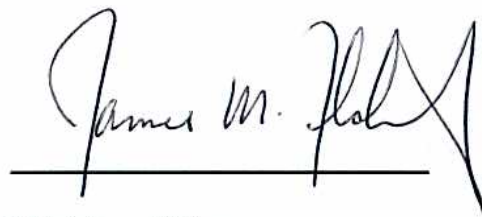




Office of the Superintendent of Financial Institutions Canada

2007-2008 to 2009-2010

Report on Plans and Priorities



Minister of Finance



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SECTION I
OVERVIEW

Message from the Acting Superintendent



I am pleased to present the Report on Plans and Priorities (RPP) for the Office of the Superintendent of Financial Institutions (OSFI) for the years 2007-2008 to 2009-2010.

Canada possesses one of the strongest financial systems in the world, which contributes to the strength and innovation of our economy, and protects the savings of individual Canadians.

However, the domestic and international environments are fluid. Maintaining high confidence in the safety of money entrusted to Canadian financial institutions and remaining a world-class prudential regulator with a modern supervisory system figure prominently in OSFI's plans and priorities.

OSFI's plans and priorities support our strategic outcomes of contributing to public confidence in Canada's financial system and in Canada's public retirement system. These outcomes are intrinsically aligned with broader government outcomes, specifically strong economic growth, income security for Canadians, and a safe and secure world through international cooperation.

OSFI is the primary regulator and supervisor of about 450 federally registered financial institutions, as well as some 1,300 federally regulated private pension plans. Effective mechanisms for evaluating risks, programs to promote sound business and financial practices, and the capacity to intervene early to avoid or minimize prudential problems will continue to be the key ingredients of OSFI's regulatory and supervisory approach. These activities and programs to enhance the safety and soundness of financial institutions and pension plans are essential to enabling strong economic growth.

OSFI's activities and programs to enhance the safety and soundness of financial institutions and pension plans are essential to enabling strong economic growth.

Financial institutions operate in an increasingly complex, international environment. There is greater interest in increased cross-border cooperation, and OSFI will continue to develop relationships with foreign regulators to promote consistency and facilitate mutual reliance. Through guidance and the supervisory review of financial institution programs to comply with anti-money laundering and anti-terrorism financing requirements, OSFI supports the government's priority for a safe and secure world through international cooperation.

The regulatory and legal environments are changing rapidly as institutions are faced with new accounting standards and the implementation of Basel II. Basel II is an international framework for a new set of standards for minimum capital requirements for banking organizations, which Canadian banks will implement in November 2007.

Canadian banks and OSFI are well advanced with implementation efforts, but continued focus and ongoing work will be required over the next few years.

Through guidance and the supervisory review of financial institution programs to comply with anti-money laundering and anti-terrorism financing requirements, OSFI supports the government's priority for a safe and secure world through international cooperation.

The Canadian Accounting Standards Board is adopting International Financial Reporting Standards (IFRS) over the next five years. This will have an impact on both OSFI, as it relies on audited financial information, and the institutions it regulates. The areas that most impact our institutions are insurance, consolidation, business combinations, pensions, revenue recognition and measurement of fair value. The assessment of the impact and the implementation of IFRS is a key priority for the planning period.

Financial and economic conditions continue to create a challenging environment for the pension industry. Long-term interest rates remain low. The Canadian pension environment is increasingly litigious. OSFI will continue to monitor court decisions affecting pension plans to assess the implications on federally regulated pension plans and take action where required. In addition, OSFI will focus on process improvements with respect to federally regulated private pension plans.

While the current environment has been favourable for financial institutions, problems can develop quickly if they become complacent in the application of sound criteria used in their investment and lending activities. To meet its mandate OSFI needs to be fully prepared to identify and deal with problem institutions, particularly small ones. For larger institutions, OSFI will emphasize financial institutions' stress testing capabilities. This is part of OSFI's day-to-day work, however, more focus will be placed in this area.

To ensure that OSFI is able to respond adequately to shocks to the economy as a result of a crisis or pandemic, it will conduct exercises in crisis planning and business resumption planning. OSFI is also planning its own response to a pandemic, as well as reviewing financial institutions preparedness for a pandemic.

As a separate unit within OSFI, the Office of the Chief Actuary (OCA) provides actuarial and other services to the federal government. The OCA provides appropriate checks and balances on the future costs of the different pension plans and social programs that fall under its responsibilities. The ongoing work of the OCA will help to ensure that Canada's public pensions system continues to support the government's outcome of income security for Canadians.

The ongoing work of the Office of the Chief Actuary will help to ensure that Canada's public pensions system continues to support the government's outcome of income security for Canadians.

OSFI's activities will continue to form part of a modern infrastructure that supports Canada's financial system and economy. The vitality of both is essential to improving the quality of life for all Canadians, which is the Government of Canada's enduring priority.

Management Representation Statement

I submit for tabling in Parliament, the 2007-2008 Report on Plans and Priorities for the Office of the Superintendent of Financial Institutions (OSFI).

This document has been prepared based on the reporting principles contained in the *Guide for the Preparation of Part III of the 2007-2008 Estimates: Reports on Plans and Priorities and Departmental Performance Reports*:

- It adheres to the specific reporting requirements outlined in the Treasury Board Secretariat guidance;
- It is based on OSFI's Strategic Outcomes and Program Activity Architecture that were approved by the Treasury Board;
- It presents consistent, comprehensive, balanced and reliable information;
- It provides a basis of accountability for the results achieved with the resources and authorities entrusted to it; and
- It reports finances based on approved planned spending numbers from the Treasury Board Secretariat in the RPP.



Julie Dickson
Acting Superintendent

Summary Information

OSFI's Raison d'être

Mandate

OSFI's legislated mandate was established in 1996 and changes are not expected in the 2007-2010 planning period. Under the legislation, OSFI's mandate is to:

- Supervise federally regulated financial institutions and private pension plans to determine whether they are in sound financial condition and meeting minimum plan funding requirements respectively, and are complying with their governing law and supervisory requirements;
- Promptly advise institutions and plans in the event there are material deficiencies and take, or require management, boards or plan administrators to take, necessary corrective measures expeditiously;
- Advance and administer a regulatory framework that promotes the adoption of policies and procedures designed to control and manage risk;
- Monitor and evaluate system-wide or sectoral issues that may impact institutions negatively.

In meeting this mandate, OSFI contributes to public confidence in the financial system.

OSFI's legislation also acknowledges the need to allow institutions to compete effectively and take reasonable risks. It recognizes that management, boards of directors and plan administrators are ultimately responsible and that financial institutions and pension plans can fail.

The Office of the Chief Actuary (OCA), which is part of OSFI, provides actuarial services to the Government of Canada.

Strategic Outcomes

Primary to OSFI's mission and central to its contribution to Canada's financial system are two strategic outcomes:

1. *To regulate and supervise to contribute to public confidence in Canada's financial system and safeguard from undue loss.* OSFI safeguards depositors, policyholders and private pension plan members by enhancing the safety and soundness of federally regulated financial institutions and private pension plans.
2. *To contribute to public confidence in Canada's public retirement income system.* This is achieved through the activities of the Office of the Chief Actuary, which provides high-quality, timely advice on the state of various public pension plans and on the financial implications of options being considered by policy makers.

Resources

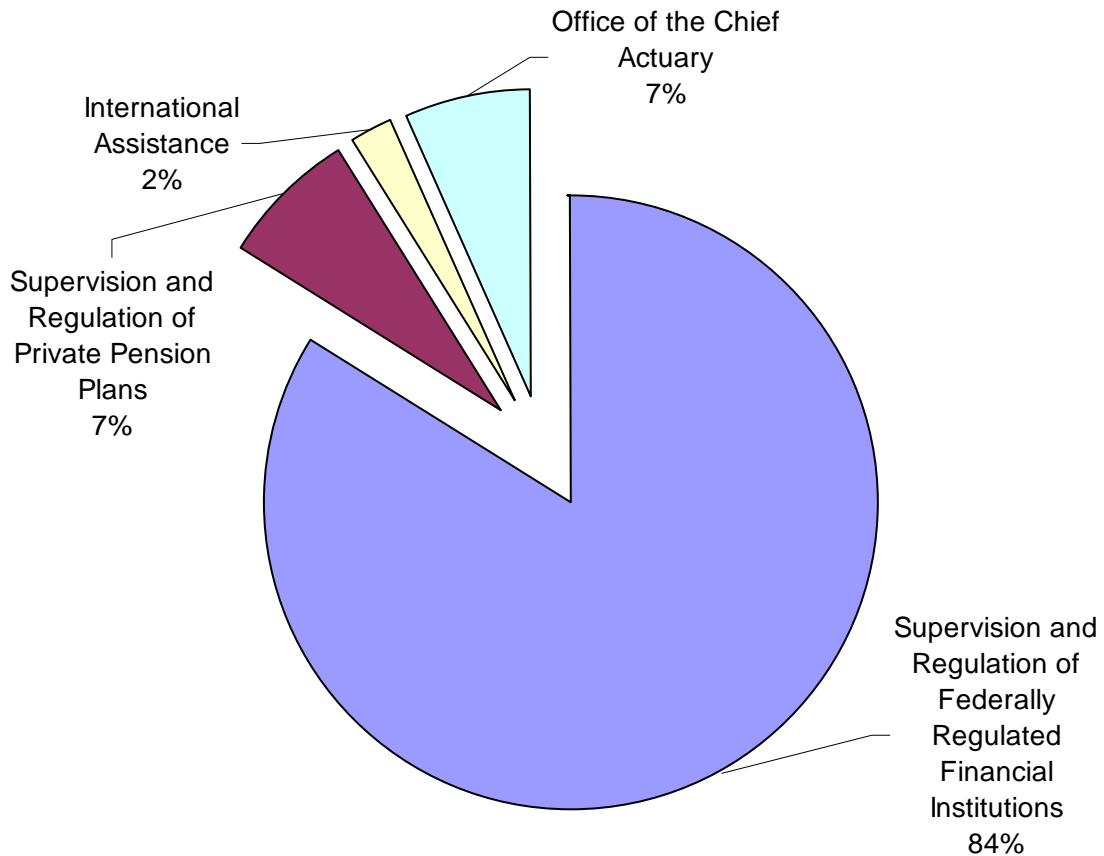
Financial Resources (\$ millions)

| 2007-2008 | 2008-2009 | 2009-2010 |
|-----------|-----------|-----------|
| \$90.5 | \$91.3 | \$102.8 |

Human Resources Average Full-Time Equivalents (FTEs)

| 2007-2008 | 2008-2009 | 2009-2010 |
|-----------|-----------|-----------|
| 461 | 459 | 459 |

Spending Profile by Program Activity 2007-2008 (\$ millions)



| Strategic Outcome | Program Activities | Planned Spending (\$ millions) | | |
|---|--|--------------------------------|-----------|-----------|
| | | 2007-2008 | 2008-2009 | 2009-2010 |
| 1. To regulate and supervise to contribute to public confidence in Canada's financial system and safeguard from undue loss. | 1.1 Regulation and Supervision of Federally Regulated Financial Institutions | \$75.9 | \$76.3 | \$87.5 |
| | 1.2 Regulation and Supervision of Federally Regulated Private Pension Plans | \$6.5 | \$6.8 | \$7.0 |
| | 1.3 International Assistance | \$2.0 | \$2.1 | \$2.1 |
| 2. To contribute to public confidence in Canada's public retirement income system. | 2.1 Office of the Chief Actuary (OCA) | \$6.1 | \$6.1 | \$6.2 |

In addition to key ongoing responsibilities required to meet the mandate (as listed in the above program activities), OSFI has identified the following priorities for the planning period.

