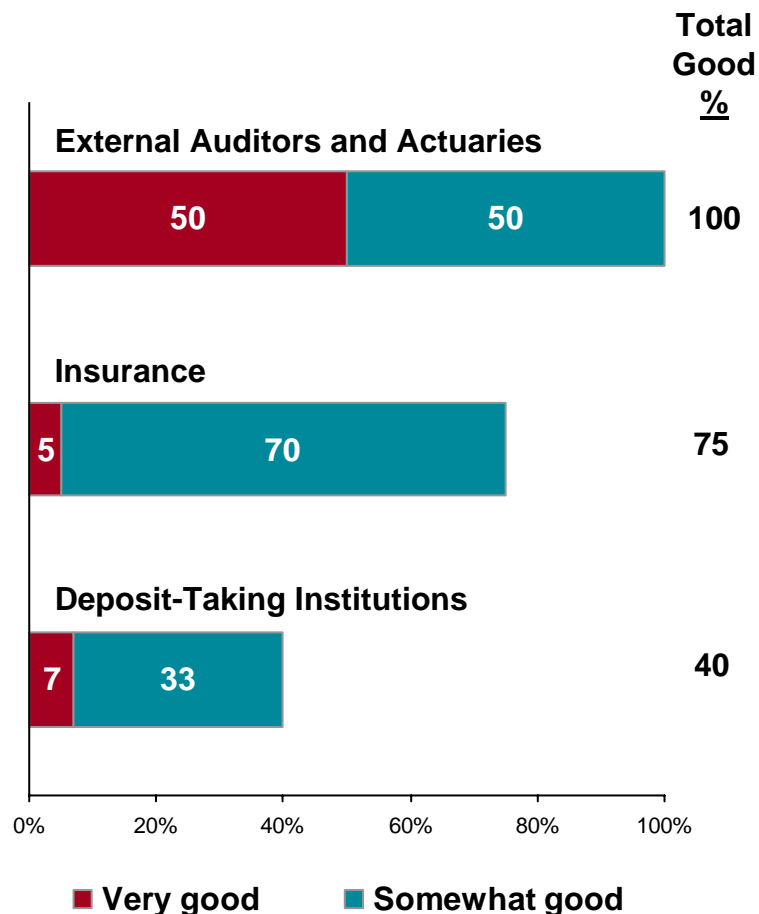
Note: Among those with an opinion. Base sizes vary by year, regulator, and question.

■ Very Good (5 on scale) ■ Somewhat Good (4)

Q17-23, 25-29 For the next series of questions, please rate OSFI and U.S. and U.K. regulators using a 1 to 5 scale, with 1 being “very poor” and 5 being “very good”.

Industry Knowledge of OSFI Staff – By Stakeholder Type

Industry knowledge of staff overall in the areas for which they are responsible (Q.17)



- ◆ External auditors and actuaries are the most likely to rate OSFI’s staff knowledge as “good”
 - Fully one-half provide an intensely positive rating.
- ◆ By contrast, respondents at deposit-taking institutions are considerably less likely to provide a positive rating.

Note: Among those with an opinion. Base sizes vary by year, regulator, and question.

Q17A. And relative to other regulators, why do you rate OSFI [response to Q17]? / Q17. For the next series of questions, please rate OSFI and U.S. and U.K. regulators using a 1 to 5 scale, with 1 being “very poor” and 5 being “very good”:
Industry knowledge of staff overall in the areas for which they are responsible.

The calibre of OSFI’s staff is perceived to have improved. However, sector and institution-specific knowledge among lower and mid-level staff are viewed as lagging.

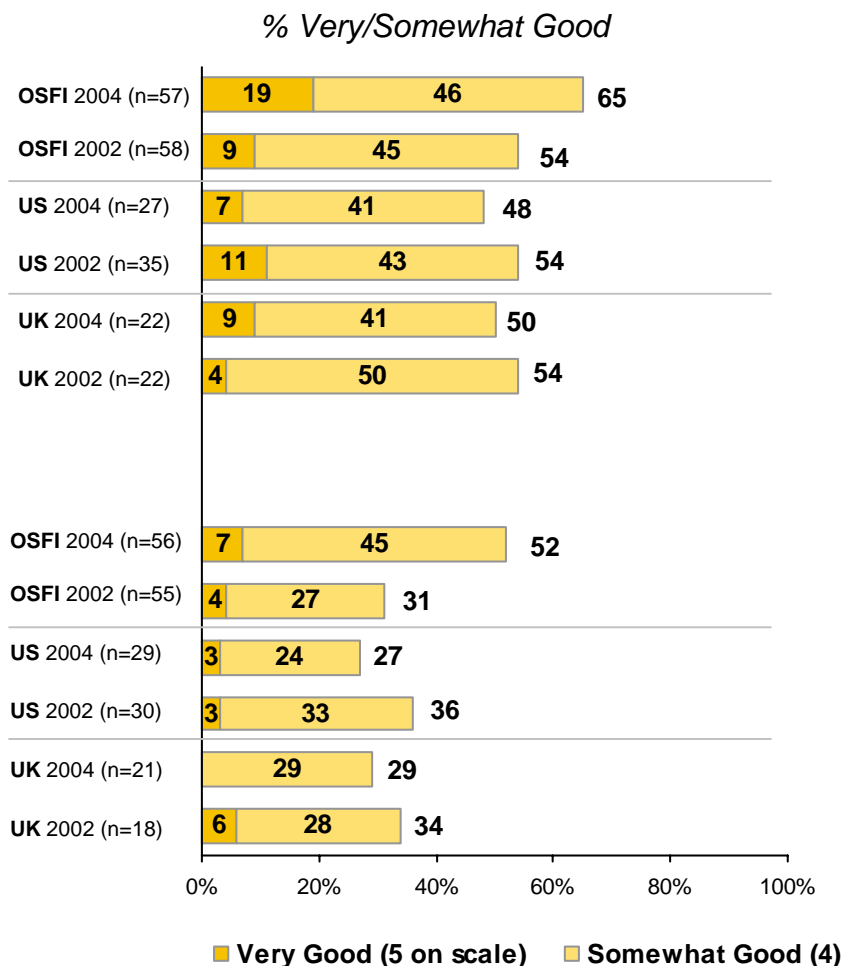
- ◆ A number of respondents observe that OSFI has made efforts to upgrade its staff in the recent past, and to recruit more individuals with industry knowledge. They report that this has contributed to an overall improvement of OSFI’s staff complement.
- ◆ However, there are still areas in which respondents believe improvements are required.
 - A number of respondents note that some staff members simply do not have sufficient experience in the financial services industry to effectively apply the regulatory framework. They are viewed as too theoretical in their approach.
 - Another issue is knowledge of specific financial sectors. Representatives from both banking and insurance observe that some of OSFI’s staff are not grounded enough in a specific sector and further do not have the depth of knowledge about the particulars of the institution(s) they are dealing with to appropriately evaluate them.
- ◆ Weakness is seen as more prevalent among junior and mid-level members of OSFI’s staff than among the senior levels.
- ◆ Overall, U.S. and U.K. regulators are believed to be able to attract more knowledgeable staff. Reasons given for this advantage are:
 - Larger pools of individuals from which to recruit.
 - Greater stature accorded to those who work in the civil service in these countries.
 - Higher staff compensation levels.

Q17-23, 25-29 For the next series of questions, please rate OSFI and U.S. and U.K. regulators using a 1 to 5 scale, with 1 being “very poor” and 5 being “very good”.

Comparative Evaluations of OSFI and Other Regulators - *Communications*

The **extent to which feedback** is provided to improve risk management processes and controls, regardless of quality and how communicated (Q.21)

The **usefulness of the feedback** provided to improve risk management processes and controls, regardless of how communicated (Q.22)



- ◆ Assessments of OSFI’s feedback are moderately positive.
- ◆ Two-thirds (65%) rate the extent of OSFI’s feedback as good, with the strength of this proportion driven by those who offer the more modest rating of “somewhat good” (46%).
- ◆ Ratings for U.S. and U.K. regulators are not significantly different.
- ◆ OSFI is, however, distinguished from its counterparts in the U.S. and the U.K. by the usefulness of its feedback. Just over one-half (52%) of those with an opinion provide a positive assessment of OSFI on this measure – a significant increase over 2002.

Q21/Q22. And relative to other regulators, why do you rate OSFI [response to Q21 and Q22]? / Using a 1 to 5 scale, with 1 being “very poor” and 5 being “very good”: Q21. *The extent to which feedback is provided to improve risk management processes and controls, regardless of the quality of the feedback and how communicated?* Q22. *The usefulness of the feedback provided to improve risk management processes and controls, regardless of how the feedback is communicated?*

Ratings of feedback are often linked to assessments of the knowledge and expertise of OSFI staff.

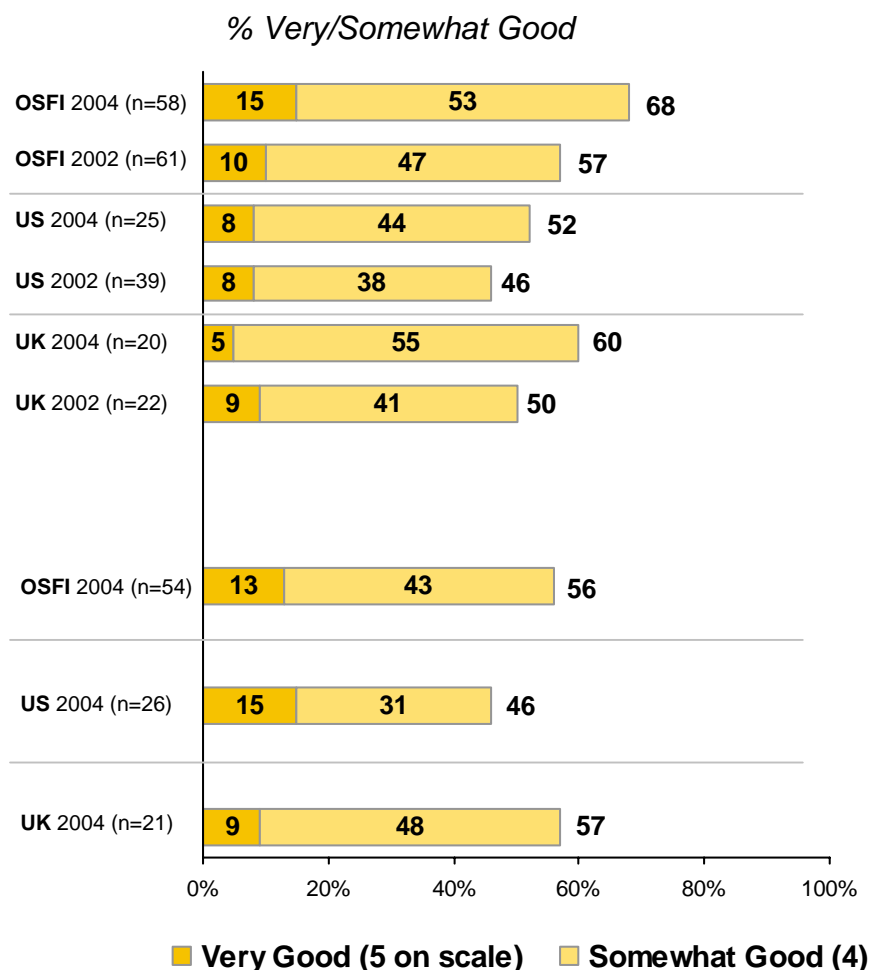
- ◆ Ratings of OSFI’s performance in providing feedback are often linked to evaluations of its staff complement.
 - Positive ratings are often linked to Relationship Managers and their ability to provide FIs with valuable information about issues in the approvals and supervisory processes.
 - By contrast, negative ratings sometimes stem from perceptions that staff do not have appropriate sector or institution-specific expertise or knowledge to provide informed feedback.
- ◆ Those with positive ratings focus on OSFI’s ability to provide a clear picture of its expectations and its willingness to engage in a dialogue with financial institutions – responding to questions and input from financial institutions.

Q17-23, 25-29 For the next series of questions, please rate OSFI and U.S. and U.K. regulators using a 1 to 5 scale, with 1 being “very poor” and 5 being “very good”.

Comparative Evaluations of OSFI and Other Regulators - *Communications*

Transparency, that is the rationale for recommendations and decisions is clear and understandable (Q.27)

The quality of **Management Reports and Supervisory letters** (Q.23)



◆ Ratings of the transparency of OSFI recommendations and decisions and the quality of Management Reports and Supervisory Letters are generally positive.

– Again, the greatest proportion rate OSFI as “somewhat good” on both these measures (53% and 43%, respectively).

◆ Scores for U.S. and U.K. regulators are not significantly different from OSFI’s on these measures.

Q23A. And relative to the other regulators, why do you rate OSFI [response to Q23]? / Q23. Using a 1 to 5 scale with 1 being “very poor” and 5 being “very good”: *The quality of Management Reports and Supervisory Letters?*

Overall, Reports and Letters are perceived to have improved.

- ◆ About one-third rate OSFI’s Reports/Letters as fair while most of the remaining respondents assess these documents as good or very good.
 - It is noteworthy that a number of respondents, regardless of their rating, feel that the reports/letters have improved over the past couple of years.
- ◆ Positive ratings are driven by a number of considerations:
 - Reports/Letters are targeted appropriately to higher level management/board members.
 - They are clear and focus on the “significant issues only.”
 - They are not perceived to be overly detailed.
- ◆ Fair ratings are based on perceptions that:
 - There have been factual inaccuracies within these documents. Several institutions mention this issue.
 - Several institutions feel that the tone of OSFI’s documents can be too strong.
 - This tone can have a significant impact, leading senior management to call for action, with the result that excessive resources are allocated to try and address the issue(s) identified in the Report/Letter.

