



## OSFI ANNUAL REPORT HIGHLIGHTS 2010-2011

### TAKING A MEASURED APPROACH

STAKEHOLDERS  
TRANSPARENCY  
EFFECTIVENESS  
SUSTAINABILITY  
MITIGATION  
CRITERIA  
PRINCIPLES  
STRATEGIC  
CONTROLS  
SOLVENCY  
ANALYSIS  
EFFICIENCY  
CHALLENGES  
MONITOR  
COLLABORATION  
ADVISORY  
COMMITTEES  
IMPROVEMENTS  
VALUATION  
RENEWAL  
INTERVENTION  
COMPLIANCE

SCOPE  
FEEDBACK  
INTEGRATED  
PRODUCTIVITY  
CONGLOMERATE  
SCRUTINY  
STRENGTHEN  
GOVERNANCE  
PRACTICES  
REINSURANCE  
GUIDELINES  
INFRASTRUCTURE  
ACCOUNTING  
PROCEDURES  
PRECEDENTS  
FISCAL  
TESTING  
ACCOUNTABILITY  
FORMER  
PRIORITIES  
APPROVALS  
FUTURE  
BALANCED  
OVERSIGHT  
TOOL  
BENCHMARK

PRUDENTIAL  
RESPECT  
RISKS  
MANDATE  
EXPERTS  
TECHNOLOGY  
FLEXIBILITY  
CREDIT  
FRAMEWORK  
GROWTH  
GUIDANCE  
PLANS  
RESOURCES  
BUDGET  
MEASURE  
INSTITUTIONAL  
INSURANCE  
RULES  
INTERNATIONAL  
POLICIES  
REVIEWS  
MANAGEMENT  
EQUITY  
CONTINGENCY  
KNOWLEDGEABLE  
VALUATION  
ASSETS  
OBJECTIVE  
STANDARDS

INDICATORS  
QUALITY  
LIQUIDITY  
QUARTERLY  
RESILIENCE  
QUANTITATIVE  
MEASUREMENT  
RULES  
SECURITIZATION  
TARGET  
PENSIONS  
TIMELINESS  
PERFORMANCE  
BANKING  
VALUE  
REGULATION  
VIABILITY  
ACTUARY  
POLICYHOLDERS  
VOLUNTARY  
RECOVERY  
PROTECT  
INTEGRITY  
DISCLOSURE  
WORK  
DEVELOPMENT  
SUPERVISION  
FINANCIAL  
ECONOMY  
RESEARCH  
SECURITY  
DEPOSITORS  
LEGISLATION



OSFI  
BSIF

Canada

*OSFI Annual Report Highlights 2010-2011* provide a summary of both performance against annual priorities and achievements related to ongoing program responsibilities. The full report and financial statements are available on the OSFI Web site.

## **Taking a Measured Approach**

In its ongoing dialogue with the financial services industry, OSFI strives for a balance between allowing risk and regulating—taking a measured approach. This was particularly important in 2010-2011, as Canadian financial institutions continued to rebound from the global financial crisis and sought opportunities to grow. OSFI stressed the need to act carefully and strategically, in order to maintain stability and set the foundations for continued success.

## OSFI AT A GLANCE

- OSFI was established in 1987 to contribute to public confidence in the Canadian financial system. It is an independent agency of the Government of Canada and reports to the Minister of Finance.
- OSFI supervises and regulates 431 banks and insurers, and some 1,396 federally registered private pension plans. As at March 31, 2011, these organizations managed a total of \$4,245 billion of assets.
- The Office of the Chief Actuary, which is an independent unit within OSFI, provides actuarial valuation and advisory services for the Canada Pension Plan, the Old Age Security program, the Canada Student Loans Program and other public sector pension and benefit plans.
- OSFI recovers all of its costs, which in 2010-2011 totalled \$108.1 million. OSFI is funded mainly through asset-based, premium-based or membership-based assessments on the financial services industry and a user-pay program for selected services. A small portion of OSFI's revenue is derived from the Government of Canada for actuarial valuation and advisory services relating to various public sector pension and benefit plans.
- As of March 31, 2011, OSFI employed 583 people in offices located in Ottawa, Montréal, Toronto and Vancouver.