Priorities

| Priority | Type |
|--|----------------------|
| A. Readiness Planning | New |
| B. Basel II | Previously committed |
| C. Financial Sector Assessment Program (FSAP) / Financial Action Task Force (FATF) | New |
| D. Accounting Standards | Previously committed |
| E. Minimum Continuing Capital Surplus Requirement (MCCSR) | New |
| F. Pension Systems and Processes | New |
| G. Integration of Human Resources Planning into Business Planning | New |

Program Activities by Strategic Outcome

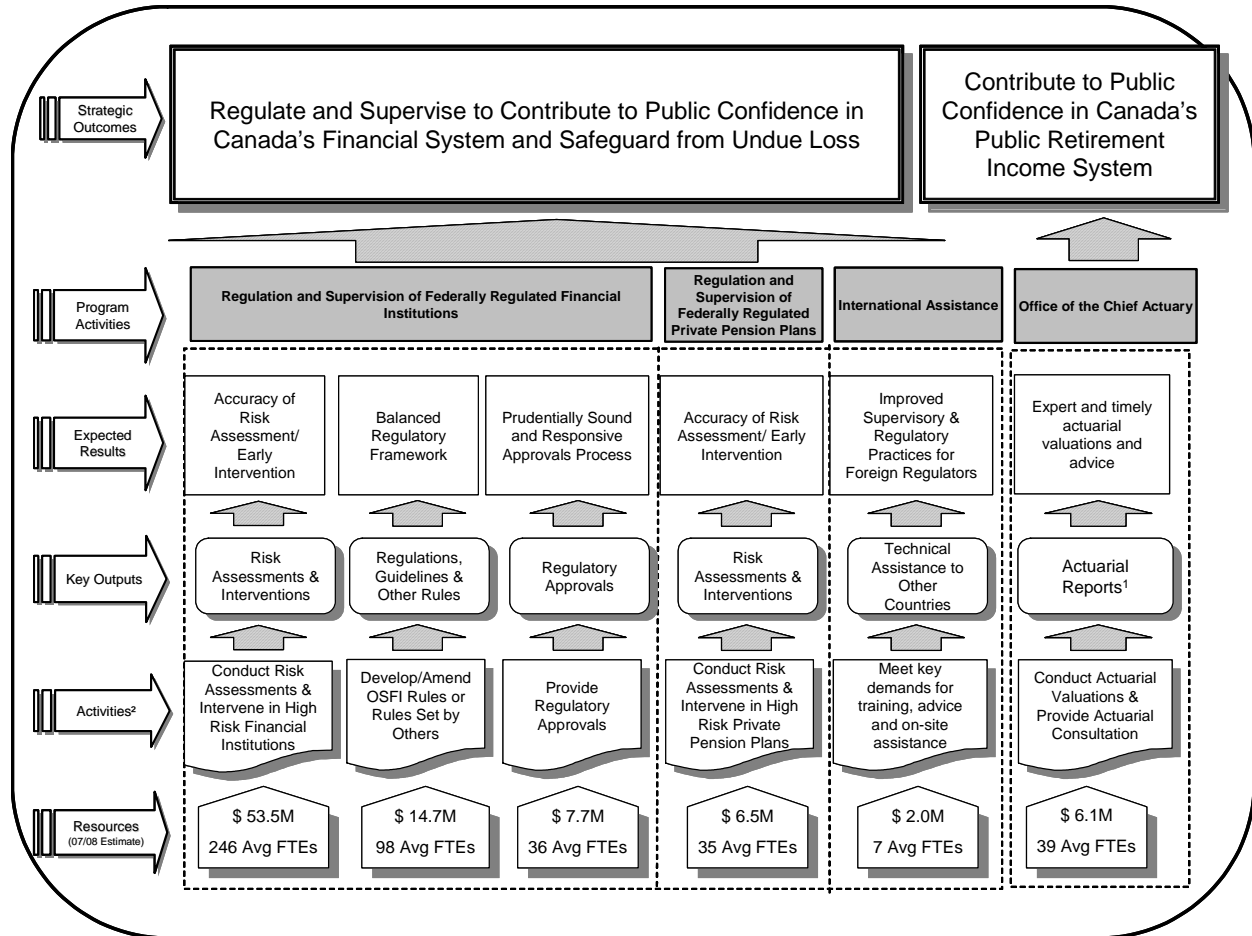
| | Expected Results | Planned Spending (\$ millions) | | | Links to the following priority |
|---|---|--------------------------------|-----------|-----------|---------------------------------|
| | | 2007-2008 | 2008-2009 | 2009-2010 | |
| Strategic Outcome 1 | | | | | |
| <i>To regulate and supervise to contribute to public confidence in Canada's financial system and safeguard from undue loss.</i> | | | | | |
| Program Activity 1.1 Regulation and supervision of federally regulated financial institutions | | | | | |
| Sub-activity 1.1.1 Risk assessment and intervention | Accuracy of risk assessment and early intervention; effective support and facilitation for Basel II implementation. | \$53.5 | \$53.8 | \$61.6 | Priorities A, B, C and G |
| Sub-activity 1.1.2 Rule making | Balanced regulatory framework; prudent capital rules and regulatory reporting and alignment with other jurisdictions. | \$14.7 | \$14.8 | \$17.0 | Priorities D, E and G |
| Sub-activity 1.1.3 Approvals | Prudentially sound and responsive approvals process. | \$7.7 | \$7.7 | \$8.9 | Priority G |
| Program Activity 1.2 Regulation and Supervision of Federally Regulated Private Pension Plans | Accuracy of risk assessment and early intervention. | \$6.5 | \$6.8 | \$7.0 | Priority F and G |
| Program Activity 1.3 International Assistance | Improved supervisory and regulatory practices for foreign regulators. | \$2.0 | \$2.1 | \$2.1 | Priority G |

| | Expected Results | Planned Spending (\$ millions) | | | Links to the following priority |
|--|--|--------------------------------|-----------|-----------|---------------------------------|
| | | 2007-2008 | 2008-2009 | 2009-2010 | |
| Program Activity 2.1 Office of the Chief Actuary | Expert and timely actuarial valuations and advice. | \$6.1 | \$6.1 | \$6.2 | Priority G |

Note: Program Support consisting of Human Resources, Finance, Contracting, Procurement and Information Technology is considered part of every Program Activity.

Program Activities

The following diagram shows how OSFI's ongoing activities, key outputs and expected results are linked to strategic outcomes, with resources for 2007-2008.



¹Canada Pension Plan, Old Age Security, Canada Student Loans Program, and various public-sector pension and insurance plans.

²These activities are supported by organization-wide activities. Corporate Services costs and FTEs are allocated across the activities based on direct human resources costs.

Program Activities

Three program activities support OSFI's **first strategic outcome**, to regulate and supervise financial institutions and pension plans so as to contribute to public confidence. A fourth program activity supports OSFI's **second strategic outcome**, to contribute to public confidence in Canada's public retirement income system.

1. Regulation and supervision of federally regulated financial institutions (FRFIs)

This program activity is central to the achievement of OSFI's mandate to protect the rights

and interests of depositors and policyholders and to advance a regulatory framework that contributes to confidence in the Canadian financial system. The three sub-activities of this program are:

- **Risk assessment and intervention** includes activities to monitor and supervise financial institutions, monitor the financial and economic environment to identify emerging issues and intervene in a timely way to protect depositors and policyholders, while recognizing that all failures cannot be prevented.
- **Rule making** encompasses the issuance of guidance and regulations, input into federal legislation affecting financial institutions, contributions to accounting, auditing and actuarial standards, and involvement in a number of international rule-making activities.
- **Approvals** of certain types of actions or transactions undertaken by regulated financial institutions. This covers two distinct types of approvals: those required under the legislation applying to financial institutions, and approvals for supervisory purposes.

There is a strong interrelationship among the three parts of this supervisory and regulatory program. The supervisory function relies on an appropriate framework of rules and guidance. In some situations, regulatory approval is required because a proposed transaction may significantly affect an institution's risk profile. Approving such a change involves both a supervisory and regulatory assessment. Supervisory experiences often identify areas where new or amended rules are needed.

As identified in OSFI's mandate, OSFI must also recognize the need for financial institutions to compete effectively. The sustainability and success of regulated institutions is important for the long-term safety and soundness of the financial system. As a result, OSFI needs to strike an appropriate balance between promoting prudence and allowing financial institutions to take reasonable risks in order to compete and prosper.

2. Regulation and supervision of federally regulated private pension plans

This program activity incorporates risk assessment, intervention, rule making and approvals related to federally regulated private pension plans under the *Pension Benefits Standards Act, 1985*.

3. International Assistance

OSFI supports initiatives of the Government of Canada to assist emerging market economies to strengthen their regulatory and supervisory systems. This program activity is largely funded by the Canadian International Development Agency, and is carried out directly by OSFI and through its participation in the Toronto International Leadership Centre for Financial Sector Supervision.

4. Office of the Chief Actuary

The activities of the Office of the Chief Actuary (OCA) supports OSFI's second strategic outcome. The OCA provides a range of actuarial services, under legislation, to the Canada Pension Plan (CPP) and some federal government departments, including the provision of

expert and timely advice in the form of reports tabled in Parliament. The basic elements of this program include:

- **Canada Pension Plan and Old Age Security.** The OCA estimates long-term expenditures, revenues and current liabilities of the CPP and long-term future expenditures for Old Age Security programs, and prepares statutory triennial actuarial reports on the financial status of these programs.
- **Other Public Pension and Insurance Plans.** The OCA prepares statutory triennial actuarial reports on the financial status of federal public sector employee pension and insurance plans covering the federal Public Service, the Canadian Armed Forces, the Royal Canadian Mounted Police, federally appointed judges and Members of Parliament.
- **Canada Student Loans.** Since 2001, the OCA undertakes the actuarial review of the Canada Student Loans Program by evaluating the portfolio of loans and the long-term costs of the program.

Whenever a bill is introduced before Parliament that has a material impact on the financial status of a public pension plan falling under the statutory responsibilities of the Chief Actuary, the OCA must submit an actuarial report valuing the impact to the appropriate minister. The OCA also provides actuarial information on the CPP to provincial governments, which are the plan's co-stewards. Meaningful steps have been taken since the late 1990s to strengthen the transparency and accountability of actuarial reporting on the CPP. In particular, the frequency of actuarial reporting on the CPP has been increased to every three years instead of five. Also, stakeholders of the CPP endorsed plans to establish regular peer reviews of actuarial reports on the CPP, and the first such review was completed in 2005.

