

**Office of the Superintendent of
Financial Institutions Canada**

2005-2006 to 2007-2008

Report on Plans and Priorities

Minister of Finance

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SECTION I – OVERVIEW

MESSAGE FROM THE 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 2005-2006 to 2007-2008.

Canada is fortunate to possess one of the strongest financial systems in the world, which contributes to the strength and innovation of Canada's economy and protects the savings of individual Canadians. However, the environment – both domestically and internationally - in which OSFI operates is 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 is the primary regulator of all federally incorporated financial institutions in Canada as well as federally administered private pension plans. As a separate unit, the Office of the Chief Actuary (OCA) provides actuarial and other services to the federal government. Above all, and without unduly restricting competitiveness, OSFI advances a modern regulatory framework that contributes to public confidence in Canada's financial system. Such a framework also benefits financial institutions in their dealings with Canadians and with counter-parties in Canada and abroad.

Effective mechanisms for evaluating risks to financial institutions and private pension plans, programs to promote sound business and financial practices, and the capacity and willingness to intervene early to avoid or minimize prudential problems in regulated financial institutions and pension plans will continue to be the key ingredients of OSFI's regulatory and supervisory approach.

In addition to intervening in emerging prudential problem situations, the need to develop regulations that ensure a level playing field for Canada's financial institutions vis-à-vis their global competitors is an ever-present challenge. For example, in the next few years, OSFI will contribute to the development and implementation of updated international capital rules for banks and participate in the review of global capital standards for insurers.

OSFI's priorities will be affected by the government's policy decisions on two key issues: large-bank or cross-pillar mergers and the reduction of any overlaps between OSFI and the Canada Deposit Insurance Corporation (CDIC). As of writing, the direction the government wishes to take and the associated outcomes are unclear. In addition, Canada's standards regarding institutional governance and accounting practices are being enhanced, and the appropriateness of specific pension funding standards will be reviewed. OSFI is an active contributor to these developments because of their importance to our mandate. OSFI is also involved in anti-money laundering and counter terrorism financing (AML/CTF) efforts in its role of assessing the adequacy of regulated financial institutions compliance framework in this area.

There have been changes to this report from previous years in support of the government's objectives to improve the availability and quality of its performance information for Canadians. OSFI has made changes to enhance its reporting structure under the government's Program Activity Architecture (PAA) initiative and has implemented these changes. This report provides Parliamentarians and the public with a concise summary of OSFI's operations and anticipated challenges, the priorities OSFI intends to pursue over the next three years, along with an account of the resources OSFI expects to utilize in support of its strategic outcomes.

OSFI expects to devote somewhat more resources in the coming year to pension supervisory matters and AML/CTF work. At the same time, through technology investments and process improvements, we have achieved material economies in other areas.

For the next planning period, the OCA will conduct a triennial actuarial review of the Old Age Security program, the Royal Canadian Mounted Police (Dependants) Pension Fund, the Members of Parliament and the Judges pension plan, established under their respective Acts in accordance with the Public Pensions Reporting Act and present the report to their respective Minister to be tabled in the House of Commons. An actuarial review of the Canada Student Loans Program will be done evaluating the portfolio of loans and the long-term costs of the Program.

OSFI's activities and initiatives 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.

SUMMARY INFORMATION

Reason for Existence

OSFI's legislated mandate was established in 1996 and changes are not expected in the 2005-2008 planning period¹. 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.

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 accurate, timely advice on the state of various public pension plans and on the financial implications of options being considered by policy makers.

¹ This plan does not address any possible changes arising from the Minister of Finance's review of OSFI/CDIC overlap and duplication.

Financial Resources (\$ millions)

2005-2006	2006-2007	2007-2008
\$83.9	\$82.7	\$82.7

Human Resources (FTEs)

2005-2006	2006-2007	2007-2008
474	470	470

Priorities

	Type	Planned Spending		
		2005-2006	2006-2007	2007-2008
Priority #1 Accurate risk assessments of financial institutions and timely effective intervention and feedback	On going	\$52.2	\$51.1	\$51.1
Priority #2 A balanced, relevant regulatory framework of guidance and rules that meets or exceeds international minimums	On going	\$11.5	\$11.6	\$11.6
Priority #3 A prudentially effective, balanced and responsive approvals process	On going	\$9.5	\$9.2	\$9.2
Priority #4 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	On going	\$4.2	\$3.9	\$3.9

	Type	Planned Spending		
		2005-2006	2006-2007	2007-2008
Priority #5 Contribute to awareness and improvements of supervisory and regulatory practices for selected foreign regulators through the operation of an International Assistance Program	Previously committed (last DPR)	\$1.6	\$1.8	\$1.8
Priority #6 Contribute to financially sound, federal government public pension plans and other programs through provision of expert actuarial valuation and advice	On going	\$4.9	\$5.1	\$5.1
Priority #7 High-quality internal governance and related reporting	New	Costs for this priority are included in the costs for Priorities 1-6 above		
Priority #8 Resources and infrastructure necessary to support supervisory and regulatory activities	On going	Costs for this priority are included in the costs for Priorities 1-6 above		

OSFI'S PLANS AND PRIORITIES

OSFI's plans and priorities support the government's overall fiscal and economic priorities as stated by the Prime Minister in his *reply to the Speech from the Throne of October 5, 2004*: "Our priorities as a government serve our goals as a nation: prosperity, opportunity and security for the Canada of now, for the Canada to come. This government is doing all it can to create the conditions for Canadians to prosper. We will as a government work to ensure Canada and Canadians remain competitive in the global economy."

OSFI's strategic outcomes, supported by our plans and priorities, are intrinsically aligned with broader government priorities. 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. As such, it provides significant benefits to Canadians.

The Office of the Chief Actuary (OCA) provides transparency regarding the Canadian public retirement income system through the production and subsequent tabling before Parliament of regular actuarial reports on the Canada Pension Plan (CPP), Old Age Security (OAS) program and public sector employee pension and insurance plans.

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.

In addition, OSFI supports the government's priority for the security of Canadians by contributing to the fight against terrorism financing and money laundering. OSFI's focus relates to the guidance and supervisory review of the operation of financial institution programs to comply with Anti Money Laundering/Counter Terrorism Financing (AML/CTF) requirements.

Regulated Entities

OSFI supervises and regulates all federally incorporated deposit-taking institutions (e.g. banks), life insurance companies, property and casualty insurance companies, and federally regulated private pension plans. These 1,699 organizations managed a total of \$2,530 billion of assets (as at March 31, 2004).