## SUPERINTENDENT'S MESSAGE

Taking a measured approach speaks to our dialogue with the financial services industry to find a balance between the free operation of market forces and necessary regulation. This was particularly important in 2010-2011, as Canadian financial institutions began to rebound after the global financial crisis and sought opportunities to grow. We emphasized, and continue to emphasize, the need to act carefully and with prudence in order to maintain stability in the system and secure the foundation for continued success, both for our organization and for those we regulate.

International regulatory bodies have proposed a number of regulatory changes that may have a transformational impact on the global financial system. Our continuing participation in international forums and rule-making bodies, such as the Financial Stability Board, Basel Committee on Banking Supervision, Senior Supervisors Group, Joint Forum, and International Association of Insurance Supervisors, allows us to contribute our perspective to improving global standards, while securing modifications that reflect the Canadian

regulatory experience and that of Canadian financial institutions. Understanding the cumulative impact of these changes will be important.

We continued to work closely with our federal government partners (Bank of Canada, Department of Finance, Canada Deposit Insurance Corporation, and Financial Consumer Agency of Canada) to monitor the resilience of the financial sector, via discussions on macro-economic and systemic risk issues, as well as discussions concerning the health of financial institutions.

To ensure that we are promoting the best practices the industry, depositors and policy holders deserve, we planned and conducted comparative reviews for corporate governance, stress testing, commodities and information security. Feedback is provided to federally regulated financial institutions (FRFIs) on the results as the reviews are completed. On the internal front, our Supervisory Framework, which was first produced in 1999 to guide supervisors in their day-to-day reviews of financial institutions, was reviewed and renewed.

Building on the success of previous years, we continued to host annual risk management seminars for deposit-taking institutions, and the life insurance and property and casualty insurance industries. We also held a number of Colleges of Supervisors, which brought together supervisors from other countries to receive presentations from some of Canada's largest financial institutions, including the first college for a large life insurance company.

Internally, we completed our project on moving to International Financial Reporting Standards (IFRS) on time and on budget. This included posting financial and regulatory reporting forms and revised accounting guidelines, completing necessary Information Management and Information Technology system changes, and developing IFRS training for employees.

Our people are the most important element of our success. In 2010-2011, we increased our staff complement in specialized skills such as research, insurance, credit risk and capital to enhance our ability to guide and supervise FRFIs in managing risks.

Taking a measured approach means finding the right balance between sometimes conflicting perspectives. It is essential that we continue to adapt to international changes in markets and regulations while allowing institutions to take risks and innovate. This report highlights how we achieved that balance over the past year.



**Julie Dickson**

Left to Right

**Gary Walker**

Assistant Superintendent,  
Corporate Services Sector

**Mark White<sup>1</sup>**

Assistant Superintendent,  
Regulation Sector

**Ted Price**

Assistant Superintendent,  
Supervision Sector

**Julie Dickson**

Superintendent of  
Financial Institutions



<sup>1</sup> As this report was being prepared, Mark White's resignation was announced.

## PERFORMANCE AGAINST PRIORITIES

OSFI's role is to contribute to the safety and soundness of the Canadian financial system, while allowing federally regulated financial institutions and private pension plans to take reasonable risks. We balance competitiveness with prudence, international rules with Canadian market realities, and efficiency with thoroughness. This measured approach guided our performance in 2010-2011, as the Canadian economy showed signs of rebounding amid continuing global economic challenges.

Last year's Annual Report listed six priorities to achieve OSFI's strategic outcomes for 2010-2011. This section reports major accomplishments under each of those priorities. OSFI achieved its goals for the reporting year and continues to work on these multi-year priorities.