OSFI's Accountability Framework

OSFI was created in 1987 through the enactment of the *Office of the Superintendent of Financial Institutions Act* (OSFI Act), and subsequently received a legislated mandate that clarified its objectives in the regulation and supervision of federal financial institutions and private pension plans. The OSFI Act provides that the Minister of Finance is responsible for OSFI. It also provides that the Superintendent is solely responsible for exercising the authorities provided to him by the financial legislation, and is required to report to the Minister of Finance from time to time on the administration of the financial institutions legislation.

OSFI's accountability framework is made up of a variety of elements. For example, a country can request a comprehensive assessment of its financial systems through the Financial System Assessment Program (FSAP), a voluntary joint IMF -World Bank initiative. OSFI participated in Canada's 1999 FSAP and is participating in an FSAP Update in 2007. A key component is an assessment of OSFI's compliance with international banking standards and codes. Further, a country can request an independent assessment of its implementation of anti-money laundering and anti-terrorist financing standards by the Financial Action Task Force (FATF), an inter-

governmental body who develops and promotes policies in this area. OSFI is participating in Canada's first FATF review in 2007.

OSFI regularly conducts anonymous surveys of knowledgeable observers, i.e., industry executives and professionals, on its operations, both on individual activities and on broader issues such as OSFI's contribution to public confidence and how OSFI compares to other regulators. Survey results are disclosed on OSFI's web site under [About OSFI / Reports / Consultations](#).

OSFI consults extensively on its regulatory rules before they are finalized, with financial institutions, other government agencies and subject-matter experts, among others. OSFI has implemented a range of measures that allow it to assess performance. OSFI has its financial statements and related control processes audited annually. Its financial statements are included in its annual report, which is published on OSFI's web site under [About OSFI / Reports / Annual Reports](#).

OSFI's internal audit group conducts assurance audits based on a comprehensive five-year risk-based plan. Audit results are reviewed by the Executive and the Audit Committee at regularly scheduled meetings. OSFI strengthened its internal audit program considerably in 2006-2007 in accordance with the new TBS audit policy. Effective the first quarter of 2006, OSFI appointed four external members to its Audit Committee, who serve with the Superintendent. The independent members represent a majority of the committee. In addition, more resources were added to the internal audit program. More information is available on OSFI's web site under [About OSFI / Audit Committee](#).

The activities of the Office of the Chief Actuary within OSFI contribute to confidence in the retirement income system, through the provision of accurate, timely information on the state of public pension plan arrangements and options being considered by policy makers. The accountability framework for the OCA established by OSFI makes clear that the Chief Actuary is the person solely responsible for the actuarial opinions made by the Office. More information is available on OSFI's web site under the [Office of the Chief Actuary](#).

Operating Environment

Regulated Entities

OSFI supervises and regulates all federally incorporated or registered deposit-taking institutions (e.g., banks), life insurance companies, property and casualty insurance companies, and federally regulated private pension plans. These 1,759 organizations managed a total of \$2,887 billion of assets (as at March 31, 2006).

Federally Regulated Financial Institutions and Private Pension Plans & Related Assets

| | Deposit-Taking Institutions | Life Insurance Companies | Property & Casualty Companies | Private Pensions Plans | Total |
|-------------------------|------------------------------------|---------------------------------|--|-------------------------------|--------------|
| Number of organizations | 147 | 119 | 189 | 1,304 | 1,759 |
| Assets \$B | 2,292 | 388 | 91 | 116 | 2,887 |

OSFI also undertakes supervision of provincially incorporated financial institutions on a cost-recovery basis under contract arrangements with some provinces. Additional detail may be found on OSFI's website under [About OSFI / Who We Regulate](#).

Environmental Assessment

For planning purposes, OSFI conducts an annual assessment of the overall economic and financial conditions in Canada and abroad and consults with the Bank of Canada and the Department of Finance on their macroeconomic forecasts. In addition, OSFI's assessment reflects input from international sources (such as the Financial Stability Forum and other regulators). These sources supplement information derived from OSFI's own experiences with its regulatory and supervisory programs, and from assessments made from our internal Enterprise Risk Management (ERM) activities.

Economic Outlook

The North American economy is slowing but still growing. With uncertainty about whether the credit cycle has peaked, low unemployment and benign inflation numbers, economic analysts have been hard pressed to generate economic forecasts. The general consensus is that expansion will continue through 2007, but at a moderate pace, although there are risks to consider and some indicators of possible changes to come.

The Canadian economy has been driven by personal expenditures, including housing. According to Standard and Poor's, Canadian consumers have been spending almost all of their income. The

personal saving rate reached a new low of 1% in 2005 before rebounding to 1.9% on strong personal income growth early in 2006. Demand for consumer and mortgage credit continues to expand, with household debt rising to 120.6% as a share of disposable income. However, rising asset values, particularly house prices, have kept the share of household debt to total assets relatively stable at 18.4%.

The increase in interest rates that took place in the first half of 2006 will produce some moderation in consumption growth in 2007. Canadian producers have been and are expected to continue investing in productivity-enhancing machinery and equipment. Provided that the global economy is able to maintain its dynamism, the Canadian economy should continue to experience solid growth.

The external risks to this outlook include: geopolitical problems; terrorism; a correction in energy prices; the U.S. trade deficit; and a major problem in the U.S. economy resulting from a possible cooling-off in housing markets.

Residential property prices in the U.S. have risen sharply over the past five years, and much of consumers' wealth is tied up in their homes. The U.S. housing sector is in a slump, with new home sales in July 2006 being 22% below July 2005. Existing home sales were down to 6.33 million in July 2006 from over seven million at the end of 2005. A sharp real estate plunge in the U.S. could reduce consumers' incentive to spend elsewhere. In 2006, housing markets in Canada were quite active, with some concerns that prices were not sustainable, but these concerns have since moderated.

Drops in business and consumer confidence outside Canada also support a more pessimistic view of the future. According to a Moody's Economy.com international survey, global confidence is near a three-year low, and is consistent with global growth that is below its potential. The U.S. Conference Board Confidence Survey, based on a sample of 5,000 U.S. households, also suggests that American consumer confidence is low. Despite a slight rise towards the end of 2006, it is too soon to tell if this boost in confidence is a genuine signal that better times are ahead.¹

Within Canada, consumer confidence fell in Ontario and Quebec in December 2006, and remained well below that of western consumers, the Conference Board of Canada reported in their [Index of Consumer Confidence](#). Business is more optimistic. According to the Bank of Canada [Winter 2006-2007 Business Outlook Survey](#), the balance of opinion regarding future sales growth is slightly positive. Overall, firms in Central and Eastern Canada expect an improvement in their sales growth. Many firms in Western Canada do not expect to surpass the recent high rates of growth.²

¹ More information on the U.S. indicators can be found on Moody's web site at www.economy.com or on the U.S. Conference Board web site at www.conference-board.org.

² More information on the Canadian indicators can be found on the Conference Board of Canada web site at www.conferenceboard.ca, and the Bank of Canada web site at www.bankofcanada.ca.

Industry and Regulatory Environment

Canadian financial institutions are operating in an increasingly complex, international environment. OSFI, as supervisor of the consolidated operations of Canadian financial institutions, assesses risks arising from offshore operations and monitors Canadian institutions' ability to manage those risks. In order to do this, there is greater interest in increased cross-border cooperation. OSFI needs to develop and maintain working relationships with foreign regulators to optimize its supervisory efforts.

Financial institutions face risks from financial products that are becoming more complex. In response, institutions are placing greater reliance on a variety of enhanced analytical techniques and risk-transfer mechanisms to better manage and measure risk. Transactions are becoming more complex, and it is sometimes difficult to determine to what extent the risk is being transferred.

Globally, the regulatory environment is changing rapidly. Financial institutions will be faced with adopting international accounting standards over the next five years. Key accounting changes will be with respect to insurance, consolidation, business combinations, pensions, revenue recognition and measurement of fair value. These changes could add to the volatility of earnings and may not always be adequately covered by current risk management practices.

Canadian banks will implement Basel II in November 2007. The requirement for better risk management, including operational risk, and the increased use of advanced techniques such as stress testing, will result in important changes for the way financial institutions run their business and the way OSFI supervises.

Insurance companies may face changes under International Association of Insurance Supervisors (IAIS), which is currently developing a standard for life insurance company disclosure. This standard may require changes in Canadian institutions' public disclosure and may require OSFI to develop and consult on new guidelines.

Financial and economic conditions continue to create a challenging environment for the pension industry. Long-term interest rates remain low. The Canadian pension environment is increasingly litigious. As a result, there is increasing risk that OSFI's decisions may be judicially reviewed.

Key Risks and Threats

The environment within which OSFI operates presents an array of challenges to the achievement of its mandate and objectives. While many of these challenges are consistently present, the extent to which they present a risk to OSFI's objectives varies depending on economic and financial conditions and the financial industry environment. OSFI's ability to achieve its mandate depends on the timeliness and effectiveness with which it identifies, evaluates, prioritizes, and develops initiatives to address areas where its exposure is greatest.

OSFI's Enterprise Risk Management (ERM) framework divides risks into external and internal categories. The external risk category consists of economic and financial conditions, the financial industry environment, OSFI's legal environment and catastrophic events. External risks arise from events that OSFI cannot influence, but must be able to monitor in order to mitigate the impact. This category also includes international initiatives which OSFI participates in and adapts as needed for the Canadian context. These become institutional priorities that must be well managed in order for OSFI to achieve its mandate, and to maintain the reputation and stability of Canadian financial institutions.

The internal risk category consists of risks that can broadly be categorized as people, processes, systems, and culture. OSFI's ERM program has identified several key risks to the achievement of its mandate and objectives.

External Risks

- **Shocks to the Economy**

Various events over the past few years have focussed the attention of financial institutions and their regulators on their ability to respond adequately in a crisis or a pandemic, both from a prudential and a human resources perspective.

- **Cyclicality in the Industry**

Financial institutions face risks as a result of potential changes in the economic environment. For example, an economic downturn could negatively impact the earnings of financial institutions, stretch OSFI's resources and affect its ability to supervise effectively and intervene in a timely fashion.

- **Basel II Capital Accord**

The new international capital framework will have major implications for financial institutions and OSFI. In particular, the new framework will encourage larger banks to use enhanced risk-based measures of business performance to drive their internal assessment of capital needs.

Canadian banks and OSFI are well advanced with implementation efforts, but continued focus and ongoing work are required, for institutions to either adopt the Standardized approach or to qualify for the more complex Advanced Internal Ratings-Based approach to calculating capital.³ Due to the size of this undertaking there is a risk that the Basel II implementation will strain the resources of both financial institutions and OSFI.

- **Financial Sector Assessment Program (FSAP) Update / Financial Action Task Force (FATF)**

The International Monetary Fund (IMF) is planning to conduct an FSAP Update of Canada, likely in early 2007. Canada was first assessed in 1999 and found to be compliant with international banking and insurance standards. Canada has asked to be assessed in 2007 against compliance with four of the newly revised banking standards. The FSAP Update will also

³ Further information may be found in OSFI's [Guideline for Capital Adequacy Requirements](#), posted on OSFI's web site under Banks / Publications.

include an assessment of Canada's compliance against securities regulatory standards and stress tests of the Canadian financial system. The results, which will be made public, will provide an independent review of OSFI's performance in this area.