Q24. What could OSFI do to improve the quality of Management Reports and Supervisory Letters?

There is tension between the desire for greater detail in Reports/Letters and a belief that these documents should not be overly prescriptive. There is a call, however, for greater consistency of tone between Reports/Letters and examination exit meetings.

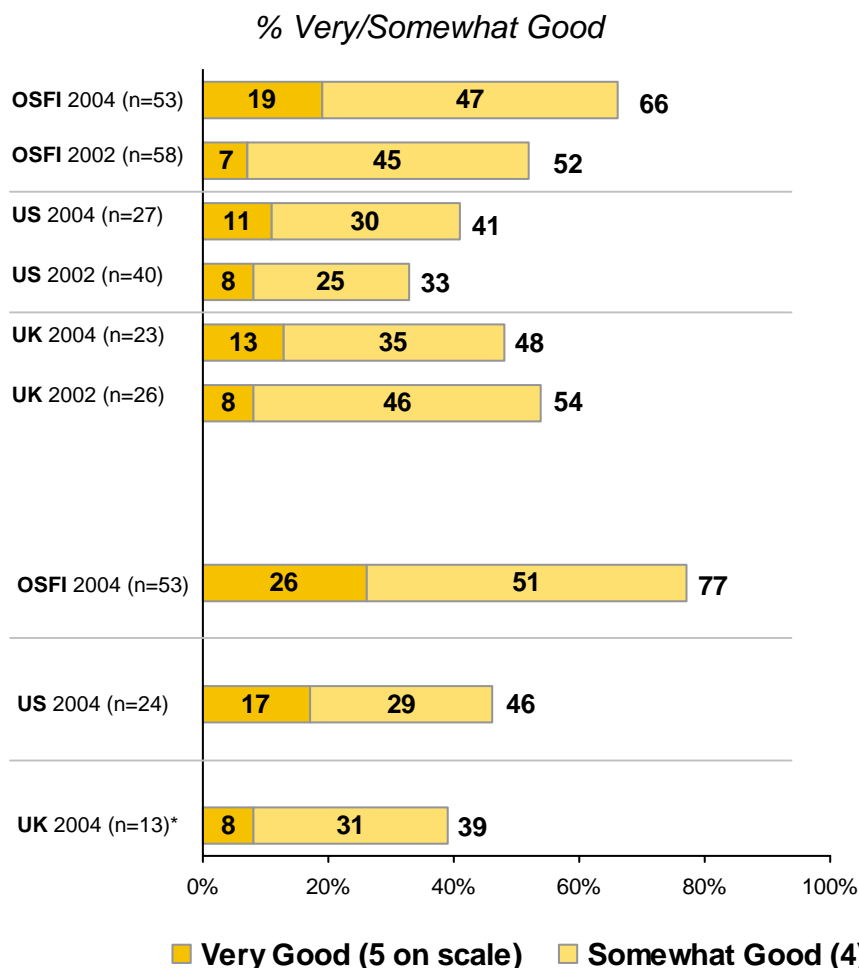
- ◆ There is tension between a desire for greater clarity in Management Reports and Supervisory Letters about how to meet OSFI's requirements and resistance to OSFI intruding on the management of financial institutions:
 - Some financial institutions report that they are not receiving meaningful insight from OSFI's Reports/Letters about OSFI's expectations.
 - There is a call for more detailed explanations of what FIs will be required to do to meet OSFI's requirements.
 - There is, however, some resistance to OSFI "micro-managing".
- ◆ There is a call by some to have greater consistency in tone between exit meetings and OSFI's Reports/Letters.
 - Some observe that the tone of a Report/Letter received is not always consistent with the tone at the exit meeting.
 - Those who raise this point generally refer to a positive tone at the meeting being followed by a much sharper and sometimes negative tone in the Letter. This leaves senior management confused, runs counter to the open and professional approach for which OSFI is noted, and creates anxiety.

Q17-23, 25-29 For the next series of questions, please rate OSFI and U.S. and U.K. regulators using a 1 to 5 scale, with 1 being “very poor” and 5 being “very good”.

Comparative Evaluations of OSFI and Other Regulators - *Process*

- ◆ OSFI is rated positively on key elements of its supervisory process.
- ◆ With the majority providing positive ratings, OSFI scores significantly higher than both U.S. and U.K. regulators for dealing with problem areas and situations speedily and employing a reliance-based approach to supervision.
- ◆ External auditors and actuaries are the most likely to assess OSFI favourably for its reliance-based approach to the supervisory process.

The **speed with which problem areas and situations are dealt with** by the regulator (Q.19)



* Caution: Very small sample sizes

Reliance-based approach, that is, the extent to which the supervisory process places reliance on others (Q.28)

Note: Among those with an opinion. Base sizes vary by year, regulator, and question.

Q19A. And relative to the other regulators, why do you rate OSFI [response to Q19]? / Q19. Using a 1 to 5 scale, with 1 being “very poor” and 5 being “very good”: *The speed with which problem areas and situations are dealt with by the regulator?*

OSFI is viewed quite positively for speed in day-to-day issue resolution and its speed of intervention with FIs exhibiting problems. However, impressions of its timeliness in dealing with broader industry issues are more negative.

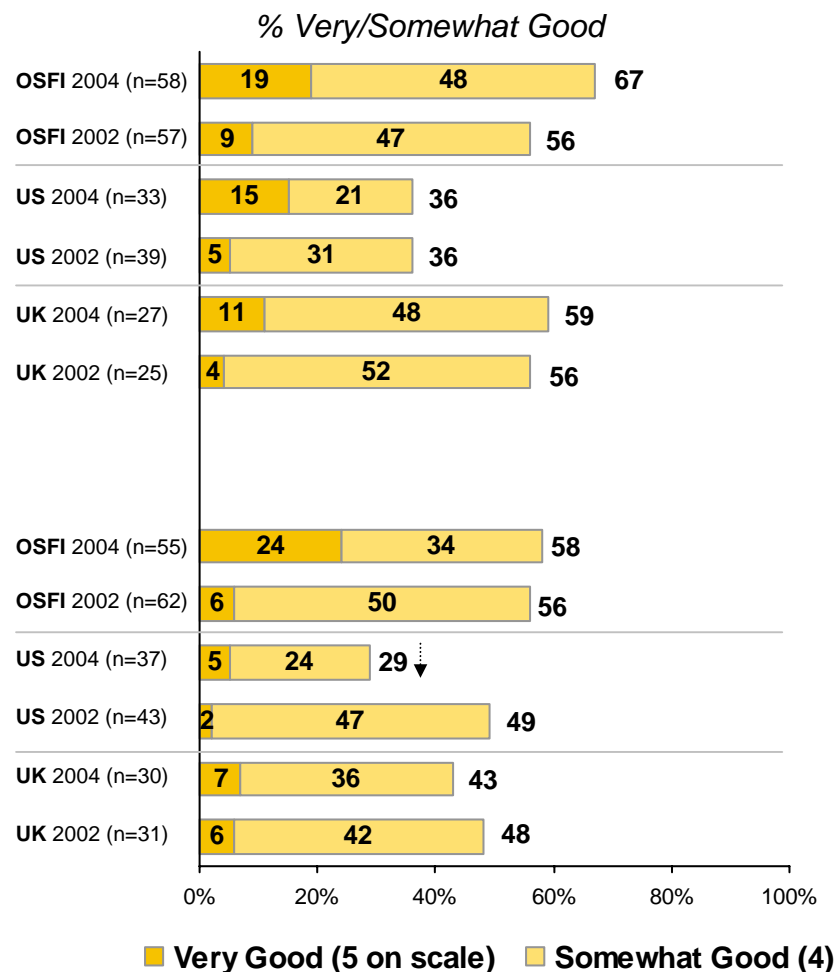
- ◆ Responses to this question reflect impressions of OSFI’s speed in responding to issues at three different levels:
 - Some focus on the speed of day-to-day interactions with OSFI, noting that the regulator generally gets back to FIs with responses to questions or concerns in a timely manner.
 - A number of respondents focus on OSFI’s speed in addressing broader industry problems and issues. Here, evaluations tend to be more negative. OSFI is viewed as somewhat slow to react to industry concerns.
 - Some focus on how quickly OSFI intervenes. The U.S., and even more so the U.K., are seen as having been slow to deal with FIs facing problems. The Equitable Life failure in the U.K. is often cited as an example. OSFI is generally viewed as quick off the mark in its approach to interventions.

Q17-23, 25-29 For the next series of questions, please rate OSFI and U.S. and U.K. regulators using a 1 to 5 scale, with 1 being “very poor” and 5 being “very good”.

Comparative Evaluations of OSFI and Other Regulators - *Mandate*

Focusing on what matters, that is the extent to which the regulator focuses on material issues (Q.20)

Striking an appropriate balance between effective prudential oversight and recognizing the need to allow companies to compete (Q.18)



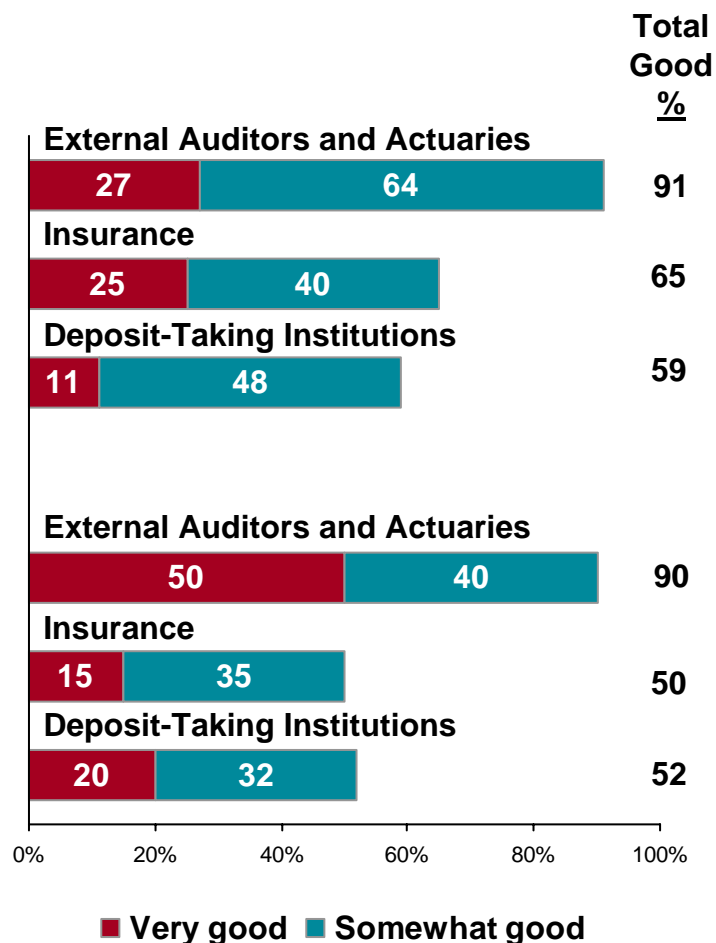
- ◆ OSFI is perceived as doing a good job in focusing on material issues and balancing prudence with competitiveness.
- ◆ Importantly, there has been a significant increase in the proportion rating OSFI as “very good”, which has risen from 6% to 24%.
- ◆ Comparatively, OSFI is rated significantly higher than the U.S. on both of these measures.
 - On the issue of balance, a directional decline for U.S. regulators is found in 2004.

Q17-23, 25-29 For the next series of questions, please rate OSFI and U.S. and U.K. regulators using a 1 to 5 scale, with 1 being “very poor” and 5 being “very good”.

Evaluation of OSFI – *By Stakeholder Type*

Focusing on what matters, that is the extent to which the regulator focuses on material issues (Q.20)

Striking an appropriate balance between effective prudential oversight and recognizing the need to allow companies to compete (Q.18)



- ◆ External auditors and actuaries are the most likely to rate OSFI as “good” in focusing on material issues.
- ◆ They are also most likely to provide an intensely positive assessment on striking an appropriate balance (50% “very” good).

Q20A. And relative to the other regulators, why do you rate OSFI [response to Q20]? / Q20. Using a 1 to 5 scale, with 1 being “very poor” and 5 being “very good”: *Focusing on what matters, that is the extent to which the regulator focuses on material issues?*

OSFI is credited with improving its focus on material issues over the past few years.

- ◆ Two-thirds of respondents (67%) feel that OSFI does focus on material issues, with positive responses spread across all stakeholder segments. In fact, OSFI is seen to have improved in this area over the past few years.
- ◆ Two factors in particular are viewed as contributing to OSFI’s focus on material issues:
 - Increased knowledge of risk areas; and,
 - The freedom to exercise judgement and discretion in the supervisory process allows greater latitude to focus on material issues. This was contrasted with the U.S. system which is deemed to be both more rules-based (creating a check-box system and mentality) and more subject to political influence.
- ◆ A minority provide a negative assessment of OSFI on this measure. Negative comments are made primarily by representatives of domestic banks and life insurance companies.
- ◆ Critiques of OSFI’s ability to focus on material issues center on:
 - OSFI’s understanding the relative importance of different elements of risk and how they contribute to an overall risk profile.
 - A tendency to micro-manage or exceed legislative mandate.

