



# OSFI and the Canadian Financial System



Office of the Superintendent of Financial Institutions  
255 Albert Street, Ottawa, Ontario, K1A 0H2  
Telephone: 1-800-385-8647 or 613-943-3950  
(Ottawa office)  
Website: [www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca)  
E-mail: [information@osfi-bsif.gc.ca](mailto:information@osfi-bsif.gc.ca)

ISBN: IN4-9/2009E-PDF  
Cat. No. 978-1-100-11895-6



# OSFI and the Canadian Financial System

## Our Role

The Office of the Superintendent of Financial Institutions (OSFI) is an independent agency of the Government of Canada established in 1987 to contribute to the safety and soundness of the Canadian financial system. OSFI supervises and regulates federally registered banks and insurers, trust and loan companies, as well as private pension plans subject to federal oversight, and ensures they are complying with their governing legislation.

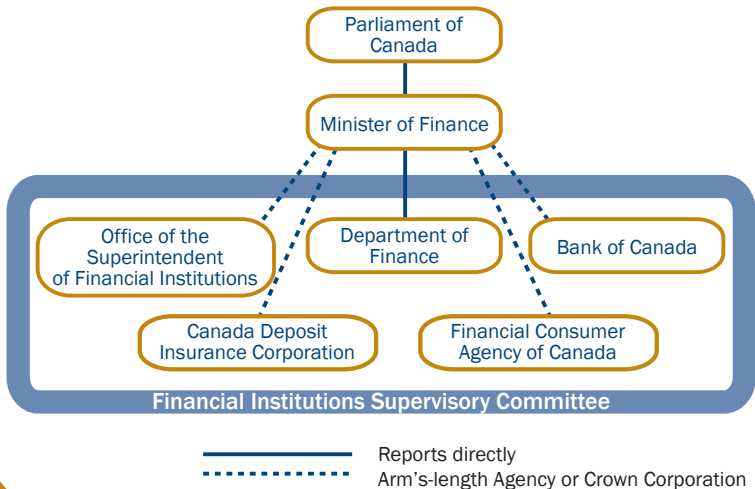
A properly functioning, efficient financial services sector in which Canadians can place their trust and confidence is essential to Canada's economy. To achieve this objective, OSFI must allow financial institutions to take reasonable risks and compete effectively both at home and abroad, while at the same time safeguarding the interests of depositors, policyholders, beneficiaries and pension plan members. Our goal is to balance competitiveness with stability and international rules with Canadian market realities.

OSFI does not manage the daily operations of financial institutions or private pension plans. Their management and boards of directors or trustees are ultimately responsible for their success or failure, but OSFI plays an important oversight role in ensuring that risk management processes are prudent. OSFI's mandate does not include the securities industry, which is regulated separately.

## Our Partners in the National Regulatory System

OSFI reports to Parliament through the Minister of Finance. Various formal and informal processes are used to ensure effective execution of OSFI's mandate, including the Financial Institutions Supervisory Committee (FISC), which meets on a quarterly basis to facilitate the exchange of information among OSFI, the Department of Finance, the Bank of Canada, Canada Deposit Insurance Corporation (CDIC), and the Financial Consumer Agency of Canada (FCAC) on matters relating to the supervision of federally regulated financial institutions.

### How OSFI fits in the Canadian financial regulatory system



OSFI also works closely with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), which is responsible for ensuring compliance with Canada's *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*.

## Our International Context

Financial institutions operate globally – their products and the markets in which they operate are increasingly complex. In order to stay on top of issues that affect the global financial system, OSFI collaborates extensively with international bodies like the Financial Stability Board, the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors. Such international organizations play a key role in the development of regulatory frameworks for banks and insurers, and OSFI has earned a strong international reputation through its active participation.

## Our Responsibilities

### *Federally Regulated Financial Institutions*

#### **Risk Assessment and Intervention**

##### *What we do*

OSFI supervises and regulates financial institutions – including banks, trust companies and insurance companies – to determine whether they are in sound financial condition and are complying with their governing statute law and supervisory requirements. We promptly advise the management and board of directors of a financial institution if we have any concerns, and work with them as they implement corrective measures as rapidly as possible.



### *Why it matters*

Risk assessment and timely intervention help safeguard the investments of depositors and policyholders.

### *How we get it done*

- We assess the risks inherent in a financial institution's business activities and how effectively those risks are being managed.
- We monitor the financial condition and business lines of financial institutions on an ongoing basis. We pay close attention to the external environment to assess its impact on institutions under our oversight.
- We conduct periodic on-site reviews at financial institutions to test their controls and to confirm the adequacy of their risk management and governance practices.
- We use a modern, risk-based supervisory framework to identify and intervene on a timely basis when a financial institution's business practices may be imprudent or unsafe.

## **Rule Making**

### *What we do*

OSFI promotes the adoption by financial institutions of policies and procedures designed to control and manage risk. We balance the goals of safety and soundness with the need for institutions to operate within a competitive marketplace.

## *Why it matters*

Our rule-making activities contribute to the development of sound risk management practices, which is key in protecting Canadian depositors and policyholders. Due to the complex and global nature of the financial sector, rules are increasingly being developed in the international arena, where OSFI has a strong voice in rule-making bodies like the Basel Committee on Banking Supervision and the Financial Stability Board. OSFI's participation increases international confidence in Canada's financial system.