**EMERGING RISKS — Continue to improve OSFI's ability to identify, monitor and report on emerging risks to federally regulated financial institutions and private pension plans, including system-wide risks, through enhanced research and intelligence gathering, international and domestic monitoring, and comparative reviews in key risk areas.**

- Completed revisions to OSFI's Supervisory Framework, and conducted training for supervisors.
- Improved the breadth and depth of analysis supporting OSFI's Emerging Risks Committee.
- Enhanced collaboration with the Bank of Canada and the Department of Finance on analysis of macroeconomic and systemic risk issues.
- Held annual risk management seminars for various industry segments (deposit-taking institutions, life insurance, and property and casualty insurance companies); hosted a College of Supervisors for two of Canada's largest banks, which brought together executives from each bank with supervisors from several jurisdictions where they do business, and the first college for a large life insurance company.
- Planned and conducted comparative reviews for corporate governance, stress testing, commodities,<sup>2</sup> and information security. Feedback is provided to federally regulated financial institutions (FRFIs) on the results as reviews are completed.

**INSTITUTIONAL AND MARKET RESILIENCE — Continue to participate in international discussions of key issues arising from global financial events, and work with Financial Institutions Supervisory Committee (FISC — Bank of Canada, Department of Finance, Canada Deposit Insurance Corporation, and Financial Consumer Agency of**

<sup>2</sup> Commodity trading is part of FRFIs' trading book activities that OSFI supervises. In addition, commodity risk factor Value at Risk (VaR) forms part of various FRFIs' VaR models OSFI approves for the calculation of regulatory market risk capital. (VaR is a statistical technique that measures the worst-case loss expected over a one-day period within a 99% confidence level.)



Canada) partners and OSFI-regulated industries to maintain strong communications, preparedness and overall market resilience.

- Continued participation in international forums such as the Financial Stability Board, Basel Committee on Banking Supervision (BCBS), Senior Supervisors Group, Joint Forum, and International Association of Insurance Supervisors (IAIS), contributing to the development of internationally agreed upon prudential and supervisory standards to strengthen the financial sector.
- Continued to work closely with our FISC partners to monitor the resilience of the financial sector and discuss critical issues.
- Consulted with stakeholders in drafting guidance related to a number of areas (e.g., *Basel III: A global regulatory framework for more resilient banks and banking systems*, Internal Capital Adequacy Assessment Process, IFRS-impacted guidance).
- Developed industry guidance for stress testing, building on BCBS, IAIS and existing OSFI principles.

**IFRS IMPLEMENTATION —** Implement the move to International Financial Reporting Standards (IFRS) in 2011, by assessing its impact on federally regulated financial institutions and pension plans, in order to address implications for OSFI's prudential regime and regulatory policies.

- Completed the project to move to IFRS on time and on budget.
- Posted final financial and regulatory reporting forms.
- Posted revised accounting guidelines pursuant to IFRS.
- Completed necessary IM/IT system changes to accept data changes.
- Developed IFRS training for OSFI staff.

**CAPITAL ADEQUACY —** Continue to participate actively in international forums (Basel Committee on Banking Supervision, Financial Stability Board, Joint Forum, and International Association of Insurance Supervisors) to contribute to the development of internationally agreed upon bank and insurance capital standards; review and improve domestic regulatory capital requirements and assessment practices; and enhance risk sensitivity of capital requirements in the insurance and banking sectors.

- Negotiated Basel Committee revision of: minimum risk based capital ratios, an international asset-to-capital multiple, and minimum liquidity — supported by a Qualitative Impact Study and by a consultation and discussion process with affected Canadian banks.