Also early in 2007, an assessment of Canada's anti-money laundering and anti-terrorist regimes will be conducted by the FATF. While there may be some concern that the FSAP Update and FATF review would not be favourable in some aspects, successful IMF and FATF assessments would be an important validation of the strength of OSFI's core risk assessment and intervention work.

- **Accounting**

The Canadian Accounting Standards Board has decided to adopt International Financial Reporting Standards (IFRS) over the next five years. This will have an impact on both OSFI, as it relies on audited financial information, and the institutions it regulates. Key accounting changes will be with respect to insurance, consolidation, business combinations, pensions, revenue recognition and measurement of fair value. As a reliance-based regulator, it is crucial that OSFI understand the implications of financial statements to perform accurate risk assessments of financial institutions.

New accounting standards (financial instruments) allow any asset or liability to be designated at fair value (Fair Value Option). OSFI issued a guideline in 2006 with requirements for use of this option.⁴ As accounting standards continue to move to incorporate the use of fair values, OSFI may need to significantly modify reporting to obtain data to assess and monitor the quality of financial results and identify potential prudential concerns.

- **Minimum Continuing Capital Surplus Requirement (MCCSR)**

The International Association of Insurance Supervisors (IAIS) is revising its capital framework to make capital requirements like the MCCSR more risk-sensitive. There is a need to develop more advanced risk measurement techniques to be incorporated into the MCCSR, while maintaining the integrity of the existing capital test. At the same time, the current MCCSR should be maintained as a fallback approach for life insurance companies that do not use models, yet be updated to reflect changes in accounting and actuarial standards that affect the measurement of risk and available capital. To date, Canada has been at the forefront of insurance regulation, and the adoption of revised MCCSR rules is necessary to ensure that OSFI continues to meet or exceed international standards.

Internal Risks

- **People Risks**

The financial industry is becoming more complex. OSFI must have staff with sufficient skills to regulate and supervise financial institutions and identify the significant issues. In addition, there is a need for continuous learning to meet the challenge of a changing environment.

⁴ More information can be found in OSFI's Guideline: [Accounting for Financial Instruments Designated as Fair Value Option](#), posted on OSFI's web site under Banks / Publications.

Attracting, motivating, developing and retaining skilled staff is a top priority for OSFI, particularly the ability to attract and retain staff whose skills are in demand in the financial sector. If OSFI does not have the right resources on the right task, it could constrain our ability to perform risk assessments and perform effective interventions if required. This risk is exacerbated by the risk of changes to the economy.

- **Pension Systems and Processes**

The changing external environment for pensions, which includes increasing complexity of work and a litigious environment, demands greater skill on the part of OSFI staff. At the same time, OSFI's internal pensions information system is being upgraded and certain elements such as the adequacy of controls may need to be reviewed. OSFI has started to address both the staff and systems issues, but work in these areas is not complete. The time lines for approvals have also been shortened, but further work needs to be done to ensure that delays do not result in reputational risk to OSFI.

OSFI's Plans and Priorities

OSFI has a number of key ongoing responsibilities that it must perform to meet its mandate. In addition, in response to the risks and threats that were identified above, OSFI has identified seven program and management priorities. These priorities and ongoing responsibilities are tied to the program activities OSFI undertakes and contribute directly towards achieving OSFI's strategic outcomes.

| PROGRAM | PRIORITIES | DESCRIPTION |
|---|--|---|
| PROGRAM PRIORITIES | | |
| Program Activity 1.1: Regulation and Supervision of Federally Regulated Financial Institutions | | |
| 1.1.1 Program Sub-Activity: Risk Assessment and Intervention | <p>Ongoing Responsibility - Risk Assessment and Intervention</p> <p>Accurate risk assessments of financial institutions and timely, effective intervention and feedback.</p> | <ul style="list-style-type: none"> • Operate an effective prudential supervisory system by allocating resources to higher risk/impact institutions or activities. • Conduct timely risk assessments and interventions and provide clear reports and recommendations to FRFIs. • Recommend appropriate changes in FRFI practices and processes. |
| | <p>Priority A - Readiness Planning</p> <p>Ensure OSFI can respond adequately to:</p> <ul style="list-style-type: none"> • shocks to the economy as a result of a crisis or pandemic, and • cyclical in the industry, e.g. a possible economic downturn. | <ul style="list-style-type: none"> • Carry out table-top exercises on crisis planning and Business Resumption Plan. • Plan OSFI's own response to a pandemic, as well as reviewing financial institutions' preparedness. • For larger institutions, emphasize financial institutions' stress testing capabilities. • Have the resources in place to identify and deal with problem institutions, particularly small ones. |
| | <p>Priority B - Basel II</p> <p>Complete the review and approval, with a reasonably high degree of confidence, of applications that are submitted for approval under the Basel II Capital Accord, and review OSFI practices to align with Basel II requirements.</p> | <ul style="list-style-type: none"> • Enhance existing supervisory processes to begin to support the implementation of Basel II by Q2, 2007. • Ensure supporting systems are in place. • Provide industry-wide support for Basel II implementation. |

| PROGRAM | PRIORITIES | DESCRIPTION |
|---|---|---|
| | <p>Priority C - Financial Sector Assessment Program (FSAP) Update / Financial Action Task Force (FATF)</p> <p>Participate in FSAP Update and FATF reviews and be in a position to deal with any feedback which results from the reviews.</p> | <p>Early in the planning period, Canada will be the subject of both a FSAP Update and FATF review. The FSAP Update is being coordinated by the Department of Finance. OSFI will:</p> <ul style="list-style-type: none"> • work with the Bank of Canada and banks to complete appropriate stress tests, and • provide information to the IMF in order for them to assess our compliance against four recently revised banking standards. <p>For the FATF review, OSFI will:</p> <ul style="list-style-type: none"> • provide input to a Mutual Evaluation Questionnaire being coordinated by the Department of Finance. |
| <p>1.1.2 Program Sub-Activity: Rule Making</p> | <p>Ongoing Responsibility - Rule Making</p> <p>A balanced, relevant regulatory framework of guidance and rules that meets or exceeds international minimums.</p> | <ul style="list-style-type: none"> • Communicate and consult effectively with financial institutions and the industry during the rule development process. • Contribute effectively to international regulation and standard setting. |
| | <p>Priority D – Accounting Standards</p> <p>Implement the move from Canadian GAAP to International Financial Reporting Standards (IFRS) by addressing changes to OSFI’s prudential regime, including consideration of changes in accounting for insurance.</p> | <ul style="list-style-type: none"> • Identify significant accounting differences impacting FRFIs as GAAP moves to IFRS. • Address the effects on FRFIs of identified changes in GAAP accounting and propose changes to OSFI’s accounting and regulatory reporting framework • Assess the impact on regulatory capital of accounting changes and consider modifications to reflect the principles of solvency regulation including changes to OSFI Guidelines and reporting instructions. • Represent OSFI on BCBS and IAIS groups to put forward Canadian views and coordinate actions with other countries. |
| | <p>Priority E – Minimum Continuing Capital Surplus Requirement (MCCSR)</p> <p>Develop and agree on a capital framework for life insurance companies, over a five year period.</p> | <ul style="list-style-type: none"> • Develop implementation criteria for risk-sensitive methodologies and internal models. Interest rate risk will be addressed first, followed by credit risk, and then other risks. |

| PROGRAM | PRIORITIES | DESCRIPTION |
|--|--|--|
| 1.1.3 Program Sub-Activity: Approvals | Ongoing Responsibility - Approvals A prudentially effective, balanced and responsive approvals process. | <ul style="list-style-type: none"> • Operate a timely, clear and transparent approvals process for legislative and non-legislative approvals. |
| Program Activity 1.2: Regulation and Supervision of Federally Regulated Private Pension Plans | | |
| | Ongoing Responsibility - Pensions Accurate risk assessments of pension plans; timely and effective intervention and feedback; a balanced relevant regulatory framework; a prudentially effective and responsive approvals process. | <ul style="list-style-type: none"> • Conduct timely risk assessments and interventions and provide clear reports and recommendations to supervised plans. • Communicate and consult constructively and effectively with the pension plan industry during the development of regulations, rules and other guidance. • Operate a timely, clear and transparent approvals process for private pension plans. • Work closely with the Department of Finance in the development of proposals for, and the analysis of, any changes to federal legislation that could impact federally regulated pensions. • Focus on monitoring, and determining the implications of, court decisions affecting private pension plans. |
| | Priority F – Pension Systems and Processes Enhance OSFI’s ability to perform as required in an increasingly complex pensions environment. | <ul style="list-style-type: none"> • Continue to accelerate the pension approval process. • Upgrade the internal information technology system. • Review pension supervisory processes to streamline and enable current technology. |
| Program Activity 1.3: International Assistance | | |
| | Ongoing Responsibility – International Assistance Contribute to awareness and improvement of supervisory and regulatory practices for selected foreign regulators through the operation of an International Assistance Program. | <ul style="list-style-type: none"> • Provide technical assistance with on-site examination processes, legislative drafting, development /organization of supervisory agencies, risk-based capital regimes and improving supervision systems. • Work to improve supervisory cooperation and coordination amongst supervisors. • Assist selected jurisdictions to prepare their Financial Sector Assessment Program self-assessment. |

| PROGRAM | PRIORITIES | DESCRIPTION |
|--|--|---|
| Program Activity 2.1: Office of the Chief Actuary (OCA) | | |
| | <p>Ongoing Responsibility – Office of the Chief Actuary</p> <p>Contribute to financially sound federal government public pension and other programs through the provision of expert actuarial valuation and advice.</p> | <ul style="list-style-type: none"> • Provide high-quality and timely reports such as: triennial Actuarial Reports in respect of the Canada Pension Plan (CPP), the Old Age Security program, and public service pension plans established under various acts. • Prepare actuarial reports that are tabled in Parliament in respect of the CPP, for example, when certain bills are introduced and when amendments are made to certain other public sector pension plans. |
| MANAGEMENT PRIORITIES | | |
| | <p>Ongoing Responsibility – Program Support, Human Resources and Financial Management</p> | <ul style="list-style-type: none"> • High-quality internal governance and related reporting. • Resources and infrastructure necessary to support supervisory and regulatory activities. |
| | <p>Priority G - Integration of Human Resources (HR) Planning into Business Planning</p> <p>Ensure OSFI has the human resources available to fulfill its mandate, through better long-range, integrated planning.</p> | <ul style="list-style-type: none"> • Enhance OSFI’s ability to proactively identify changing human resource requirements, ensure their timely availability, and allocate available resources to identified risks and priorities. • This includes continuing enhancements to our business planning process; preparing and implementing a framework for HR development and management in Supervision; continuing the 360-degree feedback of executive leadership; and conducting employee and compensation surveys. |

Link to Government of Canada Outcome Areas

OSFI's strategic outcomes, supported by our plans and priorities, are intrinsically aligned with broader government outcomes, specifically *strong economic growth, income security for Canadians and a safe and secure world through international cooperation*.