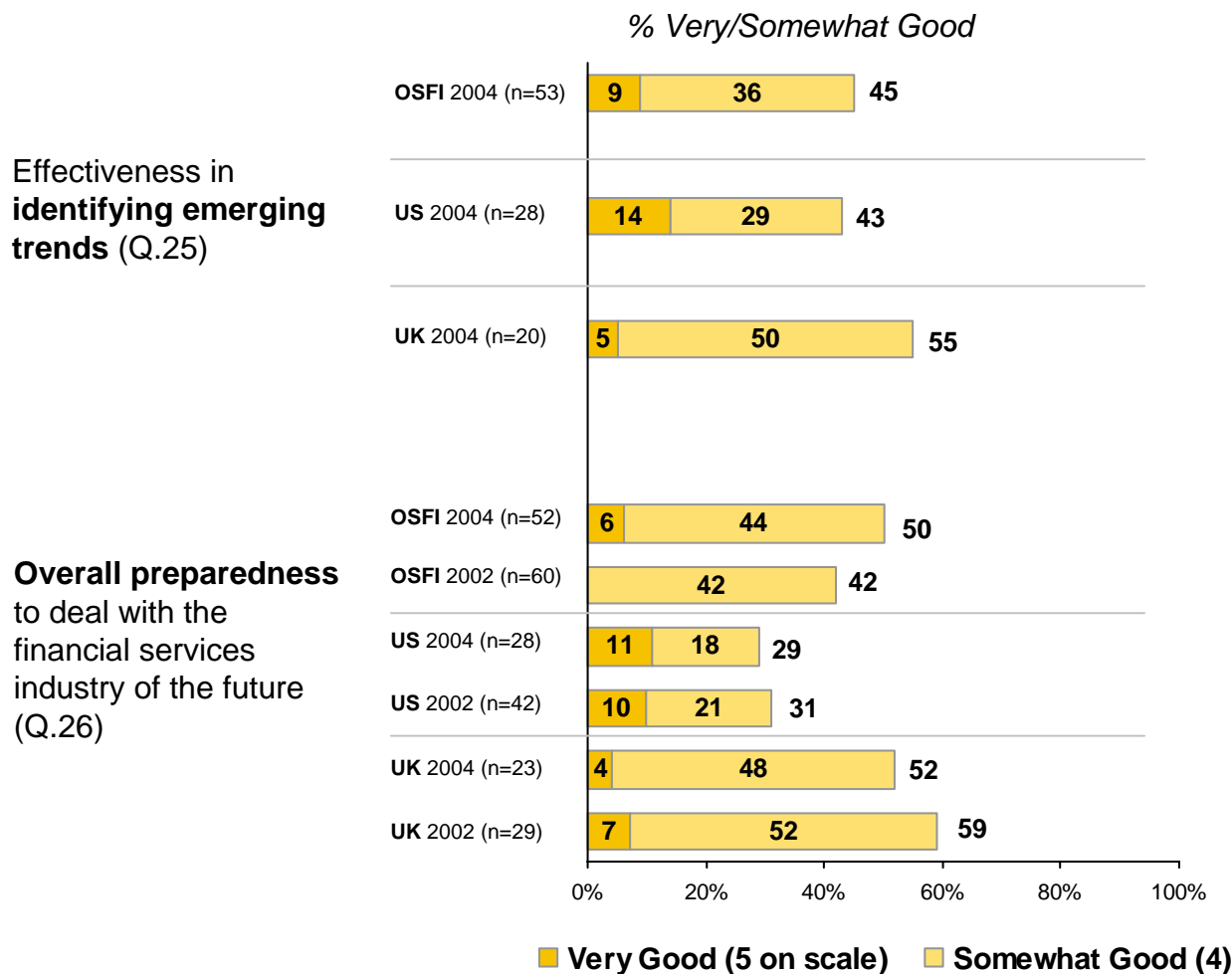
Q18A. And relative to the other regulators, why do you rate OSFI [response to Q18]? / Q18. Using a 1 to 5 scale, with 1 being “very poor” and 5 being “very good”: *Striking an appropriate balance between effective prudential oversight, and recognizing the need to allow companies to compete?*

OSFI’s principles-based approach to regulation is viewed as allowing FIs to determine how to apply the framework in a way that ensures their competitiveness. However, capital requirements for insurers are still identified as a competitive disadvantage.

- ◆ A majority (57%) rate OSFI as doing a “good” or “very good” job of achieving a balance between its prudential mandate and recognizing the need to allow companies to compete.
- ◆ However, almost one-in-five assess OSFI as doing a poor job on this issue.
 - This group is disproportionately made up of stakeholders at insurance companies.
 - Most of these rate U.S. regulators higher on this issue.
- ◆ Two issues underlie the poor ratings offered by stakeholders at insurance companies:
 - OSFI’s capital requirements are viewed as too burdensome, hence tipping the balance away from competitiveness.
 - Several insurers note that OSFI appears to overlook differences between banks and insurers. This approach to FI regulation is perceived to create an uneven playing field across the two sectors.
- ◆ Among those with positive ratings, OSFI’s principles-based approach to regulation was once again cited.

Q17-23, 25-29 For the next series of questions, please rate OSFI and U.S. and U.K. regulators using a 1 to 5 scale, with 1 being “very poor” and 5 being “very good”.

Comparative Evaluations of OSFI and Other Regulators - Preparedness



- ◆ Uncertainty about OSFI’s preparedness is expressed.
- ◆ One-half or less feel that OSFI does a good job in identifying emerging trends and in preparing for the financial services industry of the future. Relative to other measures, OSFI scores notably lower in this area.
- ◆ Scores for U.S. and U.K. regulators are on par with OSFI on the issue of identifying trends.
- ◆ However, the U.S. lags on the overall preparedness measure, while U.K. regulators are on par with OSFI.

Note: Among those with an opinion. Base sizes vary by year, regulator, and question.

Q25A. And relative to the other regulators, why do you rate OSFI [response to Q25]? / Q25. Using a 1 to 5 scale with 1 being “very poor” and 5 being “very good: *Effectiveness in identifying emerging trends?*

Respondents do not believe that OSFI is particularly strong at identifying emerging trends. A key reason is that OSFI is perceived to regulate in a marketplace that tends to lag other jurisdictions in innovation.

- ◆ OSFI receives the lowest level of positive ratings on this issue as compared to its other ratings. The same proportion rates OSFI’s performance good as rate it fair.
- ◆ Fair ratings often stem from a perception that OSFI is not a leader in identifying emerging trends. One respondent described OSFI as a “fast follower” rather than a regulator who takes the lead.
 - Due to their size and characteristics, U.S. and U.K. financial services marketplaces are viewed as cutting-edge in the introduction of products, services and other innovations. As such, regulators in these jurisdictions are forced to keep abreast of emerging trends.
 - By contrast, respondents believe that Canada’s market activity tends to follow that of the U.S. and U.K.
 - However, respondents believe that OSFI has a responsibility to try and keep abreast of issues that will affect the institutions it regulates through interaction with U.S., U.K. and other regulators.
- ◆ Among those who evaluate OSFI as doing a good job of identifying emerging trends, OSFI’s involvement in Basel II is viewed an example of the regulator’s efforts to keep abreast of issues .

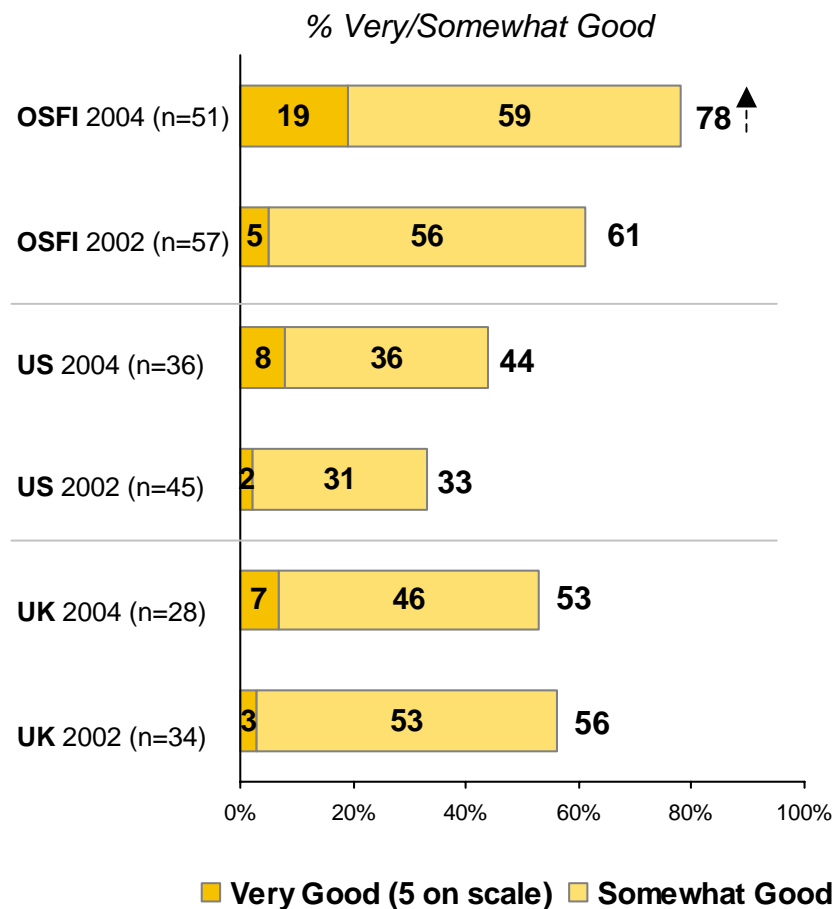
Q26A. And relative to other regulators, why do you rate OSFI [response to Q26]? / Q26. Using a 1 to 5 scale with 1 being “very poor” and 5 being “very good”: *Overall preparedness to deal with the financial services industry of the future?*

Concern about OSFI’s preparedness to deal with the financial services industry of the future is expressed.

- ◆ OSFI’s involvement in international fora (e.g., Basel/IAIS) gives some respondents the sense that OSFI is looking toward the future and is keeping pace with the global nature of the financial services industry.
- ◆ However, many – particularly those in the domestic deposit-taking institutions – are concerned that OSFI does not have the calibre of staff required to keep abreast of factors affecting the future of the industry.
- ◆ Some respondents also suggest that being proactive and future-oriented are not typically strengths of regulators, and that OSFI is not unique among its international counterparts in this regard.

Q17-23, 25-29 For the next series of questions, please rate OSFI and U.S. and U.K. regulators using a 1 to 5 scale, with 1 being “very poor” and 5 being “very good”.

Comparative Evaluations of OSFI and Other Regulators - Overall



Overall, that is all things considered, how would you compare [OSFI / US Regulators/ UK Regulators] as a prudential regulator? (Q.29)

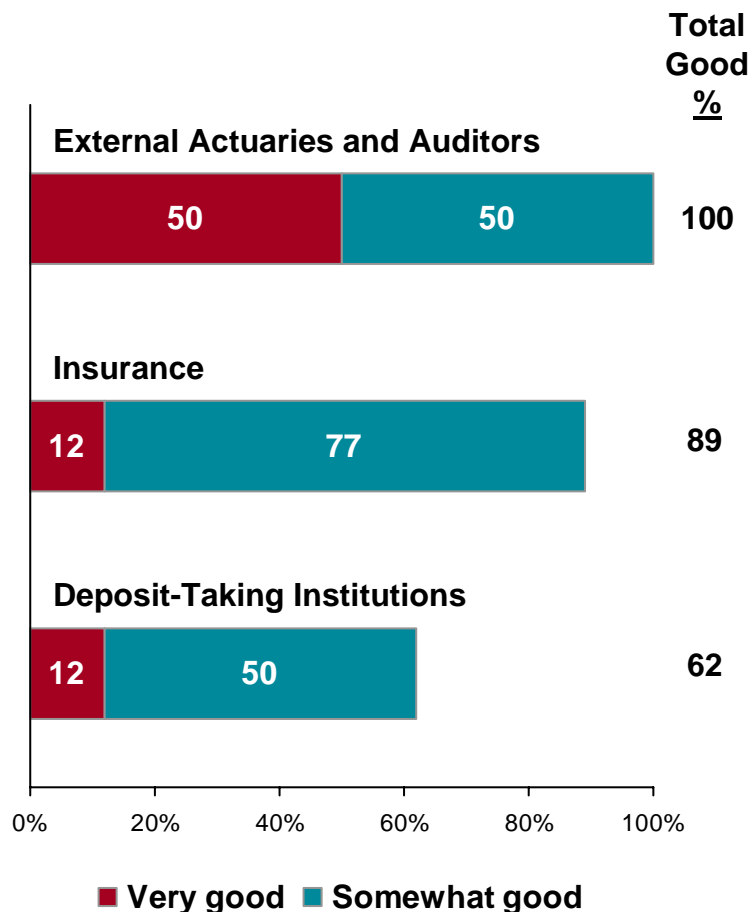
- ◆ One-in-five respondents did not feel that they could make an informed comparison of OSFI with U.S. and U.K. regulators or provide an overall rating solely for OSFI.
- ◆ The strong majority (78%) of those who rated OSFI give the regulator a good or very good evaluation. The greatest proportion provide the more moderate rating of “somewhat good” (59%).
- ◆ Positive assessments of OSFI have increased since 2002 – notably, there has been an increase in the intensity of positive ratings (19% “very good” from 5%). A concurrent decline in neutral ratings is noted.
- ◆ Positive ratings are significantly greater for OSFI than for U.S. regulators.

