



Office of the Superintendent of Financial Institutions Canada

Budget des dépenses
1997-1998

Partie III

Plan de dépenses

The Estimates Documents

The Estimates of the Government of Canada are structured in three Parts. Beginning with an overview of total government spending in Part I, the documents become increasingly more specific. Part II outlines spending according to departments, agencies and programs and contains the proposed wording of the conditions governing spending which Parliament will be asked to approve. The Part III documents provide additional detail on each department and its programs primarily in terms of the results expected for the money spent.

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Office of the Superintendent of Financial Institutions Canada

1997-98
Estimates

Part III

Expenditure Plan

Approved

Secretary of State
(International Financial Institutions) Finance

Preface

This document is a report to Parliament to indicate how the resources voted by Parliament have been or will be spent. It is an accountability document that contains several levels of detail to respond to various reader needs.

The Part III for 1997-98 is based on a revised format intended to make a clear separation between planning and performance information, and to focus on the higher level, longer term departmental plans and performance.

The document is divided into four sections:

- The Minister's Executive Summary;
- Departmental Plan;
- Departmental Performance; and
- Supplementary Information.

It should be noted that, in accordance with Operating Budget principles, human resource consumption reported in this document will be stated in terms of employee full-time equivalents (FTEs).

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I The Minister's Executive Summary

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

In addition to its regulatory work, OSFI must identify and assess the emerging risks created by changing technological and market conditions and is required to formulate regulatory strategies to respond to the most important risk factors. Meeting these challenges requires OSFI to enhance its training program to develop the necessary expertise.

In the past, OSFI lacked performance standards and measures to gauge its success in achieving its objectives. Assisted by a new mandate that formed part of Bill C-15, development of these standards and measures began in 1996-97. The process of testing and refinement will continue during the next three years.

OSFI also provides actuarial and other services to the Canadian Government; this activity is unrelated, however, to its supervisory mandate. OSFI is reviewing where best to locate this activity and recommendations for organizational changes may follow. These services are funded by appropriation and recoveries from the Canada Pension Plan.

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

II Departmental Plans

A. Departmental Overview

1. Roles and Responsibilities

The Office of the Superintendent of Financial Institutions (OSFI), established by an Act of Parliament in 1987, is responsible for regulating and supervising banks, insurance, trust, loan and cooperative credit societies that are licensed or registered by the federal government, and for supervising federally regulated private sector pension plans. OSFI also has specific responsibility under various acts for providing actuarial and other services to the Government of Canada.

Under Bill C-15 (assented to in May 1996) OSFI was given specific responsibilities for contributing to public confidence in Canada's financial system and for minimizing losses to policyholders, depositors and creditors of financial institutions.

2. Program Composition

OSFI supervises about 520 financial institutions and 1,100 pension plans. The pension plans are employer-sponsored plans that are subject to provisions of the Pension Benefits Standards Act, 1985. In addition, on a cost-recovery basis, OSFI carries out reviews of certain provincially chartered institutions through federal-provincial agreements or as an agent of the Canada Deposit Insurance Corporation. By virtue of these relationships, OSFI examines 24 institutions.

OSFI prepares actuarial reports pursuant to the Public Pensions Reporting Act and the Canada Pension Plan and various other statutory reports on government pension and insurance programs. Furthermore, OSFI is responsible for collecting tax under Part I of the Excise Tax Act and administer an insurance plan under the Civil Service Insurance Act.

3. Organization

OSFI is composed of three sectors: the Operations, Policy and Corporate Services Sectors. The head office is in Ottawa while examinations for all institutions are managed from offices in Toronto, Montreal, Vancouver, and Winnipeg.

The Operations Sector supervises financial institutions including banks, trust, loan and insurance companies as well as co-operative credit and fraternal benefit societies. It also supervises private pension plans and provides actuarial and other services to the government.

The Policy Sector is responsible for formulating policies, developing regulations, providing input to legislative initiatives, and researching and reviewing complex requests from institutions in order to advise Ministers with respect to their rulings.