Strong economic growth

A properly functioning financial system, in which consumers and others (inside and outside Canada) who deal with financial institutions have a high degree of confidence, makes a material contribution to Canada's economic performance. The achievement of OSFI's strategic outcomes, which are shared by other institutional partners within government and the private sector, provides an essential foundation for a productive and competitive economy.

OSFI is the primary regulator and supervisor of all federally registered financial institutions, numbering about 450. OSFI's activities and programs to enhance the safety and soundness of financial institutions are key to a regulatory framework underpinning the financial system, which in turn is essential to remain competitive in the global economy.

Income security for Canadians

OSFI supervises some 1,300 federally regulated private pension plans in Canada. OSFI's actions and decisions affect plan members as well as the sponsors and administrators of the plans. OSFI works to promote responsible pension plan governance and actuarial practices.

Canada has set in place a public pensions system that is expected to be sustainable and affordable well into the future in the face of changing demographic conditions. Ongoing review of the system, including actuarial studies performed by the Office of the Chief Actuary on various public pension programs, helps to ensure this remains the case. The OCA provides appropriate checks and balances on the future costs of the different pension plans and social programs that fall under its responsibilities.

A safe and secure world through international cooperation

OSFI supports the government's priority for a safe and secure world by contributing to the fight against terrorism financing and money laundering. OSFI's focus relates to guidance and the supervisory review of the operation of financial institution programs to comply with anti-money laundering / anti-terrorism financing requirements.

Financial institutions operate in an increasingly complex, international environment. There is greater interest in increased cross-border cooperation, and OSFI will continue to develop relationships with foreign regulators to promote consistency and facilitate mutual reliance.

| OSFI Strategic Outcomes | OSFI Ongoing Program Responsibilities and Related Program Priorities | Government of Canada Outcome areas |
|--|---|---|
| Public Confidence in Canada's Financial System and Safeguarding from Undue Loss | Ongoing Responsibility - Risk Assessment and Intervention Priority A- Readiness Planning Priority B - Basel II Priority C - Financial Sector Assessment Program (FSAP) Update / Financial Action Task Force (FATF) | <ul style="list-style-type: none"> • Strong economic growth • A safe and secure world through international cooperation |
| | Ongoing Responsibility - Rule Making Priority D – Accounting Standards Priority E – Minimum Continuing Capital Surplus Requirement (MCCSR) | <ul style="list-style-type: none"> • Strong economic growth |
| | Ongoing Responsibility - Approvals | <ul style="list-style-type: none"> • Strong economic growth |
| | Ongoing Responsibility - Pensions Priority F – Pension Systems and Processes | <ul style="list-style-type: none"> • Strong economic growth • Income security for Canadians |
| | Ongoing Responsibility – International Assistance | <ul style="list-style-type: none"> • Strong economic growth • A safe and secure world through international cooperation |
| Public Confidence in Canada's Public Retirement Income System | Ongoing Responsibility – Office of the Chief Actuary | <ul style="list-style-type: none"> • Income security for Canadians |

SECTION II
ANALYSIS OF PROGRAM ACTIVITIES
BY STRATEGIC OUTCOME

Analysis by Program Activity

OSFI's ongoing activities consist of the regulation and supervision of federally regulated financial institutions, regulation and supervision of federally regulated private pension plans, international assistance, and provision of actuarial valuation and advice to the federal government. These Program Activities, and select Sub-Activities, support OSFI's two Strategic Outcomes.

This section identifies the financial and human resources allocated to OSFI's program activities and states the performance expectations. The resources, performance expectations and measures identified below also incorporate performance expectations and measures for the Program-Related Priorities identified in the previous section.

The program support costs such as information technology, finance, and administration, have been allocated to the programs based on human resource costs and are included in these numbers.

Strategic Outcome 1: Regulate and Supervise to Contribute to Public Confidence in Canada's Financial System and Safeguard from Undue Loss

1.1 Program Activity: Regulation and Supervision of Federally Regulated Financial Institutions

As mentioned previously, this program is central to OSFI achieving its mandate. It is the largest program activity within OSFI, utilizing the bulk of our financial and human resources. Costs for this program are recovered through assessments, service charges, and user fees paid by the federally regulated financial institutions. Costs are also recovered via Memoranda of Understanding, as "cost-recovered services" (refer to page 42 for more details).

Financial Resources (\$ millions)

| 2007-2008 | 2008-2009 | 2009-2010 |
|-----------|-----------|-----------|
| \$75.9 | \$76.3 | \$87.5 |

Human Resources Average Full-Time Equivalents (FTEs)

| 2007-2008 | 2008-2009 | 2009-2010 |
|-----------|-----------|-----------|
| 380 | 378 | 378 |

This program is supported by three interrelated Sub-Activities: Risk Assessment and Intervention, Rule Making and Approvals. The related priorities, expected results and performance measures for this Program Activity are identified below under each of the three Program Sub-Activities.

| 1.1.1 Program Sub-Activity: Risk Assessment and Intervention | |
|---|--|
| Description | Monitor and supervise financial institutions; monitor the financial and economic environment to identify emerging issues and risks. Intervene in a timely manner to protect depositors and policyholders while recognizing that OSFI cannot eliminate the possibility of failures. |
| Related Priority | <p>Ongoing responsibility</p> <ul style="list-style-type: none"> • Accurate risk assessments of financial institutions and timely, effective intervention and feedback. <p>Priority A- Readiness Planning Ensure OSFI can respond adequately to:</p> <ul style="list-style-type: none"> • shocks to the economy as a result of a crisis or pandemic, and • cyclicalities in the industry, e.g. a possible economic downturn. <p>Priority B - Basel II</p> <ul style="list-style-type: none"> • Complete the review and approval of, with a reasonably high degree of confidence, applications that are submitted for approval under the Basel II capital framework, and review OSFI's practices to align with Basel II requirements. <p>Priority C - Financial Sector Assessment Program (FSAP) Update / Financial Action Task Force (FATF)</p> <ul style="list-style-type: none"> • Participate in FSAP Update and FATF review and be in a position to deal with any feedback that results from the reviews. |
| Expected Results | <ul style="list-style-type: none"> • OSFI uses a modern supervisory process that leads to an accurate overall assessment of the risk profile and control functions of the financial institutions it regulates and supervises. • In exercising its early intervention mandate, OSFI is proactive in intervening in problem cases regarding the financial institutions it regulates and supervises. • Risk assessments and management reports are timely and clear. • Intervention action is commensurate to the seriousness of the problem/issue at hand. • OSFI's supervisory framework remains contemporary and assists OSFI in being able to detect prudential issues on a timely basis. • OSFI will receive an independent view as to whether it develops, maintains and contributes to a regulatory framework that meets or exceeds international minimums. |
| Performance Measure(s) | <ul style="list-style-type: none"> • Knowledgeable observers, i.e., industry executives and professionals, are of the view that: <ul style="list-style-type: none"> ○ OSFI uses a modern supervisory process that is effective and leads to an accurate overall assessment of the risk profile and control functions of the financial institutions it regulates and supervises; ○ exercising its early intervention mandate, OSFI is proactive in intervening in problem cases regarding financial institutions it regulates and supervises; ○ risk assessments and management reports are timely and clear; ○ intervention action is commensurate to the seriousness of the problem/issue. • Development of supervisory processes to support Pillar I approval and augment the risk matrix. • OSFI's target is to receive a successful assessment on the FSAP Update and the FATF review. |

Financial Resources (\$ millions)

| 2007-2008 | 2008-2009 | 2009-2010 |
|------------------|------------------|------------------|
| \$53.5 | \$53.8 | \$61.6 |

| 1.1.2 Program Sub-Activity: Rule Making | |
|--|---|
| Description | Issuance of guidance and regulations and input into federal legislation affecting financial institutions. Contribute a regulatory perspective to accounting, auditing and actuarial standards as required. Contribute to the development of international prudential rule-making. |
| Related Priority | <p>Ongoing Responsibility</p> <ul style="list-style-type: none"> • A balanced, relevant regulatory framework of guidance and rules for financial institutions that meets or exceeds international minimums. <p>Priority D – Accounting Standards</p> <ul style="list-style-type: none"> • Implement the move from Canadian GAAP to International Financial Reporting Standards (IFRS) by addressing changes to OSFI’s prudential regime, including consideration of changes in accounting for insurance. <p>Priority E – Minimum Continuing Capital Surplus Requirement (MCCSR)</p> <ul style="list-style-type: none"> • Develop and agree on a capital framework for life insurance companies, over a five year period. |
| Expected Results | <ul style="list-style-type: none"> • In developing, maintaining and contributing to a regulatory framework that meets or exceeds international minimums, OSFI strikes an appropriate balance between safety and soundness and the need for institutions to compete. • Regulation, guidelines and other rules developed and issued to industry by OSFI reflect timely, clear and relevant information. • Competitive, prudent capital rules and regulatory reporting for Canadian FRFIs consistent with economic realities, Basel rules and IAIS guidance for recognizing capital instruments, and significant foreign markets. • OSFI is able to handle revised accounting and reporting changes, and maintains strategy of using audited financial statement amounts as the starting point for regulatory purposes. • MCCSR guideline that appropriately addresses risks faced by the life insurance industry and provides a sufficient level of capital for the protection of policyholders as per OSFI’s mandate. |
| Performance Measure(s) | <ul style="list-style-type: none"> • Knowledgeable observers, i.e., industry executives and professionals, are of the view that in developing, maintaining and contributing to a regulatory framework meets or exceeds international minimums, OSFI strikes an appropriate balance between safety and soundness and the need for institutions to compete. • Knowledgeable observers are of the view that regulation, guidelines and other rules developed and issued to industry by OSFI reflect timely, clear and relevant information. • Through the identification and communication of well articulated positions, OSFI’s prudential issues are considered by Canadian and international committees. OSFI succeeds in having high priority Canadian issues dealt with appropriately. • Appropriate capital guidelines are developed, taking account of risks. • Internal processes and systems are updated to accommodate changes resulting from MCCSR and accounting changes in agreed-upon timelines. |

Financial Resources (\$ millions)

| 2007-2008 | 2008-2009 | 2009-2010 |
|------------------|------------------|------------------|
| \$14.7 | \$14.8 | \$17.0 |

| 1.1.3 Program Sub-Activity: Approvals | |
|--|---|
| Description | Approvals include those required under the legislation applicable to financial institutions and other approvals for supervisory purposes. |
| Related Priority | Ongoing Responsibility <ul style="list-style-type: none"> • A prudentially effective, balanced and responsive approvals process. |
| Expected Results | <ul style="list-style-type: none"> • OSFI's regulatory approvals result in prudentially sound decisions that are timely, clear and transparent. • Decisions for deemed approvals and for other legislative approvals are completed within specified time limits. |
| Performance Measure(s) | <ul style="list-style-type: none"> • Knowledgeable observers, i.e., industry executives and professionals, are of the view that OSFI's decisions, as part of the approval process, are timely, clear and transparent. • Internal sources show that decisions for deemed approvals and for other legislative approvals are completed within specified time limits. |

Financial Resources (\$ millions)

| 2007-2008 | 2008-2009 | 2009-2010 |
|------------------|------------------|------------------|
| \$7.7 | \$7.7 | \$8.9 |