Note: Among those with an opinion. Base sizes vary by year, regulator, and question.

Q17-23,25-29 For the next series of questions, please rate OSFI and U.S. and U.K. regulators using a 1 to 5 scale, with 1 being “very poor” and 5 being “very good”.

Overall Evaluation of OSFI – *By Stakeholder Type*

Overall, that is all things considered, how would you compare [OSFI / US Regulators/ UK Regulators] as a prudential regulator? (Q29)



- ◆ Significant differences in the overall assessment of OSFI as a prudential regulator are found by stakeholder group.
- ◆ External auditors and actuaries have both a more positive, and more intensely positive, view of OSFI overall. This perspective is also evident in assessments of OSFI on more specific measures.
- ◆ By contrast, deposit-taking institutions are the least positive about OSFI.

Q29A: And relative to the other regulators, why do you rate OSFI [response to Q29]? / Q29. Using a 1 to 5 scale with 1 being “very poor” and 5 being “very good”: *Overall, that is all things considered, how would you compare [OSFI / US Regulators/ UK Regulators] as a prudential regulator?*

OSFI’s principles-based approach to regulation contributes to its strong ratings as a prudential regulator relative to U.S. and U.K. regulators.

- ◆ Several themes underlie positive ratings for OSFI. These themes reflect the perceived strengths of OSFI outlined earlier in the report:
 - OSFI takes a principles-based approach to regulation. The perceived advantages of this approach are that it allows the regulator to:
 - Focus on material issues;
 - Exercise judgement and discretion in how it applies the regulatory framework; and,
 - It is seen as a better approach to regulating the financial services industry than the rules-based U.S. approach. In fact, some of the lower ratings of the U.S. are attributed to its more rules-based approach.

Q17-23, 25-29 For the next series of questions, please rate OSFI and U.S. and U.K. regulators using a 1 to 5 scale, with 1 being “very poor” and 5 being “very good”.

Comparative Evaluations of OSFI and Other Regulators

% Among those with an opinion (DK's excluded)

		TOTAL GOOD %			Very good %			Somewhat good %			Neutral %			Somewhat poor %			Very poor %			TOTAL POOR %			Don't Knows (n's)		
		OSFI	US	UK	OSFI	US	UK	OSFI	US	UK	OSFI	US	UK	OSFI	US	UK	OSFI	US	UK	OSFI	US	UK	OSFI	US	UK
Overall	2004	78 ^{↑D}	44	53	19 [↑]	8	7	59	36	46	20 ^{↓D}	31	29	2	25	14	-	-	4	2	25	18	12	27	35
	2002	61	33	56	5	2	3	56	31	53	35	36	24	4	27	20	-	4	-	4	31	20	5	17	28
Industry knowledge	2004	63	54	64	14	11	14	49	43	50	28	26	14	9	20	18	-	-	4	9	20	22	6	28	35
	2002	53	71	72	8	14	10	45	57	62	37	17	21	10	12	-	-	-	7	10	12	7	2	20	33
Appropriate balance	2004	58	29 ^{↓D}	43	24 [↑]	5	7	34 ^{↓D}	24 ^{↓D}	36	22	54 [↑]	30	18	14	20	2	3	7	20	17	27	8	26	33
	2002	56	49	48	6	2	6	50	47	42	34	30	32	8	19	13	2	2	6	10	21	19	-	19	31
Speed dealing with problems	2004	66	41	48	19 ^{↑D}	11	13	47	30	35	23	33	35	11	19	17	-	7	-	11	26	17	10	36	40
	2002	52	33	54	7	8	8	45	25	46	36	35	35	12	22	11	-	10	-	12	32	11	4	22	36
Focusing on what matters	2004	67	36	59	19	15	11	48	21	48	24	40	30	9	18	4	-	6	7	9	24	11	5	30	36
	2002	56	36	56	9	5	4	47	31	52	33	36	28	11	23	16	-	5	-	11	28	16	5	23	37
Extent of feedback provided	2004	65	48	50	19	7	9	46	41	41	19 ^{↓D}	30	32	12	18	18	4	4	-	16	22	18	6	36	41
	2002	54	54	54	9	11	4	45	43	50	34	29	32	10	11	-	2	6	14	12	17	14	4	27	40
Usefulness of feedback	2004	52 [↑]	27	29	7	3	-	45 [↑]	24	29	27 ^{↓D}	42	52	14	28	19	7	3	-	21	31	19	7	34	42
	2002	31	36	34	4	3	6	27	33	28	43	37	44	22	17	11	4	10	11	26	27	22	7	32	44
Quality of reports and letters	2004	56	46	57	13	15	9	43	31	48	33	35	33	9	15	5	2	4	5	11	19	10	9	37	42
	2002	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Identifying emerging trends	2004	45	43	55	9	14	5	36	29	50	45	29	35	9	25	5	-	3	5	9	28	10	10	35	43
	2002	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Overall preparedness	2004	50	29	52	6	11	4	44	18	48	40	43	35	8	21	13	2	7	-	10	28	13	11	35	40
	2002	42	31	59	-	10	7	42	21	52	43	33	31	13	22	7	2	14	3	15	36	10	2	20	33
Transparency	2004	68	52	60	15	8	5	53	44	55	21	20	30	9	28	5	2	-	5	11	28	10	5	38	43
	2002	57	46	50	10	8	9	47	38	41	26	38	32	15	13	4	2	3	14	17	16	18	1	23	40
Reliance-based approach	2004	77	46	39	26	17	8	51	29	31	17	25	46	6	17	8	-	12	8	6	29	16	10	39	50
	2002	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

* Due to rounding errors, percentages may not add to 100.

Part VII: OSFI's Guidance, Rulings, and Advisories

Q30-33. One of OSFI's legislative objectives is to promote the adoption by management and boards of directors, of policies and procedures designed to control and manage risk. OSFI does this in part through the issuance of formal Guidelines, Rulings and Advisories, two recent examples of which are the Outsourcing and Governance Guidelines. The next series of questions pertain to OSFI Guidance, Rulings and Advisories, in general. Please rate OSFI on a scale from 1 to 5 where 1 means they are doing a very poor job and 5 means they are doing a very good job on the following issues.

Impressions of OSFI's Guidelines, Rulings, and Advisories are mixed.

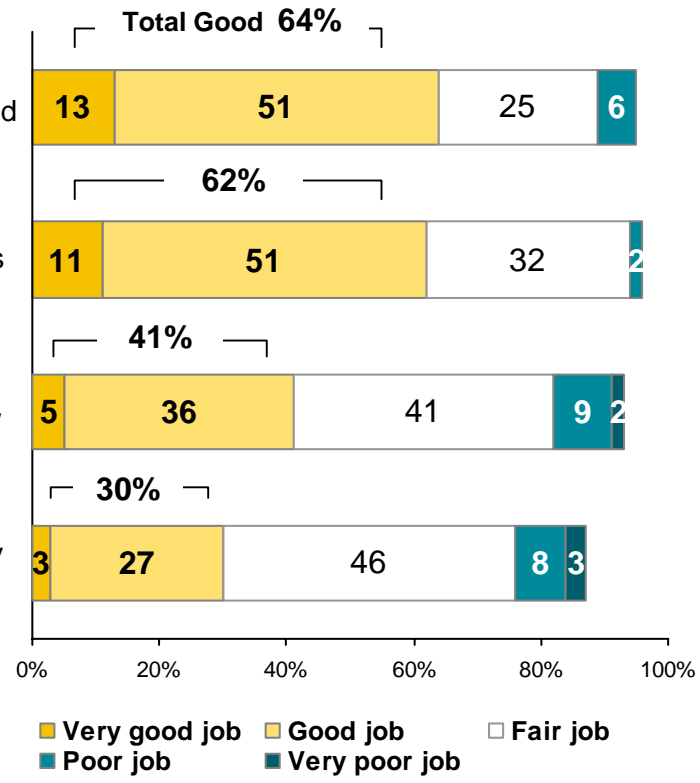
Evaluation of Guidelines, Rulings, and Advisories

Consulting with the industry on the development of these Guidelines, Rulings and Advisories. (Q.31)

Developing Guidelines, Rulings and Advisories that are written in a manner that is **clear and easy to understand.** (Q.32)

Developing Guidelines, Rulings and Advisories that **recognize the need to allow companies to compete.** (Q.33)

Reacting in a timely manner if the industry suggests that a Guideline, Ruling or Advisory is out of date, or conditions in the market place indicate a change should be made. (Q.30)

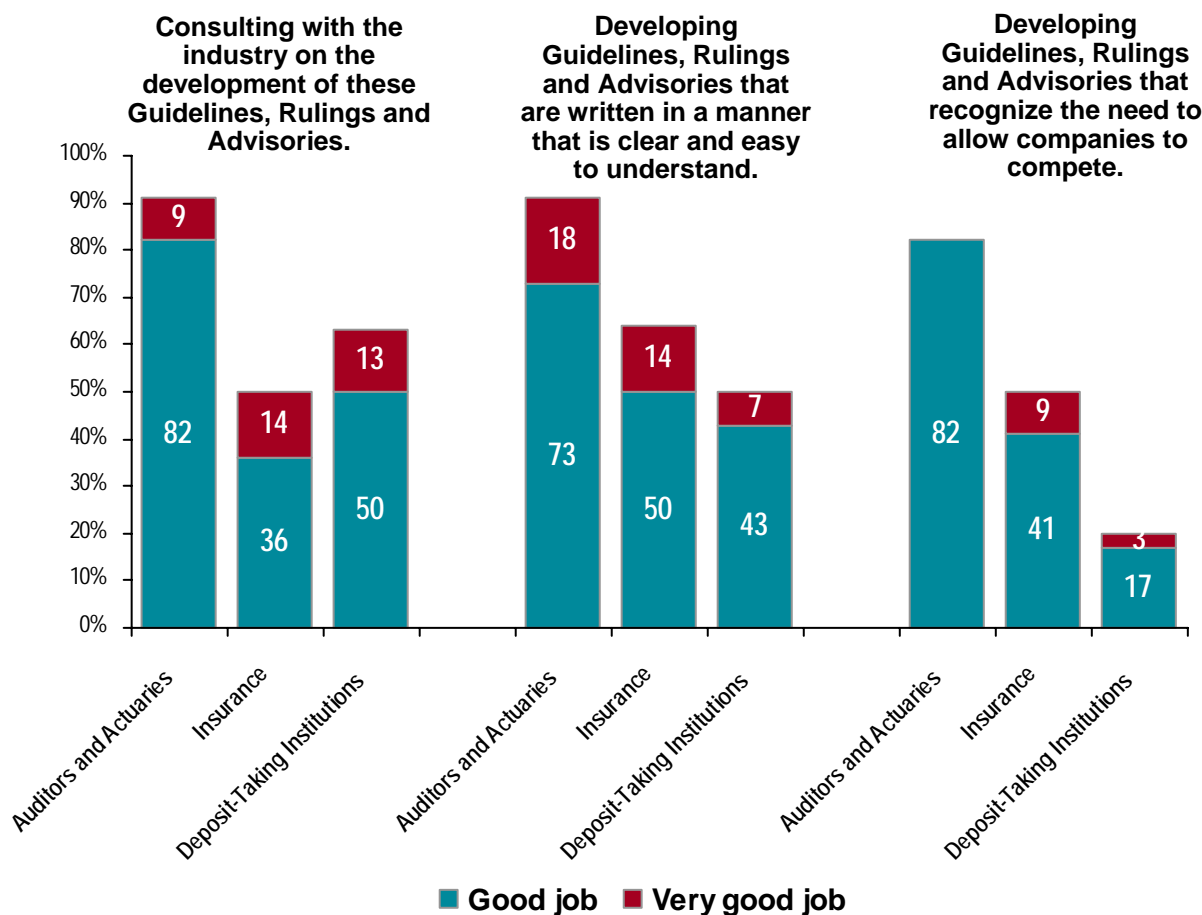


- ◆ Assessments of OSFI's efforts to involve the industry in the development of Guidelines, Rulings, and of Advisories, and of the clarity of these documents are relatively positive.
- ◆ Less positive evaluations are provided for recognizing the importance of competitiveness and for timeliness.

2004 (n=63)

Q30-33. One of OSFI's legislative objectives is to promote the adoption by management and boards of directors, of policies and procedures designed to control and manage risk. OSFI does this in part through the issuance of formal Guidelines, Rulings and Advisories, two recent examples of which are the Outsourcing and Governance Guidelines. The next series of questions pertain to OSFI Guidance, Rulings and Advisories, in general. Please rate OSFI on a scale from 1 to 5 where 1 means they are doing a very poor job and 5 means they are doing a very good job on the following issues.