## *How we get it done*

- We collaborate with domestic and international standard-setting agencies, in areas such as accounting rules.
- We issue guidelines, rulings and advisories for federally regulated financial institutions (FRFIs) in a transparent and consultative manner.
- We take an active role in reviews of legislation applicable to FRFIs, conducted every five years, to ensure it remains current and promotes an efficient, competitive and safe financial services sector.

## **Approvals**

### *What we do*

OSFI directly provides regulatory approval to financial institutions or other applicants for certain types of transactions as specified by legislation. In some cases, such as incorporations, the approval

of the Minister of Finance is required. In such instances, approval is normally granted based on a recommendation from OSFI.

### *Why it matters*

Financial institutions need to receive approvals in a timely manner to be able to conduct their business competitively. Canadians need to feel confident that transactions which could affect the safety and soundness of financial institutions are carefully considered by the federal regulator.

### *How we get it done*

- We process approvals, and we develop and publish Advisories and Rulings that promote better understanding of our interpretation of federal financial institution statutes.
- We use published service standards that establish time frames for the processing of applications for regulatory approval and other services.

6

## ***Federally Regulated Private Pension Plans***

### *What we do*

OSFI supervises private pension plans covering employees in federally regulated areas of employment to determine whether the plans meet the minimum funding requirements and are complying with legislative and supervisory requirements. We promptly





advise the administrator of a pension plan when problems are identified, and work with the administrator to ensure the necessary corrective measures are taken to deal with the situation as rapidly as possible. As required by the legislation, we provide regulatory approval to pension plans for certain types of transactions. We also promote responsible pension plan administration and governance.

### ***Why it matters***

Canadians need to feel confident their pension plan benefits are secure and able to fund their retirement. OSFI plays a key role in safeguarding the private pension plans that fall under federal jurisdiction. Developments affecting actuarial and accounting standards – including the increased use of market rates and prices – have implications for pensions. Innovative new investment products and strategies to optimize returns and match pension liabilities require that regulators like OSFI take into account the risk implications for pension plans.

### ***How we get it done***

- We estimate solvency ratios for federally regulated defined benefit pension plans on a semi-annual basis, between their actuarial valuation reporting periods. This test enables us to intervene earlier in pension plans that are at risk.
- We use a series of early warning tests to detect risks based on information submitted in pension plans' filings.
- We conduct on-site examinations of selected pension plans.

- We process applications for regulatory approval.
- We issue guidance and advisories for federally registered private pension plans, and take an active role in any revisions to the federal legislation and regulations governing such plans.

## ***International Assistance***

### ***What we do***

OSFI's International Advisory Group (IAG) conducts needs assessments and provides hands-on technical advice, training, workshops and seminars, primarily to financial institution supervisors in Asia, Latin America, Africa and the Caribbean. The Canadian International Development Agency (CIDA) provides the bulk of the funding for the group.

### ***Why it matters***

Canada and other G7 countries recognize that upgrading the supervisory capacity of emerging market regulatory bodies can enhance the stability of the global financial system. Informal evaluations by CIDA indicate there have been significant and generally sustainable impacts on capacity building in countries where IAG has established continuing relationships.

### ***How we get it done***

- We offer bilateral and multilateral training programs and provide technical assistance in various locations outside of Canada.

- We develop training that meets the needs of a specific jurisdiction, including hands-on technical advice, consulting services and follow-up.

## **Office of the Chief Actuary**

The Office of the Chief Actuary (OCA) is an independent unit within OSFI that provides a range of actuarial services and advice to the Government of Canada. The OCA provides appropriate checks and balances on the future costs of the different pension plans and social programs that fall under its responsibilities, including the Canada Pension Plan (CPP), the Old Age Security Program and the Canada Student Loans program. For example, the OCA produces an actuarial report on the CPP every three years to determine the on going sustainability of the plan. The Chief Actuary reports to the Superintendent, but is solely responsible for the content and actuarial opinions in reports prepared by the OCA, and for actuarial advice provided to relevant government departments, as well as to the provincial and territorial governments, which are co-stewards of the CPP.



## A dedicated team

Our work requires the effort and attention of multi-disciplinary teams engaged in research and analysis, legal activities and communications initiatives. It demands an equal combination of broad perspective and in-depth expertise. There is a real passion at OSFI for demonstrating our values of commitment, teamwork, professionalism and integrity – and that energy is a key driver of our success.

OSFI's supervision and regulatory functions are supported by a range of essential corporate services including Finance and Corporate Planning, Information Management and Information Technology, Human Resources, and Communications and Consultations.

We place great importance on training and developing employees, in order to ensure organizational readiness and enhance career development. OSFI employs about 570 people in offices located in Ottawa, Montréal, Toronto and Vancouver. We strive to ensure a balance of industry and public sector experience among employees, especially in the risk assessment and supervision functions. Our job classification and salary structure are designed to attract and retain the necessary technical skills and industry experience.

## How OSFI is funded

We recover our costs through assessments on the financial services industry and private pension plans we regulate and supervise, and a user-pay program for selected services. A small portion of our revenue is derived from the Government of Canada for actuarial services relating to various public sector pension and benefit plans.