1.2 Program Activity: Regulation and Supervision of Federally Regulated Private Pension Plans

| 1.2 Program Activity: Regulation and Supervision of Federally Regulated Private Pension Plans | |
|---|---|
| Description | Incorporates risk assessment, intervention, rule making and approvals related to federally regulated private pension plans under the <i>Pension Benefits Standards Act, 1985</i> . The costs for this program are recovered from pension plan fees based on the number of members in each federally regulated pension plan. The costs of this program activity are clearly tracked, however, given the size of this program (less than 5% of OSFI costs), there is only one sub-activity. |
| Related Priority | <p>Ongoing Responsibility</p> <ul style="list-style-type: none"> Accurate risk assessments of pension plans, timely and effective intervention and feedback, a balanced, relevant regulatory framework, and a prudentially effective and responsive approvals process. <p>Priority F – Pension Systems and Processes</p> <ul style="list-style-type: none"> Enhance OSFI’s ability to perform as required in an increasingly complex pensions environment. |
| Expected Results | <ul style="list-style-type: none"> OSFI uses a modern supervisory process that leads to an accurate overall assessment of the risk profile of the pension plans that it regulates. In exercising its early intervention mandate, OSFI is proactive in intervening in problem cases regarding the pension plans it regulates and supervises. Risk assessments and management reports are timely and clear. Intervention action is commensurate to the seriousness of the problem/issue at hand. Pension systems and processes adequately facilitate pension supervision and approvals. |
| Performance Measure(s) | <ul style="list-style-type: none"> Knowledgeable observers, i.e., industry executives and professionals, are of the view that: <ul style="list-style-type: none"> OSFI uses a modern supervisory process that leads to an accurate overall assessment of the risk profile of the pension plans that it regulates; in exercising its early intervention mandate, OSFI is proactive in intervening in problem cases regarding the pension plans it regulates and supervises; risk assessments and management reports are timely and clear; intervention action is commensurate to the seriousness of the problem/issue. Pension system and process changes are implemented according to agreed-upon timelines. |

Financial Resources (\$ millions)

| 2007-2008 | 2008-2009 | 2009-2010 |
|-----------|-----------|-----------|
| \$6.5 | \$6.8 | \$7.0 |

Human Resources Average Full-Time Equivalents (FTEs)

| 2007-2008 | 2008-2009 | 2009-2010 |
|-----------|-----------|-----------|
| 35 | 35 | 35 |

1.3 Program Activity: International Assistance

| 1.3 Program Activity: International Assistance | |
|---|---|
| Description | This program activity incorporates activities that provide help to other selected countries that are building their supervisory and regulatory capacity. The costs for this program are recovered via Memoranda of Understanding between OSFI and organizations such as the Canadian International Development Agency (CIDA) and the International Monetary Fund (IMF). The costs of this program activity are clearly tracked; however, given the size of this program (less than 5% of OSFI costs), there is only one sub-activity. |
| Related Priority | Ongoing Responsibility <ul style="list-style-type: none"> Contribute to awareness and improvement of supervisory and regulatory practices for selected foreign regulators through the operation of an International Assistance Program. |
| Expected Results | <ul style="list-style-type: none"> OSFI to contribute to the awareness and improvement of supervisory and regulatory practices for foreign regulators and jurisdictions. |
| Performance Measure(s) | <ul style="list-style-type: none"> Knowledgeable observers are of the view that the technical assistance provided to foreign regulators and jurisdictions by OSFI is relevant and contributes to the awareness and improvement of supervisory and regulatory practices. |

Financial Resources (\$ millions)

| 2007-2008 | 2008-2009 | 2009-2010 |
|-----------|-----------|-----------|
| \$2.0 | \$2.1 | \$2.1 |

Human Resources Average Full-Time Equivalent (FTEs)

| 2007-2008 | 2008-2009 | 2009-2010 |
|-----------|-----------|-----------|
| 7 | 7 | 7 |

Strategic Outcome 2: Contribute to Public Confidence in Canada's Public Retirement Income System

This Strategic Outcome is supported by the Office of the Chief Actuary (OCA). The OCA provides expert actuarial valuation reports on the state of various public pension plans. These reports are tabled in Parliament. The OCA also provides advice on the financial implications of related options being considered by the government. The OCA performs three distinct program sub-activities which are incorporated into the Program Activity described below.

2.1 Program Activity: Office of the Chief Actuary (OCA)

| 2.1 Program Activity: Office of the Chief Actuary (OCA) | |
|--|--|
| Description | The OCA provides a range of actuarial services, under legislation, to the Canada Pension Plan (CPP) and some federal government departments. The OCA estimates long-term expenditures, revenues and current liabilities of the CPP and of long-term future expenditures for Old Age Security programs, and prepares statutory triennial actuarial reports on the financial status of the programs. The OCA also undertakes the actuarial review of the Canada Student Loans Program. |
| Related Priority | Ongoing Responsibility <ul style="list-style-type: none"> Contribute to ensuring there are financially sound federal government public pension and other programs. |
| Expected Results | <ul style="list-style-type: none"> Provide expert and timely advice in the form of high-quality reports tabled in Parliament, in respect of the CPP. Provide expert and timely advice in the form of high-quality reports, in respect of Public Sector Pension and Insurance Plans. Provide expert and timely advice in the form of high-quality and timely actuarial reports, in respect of the Canada Student Loans Program. |
| Performance Measure(s) | <ul style="list-style-type: none"> CPP Peer Review Board is of the view that the Chief Actuary provides expert and timely advice in the form of high-quality reports tabled in Parliament, in respect of the CPP. The CPP Triennial Actuarial report was completed within legislated timeframes. Independent observers are of the view that the Chief Actuary provides expert and timely advice in the form of high-quality reports on the Public Sector Pension & Insurance Plans tabled in Parliament. The Public Sector Actuarial Reports met legislative requirements. Officials from the Auditor General are of the view that the Chief Actuary provides expert and timely advice in the form of high quality and timely actuarial reports, in respect of the Canada Student Loans Program. The Canada Student Loans Actuarial Report met agreed upon requirements. |

Financial Resources (\$ millions)

| 2007-2008 | 2008-2009 | 2009-2010 |
|-----------|-----------|-----------|
| \$6.1 | \$6.1 | \$6.2 |

Human Resources Average Full-Time Equivalents (FTEs)

| 2007-2008 | 2008-2009 | 2009-2010 |
|-----------|-----------|-----------|
| 39 | 39 | 39 |

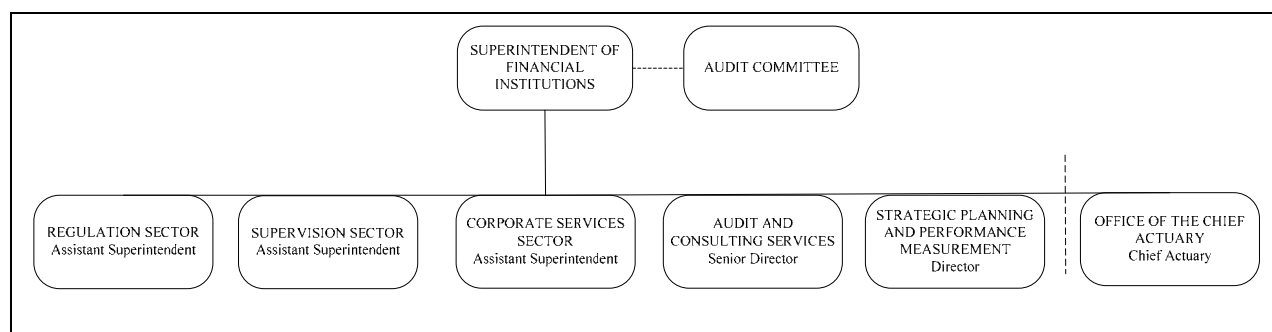
SECTION III
SUPPLEMENTARY INFORMATION

Organizational Information

Organizational Chart

OSFI comprises three sectors (see organization chart below), each headed by an Assistant Superintendent. Each sector works interdependently to achieve OSFI's strategic outcomes. In addition, there is an independent Internal Audit and Consulting function that reports directly to the Superintendent. The Office of the Chief Actuary (OCA) was created within the organization as a separate unit to provide effective actuarial and other services to the Government of Canada and provincial governments that are Canada Pension Plan (CPP) stakeholders.

OSFI Organization Chart, as at December 31, 2006



Workforce

As at December 31, 2006, OSFI employed 468 people in offices located in Ottawa, Montreal, Toronto and Vancouver.

OSFI's work requires the effort and attention of multidisciplinary teams. It requires a combination of broad perspective and in-depth expertise. OSFI builds excellence into its culture, and encourages continuous learning through teamwork, professional development and training opportunities, and the provision and support of advanced technologies.

OSFI's unique work environment benefits from a full spectrum of professional experience and expertise, drawing on the talents of recent graduates, as well as seasoned industry and regulatory experts.

Chart of Full-Time Equivalent Headcount

| Sector | As at March 31, 2006 | % of total | As at December 31, 2006 | % of total |
|-----------------------------|----------------------|-------------|-------------------------|-------------|
| Corporate Services | 117 | 27% | 133 | 28% |
| Supervision | 169 | 39% | 177 | 38% |
| Regulation | 122 | 28% | 131 | 28% |
| Office of the Chief Actuary | 28 | 6% | 27 | 6% |
| TOTAL | 436 | 100% | 468 | 100% |

The change in the Corporate Services Sector is in support of major technology initiatives; where appropriate, projects are staffed with term positions that coincide with the project's duration. (As at March 31, 2006 and December 31, 2006, there were one and ten project term positions on strength, respectively). Corporate Services includes employees in the Superintendent's Office, Audit and Consulting Services and the secretariat of the Audit Committee. The change in the Supervision Sector reflects the staffing of approved positions that were vacant as at March 31, 2006. The change in the Regulation Sector mainly reflects the addition of resources in the areas of private pension plans, anti-money laundering and anti-terrorism financing activities, and of accounting policy to support OSFI's Accounting Standards priority.

Key Partners

OSFI works with a number of key partners in advancing its strategic outcomes. Together, these departments and agencies constitute Canada's network of financial regulation and supervision and provide a system of deposit insurance. On a federal level, partnering organizations include the Department of Finance (<http://www.fin.gc.ca>), the Bank of Canada (<http://www.bank-banque-canada.ca>), the Canada Deposit Insurance Corporation (<http://www.cdic.ca>), the Financial Consumer Agency of Canada (<http://www.fcac-acfc.gc.ca>), and the Financial Transactions and Reports Analysis Centre of Canada (<http://www.fintrac.gc.ca>), among others.

In addition, OSFI collaborates with certain provincial and territorial supervisory and regulatory agencies, as necessary, and with private-sector organizations and associations, particularly in rule making. OSFI plays a key role in the International Association of Insurance Supervisors (<http://www.iaisweb.org>) and international organizations such as the Basel Committee on Banking Supervision (<http://www.bis.org/bcbs/index.htm>).

Maintaining good relationships with these organizations is critical to OSFI's success. OSFI reviews, on an annual basis, its involvement with these organizations to ensure it is maximizing the effective use of resources.