- Secured key modifications to new Basel III capital and liquidity rules that reflect some of the characteristics of the Canadian market.
- Held discussions with the Minimum Continuing Capital and Surplus Requirements (MCCSR) Advisory Committee about a fundamental review of the current valuation methodology for segregated funds requirements, and established a technical working group with industry for the project.
- Developed proposed capital changes (IFRS Advisory) and related modifications to forms in anticipation of IFRS implementation.
- Posted key principles for a revised Canadian capital framework for deposit-taking institutions.
- Completed revisions to the Minimum Capital Test (MCT) guideline for 2011, in consultation with the Insurance Bureau of Canada.

**HUMAN RESOURCES — Identify changing human resources requirements to ensure timely availability of qualified staff and the assignment of these resources based on identified risks and priority areas; implement strategic learning and development (training) plans.**

- Increased the staff complement to address needs in areas such as actuarial, capital, credit, research, and information management and technology.
- Reviewed executive compensation structure in light of market comparability and the *Expenditure Restraint Act*.
- Conducted a 360-degree feedback program for all managers.
- Introduced individual learning plans and targeted technical training to achieve HR plans and meet evolving business needs.

**INFRASTRUCTURE ENHANCEMENTS — Implement the long-term strategies and related governance for Information Management and Information Technology (IM/IT) necessary to support our evolving supervisory and regulatory activities.**

- Improved core infrastructure such as: disaster recovery site relocation, server upgrades, and Virtual Private Network (VPN) software upgrade.
- Launched technology renewals for document and records management, Web site and intranet site, business intelligence tools, desktop software including wireless VPN, and IFRS system enhancements.



- Improved internal controls in areas such as IT asset management, software testing, and IT Service Management.
- Started development of a new Pension Plan supervisory system.

## Priorities for 2011-2012

OSFI has identified the following four priorities to achieve strategic outcomes for 2011-2012. Details can be found on OSFI's Web site in the [Plan and Priorities 2011-2014](#), which includes the new Long-Term Business Priority.

- A. Responding to Risks Emanating from the Economy
- B. Responding to Risks Emanating from Regulatory Reform (including banking, insurance, pensions and accounting [IFRS] reforms)
- C. A High-Performing and Effective Workforce
- D. An Enhanced Corporate Infrastructure

OSFI has the following ongoing responsibilities:

### *Federally Regulated Financial Institutions*

Accurate risk assessments of financial institutions and timely, effective intervention and feedback.

A balanced, relevant regulatory framework of guidance and rules that meets or exceeds international minimums.

A prudentially effective, balanced and responsive approvals process.

### *Federally Regulated Private Pension Plans*

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.

### *Office of the Chief Actuary*

Provision of expert actuarial valuation and advice to contribute to a financially sound Canadian public retirement system, including Canada Pension Plan, federal government public pension and other programs.



## RISK ASSESSMENT AND INTERVENTION

OSFI supervises federally regulated financial institutions (FRFIs), monitors the financial and economic environment to identify issues that may impact these institutions negatively, and intervenes in a timely manner to protect depositors and policyholders from loss, while recognizing that management and boards of directors are ultimately responsible and that financial institutions can fail.

### Deposit-taking institutions and insurance companies

Throughout 2010-2011, OSFI continued to exercise a heightened level of monitoring and scrutiny of financial institutions and markets, a measured approach that took into account the ongoing economic recovery, especially in Canada. We strengthened the design and application of supervisory processes, and targeted cross-sector reviews in areas identified as high risk, including corporate governance and stress testing.

OSFI worked with various domestic partners on the Financial Institutions

Supervisory Committee (FISC — the Bank of Canada, the Department of Finance, the Canada Deposit Insurance Corporation, and the Financial Consumer Agency of Canada) to review lessons learned, and to discuss and coordinate issues related to the oversight of the financial sector. We enhanced collaboration with the Bank of Canada and the Department of Finance on analysis of macroeconomic and systemic risk issues.