Federally Regulated Financial Institutions and Private Pension Plans & Related Assets

	Deposit Taking Institutions	Life Insurance Companies	Property & Casualty Ins. Companies	Federal Private Pensions Plans	Total
Number of organizations	142	119	182	1,256	1,699
Assets \$B	2,028	334	77	91	2,530

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 web site at the following address:

http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=568

OSFI's Accountability Framework

OSFI was created in 1987 through the enactment of the 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.

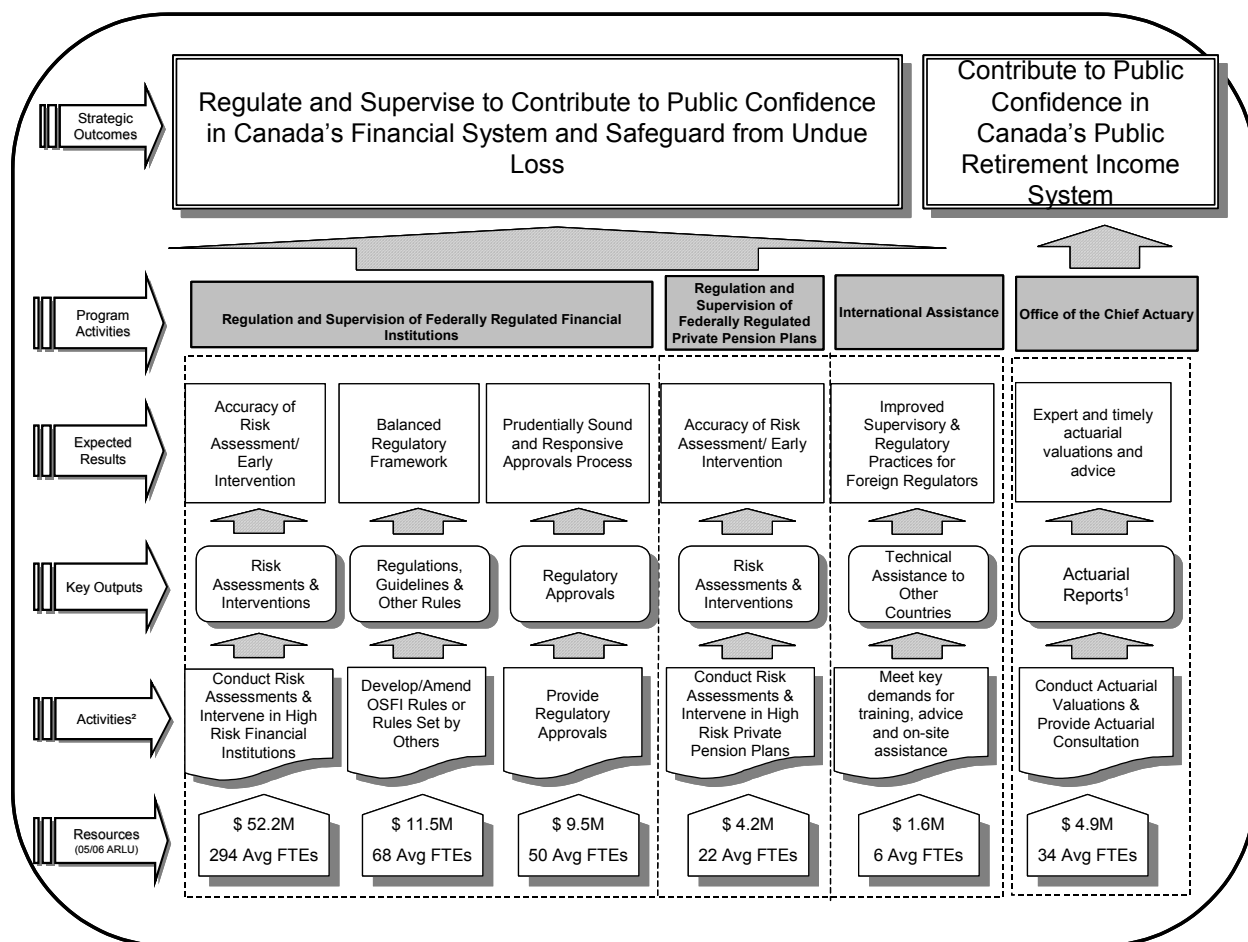
OSFI's accountability framework is made up of a variety of elements that include the following. OSFI participates in established international reviews jointly led by the World Bank/ International Monetary Fund to determine whether OSFI is meeting internationally established principles for prudential regulators. OSFI regularly conducts anonymous surveys of knowledgeable observers 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 being disclosed on OSFI's website. OSFI consults extensively on its regulatory rules before they are finalized, including with financial institutions, other government agencies, and subject matter experts. OSFI also issues an annual report and has its financial statements and related control processes audited annually by the Auditor General. Finally, as described in this document, OSFI has also implemented a range of measures that allow OSFI to assess its performance.

OSFI has recently updated its accountability framework using the new government-wide Program Activity Architecture (PAA). OSFI had already been operating with a similar framework and its new PAA formalizes this.

Primary to OSFI's mandate and central to its contribution to Canadians and Canada's financial system and retirement income systems are its activities to contribute to public confidence in the safety and soundness of Canada's financial system. For financial institutions and private pension plans, OSFI performs regulatory and supervisory functions through activities such as evaluation of system-wide risks, promotion of sound business and financial practices through appropriate rules and guidance, identifying institution-specific risks and trends, and intervening in a timely manner thereby protecting depositors, policyholders and pension plan members from undue loss.

For public pension plans, 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 these arrangements and options being considered by policy makers. The accountability framework for the OCA established the Chief Actuary is the person solely responsible for the actuarial opinions made by his/her Office.

The following diagram shows how OSFI's activities are linked to the outputs generated in support of programs and their link to strategic outcomes.



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

² These activities are supported by organization-wide activities. These Corporate Services costs and FTEs are allocated over 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.

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 advance a regulatory framework that contributes to public 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 incorporates risk assessment, intervention, rule making and approvals related to federally regulated private pension plans under the *Pension Benefits Standards Act*.

3. *International Assistance*

OSFI supports initiatives of the Canadian government to assist emerging market economies to strengthen their regulatory and supervisory systems. This program incorporates activities related to providing help to other selected countries that are building their supervisory and regulatory capacity. This program 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. This involvement strengthens the financial-system regulatory and supervisory regimes in those jurisdictions.

OSFI's second strategic outcome - to contribute to public confidence in Canada's public retirement income system - is achieved through the activities of the Office of the Chief Actuary (OCA).