Evaluation of OSFI's Guidelines, Rulings, and Advisories – *By Stakeholder Type*

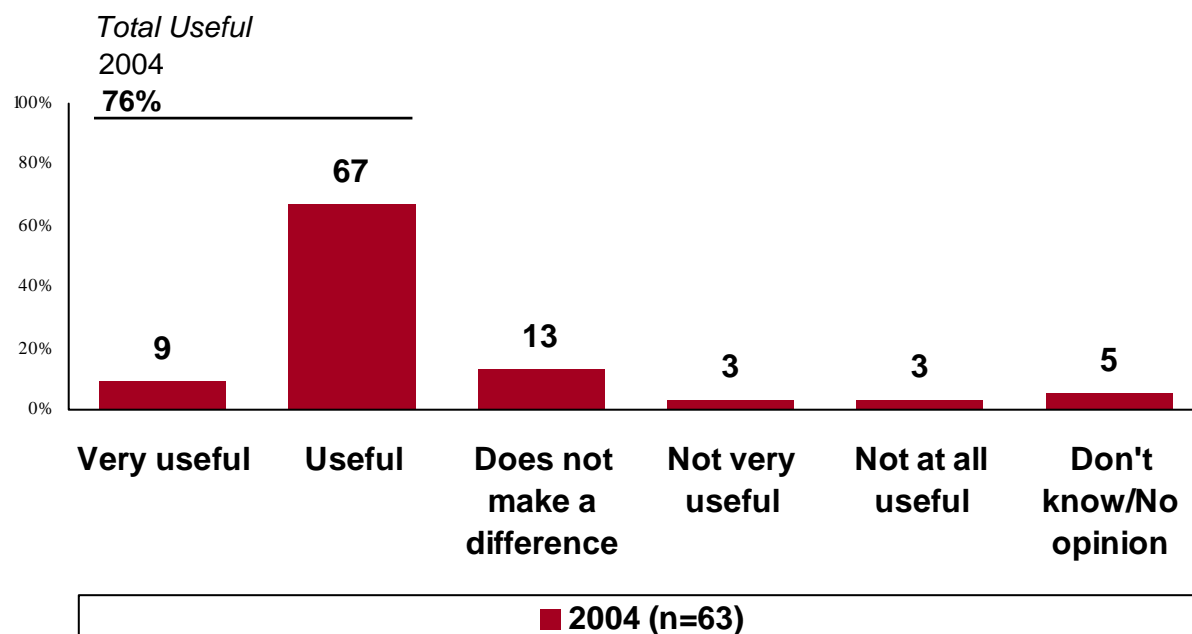


- ◆ External auditors and actuaries are the most likely to rate OSFI's performance on Guidelines, Rulings and Advisories positively.
- ◆ Deposit-taking institutions are least likely to believe that these documents sufficiently recognize the need to allow companies to compete.

Q34. How useful do you think OSFI's Guidelines, Rulings and Advisories are to your company, or the company to which you provide professional services, specifically, in providing an indication of OSFI's expectations, and as a sense of sound practices.

OSFI's Guidelines, Rulings, and Advisories are generally considered useful.

Usefulness of Guidelines, Rulings and Advisories



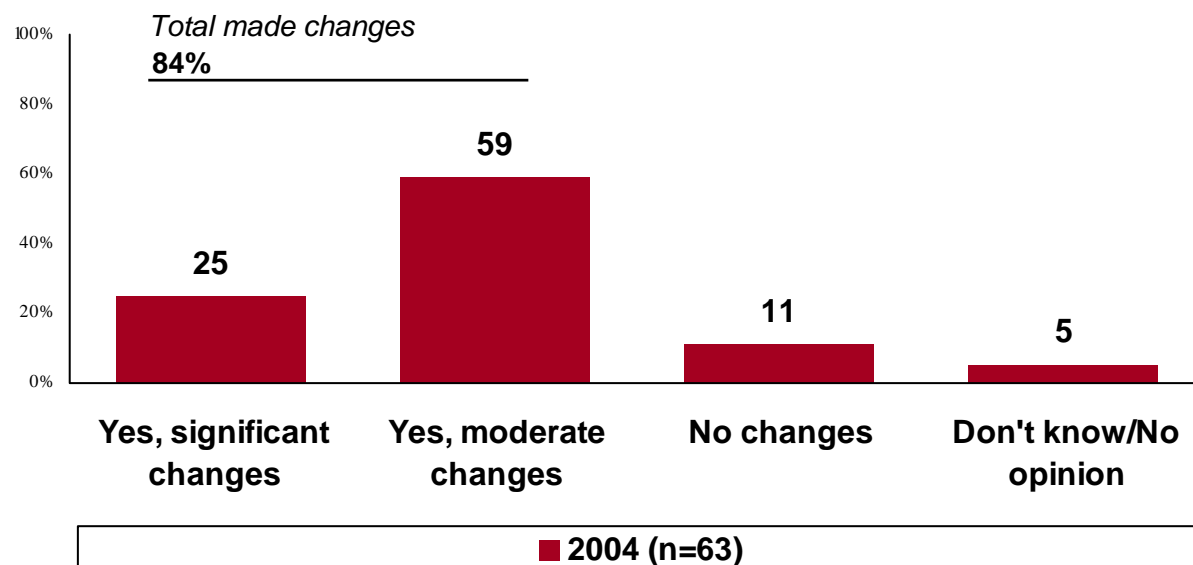
- ◆ While the majority rates OSFI's guidelines, rulings and advisories as useful in providing an indication of the regulator's expectations and as a sense of sound practices, the greatest proportion provide a moderate "useful" rating (67%).
- ◆ Many of the positive ratings are based on the view that these instruments are effective in communicating OSFI's expectations to regulated institutions.
- ◆ Opinion is divided, however, about the clarity of these instruments. Those who are most likely to rate them as useful cite the clarity of direction provided.
 - Those with more negative evaluations find that these instruments can be vague as to OSFI's expectations.

Q35. In the past two years, has your company made any changes to its practices because of OSFI's Guidelines, Rulings and Advisories?

OSFI Guidelines, Rulings and Advisories have prompted changes in practices.

- ◆ The vast majority indicates that changes to practices have been made in the past couple of years due to OSFI's Guidelines, Rulings and Advisories.
 - More than half (59%) indicate that these changes have been moderate.

Impact of Guidelines, Rulings, and Advisories on Practices

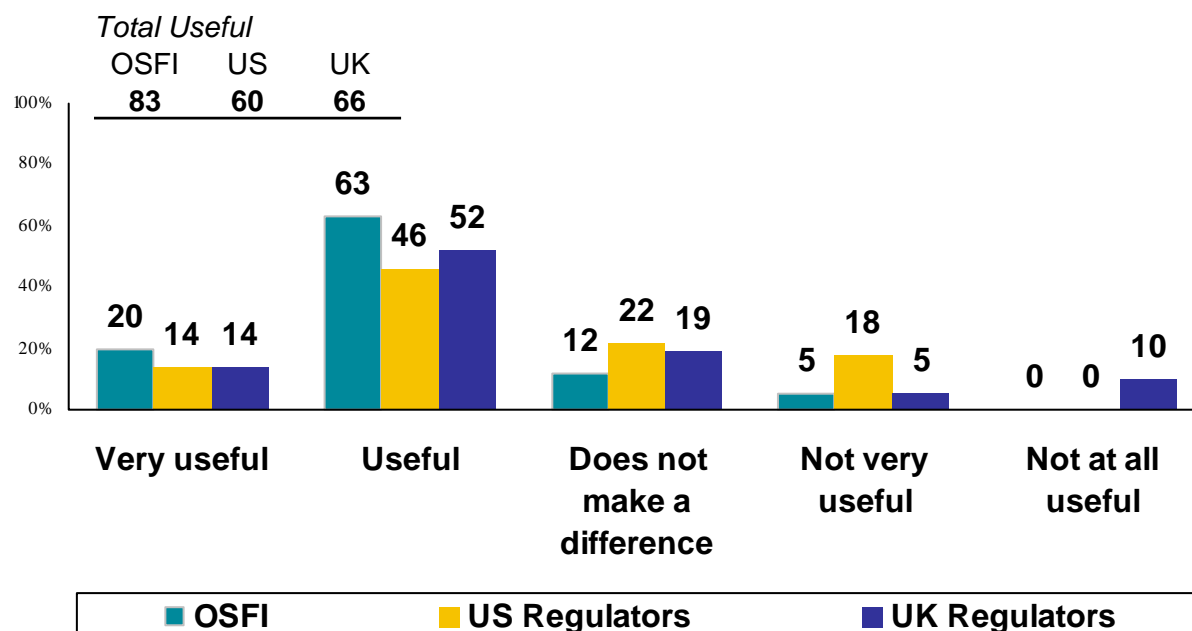


Q36. Overall, how useful do you think Guidelines, Rulings, Advisories and the like, as issued by OSFI and other regulators, are to the industry in general in providing an indication of the regulators' expectations, and as a sense of sound practices?

OSFI Guidelines, Rulings, and Advisories receive top marks for usefulness in a comparative context.

- ◆ OSFI Guidelines, Rulings, Advisories and the like are seen as significantly more useful than similar documents issued by U.S. and U.K. regulators.

Usefulness of Guidelines, Rulings and Advisories – International Comparison



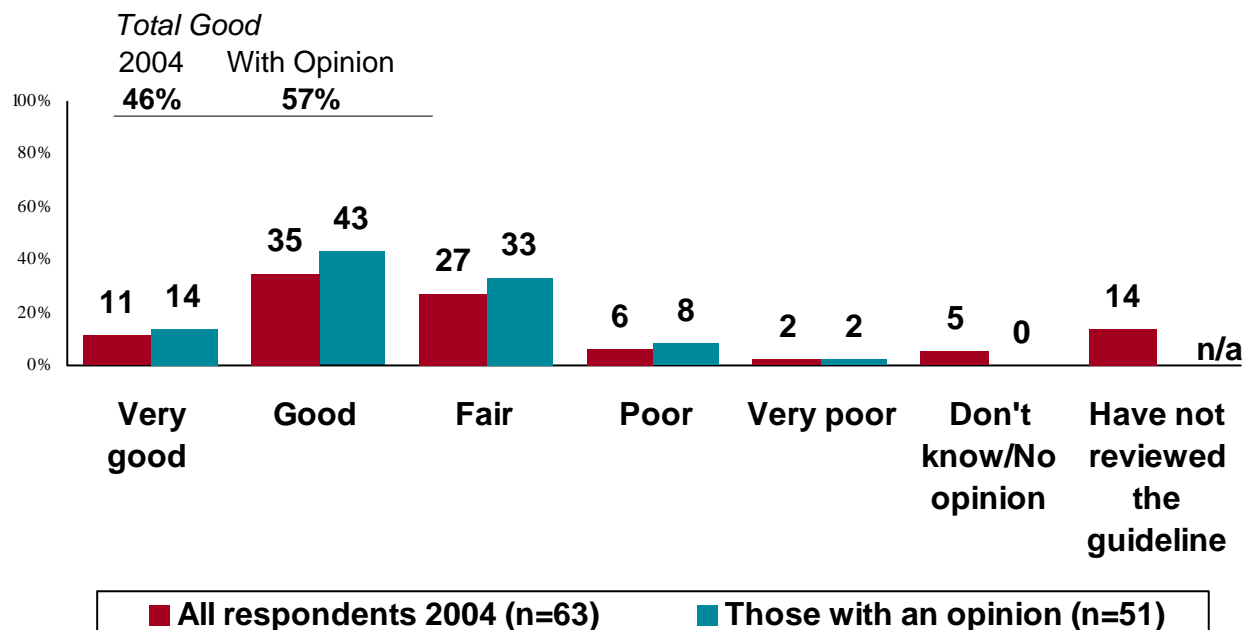
Among those with an opinion (OSFI n=60; US n=28; UK n=21)

Part VIII: OSFI's Corporate Governance Guideline

Q37. The following questions relate to OSFI's Corporate Governance Guideline, which was issued in January 2003. The purpose of this Guideline was to communicate OSFI's corporate governance expectations for federally regulated financial institutions. The Guideline was intended to be useful by focusing on corporate governance practices that are important to financial institutions because of their special nature - as distinct from general corporate governance best practices, which have been the subject of many studies and publications over the years. With this objective in mind, how would you rate its overall usefulness and relevance for your company?

Assessments of OSFI's Corporate Governance Guideline are moderately positive.

Usefulness and Relevance of Corporate Governance Guideline



- ◆ This section relates to OSFI's Corporate Governance Guideline, issued in January 2003. The purpose of the Guideline was to communicate OSFI's corporate governance expectations for federally regulated FIs.
- ◆ Just over half (57%) of those who have reviewed the Guideline feel that it is useful and relevant to their company to some extent.

37A. Why did you give this rating [response to Q37]? / Q37. With this objective in mind, how would you rate [the Corporate Governance Guideline's] overall usefulness and relevance for your company?

Many report that changes to their governance structures and processes were made prior to the release of the OSFI Guideline.