OSFI continued its active participation in international forums to develop and implement better practices. These include the Basel Committee on Banking Supervision (BCBS), the Financial Stability Board, the International Association of Insurance Supervisors and the Senior Supervisors Group. At the end of 2010, the BCBS finalized proposals to strengthen global capital and liquidity regulations with the goal of promoting a more resilient banking sector.

Besides potential global economic challenges, two additional factors are having an impact on the Canadian banking industry: adoption of the International Financial

Reporting Standards (IFRS) for accounting, and revision of international capital and liquidity standards. In 2010, OSFI worked closely with the banking industry to evaluate their preparedness for the 2011 IFRS transition and the potential impacts. To further enhance capital adequacy monitoring, an Internal Capital Adequacy Assessment Process (ICAAP), stress testing and other related risk measurement processes were employed. OSFI will continue to work closely with the banking industry to ensure their capital and liquidity management programs will prepare the institutions for the more stringent standards anticipated under Basel III.

OSFI continued to monitor and provide guidance to the insurance industry on risk mitigation strategies. In 2010, OSFI asked a selected number of life insurers and life reinsurers, representing over 98% of the Canadian life insurance industry, to complete stress tests based on standardized scenarios. OSFI reviewed the results of the exercise, shared the

aggregate results with industry, and is using them to determine if there are any significant changes in the risk profile of each life insurer.

## Supervisory tools

In 2010-2011, OSFI used a measured approach to update its risk-based Supervisory Framework (introduced in 1999) to reflect changes in risks and risk management practices of financial institutions, developments in international regulation and supervision, as well as “lessons learned” through day-to-day experience applying the framework.

OSFI again held annual risk management seminars with various industry segments (deposit-taking institutions, life insurance, and property and casualty insurance companies) to reinforce the need for strong risk management and to share lessons learned.

Continuing the practice of organizing Colleges of Supervisors, in 2010-2011, OSFI hosted a college for two of Canada's largest banks, in line with Financial Stability Board recommendations, which brought together executives from each bank with supervisors from several jurisdictions where they do business. We also hosted the first such college for a large life insurance company.

## Composite risk and intervention ratings

The Composite Risk Rating (CRR) represents OSFI's overall assessment of an institution's safety and soundness for its depositors and policyholders. As at the end of March 2011, OSFI had assigned a low or moderate CRR to 90% of all rated institutions and had rated 10% as either



above average or high risk (compared to 88% and 12% as at March 31, 2010).

Financial institutions are also assigned an intervention rating, which determines the degree of supervisory attention they receive. Broadly, these ratings are categorized as: normal (stage 0); early warning (stage 1); risk to financial viability or solvency (stage 2); future financial viability in serious doubt (stage 3); and non-viable/insolvency imminent (stage 4). As at March 31, 2011, there were 44 staged institutions. With a few exceptions, the majority of the staged institutions were in the early warning (stage 1) category.

## REGULATION AND GUIDANCE

OSFI provides a regulatory framework of guidance and rules that meets or exceeds international minimums for financial institutions. In addition to issuing guidance, OSFI provides input into the development of federal legislation and regulations affecting financial institutions; comments on accounting, auditing and actuarial standards development and determines how to incorporate them into our regulatory framework; and participates in a number of international and domestic rule-making activities. During 2010-2011, OSFI continued to promote sound risk management practices through its rule-making activities.



## Domestic rule making

The governing statutes applicable to federally regulated financial institutions (FRFIs) are reviewed every five years to ensure they remain current and promote an efficient, competitive and prudent financial services sector. Following the Government of Canada's September 2010 launch of the legislative review, OSFI submitted a number of proposals regarding amendments to the statutes and associated regulations.

During 2010-2011, OSFI released three Advisories and an implementation letter related to the measurement of capital and capital adequacy of banks and trust and loan companies. OSFI issued sound practices [guideline E-19](#) on Internal Capital Adequacy Assessment Process (ICAAP)

applicable to banks, bank holding companies, and trust and loan companies.