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 federal public-sector pension and insurance plans, 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 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, the federally appointed judges and Members of Parliament.
- Canada Student Loans: Since 2001, the OCA also undertakes the actuarial review of the Canada Student Loans Program by evaluating the portfolio of loans and the long-term costs of the program.

Environmental Assessment

For planning purposes, OSFI conducts an annual assessment of the overall economic and financial conditions in Canada and abroad that are key to the health of Canadian financial institutions. OSFI consults 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 supplement information derived from OSFI's own experiences with its regulatory and supervisory programs, and assessments made from our internal Enterprise Risk Management (ERM) activities.

Economic and Financial Environment

Implications of the most likely scenario for the financial sector

Banks: Bank balance sheets are sound. The problem currently facing a number of banks is how to continue to grow and earn targeted rates of return in a highly competitive market. The danger is that some banks, in seeking higher growth rates and rates of return, will take on risks that they will be challenged to either manage and/or provide for adequately.

Life and health insurance companies: U.S. life insurers (including the U.S. operations of Canadian companies) are expected to continue to recover from a combination of weak equity markets and low interest rates. Concerns remain, however, over the profitability of annuity and life products, due to the combined effect of a flat equity market and spread compression. Of further concern is that risk management capabilities may not be commensurate with the risks being assumed. In addition, rapid increases in health costs in the U.S. will have implications for Canadian companies that are active in the health insurance business in the U.S.

Property and Casualty (P&C) insurance companies: The performance of the P&C and reinsurance sectors has improved significantly over the past year. However, the P&C sector is inherently volatile and the length of the current recovery is uncertain. Recent profits have attracted new capital, which leads to more intense competition. The desire to retain capital then leads to the writing of unprofitable business. (Of particular concern is the consequent material weakening in terms and conditions, as this has typically been the leading indicator of a return to uneconomic underwriting in casualty/liability lines.) Pricing behaviour over the next year will be crucial to determining whether the industry retains underwriting profitability.

Private pension plans: Financial and economic indicators suggest a stable but fragile outlook. Low, long-term interest rates have added to solvency deficits and a higher interest rate environment would ameliorate pensions plan funding problems. Many of the pension plans that are currently 80% funded would be in a surplus with a 200-basis point increase in interest rates. A rising equity market would provide an additional boost to solvency positions.

Competitive landscape for financial institutions and private pension plans

There are a number of other developments in the environment of relevance to OSFI's planning. Major financial institutions are operating in an increasingly complex, global environment. As a result, there is greater interest by foreign regulators to increase cross-border cooperation. There is also pressure on OSFI, as supervisor of the consolidated operations of Canadian financial institutions, to increase its assessment of risks arising from offshore operations and the financial institutions ability to manage those risks. OSFI must be sensitive both to the need to cooperate with foreign regulators and to protect the interests and confidentiality of Canadian institutions.

Financial institutions and financial products are becoming increasingly more complex. In response, financial institutions are placing greater reliance on a variety of enhanced analytical techniques and risk-transfer mechanisms to better manage and measure their risk exposures. The concern is that control processes to manage the new highly innovative products are not keeping pace with the inherent risk. Both large and small institutions are affected by this continuing trend.

There has been a dramatic increase in focus on corporate ethics. This has led to growing attention by non-prudential regulators, public commentators, and consumers of financial services on the market conduct of financial institutions. In some cases, long accepted activities have come under very critical scrutiny. The financial impact on FRFIs can be large and uncertain due to the legal environment and the associated impact from reputational damage.

Private pension plans are receiving increased public attention, which places financial and reputation risk pressures on plan sponsors. Whether the issues arise from the handling of surpluses or dealing with under-funded plans, many sponsors are questioning the viability of defined benefit pension plans.

The ability of financial institutions and their regulators to respond adequately to a crisis event is also very important. This is compounded by the heightened risk of terrorist-type activities. Many jurisdictions, including Canada, are placing more focus and resources on the detection and deterrence of terrorist financing and money laundering.

Policy Environment

The fast-paced change of rules affecting FRFIs, particularly related to accounting and controls around financial statements, continues. These changes could add to the volatility of earnings and may not always be adequately supported by current risk management practices. Domestic and international policy initiatives, to which OSFI will be responding during the planning period, include:

1. **On-going accounting changes** will add to risk and complexity. Developments in accounting rules and the pressure for global harmonization of accounting and auditing standards are expected to continue. Some of the proposed changes are complex and will have significant impacts on the financial position and capital of financial institutions. Examples include: the extent to which new rules require the use of fair values, how review practices are affected, how entities engage in hedging and the development of international standards on insurance liabilities.
2. **The new Basel Capital Framework** will have major implications for financial institutions and for OSFI. In particular, the new framework will encourage larger banks to use more disciplined enterprise-wide indicators of risk to measure business performance and drive their internal assessments of capital needs. The result may be changes to the business mix of some banks as they adjust to the new capital rules and balance the risks and rewards in their portfolios. The framework will require OSFI to make effective and coordinated use of multi-disciplinary skills in order to assess the capital position of banks and continuously update policy. Canadian banks and OSFI are well advanced with implementation efforts, but continued focus and progress is required. The prospect of the new framework, and events in the marketplace, are also requiring banks and regulators to focus more on measurement and management of operational risk and its relation to the capital banks hold. The flexibility of new rules in this area and lack of industry standards pose challenges for ensuring reasonable implementation.

The framework has been agreed to, but some issues remain open to further study; this fine-tuning could result in further changes to the expected impact of the framework for Canadian institutions. Enhanced cross-border regulatory cooperation is essential for effective implementation.

3. **The global regulatory environment** will continue to put pressure on OSFI to develop rules that are globally competitive. This would include both providing rules that do not unduly impede the competitiveness of Canadian companies that operate as global players and ensuring that OSFI's regulatory framework is prudentially sound.

A number of foreign jurisdictions are reviewing key aspects of their regulatory frameworks for insurance companies and enhancing their rules. The International Association of Insurance Supervisors (IAIS) is promoting more harmonized global insurance standards and its influence is increasing. As a result, global regulatory and supervisory standards are under development. These will include principles for capital adequacy and solvency regimes, and reinsurance. In addition, the IAIS is contributing to the work of the International Accounting Standards Board on accounting standards for insurance contracts.