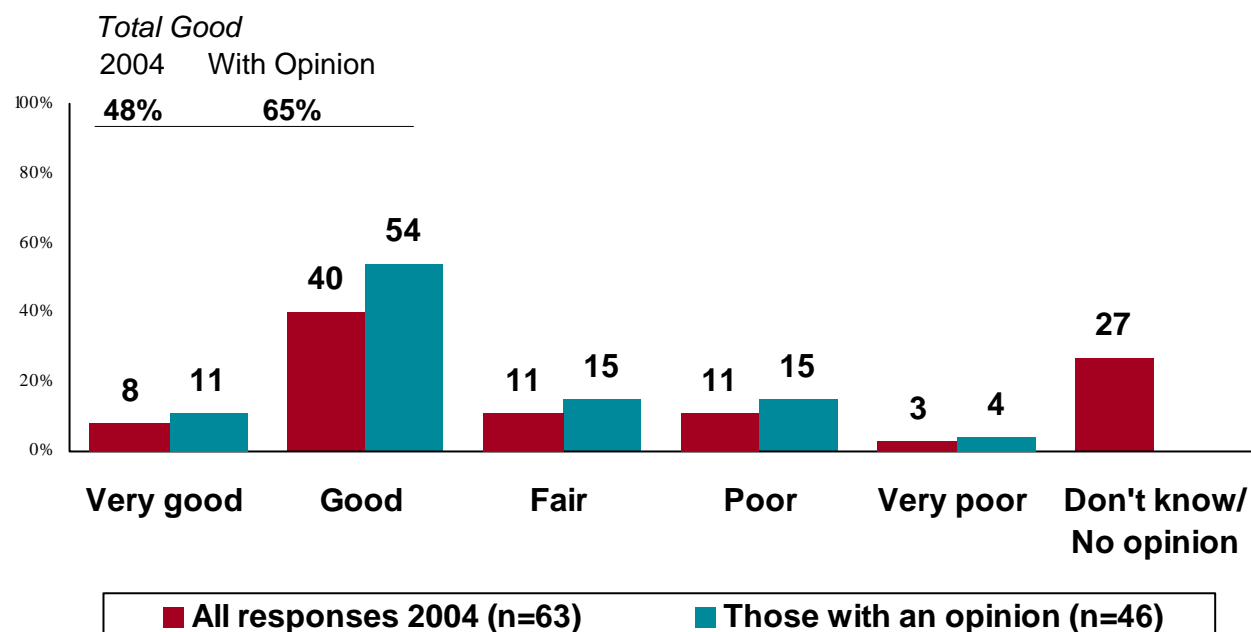
- ◆ Regardless of ratings provided, many respondents report that OSFI is neither the sole catalyst for change nor the most knowledgeable source for governance practices.
 - Changes in FI governance practices have been driven by the requirements of other regulators or initiated internally due to market factors.
 - FIs are more likely to be using other expert sources to inform them about governance practices.
- ◆ Positive ratings of the Guideline are often driven by perceptions that it:
 - Brings attention to the issue of corporate governance.
 - Offers a benchmark or framework from which FIs can develop their own practices.
 - Provides an indication of OSFI's expectations for governance.
- ◆ Moderate ratings reflect that changes in governance had been initiated prior to January, 2003 and thus the Guideline was of limited use.
- ◆ A few felt that the Guideline is overly prescriptive.

Q38. Another objective of the Corporate Governance Guideline is to strike a balance between being prescriptive and providing companies with the flexibility to adopt different approaches to suit their circumstances. How would you rate the Guideline in this regard?

The Guideline is generally perceived to have struck a balance between prescriptiveness and flexibility.

- ◆ The value of this balanced approach is viewed as two-fold:
 - The Guideline has merit regardless of FI size or the sector in which an FI operates.
 - It provides FIs with appropriate latitude to determine the means by which they will implement governance initiatives.
- ◆ The minority who feel a balance has not been achieved tend to find the Guideline too prescriptive, with some suggesting that it is more like a Ruling than a Guideline in tone.

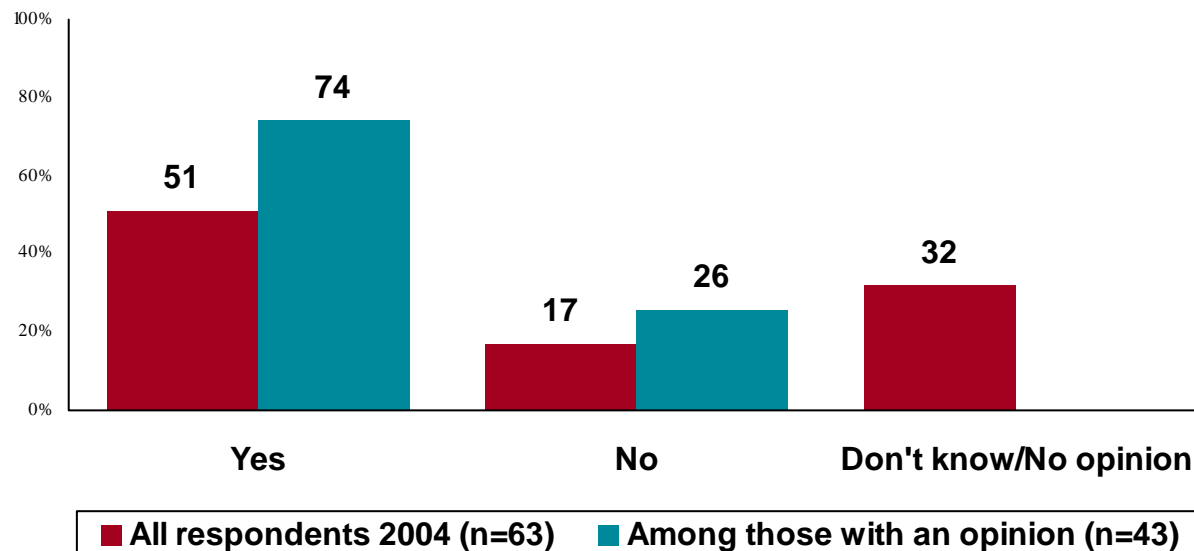
Balance of Corporate Governance Guideline



Q39. Since the introduction of the Governance Guideline, has your company made any changes to its corporate governance practices?

Changes in corporate governance practices have been made since OSFI introduced its Governance Guideline; however, these changes were generally not related directly to the issuance of the Guideline

Impact of Guideline on Corporate Governance Practices



- ◆ The strong majority of those with an opinion report that their company has made changes to its corporate governance practices.
- ◆ However, many were reluctant to attribute those changes directly to OSFI's guideline, indicating that other factors played a role in these changes (e.g., cross-border requirements driven by Sarbanes-Oxley). Moreover, many indicate that changes to practices pre-date the introduction of the OSFI guideline.

Q39A. What changes have been made [since the introduction of the Governance Guideline]?

There is no consistency in the types of changes implemented as a result of the Guideline.

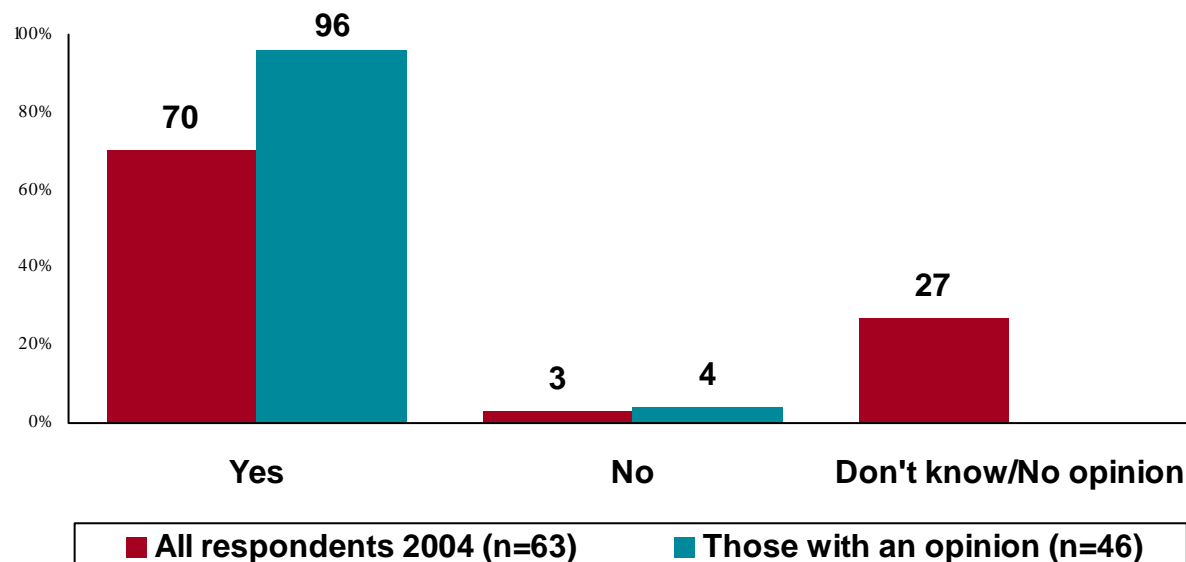
- ◆ Individual examples of changes made include:
 - Review of board and committee mandates.
 - Clearer distinctions between the respective roles of the board and management.
 - Greater clarity in the board composition nomination process.
 - Changes to board/committee qualifications/membership.
 - Changes to committee membership.
 - Splitting of CEO and Chairman roles.
 - Change in qualifications required for external directors.
 - A more independent audit committee.
 - Implementation of a self-evaluation process for directors.
 - Greater board focus on corporate governance issues.
 - More detailed documentation.
 - Additional focus on “non-audit” services.

Q40. To your knowledge, have OSFI's requirements concerning your company (i.e., supervisory and approvals) been consistent with the Guideline?

OSFI's requirements are perceived as consistent with its Corporate Governance Guideline.

- ◆ Among those who felt they could provide an informed response to this question, there is almost universal agreement that OSFI's requirements have been consistent with the Guideline.
- ◆ Only 2 respondents report OSFI's requirements have been inconsistent with the Guideline.

Consistency of OSFI Requirements with Guideline

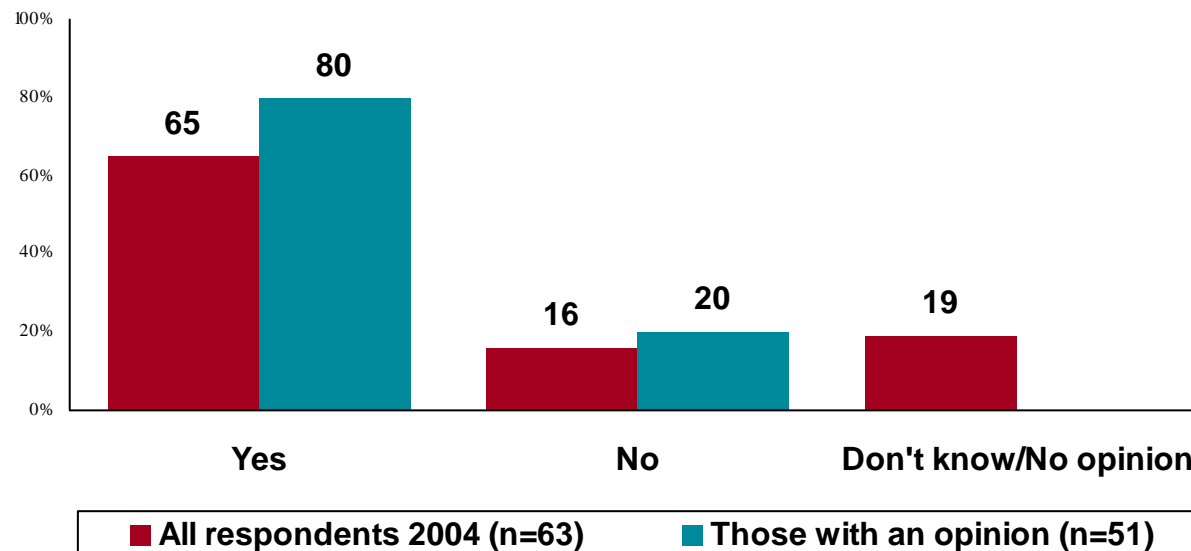


Q41. Do you believe the Guideline is helpful to directors in fulfilling their obligations?

The Guideline is perceived as helpful to directors.

- ◆ OSFI's Corporate Governance Guideline is seen as a valuable resource for directors.
- ◆ Reasons underlying positive assessments include that the Guideline:
 - Raises awareness of governance issues and helps to educate boards on their roles and responsibilities.
 - Provides a roadmap of the issues to be considered and addressed.
 - Provides boards with insight into OSFI's expectations.
- ◆ There are no consistent themes in the reasons given for assessments that the Guideline is not helpful.
- ◆ Banks are directionally more likely than insurance companies to see the Guideline as helpful to directors.

Helpfulness of Guideline to Directors



Q42. What could OSFI do, either through the [Governance] Guideline or otherwise, to help directors better fulfil their obligations?

Views on the extent to which the Governance Guideline is helpful to directors are divided. Small institutions have found it helpful and are open to further input.

- ◆ Smaller institutions appear to be more receptive to OSFI's involvement in ongoing efforts to assist with governance issues. Some suggestions about how OSFI can assist directors include:
 - More in-depth education of board members about governance issues and practices.
 - Meeting with boards to explain OSFI's expectations and answer directors' questions.
 - Providing templates and best practices to boards.
- ◆ Other responses mentioned by single respondents included:
 - Provide governance FAQs.
 - Develop a more detailed outline of roles and responsibilities for audit committees.
 - Offer a directors' forum to discuss governance issues.

Q42. What could OSFI do, either through the [Governance] Guideline or otherwise, to help directors better fulfil their obligations?

Views on the extent to which the Governance Guideline is helpful to directors are divided. Larger institutions would find further input from OSFI to be unnecessary or intrusive.

- ◆ Larger institutions feel it would be inappropriate for OSFI to do anything more.
 - Large banks and insurers report that they had undertaken changes in their governance structures prior to OSFI’s Guideline being disseminated.
 - The market environment and other regulators/regulatory frameworks prompted these institutions to take action a number of years ago (e.g., Sarbanes-Oxley, SEC requirements).
 - While the Governance Guideline may be consistent with OSFI’s prudential role, there is some pushback from larger institutions on the basis that OSFI may be overstepping its mandate if it moves beyond the Guideline.
 - A number of institutions argue that they already take their corporate governance seriously, without OSFI’s prompting.
 - Some feel it is “presumptuous” of OSFI to intrude any further into management, boards and other governance structures.
 - Some institutions question whether OSFI is qualified to provide guidance on issues of this nature (i.e., Does OSFI really have the expertise?).

