



protect

educate

2001-2002 Annual Report



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September 20, 2002

The Honourable John Manley
Deputy Prime Minister and Minister of Finance
House of Commons
Ottawa, Ontario K1A 0A6

Minister:

As set out in section 34 of the *Financial Consumer Agency of Canada Act*, I am pleased to submit to you my first annual report, which covers the period from our inception, on October 24, 2001, to March 31, 2002.

Yours truly,



William (Bill) G. Knight
Commissioner

cc: The Hon. Maurizio Bevilacqua, P.C., M.P.
Secretary of State (International Financial Institutions)

Introduction

- **What information does my financial institution have to give me if I want a loan?**
- **Can it ask me for identification if I just want to open an account?**
- **Doesn't it have to cash my employment insurance cheque?**
- **What must my bank do if it closes my branch?**

Consumers have a lot of questions about the financial sector — and about financial products and services, and their rights.

Informed consumers are an important part of any marketplace. They can be a strong source of competitive discipline if they understand the products and services offered to them; have easy access to product terms, conditions and risks; and can easily comparison shop to make the right decisions, at the right time, with the right information.

But surveys show that 64 per cent of Canadians have a very low to modest knowledge of the financial sector — especially women, and younger, less educated and less well-off Canadians. Only 18 per cent are aware that banks offer an ombudsman service to help consumers resolve disputes or complaints with their financial institution.

In 1998, after a thorough review of the financial services sector, the Task Force on the Future of Canadian Financial Services (known as the MacKay Task Force, after its Chair, Saskatchewan lawyer Harold MacKay) made 124 recommendations on the financial services sector. The task force observed that “the current framework for consumer protection is not as effective as it should be in reducing the information and power imbalance between institutions and consumers.”

After studying the task force report, two parliamentary committees held public

consultations across the country and presented their own recommendations. In 1999, the government released a policy paper called *Reforming Canada's Financial Sector: A Framework for the Future*. This paper proposed the creation of the Financial Consumer Agency of Canada (referred to as the FCAC or the Agency).

The FCAC was established in October 2001, when the *Financial Consumer Agency of Canada Act* came into force, as part of the solution to rectify the imbalance between consumers and financial institutions.

The Agency was tasked with a dual mandate of protection and education.

This mandate translates into five activities:

- supervision of federally regulated financial institutions to determine whether or not they are complying with applicable consumer provisions;
- promotion of policies and procedures that these institutions can adopt to respect their obligations to consumers;
- monitoring of adherence to voluntary codes and public commitments that federally regulated financial institutions put in place to protect consumers;
- promotion of consumer awareness about their rights and about the obligations of financial institutions towards them;
- fostering an understanding of the financial sector and its products and services, while striving to improve the availability, accessibility and clarity of financial information for consumers.

The FCAC does this by working cooperatively with its stakeholders.

In our first few months of operation, we have moved forward on all of these fronts, advancing our mandate to protect and educate consumers. In this report, we will tell you more about who we are and what we have been doing.

our mandate:

We supervise and report on how federally regulated financial institutions are complying not only with the law, but also with their own voluntary codes and initiatives.

We educate consumers about financial services and about the obligations of financial institutions.



A letter from Commissioner Bill Knight

This is my first report as the first commissioner of the Financial Consumer Agency of Canada.

In this report we will explain how we operate and how we are building an agency that is committed to protecting and educating consumers.

The basic principles underlying our philosophy are that Canadians, regardless of their income, should have access to basic financial services; that Canadian financial consumers should enjoy the benefits of a competitive marketplace that enables them to choose wisely from a broad range of financial products, services and prices; and that Canadian consumers should have easy access to effective complaint resolution mechanisms when they are not treated fairly.

I am very comfortable with this philosophy because of my experiences in the financial sector and in public service prior to joining the FCAC.

At Credit Union Central of Canada I participated in building a strong company made up of a securities, an asset management and a mutual fund company. The needs of consumers were an integral part of that building process.

As a Member of Parliament helping constituents who had “consumer complaints” with the federal government, and as a member of the House of Commons Committee on Finance, I acquired an appreciation of the challenges Canadian consumers face every day and an understanding of the public policy process that I am putting into practice as head of a “watchdog” agency.

These experiences provided me with a valuable perspective on dealing with consumers, public policy issues and financial sector issues.

Why we exist and what we do

The Financial Consumer Agency of Canada was created to address the imbalance in the relationship between financial institutions and the customers they serve, in part, by consolidating consumer protection activities that were previously spread among several agencies.

Prior to the establishment of the FCAC, the Office of the Superintendent of Financial Institutions (OSFI) was responsible for administering federal consumer-related statutes, the Department of Finance was responsible for monitoring adherence to self-regulatory codes and the Office of Consumer Affairs at Industry Canada was responsible for consumer education.

The FCAC provides information that empowers consumers to make wise choices. For example, the information we produce may help them choose a credit card or an account service package with a financial institution.

As the watchdog over federal consumer provisions, we have at our disposal the tools necessary to safeguard consumers.

The financial sector, too, has responsibilities towards consumers. The FCAC works with financial institutions to help them meet these responsibilities by ensuring they provide complaint-resolution systems to deal with day-to-day service or contract disputes.

By giving consumers the right financial information, at the right time, we empower them to make the right decisions.

▲Educate

▼Protect

As the “watchdog” over federal consumer provisions, the FCAC has the tools to protect consumers in the face of the vast changes sweeping the financial services industry.

We follow a “no surprises” approach, in which we work with the financial sector as problems emerge and resolve them before they become serious or systemic.

We are also building relationships with other federal government departments as well as with other regulators and other levels of government, inside and outside Canada.

We are forging links with consumer groups to distribute our educational materials through their distribution channels and to gain a better understanding of their concerns and priorities.

We are working with the Canadian Bankers Association on various educational and awareness programs.

We are forming partnerships with organizations that serve Canadians with low literacy levels to provide these consumers with basic financial information.

This emphasis on collaboration is creating strong ties and ensuring that we can leverage our outreach programs more effectively. The relationships we are building are based on shared information, transparency and openness.

A changing marketplace: a challenge for all

The information challenge

The financial services sector is changing dramatically. Information technology and globalization are driving innovation and giving rise to new opportunities, new demands and new risks.

Consumers are being offered a wide variety of new products and services — by new as well as by traditional players in the financial sector — in new ways, without bricks-and-mortar branches. In this changing marketplace the old distinctions among financial institutions are becoming blurred.

Consumers have more financial choices than ever. While this can be a good thing for consumers overall, increased choice can also be quite bewildering, and result in the information imbalance becoming even more pronounced between consumers and their financial institutions.

Canada is not alone in struggling with the challenges brought about by these changes. U.S. Commerce Secretary Paul O’Neill, for example, has made financial education a priority at the U.S. Treasury. To this end, he has announced plans for a new Office of Financial Education, with a mandate similar to ours.

Francis Bacon once commented: “Knowledge is power.” By educating consumers, by giving them the right financial information, at the right time, consumers will be empowered to make the right decisions. The FCAC can provide consumers with the tools they need to make educated choices. Empowered consumers will demand more from the institutions with which they do business. As consumers shop around, to determine which institutions can best serve their financial needs, institutions will need to compete more aggressively and respond to their demands, creating a better marketplace for both consumers and financial institutions.

The service delivery challenge

Although younger consumers are more likely to try innovative service delivery through call centres, automated kiosks or the Internet, the marketplace is aging. As baby boomers turn to financial institutions with an eye to retiring, this demographic change will also affect the services financial institutions offer their customers.

While Canadian consumers appreciate the convenience that electronic banking — via the Internet, telephone, automated banking machines (ABMs) and debit cards — offers, a significant portion of them, including small businesses, still want personal contact with a customer service representative of their financial institution. Institutions are therefore having to offer multiple channels of service delivery, and not just a choice between “bricks” and “clicks”.

For the FCAC, this changing financial marketplace means we have to find appropriate ways of ensuring compliance in both a bricks-and-mortar world and a virtual world. At the same time, the Agency must keep pace with the need for new or expanded consumer education and information programs for these new financial products and services.

We are positioning ourselves to meet these challenges head-on.