4. **Other legislative and/or other government policy initiatives** are on the horizon that could have implications for OSFI and the financial sector. The more significant of these include:
- The Canadian government's ultimate policy with respect to large bank or cross-pillar mergers, as well as its position on some of the proposals put forward to facilitate increased competition in the context of the merger debate (e.g. permitting retail deposit-taking by foreign bank branches);
 - Any decisions taken as a result of the Minister of Finance's request for input on reducing overlap and duplication between OSFI and CDIC;
 - Legislative projects, such as: the corporate governance bill currently being drafted; the review of the financial institutions' statutes due to the 2006 sunset clause contained in the current legislation;
 - Increased policy focus by a number of interest groups on pension plan funding issues, including the funding of deficits on termination, recent court decisions on the treatment of surplus, and increased concern by pension plan sponsors that the current regulatory and legislative regime is not conducive to defined benefit plans. However, excessive relaxation of funding requirements could reduce protection for pensioners.

There is considerable uncertainty regarding the direction these initiatives might take, as well as the timing. In all cases, OSFI would contribute to the development and implementation of any legislative proposals brought forward to Parliament by the federal government, with a focus on prudential issues consistent with OSFI's mandate.

Key Risks and Threats

The environment in which OSFI operates presents a number of risks and challenges to the achievement of its mandate. Some of the risks have a low probability of occurrence, but would have a high impact, whereas others have a higher probability of occurrence but lower impact. OSFI's ability to meet its objectives will depend on how effectively it can evaluate and prioritize the risks it faces both in terms of probability of occurrence and level of impact, and develop strategies to address areas where the risk exposure is greatest.

Through an enterprise risk management process, OSFI has identified certain risk areas in its operations, and assessed the adequacy of mitigation of these risks, taking into account both the current and expected changes. Some higher risk areas assessed as potentially under-controlled have been identified for increased focus. In other higher risk areas, current resources and activities are considered to be adequate, but it will be important to monitor these to ensure controls remain on track, particularly as changes to OSFI's operating environment could alter the impact or likelihood of these risks occurring.

Some of the more significant risks OSFI is facing are discussed below:

- Should OSFI fail to identify in a timely manner material problems in the financial institutions it regulates, or not intervene effectively, the impact on depositors or policyholders and the financial sector could be significant. Similarly, should OSFI fail to identify or intervene effectively in response to further deterioration in private pension plans, there could be a risk of losses to pension plan members.
- Financial crime and events related to terrorism can pose a significant risk to the reputation and integrity of financial institutions. OSFI needs to be in a position to assist other agencies (e.g. Financial Transactions and Reports Analysis Centre of Canada) to detect and deter these activities.
- The increase in foreign activities of some of the Canadian financial institutions under OSFI's purview complicates OSFI's ability to implement effective, comprehensive, consolidated supervision and puts pressure on OSFI's overall resources. Associated challenges include the need for participation in international forums, ensuring OSFI's supervisory framework remains appropriate, and maintaining and enhancing relationships with other regulators. In respect of the latter, developments such as the Basel II framework have put increased pressure on OSFI to broaden and deepen its cooperation with other regulators. Increased reliance by other regulators focuses more scrutiny on the quality of OSFI's work.
- Impending changes in accounting and capital regimes will have important implications for regulated financial institutions. Institutions need to be adequately positioned to understand the impacts and address potential implementation challenges. In addition, increasing pressure for transparency in relation to actuarial matters affecting federally regulated insurance companies is putting pressure on OSFI and companies to develop appropriate responses.
- Based on recent history, the potential for unexpected significant adverse events is high and requires OSFI to regularly update its assessment of the adequacy of financial institutions' business continuity/resumption capabilities. As well, OSFI must review its own ability to respond effectively during a crisis.
- Increased demands on government entities for accountability and improved management practices requires that OSFI ensure the resources devoted to these initiatives are commensurate with the value they bring to the ongoing achievement of OSFI's mandate. Some of these initiatives are government-wide, while others are unique to OSFI. In particular, OSFI needs to ensure it is well positioned to handle the challenges associated with simultaneously managing multiple issues related to various financial industries and institutions in a rapidly changing environment.

Initiatives to address many of these challenges have already been put in place, and additional actions planned for the coming year are discussed below.

OSFI’s Plans and Priorities

Based on the above considerations the following priorities –and specific initiatives, have been identified. These priorities are tied to the program activities OSFI undertakes and contribute directly towards achieving OSFI’s strategic outcomes. OSFI has six priorities related to its program activities and two priorities for program support that are detailed below:

Program-related Priorities # 1 to 6

PRIORITIES	INITIATIVES
<p>Priority #1 Accurate risk assessments of financial institutions and timely, effective intervention and feedback</p>	<ul style="list-style-type: none"> • Continuing to operate an effective prudential supervisory system by more effectively allocating resources to higher risk/impact institutions; • Development of new supervisory tools and practices to address evolving needs (e.g. for credit, capital and operational risk in respect of Basel II implementation); • Making significant progress in the development of Anti Money Laundering /Counter Terrorism Financing (AML/CTF) supervisory practices; • Development of a centralized monitoring function that provides added value through early identification of systemic and institution-specific issues; • Increased number of cross-institution examinations and enhanced relations with other (global) supervisors; • Continued refinements to OSFI’s supervisory methodology and practices leading to incremental improvements.

PRIORITIES	INITIATIVES
<p>Priority #2 A balanced, relevant regulatory framework of guidance and rules that meets or exceeds international minimums</p>	<p><i>Basel Capital Framework</i></p> <ul style="list-style-type: none"> • Develop guidance and reporting requirements for implementation by banks of the new capital framework, along with internal mechanisms for assessing compliance; <p><i>Other capital rules</i></p> <ul style="list-style-type: none"> • Ongoing review of other capital rules and updates to address new developments (e.g. capital adequacy framework for insurance holding companies, revisions to the Minimum Continuing Capital and Surplus Requirement); <p><i>Accounting rules</i></p> <ul style="list-style-type: none"> • Identify key accounting rule changes, assess the capital impact, and consider whether changes to OSFI's framework of rules might be needed to reflect the principals of solvency regulation; • Monitor and influence, as appropriate, the auditing and standard setting environment; <p><i>Actuarial rules</i></p> <ul style="list-style-type: none"> • Assess selected issues relating to insurance companies' actuarial practices, and develop and communicate OSFI's position where appropriate; <p><i>Other initiatives related to the development of policy/guidance/rules</i></p> <ul style="list-style-type: none"> • Continue focused participation in selected international forums and, in particular, continue to influence the development of international capital standards and promote constructive bi- and multi-lateral dialogue on their implementation.
<p>Priority #3 A prudentially effective, balanced and responsive approvals process</p>	<ul style="list-style-type: none"> • Continue to operate a timely, clear and transparent approvals process for legislative and non-legislative approvals; • Continue to assess, on a selective basis, the effectiveness of both the legislated and non-legislated approvals processes, and monitor and adjust as necessary to improve these processes (e.g. to increase transparency, and support approvals staff in maintaining adequate current knowledge of the financial industry); • Further refine service standards for the legislative approvals system and rationalize the user-pay system, including in response to stakeholder feedback; • Develop and implement a process for approvals related to the new Basel II bank capital framework that is effective in identifying deficiencies in institutions' plans, provides timely high quality feedback to financial institutions regarding OSFI's expectations, and balances prudential judgement with the need for a level playing field vis-à-vis the approaches in other major jurisdictions in which Canadian banks operate.