The Corporate Services Sector provides services to support the implementation of OSFI objectives. They include: financial, human resource, information systems, professional development and internal communication. It also administers Part I of the Excise Tax Act and the Civil Service Insurance Act.

4. Objectives

The OSFI mission statement identifies five objectives. They are:

- Safeguard from undue loss - Identify institution specific risks and trends, and intervene in a timely manner so as to minimize losses to policyholders, depositors and pension plan members.
- Public Confidence - Contribute to public confidence by enhancing the safety and soundness of the Canadian financial system, including the evaluation of system wide risks and the promotion of sound business and financial practices.
- Quality - Improve the knowledge and skills of OSFI employees and the quality of processes and systems to meet the challenges of a rapidly changing environment.
- Cost Effectiveness - Maintain full and open dialogue with stakeholders on the costs and benefits of work undertaken.
- Competition - Fulfil OSFI's regulatory mandate having due regard to the need to allow institutions to compete effectively.

5. Resource Plans

The supervision of financial institutions and private pension plans activity is 100% funded by recoveries, which include financial institution assessments, pension plan fees, and receipts for services rendered from Canada Deposit Insurance Corporation (CDIC) and provincial governments. During 1997-98, \$43.3 million and 413 FTEs will be devoted to this activity. Included in this amount is \$2.6 million representing the costs related to the Superintendent's role as liquidator of certain failed property and casualty insurance companies.

The actuarial and other services activity is funded in a different manner. OSFI provides actuarial calculations and other services to Canada Pension Plan (CPP) and this cost is fully recoverable from CPP. OSFI also receives a small appropriation from parliament to fund other responsibilities, including the provision of actuarial services for other public pension plans, as well as the administration of Part I of the Excise Tax Act and the Civil Service Insurance Act. In 1997-98, OSFI expects to devote \$3 million and 16 FTEs to this activity and will recover \$1.3 million from CPP. Funding of the \$1.7 million difference will be provided through parliamentary appropriation.

Authorities for 1997-98 - Part II of the Estimates

Financial Requirements by Authority

Vote	(thousands of dollars)	1997-98 Main Estimates	1996-97 Main Estimates
Office of the Superintendent of Financial Institutions			
40	Program Expenditures	1,687	2,538
	Total Agency	1,687	2,538

Votes - Wording and Amounts

Vote	(dollars)	1997-98 Main Estimates
Office of the Superintendent of Financial Institutions		
40	Office of the Superintendent of Financial Institutions - Program expenditures	1,687,000

B. Supervision of Financial Institutions and Private Pension Plans

1. Objective

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

2. Operating Context

Financial institutions operate in an environment of increased profitability. However, returns on investment of some institutions are lower than might be expected at the top of the economic cycle, raising questions about longer term profitability. Competition in the financial market continues to intensify. This is evidenced by struggles for market share in the traditional product areas, with implications for quality and margins, as well as continuing diversification into new products and services where financial institutions may have less experience. The introduction of new products and services such as computer banking, virtual banking, smart cards, stored value cards, etc. raises issues of privacy of customer information, jurisdiction over financial contracts, security, disaster planning and business interruption.

Globalization is another force affecting financial institutions. Increasingly, Canadian users of financial products and services look to service providers outside Canada. On the other hand, Canadian financial institutions, particularly in the banking and life insurance fields, continue to expand internationally. Globalization requires countries to harmonize and co-ordinate their supervisory activities. OSFI has been actively participating in international committees that are seeking to achieve this objective.

OSFI operates in an environment of financial restraint, with government and financial institutions under pressure to reduce cost. In spite of the increased workload related to new risk and industry changes, OSFI is committed to cost control. As well, suggestions that the existing assessment methods are inequitable are prompting regulatory changes.

Parliament and the regulated financial institutions are increasingly demanding performance standards and measures that will gauge the cost effectiveness of OSFI programs. These standards and measures are also important for internal planning purposes.