What we've done so far

We have only been around a few months, and already are making progress. Here are some highlights of the year to date:

- We hired and trained a staff of 28 employees, who came from both the private and public sectors.
- We launched our Web site, established the Agency's call centre — the Consumer Contact Centre — and issued a number of brochures on consumer rights and responsibilities.
- We've been working to keep our operations lean and efficient.
 - We outsourced our informatics and communication services through Public Works and Government Services Canada (PWGSC).
 - We outsourced our call centre management to the Canada Deposit Insurance Corporation (CDIC).
 - We outsourced our human resources and financial administration to the Office of the Superintendent of Financial Institutions (OSFI).
- On December 3, 2001, we released our first report, *Credit Cards and You*.
- On January 9, 2002, we released our draft business plan and draft compliance framework to financial industry stakeholders.
- On February 5–6, 2002, we held our first strategic planning session, with former MacKay Task Force Chair Harold MacKay assisting as a key resource person.

- On February 12–14, 2002, we consulted with the financial sector on our proposed compliance framework.
- On February 28, 2002, we released a *Consumer’s Guide to Basic Banking Services* in conjunction with Industry Canada’s annual report on the cost of banking.

Our publications provide consumer tips in plain language. They include comparative data on financial products and prices, as well as useful checklists and worksheets that can help consumers track their financial habits and determine their needs. This information is available on our Web site, and through our Consumer Contact Centre.

What’s next

Our focus

Our focus in the coming year will be on expanding information about consumer rights and responsibilities. We will update *Credit Cards and You*, as well as our other brochures and publications and produce new publications, as appropriate. We will collaborate with our stakeholders to respond to emerging issues and new consumer needs.

Above all, we will continue to build on our core values.

- We will work in an open and transparent manner.
- We will seek input from our stakeholders.

- We will fill the gaps in consumer knowledge.
- We will put in place our compliance framework and monitoring procedures.
- We will provide feedback on a quarterly basis to the public and to financial institutions on the types of complaints and enquiries we receive.
- We will monitor these complaints and look for patterns.

Our concerns

Although I have been Commissioner for just a few months, already some patterns have begun to emerge. By far the greatest number of complaints that fall under our regulatory mandate has involved consumers who were refused personal bank accounts, generally because of their credit history.

At the moment, the FCAC monitors a public commitment by the Canadian Bankers Association, on behalf of its members, that covers access to basic banking. In reviewing more than 50 cases involving this commitment, we have not found any cases of non-adherence. However, we feel that the financial institutions involved, in many instances, have not respected the spirit of the public commitment.

We recommend that, in the coming year, the Government develop and put in place specific regulations covering access to accounts. This is crucial if we are to protect the principle of access to basic financial services for all Canadian consumers.

Some other financial consumer issues of concern to us are:

- confusing and obscure disclosure statements for such products as credit cards, debit cards and mortgages;
- surcharges that take many consumers by surprise, including those charged by “white-label” automated banking machines (ABMs); and
- exorbitant interest rates charged by “payday loan” companies. The FCAC wants to ensure that consumers are aware of the pitfalls of using these types of financial services.

Our role will evolve as the industry changes. But one thing that will not change is my focus on the consumer’s interests. The FCAC is working to empower consumers by providing them with information tools so that they can obtain financial products and service packages that are appropriate for their needs from the financial institutions of their choice.

By keeping watch over the financial sector on behalf of consumers, by acting as a consumer “watchdog,” we can help ensure that consumers are protected in the face of the vast changes sweeping through the industry.

Some parting thoughts

In summary, it is clear to me that consumer protection and education are inextricably linked. People who are informed about their rights and about the obligations of financial institutions are more likely to exercise those rights and to expect appropriate market conduct from their institution.

But we must be realistic. In today’s busy world, it is difficult for people to take the time to both understand their financial rights and to decipher the complexities of the financial products that they want to use. However, making *un*informed decisions can be costly and cause consumers to take unnecessary risks.

Therefore, I am committed to working with our stakeholders to develop useful information tools for consumers, such as easy-to-read tips and checklists, and to make plain-language educational materials easily available to consumers.

As we move forward with our educational initiatives, we must find innovative ways to provide financial information that meets the requirements of *all* Canadian consumers. It is becoming clear that the key challenge facing us is to provide a basic framework for financial literacy in Canada. The Agency will look for opportunities to respond to this challenge.

Wherever possible, the FCAC will work with educators to help the next generation of Canadian consumers acquire the knowledge they need to make the right financial decisions for themselves. At the very least, they should know what information they need and how to go about finding that information.

As for the Agency's mandate of consumer protection, I am committed to working with the financial institutions to address the shortcomings identified through the Agency's compliance framework, and to deal with these issues in a timely manner to lessen the chance of the same problems occurring for other consumers. We will also hold these institutions accountable for making sure that their staff understand and comply with the law.

I am committed to sharing information that consumers have brought to our attention, so that all Canadians can learn about real issues, of concern to them. We will also share information with each financial institution, in the form of timely reports on specific topics related to their operations, so that they can address consumer problems proactively.

The Agency, the financial industry and consumers alike have a vested interest in ensuring that Canadian consumers have easy access to financial products, are able to make informed decisions and can have their questions and complaints addressed by their financial institutions.



William G. Knight, Commissioner
Financial Consumer Agency of Canada

Federally regulated financial institutions must comply with federal consumer legislation. We have developed our compliance framework through extensive consultations with our stakeholders.

Our publications provide consumer tips in plain language, clear comparisons of financial products and prices, and useful checklists and worksheets that can help consumers track their financial habits and determine their needs.



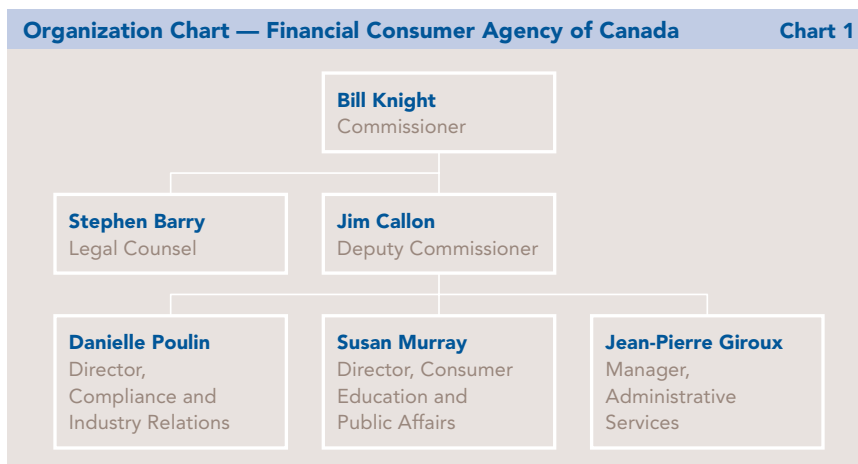
Organizational roles and responsibilities

The Commissioner

The FCAC Commissioner is appointed for a period of up to five years. Bill Knight is the first Commissioner of the Agency. His responsibilities include:

- reporting to Parliament annually and to the Minister of Finance regularly on the FCAC's activities and findings;
- managing the operations of the FCAC, which includes responsibility for all aspects of its programs, finances, administration and human resources management;
- supervising more than 470 federally regulated financial institutions to see if they are complying with the applicable consumer protection legislation, with the memoranda of understanding they have signed with the Government of Canada, and with their own voluntary codes of conduct and public commitments; and
- increasing national consumer education initiatives through collaboration with stakeholders.

The Commissioner is also responsible for the administrative monetary penalty scheme under the FCAC Act. He may issue a notice of violation if a financial institution does not comply with its legislated consumer obligations. The Commissioner can also make public the nature of the violation and issue fines of up to \$100,000. (See the section on Compliance for more information.)



The FCAC Commissioner is an ex-officio member of the Board of Directors of the Canada Deposit Insurance Corporation (CDIC) and a member of the Board's Governance Committee. He is also a member of both the Financial Institutions Supervisory Committee (FISC), chaired by the Superintendent of Financial Institutions, and the Senior Advisory Committee (SAC), chaired by the Deputy Minister of Finance, where the FCAC Commissioner adds a consumer perspective to the policy advice this committee provides to the Minister of Finance.

Consumer Education and Public Affairs branch

The Consumer Education and Public Affairs branch produces brochures, guides and other materials to inform consumers about financial institutions' legal obligations; carries out research and surveys; and disseminates this information through the media, through the FCAC Web site and through stakeholders.

Our consumer information — available on our Web site and through our Consumer Contact Centre — can help consumers choose a credit card or an account service package with a financial institution.

▲Educate

▼Protect

If a consumer thinks a financial institution has not respected its lawful obligations, we want to hear about it.

The *Financial Consumer Agency of Canada Act* requires the FCAC to foster “an understanding of financial services and issues related to financial services”. To this end, the branch produced two publications.