PRIORITIES	INITIATIVES
<p>Priority #4 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>	<ul style="list-style-type: none"> • Continue to operate an effective system for pension supervision and related guidance; • Implement selected enhancements to pensions monitoring and supervisory practices (e.g. estimating solvency ratios and intervening as appropriate); • Promote enhanced quality of pension practice including establishment of a peer/practice review; • Achieve progress on the implementation of “void amendment” regulations that would establish a solvency ratio below which benefit improvements would not be permitted or would be conditional upon funding of these benefits; • Develop and consult on proposals for regulations that require full funding of plan deficiencies upon plan termination; • Develop a plan for implementing a pension funding regulation that will provide reasonable flexibility to pension plan sponsors (employers) who are under bankruptcy protection (i.e., <i>Companies’ Creditors Arrangement Act</i> proceedings) subject to principles that mitigate against the increased risk to the safety and soundness of the plans during this period; • Continue to enhance the approval process and timeliness of processing approvals under the <i>Pensions Benefits Standards Act, 1985</i> (PBSA); • React in a timely manner to the recent Supreme Court decision regarding ownership of pension plan surplus upon partial termination.
<p>Priority #5 Contribute to awareness and improvement of supervisory and regulatory practices for selected foreign regulators through the operation of an International Assistance Program</p>	<ul style="list-style-type: none"> • Provision of technical assistance relating to: on-site examination processes, legislative drafting, development/organization of supervisory agencies, risk-based capital regimes, and improving supervision systems; • Working to improve supervisory cooperation and coordination amongst supervisors in the Caribbean; • Participation in the " live testing " of the IAIS training modules currently under development; • Assisting selected jurisdictions to prepare their Financial Sector Assessment Program self-assessment; • Continuing to play a role in the governance and program development and delivery of the Toronto International Leadership Centre for Financial Sector Supervision.
<p>Priority #6 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"> • Triennial actuarial reviews will be conducted of the Canada Pension Plan (CPP), the Old Age Security, the Royal Canadian Mounted Police - Part IV, the Members of Parliament and the Judges pension plan established under their respective Acts in accordance with the <i>Public Pensions Reporting Act</i>; present the report to their respective ministers for timely tabling in the House of Commons; • An actuarial review of the Canada Student Loans Program will be done, evaluating the portfolio of loans and the long-term costs of the Program; • Input will be provided to the CPP independent peer review panel on the CPP's 21st Actuarial Report as at 31 December 2003; • For 2005, the statutory review year, actuarial services and advice will be provided to the stewards of the CPP; • Consideration as to how the OCA can deliver improved services to its clients, including implementing recommendations from independent peer reviews, improving valuation techniques, organizing seminars to broaden sources of advice, and participating in various committees.

Program Support Related Priorities # 7 and #8

Priorities	Initiatives
<p>Priority #7 High-quality internal governance and related reporting</p>	<ul style="list-style-type: none"> • Continue to build a high quality internal audit function; • Finalize, implement, and continue to pursue enhancements to a program of performance measures and related external reporting; • Identify and prioritise specific OSFI deliverables related to the Management Accountability Framework initiative of the federal government; • Continue to implement enterprise risk management for OSFI; • Implement enhancements to external reporting and OSFI's web site.
<p>Priority #8 Resources and infrastructure necessary to support supervisory and regulatory activities</p>	<ul style="list-style-type: none"> • Provide enhanced training options in selected areas (e.g. management development curriculum, French-language training); • Continue to enhance succession planning process; • Monitor and refine, as necessary, OSFI's performance management program (system of competencies, etc.); • Create a project management group to improve the management of major Information Management/Information Technology (IM/IT) projects; • Complete ongoing IM/IT projects in a timely manner and on budget; • Realize benefits of technology initiatives aimed at improving the effectiveness of OSFI processes; • Achieve material efficiencies in data collection for OSFI and financial institutions; • Develop adequate systems to support the implementation of the Basel II framework.

**SECTION II – ANALYSIS OF ACTIVITIES BY STRATEGIC
OUTCOME**

ANALYSIS BY PROGRAM ACTIVITY

OSFI's on going 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.

1. STRATEGIC OUTCOME: 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".

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.

FINANCIAL RESOURCES: (\$ MILLIONS)

2005-2006	2006-2007	2007-2008
\$73.2	\$71.9	\$71.9

HUMAN RESOURCES: (FTEs)

2005-2006	2006-2007	2007-2008
412	408	408

1.1.1 Program Sub-Activity: Risk Assessment and Intervention	
Description	Includes activities to monitor and supervise financial institutions; monitor the financial and economic environment to identify emerging issues and intervene in a timely manner to protect depositors and policy holders, while recognizing that OSFI cannot guarantee there will be no failures.
Related Priority	Priority #1 Accurate risk assessments of financial institutions and timely effective intervention and feedback
Expected Results	Key Expected Results <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; In exercising its early intervention mandate, OSFI is proactive in intervening in problem cases regarding the financial institutions it regulates and supervises
Performance Measure(s)	Key Performance Measures <ul style="list-style-type: none"> Knowledgeable observers are of the view that 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; Knowledgeable observers are of the view that, in exercising its early intervention mandate, OSFI is proactive in intervening in problem cases regarding the financial institutions it regulates and supervises

FINANCIAL RESOURCES: (\$ MILLIONS)

2005-2006	2006-2007	2007-2008
\$52.2	\$51.1	\$51.1

1.1.2 Program Sub-Activity: Rule Making	
Description	Encompasses the issuance of guidance and regulations; input into federal legislation affecting financial institutions; our contribution to accounting, auditing and actuarial standards; and our involvement in a number of international rule-making activities.
Related Priority	Priority #2 A balanced, relevant regulatory framework of guidance and rules for financial institutions that meets or exceeds international minimums
Expected Results	Key Expected Results <ul style="list-style-type: none"> In its development, 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.