Departmental Links to the Government of Canada Outcome areas

The following table outlines OSFI's 2007-2008 expenditures by activity, and links these activities to OSFI's Strategic Outcomes and the Government of Canada Outcome areas.

The expenditures of each activity in the table include a share of OSFI's Corporate Services costs, which have been allocated in a consistent manner to accurately reflect the total cost of each activity; to support equitable billing; and to support the Treasury Board requirement to understand Government-Wide Corporate Services and fully-loaded program costs. OSFI's largest activity is the regulation and supervision of federally regulated financial institutions, which utilizes approximately 84% of OSFI's resources. The net cost of the Office of the Chief Actuary activity is funded by an annual parliamentary appropriation for actuarial services to the Government of Canada related to Public Pensions.

| 2007-2008 (\$ thousands) | | | | | | | |
|---|---------------|--------------|---------------|---------------|------------|----------------------|------------------------|
| Program Activity | Budgetary | | | | | Total Main Estimates | Total Planned Spending |
| | Operating | Capital | Gross | Revenue | Net | | |
| Strategic Outcome #1: <i>To regulate and supervise to contribute to public confidence in Canada's financial system and safeguard from undue loss.</i> | | | | | | | |
| 1.1 Regulation and supervision of federally regulated financial institutions | 69,222 | 6,692 | 75,914 | 75,914 | 0 | 0 | 0 |
| 1.2 Regulation and supervision of federally regulated private pension plans | 6,513 | 0 | 6,513 | 6,513 | 0 | 0 | 0 |
| 1.3 International Assistance | 2,026 | 0 | 2,026 | 2,026 | 0 | 0 | 0 |
| Strategic Outcome #2: <i>To contribute to public confidence in Canada's public retirement income system.</i> | | | | | | | |
| 2. Office of the Chief Actuary | 6,066 | 0 | 6,066 | 5,282 | 784 | 784 | 784 |
| Total | 83,827 | 6,692 | 90,519 | 89,735 | 784 | 784 | 784 |

Note: Corporate Services costs are allocated across the activities based on direct human resources costs.

- Program Activity #1.1 contributes to the achievement of the Government of Canada’s “strong economic growth” and “a safe and secure world through international cooperation” outcome areas.
- Program Activity #1.2 contributes to the achievement of the Government of Canada’s “strong economic growth” and “income security for Canadians” outcome areas.
- Program Activity #1.3 contributes to the achievement of the Government of Canada’s “strong economic growth” and “a safe and secure world through international cooperation” outcome areas.
- Program Activity #2 contributes to the achievement of the Government of Canada’s “income security for Canadians” outcome area.

Financial and Other Tables

This section presents a number of financial tables that detail OSFI's Expenditures and Revenues for the planning period. Tables 1 to 6 are provided in accordance with Treasury Board requirements. The remaining tables offer additional information on OSFI's Regulatory Plan and Internal Audits.

Background

OSFI recovers its costs from several revenue sources. Costs for risk assessment and intervention (supervision), approvals and rule making are charged to the financial institutions and private pension plans that OSFI regulates and supervises.

The amount charged to individual institutions for OSFI's main activities of supervision, approvals and rule making is determined in several ways. In general, the system is designed to allocate costs based on the approximate amount of time spent supervising and regulating institutions. As a result, well-managed, lower-risk institutions and those with fewer approvals bear a smaller share of OSFI's costs.

Specific user fees cover costs for certain approvals. Problem (staged) institutions are assessed a surcharge approximating the extra supervision resources required.

OSFI also receives revenues for cost-recovered services. These include revenues from the Canadian International Development Agency (CIDA) for international assistance, revenues from provinces for which OSFI does supervision on contract, and revenues from other federal agencies for which OSFI provides administrative support. Cost-recovered services revenue also includes amounts charged separately to major banks for the implementation of the internal ratings-based approach of the New Basel Capital Accord.

The remainder of the costs of risk assessment and intervention, approvals and rule making are recovered through base assessments against institutions and private pension plans fees according to various formulae.

On April 1, 2002, OSFI began collecting late and erroneous filing penalties from financial institutions that submit late and/or erroneous financial and non-financial returns. On August 31, 2005, the Administrative Monetary Penalties (OSFI) Regulations came into force. These Regulations implement an administrative monetary penalties regime pursuant to which the Superintendent can impose penalties in respect of specific violations, as designated in the schedule to the Regulations. These Regulations incorporate the late and erroneous filing penalty regime and replace the Filing Penalties (OSFI) Regulations, which came into force on April 1, 2002. These penalties are billed quarterly, collected and remitted to the Consolidated Revenue Fund. By regulation, OSFI cannot use these funds, which are recorded as non-responsible revenue, to reduce the amount that it assesses the industry in respect of its operating costs.

The Office of the Chief Actuary is funded by fees charged for actuarial services and in part by an annual parliamentary appropriation for services to the Government of Canada related to public pensions. OSFI's financial statements are prepared using Generally Accepted Accounting Principles (GAAP), are audited annually by the Office of the Auditor General and are published

in OSFI's Annual Report. OSFI's annual reports can be accessed at http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=647

Financial Tables

Introduction

OSFI continues to re-evaluate its programs to ensure that they contribute to OSFI's mandate and are efficiently managed. In so doing, OSFI has been successful at minimizing ongoing operating cost increases and at judiciously managing its human resources in optimal ways. As a result, OSFI's human resources (average FTEs) are increasing by just under 2% from 2006-2007 to 2007-2008 and are expected to remain effectively flat over the planning period.

Total gross Budgetary Main Estimates are planned to increase by 4.9% from 2006-2007 to 2007-2008, due primarily to the increase in human resources, normal inflationary and merit adjustments and continued annual capital investments. These investments in enabling technologies, information management strategies and information technology infrastructure are consistent with OSFI's priority on resources and infrastructure during the planning period.

Total gross Budgetary Main Estimates are planned to increase by 0.8% from 2007-2008 to 2008-2009 due in part to the completion of several information technology projects in 2007-2008. In 2009-2010, OSFI is planning to renew its Toronto office lease at market rates in that year, which are estimated to be 65% higher than the current lease (which was negotiated in 1994). Coinciding with the lease renewal, OSFI is also planning an accommodation upgrade in Toronto in order to utilize its space more efficiently and align its accommodation standards more closely to those established by Public Works and Government Services Canada. The planned increase in lease costs and the accommodation plan, combined with normal inflationary and merit adjustments, are the main causes for the spending increase in 2009-2010.

The Total Planned Spending for 2006-2007 is \$768 thousand. The planned increase to \$784 thousand in 2007-2008 and beyond is related to adjustments granted by the Treasury Board for collective agreements for the Office of the Chief Actuary.

OSFI's total planned spending and average full-time equivalent (FTE) complement over the three-year planning period are displayed in the following table.

Table 1: OSFI Planned Spending and Average Full-Time Equivalents

| (\$ thousands) | Forecast Spending 2006-2007 | Planned Spending 2007-2008 | Planned Spending 2008-2009 | Planned Spending 2009-2010 |
|--|-----------------------------------|---|----------------------------------|----------------------------------|
| Regulation and supervision of federally regulated financial institutions | 73,229 | 75,914 | 76,340 | 87,517 |
| Regulation and supervision of federally regulated private pension plans | 6,422 | 6,513 | 6,811 | 6,960 |
| International Assistance | 1,885 | 2,026 | 2,051 | 2,088 |
| Office of the Chief Actuary (OCA) | 4,791 | 6,066 | 6,071 | 6,224 |
| Budgetary Main Estimates (gross) | 86,327 | 90,519 | 91,273 | 102,789 |
| Non-Budgetary Main Estimates (gross) | 0 | 0 | 0 | 0 |
| Less: Respendable revenue | 85,559 | 89,735 | 90,489 | 102,005 |
| Total Main Estimates | 768 | 784 | 784 | 784 |
| <i>Adjustments:</i> | 0 | 0 | 0 | 0 |
| <i>Total Adjustments</i> | 0 | 0 | 0 | 0 |
| Total Planned Spending | 768 | 784 | 784 | 784 |
| Total Planned Spending | 768 | 784 | 784 | 784 |
| Less: Non-respendable revenue | 510 | 450 | 450 | 450 |
| Plus: Cost of services received without charge | 76 | 80 | 80 | 80 |
| Total Agency Spending | 338 | 414 | 414 | 414 |
| Average Full-Time Equivalents | 452 | 461 | 459 | 459 |

Table 2: Voted and Statutory Items Listed in Main Estimates

Tables 2a and 2b provide additional information to illustrate total Government of Canada expenditures that are related to OSFI.

Table 2a: Voted Items Listed in Main Estimates

| Vote Item | (\$ thousands) | 2006-2007 Main Estimates | 2007-2008 Main Estimates |
|-----------|----------------------|-----------------------------|-----------------------------|
| 30 | Program expenditures | 768 | 784 |
| | Total Agency | 768 | 784 |

The planned increase to \$784 thousand in 2007-2008 is related to adjustments granted by the Treasury Board for collective agreements for the Office of the Chief Actuary.

Table 2b: Statutory Items Listed in Main Estimates

| Statutory Item | (\$ thousands) | 2006-2007 Main Estimates | 2007-2008 Main Estimates |
|----------------|--|-----------------------------|-----------------------------|
| (S) | Spending of revenues pursuant to subsection 17(2) of the <i>Office of the Superintendent of Financial Institutions Act</i> (R.S., 1985, c. 18 (3rd Supp.)) | 0 | 0 |
| | Total Agency | 0 | 0 |

Table 3: Services Received Without Charge

Table 3 illustrates services received without charge from other government departments.

| (\$ thousands) | 2007-2008 |
|---|------------------|
| Audit fees from the Office of the Auditor General | 80 |
| Total 2007-2008 Services Received Without Charge | 80 |

Table 4: Summary of Capital Spending by Program Activity

The table below outlines OSFI's planned capital investments by program activity. As indicated in the commentary to Table 1, OSFI continues to develop cost-effective information management systems to maintain the robust technology infrastructure necessary to support its supervisory and regulatory activities. Several technology projects will be completed during 2007-2008, which explains why planned capital spending is dropping in 2008-2009.

In 2009-2010, OSFI is planning to renew its Toronto office lease and coinciding with the lease renewal, OSFI is developing an accommodation plan in order to utilize its space more efficiently and align its accommodation standards more closely to those established by Public Works and Government Services Canada. The accommodation plan accounts for the increase in capital expenditures in 2009-2010.