3. Key Initiatives

a. Development of an Accountability Framework

OSFI formulated its mission statement and objectives in 1996-97. OSFI expects to complete the development of related performance standards and measures within the next three years. As well, each organizational unit in OSFI will develop goals directly linked to OSFI's mission and strategic objectives.

b. Identification of and Response to Emerging Risks

OSFI will identify and assess key issues and risks with the help of industry members, practitioners and other knowledgeable individuals and organizations. This process will facilitate the formulation of a useful and timely policy response in key areas. OSFI is also developing a conceptual framework for identifying regulatory and supervisory risks that may result from the increased use of technology. This conceptual framework will lead to additional study and work in key areas of concern to OSFI.

OSFI will modify and enhance supervisory and regulatory strategies to respond to emerging risks. This will include changes to supervisory activities such as increased examination frequency, further development of a risk-based supervisory approach, and further development of OSFI's Guide to Intervention for federal and provincial institutions.

c. Legislative Changes

Prior to 1992, financial institutions legislation, including the Bank Act, the Insurance Companies Act, the Co-operative Credit Associations Act and the Trust and Loan Companies Act, was reviewed once every ten years. Due to rapid changes within the industry, legislative reviews are now ongoing and OSFI plans to update these Acts. The main thrust of these changes will be to ease the regulatory burden on financial institutions by modifying the minority investment regulations and the related party requirements and by developing a foreign bank entry regime.

As well, OSFI is reviewing the Pension Benefits Standards Act. Proposed amendments will, among other things, clarify OSFI's mandate concerning pension plans, enhance the powers of the Superintendent and increase emphasis on plan governance and the development of sound investment policies. Enabling legislation, led by OSFI, is expected to be introduced in early 1997, followed by the release of key regulations and guidelines for consultation during the same year.

d. Professional Development

The Training Needs Analysis completed in 1996-97 will lead to enhanced technical training and strategic learning that will equip our staff with the knowledge and skill needed to identify and deal with emerging risks and will improve their leadership and communication skills. The Professional Development and Training Division will work closely with the Policy, Operations and Corporate Services Sectors to identify a range of professional development activities. As well, a self-learning centre that employees can access electronically will be established.

e. Co-ordination Among OSFI and Other Regulatory Bodies

In 1997-98, OSFI will continue to participate in various fora including securities regulators, industry representatives and self regulatory bodies, such as CDIC, the provincial regulators, the Basle Committee of the Bank of International Settlements, the International Organization of Securities Commissioners, and the Joint Forum of Banking, Securities and Insurance Supervisors.

During the same year, OSFI will make special efforts to regularize and enhance the effectiveness of its relationships with supervisors in other jurisdictions, especially where Canadian financial institutions have significant operations or where financial institutions from those jurisdictions have important subsidiary or branch operations supervised by OSFI in Canada. Memoranda of Understanding are expected to be implemented with some key supervisors. In other cases, mechanisms for enhancing supervisory co-operation and co-ordination will be reviewed and implemented, where appropriate.

f. Universal Classification

OSFI is currently developing a Universal Classification Standard which will apply to all positions. This initiative is part of OSFI's intention to create a new flexible, affordable human resource framework that is responsive to management and employee needs. The cost of conversion is estimated to be between 1.5% to 3.5% of gross salary.

g. Cost Control and the User Pay Concept of Assessment

Although workload is increasing due to policy development, legislative changes and more frequent examinations, OSFI has pledged to work with industry associations to control costs. The Corporate Services Sector is undergoing a comprehensive program review with the goal of reducing its costs by 15% over three years. It is expected that part of the savings will be achieved through a 10% reduction in accommodation requirements during the same period. The Policy and Operations Sectors are also adopting stringent cost control measures.

Industries are demanding a more equitable method to assess the cost of supervision. Currently, supervisory costs for each industry are based on net assets or premium irrespective of the

amount of work done for each institution. OSFI has responded to the demand for reform by creating a task force to develop a modified user pay method for assessment to be implemented in 1997-98. An interim report will be issued to industry associations in early 1997.

