



Office of the Superintendent of
Financial Institutions Canada

Bureau du surintendant des
institutions financières Canada

Office of the Superintendent of Financial Institutions Canada

Departmental Performance Report

**for the
period ending
March 31, 2005**

**The Honourable Ralph Goodale, P.C., M.P.
Minister of Finance**



Canada 

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I. Overview

I.1 Message from the Superintendent



I am pleased to present the Departmental Performance Report (DPR) for the Office of the Superintendent of Financial Institutions (OSFI) for the period ending March 31, 2005.

This performance report focuses on the benefits of OSFI's overall contribution to Canadians and to Canada's financial and economic strength. In so doing, it concentrates primarily on OSFI's two

strategic outcomes: to regulate and supervise financial institutions so as to contribute to public confidence, and to contribute to the public confidence in Canada's retirement income system. Both outcomes contribute in turn to sound economic performance, a key government priority given the importance of the financial system to an advanced economy such as Canada's. This benefits all aspects of Canadian society.

Many Canadians may not be aware that OSFI is recognized both across Canada and around the globe as a world-class prudential regulator. Because of our people's hard work, expertise and dedication, Canadians can rightly be very proud and confident of the safety and soundness of our financial institutions, our private pension plans and our public pension arrangements. I am proud to be associated with such a dynamic and unique organization that serves Canadians so well.

At OSFI, we measure and assess our performance regularly to ensure we are moving in the right direction. A key measurement in 2004-2005 was an Industry Consultation where senior officials at financial institutions and professionals working in the field were asked to submit anonymously their feedback on OSFI's operations. We made the results of this consultation public. We always consider how to interpret some of these findings and we bear in mind that, as a regulator, it is not our objective to please regulated entities. However, in a sense, this amounts to a report card on how we are doing. The findings showed that 92 percent of respondents were satisfied with OSFI's performance, an increase from 78 percent in 1998. Measuring our performance and success is now a fundamental part of how we do business and it will remain a key priority.

While our mandate does not guarantee against failures, during the year we were faced with a number of challenges, including some problem institutions and pension plans where we intervened successfully without any material loss to Canadians. We have been a major, positive force in contributing to a framework of Canadian and international rules that is the best in its class, and we have cultivated relationships with financial institutions and other regulators in Canada and around the world.

We also worked toward releasing a set of principles on reputational risk management to guide financial institutions in this emerging and important category of risk. Reputational risk management has a higher priority today because business has become more complex, more global and more litigious. We believe that reputational risk should be on everyone's mind. And while some institutions have embraced it, others could do more. OSFI expects financial institutions to be proactive in identifying and managing risks in today's environment.

In 2004-2005, we took actions internally to enhance our efficiency and effectiveness. Some of these are still a "work in progress" and need fine-tuning, but they are steps in the right direction. We moved ahead with our initiative to reengineer our supervisory processes. Several other processes were improved. In addition, to control our administrative costs, our Ottawa employees lived through months of renovations as we reduced our space requirements.

During the year, we redeployed some employees to meet new priorities. We strengthened two important areas – our private pension plan division as well as our anti-money laundering and anti-terrorism financing unit. This was possible because of our deep bench strength. And while we strive to hold on to our people, we recognize that their expertise is highly sought after by other organizations. To ensure we continue to have a deep pool of talent, OSFI identified a number of its people and launched a leadership development program to invest in its, and their, future.

Together with our partners in government, we took action to strengthen the regulatory structure through smart regulation and streamlining, a necessity as Canada is a relatively small part of international capital markets. We worked closely with the Department of Finance and the Canada Deposit Insurance Corporation (CDIC) to reduce overlap and duplication in our roles.

Accountability and transparency are important to OSFI. While most of what we do in relation to individual financial institutions and pension plans must remain confidential for us to be effective, we are continuing a trend established several years ago of disclosing more information about how we are achieving our mandate. During the year, for the first time ever, we made our *Plan & Priorities* document generally available and made public several reports where we asked stakeholders for feedback on our operations. We made Parliament more aware of our role, which prompted four invitations to appear before House of Commons and Senate Committees. I welcome this. And we will continue to seek out opportunities to inform interested parties and Canadians about the important work that we do.

Building greater accountability was also evident in the Office of the Chief Actuary (OCA). The OCA, which operates independently within OSFI, provides actuarial services for various key government plans and programs such as the Canada Pension Plan (CPP), Old Age Security program, and pension and benefit plans that cover public servants, Members of Parliament and other groups. The OCA subjected its 21st Actuarial Report on

In 2004-2005, we made Parliament more aware of OSFI's role, which prompted four invitations to appear before House of Commons and Senate Committees.

The bar is constantly rising both for us and for the institutions we regulate and supervise. At OSFI, we regularly review projects and initiatives so that we can learn from their outcome and improve.

the CPP to an external peer review panel. To further strengthen the independence of the process, the OCA chose the Government Actuary Department of the United Kingdom to review the panel's work. The outcome of both processes confirmed the Chief Actuary's conclusions and the professionalism of the work done by the employees of the OCA.

I am pleased with these results, which demonstrate we are doing a job that we can be proud of on behalf of Canadians. But there is no room for complacency. The bar is constantly rising both for us and for the institutions

we regulate and supervise. At OSFI, we regularly review projects and initiatives so that we can learn from their outcome and improve.

OSFI employees and their knowledge are our strongest assets. They bring a depth of capabilities and dedication to the organization and are responsible for its status as a world-class prudential financial services regulator. Without their dedication, professionalism and integrity, OSFI would not be able to effectively discharge its public policy mandate of regulating and supervising federal financial institutions and private pension plans. It is this strength that enables OSFI to contribute to the high level of public confidence Canadians rightly express in their financial sector. I thank them for their efforts and their achievements.

During 2004-2005, OSFI updated its planning and reporting 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 framework. This Departmental Performance report is presented in accordance with OSFI's PAA.


I.2 Management Representation Statement

I submit for tabling in Parliament, the 2004-2005 Departmental Performance Report (DPR) for the Office of the Superintendent of Financial Institutions Canada.

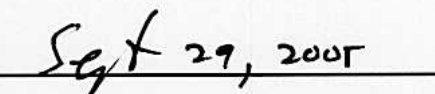
This document has been prepared based on the reporting principles contained in the Treasury Board of Canada Secretariat's *Guide for the preparation of 2004-2005 Departmental Performance Reports*:

- It adheres to the specific reporting requirements;
- It uses an approved Program Activity Architecture;
- It presents consistent, comprehensive, balanced and accurate information;
- It provides a basis of accountability for the results pursued or achieved with the resources and authorities entrusted to it; and
- It reports finances based on approved numbers from the Estimates and the Public Accounts of Canada.

Name:


Superintendent

Date:



I.3 Summary Information

I.3.1 OSFI's "*raison d'être*"

Mandate

OSFI's legislated mandate, established in 1996, 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 for setting strategy and managing the financial institutions and pension plans and that there can be failures.

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

Strategic Outcomes

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

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

Program Activities

Three *program activities* support **OSFI's first strategic outcome** to regulate and supervise financial institutions and private 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 government of Canada to assist emerging market economies to strengthen their regulatory and supervisory systems. This program incorporates activities related to providing help to 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 by OSFI directly 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.

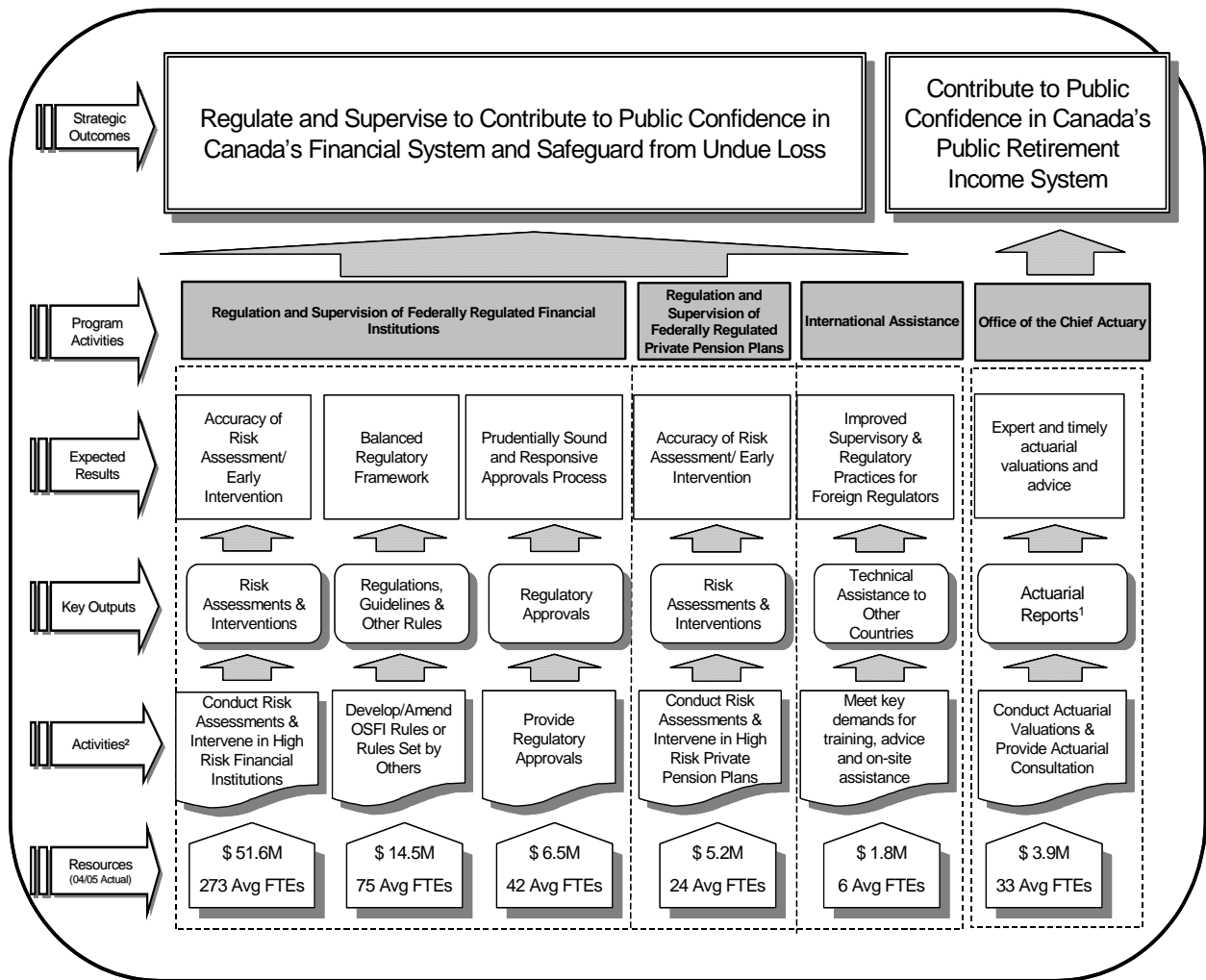
A fourth *program activity*, the Office of the Chief Actuary (OCA), supports OSFI's **second strategic outcome**: to contribute to public confidence in Canada's public retirement income system.

4. *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 long-term future expenditures for Old Age Security programs. The OCA also 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.

The following diagram shows how OSFI's main 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 provided with Program Support (by Corporate Services and other organization-wide activities). These Program Support costs and FTEs are allocated to the activities based on share of direct human resources costs.

While the program activity “Regulation and Supervision of Federally Regulated Private Pension Plans” consists primarily of risk assessment and early intervention, it also includes components directed at ensuring a balanced regulatory framework and providing a prudentially sound and responsive approvals process, which are not shown on the diagram.

OSFI's Accountability Framework

OSFI was created in 1987 through the enactment of the *Office of the Superintendent of Financial Institutions Act* (OSFI Act), and subsequently received a legislated mandate that clarified its objectives in the regulation and supervision of federal financial institutions and private pension plans.

The OSFI Act provides that the Minister of Finance is responsible for OSFI. It also provides that the Superintendent is solely responsible for exercising the authorities provided to him by the financial legislation, and is required to report to the Minister of Finance from time to time on the administration of the financial institutions legislation.

The Office of the Chief Actuary (OCA) was created within the organization as a separate unit to effectively provide actuarial and other services to the Government of Canada and provincial governments who are Canada Pension Plan (CPP) stakeholders. The OCA has a vital and independent role to play in this process. The Reporting and Accountability Framework for the Office of the Chief Actuary within OSFI establishes the Chief Actuary as the person solely responsible for the content and the actuarial opinions made by his/her Office. More information is available on OSFI's web site under the [Office of the Chief Actuary](#).

OSFI's accountability framework is made up of a variety of elements. 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 its knowledgeable observers to assess its performance and effectiveness as a regulator. This includes OSFI's contribution to public confidence and how OSFI compares to other regulators. Survey results are disclosed on OSFI's website at <http://www.osfi-bsif.gc.ca/>.

OSFI consults extensively on its regulatory rules before they are finalized with financial institutions, other government agencies and subject matter experts. OSFI 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 implemented a range of measures that allow OSFI to assess its performance.

I.3.2 Total Financial and Human Resources

The table below identifies OSFI's financial and human resources, planned and actual, for the 2004-2005 fiscal year. As a result of a business process reengineering initiative during the year, OSFI reduced its maximum head count to 475 Full Time Equivalents (FTEs) in 2004 from 495 set in 2002. OSFI's actual average number of FTEs for the year remained relatively unchanged from the previous year as a result of a hiring freeze in anticipation of a restructuring.

Total Financial Resources (\$ thousands)

Planned	Authorities	Actual
\$83,310	\$83,347	\$83,541

Total Average Full Time Equivalents

Planned	Actual	Difference
491	453	38

Refer to Tables 1 and 2 in Section III 2 for additional detail and commentary.