Summary of Capital Spending by Program Activity

| (\$ thousands) | Forecast Spending 2006-2007 | Planned Spending 2007-2008 | Planned Spending 2008-2009 | Planned Spending 2009-2010 |
|---|-----------------------------------|---|----------------------------------|----------------------------------|
| Office of the Superintendent of Financial Institutions | | | | |
| Regulation and supervision of federally regulated financial institutions | 6,026 | 6,692 | 5,111 | 12,241 |
| Regulation and supervision of federally regulated private pension plans | 0 | 0 | 0 | 0 |
| International Assistance | 0 | 0 | 0 | 0 |
| Office of the Chief Actuary (OCA) | 0 | 0 | 0 | 0 |
| Total | 6,026 | 6,692 | 5,111 | 12,241 |

Table 5: Sources of Respendable and Non-Respendable Revenue

Table 5 illustrates sources of respendable and non-respendable revenue presented on the modified cash basis, however OSFI recovers its costs through assessments and user fees billed on the accrual basis of accounting.⁵ On this basis, the expected overall revenue increase for 2007-2008 will be in the range of 5%. For 2007-2008, there are significant shifts in revenue for the Regulation and Supervision of Federally Regulated Financial Institutions program. This program's base assessments are increasing by 7.6% due to over \$2.3 million (or 3.6% of the 7.6%) in reductions of user fees and charges and cost-recovered services, and expense increases.

The bulk of cost-recovered services in 2006-2007 and 2007-2008 relates to the Internal Ratings Based (IRB) Basel implementation project (Priority B) that is charged directly to the major banks. This project ends on October 31, 2007, after which time any ongoing costs pertaining to Basel II are to be recovered through base assessments. The lower user fees and charges planned for 2007-2008 and beyond for this same program activity reflect the amendments to the *Charges for Services Provided by the Office of the Superintendent of Financial Institutions Regulations 2002*, which came into effect on April 28, 2006. The amendment reduced the number and types of legislative approvals that attract a service charge. Ongoing costs to process approvals for which service charges no longer apply are recovered through base assessments.

The increase from 2006-2007 to 2007-2008 in the cost-recovered services of the Office of the Chief Actuary reflects: the impact of achieving a full staff complement during 2006-2007; normal inflationary growth in employee compensation per collective agreements; the cost of a triennial review of the Canada Pension Plan; and the last year of a three-year phase-in, effective 2005-2006, of allocating a greater share of the Corporate Services costs to this program activity.

⁵ OSFI's financial statements are prepared using GAAP, are audited annually by the Office of the Auditor General and are published in OSFI's Annual Report. OSFI's annual reports can be accessed at http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=647

Table 5 (continued)
Sources of responsible revenue

| (\$ thousands) | Forecast Revenue 2006-2007 | Planned Revenue 2007-2008 | Planned Revenue 2008-2009 | Planned Revenue 2009-2010 |
|---|----------------------------------|--|---------------------------------|---------------------------------|
| <i>Office of the Superintendent of Financial Institutions</i> | | | | |
| Regulation and supervision of federally regulated financial institutions | | | | |
| Sources of responsible revenue | | | | |
| Base Assessments | 65,483 | 70,489 | 73,219 | 84,549 |
| User Fees and Charges | 3,113 | 2,147 | 2,147 | 2,147 |
| Cost-Recovered Services | 4,633 | 3,278 | 974 | 821 |
| | 73,229 | 75,914 | 76,340 | 87,517 |
| Regulation and supervision of federally regulated private pension plans | | | | |
| Source of responsible revenue | | | | |
| Pension Fees | 6,422 | 6,513 | 6,811 | 6,960 |
| | 6,422 | 6,513 | 6,811 | 6,960 |
| International Assistance | | | | |
| Sources of responsible revenue | | | | |
| Base Assessments | 517 | 519 | 511 | 548 |
| Cost-Recovered Services | 1,368 | 1,507 | 1,540 | 1,540 |
| | 1,885 | 2,026 | 2,051 | 2,088 |
| Office of the Chief Actuary (OCA) | | | | |
| Sources of responsible revenue | | | | |
| User Fees and Charges | 20 | 35 | 35 | 35 |
| Cost-Recovered Services | 4,003 | 5,247 | 5,252 | 5,405 |
| | 4,023 | 5,282 | 5,287 | 5,440 |
| Total Responsible Revenue | 85,559 | 89,735 | 90,489 | 102,005 |

Table 5 (continued)**Sources of Non-Respendable Revenue**

| (\$ thousands) | Forecast Revenue 2006-2007 | Planned Revenue 2007-2008 | Planned Revenue 2008-2009 | Planned Revenue 2009-2010 |
|---|----------------------------------|--|---------------------------------|---------------------------------|
| <i>Office of the Superintendent of Financial Institutions</i> | | | | |
| Regulation and supervision of federally regulated financial institutions | | | | |
| Source of non-respendable revenue | | | | |
| Filing Penalties | 510 | 450 | 450 | 450 |
| Total Non-Respendable Revenue | 510 | 450 | 450 | 450 |
| Total Respendable and Non-respendable Revenue | 86,069 | 90,185 | 90,939 | 102,455 |

Table 6: Resource Requirements by Sector

Table 6 provides a breakdown of OSFI's resource requirements by Sector. Consistent with the methodology for the Program Activity Architecture (PAA), the Corporate Services Sector resources are allocated across OSFI's other three sectors (Regulation, Supervision, and Office of the Chief Actuary) based on direct human resources costs.

Resource Requirements by Sector

| 2007-2008 | | | | | |
|-----------------------------|--|---|--------------------------|-----------------------------|------------------------|
| (\$ millions) | Regulation and supervision of federally regulated financial institutions | Regulation and supervision of federally regulated private pension plans | International Assistance | Office of the Chief Actuary | Total Planned Spending |
| Regulation | \$22.4 | \$6.5 | \$2.0 | | \$30.9 |
| Supervision | 53.5 | | | | 53.5 |
| Office of the Chief Actuary | | | | 6.1 | 6.1 |
| Total | \$75.9 | \$6.5 | \$2.0 | \$6.1 | \$90.5 |

Table 7: OSFI's Regulatory Plan

| Legislative Acts and/or Regulations | Purpose of regulatory initiative | Expected results |
|--|---|---|
| <i>Regulations Amending the Investment Limits Regulations</i> | The Regulations are expected to be amended to (i) increase the equity investment limit for Property & Casualty companies; and (ii) to exclude equity investments made by life insurance companies and deposit-taking institutions for hedging purposes from the equity investments limits. | The amendments under consideration would provide increased flexibility in the investment limits regime. They would also level the playing field with federally regulated financial institutions that are currently exempt from the limit. |
| <i>Regulations Amending the Reinsurance (Canadian Companies) Regulations and the Reinsurance (Foreign Companies) Regulations</i> | The Regulations are expected to be amended to clarify how they apply to the accident and sickness business of life insurance companies. In addition, the Regulations will be reviewed to determine whether the maximum percentage of unregistered reinsurance allowed under the regulations remains appropriate in light of legislative amendments that will require foreign insurers to report and vest assets in respect of their business in Canada. | The amendments under consideration are expected to (1) clarify that the Regulations apply to life insurance companies that write accident and sickness insurance and that all of the premium income (i.e., not only the accident and sickness premium income) should be included in the denominator for purposes of determining the reinsurance limit; and (2) increase flexibility if it is determined that reinsurance capacity in Canada will be affected as a result of legislative amendments that will require foreign companies to vest assets in respect of their business in Canada. |
| <i>Regulations Amending the Financial Leasing Entity Regulations</i> | The Regulations are expected to be amended to provide more clarity with respect to the limitations on leasing activities and to provide more flexibility with respect to permissible residual value risk exposure. | The amendments under consideration would clarify how the limits on permitted leasing activities are to be calculated and would recognize the use of residual value insurance as an acceptable means of reducing the residual value risk exposure. |

Table 8: Internal Audits and Evaluations

OSFI's internal Audit and Consulting Services Group conducts regular internal audits as per its audit plan and posts the results of these audits on OSFI's web site under [About OSFI / Reports / Internal Audit Reports](#) . Management's response to any identified issues is contained in each report.

Upcoming Internal Audits (2007-2008*)

| Name of Internal Audit | Audit Type | Status | Expected Completion Date | Link to Report |
|---|--------------------|-------------|--------------------------|--|
| Human Resources Staffing Review | Regulatory Process | In progress | Q1/Q2 2007-2008 | Will be published on OSFI Web site |
| Financial Institutions Group – Deposit-Taking Institutions Review | Regulatory Process | In progress | Q1/Q2 2007-2008 | Will be published on OSFI Web site |
| Supervision Support Group – Credit Risk Division Review | Regulatory Process | Planned | Q2/Q3 2007-2008 | Will be published on OSFI Web site |
| OSFI Planning Review | Regulatory Process | Planned | Q2/Q3 2007-2008 | Will be published on OSFI Web site |

* OSFI's audit schedule is approved one year at a time, and the audits listed above were approved as part of the 2006-2007 audit schedule. The 2007-2008 Internal Audit Plan is to be approved by the Audit Committee in Q1 2007-2008 and will be published on [OSFI's Web site](#) once approved. It will contain a schedule of audits to be undertaken in 2007-2008.

Completed Internal Audits (completed in III or IV Quarter 2006-2007)

| Name of Internal Audit | Audit Type | Status | Completion Date | Link to Report |
|--|--------------------|-----------|-----------------|--------------------------------|
| Capital Precedents Framework Review | Regulatory Process | Completed | Dec 2006 | Link to report |
| Private Pension Plans Division - A Review of Planning Activities & Processes and 2006-07 Business & Priorities Plans | Regulatory Process | Completed | Dec 2006 | Link to report |

SECTION IV
OTHER ITEMS OF INTEREST

OSFI Program Support

Program Support at OSFI includes: Finance and Administration, Information Technology, Legal, Communications, and Human Resources. To facilitate government-wide roll-ups, the costs of these program-support activities are allocated to each program activity to show full program cost. At the same time, OSFI has identified one priority (Priority G) with specific initiatives that will support all programs (listed under Section I as a management priority).

| Program Support Activities | |
|-----------------------------------|---|
| Description | OSFI's Program Activities are supported by Corporate-wide Activities, whose costs are allocated to each Program Activity. These activities consist of Finance and Administration, Information Technology, Legal, Communications, and Human Resources. |
| Related Priority | <p>Ongoing responsibility</p> <ul style="list-style-type: none"> • High quality internal governance and related reporting. • Resources and infrastructure necessary to support supervisory and regulatory activities. <p>Priority G - Integration of Human Resources (HR) Planning into Business Planning</p> <ul style="list-style-type: none"> • Ensure OSFI has the human resources available to fulfill its mandate, through better long-range, integrated planning. |
| Expected Results | <ul style="list-style-type: none"> • Operational units within program support are efficient and effective, i.e. deliver services at reasonable cost and turn-around time relative to peers. • Operational units are operating within applicable policies, acts and guidelines. • High quality staff and a stable, motivated and skilled workforce. • OSFI's financial results accurately reflect the financial position of OSFI. • Staff recognize the improvements made at OSFI. • Improved allocation of resources. |
| Performance Measure(s) | <ul style="list-style-type: none"> • External reviewers find OSFI's Program Support to be efficient. • Internal Audit finding that Operational Controls are in place and Operational units are operating within applicable policies, acts and guidelines. • Knowledgeable observers, i.e., industry executives and professionals, are of the view that OSFI has high quality staff. • Voluntary turnover reports are satisfactory. • Employee Survey finds that OSFI employees are motivated. • OAG audits and tests the financial results and indicates any findings of weaknesses in their report to the Audit Committee. • Employee Survey shows improvements since the last survey. • HR costs for ongoing operations do not change substantially, unless there are unplanned external factors. |