OSFI undertook its annual update of the Minimum Continuing Capital and Surplus Requirements (MCCSR) guideline during 2010, with the revised version coming into effect for the 2011 fiscal year. OSFI is developing a new framework for the standardized MCCSR approach with the help of the Autorité des marchés financiers and Assuris. This responds to the anticipated move to Inter-national Financial Accounting Standards (IFRS — Insurance Contracts Phase II) that is expected to modify the principles for determining insurance liabilities.

OSFI undertook an update of the Minimum Capital Test (MCT) guideline during 2010, with the revised version coming into effect as of January 1, 2011. Many of the updates were necessary due to the introduction of IFRS, for which a phase-in period of two years was provided. OSFI continued developing a new capital framework for its standardized MCT approach with the objective of improving the fairness, effectiveness and efficiency of the MCT/BAAT (Branch Adequacy of Assets Test).

During 2010-2011, OSFI issued updated accounting guidelines to reflect the adoption of IFRS, as well as a consultation version of its guideline on Sound Reinsurance

Practices and Procedures in August 2010 and the final version in December 2010.

## International activities

International organizations play a key role in the development of regulatory frameworks for banks and, increasingly, insurers. While the Canadian financial system continues to benefit from approaches taken in Canada, the global marketplace experienced a period of severe stress from which it continues to recover. As a result, international regulatory reform remains at the top of the agenda for the G-20. In 2010-2011, OSFI played a key role in encouraging the development of international rules that balance safety and soundness with the need for financial institutions to be able to compete effectively and on a level playing field.

OSFI strengthened relationships with foreign supervisors by participating in international rule-making discussions, participating in and hosting several international supervisory colleges, and developing information-sharing agreements with a number of host-country supervisory authorities that regulate significant foreign operations of Canadian banks and insurers.

The Basel Committee on Banking Supervision (BCBS) provides a forum for international rule making and cooperation on banking supervisory matters. OSFI is an active member. In December 2010, the Committee finalized a broad-ranging set of proposals under Basel III for strengthening the resiliency of the banking sector that significantly influence the way capital adequacy and liquidity are measured. OSFI played an active role in the development of the standards and secured modifications that reflect some of the characteristics of the Canadian market.

Throughout 2010-2011, OSFI continued to monitor the status of implementation plans, and assessed impacts and industry readiness for the change to IFRS through progress reports submitted by federally regulated entities.



## APPROVALS AND PRECEDENTS

The *Bank Act*, *Trust and Loan Companies Act*, *Insurance Companies Act*, and *Cooperative Credit Associations Act* all require federally regulated financial institutions (FRFIs) to seek regulatory approval from the Superintendent of Financial Institutions or the Minister of Finance (acting on the advice of OSFI), prior to engaging in certain transactions or business undertakings. Such regulatory approvals are also required by persons wishing to incorporate a FRFI, and foreign banks or foreign insurance companies wishing to establish a presence or to make certain investments in Canada.

In 2010-2011, OSFI processed 209 applications involving 284 approvals (individual applications often contain multiple approval requests), of which 25% were Ministerial approvals. Of the 209 applications, 192 were approved and 17 were withdrawn at the request of the applicant. This represents a 30% decrease in applications over the previous year.

During 2010-2011, there were eight new entrants: one domestic bank, two trust companies, one life insurance company, one property and casualty (P&C) insurance company, and three foreign P&C branches.

At March 31, 2011, there were 18 ongoing applications for new entrants: eight domestic banks, three foreign bank subsidiaries, one foreign bank branch, four trust companies, one foreign life branch, and one foreign P&C branch.

Upon request, OSFI provides advance capital confirmations on the eligibility of proposed capital instruments. A total of 25 such opinions and validations were provided in 2010-2011, compared to 35 the previous year.