C. Provision of Actuarial and Other Services

1. Objective

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

2. Operating Context

Unlike OSFI's regulatory and supervisory services, actuarial services are funded by parliament and by recoveries from the Canada Pension Plan. In 1996, the Pension Advice Section was relocated from OSFI to Revenue Canada. The reason was that this Section's mandate was distinct from OSFI's and related essentially to income tax legislation.

3. Key Initiatives

a. Program Review

OSFI has the capabilities to provide actuarial advice and services to the government. These activities are, however, outside OSFI's core regulatory and supervisory mandate. A review is currently underway to determine where this activity would be best located.

b. Further Development of a Micro-Simulated CPP Policy Model

This project was initiated about three years ago at the request of CPP and will continue into 1997-98. The purpose of the model is to determine the impact on individuals of proposals once estimated in aggregate by actuarial valuation model. The contemplated development concerns mainly the interaction of the CPP with the private and public pension plans as well as with income taxes and other items of personal wealth.

III Departmental Performance

A. Supervision of Financial Institutions and Private Pension Plans

1. Accountability Framework

Work on the development of an OSFI mission statement and objectives began in the fall of 1995 with the creation of a task force to solicit input from OSFI employees. This group was also mandated to develop the performance standards. During a management retreat in November, the Management Committee adopted eight standards in principle. However, further refinement is necessary before they are implemented. Full implementation will take place within two to three years.

2. Passage of Bill C-15

In February 1995, the Secretary of State (International Financial Institutions) released a White Paper entitled "Enhancing the Safety and Soundness of the Canadian Financial System" which proposed changes to the supervisory and regulatory framework for federally-regulated financial institutions. Bill C-15, containing the enabling legislation, came into force during June and July of 1996. This bill provides OSFI with a legislated mandate and permits the Superintendent to take control of institutions before their capital is fully depleted. As well, this bill prohibits certain non financial institutions from using misleading terms such as "lifeco" or "trustco"; provides the Superintendent with the authority to veto appointment of directors and senior officers of problem financial institutions; and provides the legislative basis for disclosure of financial condition information by the Superintendent and by institutions themselves.

3. Proposed Revisions to the Pension Benefits Standards Act, 1985

In July 1996, the Secretary of State (International Financial Institutions) released a White Paper entitled "Enhancing the Supervision of Pension Plans under the Pension Benefits Standards Act, 1985". The Paper proposed a number of changes similar to those in Bill C-15. They include the clarification of OSFI's mandate concerning private pension plans, enhancing the Superintendent's powers and increasing the emphasis on plan governance and the development of sound investment policies. Enabling legislation, promoted by OSFI, is expected to be introduced early in 1997.

4. Other Legislative Changes

Financial institutions legislation, like the Bank Act, the Insurance Companies Act, the Co-operative Credit Associations Act and the Trust and Loan Companies Act, is reviewed and amended periodically. The next amendment will take place in 1997. The Legislation Proposals for Change was published in June of 1996. Our efforts have been focused on easing the regulatory burden on financial institutions through measures such as modifying the minority investment regulations and the related party requirements, and the development of a foreign bank entry regime.

5. Emerging Risks

An internal task force, involving participation of staff from both the Policy and Operations sectors, was established in 1996 to identify, assess and prioritize the key risks and issues facing

federally-regulated financial institutions. The findings of the task force will be considered during OSFI's ongoing planning processes.

Over the course of 1996, the task force completed the first phase of its work. On an ongoing basis, it will continue as a standing committee to assess the relevance of, and progress on, issues that have been identified and new issues that may emerge.

6. Co-ordination With Other Regulatory Bodies

During the past two years, efforts to improve co-operation and co-ordination between CDIC and OSFI have brought concrete results. An OSFI-CDIC Liaison Committee meets regularly to improve data gathering and the sharing of information. As well, the two agencies worked together to develop the Standards of Sound Business and Financial Practices, and co-operate on the Standards Assessment Reporting Program (SARP).