I.3.3 Summary of Performance in Relationship to Strategic Outcomes, Priorities and Commitments

Strategic Outcomes	Priorities/ Commitments From 2004-2005 RPP	Type	Planned Spending	Actual Spending	Current Status
Public Confidence in the Financial System and Safeguarding from Undue Loss	1) Continue to be effective at identifying risks and ensuring timely intervention in federally regulated financial institutions and private pension plans and continually identify and implement selected improvements in supervisory and regulatory processes, practices, and tools; operate a balanced and effective approvals process.	On-Going	\$35.3M	\$34.1M	Met expectations
	2) Adjust rules impacting federally regulated financial institutions and private pension plans in a focused manner to address changing risks and economic conditions and other key developments that trigger a need for enhanced regulation and guidelines.	On-Going	\$8.6M	\$10.1M	Met expectations
	Part of 1) Respond in a focused and selective way to the increasing demands for OSFI's technical assistance, largely funded by CIDA, and further develop OSFI's program of hands-on training.	On-Going	Originally planned as part of #1 above	\$1.8M	Met expectations
	3) Focus on enhancing business processes through the upgrade of enabling technologies, Information Management strategies and Information Technology infrastructure.	Previous	\$8.9M	\$8.6M	Met expectations
	4) Continuously improve key elements of OSFI's human resources processes and capability.	On-Going	\$3.3M	\$2.3M	Met expectations
Public Confidence in Canada's Public Retirement Income System	5) Continuously improve the value of actuarial reports and linkages with key partners / stakeholders to enable the provision of expert and timely advice to the stewards of the Canada Pension Plan (CPP) and other government programs.	On-Going	\$4.2M	\$3.9M	Met expectations
<i>Program Support</i>		<i>On-Going</i>	<i>\$23M</i>	<i>\$22.7M</i>	<i>Met expectations</i>
TOTAL			\$83.3M	\$83.5M	

I.4 OSFI's Overall Performance

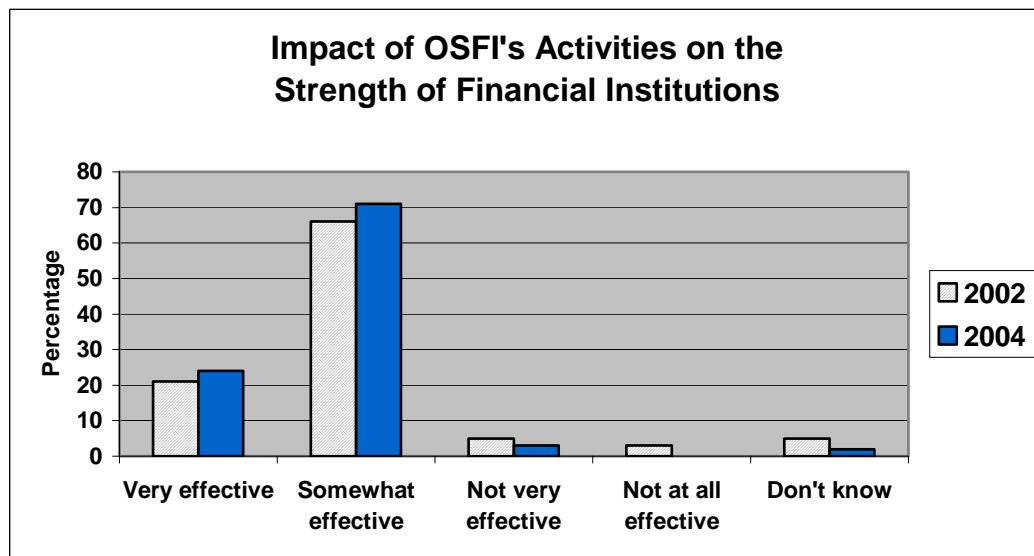
I.4.1 Description of Overall Performance

In all areas, OSFI met or surpassed its expectations. Internal monitoring of OSFI's performance is supported by the results of surveys of stakeholders, which confirm that OSFI continues to perform well.

In 2004, OSFI undertook independent, comprehensive consultations with its stakeholders, comprised of senior executives and professionals representing a cross-section of the institutions regulated by OSFI.

The results are presented in two reports, both available on OSFI's web site under "[About OSFI/Reports/Consultations](#)": *Industry Consultation Findings* and *OSFI's Approvals Process Consultation Results*. The objectives of the Industry Consultation were to obtain an overall perspective on OSFI's performance as a regulator of financial institutions and the challenges OSFI faces in discharging its mandate. OSFI undertook similar consultations in 1998, 2000 and 2002.

- Satisfaction with OSFI as the principal regulator and supervisor of Canada's financial services sector is high (92%). There has been a significant and steady increase in reported levels of overall satisfaction since 1998.
- Consistent with previous research, a majority of observers (76%) rate OSFI's performance in contributing to the public's sense of confidence in the financial services industry as good.
- The vast majority (95%) believe that OSFI's activities have effectively contributed to making Canada's financial institutions stronger than they were in the past.



Crosswalk to Link to Program Activity Architecture (PAA)

During 2004-2005, OSFI updated its accountability and reporting 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 framework.

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.

Through its International Assistance activities, OSFI supports initiatives of the Canadian government to assist emerging market economies to strengthen their regulatory and supervisory systems.

For public pension plans, the activities of the Office of the Chief Actuary within OSFI contribute to confidence in the public retirement income system through the provision of accurate, timely information on the state of these arrangements and options being considered by policy makers.

The diagram on the following page provides a crosswalk illustrating the changes to OSFI's reporting structure. The crosswalk maps OSFI's former business lines (used for external reporting in years up to and including 2003-2004) to its new Program Activity Architecture, strategic outcomes, priorities and their related resources.

The table below provides a crosswalk to link the priorities from OSFI's 2004-2005 *Report on Plans and Priorities* (RPP) to OSFI's 2004-2005 *Departmental Performance Report* (DPR). The priorities have been renumbered to align with OSFI's new PAA.

Renumbering of OSFI's Priorities to Align with PAA

Priorities from 2004-2005 RPP	Priorities for 2004-2005 DPR
1	1a, 2, 3
2	1b, 2
3	5
4	6
5	4

2004-2005						
	STRATEGIC OUTCOMES					
	Regulate and Supervise to Contribute to Public Confidence in Canada's Financial System and Safeguard from Undue Loss				Contribute to Public Confidence in Canada's Public Retirement Income System	
	PROGRAM ACTIVITIES (PAA)					
	Regulation and Supervision of Federally Regulated Financial Institutions	Regulation and Supervision of Federally Regulated Private Pension Plans		International Assistance	Office of the Chief Actuary	Total
BUSINESS LINES <i>NOTE: Program Support costs have been allocated across the Business Lines</i> (\$ thousand)	2004-2005 Priorities / Commitments as reported in the RPP					
	1a) Identify risks and ensure timely intervention in financial institutions; identify and implement selected improvements in supervisory and regulatory processes, practices, and tools; operate a balanced, responsive approvals process.	1b) Adjust rules impacting financial institutions to address changing risks and economic conditions and other key developments that trigger a need for enhanced regulation and guidelines.	2) Identify risks and ensure timely intervention in pension plans; identify and implement selected improvements in supervisory and regulatory processes, practices, and tools; adjust rules in a focused manner to enhance regulation and guidelines.	3) Respond selectively to increasing demands for OSFI's technical assistance, largely funded by CIDA, and further develop OSFI's program of hands-on training.	4) Continuously improve the value of actuarial reports and linkages with key partners / stakeholders to enable the provision of expert and timely advice to the stewards of the Canada Pension Plan and other government programs.	
	5) Focus on enhancing business processes through the upgrade of enabling technologies, Information Management strategies and Information Technology infrastructure					
	6) Continuously improve key elements of OSFI's human resource processes and capability.					
Regulation and Supervision of Financial Institutions and Private Pension Plans						
Main Estimates	59,144	14,166	4,264	1,548		\$79,122
Total Authorities	59,144	14,166	4,264	1,548		\$79,122
Actual Spending	53,021	19,658	5,184	1,781		\$79,644
Actuarial Services to GOC						
Main Estimates					4,188	\$4,188
Total Authorities					4,225	\$4,225
Actual Spending					3,898	\$3,898
TOTAL						
Main Estimates	59,144	14,166	4,264	1,548	4,188	\$83,310
Total Authorities	59,144	14,166	4,264	1,548	4,225	\$83,347
Actual Spending	53,021	19,658	5,184	1,781	3,898	\$83,541

I.4.2 Operating Environment

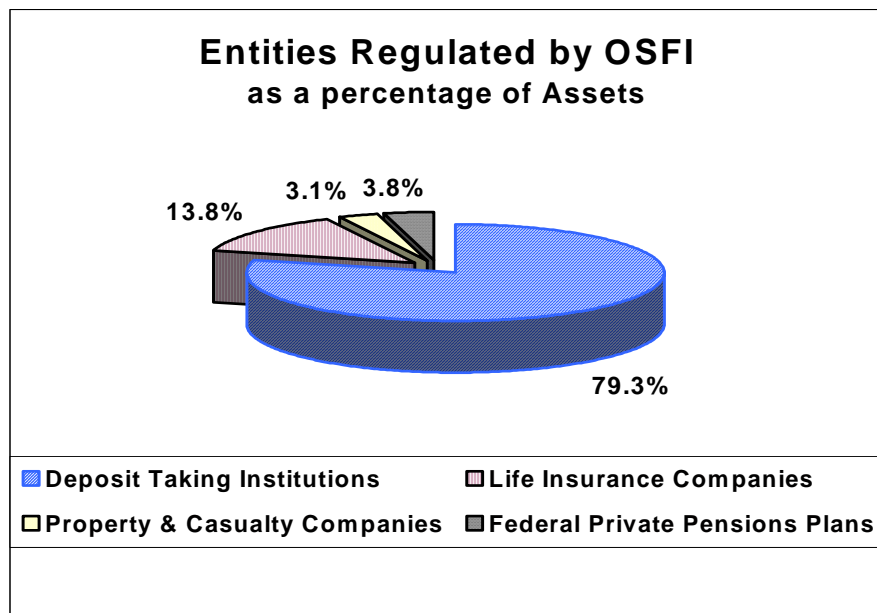
Regulated Entities

The Office of the Superintendent of Financial Institutions (OSFI) is the primary regulator of financial institutions and private pension plans operating in Canada under federal jurisdiction.

OSFI supervises and regulates all federally incorporated or registered deposit-taking institutions (e.g. banks), life insurance companies, property and casualty insurance companies, and federally regulated private pension plans. These 1,728 organizations managed a total of \$2,720 billion of assets (as at March 31, 2005).

Federally Regulated Financial Institutions and Private Pension Plans & Related Assets

	Deposit Taking Institutions	Life Insurance Companies	Property & Casualty Companies	Federal Private Pensions Plans	Total
Number of organizations	141	116	187	1,284	1,728
Assets \$B	2,157	374	85	104	2,720



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 under "[Who We Regulate](#)".

Cost Recovery

OSFI recovers its costs from several revenue sources.

The majority of costs related to risk assessment and intervention, approvals and rule making are recovered through base assessments to regulated financial institutions and fees assessed to private pension plans according to various formulas set out in regulations. The system is designed to allocate costs to industries based on the approximate amount of time spent supervising and regulating the industry. Costs are then assessed to individual institutions within an industry based on the applicable formula, with a minimum assessment for smaller institutions.

Specific user fees cover costs for certain approvals. Problem (staged) institutions are assessed a surcharge on their base assessment, approximating the extra supervision resources required. As a result, well-managed, lower-risk institutions and those with fewer approvals bear a smaller share of OSFI's costs.

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 of their financial institutions on a contract basis, 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 Capital Adequacy Framework - "Basel II".

Overall, OSFI fully recovered all its expenses for the fiscal year 2004-2005.

Effective 2004-2005, OSFI modified its financial statement presentation and notes to align these with its Program Activity Architecture (PAA). The activity of International Assistance is now presented separately from that of Regulation and Supervision of Federally Regulated Financial Institutions.

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 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 by a parliamentary appropriation.

Benefits to Canadians

“The marketplace is an essential foundation for investment, innovation, trade, sustainable development, job creation, consumer confidence and economic growth. A secure, fair marketplace maintains and enhances consumer confidence, and gives businesses the best environment possible for competitiveness.

The government of Canada is committed to providing a secure and fair marketplace by ensuring that:

- the Canadian financial system is safe and sound;
- Canadians comply with tax, trade and border legislation;
- producers’ rights are protected; and
- high standards for a safe and secure trading system are in place.”

[*Canada’s Performance 2004*, page 42](#)

[Treasury Board web site: http://www.tbs-sct.gc.ca/report/govrev/04/cp-rc_e.asp](http://www.tbs-sct.gc.ca/report/govrev/04/cp-rc_e.asp)

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.

As a result, the achievements of OSFI’s strategic outcomes are aligned with the theme “A Secure and Fair Marketplace”, as highlighted in the Government of Canada’s annual performance report, entitled *Canada’s Performance 2004*. This government-wide report measures annual progress toward broad societal goals and highlights both Canada’s strengths and areas where improvements can be made. The [Treasury Board](#) web site provides a full text of this report: http://www.tbs-sct.gc.ca/report/govrev/04/cp-rc_e.asp

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 / anti-terrorism financing (AML/ATF) requirements.

OSFI remains committed to informing Canadians about our activities and plans, and to contributing to a dialogue on key issues facing the financial sector and pension plans. The Superintendent and other OSFI subject experts delivered over 30 presentations to industry and regulatory fora, both nationally and internationally, to such audiences as the Institute of International Bankers, the Global Association of Risk Professionals, the Economic Club of Toronto, the International Conference of Banking Supervisors, and the C.D. Howe Institute.