OSFI develops and publishes legislative guidance such as Advisories, Rulings, and Transaction Instructions. In 2010-2011, OSFI published one revised Transaction Instruction regarding applications for Change of Name. A considerable amount of work was done providing case-specific interpretations or guidance on matters relating to self-dealing transactions, permitted activities in Canada by domestic and foreign entities, permitted investments, classes of insurance, and transitional issues related to the insuring in Canada of risks by foreign insurers.

OSFI has performance standards establishing time frames for processing applications for regulatory approval and for other services. In 2010-2011, OSFI met or exceeded all of these standards.





## FEDERALLY REGULATED PRIVATE PENSION PLANS

OSFI conducts risk assessments of pension plans covering employees in federally regulated areas of employment; provides timely and effective intervention and feedback; employs a balanced relevant regulatory framework; and manages a prudentially effective and responsive approvals process.

As at March 31, 2011, 1,396 private pension plans were registered under the *Pension Benefits Standards Act, 1985* (PBSA), covering over 647,000 employees in federally regulated areas of employment, such as banking, inter-provincial transportation and telecommunications. Between April 1, 2010 and March 31, 2011, plan assets increased by 7.4%, to a value of approximately \$132 billion. OSFI regulates approximately 7% of pension plans in Canada, according to Statistics Canada data as of January 2010. The majority of pension plans in Canada are under provincial regulation, representing 6 million employees with total assets of \$1,098 billion.

The Government of Canada passed a number of legislative changes to the PBSA and pension regulations in 2010-2011.

OSFI worked closely with government officials to support the implementation of those changes and to develop the necessary amendments to regulations.

OSFI held its second pension industry forum in Toronto in February 2011. The forum focused on the impact of recent changes to the PBSA and pension regulations, and included separate sessions for defined benefit and defined contribution plans. Participant evaluation of this year's forum was both positive and useful, and will help guide future communications with the industry.

### Risk assessment and intervention

Throughout 2010-2011, OSFI continued to emphasize the importance of effective risk management by pension plan administrators. In March 2011, following an earlier survey by OSFI of federal pension plans' stress testing practices, OSFI published a Draft Stress Testing Guideline for Plans with Defined Benefit Provisions.

OSFI continued to modernize the tools it uses to monitor and supervise pension plans during 2010-2011. In particular, the initiative to upgrade the pension supervisory systems that support OSFI's risk assessment framework is in development and will be implemented over the next couple of years.

OSFI performed a number of on-site examinations during 2010-2011. OSFI continued to focus on governance, risk management and disclosure to members — all areas that have generally been identified as requiring more attention from plan administrators.

Pension plans that give rise to serious concern, due to their financial condition or for other reasons, are placed on a watch list and actively monitored. The number of private pension plans on OSFI's watch list decreased significantly during 2010-2011 from 79 at the start of the year to 49 at the end of the fiscal year.

In 2010-2011, OSFI intervened when necessary, including taking measures to enforce minimum funding requirements, ensuring timely remittance of contributions, and restricting portability of benefits in order to stop the impairment of the pension fund. In addition, OSFI used its authority to replace plan administrators and, in one instance, to terminate a pension plan with the objective of providing equitable treatment of all members and beneficiaries where the future of a plan was uncertain.

Periodically, OSFI surveys its pension plan administrators in an effort to understand

better how they handle specific issues. In early 2011, OSFI assessed which federal pension plans could potentially experience a material increase in funding requirements in 2011. Based on the outputs of this review, OSFI communicated with selected plan administrators to identify any potential difficulties in meeting the 2011 minimum funding requirements and to initiate a dialogue on actions being taken to address this issue.

## Approvals and precedents

Federally regulated private pension plans are required to seek approval from the Superintendent of Financial Institutions for different types of transactions affecting pension plans. During 2010-2011, OSFI continued to improve the timeliness of pension approvals. The number of transactions requiring the Superintendent's approval decreased by 36% compared to the previous year. In addition, OSFI published an updated approval instruction guide to the pension industry on asset transfers related to defined benefit plans.