On the international front, OSFI continues to participate in the work of the Basle Committee of the Bank for International Settlements (BIS) involving market, settlement and interest rate risks. OSFI negotiated the January 1996 amendments to the BIS Capital Accord that will require minimum capital levels for internationally active banks exposed to the above-mentioned risks. The "Market Risk and BIS Group", a multi-disciplinary OSFI team, was formed in 1996 to implement amendments to the BIS Capital Accord.

7. Professional Development

A Professional Development and Training Division was recently established to manage OSFI's ongoing training program. An annual budget equal to three percent of the salary budget was set aside to fund this initiative. During 1996-97, a "Training Needs Analysis" was completed to identify the core competencies of certain OSFI positions. This analysis led to the identification of a range of professional development activities designed to prepare our staff for the new market environment.

8. Cost Control and Modified User Pay Concept of Assessment

During 1995 and 1996, the Corporate Services Sector initiated a comprehensive program review with the goal of reducing costs by 15 % over three years. The Policy and Operations sectors are also adopting stringent cost control measures. The Superintendent and the Assistant Superintendent, Corporate Services, met with various industry associations to explain cost fluctuations, discuss cost forecast and to obtain industry opinion and ideas on these issues.

In response to industry demand for a more equitable method of assessment, a "User Pay Task Force" was created in 1996-97 to examine a modified user pay approach to assessment. This group has reviewed the current assessment methods and researched the systems used by other regulatory bodies. An interim progress report will be issued to industry associations in early 1997.

B. Provision of Actuarial and Other Services

1. Relocation of Pension Advice Unit

As stated earlier, the Pension Advice Section was relocated to Revenue Canada in 1996 because its mandate was different from OSFI's and related to income tax legislation.

2. Development of a CPP Policy Model

This project was initiated about three years ago at the request of CPP. Known as DYNACAN, this model is a microsimulated distributional projection prototype system designed to assess CPP social policy-related issues quickly. The projection done on an individual basis is consistent with the aggregate financial projections of CPP statutory actuarial reports.

3. Service Improvement

A new procedure implemented in 1996-97 reduced the time period required to prepare actuarial reports to the relevant designated Ministers from 18 to 6 months. As well, pursuant to Bill C-55, OSFI has increased the type and volume of non-statutory actuarial services provided to various sponsors of public sector pension plans.

Departmental Appropriated Planned and Actual Spending

(thousands of dollars)	Actuals 1993-94	Actuals 1994-95	Main Estimates 1995-96	Actuals 1995-96
Activity				
Supervision of Financial Institutions and Private Pension Plans	0	0	0	0
Actuarial and Other Services to the Government of Canada	2,446	2,495	2,543	2,605
Total	2,446	2,495	2,543	2,605

IV Supplementary Information

A. Resource Requirements by Activity (\$000)

	1997-98 Main Estimates		
	Activities		
	Supervision of Financial Institutions and Private Pension Plans	Actuarial and Other Services to the Government of Canada	Total
Office of the Superintendent of Financial Institutions	0	1,687	1,687

B. Summary by Professional Category (FTEs)

	Actuals 1994-95	Actuals 1995-96	1996-97 Estimates	1997-98 Estimates	1998-99 Planned	1999-00 Planned
Order-In-Council Appointments	3	3	1	1	1	1
Executive Group	25	27	26	26	26	26
Scientific and Professional	33	33	38	38	38	38
Administrative and Foreign Service	263	268	281	281	281	281
Administrative Support	81	81	83	83	83	83
Total	405	412	429	429	429	429

C. Revenues and Expenditures

Gross and Net Departmental Expenditures by Activity (\$000)