Performance Measure(s)	<p>Key Performance Measures</p> <ul style="list-style-type: none"> • Knowledgeable observers are of the view that in its development, 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 • Assessment of OSFI rules against international standards from time to time
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FINANCIAL RESOURCES: (\$ MILLIONS)

2005-2006	2006-2007	2007-2008
\$11.5	\$11.6	\$11.6

1.1.3 Program Sub-Activity: Approvals

Description	Covers two distinct types of approvals: those required under the legislation applicable to financial institutions; other approvals for supervisory purposes.
Related Priority	<p>Priority #3</p> <p>A prudentially effective, balanced and responsive approvals process</p>
Expected Results	<p>Key Expected Results</p> <ul style="list-style-type: none"> • OSFI’s regulatory approvals that result in prudentially sound decisions that are timely, clear and transparent
Performance Measure(s)	<p>Key Performance Measures</p> <ul style="list-style-type: none"> • Knowledgeable observers are of the view that OSFI’s decisions, as part of the approval process, are timely, clear and transparent

FINANCIAL RESOURCES: (\$ MILLIONS)

2005-2006	2006-2007	2007-2008
\$9.5	\$9.2	\$9.2

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

Description	This program activity incorporates risk assessment and intervention and rule making and approvals related to federally regulated private pension plans under the Pension Benefits Standards Act. 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>Priority #4</p> <p>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>

Expected Results	<p>Key Expected Results</p> <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.
Performance Measure(s)	<p>Key Performance Measures</p> <ul style="list-style-type: none"> Knowledgeable observers are of the view that OSFI uses a modern supervisory process that leads to an accurate overall assessment of the risk profile the pension plans that it regulates. Knowledgeable observers are of the view that, in exercising its early intervention mandate, OSFI is proactive in intervening in problem cases regarding the pension plans it regulates and supervises

FINANCIAL RESOURCES: (\$ MILLIONS)

2005-2006	2006-2007	2007-2008
\$4.2	\$3.9	\$3.9

HUMAN RESOURCES: (FTEs)

2005-2006	2006-2007	2007-2008
22	21	21

1.3 Program Activity: International Assistance

Description	<p>This program activity incorporates activities related to providing 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.</p>
Related Priority	<p>Priority #5 Contribute to awareness and improvement of supervisory and regulatory practices for selected foreign regulators through the operation of an International Assistance Program</p>
Expected Results	<p>Key Expected Results</p> <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)	<p>Key Performance Measures</p> <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)

2005-2006	2006-2007	2007-2008
\$1.6	\$1.8	\$1.8

HUMAN RESOURCES (FTEs)

2005-2006	2006-2007	2007-2008
6	6	6

2. STRATEGIC OUTCOME: 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 performs three distinct program sub-activities. As these sub-activities individually do not constitute a significant key activity at OSFI, they are incorporated into the one Program Activity described below.

2.1 Program Activity: Office of the Chief Actuary (OCA)	
Description	This office provides a range of actuarial services, under legislation, to the Canada Pension Plan (CPP) and some federal government departments. OCA estimates long-term expenditures, revenues and current liabilities of the CPP and federal public-sector pension and insurance plans. It also estimates long-term future expenditures for Old Age Security programs. OCA also undertakes the actuarial review of the Canada Student Loans Program by evaluating the portfolio of loans and the long-term costs of the Program.
Related Priority	Priority #6 Contribute to ensuring there are financially sound federal government public pension and other programs
Expected Results	Key Expected Results <ul style="list-style-type: none"> • The Chief Actuary provides expert and timely advice in the form of high quality reports tabled in Parliament, in respect of the CPP; • The Chief Actuary provides expert and timely advice in the form of high quality reports, in respect of Public Sector Pension and Insurance Plans; • 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;
Performance Measure(s)	Key Performance Measures <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; • 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; • External auditor is 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.

FINANCIAL RESOURCES: (\$ MILLIONS)

2005-2006	2006-2007	2007-2008
\$4.9	\$5.1	\$5.1

HUMAN RESOURCES: (FTEs)

2005-2006	2006-2007	2007-2008
34	34	34

SECTION III – SUPPLEMENTARY INFORMATION

MANAGEMENT REPRESENTATION STATEMENT

I submit for tabling in Parliament, the 2005-2006 to 2007-2008 Report on Plans and Priorities (RPP) for Office of the Superintendent of Financial Institutions Canada.

This document has been prepared based on the reporting principles contained in the *Guide to the preparation of Part III of the Estimates: Reports on Plans and Priorities*.

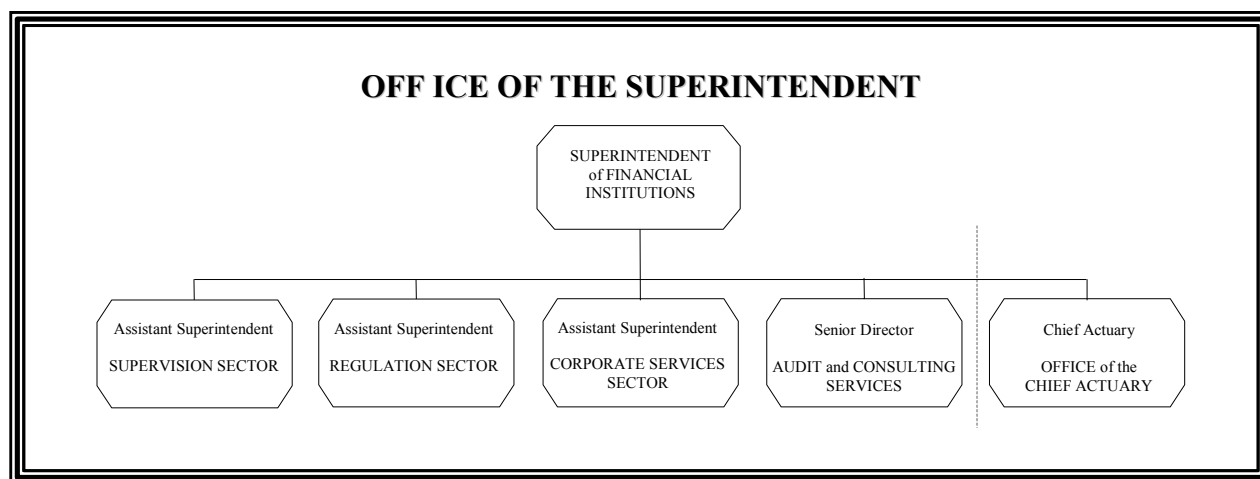
- It adheres to the specific reporting requirements outlined in the TBS guidance;
- It uses an approved program activity architecture (PAA) structure;
- It provides a basis of accountability for the results achieved with the resources and authorities entrusted to it; and
- It reports finances based on approved, planned spending numbers from the Treasury Board Secretariat.