To provide all interested parties with easier access to our information online, in 2004-2005 OSFI redesigned its external web site: www.osfi-bsif.gc.ca. Users from the public and from industry were consulted about their needs, and improvements were made to the web site to present information in a more client-centric and intuitive way.

As part of OSFI's commitment to transparency, for the first time, OSFI made public its *Plan and Priorities 2005-2008* (formerly known as the Strategic Plan). OSFI also made public the findings of both the 2004 *Industry Consultation* and the *Approvals Process Consultation*. The full text can be found on OSFI's web site.

Canadian financial institutions, many of which are increasingly expanding their physical presence and exploring business opportunities outside of Canada, play a key role in the global financial system. Canada and other G-8 governments have recognized that upgrading the supervisory capacity of emerging market regulatory bodies can help to enhance the stability of the global financial system. Canada has chosen to play an important role in this regard both directly and indirectly, through OSFI's technical-assistance program, which is designed to help emerging market economies improve their financial institution supervisory systems.

Sharing OSFI's Expertise

Throughout 2004-2005, OSFI shared its expertise with interested Canadians, including members of the general public, industry, regulators and legislators:

- Served over 860,000 visitors to OSFI's web site.
- Handled 13,272 public inquiries.
- Responded to 154 inquiries from Members of Parliament.
- Delivered over 30 speeches and presentations to industry and regulatory fora.

I.4.3 Context

Key Partners

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

OSFI collaborates with provincial and territorial supervisory and regulatory agencies, as necessary, and with private-sector organizations and associations, particularly in rule making.

OSFI plays a key role in the International Association of Insurance Supervisors (<http://www.iaisweb.org>) and international organizations such as the Basel Committee on Banking Supervision (http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=368).

OSFI engages several partners at various stages of its processes. As an example, within the regulatory framework, other federal government organizations play prominent roles.

Regulatory Framework Roles	
Government Organization	Role
Dept of Finance	<ul style="list-style-type: none">• Sets overall policy and facilitates co-ordination with federal regulatory agencies through mechanisms such as the Senior Advisory Committee (SAC)¹.
CDIC	<ul style="list-style-type: none">• Provides deposit insurance.• Has a role in dealing with institutions in difficulty.
Bank of Canada	<ul style="list-style-type: none">• Provides advice from its perspective in the area of financial institutions legislation and regulation and is responsible for payment system risk mitigation.• Plays a key role should serious problems arise as lender of last resort.

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.

¹ SAC is an inter-agency committee which is chaired by the Deputy Minister of Finance; other members include the Superintendent of OSFI, the Governor of the Bank of Canada, the Chairman of the CDIC and the Commissioner of the Financial Consumer Agency of Canada.. Its chief function is to provide a forum for inter-agency policy discussions, the outcomes of which are incorporated in advice provided to the Minister.

Economic and Financial Environment

Canada's major financial institutions are highly international and becoming even more global through acquisitions and/or growth strategies focused on the U.S., Asia and Europe. As a result, economic, political and industry developments outside Canada are of increasing importance, affecting the financial performance, and consequently the safety and soundness, of Canadian institutions.

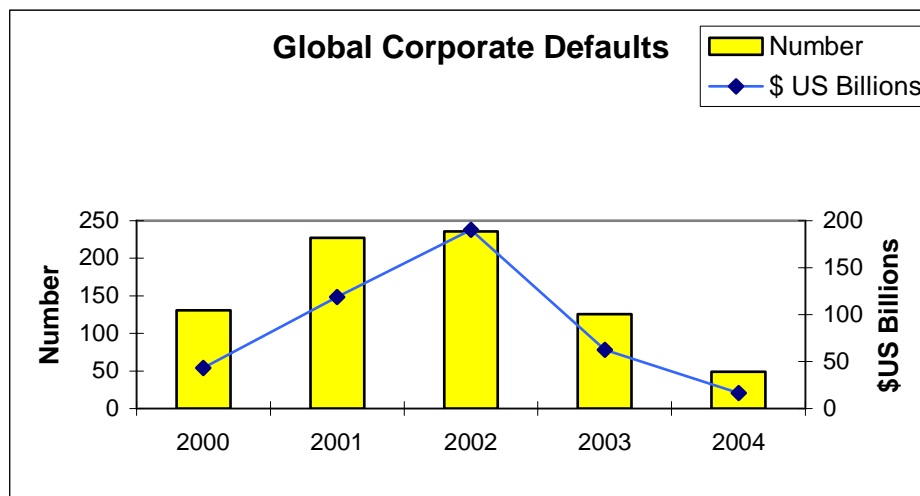
The global economy continued to expand in 2004. Gross Domestic Product growth was notably robust in China and the U.S., Canada's two most important trading partners.

Canada's economy experienced substantial growth in the first half of 2004, led by the natural resources sector, which experienced a surge in energy and non-energy commodity prices. However, an appreciating Canadian dollar resulted in exports decelerating over the final few months of the year, bringing annual growth down to a more moderate level. Meanwhile, low interest rates and buoyant consumer confidence encouraged the household sector to increase indebtedness to record levels, as measured by the ratio of debt to disposable income.

Supported by generally healthy economies domestically and abroad, Canadian financial institutions showed improved results in 2004. The banking, life insurance, and property and casualty (P&C) insurance industries all reported an increase in average return on equity. In the case of the P&C industry, however, there is still some uncertainty about the sustainability of these results, particularly in auto insurance.

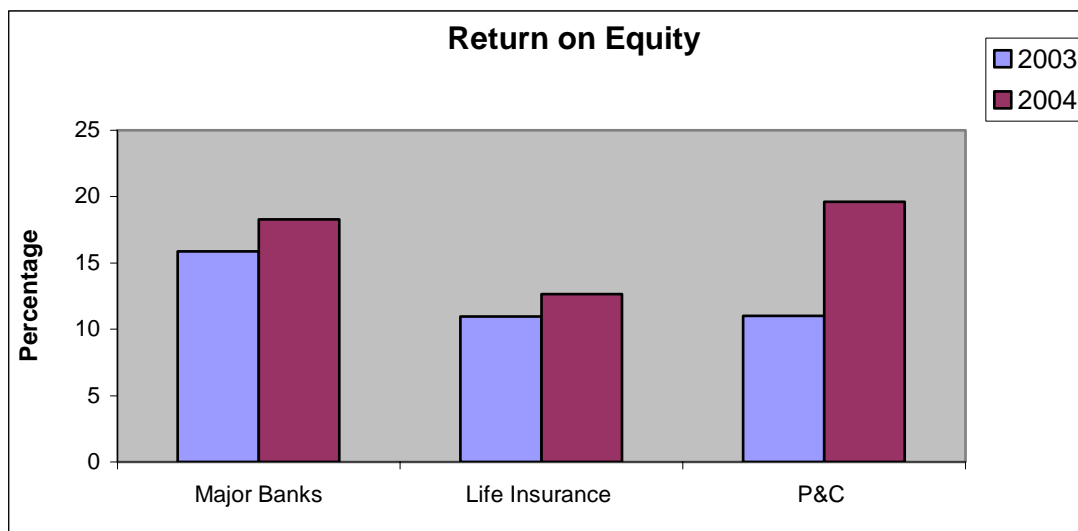
Capital levels continued to be strong, providing institutions with a reasonable buffer against unexpected losses while also enabling them to expand operations, raise dividends and, in some cases, repurchase their common shares.

Reduced exposures to large corporate loans, combined with fewer defaults and credit rating downgrades, allowed the major banks to reduce their provisions for loan losses and thus improve the profitability of their corporate lending business.



The six largest Canadian banks reported continued strong profitability throughout 2004, with an average return on equity of 18.3%, compared with 15.9% in 2003.

The improvement in operating performance came, in large part, from lower provisions for loan losses as a result of favourable economic conditions, recoveries, and reductions in the general reserve. Domestic retail banking performed strongly, despite the compression in interest margins resulting from intense competition. Low interest rates throughout much of 2004 fuelled considerable activity in the mortgage and consumer lending arenas. Wealth management posted solid results, buoyed by improved investor confidence and higher asset valuations. Improved capital markets also boosted revenues from the investment and wholesale banking businesses, while results from foreign operations remained mixed, as in previous years.



Driven by robust growth in the domestic economy and continued strong demand for household credit in 2004, the smaller deposit-taking institutions showed year-over-year improvements in operating results. While the majority of these institutions did not achieve the return on equity levels of the major banks, a substantially higher number of them attained comparable results than in the previous year. Capital positions remained stable and asset quality improved.

The Canadian life insurance industry continued to report solid financial results in 2004, with average return on equity increasing to about 13%. The three largest life insurance companies generally outperformed the industry, reflecting differences in geographic coverage and economies of scale.

After a major improvement in 2003, the property and casualty insurance industry continued on a positive track in 2004. Net income doubled over the previous year's level. Average return on equity was 19.1%, compared with 11.6% in 2003, and only 1.4% in 2002. However, performance improvement was not uniform across all insurers

or lines of business and there is a question as to whether the industry can sustain the current level of profitability.

During 2004-2005, the state of the pension plan industry did not change significantly from the previous year. Financial and economic conditions continued to create a stable but fragile environment, with low interest rates contributing to solvency deficits. As at December 2004, about half (55%) of all defined benefit plans supervised by OSFI had solvency funding deficits (compared to 53% in 2003).

Competitive Landscape

International developments affecting financial institutions had, and will continue to have, implications for OSFI's performance.

The global financial environment is growing in complexity, and major Canadian financial institutions are increasingly operating abroad. OSFI had to take into consideration, in both its supervisory role and rule making decisions, the risks arising from these offshore operations and the ability of these institutions to manage them. OSFI also had to take into account international developments affecting the operations of foreign institutions in Canada. These factors added to the importance of increased co-operation among global regulators, and OSFI continued to put emphasis on participation in international fora, efforts to ensure that our supervisory framework remains appropriate, and maintaining or enhancing relationships with other regulators.

The nature of both financial institutions and financial products has become more complex, leading to new and potentially greater risks. Financial institutions of all sizes are affected by the concern that control processes are not keeping pace. Financial institutions are measuring and managing their risk exposures by placing added reliance on a variety of enhanced analytical techniques and risk-transfer mechanisms. Some of these risk transfer mechanisms have yet to be tested under difficult economic conditions.

Reputational risk has become a major area of focus for non-prudential regulators, public commentators and consumers of financial services. In some cases, long accepted practices have come under direct review and critical scrutiny. Financial institutions could be exposed financially from these developments as a result of legal and reputational risk.

Lower solvency ratios over the past few years increased attention on private pension plans as well. The resulting financial strain prompted some plan sponsors to question the viability of defined benefit plans and could result in some plans ultimately being unable to meet their pension obligations.

The detection and deterrence of terrorism financing and money laundering has been an area of focus for many jurisdictions, including Canada. OSFI continued to play a role in this area working with other federal government agencies and departments and contributed to addressing these risks.

Policy Environment

A variety of domestic and international policy initiatives presented challenges for OSFI during the reporting period.

OSFI continued to develop or modify rules to keep them current and appropriate for the evolving environment, as well as to provide a level playing field for Canadian financial institutions vis-à-vis their global competitors. For example, OSFI has amended certain rules to be consistent with the New Capital Adequacy Framework (Basel II) for deposit-taking institutions and has worked closely with other countries to ensure the new Framework is appropriate for Canada.

There has been strong pressure from many sources to enhance corporate governance practices in Canada. We have seen a number of changes, including the creation in 2002 of a Canadian Public Accountability Board (CPAB). OSFI has supported these initiatives and is an active member of the Council of Governors, which oversees the quality control of the audit of public companies in the country. Additionally, OSFI has helped review proposed amendments to various acts in conjunction with the Department of Finance to update certain governance standards that are unique to financial institutions.

Increased attention has been placed on the management of reputational risk by financial institutions, particularly with respect to complex structured transactions, adherence to anti-money laundering and anti-terrorism financing requirements and trading activities related to mutual funds. OSFI reviewed practices at several financial institutions and communicated the results of these reviews to assist institutions in implementing enhanced controls.

Efficiency and Effectiveness

In today's environment, there is a need for organizations such as OSFI to continually refine their business processes, enhance technological capabilities, and improve the knowledge and skills of their human resources. Stakeholders rely on OSFI to meet its mandate in the most efficient and cost effective manner possible. OSFI has worked to achieve these goals through investments in information technology and improvements in business processes. This will continue as a priority. In the past year, OSFI has reengineered its supervisory processes and worked with financial institutions to reduce data requirements, thus reducing compliance costs for these institutions.

It is essential for OSFI to continue to attract and retain the skilled human resources it needs to fully meet its mandate. Failing to do so would affect OSFI's ability to supervise financial institutions and private pension plans effectively. The skills OSFI needs are highly marketable in today's environment and necessitate that OSFI continue to remain competitive in the workplace.

A significant portion of the training budget was directed to supporting key business processes and implementing enabling technology such as enhanced workflow and information management systems.

As a result of the business process reengineering initiative, OSFI reduced its maximum head count to 475 Full Time Equivalents in 2004 from 495 set in 2002. This was achieved in the face of increased pressures to meet workload demand related to Basel II implementation, foreign acquisitions by domestic institutions and increased efforts in such areas as anti-money laundering and supervision of problem pension plans. OSFI ended the year with a head count of 426, reflecting normal vacancies and lower staff levels as a result of a hiring freeze earlier in the year in anticipation of reduced positions due to efficiencies.