	Main Estimates 1996-97	Main Estimates 1997-98	Planned 1998-99	Planned 1999-00
Gross Expenditures by Activities				
Supervision of Financial Institutions and Private Pension Plans	38,718	43,316	43,139	43,077
Actuarial and Other Services to the Government of Canada	3,974	2,988	3,081	3,143
Total Gross Expenditures	42,692	46,304	46,220	46,220
Less : Revenue Credited to the Vote	40,154	44,617	44,529	44,529
Total Net Expenditures	2,538	1,687	1,691	1,691

D. Revenues and Expenditures

Details of Revenues by Activity (\$000)

	Actuals 1994-95	Actuals 1995-96	1996-97 Estimates	1997-98 Estimates	1998-99 Planned	1999-00 Planned
Revenue Credited to the Vote by Activities						
<i>Supervision</i>						
Financial Institutions	37,143	32,183	35,499	40,216	40,039	40,004
Pension Plans	2,911	2,774	2,918	3,000	3,000	3,000
<i>Services</i>						
Canada Deposit Insurance Corporation	433	153	301	100	100	100
Canada Pension Plan	900	1,311	1,436	1,301	1,390	1,425
<i>Other</i>	216	60	0	0	0	0
Total Credited to the Vote	41,603	36,481	40,154	44,617	44,529	44,529
Revenue Credited to the Consolidated Revenue Fund						
<i>Tax Revenue - Excise Tax Act (Part I) *</i>	473	982	1,000	1,000	1,000	1,000
Total Program Revenues	42,076	37,463	41,154	45,617	45,529	45,529

* Under Part I of the Excise Tax Act, a 10% premium is imposed on certain insurance premiums paid by residents of Canada to unauthorized insurers or to authorized insurers through brokers or agents outside Canada.

E. Presentation by Standard Object (\$000)

	Actuals 1994-95	Actuals 1995-96	1996-97 Estimates	1997-98 Estimates	1998-99 Planned	1999-00 Planned
<i>Personnel</i>						
Salaries and Wages	23,304	23,798	23,976	24,439		
Contributions to employee benefit plans	2,902	2,869	3,477	4,120		
Other personnel costs	890	1,261	1,391	1,381		
	27,096	27,928	28,844	29,940	30,838	31,763
<i>Goods and services</i>						
Transportation and communications	1,673	1,763	1,647	2,388		
Information	577	572	576	395		
Professional and special services	8,069	5,934	7,993	9,021		
Rentals	2,158	2,314	2,129	2,447		
Purchased repair and maintenance	318	339	308	452		
Utilities, materials and supplies	669	760	656	378		
Other subsidies and payments	86	20	80	86		
<i>Capital</i>	1,212	1,058	459	1,197		
	14,762	12,760	13,848	16,364	15,382	14,484
<i>Gross expenditures*</i>	41,858	40,688	42,692	46,304	46,220	46,247
Less:						
Revenue Credited to the Vote	41,603	36,481	40,154	44,617	44,529	44,529
<i>Net budgetary expenditures (surplus)</i>	255	4,207	2,538	1,687	1,691	1,718

* Does not include the adjustments for the Civil Service Insurance actuarial liability of \$333,525 in 1994-95 and \$313,266 in 1995-96.

F. List of Contingent Liabilities

As at March 31, 1995, contingent liabilities estimated at \$22.5 million were outstanding against the Office of the Superintendent of Financial Institutions.

- \$2.5 million relate to a claim for loss of property from Scottish and York Insurance Company and Victoria Insurance Company Limited, reinsurers of Security Casualty Company.
- \$20.0 million relate to two Third Party claims for contribution and indemnity of any amounts owing by certain former Directors of Northland Bank to the Canada Deposit Insurance Corporation and Her Majesty the Queen in right of Canada, as represented by the Minister of Finance (\$10.0 million) and to the Northland Bank and Deloitte & Touche Inc. (\$10.0 million) in connection with the failure of Northland Bank.

While these cases are in various stages of litigation, it is not the policy of the Office of the Superintendent of Financial Institutions to comment on them. They must, however, be recognized as potential liabilities against the Crown and are, therefore, presented for information purposes only.

G. References

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* A charge for publications may apply.