Nicholas Le Pan
Superintendent

ORGANIZATIONAL INFORMATION

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 2004



Workforce

As at December 31, 2004, OSFI employed 444 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

	As at March 31, 2004	% of total	As at December 31, 2004	% of total
Corporate Services	114	25%	114	25%
Supervision	217	47%	207	47%
Regulation	100	22%	98	22%
OCA	26	6%	25	6%
TOTAL	457	100%	444	100%

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.edic.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 provincial and territorial supervisory and regulatory agencies, as necessary, 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.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=368).

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.

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 User Fees and Regulatory Initiatives.

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 whom OSFI does supervision on contract, and revenues from other federal agencies for whom OSFI provides administrative support. Starting in 2002-2003, cost-recovered services revenue also included 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. Effective 2002-2003, OSFI began collecting late and erroneous filing penalties from financial institutions that submit late and/or erroneous financial and non-financial returns. 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.

Financial Tables

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 on going operating cost increases and at judiciously managing its human resources in optimal ways. As a

result, OSFI's human resources (FTEs) remain flat over the planning period and this trend is expected to continue.

Total spending over the planning period is declining as two large capital projects that started in previous fiscal years are being completed. The accommodation optimization project to downsize space so as to contain lease costs is expected to be completed by April 2006. As well, the final phases of our Enabling Technology projects² will be implemented. As a result, we are planning a reduction in technology investments over the planning period.

The original total planned spending for 2004-2005 was \$712 thousand, and this amount has been reduced by \$25 thousand to \$687 thousand. The planned increase to \$755 thousand in 2005-2006 and beyond is related to adjustments granted by the Treasury Board for collective agreements.

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

² Refer to OSFI's 2004-2005 Report on Plans and Priorities, page 24, at the following web link: http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/reports/osfi/OSFI_RPP_2004-05_e.pdf

TABLE 1: OSFI PLANNED SPENDING AND FULL-TIME EQUIVALENTS

(\$ thousands)	Forecast Spending 2004-2005	Planned Spending 2005-2006	Planned Spending 2006-2007	Planned Spending 2007-2008
Regulation and supervision of federally regulated financial institutions	75,912	73,210	71,979	71,979
Regulation and supervision of federally regulated private pension plans	4,625	4,204	3,888	3,888
International Assistance	1,628	1,631	1,770	1,770
Office of the Chief Actuary (OCA)	4,724	4,874	5,091	5,091
Budgetary Main Estimates (gross)	86,889	83,919	82,728	82,728
Non-Budgetary Main Estimates (gross)	0	0	0	0
Less: Respendable revenue	86,177	83,164	81,973	81,973
Total Main Estimates	712	755	755	755
<i>Adjustments: OSFI portion of \$1B Government Re-allocation exercise</i>	25			
<i>Total Adjustments</i>	25	0	0	0
Total Planned Spending	687	755	755	755
Total Planned Spending	687	755	755	755
Less: Non-respendable revenue	325	302	212	212
Plus: Cost of services received without charge				
Net cost of Program	362	453	543	543
Full Time Equivalents	469	474	470	470

The next table outlines OSFI's 2005-2006 expenditures by Activity. During 2004-2005, OSFI modified its existing cost allocation methodology to adapt it to its Program Activity Architecture (PAA) and to prepare for the mandatory Receiver General requirement, effective April 2005, to report monthly results by activity.

The expenditures of each activity in Table 2 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 85% 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.

TABLE 2: PROGRAM BY ACTIVITY (\$ THOUSANDS)

2005-2006										
PROGRAM ACTIVITY	Budgetary						Non- Budgetary	Total Main Estimates	Adjustments (planned spending not in Main Estimates)	Total Planned Spending
	Operating	Capital	Grants and Contributions	Gross	Revenue	Net	Loans, Investments and Advances			
Regulation and supervision of federally regulated financial institutions	67,159	6,051	0	73,210	73,210	0	0	0	0	0
Regulation and supervision of federally regulated private pension plans	3,908	297	0	4,204	4,205	0	0	0	0	0
International Assistance	1,514	116	0	1,631	1,630	0	0	0	0	0
Office of the Chief Actuary (OCA)	4,789	85	0	4,874	4,119	755	0	0	0	755
Total	77,370	6,549	0	83,919	83,164	755	0	0	0	755

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

As indicated in the commentary for Table 1, the main driver of the changes in OSFI's costs for the planning period is the winding down of significant capital projects. The accommodation optimization project affects all program activities, whereas the majority of the Information Technology investments are directly related to the regulation and supervision of financial institutions activity. The table below details this change by program activity.

TABLE 3: SUMMARY OF CAPITAL SPENDING BY PROGRAM ACTIVITY

(\$ thousands)	Forecast Spending 2004-2005	Planned Spending 2005-2006	Planned Spending 2006-2007	Planned Spending 2007-2008
Office of the Superintendent of Financial Institutions				
Regulation and supervision of federally regulated financial institutions	8,333	6,051	2,524	2,524
Regulation and supervision of federally regulated private pension plans	359	297	71	71
International Assistance	134	116	33	33
Office of the Chief Actuary (OCA)	98	85	82	82
Total	8,924	6,549	2,710	2,710

Table 4 below illustrates sources of spendable and non-spendable revenue presented on the cash basis, however OSFI recovers its costs through assessments and user fees billed on the accrual basis of accounting.³ The bulk of cost recovered services in Regulation and Supervision of federally regulated financial institutions in 2004-2005 and 2005-2006 relates to the Internal Ratings Based (IRB) implementation project which is charged directly to the major banks. On this basis, the expected assessment increase for 2005-2006 will be in the range of 5%.