- *Credit Cards and You*: This publication explains the different types of credit cards, provides comparative tables on interest rates and other variables, and explains credit card terminology in plain language.
- *Consumer’s Guide to Basic Banking Services*: This annual publication gives consumers tools to understand their banking needs, to compare different options and to choose the best service package for their requirements. The 2001 edition also focussed on the needs of certain segments, such as low-income consumers, and looked at such topics as “white-label” automated banking machines (ABMs).

The branch is also charged with promoting awareness of the obligations of financial institutions and the responsibilities of consumers. It addressed this, in part, through brochures on specific topics:

- *What you should know if your branch closes*
- *Do you have a problem or complaint?*
- *Low-fee accounts*
- *Protecting your interests*
- *Working to protect and educate consumers*
- *What you don’t know can affect you*

As of March 31, 2001, the Consumer Education and Public Affairs branch mailed out more than 1,000 copies of each of the FCAC’s major reports to parliamentarians, libraries, financial

institutions, consumer groups and others, and received 131 requests for its publications.

The branch also creates and broadens public awareness of the Agency. It issued media releases: to announce the opening of the Agency and to launch its major publications. As a result, more than half of the media inquiries fielded by the branch pertained to *Credit Cards and You* and the *Consumer’s Guide to Basic Banking Services*.

The Commissioner and Deputy Commissioner were both involved in extensive consultations with consumer groups, other regulators, financial industry associations and chief executive officers (CEOs) of financial institutions. They made presentations to these audiences, as well as to public policy groups and academic institutions, to familiarize and update them on the Agency’s mandate and activities, and to respond to their questions and concerns.

The Consumer Contact Centre

Many consumers’ first point of contact with the FCAC is the Consumer Contact Centre, which the Agency shares with the Canada Deposit Insurance Corporation. Inquiries officers from the Centre answer questions from callers and offer assistance in the official language of their choice.

The Centre operates from 8:30 a.m. to 6:00 p.m. (Eastern Standard time). Callers may leave a message after hours, on weekends or on statutory holidays. These messages are returned the next business day.

As of March 31, 2002, we received 4,769 telephone calls, letters, e-mails and in-person visits. Roughly a quarter, 1,560 in all, were related to credit cards.

Our Web site

— <http://www.fcac-acfc.gc.ca/>

Our Web site is our visible face to the public. In an average month, we receive nearly 60,000 “visits” from approximately 8,000 individuals or organizations.

The media section of the site is the most frequently visited, followed by the sections for consumers. Visitors have come to review our on-line publications nearly 8,000 times, as of March 31, 2002. Consumers can also download publications directly, which saves printing and distribution costs. Our most popular on-line document is the *Consumer’s Guide to Basic Banking Services*, which has been downloaded more than 7,000 times. Our most popular brochure, meanwhile, is *Low-fee accounts*.

Legal services branch

The federal Department of Justice provides legal services to the FCAC. A Senior Counsel from Justice is part of the management structure of the Agency and reports directly to the Commissioner. Counsel offers advice on all aspects of the FCAC’s mandate and operations.

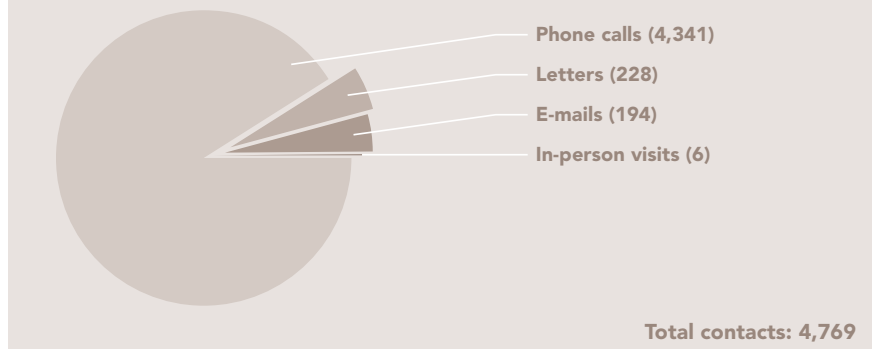
Administrative services branch

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

How Consumers Contacted the FCAC
(October 24, 2001 – March 31, 2002)

Chart 2

(See also Chart 7)



The FCAC has contracted out its human resources and financial services to the Office of the Superintendent of Financial Institutions, and its informatics and communication services to Public Works and Government Services Canada.

Compliance and Industry Relations branch

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

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

Consumers may view these provisions on-line, in the “Compliance Information” section of the FCAC’s Web site.

The FCAC’s Compliance and Industry Relations branch monitors, and works to ensure compliance with, the consumer provisions, which include requirements for such activities as: opening retail deposit accounts; cashing federal government cheques; closing retail branches; coercive tied selling; disclosing cheque-hold policies; providing information to consumers about the

FCAC; establishing procedures for dealing with complaints; preparing annual public accountability statements and disclosing the cost of borrowing.

The branch's responsibilities include:

- investigating and responding to consumer complaints that fall under any of the Acts mentioned above;
- managing the compliance framework and monitoring its efficiency (this framework is discussed in more detail later in this report);
- examining federally regulated financial institutions to ensure they comply with this framework;
- monitoring adherence to voluntary codes of conduct or public commitments designed to protect the interests of consumers; and
- monitoring the FCAC's tracking systems to identify patterns.

Voluntary codes are commitments the financial institutions have put in place to guide their conduct. They cover such things as debit cards and credit relations with small businesses. Even though the codes are "voluntary," meaning the FCAC cannot enforce them, the Agency expects financial institutions to abide by these codes. To this end, the FCAC monitors adherence to the codes, investigates complaints and publicly reports on the results of our monitoring.

Among the tools the branch has at its disposal to monitor compliance are "mystery" shopping, consumer surveys, analysis of complaints and enquiries, annual examinations of federally regulated financial institutions and studies by third parties.

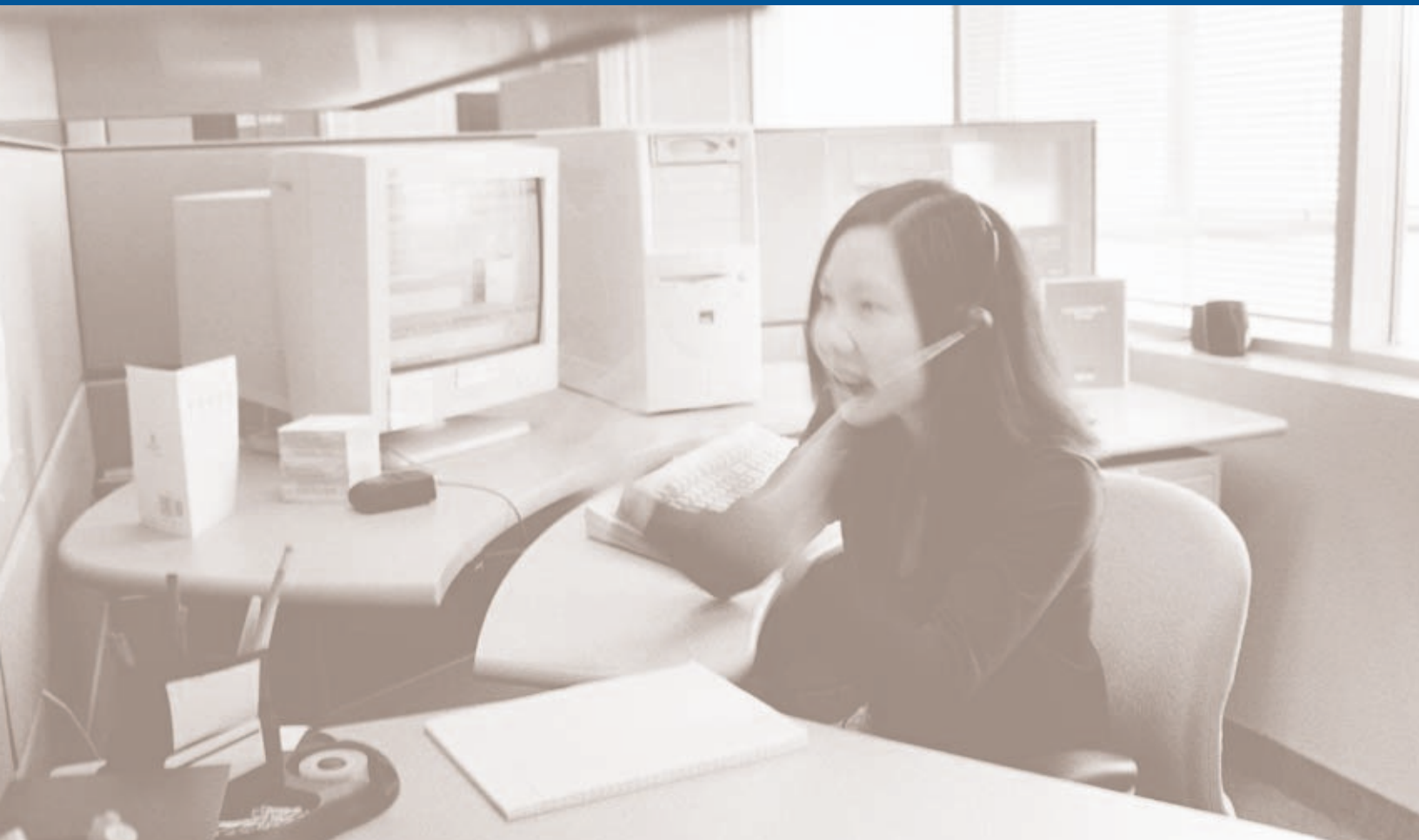
The FCAC does not use a traditional regulatory approach. We have developed our compliance framework through extensive consultations with stakeholders. During this consultation process we have shared our ideas frankly with our stakeholders, sought their input and feedback, and incorporated many of their suggestions into our framework, which we have provided to them.