Risks, Challenges and Opportunities

OSFI's Enterprise Risk Management Process (ERM) identified certain areas where risks were not necessarily sufficiently mitigated by the existing controls. For the 2004-2005 period, OSFI focused on the internal risks that could arise if: OSFI did not have adequate information or systems to facilitate decision making; its quality assurance processes were not effective enough; staff did not apply adequate judgment in their work; and the change management culture within the organization was inadequate given the pace of change. These were in addition to focusing on the impact of the economy and financial environment on financial institutions and private pension plans, which is a normal part of ongoing processes.

The environment in which OSFI operates presented a number of risks and threats to the achievement of its mandate. Some of these risks had a low probability of occurrence but would have a high impact, whereas others had a higher probability of occurrence but a lower impact. In addition, some risks were already being adequately addressed, and posed little "residual risk" to the organization (as long as existing risk management strategies continue). OSFI's ability to meet its objectives depended on how effectively it could evaluate and prioritize the risks it faced (in terms of both probability of occurrence and level of impact), and develop strategies to address areas where the risk exposure was greatest, especially in comparison to the activities undertaken to control those risks.

The risks below were taken into consideration during the planning cycle, and priorities were developed to manage them. The results are shown in detail in Section II.

Problem financial institutions. There were a significant number of problem financial institutions on OSFI's watch list. This required OSFI to focus on selected deposit-taking conglomerates and life insurance companies, and to look at the wider sectoral issue in the property and casualty industry. The risk was that OSFI would not identify new problem financial institutions in a timely manner or would not intervene effectively. OSFI was also subject to reputational risk in respect of the problems already identified, particularly if it was perceived that OSFI had not adequately met its mandate in dealing with the high-profile, high-risk situations. During 2004-2005, OSFI further refined its risk-based approach so supervisory activities focused on the most significant or material situations, and rules development efforts focused on areas that were most likely to compromise the safety and soundness of financial institutions.

Problem private pension plans. Numerous problem private pension plan situations were going to require considerable attention to resolve. The risk was that OSFI would not quickly identify problems or would not intervene effectively. In 2004-2005, OSFI dealt with a number of problem situations for private pension plans, including underfunded plans on contribution holidays, plans with solvency funding deficits, and plans where member benefits were at risk.

Natural or man-made disasters. A variety of situations over the past few years (starting with 9/11) highlighted the importance of being prepared for unexpected events that could have a significant impact on financial markets and financial institutions. While these situations increased the financial sector's and regulators' appreciation of and focus on business continuity planning processes, there was a risk that future events would impose significant stresses on financial institutions that stretch their ability to respond effectively. OSFI believed its readiness level was adequate, but continued to undertake activities to maintain its preparedness and assess that of the institutions it regulates.

Globalization. As globalization continued, the impact of regulatory requirements on the international competitiveness of domestic financial institutions gained importance. Domestic financial institutions that conducted most of their operations in foreign jurisdictions were faced with heightened reputational and legal risks. This could have had a significant affect on OSFI's supervisory process, as OSFI was challenged to assess effectively, on a consolidated basis, the safety and soundness of these domestic financial institutions. This required having appropriate knowledge of those foreign markets and determining how much reliance OSFI could place on other supervisors and the amount of direct supervisory work offshore that OSFI needed to perform. OSFI needed to be aware of both the supervisory regimes in other jurisdictions and of other regulatory rules.

Accountability. The environment for public organizations put an additional premium on being, and being seen to be, fully accountable. The risk was that OSFI would be seen to have not adequately met this challenge, which would have had a damaging impact on OSFI's reputation. Credibility in this regard was particularly important for OSFI because of its focus on the quality of the internal processes at the institutions it regulates. Improvements were made in OSFI's internal risk management assessment, quality assurance processes, performance measurement, and external and internal reporting.

Human resources. It was essential that OSFI continue to have the necessary skill sets to meet its mandate. This required ongoing assessment of the availability and adequacy of skills relative to current and future needs, the development of HR plans, policies and programs to fill identified gaps, and maintaining an organizational climate that motivates people to succeed. OSFI believes continued improvement is important to ensure a material human resources problem does not develop.

II. Analysis of Performance by Strategic Outcome

II.1 Strategic Outcomes

Strategic Outcomes

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

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

In 2004-2005, OSFI implemented the Program Activity Architecture (PAA), as recommended by the Treasury Board Secretariat, as part of the federal government's commitment to strengthen oversight and accountability. For the purpose of reporting here, OSFI's five priorities as laid out in the 2004-2005 RPP have been realigned with OSFI's new Program Activity Structure (PAA) structure.

Renumbering of OSFI's Priorities to Align with PAA

Priorities from 2004-2005 RPP	Priorities for 2004-2005 DPR
1	1a, 2, 3
2	1b, 2
3	5
4	6
5	4

II.2 Monitoring Mechanisms and Performance

To monitor and assess the impact of its priorities on its strategic outcomes, OSFI uses a combination of performance measurement data and information. For each priority the types of monitoring mechanisms used are reported on in Section II.3 below.

To monitor the status of the strategic outcomes themselves, OSFI uses various types of performance measures, including independent assessments (public surveys), peer reviews, benchmark studies, and actual experience preventing undue loss.

OSFI's mandate explicitly provides that closures and terminations can occur and are not by themselves an indication of OSFI's performance. So in considering those that do occur, OSFI assesses how it performed relative to its early intervention mandate in identifying the situation and intervening appropriately.

It should be recognized that OSFI's performance does not constitute the only influence on its strategic outcomes and its performance measures. Indeed, OSFI's legislation recognizes that there are many other factors and stakeholders whose actions or inactions have a large impact on the strategic outcomes. However, OSFI continues to monitor this type of information to ensure it has a clear understanding of the status of its key strategic outcomes and to gain additional insights into the ways by which OSFI itself can continue to contribute to those outcomes.

OSFI also monitors a variety of indicators that contribute to its effectiveness such as the appropriateness of its supervisory or rule making practices and the usefulness of its feedback to institutions.

In 2004-2005, OSFI developed a new performance measurement framework and a suite of measures corresponding to its PAA, which will be implemented in 2005-2006. Some of these measures were in place during 2004-2005, and the results have been included in this report.

II.3 Detailed Analysis of Performance

The table below illustrates the link between OSFI's priorities and its Strategic Outcomes.

STRATEGIC OUTCOMES				
Regulate and Supervise to Contribute to Public Confidence in Canada's Financial System and Safeguard from Undue Loss			Contribute to Public Confidence in Canada's Public Retirement Income System	
PROGRAM ACTIVITIES (PAA)				
Regulation and Supervision of Federally Regulated Financial Institutions	Regulation and Supervision of Federally Regulated Private Pension Plans	International Assistance	Office of the Chief Actuary	
2004-2005 Priorities / Commitments as reported in the RPP				
1a) Identify risks and ensure timely intervention in financial institutions; identify and implement selected improvements in supervisory and regulatory processes, practices, and tools; operate a balanced, responsive approvals process.	1b) Adjust rules impacting financial institutions to address changing risks and economic conditions and other key developments that trigger a need for enhanced regulation and guidelines.	2) Identify risks and ensure timely intervention in pension plans; identify and implement selected improvements in supervisory and regulatory processes, practices, and tools; adjust rules in a focused manner to enhance regulation and guidelines.	3) Respond selectively to increasing demands for OSFI's technical assistance, largely funded by CIDA, and further develop OSFI's program of hands-on training.	4) Continuously improve the value of actuarial reports and linkages with key partners / stakeholders to enable the provision of expert and timely advice to the stewards of the Canada Pension Plan and other government programs.
PROGRAM SUPPORT				
5) Focus on enhancing business processes through the upgrade of enabling technologies, Information Management strategies and Information Technology infrastructure				
6) Continuously improve key elements of OSFI's human resource processes and capability.				

Regulation and Supervision of Federally Regulated Financial Institutions

Priority 1a

Continue to be effective at identifying risks and ensuring timely intervention in federally regulated financial institutions (FRFIs). Continually identify and implement selected improvements in supervisory and regulatory processes, practices and tools. Operate a prudentially effective, balanced and responsive approvals process.

Description

This priority encompasses OSFI's on-going supervisory processes and practices. OSFI must identify and keep abreast of sectoral and institution specific issues, deal with these on a timely basis and amend its processes and practices as necessary to meet the challenges of a constantly changing environment. It must do this in a cost effective way.

The Approvals activity is an integral part of this priority. It covers two distinct types of approvals, those required under the legislation applicable to financial institutions and other approvals related to the supervisory process. Transactions requiring approval include new incorporations of federal financial institutions, changes of ownership, sale or purchase of blocks of business and foreign bank or foreign insurance company entry into Canada. Supervisory approvals include review and acceptance of capital models.

Expected Results

1. Effective identification of risks faced by financial institutions and timely intervention as appropriate.
2. Efficient and effective utilization of resources.
3. Increased co-operation with other international organizations.
4. Effective monitoring processes and practices.
5. Increased protection for policy holders, depositors and creditors.
6. Approvals that result in prudentially sound decisions that are timely, clear and transparent.

Performance Measures / Achieved Results

1. **Ongoing internal monitoring of results achieved in dealing with specific problem institutions.** *Source: Internal information on OSFI operations.*
 - Identified and dealt effectively with safety and soundness issues with a number of financial institutions. During the year there was a substantial reduction in the number of problem institutions. This is reflected in statistics related to 'staged' institutions (those requiring enhanced intervention). Broadly, these ratings are categorized as: normal (unstaged); 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). The number of staged institutions, of which the vast majority are stage 1, declined this year.
 - Performed Composite Risk Ratings (CRR) on most institutions (the CRR represents OSFI's overall assessment of an institution's safety and soundness). Assigned a low or moderate CRR to 90% of rated institutions as at March 31, 2005 (vs. 83% the previous year).
2. **Ongoing internal monitoring of results achieved in readiness to deal with specific problem institutions.** *Source: Internal information on OSFI operations.*
 - Carried out special risk assessment and intervention activities (cross system reviews) related to reputational risk and certain financial institution management oversight functions. Specific areas reviewed included highly structured financial

Rating

2004 - Met expectations
2003 - Met expectations
2002 - N/A

2004 - Met expectations
2003 - Met expectations
2002 - N/A

<p>transactions, brokered mortgages, reinsurance treaties and trading activities related to mutual funds.</p> <ul style="list-style-type: none"> Established a new monitoring group to enhance our ability to identify industry trends and system-wide issues on a more timely basis. Increased assessment compliance by financial institutions with anti-money laundering and anti-terrorism financing programs. Shifted focus from deposit-taking conglomerates to the smaller deposit-taking institution sector. Established a Memorandum of Understanding with FINTRAC to share information, allowing both agencies to work more effectively on anti-money laundering and anti-terrorism programs. Enhanced the supervision planning process to better identify and allocate resources to higher-risk institutions. Achieved targeted \$1.4M per year ongoing savings primarily in supervision. Reduced headcount cap from 495 to 475. Continued to enhance relationships with key foreign supervisors, and increased supervision of significant foreign operations of Canadian financial institutions. 	
<p>3. Ongoing internal monitoring of the approvals process. <i>Source: Internal information on OSFI operations.</i></p> <ul style="list-style-type: none"> Established service standards governing timeliness of approval for the most frequently requested approvals. Posted revised incorporation guides for banks, trust and loan companies and insurance companies to assist potential new applicants. Published eight rulings on OSFI's website. Published nine revised or new Instruction Guides for regulatory approval on website. Held a seminar for financial institutions and their advisors to educate these stakeholders about approval processes and procedures; feedback was very positive. 99% of completed deemed approval applications filed were decided upon within communicated time limits. 	<p>2004 - Met expectations 2003 - Met expectations 2002 - N/A</p>
<p>4. Completion of "post mortem" exercises on problem situations that occur to assess OSFI's effectiveness in dealing with the issue(s) and identification of lessons learned and potential areas for improvement. <i>Source: Internal information on OSFI operations.</i></p> <ul style="list-style-type: none"> Initiated a post implementation assessment which will be completed in 2005-2006. 	<p>2004 - N/A 2003 - Met expectations 2002 - N/A</p>
<p>5. Periodic stakeholder feedback on and peer assessments of OSFI's effectiveness. <i>Source: 2004 Industry Consultation Findings and Approvals Process Consultation Results.</i></p> <ul style="list-style-type: none"> Satisfaction with OSFI as the principal regulator and supervisor of Canada's financial services sector is high. The majority of respondents are "very" or "somewhat" satisfied with OSFI's performance as a prudential regulator (92% vs. 89% in 2002). Ratings are generally attributed to OSFI's prudential discharge of its mandate, by: 	<p>2004 - 92% 2003 - N/A 2002 - 89%</p>

- a) Maintaining a strong focus on safety and soundness.
 - b) Keeping an eye on risk issues.
 - c) Implementing a strong supervisory process.
 - d) Executing a principles-based approach to regulation.
- Areas of key organization strengths and suggested areas for improvement were identified.
Areas of strengths were in the following areas:
 - a) Communications with regulated institutions.
 - b) Prudential approach to regulation.
 - c) Collaborative/interactive approach.
 - d) Leadership in international fora, particularly in the development of the Basel Capital Accord.
 Areas for improvement were as follows:
 - a) Avoid tendency to micro-manage (e.g. providing advice on management processes).
 - b) Focus on material issues.
 - c) Improve expertise of staff to fully assess risk (although this is perceived to have improved in the past 3-5 years).
 - d) Take into account sectoral differences and institution size differences in the framework and examinations approach.
 - e) Enhance ability to identify emerging trends.

Additional results from external surveys

Risk Assessment and Intervention:

- 79% of our financial institutions believe that the Composite Risk Rating(CRR) assigned by OSFI to their institution is reasonable.
- 85% of knowledgeable observers consider OSFI's treatment of companies experiencing financial difficulties was seen as appropriate; recommendations are clear and understandable.