TABLE 4: SOURCES OF SPENDABLE AND NON-SPENDABLE REVENUE

(\$ thousands)	Forecast Revenue 2004-2005	Planned Revenue 2005-2006	Planned Revenue 2006-2007	Planned Revenue 2007-2008
<i>Office of the Superintendent of Financial Institutions</i>				
Regulation and supervision of federally regulated financial institutions				
Sources of spendable revenue				

³ 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

Base Assessments	68,100	64,785	64,785	64,785
User Fees and Charges	5,258	5,717	5,726	5,726
Cost Recovered Services	2,554	2,708	1,468	1,468
	75,912	73,210	71,979	71,979
Regulation and supervision of federally regulated private pension plans				
Source of responsible revenue				
Pension Fees	4,625	4,205	3,888	3,888
	4,625	4,205	3,888	3,888
International Assistance				
Sources of responsible revenue				
Base Assessments	428	555	675	675
Cost Recovered Services	1,200	1,075	1,095	1,095
	1,628	1,630	1,770	1,770
Office of the Chief Actuary (OCA)				
Sources of responsible revenue				
User Fees and Charges	24	35	35	35
Cost Recovered Services	4,013	4,084	4,301	4,301
	4,037	4,119	4,336	4,336
Total Responsible Revenue	86,201	83,164	81,973	81,973

Non-Responsible Revenue

(\$ thousands)	Forecast Revenue 2004-2005	Planned Revenue 2005-2006	Planned Revenue 2006-2007	Planned Revenue 2007-2008
Office of the Superintendent of Financial Institutions				
Regulation and supervision of federally regulated financial institutions				
Source of non-responsible revenue				
Non-Responsible Filing Penalties	325	302	212	212
Total Non-Responsible Revenue	325	302	212	212

Total Respendable and Non-respendable Revenue	86,526	83,466	82,185	82,185
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Tables 5 and 6a provide additional information to illustrate total Government of Canada expenditures that are related to OSFI. Table 6b identifies the total amount that OSFI will contribute to employee benefit plans.

TABLE 5: NET COST OF AGENCY FOR THE ESTIMATES YEAR

2005-2006					
(\$ thousands)	Regulation and supervision of federally regulated financial institutions	Regulation and supervision of federally regulated private pension plans	International Assistance	Office of the Chief Actuary (OCA)	Total
Total Planned Spending	0	0	0	755	755
<i>Plus: Services Received without Charge</i>					
Audit fees from Office of the Auditor General					80
<i>Less: Non-respendable Revenue</i>					
	302				302
2005-2006 Net cost of Agency	(302)	0	0	755	533

TABLE 6A: VOTED ITEMS LISTED IN MAIN ESTIMATES

Vote Item		2004-2005 Main Estimates	2005-2006 Main Estimates
35	Operating expenditures	712	755
	Total Agency	712	755

TABLE 6B: STATUTORY ITEMS LISTED IN MAIN ESTIMATES

Statutory Item		2004-2005 Main Estimates	2005-2006 Main Estimates
(S)	Contributions to employee benefit plans	12,207	12,960
	Total Agency	12,207	12,960

TABLE 7: MAJOR REGULATORY INITIATIVES

Legislative Acts and/or Regulations	Purpose of regulatory initiative	Expected results
<i>Administrative Monetary Penalties (OSFI) Regulations</i>	The Regulations will implement an administrative monetary penalties regime pursuant to which the Superintendent could impose a penalty in respect of specific violations of the federal financial institutions statutes. The Regulations will designate the specific provisions that will be subject to the penalties. In addition, to consolidate OSFI's penalties regime, the <i>Filing Penalties (OSFI) Regulations</i> will be subsumed into these Regulations and repealed concurrently with their coming into force.	The administrative monetary penalties regime is intended to encourage federally regulated financial institutions to comply with their governing statute and is not designed to be punitive. By encouraging compliance, the regime will assist OSFI in pursuing its mandate of protecting the rights and interests of depositors, policyholders and creditors of FRFIs.
<i>Classes of Insurance</i>	The Schedule to the <i>Insurance Companies Act</i> is being revised to reduce the current number of insurance classes and to form the basis for federal class definitions to be harmonized with most provincial and territorial definitions.	The number of insurance classes will be reduced from over 50 classes used by federal, provincial and territorial jurisdictions to 17 harmonized classes. Also, class definitions will be harmonized, which will reduce the administrative burden and cost to insurers.
<i>Full funding on Plan Termination of pension plans</i>	The proposed amendments stipulate that when a defined benefit (DB) plan is terminated, the employer must pay into the plan the amount necessary to fund the full benefits promised to plan members at the date of termination. Current Regulations require only that the employer pay into the plan all amounts owed, but not yet remitted, at the time of the termination, including any outstanding special payments.	The amendments will achieve better protection for plan members. The proposal to fully fund benefits on plan termination was mentioned in the July 2000 Consultation Paper on Funding Requirements.
<i>Generic Solvency Funding Deficiency Regulations for pension plans</i>	The Regulations will permit certain entities, under special circumstances, and provided certain conditions are met, to amortize solvency deficiencies in the company's pension plans over a longer period than set out in the <i>Pension Benefits Standards Regulations, 1985</i> (PBSR).	The Regulations will help protect the interests of plan members and other beneficiaries by providing certain entities, under certain circumstances, and provided certain conditions are met, with flexibility in the financing of pension plan deficits.
<i>Related Party of a Retail Association Regulations</i>	The Regulations will more clearly define related parties of a retail association by excluding certain parties that are not in a position of influence or control.	The Regulations will exclude members that are not in a position of influence or control from being a related party of a retail association. While recognizing unique differences between federal associations and other financial institutions, the Regulations would achieve more consistent application of related party regimes among federally regulated financial institutions.
<i>Void Amendment</i>	The Regulations will implement a provision in the <i>Pension Benefits Standards Act, 1985</i> that would, unless the Superintendent authorizes the amendment, void any amendment to a pension plan if the solvency ratio of the plan would fall below the prescribed ratio. This would prevent significantly under-funded plans from implementing benefit improvements if those improvements would further reduce the plan's funded position.	The Regulations will reduce the risk that under-funding of private, defined benefit pension plans could lead to less than full payout of promised benefits.

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 two priorities (priorities #7 and #8 below) with specific initiatives that will support all programs (listed under Section I as Program support- related priorities).

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	Priority #7 High quality of internal governance and related reporting; Priority #8 Resources and infrastructure necessary to support supervisory and regulatory activities
Expected Results	Key Expected Results <ul style="list-style-type: none"> • OSFI's financial results accurately reflect the financial position of OSFI • Motivated and skilled workforce • High quality staff • Operational units are operating within applicable policies, acts and guidelines • Operational units within program support are efficient i.e. deliver services at reasonable cost and turn-around time relative to peers • Cost-effective and robust technology infrastructure
Performance Measure(s)	Key Performance Measures <ul style="list-style-type: none"> • OAG audits confirm good financial controls • Employee Survey finds that OSFI employees are motivated • Knowledgeable observers are of the view that OSFI has high quality staff; • Internal Audit finding that Operational Controls are in place and Operational units are operating within applicable policies, acts and guidelines • External reviewers find OSFI's Program Support to be efficient • Internal tracking of IM/IT infrastructure performance