Our methods for securing compliance range from persuasion through to the imposition of fines and, if needed, public disclosure in instances of a breach of the consumer provisions. The specific approach we take in a particular case is determined by several factors, such as the severity and frequency of the problem; whether the breach is an isolated incident or systemic in nature; whether it is deliberate; and the degree of co-operation we receive with any investigation we undertake.

Appendix B outlines the Agency's case management process for alleged breaches of the consumer provisions; Appendix C provides a chart of the types of consumer provisions and regulations the Agency supervises and with which it ensures compliance; and Appendix D outlines the current status of the consumer provisions and regulations that the FCAC monitors.

The FCAC investigates complaints related to all banks and all federally registered or incorporated insurance and trust and loan companies to determine if there has been a breach of the consumer provisions.

We inform consumers about the redress mechanisms in place at financial institutions to resolve “general service” complaints relating to such issues as quality of service, business policies or hours of operation.



Consumer complaints and enquiries

Complaint handling by the FCAC

Role of the FCAC

The Agency only has jurisdiction over complaints that involve breaches of federal consumer provision legislation or regulations.

We have no mandate to resolve “general service” complaints relating to quality of service, business policies or hours of operation. However, we do make consumers aware of the complaint resolution systems that financial institutions have in place to deal with these types of complaints.

The Commissioner may collect any personal information that is considered necessary for supervising compliance with the consumer provisions by federally regulated financial institutions. Such information is treated as confidential by the FCAC.

The Agency is subject to the *Privacy Act* and the *Access to Information Act*, as well as to regulations relating to these Acts.

Consumer provision complaints

The FCAC investigates complaints related to all banks and all federally registered or incorporated insurance and trust and loan companies. The Agency is not responsible for credit unions, finance companies, mutual fund dealers, securities dealers and other financial institutions that fall under provincial jurisdiction.

Federally regulated financial institutions must comply with federal consumer legislation. If a consumer thinks a financial institution has not respected its lawful obligations, we want to hear about it.

In addition to reporting a breach of the consumer provisions, if consumers are seeking redress, we inform them of the process in place at financial institutions to handle individual redress.

Under our compliance framework, federally regulated financial institutions are also obliged to self-report customer complaints to the FCAC if these complaints suggest a possible breach of the law.

Any consumer can file a complaint about a breach of a consumer provision with the FCAC. There is no cost involved. Consumers can call us toll-free at 1-866-461-3222 or e-mail us at info@fcac-acfc.gc.ca. Appendix B illustrates our case management process.

When someone calls us with a complaint, we ask for details, to assess whether it falls under our jurisdiction and if it involves a possible breach of the law. If we need to do some research, we will call the consumer back within 48 hours. Once we understand the consumer’s situation and have determined whether the complaint falls under our jurisdiction, we inform the consumer of the options available. If the complaint involves a possible breach of the law, an FCAC compliance officer contacts the consumer’s financial institution to discuss the complaint. If further action is recommended, an officer may request factual information in writing from the consumer and the institution.

If it is determined that the institution has breached a consumer provision, we may issue a warning letter or “notice of violation” to the institution and impose a monetary penalty. We may also publicize details of a violation, including the name of the institution that committed the violation and the amount of the penalty imposed.

Once we understand the consumer’s situation and have determined whether the complaint falls under our jurisdiction, we inform the consumer of the options available.

▲Educate

▼Protect

Any consumer can file a complaint about a breach of a consumer provision with the FCAC. There is no cost involved.

Complaint handling by financial institutions

Since October 24, 2001, the FCAC has been working with federally regulated financial institutions to ensure they put in place the required complaint resolution procedures. Appendix E provides a generic example of a financial institution's complaint handling process. By March 31, 2002, the majority of institutions were in compliance with this obligation. We will continue to work with those that have not yet properly filed their procedures with the FCAC, since these procedures are an important part of addressing complaints that consumers may have with a financial institution.

General service complaints

Although the FCAC has no mandate to resolve “general service” complaints, we try to help consumers where we can. For example, the Agency promotes consumer awareness of complaint resolution systems already in place in financial institutions.

The FCAC does not provide redress or monetary compensation to consumers who feel they have been treated unfairly by their financial institution.

We do not handle complaints involving:

- the pricing of products (e.g., insurance premiums, service fees, credit card charges);
- the quality of service received;
- loan and credit granting policies; or
- billing errors, advertising or contractual matters.

If financial consumers have a general service complaint, their first step is to try to resolve the problem directly with their financial institution. This may involve

dealing with branch staff or a local representative. Financial institutions must help consumers who want to make a complaint. Every federal financial institution is required by law to have a process for handling complaints and must have staff dedicated to this task. The financial sector is one of the few industries in Canada that has this customer service requirement — which is part of the solution in addressing the power imbalance between financial institutions and consumers.

Most federally regulated financial institutions belong to an ombudsman service or to an external dispute resolution body, whose role is to help resolve disputes fairly and impartially. If consumers are seeking redress and if their complaint has not been resolved to their satisfaction by their financial institution's complaint handling process, they can have the complaint reviewed by a third party. This service is non-binding and is available to any individual or small business with a complaint against a federal financial institution.

The FCAC is looking forward to working with the Centre for the Financial Services OmbudsNetwork (CFSON) that will be created in the coming year to provide ombudsman services in the banking, life and health insurance, property and casualty insurance, and securities and mutual fund industries for Canadian consumers who are seeking redress. Partnering with the CFSON will enable us to implement our mandate more effectively to protect Canadian financial consumers.

A look at the complaints we have received

Alleged breaches of the law or alleged non-adherence to codes of conduct

Because the FCAC was established in October, the charts presented in this annual report contain data from only the first few months of operations. It is our intention to update this information on a regular basis and to make it available to Canadian consumers, in order to keep them fully informed about our activities and our findings.

Chart 3 represents the total number of “alleged non-compliance” complaints related to the consumer provisions, and “alleged non-adherence” complaints related to voluntary codes of conduct and public commitments by federally regulated financial institutions, which the FCAC received between October 24, 2001, and March 31, 2002.

Of the 134 complaints that the FCAC has received since October 24, 2001, 54 involved a refusal to open an account because of the consumer’s credit history. Refusal to open accounts is a major issue of concern, accounting for 40 per cent of the total number of compliance-related complaints received by the FCAC. A poor credit history is the underlying reason for the majority of these refusals.

As Chart 4 indicates, the FCAC received 134 complaints of alleged violations of the law, or of non-adherence to a code of conduct or to a public commitment to protect consumers.

Number of Alleged Non-Compliance/Non-Adherence Complaints Received by Compliance Issue (October 24, 2001 – March 31, 2002) Chart 3

| | Complaints |
|--|------------|
| Accounts: Advance notice of fee increases | 14 |
| Accounts: Agreement and Complaint procedures | 1 |
| Accounts: Charges for account maintenance | 1 |
| Accounts: Disclosure of information, charges or services | 3 |
| Accounts: Low-cost accounts | 3 |
| Accounts: Minimum balance requirement | 1 |
| Accounts: Refusal to open (credit history/bankruptcy) | 54 |
| Accounts: Refusal to open (general) | 12 |
| Accounts: Refusal to open (ID) | 5 |
| Coercive tied selling | 8 |
| Cost of Borrowing — General | 4 |
| Credit Card: Change to COB* | 2 |
| Credit card: Non-disclosure of COB*, interest or fees | 3 |
| Debit Card Code | 2 |
| Establishment of complaint procedures | 1 |
| Failure to inform how to reach the FCAC | 2 |
| Federal government cheques: Fee charged to cash | 1 |
| Holds on cheques: Deposits | 4 |
| Loans — Failure to disclose COB* (advertising) | 4 |
| Loans — Failure to disclose COB* when issued | 2 |
| Loans — Information on repaying rebates/charges | 1 |
| Loans — Notification of changes in COB* | 4 |
| Public commitment | 1 |
| Small Business Code | 1 |
| Total | 134 |

*COB means the “cost of borrowing” and refers to the disclosure requirements in the federal regulations.