Approvals:

- Of knowledgeable observers, 98% per cent are satisfied with how OSFI is processing applications for approvals.
- 94% of respondents were of the view that OSFI communicates and explains its points of view well regarding the decisions it makes.
- 70% of respondents were of the view that OSFI spends the right amount of time processing applications.
- The majority of respondents believe that OSFI's approval process is timely (94%) and efficient (97%). Both areas are seen to have improved significantly in the past two to three years.

Performance Discussion

OSFI continued to deal effectively with a significant number of staged institutions, which have declined from the previous year. Early intervention and improved economic conditions contributed to the reduced number of problem institutions.

OSFI's supervisory reviews have been augmented by an increase in the number of assessment and intervention activities in key areas. System-wide reviews were made of highly structured financial transactions, brokered mortgages and reinsurance treaties and Anti-Money Laundering/Counter Terrorism Financing activities.

OSFI continued to enhance its supervisory capabilities through the re-engineering of supervisory processes and development of supervisory guidance for various areas of examination (e.g. Asset Liability Management, Capital, Credit Cards).

Stakeholder feedback indicated key risk areas for OSFI over the next couple of years:

1. Operational risk (identified as the risk area requiring increased assessment skills)
2. Reputational risk / Corporate Governance
3. Complex products / transactions
4. Money-laundering, especially with regards to ensuring cross-border requirements are met.

These concerns will be addressed through Priority Projects for 2005-2006, which include development of supervisory tools and practices to address evolving needs (e.g. credit, capital and operational risk) and making significant progress in the development of anti-money laundering / anti-terrorism financing (AML/ATF) supervisory practices.

Stakeholders continue to emphasize the need for improvements in approvals timelines, more transparency in the review and decision process, and ensuring the knowledge level of staff keeps pace with the complex and rapidly changing financial services industry. Enhancements to the OSFI website were also viewed as necessary. OSFI recognizes the need to focus on these areas, as key drivers of the level of satisfaction with the approvals process, and is addressing these issues on an ongoing basis and will monitor the results of these efforts in the next approvals survey of stakeholders.

Resources: \$30.6M and 197 average Full Time Equivalents (excluding Program Support)

Regulation and Supervision of Federally Regulated Financial Institutions

Priority 1b

Adjust rules impacting federally regulated financial institutions (FRFIs) in a focused manner to address changing risks and economic conditions and other key developments that trigger a need for enhanced regulation and guidelines.

Description

This priority focuses on ensuring rule changes are implemented effectively and in a timely manner, while ensuring adequate assessment of the potential implications. Possible examples include accounting rules or capital rules (e.g. Basel Capital Accord).

Expected Results

1. Improved OSFI effectiveness.
2. Enabled financial institutions to better understand and adherence to OSFI's expectations.
3. Improved the safety and soundness of the financial system.
4. Promoted a more level playing field for financial institutions.

Performance Measures / Achieved Results

1. **Mechanisms for advancing a process for developing/adjusting rules that provides for an optimal level of consistency, analysis and consultation.** *Source: Internal information on OSFI operations.*
 - Introduced "Guideline Impact Analysis Statements (GIAS)" that set out the rationale, options considered, and consultation process associated with each new guideline (and significant amendment).
 - Began tracking the guidance development process more closely during the year, to ensure consistency of approach.
 - Key rule making initiatives followed this process, including:
 - Clarified elements of Minimum Continuing Capital and Surplus Requirements Guideline (MCCSR) and initiated dialogue on the future direction of life insurance capital rules.
 - Finalized the Asset Securitization Guideline that had been issued in draft form the previous year. The revised guideline incorporates a more risk-sensitive capital approach that includes external ratings, makes improvements based on findings of cross-system reviews and adds clarity.
 - Updated the guideline for the use of inter-segment notes by life insurance companies to better reflect industry practices while continuing to uphold valuation standards.
 - Finalized guidance on the disclosure of the sources of earnings for life insurance companies that publish public annual financial statements.
2. **Post implementation assessments of rules adjustments to establish whether the intended impact was achieved, e.g., prudence, competitiveness, etc.** *Source: Internal information on OSFI operations.*
 - Initiated two post implementation assessments of rules adjustments, which will be completed in 2005-2006.

Rating

2004 - Met expectations
2003 - Met expectations
2002 - N/A

2004 - N/A
2003 - Met expectations
2002 - N/A

[illegible]

Regulation and Supervision of Federally Regulated Private Pension Plans

Priority 2

Continue to be effective at identifying risks and ensuring timely intervention in federally regulated private pension plans and continually identify and implement selected improvements in supervisory and regulatory processes, practices and tools. Adjust rules impacting federally regulated private pension plans in a focused manner to address changing risks and economic conditions and other key developments that trigger a need for enhanced regulation and guidelines.

Description

This priority encompasses OSFI's on-going supervisory processes and practices. OSFI must keep abreast of sectoral issues and enhance its processes and practices to deal with these unique challenges. This priority also focuses on ensuring rule changes are implemented effectively and in a timely manner, recognizing the downsides of making adjustments quickly with inadequate assessment of the potential implications.

Expected Results

1. Identify risks faced by private pension plans and intervene as appropriate.
2. Make efficient and effective utilization of resources.
3. Use effective monitoring processes and practices.
4. Achieve effective intervention and protection for private pension plan members.
5. Enhancements to rules allowed private pension plans a better understanding of OSFI's requirements and expectations.
6. Improved the safety and soundness of the financial system
7. Promoted a flexible and prudent regulatory environment.

Performance Measures / Achieved Results

1. Ongoing internal monitoring of results achieved in dealing with specific problem private pension plans. *Source: Internal information on OSFI operations.*

- Posted a slight decline in the number of private pension plans on OSFI's watch list during 2004-2005, from a high of 86 to a low of 82 (52 were defined benefit plans and 30 were defined contribution plans).
- Identified defined benefits plans with a solvency funding deficit (about 55% of supervised plans as at December 2004, compared to 53% in 2003). In part due to OSFI's efforts, almost all of these plans have begun to address their deficits through plan funding.
- Took actions with under-funded private pension plans that continued to take contribution holidays, ranging from strongly encouraging plan sponsors to cease the contribution holidays to requiring enhanced notification to members and requesting early valuation reports.
- Dealt actively with late remittance issues, and worked with plan sponsors, administrators, custodians and other officials trying to find solutions to benefit all parties.
- Intervened successfully in many cases, both through the courts and by moral suasion, and avoided significant losses to plan members.

Rating

2004 - Met expectations
2003 - Met expectations
2002 - N/A

Following the Department of Finance public consultation, OSFI will participate actively in the development of proposals to strengthen the legislative and regulatory framework for defined benefit pension plans and will devote the resources that may be needed in this regard.

Resources: \$3.5M and 19 average Full Time Equivalents (excluding Program Support)

International Assistance

Priority 3

Respond in a focused and selective way to the increasing demands for OSFI's technical assistance, largely funded by CIDA, and further develop OSFI's program of hands-on training.

Description

The priority focuses on helping emerging market economies improve their financial institutions' supervisory systems.

Expected Results

- Upgraded supervisory capacity of selected emerging market regulatory bodies, which in turn helps to enhance the stability of the global financial system.

Performance Measures / Achieved Results

1. Ongoing internal monitoring of results achieved in dealing with emerging market regulatory bodies. *Source: Internal information on OSFI operations.*

- Hosted some 100 supervisors from around the world, including those who participated in OSFI's in-house programs, and provided training to a number of jurisdictions both bi-laterally and multi-laterally.
- Worked alongside foreign supervisors "in the field" helping, for example, to implement on-site examination programs in two countries and risk-based supervision in another, as well as providing consultative, legislative and regulatory drafting expertise.
- Continued to be involved in particular with the International Monetary Fund (IMF) / World Bank Financial Sector Assessment Program (FSAP) as expert assessors, working with several jurisdictions that are attempting to correct deficiencies identified during their FSAP assessment, and assisting with the preparation of FSAP self-assessments.
- Increased regular reporting to CIDA on results achieved against plan.

Rating

2004 - Met expectations
2003 - Met expectations
2002 - N/A

Performance Discussion

OSFI has proven effective in the delivery of technical advice and consulting services required to rectify shortcomings in certain identified jurisdictions. OSFI is instituting additional performance measures in this area, for example, in 2004-2005 we sent out anonymous surveys to recipients of technical assistance, and we will analyze the results in 2005-2006.

Resources: \$1.8M and 5 average Full Time Equivalents (excluding Program Support)

Office of the Chief Actuary

Priority 4

Continuously improve the value of actuarial reports and linkages with key partners/stakeholders to enable the provision of expert and timely advice to the stewards of the Canada Pension Plan (CPP) and other government programs.

Description

This priority relates to the Office of the Chief Actuary (OCA) and its role in providing actuarial services for the CPP and other government programs. OCA will look for ways of improving how it delivers services to its clients by implementing recommendations from independent peer reviews, improving valuation techniques, organizing seminars to broaden sources of advice, and participating in various committees.

Expected Results

Provide expert and timely advice in the form of high-quality and timely reports:

- Triennial Actuarial Reports, tabled in Parliament, in respect of the CPP, the Old Age Security program, and pension plans established under the *Public Service Superannuation Act*, the *Canadian Forces Superannuation Act*, the *Royal Canadian Mounted Police Superannuation Act*, the *Members of Parliament Retiring Allowances Act* and the *Judges Act*;
- Actuarial Reports tabled in Parliament in respect of the CPP when certain bills are introduced and when amendments are made to certain other public sector pension plans;
- Actuarial Reports sent to the Minister of Finance and the Minister of Human Resources and Skills Development in respect of the Canada Student Loans Program (CSLP).

Performance Measures / Achieved Results

1. **Assessments of the quality and timeliness of each report, including whether the report is tabled on time, reasonableness of assumptions and methods, comprehensiveness of the report, compliance with the professional standards of the Canadian Institute of Actuaries and international actuarial guidelines for social security programs, and communication of results.** *Source: Internal information on OSFI operations and Independent peer review*
 - Tabled the 21st CPP Actuarial Report on the CPP, confirming the long-term viability and financial sustainability of the CPP, as well as the adequacy of the legislated 9.9% combined employer-employee contribution rate to pay for future expenditures.
 - Received support from an independent peer review process, which confirmed that the 21st CPP Actuarial Report was competently prepared in compliance with the professional standards of the Canadian Institute of Actuaries and international actuarial guidelines, the assumptions used were reasonable and as a result, the conclusions well supported. The reviewers acknowledged that considerable progress has been made on the use of stochastic processes. OCA has also added to the value of actuarial reports by producing three sets of sensitivity tests.
 - Enhanced the credibility of the review process by seeking input from a foreign actuarial organization. As suggested by the Auditor General, the United Kingdom Government Actuary's Department assisted the Chief Actuary in the choosing of the reviewers and considered the terms of reference of the independent peer review to be appropriate so that it addressed all the relevant issues necessary to perform an in-depth review of the actuarial work underlying the 21st CPP Actuarial Report.

Rating

2004 – Met expectations
2003 – Met expectations
2002 – N/A

<ul style="list-style-type: none"> • Triennial actuarial reviews of the CPP, Old Age Security, the Royal Canadian Mounted Police - Part IV, the Members of Parliament and the Judges pension plans established under their respective acts in accordance with the <i>Public Pensions Reporting Act</i>; presentation of the reports to their respective ministers for timely tabling in the House of Commons. • Completed the third actuarial review of the Canada Student Loans Program evaluating the portfolio of loans and the long-term costs of the program. • Completed the fourth actuarial study, "National Population Projections", which provides an estimate of the future size and composition of the population of Canada. • For 2005, the statutory review year, provision of actuarial services and advice to stewards of the CPP. <p>2. Soundness and relevance of actuarial advice using views of Canadian experts to set reasonable assumptions. <i>Source: Reviews of the Government's Pension Expenditure sent to the Office of the Auditor General</i></p> <ul style="list-style-type: none"> • The Office of the Auditor General received a review that confirmed the reasonableness of the results of the report on the pension liability estimates for accounting purposes prepared by the OCA on June 28, 2004 with respect to the PSSA, CFSA and the RCMPSPA as at March 31, 2004. 	<p>2004 – Met expectations 2003 – Met expectations 2002 – N/A</p>
<p>Performance Discussion</p> <p>Throughout 2004-2005, we gave consideration 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.</p> <p>The OCA provided input to the CPP independent peer review panel on the CPP's 21st Actuarial Report as at 31 December 2003.</p>	
<p>Resources: \$3.9M and 26 average Full Time Equivalents (excluding Program Support)</p>	

Program Support: Information Management and Technology

Priority 5

Focus on enhancing business processes through the upgrade of enabling technologies, Information Management strategies and Information Technology infrastructure.

Description

This priority focuses on enhancing OSFI's ability to streamline processes in the area of supervision, data collection, records management, and external reporting leveraging information technology to improve efficiencies and effectiveness. This includes a joint initiative with CDIC to implement online information exchange with the financial institutions. These initiatives must clearly be cognizant of the need for security around much of the information that OSFI processes.

Expected Results

1. More efficient data gathering and sharing.
2. Streamlined processes.
3. Reduction in data storage costs.
4. Enhanced records management.
5. Enabled OSFI's business areas/activities to do their job more effectively.
6. Reduced compliance costs for institutions and private pension plans through standardization (e.g. data capture).
7. Improved access to OSFI via enhanced web site.