## OFFICE OF THE CHIEF ACTUARY

The Office of the Chief Actuary (OCA) contributes to a financially sound and sustainable Canadian public retirement income system through the provision of expert actuarial valuation and advice to the Government of Canada and to provincial governments that are Canada Pension Plan (CPP) stakeholders.

The OCA provides statutory actuarial valuation and advisory services for the CPP, Old Age Security (OAS) program, the Canada Student Loans Program (CSLP), and pension and benefits plans covering the federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police (RCMP), federally appointed judges, and Members of Parliament.

The OCA was established within OSFI as an independent unit. The Chief Actuary reports to the Superintendent; however, the accountability framework of the OCA

makes it clear that the Chief Actuary is solely responsible for the content and actuarial opinions expressed in reports prepared by the OCA.

The OCA is required by law to produce an actuarial report on the CPP every three years. The *25<sup>th</sup> Actuarial Report on the Canada Pension Plan as at 31 December 2009* was tabled before Parliament on November 15, 2010. The report finds that, under the 9.9% legislated contribution rate, the CPP is expected to be able to meet its obligations throughout the projection period and to remain financially sustainable over the long term, with assets projected to accumulate to \$275 billion by the end of 2020.

The statutory *Actuarial Report on the Canada Student Loans Program as at 31 July 2009* was tabled before Parliament on June 14, 2010, in accordance with the *Canada Student Financial Assistance Act*.

An actuarial review is prepared to provide an evaluation of the Program's overall financial costs and increase the level of information available to Parliament and the public.

The OCA is continually involved in performing research and preparing various experience studies covering a wide range of social security, demographic and economic issues that may affect the financial status of pension and benefits

plans. In 2010-2011, two papers based on the results of actuarial studies prepared by the Office of the Chief Actuary were published in international journals.

In 2010-2011, the OCA also provided a wide range of services, presentations and special studies.

**Jean-Claude Ménard**  
Chief Actuary





## FINANCIAL HIGHLIGHTS

Overall, OSFI fully recovered all of its expenses for the fiscal year 2010-2011. Total expenses were \$108.1 million, a \$4.8 million, or 4.6%, increase from the previous year. Human resources costs, the main driver of OSFI's expenses, rose by \$4.6 million, or 6.0% from the previous year. This was a result of: staffing vacant positions across all sectors; the full-year impact of the previous year's incremental new hires; planned growth in employee compensation in accordance with collective agreements; and the impact of these changes on performance-related pay, which is available to employees at all levels within the organization.

The amount charged to individual federally regulated financial institutions (FRFIs) for OSFI's main activities of risk assessment and intervention (supervision), approvals and precedents, and regulation and guidance is determined in several ways, according to formulas set out in regulations. In general, the system is designed to allocate costs based on the approximate amount of time spent supervising and regulating each industry. Costs are then assessed to individual institutions within an industry

based on the applicable formula, with a minimum assessment for smaller institutions. Total revenues from FRFIs were \$94.4 million, an increase of \$5.7 million, or 6.4%, from the previous year. Total expenses were \$94.7 million, an increase of \$6.2 million, or 7.0%, from the previous year.

OSFI's costs for regulating and supervising private pension plans are recovered from an annual fee charged to plans, based on the number of plan members. Total fees assessed during the fiscal year were \$7.9 million, down from \$8.6 million in 2009-2010. The cost of administering the *Pension Benefits Standards Act*, 1985, for 2010-2011 was \$6.6 million, an increase of 0.7% from \$6.5 million in the previous year.

The Office of the Chief Actuary is funded by fees charged for actuarial valuation and advisory services, and by an annual parliamentary appropriation. Total expenses were \$6.4 million, an increase of \$0.3 million, or 4.7%, from the previous year.

OSFI's full [Annual Report](#) and [financial statements](#) are available on the OSFI Web site.