Status of Cases Processed (October 24, 2001 – March 31, 2002) Chart 4

| | |
|--|------------|
| Adherence | 49 |
| Breach | 0 |
| Non-Adherence | 0 |
| Non-Breach | 31 |
| Resolved | 6 |
| Withdrawn | 21 |
| Sub-total | 107 |
| Total cases received (See Chart 3) | 134 |
| Total cases closed | 107 |
| Total cases still under investigation | 27 |

(See Glossary, page 33, for definition of terms.)

Number of Alleged Non-Compliance/Non-Adherence Complaints Received by Type of Institution Chart 5
(October 24, 2001 – March 31, 2002)

| | |
|--------------------------------------|------------|
| Domestic Banks | 108 |
| Foreign Bank Branches — Full-Service | 2 |
| Foreign Banks | 8 |
| Trust Companies | 4 |
| Unknown Bank* | 12 |
| Total | 134 |

*The consumer did not disclose the type of bank he/she was contacting the FCAC about.

Number of Alleged Non-Compliance/Non-Adherence Cases Closed by Type of Disposition Chart 6
(October 24, 2001 – March 31, 2002)

(See also Chart 4)

| | |
|---------------------------|------------|
| Adherence | 49 |
| Breach | 0 |
| Non-Adherence | 0 |
| Non-Breach | 31 |
| Resolved | 6 |
| Withdrawn | 21 |
| Total cases closed | 107 |

Of these, 27 were still being investigated as of March 31, 2002. Six were resolved, 21 were withdrawn and the remainder were found *not* to involve a breach of the regulations, or non-adherence to voluntary codes of conduct or public commitments.

Chart 5 represents the total number of complaints the FCAC received by type of financial institution. Since most of the consumer provisions apply to *deposit-taking* institutions, it is understandable that the vast majority of complaints — 97 per cent of the complaints received — involved the banking sector.

Chart 6 represents the total of alleged non-compliance or non-adherence complaint cases closed by type of disposition between October 24, 2001, and March 31, 2002.

General service complaints and enquiries

As Chart 7 indicates, the FCAC received a total of 4,769 complaints and enquiries from consumers between October 24, 2001, and March 31, 2002, which were related primarily to credit cards, loans and existing mortgages, bank accounts and the quality of service provided at the consumer's financial institution.

Chart 2, on Page 19, indicates *how* consumers contacted the FCAC.

Chart 8 indicates the specific issues with which consumers were most concerned.

Credit cards — Consumers expressed concerns about changes in their credit card fees as well as about receiving unsolicited applications for credit cards in the mail.

Deposit accounts — Consumers complained about the “lengthy” holds placed on cheques deposited in their accounts.

General enquiry — Consumers frequently contacted the FCAC to enquire about the authenticity of various financial institutions.

Loans/existing mortgages — Consumers enquired about penalties they were being charged by their financial institution to break an existing mortgage.

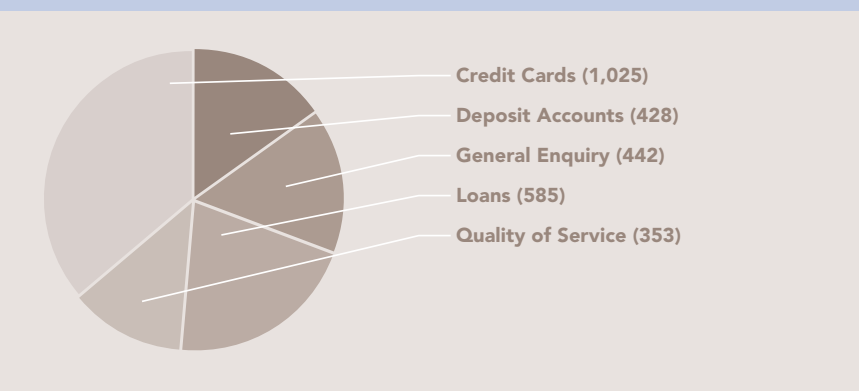
Quality of service — Consumers who were not clients of a particular financial institution were upset when the institution would not serve them.

Chart 9 represents the total number of complaints and enquiries received.

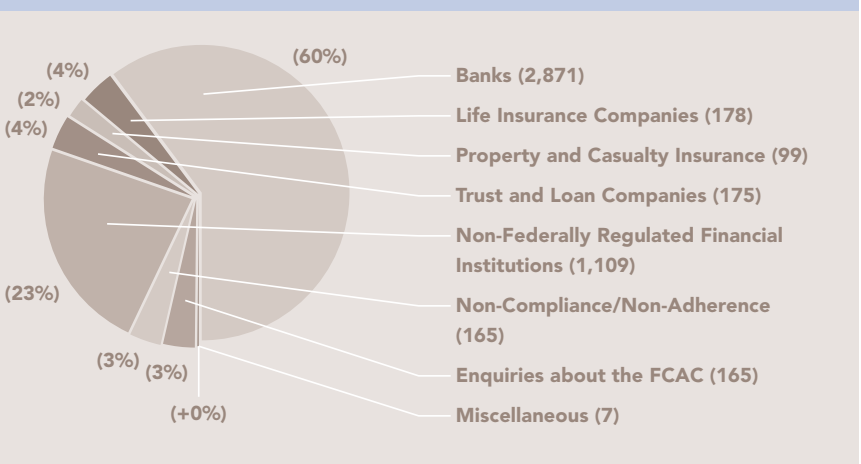
Total Number of Complaints and Enquiries Received (October 24, 2001 – March 31, 2002) Chart 7

| | Complaints | Enquiries | Total Complaints and Enquiries |
|---|------------|-----------|--------------------------------|
| Banks | 1,565 | 1,306 | 2,871 |
| Life Insurance Companies | 96 | 82 | 178 |
| Property and Casualty Insurance Companies | 67 | 32 | 99 |
| Trust and Loan Companies | 95 | 80 | 175 |
| Non-Federally Regulated Financial Institutions | 393 | 716 | 1,109 |
| FCAC-related | 2 | 163 | 165 |
| Miscellaneous | 5 | 2 | 7 |
| Total Complaints & Enquiries | 2,223 | 2,381 | 4,604 |
| Non-Compliance/Non-Adherence | 134 | 31 | 165 |
| Grand Total | | | 4,769 |

Major Types of Complaints and Enquiries Received (October 24, 2001 – March 31, 2002) Chart 8



Percentage of Complaints and Enquiries Received (October 24, 2001 – March 31, 2002) Chart 9



We will hold financial institutions accountable for making sure their staff understand and comply with the law.

Our Web site is our most visible face to the public. In an average month, we receive nearly 60,000 "visits" from approximately 8,000 individuals or organizations.



Branch closure filings

During the period October 24, 2001, to March 31, 2002, the FCAC received 13 filings by financial institutions regarding anticipated branch closures.

The Agency is responsible for ensuring that these filings meet regulatory requirements.

As of March 31, 2002, all of these branch closure filings were still under review.

Concluding remarks

In all of the initiatives that we — as Commissioner and employees of the Financial Consumer Agency of Canada — are undertaking, we are keeping the needs of financial consumers uppermost in our minds.

We have worked hard to make sure that Canadian financial consumers are fully aware of their rights and responsibilities under the law and that Canada's federally regulated financial institutions comply fully with their consumer obligations.

We are committed to ensuring that all Canadians — regardless of geographic location, economic circumstances, education, age, gender or cultural background — can obtain access to the federally regulated financial sector.

And we have focussed our efforts on providing consumers with useful, timely, comprehensible information about financial products and services so that they can ask the right questions and choose wisely from the multitude of financial products and services available to them.

Our most popular on-line document is the *Consumer's Guide to Basic Banking Services*, which has been downloaded more than 7,000 times. Our most popular brochure is *Low-fee accounts*.

▲Educate


▼Protect

We will work with financial institutions to remedy compliance shortcomings in a timely manner.