Performance Measures / Achieved Results

1. **Year-end assessment of the degree to which OSFI's IM/IT Strategic Plan was achieved within specific timeframes and benefit expectations (i.e. were all aspects of the plan implemented as planned).**

Source: Internal information on OSFI operations

- Developed design and implementation plans for technology-enabled reporting and analytics capabilities, supported by industry-leading business intelligence tools. Implementation is planned for 2005-2006.

2. **Year-end assessment of OSFI's implementation of Core Supervision Workflow System (CSWS) in term of whether the objectives were achieved as planned.**

Source: Internal information on OSFI operations

- Successfully implemented the first phase of the Core Supervision Workflow System to enable re-engineered supervisory processes.

3. **Year-end assessment of the effectiveness of OSFI's Electronic Documents Management System (EDMS) implementation in terms of achieving the initiative's intended objectives.**

Source: Internal information on OSFI operations

- Finalized overall architecture and standards for a corporate Electronic Document Management System and implemented it in the Supervisory area to support workflow.

Rating

2004 - Met expectations
2003 - Met expectations
2002 - N/A

2004 - Met expectations
2003 - Met expectations
2002 - N/A

2004 - Met expectations
2003 - Met expectations
2002 - N/A

<p>4. Year-end assessment of the number of processes streamlined and anticipated impacts. <i>Source: Internal information on OSFI operations</i></p> <ul style="list-style-type: none"> Made considerable progress on a joint initiative with other government organizations to streamline data collection from financial institutions. Reduced by 30% the amount of data currently collected on OSFI's Financial Returns. Conducted selected business process reviews within Corporate Services Sector to improve efficiency and effectiveness of delivery. Achieved headcount reductions. <p>5. Periodic feedback from employee surveys on OSFI's effectiveness in this area (with a goal of continuously improving ratings).</p> <ul style="list-style-type: none"> Not applicable in 2004-2005 <p>6. NEW Selected, focused, independent consultations and/or reviews of current processes. <i>Source: Internal information on OSFI operations</i></p> <ul style="list-style-type: none"> Following consultation with the public and industry, redesigned OSFI's web site to present information in a more client-centric and intuitive way. The web site provides a "Look and Feel" more consistent with Treasury Board guidelines, allowing Canadians to access information more easily due to the familiar layout and navigation. Conducted an operations review of the technology division to ensure the division had the capacity to meet the demands of the IM/IT plan. As a result, a reorganization was planned and will be fully implemented in 2005-2006. 	<p>2004 - Met expectations 2003 - Met expectations 2002 - N/A</p> <p>2004 - N/A 2003 - Met expectations 2002 - N/A</p> <p>2004 - Met expectations 2003 - N/A 2002 - N/A</p>
<p>Performance Discussion</p> <p>The majority of the development work on the Business Systems Integration Initiative (BSII) is now behind OSFI. With the continued support of the supervision team, in 2005-2006 OSFI expects to complete the implementation of these new processes and systems, including the Core Supervisory Workflow System (CSWS). These changes will allow OSFI to continue to be well positioned to respond to changes and challenges in the financial services industry.</p> <p>Over the year, OSFI finalized plans for the design and implementation of technology enabled reporting and analytics capabilities, supported by industry-leading business intelligence tools, for action in 2005-2006. This will provide OSFI employees with easier access to existing data as well as supporting broader utilization.</p> <p>Going forward, there will be greater sharing and leveraging of the data among government departments and agencies. These organizations are also working towards a more formalized common framework for data collection, which will results in greater efficiencies and transparency in future data requests, aimed at easing the regulatory burden on institutions.</p> <p>Feedback received from employees noted that more focus is required on understanding and managing the impact of change on employees and the organization. New processes will be put in place to better manage this going forward.</p> <p>Resources: \$8.6M and 36 average Full Time Equivalents</p>	

Program Support: Human Resources

Priority 6

Continuously improve key elements of OSFI's human resource processes and capability.	
Description This priority focuses on improving business processes necessary to attract, develop and retain key skills required to fulfill OSFI's mandate and to ensure these skills are deployed effectively and rewarded appropriately.	
Expected Results 1. Improved productivity. 2. Timely availability of necessary skills to address changing industry demands. 3. Retention of key skills. 4. Support initiatives in OSFI's other business areas/activities.	
Performance Measures / Achieved Results 1. NEW Year-end assessment of improvements to business processes. <i>Source: Internal information on OSFI operations</i> <ul style="list-style-type: none"> Conducted a full process review for Human Resources. Refinements were mapped out to ensure that all HR staff understood all processes and that no duplication or redundancies existed. This was also to ensure that both HR offices (Ottawa/Toronto) functioned in the same manner. Rolled-out management curriculum of mandatory training to provide managers with the practical tools to enhance management skills to meet today's demands. 2. NEW Year-end assessment of degree to which OSFI has completed implementation and roll-out of specific initiatives. <i>Source: Internal information on OSFI operations</i> <ul style="list-style-type: none"> Refined competency definitions for majority of divisions to clarify expectations of employees in their roles. As a result of feedback gained through focus groups and consultations with key stakeholders, improved Performance Management System to better align with actual performance. Streamlined the process and supported management during the transition. Upgraded Pay for Performance technical system to improve functionality, enhance user satisfaction and address the modifications made to the program. Focused a significant portion of OSFI's training efforts on supporting the reengineering of several key business processes and the implementation of enabling technology such as workflow and information management systems. 3. Periodic feedback from employee surveys on OSFI's effectiveness in this area (with a goal of continuously improving ratings). <ul style="list-style-type: none"> Not applicable in 2004-2005. 	Rating 2004 – Met expectations 2003 – N/A 2002 – N/A 2004 – Met expectations 2003 – N/A 2002 – N/A 2004 – N/A 2003 – Met expectations 2002 – N/A

Performance Discussion

Considerable effort was spent in 2004-2005 ensuring that employees had the right skills to meet the changing organizational demands. The preparation and delivery for the training of the new Supervisory processes and supporting systems received very good ratings as gathered from post-training feedback. The comments gathered also noted that we need to spend more time considering the training impact on employees, as there is only so much change that employees can absorb. As an employee survey was administered at the end of the fiscal year, we anticipate further feedback on change management and will use this feedback to better manage the impact of major initiatives on employees.

The delivery of the management curriculum began in 2004-2005 and by the end of 2005-2006 many of the managers will have completed the curriculum. To date, the post training feedback from participants has been good, and employee input has been incorporated into subsequent training courses where applicable. To assist in evaluating the effectiveness of the curriculum, in 2005-2006 a 360 degree performance evaluation process will be conducted on management.

The enhancements to the Performance Management processes resulted in more equitable performance distribution and clearer employee performance reviews. The Human Resources division reviewed the performance reviews and the results had been communicated to managers. This review will be repeated annually. The enhancements will flow to goal commitment documents for the 2005-2006 years and should ensure better alignment of individual goals to organization goals.

In addition, all changes made to the Performance Management processes were aligned with the *Public Service Modernization Act*, which will come into full effect December 31, 2005.

Resources: \$2.3M and 18 average Full Time Equivalents

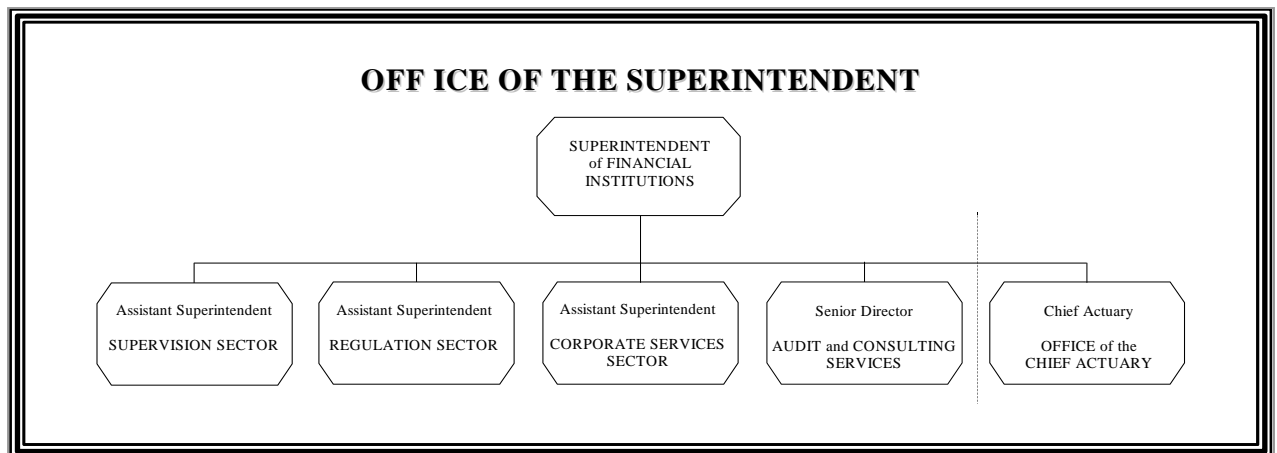
III. Supplementary Information

III.1 Organizational Information

Organizational Structure

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 March 31, 2005



A more detailed organization chart may be found on OSFI's web site under [“About OSFI”](#).

Workforce

As at March 31, 2005, OSFI employed 426 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.

During 2004-2005, OSFI completed business process reviews aimed at reengineering its supervisory processes and streamlining its Corporate Services operations so as to improve efficiency and effectiveness. As a result of these initiatives, OSFI reduced its maximum headcount to 475 Full Time Equivalents in 2004 from 495 set in 2002.

OSFI ended the year with a head count of 426. The reduction from the prior year is the result of a hiring freeze during 2004-2005 in anticipation of a restructuring, one of the expected outcomes of the process reviews.

Chart of Full Time Equivalent Year End Headcount (2004 vs. 2005)

	As at March 31, 2004	% of total	As at March 31, 2005	% of total
Corporate Services	114	25%	111	26%
Supervision	217	47%	187	44%
Regulation	100	22%	102	24%
OCA	26	6%	26	6%
TOTAL	457	100%	426	100%

Government Priorities and Other Initiatives

This section summarizes OSFI's involvement in a number of government-wide initiatives.

Government On-line (GOL)

As part of its multi-year IM/IT plan, OSFI has a program that supports the GOL initiative. To provide all interested parties with easier access to our information on-line, in 2004-2005 OSFI redesigned its external web site: www.osfi-bsif.gc.ca. Users from the public and from industry were consulted about their needs, and improvements were made to the web site to present information in a more client-centric and intuitive way. Some of the information on the new web site is grouped by industry segment, while another section highlights information of interest to the general public. The web site also provides a "Look and Feel" more consistent with Treasury Board guidelines, allowing Canadians to access information more easily due to the familiar layout and navigation.

Results Based Management and Accountability Framework

The Results Based Management and Accountability Framework (RMAF) is the continuation of Modern Comptrollership and its management practices that OSFI

implemented in 2003-2004. OSFI is well positioned already with respect to RMAF, however, monitoring mechanisms for, and reporting on, performance measures remain areas to focus and work on.

Program Activity Architecture

OSFI implemented the Program Activity Architecture (PAA), as recommended by the Treasury Board Secretariat, as part of the federal government's commitment to strengthen oversight and accountability. OSFI updated its accountability framework, detailing its program and sub-program activities, to ensure that reporting will accurately reflect the work that OSFI does. OSFI also developed a performance measurement framework and a suite of measures corresponding to its PAA, which will be implemented in 2005-2006. More details can be found on OSFI's web site in the "[Report on Plans and Priorities for 2005-2006](#)".

Internal Audit

OSFI continued to implement Enterprise-wide Risk Management (ERM), a contemporary management tool that provides a comprehensive and integrated approach to identifying risks and assessing the quality of risk mitigants. As a result of a series of risk assessments facilitated by the Audit & Consulting Services group in 2004-2005, operational groups can draw clearer linkages between OSFI's priorities, their actions and associated risks. It is expected that ERM will be fully established within OSFI in 2005-2006, with responsibility for ERM transferring to managers.

Proactive Disclosure

In accordance with federal government policies introduced in 2004, OSFI published information on travel and hospitality expenses incurred within OSFI by the Superintendent, Assistant Superintendents and Chief Actuary, as well as information on contracts over \$10,000 issued by or on behalf of OSFI. The information is updated every three months on OSFI's web site.

III. 2 Financial and Other Tables

This section presents a number of financial tables that detail OSFI's Expenditures, Revenues and Statutory Payments for 2004-2005. Tables 1, 2, 3, 4, 5, and 6 are provided in accordance with Treasury Board requirements. In addition, Tables 7A, 7B, 8 and 9 provide additional information on User Fees, Service Standards, Regulatory Initiatives and Travel Policies, according to Treasury Board requirements.

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 a contract basis, and revenues from other federal agencies for whom OSFI provides administrative support. Starting in 2002-03, 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 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 2002-03, 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 by a parliamentary appropriation for services to the Government of Canada related to public pensions.

Overall, OSFI fully recovered all its expenses for the fiscal year 2004-2005 based on the recording of all its revenues and expenses on a full accrual accounting basis according to Canadian Generally Accepted Accounting Principles (GAAP). The following tables give details on OSFI's spending compared to plan as detailed in the 2004-2005 RPP.

Further details on OSFI's finances are detailed in OSFI's Audited Financial Statements, which are included in our Annual Report. The report can be accessed on OSFI's web site under [“About OSFI / Reports”](#).

NOTE: OSFI operates on an accrual basis and the following tables are reported on a cash basis, hence there are differences between the audited financial statements as shown in the Annual Report and the following tables. Typically the differences result from treatment of capital expenditures and accounts receivable.

Table 1: Comparison of Planned to Actual Spending

OSFI has four program activities: (1) Regulation and Supervision of Federally Regulated Financial Institutions; (2) Regulation and Supervision of Federally Regulated Private Pension Plans; (3) International Assistance; and (4) Office of the Chief Actuary. The table below provides a comparison of OSFI's 2004-2005 planned versus actual spending by business line, and a comparison to actual spending in the two previous fiscal years.