Part IX: OSFI's Approvals Process

Q43-46. As you know, the financial institution statutes require OSFI and Ministerial approval for certain initiatives financial institutions wish to take. The next series of questions pertain to the approvals process. Please rate OSFI on the following approvals process issues using a scale from 1 to 5.

OSFI's approvals process receives generally positive ratings.

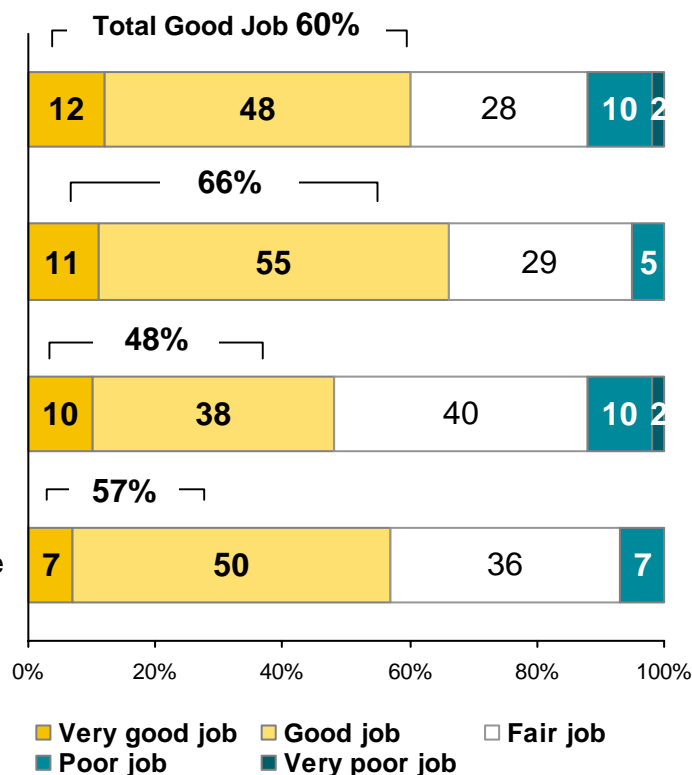
Evaluation of OSFI's Approvals Process

The **speed** with which applications involving major transactions for your institution are processed. (Q.46)

The **industry knowledge** of OSFI staff involved in the approvals process. (Q.43)

The **transparency** of the approvals process. That is, is the rationale for OSFI's recommendations and decisions clear and understandable. (Q.45)

OSFI's ability to **strike a balance** in the approvals process in terms of recognizing the need to allow companies to compete. (Q.44)



Among those with an opinion. Base sizes vary.

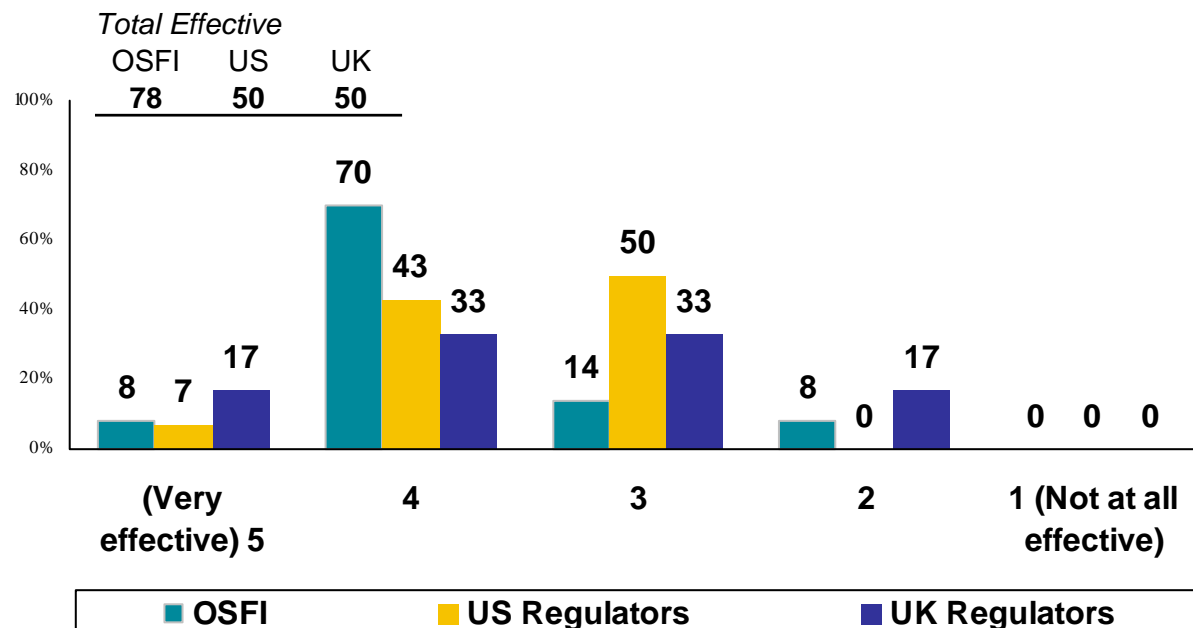
- ◆ Key elements of the approvals process are positively rated.
- ◆ Speed of processing and knowledge of approvals staff are rated most highly.
- ◆ The transparency and balance of the process are also assessed positively by approximately half of respondents.
- ◆ Positive ratings of all tested elements of the approvals process are driven by “good” scores.

Q47. Please rate OSFI and other equivalent international regulatory bodies in the U.S. and United Kingdom on overall effectiveness in the approvals process.

Overall, OSFI's approvals process is deemed effective, and compares favourably with U.S. and U.K. regulators.

- ◆ The strong majority of those with an opinion rate OSFI's approvals process as effective.
- ◆ Assessments of OSFI's approvals process are directionally higher than assessments of the regulatory processes of U.S. and U.K. regulators.

Evaluation of Approvals Process – International Comparison



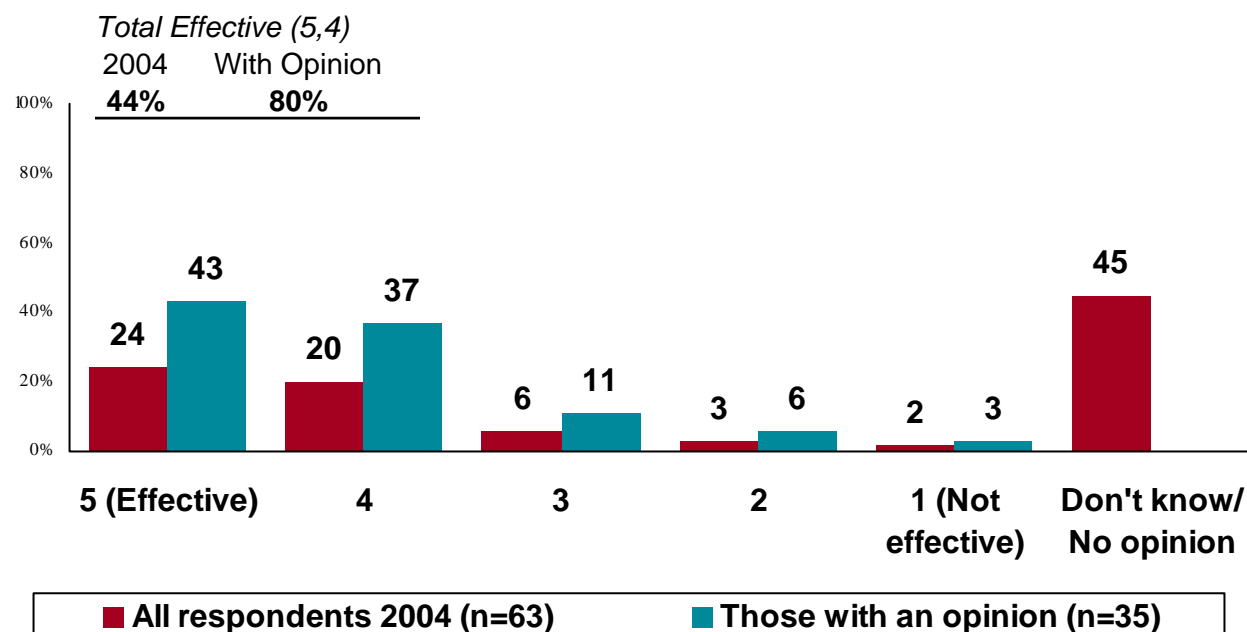
Among those with an opinion (OSFI n=36; US n=14; UK n=6)

Part X: OSFI's International Activities

Q48. How effective are OSFI's relations with other regulatory bodies outside Canada? / Q49. And why do you say that?

OSFI is perceived to have effective relations with international regulators.

Efficacy of OSFI's Relations with International Regulators

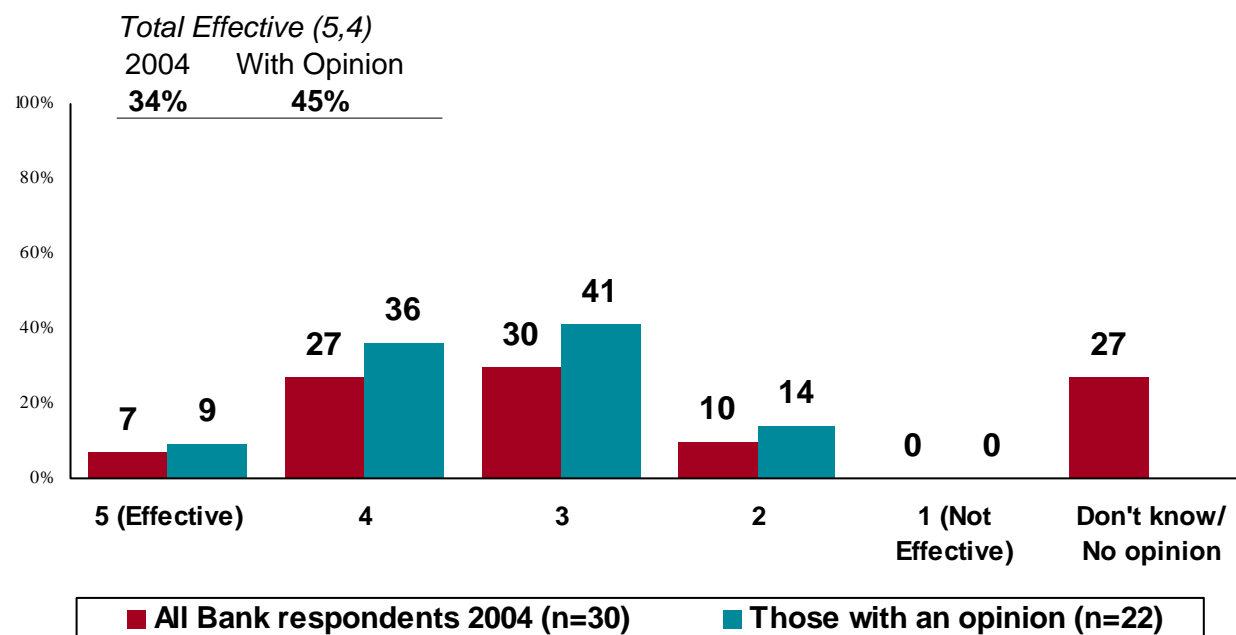


- ◆ Almost half of respondents did not feel they could provide an opinion on this issue.
- ◆ Among those with an opinion, OSFI is believed to have effective relations with its international counterparts.
- ◆ OSFI's prominent participation in international initiatives – notably Basel II and IAIS– contributes significantly to the perception that OSFI has positive and effective relationships with regulatory bodies outside Canada.
- ◆ Some note that OSFI is in regular contact with international regulators such as FED and FSA. This contact fosters good relations.

Q49. How effectively has OSFI communicated and consulted with your institution on the impact and implementation of the revisions to the BIS Capital Accord. Please use a 5-point scale with 1 meaning not at all effective and 5 meaning very effective.

Ratings of OSFI's communications and consultation with banks on Basel II are moderate.

Efficacy of OSFI's Communications/Consultation Regarding the BIS Capital Accord



Note: Question asked only of respondents representing deposit-taking institutions.

- ◆ OSFI is generally viewed as fair or good in its communications concerning the BIS Capital Accord
 - The largest proportion give OSFI a moderate rating for communications effectiveness (a score of 3 on a five-point scale).

- ◆ Most acknowledge OSFI's prominent role in the Basel II negotiations
 - Without prompting, and often within the first few questions of the consultation, banking industry stakeholders acknowledged that the Superintendent has played an important role in the development of Basel II.

Q.49A: Why do you say [response to Q49]? / Q49. How effectively has OSFI communicated and consulted with your institution on the impact and implementation of the revisions to the BIS Capital Accord. Please use a 5-point scale with 1 meaning not at all effective and 5 meaning very effective.