FCAC Staff — Committed to Protecting and Educating the Canadian Financial Consumer



Nicole Barbe, Compliance Processing Coordinator



Stephen Barry, Senior Counsel



Jim Callon, Deputy Commissioner



Jocelyne Charette, Administrative Services Officer



Chantal Charreyron, Administrative Assistant, Consumer Education & Public Affairs



Madeleine Cormier, Information Management Officer



Joanne Delorme, Executive Assistant to the Commissioner



David Desormeaux, Webmaster/Publications Officer



Dawn Findlay, Administrative Assistant, Compliance & Industry Relations



Frank Fowle, Senior Advisor



Bernard Gagné, Compliance Officer



Kirti Gauthier, Compliance Officer



Jean-Pierre Giroux, Administrative Services Manager



William (Bill) Knight, Commissioner



Michelle Labrèche, Administrative Assistant to the Deputy Commissioner



Amanda Lafontaine, Classifier



Lyse Laramée, Senior Enquiries Officer



Bruno Lévesque, Consumer Education Officer



Christina McDonald, Enquiries Officer



Brigitte Mineault, Public Affairs Officer



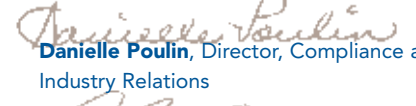
Susan Murray, Director, Consumer Education and Public Affairs



Martin Pacheco, Consumer Education Team Leader



Kim Peterson, Public Affairs Officer



Danielle Poulin, Director, Compliance and Industry Relations



Andy Rapoch, Public Affairs Officer



Isabelle Rodrigue, Consumer Education Officer



Jane Rooney, Consumer Education Officer



Jean-Guy St-Amour, Compliance Officer



Beverley Smith, Public Affairs Team Leader

Appendix A: Glossary

Adherence — After investigation by the FCAC, the financial institution's actions with respect to the complaint were found to be consistent with the voluntary code of conduct or public commitment of the financial institution/industry.

Breach — After investigation by the FCAC, it was determined that the complaint did involve a breach of a consumer provision.

Closed — Number of compliance cases investigated by the FCAC and concluded by March 31, 2002.

Non-Adherence — After investigation by the FCAC, it was determined that the complaint was founded and that the actions of the financial institution did not adhere to the terms of the voluntary code of conduct or public commitment.

Non-Breach — After investigation by the FCAC, it was determined that the complaint did not involve a breach of the regulations.

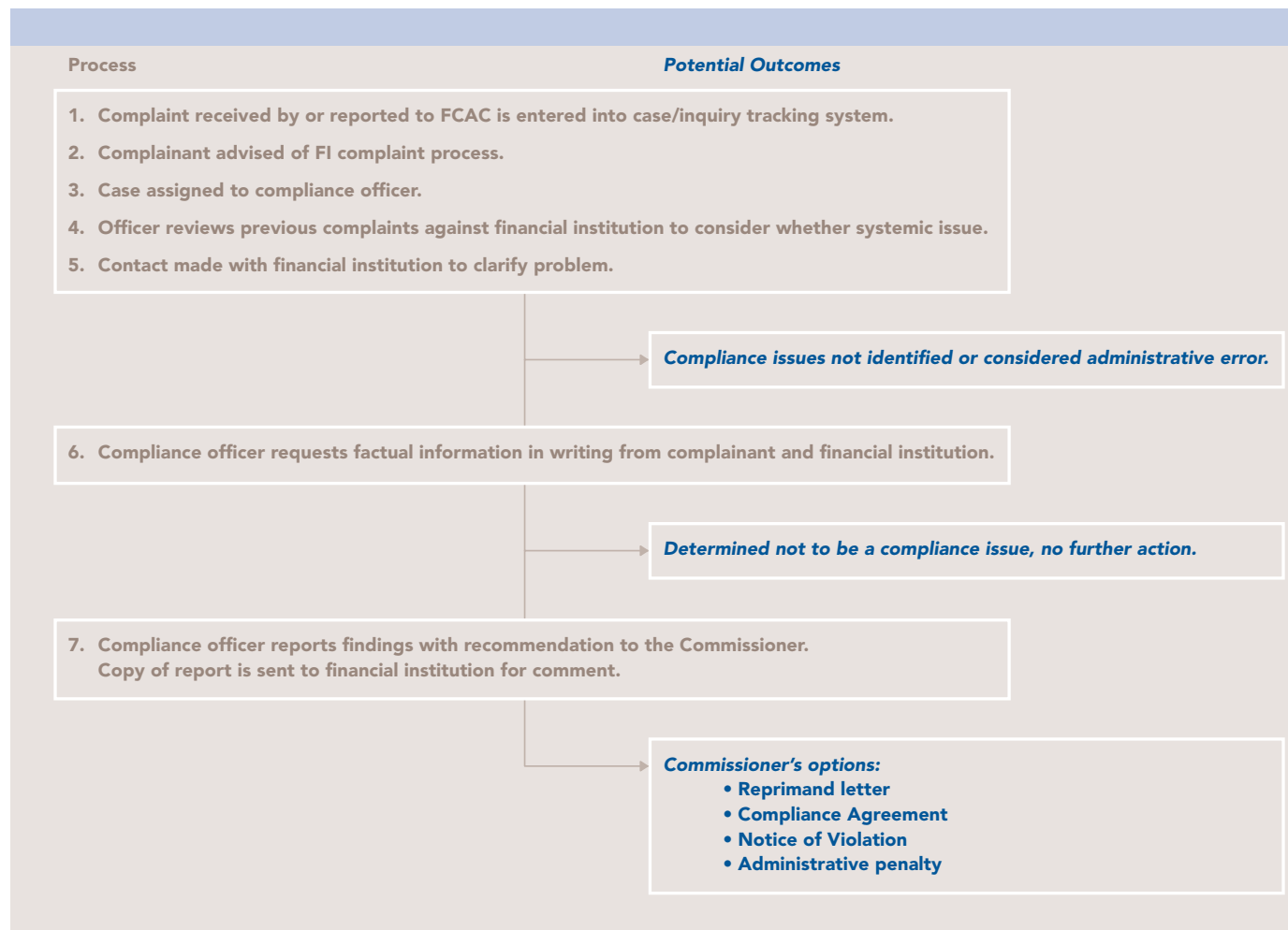
Pending — Number of compliance cases still under investigation by the FCAC as of March 31, 2002.

Received — Number of complaints received and entered into the FCAC's tracking system between October 24, 2001, and March 31, 2002.

Resolved — After investigation by the FCAC, the complaint was resolved by the financial institution to the satisfaction of both the FCAC and the consumer.

Withdrawn — The consumer requested that the FCAC not proceed any further with investigating his/her complaint, or the consumer did not respond to the FCAC's attempts to contact him or her, in order to continue its investigation.