The amounts shown reflect net spending: total expenditures less total revenue. As OSFI must recover its expenditures or costs, for all programs other than the Office of Chief Actuary, the planned spending is zero on a modified cash basis. OSFI fully recovered its costs on an accrual basis as shown in our audited financial statements, however differences between the accounting methodologies give rise to positive amounts for actual spending. .

The 2004-2005 net budgetary expenditures were \$11,504 thousand, which was \$10,780 thousand over the plan as a result of two main factors which affected all four program activities: accounts receivable (\$11,567 thousand) and higher capital expenditures. The accounts were collected in the following fiscal year. Capital spending was related to significant acquisitions for the Ottawa office accommodations and the implementation of the core supervisory workflow system.

Table 1			Comparison of Planned to Actual Spending			
(\$ thousands)	2002-2003 Actual	2003-2004 Actual	2004-2005			
			Main Estimates	Planned Spending	Total Authorities	Actual
(1) Regulation and Supervision of Federally Regulated Financial Institutions	8,367	3,701	0	0	0	7,811
(2) Regulation and Supervision of Federally Regulated Private Pension Plans	0	92	0	0	0	1,773
(3) International Assistance	(1)	27	0	0	0	609
(4) Office of the Chief Actuary	(857)	678	712	724	749	1,310
Total	7,509	4,498	712	724	749	11,504

Table 1			Comparison of Planned to Actual Spending			
(\$ thousands)	2002-2003 Actual	2003-2004 Actual	2004-2005			
			Main Estimates	Planned Spending	Total Authorities	Actual
Less: Non-Respendable revenues	710	211	0	0	0	365
Plus: Cost of services received without charge *	80	59	80	80	0	204
Net cost of Program	6,879	4,346	792	804	749	11,343

Full Time Equivalents	454	461	491		453
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* See Table 4 Net Cost of Agency

Table 2: Use of Resources by Program Activity

The table below shows a comparison of OSFI's 2004-2005 planned versus actual spending by program activity. As revenue is recorded based on the amounts of money received from bills paid, rather than the amount that was actually billed, every year OSFI's actual spending is higher than planned mainly due to the amounts owing for uncollected receivables.

Table 2	Use of Resources by Program Activity					
Program Activity	2004-2005 (\$ thousands)					
	Operating	Capital	Grants and Contributions	Total: Gross Budgetary Expenditures	Less: Respendable Revenues	Total: Net Budgetary Expenditures
(1) Regulation and Supervision of Federally Regulated Financial Institutions						
Main Estimates	68,708	4,602	-	73,310	73,310	-
<i>Planned Spending</i>	68,708	4,602	-	73,310	73,310	-
Total Authorities	68,708	4,602	-	73,310	73,310	-
<i>Actual Spending</i>	65,697	6,981	-	72,678	64,867	7,811
(2) Regulation and Supervision of Federally Regulated Private Pension Plans						
Main Estimates	4,062	202	-	4,264	4,264	-
<i>Planned Spending</i>	4,062	202	-	4,264	4,264	-
Total Authorities	4,062	202	-	4,264	4,264	-
<i>Actual Spending</i>	4,876	308	-	5,184	3,411	1,773
(3) International Assistance						
Main Estimates	1,522	26	-	1,548	1,548	-
<i>Planned Spending</i>	1,522	26	-	1,548	1,548	-
Total Authorities	1,522	26	-	1,548	1,548	-
<i>Actual Spending</i>	1,686	95	-	1,781	1,172	609

Table 2	Use of Resources by Program Activity					
Program Activity	2004-2005 (\$ thousands)					
	Operating	Capital	Grants and Contributions	Total: Gross Budgetary Expenditures	Less: Responsible Revenues	Total: Net Budgetary Expenditures
(4) Office of the Chief Actuary						
Main Estimates	4,158	30	-	4,188	3,476	712
<i>Planned Spending</i>	<i>4,170</i>	<i>30</i>	<i>-</i>	<i>4,200</i>	<i>3,476</i>	<i>724</i>
Total Authorities	4,195	30	-	4,225	3,476	749
<i>Actual Spending</i>	<i>3,899</i>	<i>(1)</i>	<i>-</i>	<i>3,898</i>	<i>2,587</i>	<i>1,310</i>
TOTAL						
Main Estimates	78,450	4,860	-	83,310	82,598	712
<i>Planned Spending</i>	<i>78,462</i>	<i>4,860</i>	<i>-</i>	<i>83,322</i>	<i>82,598</i>	<i>724</i>
Total Authorities	78,487	4,860	-	83,347	82,598	749
<i>Actual Spending</i>	<i>76,158</i>	<i>7,383</i>	<i>-</i>	<i>83,541</i>	<i>72,037</i>	<i>11,504</i>

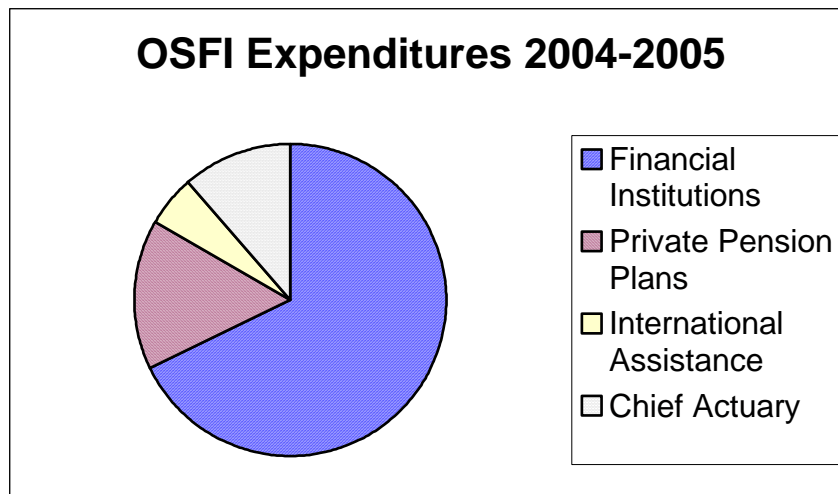


Table 3: Voted and Statutory Items

This table summarizes Parliament's voted appropriations, or funds, to OSFI. OSFI receives an annual parliamentary appropriation pursuant to section 16 of the *OSFI Act* to support its mandate relating to the Office of the Chief Actuary.

In this fiscal year, OSFI was granted \$749 thousand (2004: \$926 thousand). The parliamentary appropriation for the prior year was composed of a \$712 thousand appropriation to defray the expenses associated with the provision of services by the Office of the Chief Actuary and a non-recurring appropriation of \$214 thousand to be applied to activities consistent with the government Modern Comptrollership initiative.

Please note that the appropriations are calculated using a modified cash basis of accounting rather than full accrual accounting. This difference will give rise to variances between OSFI's use of funds and appropriated funds.

Vote or Statutory Item	Truncated Vote or Statutory Wording	2004–2005 (\$ thousands)			
		Main Estimates	Planned Spending	Total Authorities	Actual
35	Operating expenditures	712	724	749	724
	Total	712	724	749	724

Table 4: Net Cost of Agency

(\$ thousands)	2004–2005
Total Actual Spending	11,504
<i>Plus: Services Received without Charge</i>	
Financial audit performed by the Office of the Auditor General	66
Salary and associated expenditures of legal services from the Department of Justice Canada	138
<i>Less: Non-respendable Revenues</i>	365
2004–2005 Net Cost of Agency	11,343

Table 5: Sources of Respendable and Non-Respendable Revenues

Table 5 identifies revenues by program activity received from sources both internal and external to the government. For 2004-2005, OSFI's total revenues were \$72 million including non-respendable revenue of \$365 thousand for the collection of Late and Erroneous Filing Penalties¹. The respendable revenues are largely comprised of asset- or premium-based industry assessments and User Fees for specific services related to Regulatory Approvals. The majority of cost recovered services in Regulation and Supervision of Federally Regulated Financial Institutions relates to the implementing the internal ratings-based approach of the New Basel Capital Accord.

Respendable Revenues

The decrease in respendable revenues is due to accounts receivable that were collected in 2005-2006.

(\$ thousands)	Actual 2002- 2003	Actual 2003- 2004	2004-2005			
			Main Estimates	Planned Revenues	Total Authorities	Actual
(1) Regulation and Supervision of Federally Regulated Financial Institutions						
Base Assessments	52,467	58,198	65,270	65,270	65,270	54,616
User Fees and Charges	1,895	2,537	4,928	4,928	4,928	6,677
Cost Recovered Services	1,792	2,432	3,112	3,112	3,112	3,574
(2) Regulation and Supervision of Federally Regulated Private Pension Plans						
Pension Plan Fees	3,043	4,258	4,264	4,264	4,264	3,411
(3) International Assistance						
Base Assessments	-	-	-	-	-	-
Cost Recovered Services	629	992	1,548	1,548	1,548	1,172
(4) Office of the Chief Actuary						
User Fees and Charges	41	88	25	25	25	63
Cost Recovered Services	2,867	3,013	3,451	3,451	3,451	2,524
Total Respendable Revenues	62,734	71,518	82,598	82,598	82,598	72,037

¹ On April 1, 2002 OSFI's filing penalty regulations came into force in accordance with the OSFI Act. Penalties are levied quarterly to financial institutions when they submit late and/or erroneous financial and non-financial returns due to OSFI during the preceding calendar quarter. Penalties levied by OSFI are non-respendable and are to be remitted to the Consolidated Revenue Fund. The funds are not available to OSFI and are not included in the balance of the Cash Entitlement account on the Statement of Financial Position (See Annual Report – <http://www.osfi-bsif.gc.ca/eng/about/reports/index.asp>). As a result, the penalties do not reduce the amount that OSFI assesses the industry in respect of its operating costs.

Non-Respendable Revenues

The non-respendable revenues are all related to late and erroneous filing penalties as described in Section III.2. Since the introduction of the penalties in 2002-2003, the actual penalties levied have leveled off and we expect this to continue in the \$200 to \$300 thousand range.

(\$ thousands)	Actual 2002- 2003	Actual 2003 2004	2004-2005			
			Main Estimates	Planned Revenues	Total Authorities	Actual
Regulation and Supervision of Federally Regulated Financial Institutions						
Filing Penalties	710	211	0	0	0	365
Total Non- Respendable Revenues	710	211	0	0	0	365

Table 6: Resource Requirements by Sector Level

Table 6 identifies the distribution of resources by sector, by program activity. These program activities are supported by organization-wide activities provided by the Corporate Service sector. The Corporate Services costs are allocated over the activities based on direct human resources costs.

2004-2005 (\$ thousands)					
Organization	Regulation and Supervision of Federally Regulated Financial Institutions	Regulation and Supervision of Federally Regulated Private Pension Plans	International Assistance	Office of the Chief Actuary	Total
Supervision Sector					
Main Estimates	59,144	4,264			63,408
Planned Spending	59,144	4,264			63,408
<i>Total Authorities</i>	<i>59,144</i>	<i>4,264</i>			<i>63,408</i>
Actual Spending	53,020	5,184			58,204
Regulation Sector					
Main Estimates	14,166		1,548		15,714
Planned Spending	14,166		1,548		15,714
<i>Total Authorities</i>	<i>14,166</i>		<i>1,548</i>		<i>15,714</i>
Actual Spending	19,658		1,781		21,438
Office Chief Actuary Sector					
Main Estimates				4,188	4,188
Planned Spending				4,200	4,200
<i>Total Authorities</i>				<i>4,225</i>	<i>4,225</i>
Actual Spending				3,898	3,898
TOTAL					
Main Estimates	73,310	4,264	1,548	4,188	83,310
Planned Spending	73,310	4,264	1,548	4,200	83,322
<i>Total Authorities</i>	<i>73,310</i>	<i>4,264</i>	<i>1,548</i>	<i>4,225</i>	<i>83,347</i>
Actual Spending	72,678	5,184	1,781	3,898	83,541

Table 7A: User Fee Reporting

User Fees

OSFI currently funds its annual operating costs primarily through base assessments on financial institutions (based on the size of the institution) and pension plans and, to a lesser extent, through user fees paid by financial institutions and other users of OSFI's services. Any change in user fee revenue will not impact on OSFI's total revenues, just the proportion derived from base assessments versus user fees.

The assessment of costs 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 to institutions based on the approximate amount of time spent supervising and regulating the 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. User fees for approvals and rulings are, for the most part, made pursuant to financial institutions legislation. The specific legislation governing these approvals or rulings is the *Bank Act*, *Insurance Companies Act*, *Trust and Loan Companies Act* and the *Cooperative Credit Associations Act*, along with relevant Regulations.

The user pay oriented system came into effect on January 1, 1999 shortly after the December 16, 1998 promulgation of the *Service Charges (Office of the Superintendent of Financial Institutions) Regulations*. The *Charges for Services Provided by the Office of the Superintendent of Financial Institutions Regulations 2002* came into effect on September 24, 2002 to make the user pay scheme applicable to bank holding companies and insurance holding companies and to capture various other new approvals and services. The *Charges for Services Provided by the Office of the Superintendent of Financial Institutions Regulations 2002* were amended on August 13, 2003 to increase the service charges to better account for the actual cost of providing the services.

A consolidated table of service charges can be found on OSFI's website at:

http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/guides/fees/UserPayTable_13082004_e.pdf

As the user fees imposed by OSFI on certain approvals are included in regulations, any amendment to these regulations requires consultation before final approval is given by the Governor-in-Council. OSFI sent draft copies of the regulations, along with a supporting explanatory letter, to the various industry associations that represent the federal financial institutions. Following comments received from these associations, amendments were made to the proposed fees.