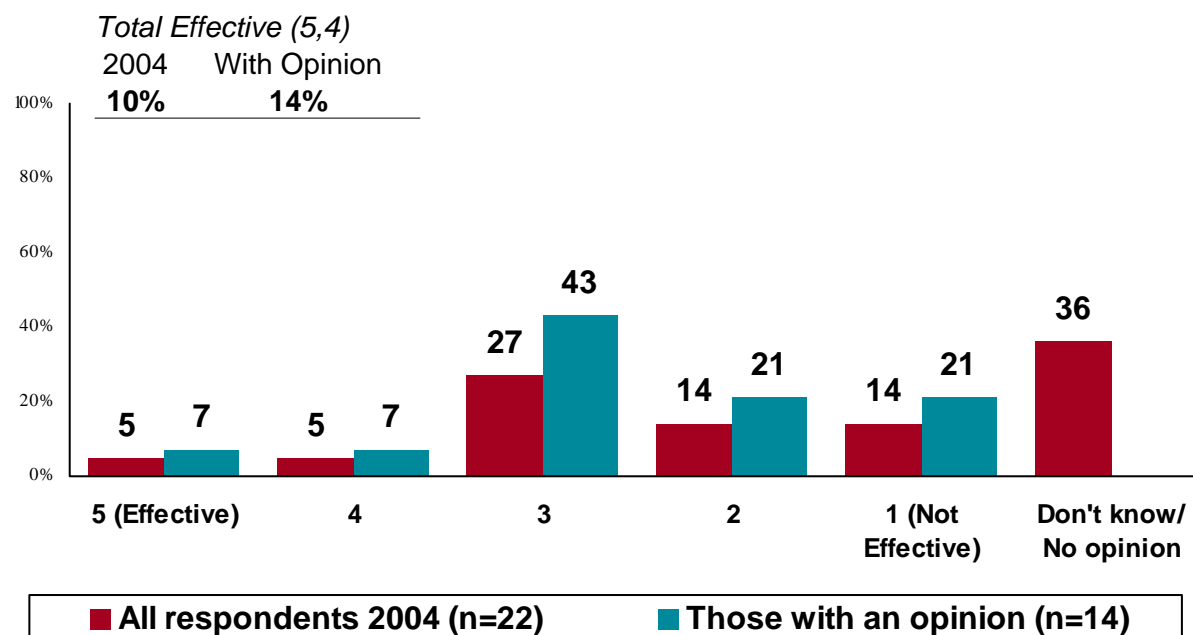
There are concerns about the impact of Basel II in a number of areas, including the standards Canadian FIs will be held to and the role particular bank departments will be required to take in the implementation of the Accord.

- ◆ Some feel that OSFI has been committed to informing banks not only through individual consultations, but also through industry groups.
- ◆ Some express concern that Canadian FIs will be held to higher standards than non-domestic FIs:
 - Specifically, respondents question whether OSFI’s interpretation of the Accord will be stricter than other regulators and therefore place Canadian banks at a competitive disadvantage.
- ◆ While timetables for implementation of specific elements of the Accord have been set, there remains a lack of clarity on a number of issues:
 - Banks often cite a need for more explicit guidance on how capital will be calculated.
 - The role that internal audit departments at banks will play upon implementation of Basel II and moving forward remains unclear:
 - Examples given of issues on which institutions seek greater guidance are “independent review” and “probability of default”.

Q50. How effectively has OSFI communicated and consulted with your institution on the development, through the IAIS, of international insurance principles and standards (e.g. Principles on Capital Adequacy and Solvency; Supervisory Standards on Reinsurance; and Guidance Paper on Public Disclosure by Insurers). Please use a 5 point scale with 1 meaning not at all effective and 5 meaning very effective?

Assessments of OSFI’s communication and consultation with the insurance sector concerning international principles and standards are fair to negative.

Efficacy of OSFI’s Communication/Consultation Regarding International Insurance Principles and Standards



Note: Question asked only of insurance company stakeholders

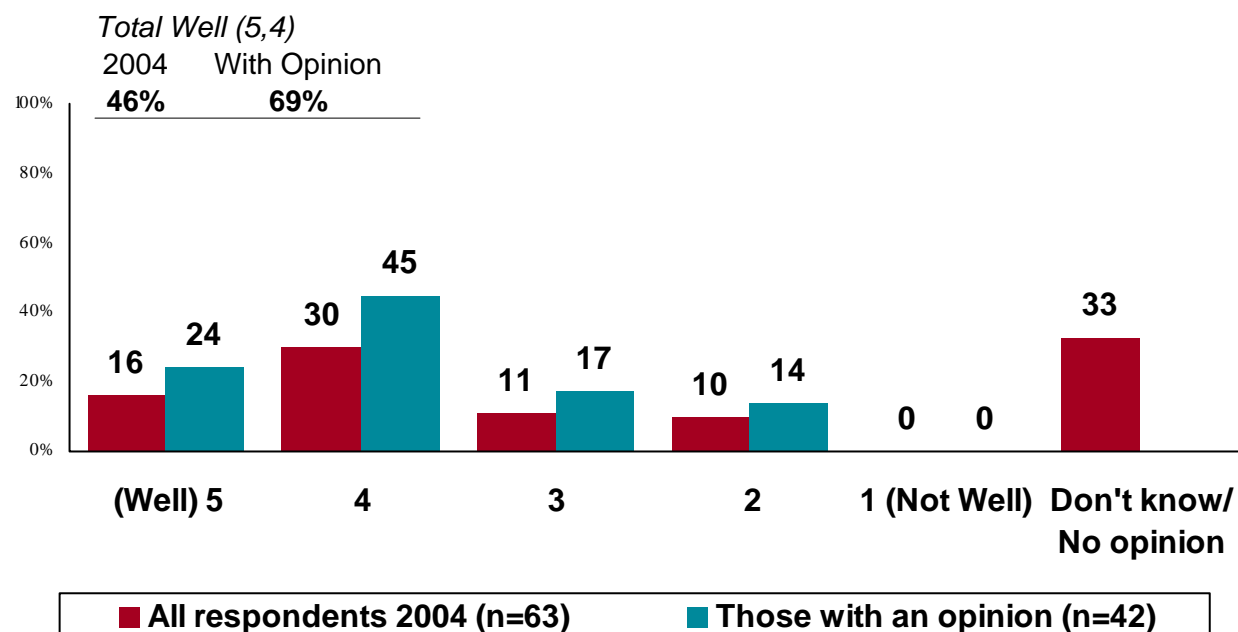
- ◆ A significant minority (43%) of those with an opinion rate OSFI’s performance as “fair” in terms of communicating and consulting with insurers about international insurance principles and standards.
- ◆ A comparable proportion (42%) say OSFI has been ineffective, with fully 21% saying that this process has not been effective at all.
- ◆ Only 14% rate OSFI in the top two boxes (score of 5 or 4).

Q51. Overall, how well do you believe OSFI represents the interests of the Canadian financial sector in international fora (e.g. Basel Committee on Banking Supervision, IAIS) to ensure that Canadian financial institutions are not put at a disadvantage vis-à-vis their foreign competitors?

OSFI is seen as representing well Canadian interests in international fora.

- ◆ One-third of respondents felt unable to address this issue.
- ◆ Among those with an opinion, OSFI is perceived as doing well in representing the interests of the Canadian financial sector in international fora.
 - External auditors and actuaries provide the most positive assessments of OSFI on this measure.

Evaluation of OSFI's Representation of Canadian Interests in International Fora



Q51A. Why do you say [response to Q51]? / Q51. Overall, how well do you believe OSFI represents the interests of the Canadian financial sector in international fora (e.g. Basel Committee on Banking Supervision, IAIS) to ensure that Canadian financial institutions are not put at a disadvantage vis-à-vis their foreign competitors?

Some respondents believe OSFI's involvement in the development of Basel II has led to a greater influence in international regulatory issues and credibility for the Canadian regulator.

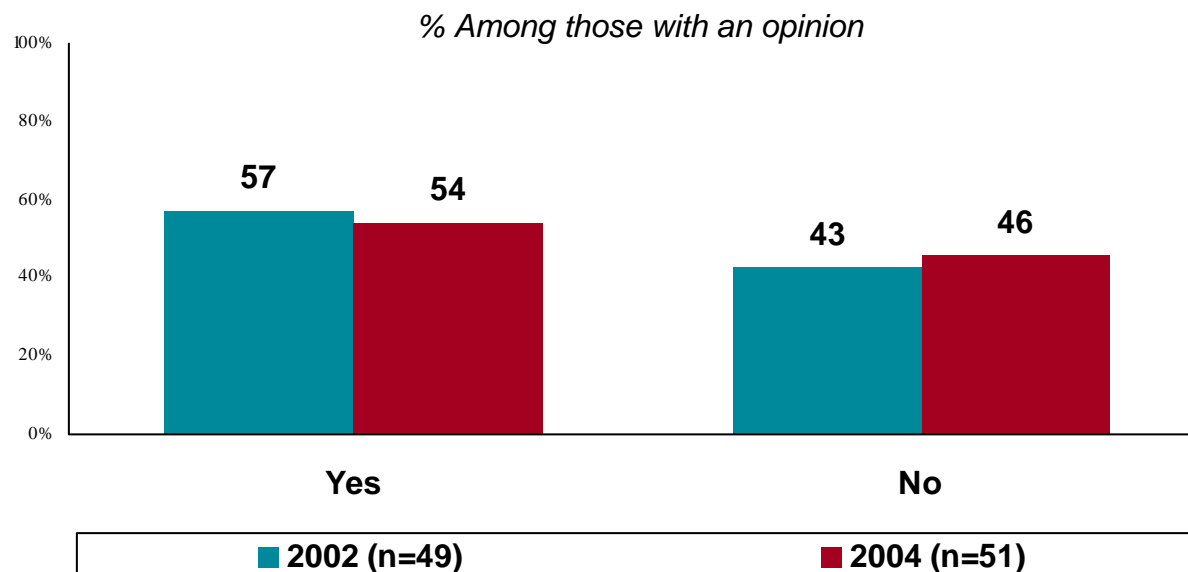
- ◆ OSFI's role in the negotiation of Basel II is often referenced as an example of Canadian leadership in international fora.
- ◆ The role of the Superintendent on the Basel II committee is pinpointed as a means by which Canadian interests are well presented.
 - Some feel that the Superintendent's role in the BIS Accord has:
 - Elevated OSFI's stature in the international community of regulators.
 - Ensured that Canada has had significant influence in the development of the Accord, perhaps more than its relative size and influence in the marketplace would dictate.
- ◆ In responding to this question, insurers express concern about the international competitive disadvantage they feel is imposed on them due to OSFI's capital requirements.

Q52. Do you believe the current capital framework applicable to your industry, and the way in which OSFI applies it, is internationally competitive?

Issues related to the competitiveness of the capital framework continue to be evident.

- ◆ One-in-five respondents in both 2002 (21%) and 2004 (19%) did not feel that they could provide a response to this question.
- ◆ Consistent with 2002 results, just over one-half of those with an opinion believe the framework is internationally competitive.

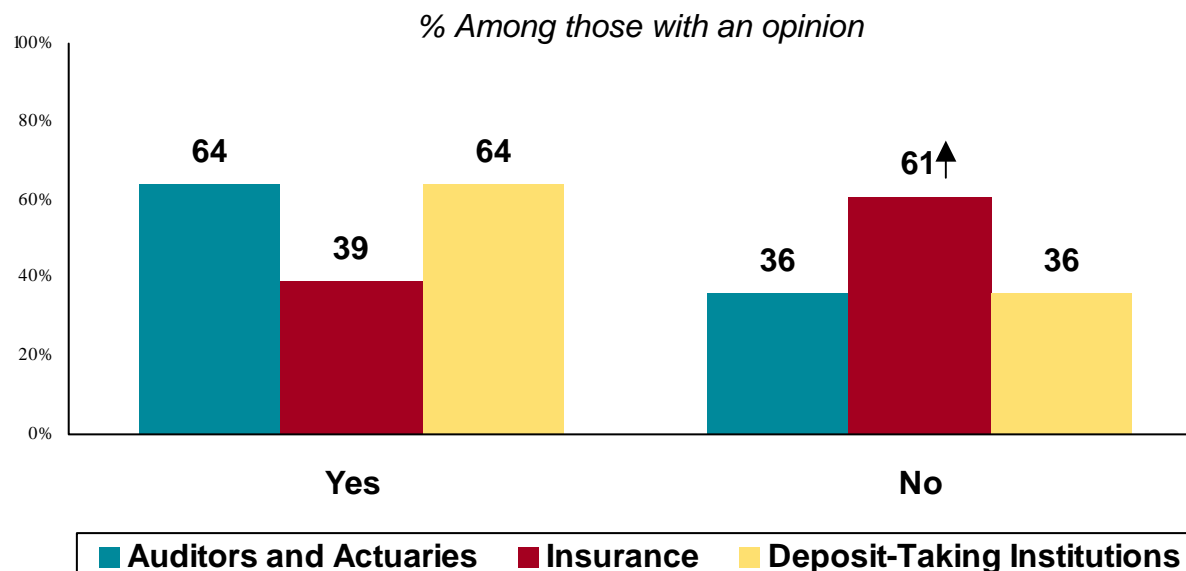
Competitiveness of Capital Framework



Q52. Do you believe the current capital framework applicable to your industry, and the way in which OSFI applies it, is internationally competitive?

The current capital framework is almost exclusively seen to be internationally competitive among the banks. Among insurance sector stakeholders, most feel it is not competitive.

Competitiveness of Capital Framework



- ◆ The majority of respondents representing both domestic and foreign banks believe that the capital framework, as applied by OSFI, is internationally competitive.
 - Generally, OSFI is viewed as trying to “establish a competitive framework” in its regulatory approach.
 - Several banks note that OSFI may err on the conservative side in its capital evaluations.
 - There remain, however, significant concerns about the application of Basel II within Canada and whether banks will truly benefit from the Accord through capital relief.

- ◆ Insurers, by contrast, feel competitively disadvantaged by their required capital levels.
 - There is a strong sense that capital requirements are excessive and adversely impact insurers’ ability to compete internationally.
 - P&C insurers identify the challenges of being regulated at both the provincial and federal levels. Insurers are therefore subject to what they view as competing priorities and requirements by the respective regulators within these jurisdictions.