Appendix B: FCAC Case Management Process



Appendix C: Consumer Provisions and Regulations

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

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

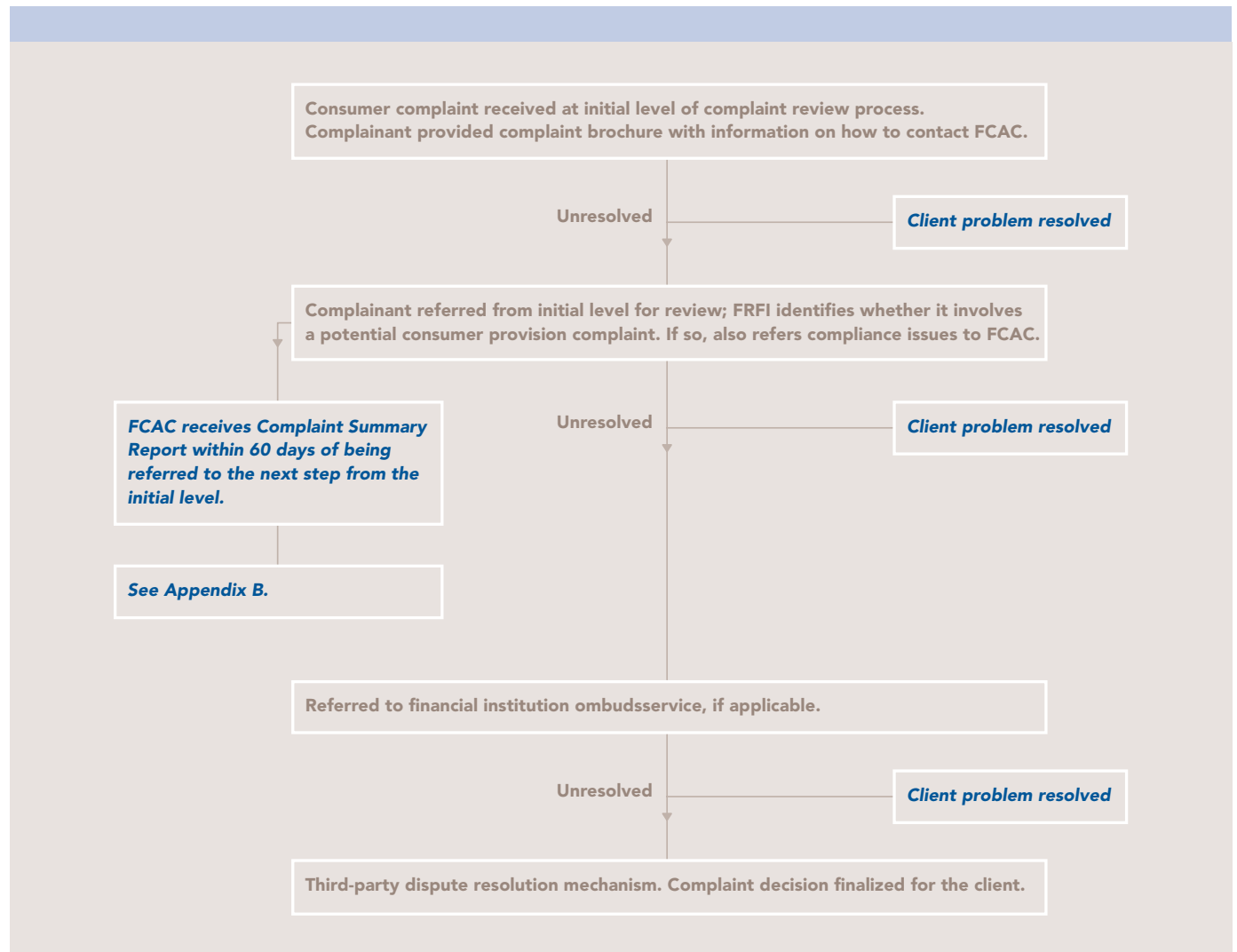
The following table summarizes the legislated consumer provisions that the Agency administers, and the types of federally regulated financial institutions that each provision affects.

| | Banks | Trust and Loan Companies | Insurance Companies | Retail Associations |
|--|-------|--------------------------|---------------------|---------------------|
| Consumer Provisions | | | | |
| Requirement to disclose interest and charges applicable to deposit accounts | X | X | | X |
| Requirement to disclose the cost of borrowing | X | X | X | X |
| Requirement to have procedures for protecting customer information | X | X | X | X |
| Requirement to open retail deposit accounts (not in effect) | X | | | |
| Requirement to offer a standard low-cost account (not in effect)* | X | | | |
| Consumer's right to close a retail deposit account that he or she opened by phone, without charge after 14 days of having opened the account | X | X | | X |
| Prohibition on charging for cashing government cheques | X | X | | X |
| Obligation of institutions to cash government cheques under \$1,500, as specified by regulation (not in effect) | X | | | |
| Requirement for institutions to provide notice before closing a retail branch | X | X | | X |
| Requirement for large institutions (with equity of \$1 billion or more) to file public accountability statements | X | X | X | |
| Requirement for institutions to set up complaint procedures and to file a copy of those procedures with the FCAC | X | X | X | X |
| Requirement for institutions to join a complaint resolution organization | X | X | X | X |
| Restriction on institutions concerning coercive tied selling | X | | | |
| Requirement to provide notice when deposits not CDIC-insured | X | | | |
| Consumers' right to prepay loans | X | X | X | X |
| Requirement for institutions to inform consumers about the FCAC when their complaint involves a consumer provision | X | X | X | X |
| *A Memorandum of Understanding between the Government of Canada and the major banks is in place to offer low-cost accounts. | | | | |
| Other Provisions | | | | |
| Requirement for the FCAC to monitor financial institutions' codes of conduct and public commitments (such as codes dealing with debit cards and with small- and medium-sized businesses) | X | X | X | X |
| Requirement for the FCAC to report annually, in aggregate form, on the number and types of complaints brought to its attention | X | X | X | X |
| Requirement for institutions to provide information to the Commissioner | X | X | X | X |
| Compliance examination and reporting | X | X | X | X |
| Compliance agreements | X | X | X | X |
| Assessments for funding the FCAC | X | X | X | X |
| Designation of contraventions that are subject to administrative penalties | X | X | X | X |

Appendix D: Status of Consumer Provision Regulations as of March 31, 2002

| Name of Regulation | Status | Reference Number |
|---|----------|--|
| Cheque Holding Policy Disclosure (Banks) Regulations | In force | SOR/DORS/2002-39 |
| Complaint Information (Authorized Foreign Banks) Regulations | In force | SOR/DORS/2001-370 |
| Complaint Information (Banks) Regulations | In force | SOR/DORS/2001-371 |
| Complaint Information (Canadian Insurance Companies) Regulations | In force | SOR/DORS/2001-373 |
| Complaint Information (Foreign Insurance Companies) Regulations | In force | SOR/DORS/2001-372 |
| Complaint Information (Retail Associations) Regulations | In force | SOR/DORS/2001-374 |
| Complaint Information (Trust and Loan Companies) Regulations | In force | SOR/DORS/2001-375 |
| Cost of Borrowing (Authorized Foreign Banks) Regulations | In force | SOR/DORS/1999-277 |
| Cost of Borrowing (Banks) Regulations | In force | SOR/DORS/2001-101 |
| Cost of Borrowing (Canadian Insurance Companies) Regulations | In force | SOR/DORS/2001-102 |
| Cost of Borrowing (Foreign Insurance Companies) Regulations | In force | SOR/DORS/2001-103 |
| Cost of Borrowing (Retail Associations) Regulations | Pending | |
| Cost of Borrowing (Trust and Loan Companies) Regulations | In force | SOR/DORS/2001-104 |
| Disclosure of Charges (Authorized Foreign Banks) Regulations | In force | SOR/DORS/99-278 |
| Disclosure of Charges (Banks) Regulations | In force | SOR/DORS/92-324 |
| Disclosure of Charges (Retail Associations) Regulations | Pending | |
| Disclosure of Interest (Authorized Foreign Banks) Regulations | In force | SOR/DORS/1999-272, as amended by SOR/DORS/2001-468 |
| Disclosure of Interest (Banks) Regulations | In force | SOR/DORS/1992-321, as amended by SOR/DORS/2001-469 |
| Disclosure of Interest (Retail Associations) Regulations | Pending | |
| Disclosure of Interest (Trust and Loan Companies) Regulations | In force | SOR/DORS/1992-322, as amended by SOR/DORS/2001-470 |
| Disclosure on Account Opening by Telephone Request (Authorized Foreign Banks) Regulations | In force | SOR/DORS/2001-471 |
| Disclosure on Account Opening by Telephone Request (Banks) Regulations | In force | SOR/DORS/2001-472 |
| Disclosure on Account Opening by Telephone Request (Retail Associations) Regulations | Pending | |
| Disclosure on Account Opening by Telephone Request (Trust and Loan Companies) Regulations | In force | SOR/DORS/2001-473 |
| Financial Consumer Agency of Canada Assessment of Financial Institutions Regulations | In force | SOR/DORS/2001-474 |
| Financial Consumer Agency of Canada Designated Violations Regulations | In force | SOR/DORS/2002-101 |
| Index-linked Deposits Interest Disclosure Regulations | Pending | SOR/DORS/2002-102 (as of March 31, 2002) |
| Notice of Branch Closure (Banks) Regulations | In force | SOR/DORS/2002-104 |
| Notice of Branch Closure (Cooperative Credit Associations) Regulations | In force | SOR/DORS/2002-105 |
| Notice of Branch Closure (Trust and Loan Companies) Regulations | In force | SOR/DORS/2002-106 |
| Public Accountability Statements (Banks, Insurance Companies, Trust and Loan Companies) Regulations | In force | SOR/DORS/2002-133 |

Appendix E: Complaint Handling Process — Federally Regulated Financial Institutions (FRFIs): A Generic Example



Financial information

Financial highlights

Since the Financial Consumer Agency of Canada is a new agency that began operations on October 24, 2001, the following financial statements represent approximately six months of operations, for the fiscal year 2001–02.

The FCAC is funded entirely by assessments paid by federally regulated financial institutions. Since most of the consumer provisions that the Agency oversees relate to banks, banks are assessed more than 90 per cent of the Agency's costs. This is consistent with the fact that 90 per cent of the FCAC's workload originated from complaints by bank customers.

In establishing the FCAC, steps were taken to minimize costs by contracting out services that would be expensive for a small agency to house internally. Therefore, partnerships were formed to enable the provision of the following services by other organizations:

- Human resources and financial administrative services were contracted out to the Office of the Superintendent of Financial Institutions (OSFI).
- Informatics and communication services were contracted out to Public Works and Government Services Canada (PWGSC).
- The call centre (Consumer Contact Centre) management was contracted out to the Canada Deposit Insurance Corporation (CDIC).

These partners have proven experience in providing quality services. By working with OSFI and CDIC, the FCAC is also able to benefit from their knowledge and experience in dealing with the financial sector — whether this involves having access to experienced call centre personnel or making use of established databases to calculate assessments.

As we move forward, we will continue to ensure the effective use of our financial resources, to fulfil our mandate to protect and educate Canadian financial consumers.

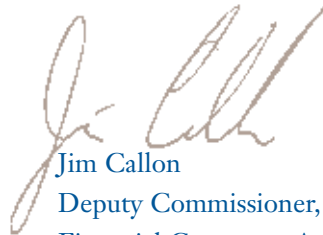
Management responsibility for financial statements

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

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



William G. Knight
Commissioner,
Financial Consumer Agency of Canada



Jim Callon
Deputy Commissioner,
Financial Consumer Agency of Canada

Ottawa, Canada
July 22, 2002

Statement of Financial Position

As at March 31 (unaudited)

2002

ASSETS

Current

| | |
|--------------------------------|----------------------|
| Cash Entitlement | \$ 4,507,326 |
| Outstanding Assessments | 6,829,109 |
| Other Assets | 31,376 |
| Capital Assets (note 5) | 719,088 |
| Total Assets | \$ 12,086,899 |

LIABILITIES

Current Liabilities

| | |
|--|----------------------|
| Accounts Payable and Accrued Liabilities (note 6, 7) | \$ 1,289,067 |
| Unearned Revenue | 3,690,589 |
| Loan Payable (note 6) | 7,000,000 |
| Employee Future Benefits | 107,243 |
| Total Liabilities | \$ 12,086,899 |

Equity of Canada

| | |
|---|----------------------|
| TOTAL LIABILITIES AND EQUITY OF CANADA | \$ 12,086,899 |
|---|----------------------|

Commitments (note 8)

Approved by:



William G. Knight

Commissioner, Financial Consumer Agency of Canada

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

Statement of Operations and Equity of Canada

For the year ended March 31 (unaudited)

2002

REVENUE

| | |
|----------------------|------------------|
| Assessments | \$ 3,297,772 |
| Total Revenue | 3,297,772 |

EXPENSES

| | |
|--|------------------|
| Salaries and Benefits (note 4) | 988,914 |
| Provision for Employee Future Benefits | 107,243 |
| IM/IT Costs (note 7) | 834,796 |
| Professional Services (note 7) | 621,394 |
| Accommodation (note 7, 8) | 522,135 |
| Administration | 223,290 |
| Total Expenses | 3,297,772 |
| Net Operating Results | \$ — |

EQUITY OF CANADA

| | |
|--|-------------|
| Equity of Canada, Beginning of Year | — |
| Equity of Canada, End of Year | \$ — |

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

Statement of Cash Flow

For the year ended March 31 (unaudited)

2002

OPERATING ACTIVITIES

| | |
|---|--------------------|
| Net Operating Results | \$ — |
| Non-cash items included in net operating results | |
| Amortization of Capital Assets | 58,468 |
| Accrued Severance | 107,243 |
| Changes in working capital | |
| Increase in Outstanding Assessments | (6,829,109) |
| Increase in Other Assets | (31,376) |
| Increase in Accounts Payable and Accrued Liabilities | 1,289,067 |
| Increase in Unearned Revenue | 3,690,589 |
| Cash Flow provided by Operating Activities | (1,715,118) |

INVESTING ACTIVITIES

| | |
|--|------------------|
| Acquisition of Capital Assets | (777,556) |
| Cash Flows provided by Investing Activities | (777,556) |

FINANCING ACTIVITIES

| | |
|--|------------------|
| New Borrowings during the year | 7,000,000 |
| Cash Flows provided by Financing Activities | 7,000,000 |

CASH ENTITLEMENT

| | |
|-----------------------------|---------------------|
| Increase during the year | 4,507,326 |
| Balance, Beginning of Year | — |
| Balance, End of Year | \$ 4,507,326 |

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

Notes to the Financial Statements

For the year ended March 31, 2002 (unaudited)

1. Authority and Objectives

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

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

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

Section 18(3) of the FCAC Act provides that the Agency's costs of operations are to be assessed to the industry. FCAC's operations are entirely funded through this process. No annual parliamentary appropriations are received by the Agency and the Government of Canada made no initial investment in the Agency at start-up.

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

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

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Readers of these statements are cautioned that these statements include assets and liabilities, together with expenses, which are not commonly recorded at the departmental level at this time. The introduction of accrual accounting at the department level is evolutionary; however, since the Agency is entirely dependent on its assessments of financial institutions to fund its costs of operations, all costs, including those in relation to employee future benefits, as well as cash collected from regulated financial institutions, are recorded and presented in the Agency's departmental statements.

(b) Revenue Recognition

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

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

(c) Employee Future Benefits

(i) Pension Benefits

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

(ii) Severance Benefits

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

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

(d) Cash Entitlement

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

(e) Outstanding Assessments

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

(f) Capital Assets

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

| Asset Class | Amortization period |
|------------------------|--|
| Office equipment | 4 years |
| Furniture and fixtures | 7 years |
| Informatics hardware | 3 years |
| Informatics software | 5 years |
| Leasehold improvements | lesser of useful life or term of the lease |

3. Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant item involving the use of estimates and assumptions is the Agency's allowance for Employee Future Benefits. This liability was actuarially determined.

4. Benefits

FCAC recognized benefit costs in the amount of \$148,642 during the year in respect of employee benefits using a contribution rate of approximately 27 per cent. The majority of this amount was in respect of pension benefits for employee participation in the Public Service Superannuation Plan.

5. Capital Assets

| Category | Opening Balance | Additions | Opening Accumulated Amortization | Amortization Expense | Closing Accumulated Amortization | Closing Balance |
|------------------------|-----------------|-------------------|----------------------------------|----------------------|----------------------------------|-------------------|
| Leasehold improvements | — | \$ 361,654 | — | \$ 33,898 | \$ 33,898 | \$ 327,756 |
| Furniture and fixtures | — | 362,907 | — | 21,602 | 21,602 | 341,305 |
| Office equipment | — | 36,845 | — | 1,198 | 1,198 | 35,647 |
| Informatics Hardware | — | 7,650 | — | 1,062 | 1,062 | 6,588 |
| Informatics Software | — | 8,500 | — | 708 | 708 | 7,792 |
| Total | — | \$ 777,556 | — | \$ 58,468 | \$ 58,468 | \$ 719,088 |

6. Loan Payable

FCAC funded its ongoing operations with cash received from the Consolidated Revenue Fund under a six-month borrowing agreement with the Department of Finance. The terms and conditions of the loan agreement are as follows:

| | |
|-------------------|--------------|
| Principal amount: | \$7,000,000 |
| Maturity date: | May 19, 2002 |
| Interest rate: | 2.39% |

Interest is due upon maturity and is recorded in Accounts Payable and Accrued Liabilities.

7. Related party transactions

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

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

FCAC also enters into transactions with additional government entities in the normal course of business and on normal trade terms applicable to all individuals and enterprises. The details of these transactions are not set out below.

The following table summarizes the impact of the Agency's significant related party transactions for the year on total expenses. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

| Expenses | 2002 |
|--|-------------|
| PWGSC — Informatics and Communication Services | \$ 700,000 |
| PWGSC — Accommodation | \$ 450,849 |
| CDIC — Call Centre Administration | \$ 134,576 |
| OSFI — Human Resources Services | \$ 182,131 |
| OSFI — Financial Services | \$ 53,287 |

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

| Accounts Payable | 2002 |
|--|-------------|
| PWGSC — Informatics and Communication Services | \$ 700,000 |
| PWGSC — Accommodation | — |
| CDIC — Call Centre Administration | \$ 66,307 |
| OSFI — Human Resources Services | — |
| OSFI — Financial Services | — |

8. Commitments

Future minimum lease payments for the remaining term of the Agency's lease for office space are outlined below.

| Year ending March 31 | Amount |
|-----------------------------|---------------|
| 2003 | \$ 284,793 |
| 2004 | \$ 284,793 |
| 2005 | \$ 284,793 |
| 2006 | \$ 284,793 |

9. Comparative Figures

Fiscal year 2001-02 represents the Agency's first year of operations. As a result, no comparative figures are presented.