The amended regulations were then published in the *Canada Gazette* to solicit further comments and also published in final form upon approval by the Governor-in-Council.

The original regulations and the amended regulations can be found on the *Canada Gazette* website at: [Canada Gazette Part II, Vol. 136, No. 21, SOR/2002-337](#) and [Canada Gazette Part II, Vol. 137, No. 18, SOR/2003-291](#) respectively. (These links are also available on OSFI's website at: http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=528.)

At the time of implementation of the user fees and periodically since, OSFI reviewed the user fees charged by regulatory bodies in other countries for similar types of approvals (particularly the Office of the Comptroller of the Currency in the United States and the Financial Services Authority in the United Kingdom) to ensure the fees charged in Canada are reasonable compared to other countries. In addition, OSFI has reviewed fees charged by other federal government departments such as Industry Canada, Canada Deposit Insurance Corporation and Canada Revenue Agency to ensure fees and/or rates are reasonable.

Of note is that regulations are being proposed that would eliminate all user fees except those that are paid by non-Federally Regulated Financial Institutions (FRFIs), such as new applicants, and those that are charged for rulings, accreditations, interpretations, capital quality confirmations, and copies of corporate documents, which can be time consuming to process and are outside OSFI's core businesses. The proposed regulations would reduce the number of service charges from 51 to 14. The proposed regulations eliminate the majority of user fees, recognizing that the fees currently do not significantly redistribute OSFI's costs amongst FRFIs and that the fees do not recover a meaningful percentage of OSFI's annual costs. In other words, user fees currently recover less than four per cent of OSFI's total regulatory and supervisory costs charged to institutions and eliminating the majority of service charges has little impact on the total amounts individual FRFIs pay. Charges to non-FRFIs (e.g., new applicants) and for rulings, accreditations, interpretations, capital quality confirmations, and copies of corporate documents are being retained on the basis that charging for these services, which are not part of OSFI's normal course of regulation and supervision and are often resource intensive to process, represents a more equitable approach to recovering OSFI's costs associated with those services than would charging these services directly to FRFIs through base assessments. The performance standards associated with the service fees that are being proposed for elimination will be maintained.

User Fee Act

On March 31, 2004, Bill C-212 *An Act respecting user fees* ("the Act") received Royal Assent and came into force on the same day. The Act requires that before a regulating authority fixes, increases, expands the application of, or increases the duration of a user fee promulgated subsequent to March 31, 2004, it must consult with stakeholders; establish performance standards comparable to those established by other countries with which a comparison is relevant; establish an independent advisory panel to report recommendations for resolving complaints on the proposed user fees; and table, through their responsible Minister, a user fee proposal in each House of Parliament. Further, the Act requires that where user fees are promulgated subsequent to March 31, 2004, the Act

also provides for a proportional fee reduction (to a maximum of 50% of the fee) where performance standards established under the Act are not met by a percentage greater than 10%.

The Act also requires the tabling before each House of Parliament of an annual report by December 31 each year reporting:

1. all user fees in effect, and
2. the performance standards established under the Act and actual performance levels that have been reached in respect of the performance standards for user fees promulgated subsequent to March 31, 2004.

Table 7-A is a standard reporting form developed to meet the reporting requirements of the Act. As noted above, OSFI first introduced user fees for specific regulatory approvals and certain services prior to the promulgation of the Act. As such, the performance standards developed were not tabled in the Houses of Parliament as would have been required if the user fees had been promulgated subsequent to March 31, 2004.

However, in developing the performance standards, OSFI met the requirements of the Act by analyzing performance standards established by other relevant prudential supervisors in foreign jurisdictions (particularly the Office of the Comptroller of the Currency in the United States and the Financial Services Authority in the United Kingdom) and developed comparable performance standards in consultation with key paying and non-paying stakeholders. Results of performance against service standards are available only for six of the seven categories developed and only for the last three quarters of fiscal 2004-05. Performance against the standards for all categories will be monitored beginning in fiscal 2005-06.

A detailed description of OSFI's performance standards is available on OSFI's website at

http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/guides/fees/standards_e.pdf

Table 7-A

Description of Document or Service ⁽¹⁾	Service Fee (\$)	Fee Type ⁽²⁾	Fee Setting Authority	Date Last Modified	2004-05					Planning Years		
					Forecast Revenue (\$000)	Actual Revenue (\$000)	Full Cost (\$000)	Performance		Fiscal Year	Forecast Revenue (\$000)	Estimated Full Cost (\$000)
								Standard	Result ⁽³⁾			
Category 1 – Superintendent Deemed Approvals												
Approval of the acquisition of control of, or the acquisition or increase of a substantial investment in, an entity (Superintendent Approval) ⁽¹⁾	8,000	R	OSFI Act	Aug. 13, 2003	1,198	801	801	90% will be processed in less than 30 calendar days of receipt	99% were processed in less than 30 calendar days of receipt	2005-06 2006-07 2007-08	1,309 0 ⁽¹⁾ 0 ⁽¹⁾	1,309 0 ⁽¹⁾ 0 ⁽¹⁾
Permission to retain control of, or to hold a substantial investment in, an entity for an indeterminate period ⁽¹⁾	8,000											
Exemption from requirement to maintain and process information or data in Canada ⁽¹⁾	5,600											
Approval of a time period to do all things necessary to relinquish control of, or a substantial investment in, an entity or to relinquish an increase to a substantial investment in an entity (Superintendent Approval) ⁽¹⁾	4,800											
Approval of a declaration of dividend in excess of net income ⁽¹⁾	4,000											
Approval to return amounts transferred from segregated fund account ⁽¹⁾	4,000											
Approval of asset transactions with a related party or of arrangements applying to such transactions ⁽¹⁾	4,000											
Consent for purchase or redemption of shares or membership shares ⁽¹⁾	3,200											

Description of Document or Service ⁽¹⁾	Service Fee (\$)	Fee Type ⁽²⁾	Fee Setting Authority	Date Last Modified	2004-05					Planning Years		
					Forecast Revenue (\$000)	Actual Revenue (\$000)	Full Cost (\$000)	Performance		Fiscal Year	Forecast Revenue (\$000)	Estimated Full Cost (\$000)
								Standard	Result ⁽³⁾			
Approval of special resolution for reduction of stated capital ⁽¹⁾	3,200											
Approval of amendment to by-laws to change name ⁽¹⁾	3,200											
Approval for the issuance of shares or other securities in consideration for property ⁽¹⁾	3,200											
Extension of the deadline to do all things necessary to relinquish control of, or a substantial investment in, an entity or to relinquish an increase to a substantial investment in an entity (Superintendent Approval) ⁽¹⁾	3,200											
Approval of an acquisition or a transfer of assets in excess of 10% of the total value of assets ⁽¹⁾	3,200											
Approval of an acquisition or a transfer of assets in excess of 5% of the total value of assets from a related party that is not a federal financial institution ⁽¹⁾	3,200											
Approval to be reinsured by a related party that is not a company or foreign company ⁽¹⁾	800											

Description of Document or Service ⁽¹⁾	Service Fee (\$)	Fee Type ⁽²⁾	Fee Setting Authority	Date Last Modified	2004-05					Planning Years		
					Forecast Revenue (\$000)	Actual Revenue (\$000)	Full Cost (\$000)	Performance		Fiscal Year	Forecast Revenue (\$000)	Estimated Full Cost (\$000)
								Standard	Result ⁽³⁾			
Category 2 – Superintendent Non-deemed Approvals except those in Category 3												
Order increasing the aggregate financial exposure limit ⁽¹⁾	8,000	R	OSFI Act	Aug. 13, 2003	280	226	226	90% will be processed in less than 60 calendar days of receipt	98% were processed in less than 60 calendar days of receipt	2005-06 2006-07 2007-08	305 36 n/a	305 36 n/a
Authorization for the release of assets in Canada ⁽¹⁾	5,600											
Approval to maintain a representative office of a foreign bank	4,800											
Approval of transactions that are part of the restructuring of a bank holding company or of an insurance holding company or any entity controlled by such a company and to which self-dealing provisions will not apply ⁽¹⁾	4,000											
Approval of the making or acquisition of commercial loans, or the acquisition of control of an entity that holds commercial loans, if the total value of commercial loans held exceeds the specified limit ⁽¹⁾	3,200											
Variation of an order approving the commencement and carrying on of business of a body corporate or approving the insuring in Canada of risks by a foreign body corporate ⁽¹⁾	3,200											
Exemption from requirement to provide financial statements for non-bank affiliates ⁽¹⁾	3,200											
Reservation of a name	800											
Accreditation of a provincial reinsurer	4,000											

Description of Document or Service ⁽¹⁾	Service Fee (\$)	Fee Type ⁽²⁾	Fee Setting Authority	Date Last Modified	2004-05					Planning Years		
					Forecast Revenue (\$000)	Actual Revenue (\$000)	Full Cost (\$000)	Performance		Fiscal Year	Forecast Revenue (\$000)	Estimated Full Cost (\$000)
								Standard	Result ⁽³⁾			
Approval of an amendment to an approved asset-to-capital multiple or borrowing multiple ⁽¹⁾	3,200 + GST											
Approval of the issuance of subordinated debt to a parent ⁽¹⁾	3,200 + GST											
Consent for purchase or redemption of securities other than shares ⁽¹⁾	3,200 + GST											
Category 3 – Superintendent Non-deemed Approvals of Deposit and Trust Agreements and Letters of Credit (Processed by the Securities Administration Unit)												
Approval of a deposit agreement or of a trust deed to maintain assets in Canada ⁽¹⁾	800	R	OSFI Act	Aug. 13, 2003	65	49	49	90% will be processed in less than 15 business days of receipt	Not available	2005-06 2006-07 2007-08	71 0 ⁽¹⁾ 0 ⁽¹⁾	71 0 ⁽¹⁾ 0 ⁽¹⁾
Approval of a reinsurance trust agreement or of an amendment to a reinsurance trust agreement ⁽¹⁾	800											
Approval of a letter of credit in lieu of assets ⁽¹⁾	800											
Category 4 – Ministerial approvals												
Letters patent of incorporation	32,000	R	OSFI Act	Aug. 13, 2003	1,668	1,408	1,408	80% will be processed in less than 90 calendar days of receipt	97% were processed in less than 90 calendar days of receipt	2005-06 2006-07 2007-08	1,822 687 n/a	1,822 687 n/a
Letters patent of continuance	32,000											
Order permitting a foreign bank to carry on business in Canada	32,000											
Order approving the insuring in Canada of risks by a foreign body corporate	32,000											
Letters patent of amalgamation ⁽¹⁾	16,000											

Description of Document or Service ⁽¹⁾	Service Fee (\$)	Fee Type ⁽²⁾	Fee Setting Authority	Date Last Modified	2004-05					Planning Years		
					Forecast Revenue (\$000)	Actual Revenue (\$000)	Full Cost (\$000)	Performance		Fiscal Year	Forecast Revenue (\$000)	Estimated Full Cost (\$000)
								Standard	Result ⁽³⁾			
Approval of an agreement respecting the sale of all or substantially all assets ⁽¹⁾	16,000											
Approval of the acquisition or increase of a significant interest ⁽¹⁾	16,000											
Approval of a purchase, reinsurance or transfer of policies, a reinsurance against risks undertaken by the company, or a sale of assets ⁽¹⁾	8,000											
Approval of the acquisition of control of, or the acquisition or increase of a substantial investment in, an entity ⁽¹⁾	8,000											
Approval to retain control of, or to continue to hold a substantial investment in, an entity for longer than 90 days ⁽¹⁾	8,000											
Approval, for an indeterminate period, to retain control of, or to hold a substantial investment in, an entity that was acquired by way of a loan workout or realization of a security interest ⁽¹⁾	8,000											
Order exempting a foreign bank from certain provisions of Part XII of the <i>Bank Act</i>	8,000											
Order approving a foreign bank or an entity associated with a foreign bank to carry out any activity described in section 522.22 of the <i>Bank Act</i>	8,000											
Designation order	8,000											

Description of Document or Service ⁽¹⁾	Service Fee (\$)	Fee Type ⁽²⁾	Fee Setting Authority	Date Last Modified	2004-05					Planning Years		
					Forecast Revenue (\$000)	Actual Revenue (\$000)	Full Cost (\$000)	Performance		Fiscal Year	Forecast Revenue (\$000)	Estimated Full Cost (\$000)
								Standard	Result ⁽³⁾			
Approval of a time period to do all things necessary to relinquish control of, or a substantial investment in, an entity or to relinquish an increase to a substantial investment in an entity ⁽¹⁾	4,800											
Letters patent of dissolution ⁽¹⁾	4,000											
Short-term exemption order ⁽¹⁾	4,000											
Letters patent of, or approval of, continuance or amalgamation under any other Act of Parliament or any Act of the legislature of a province ⁽¹⁾	4,000											
Approval to amend an incorporating instrument ⁽¹⁾	3,200											
Extension of the deadline to do all things necessary to relinquish control of, or a substantial investment in, an entity or to relinquish an increase to a substantial investment in an entity ⁽¹⁾	3,200											

Category 5 – Precedents/Rulings/Interpretations												
Written, precedent-setting ruling relating to the quality of capital	6,400 + GST	R	OSFI Act	Aug. 13, 2003	53	30	30	80% will be processed in less than 180 calendar days of receipt	100% were processed in less than 180 calendar days of receipt	2005-06 2006-07 2007-08	58 58 n/a	58 58 n/a
Written interpretation of Acts, regulations, guidelines or rulings	4,000 + GST											

Description of Document or Service ⁽¹⁾	Service Fee (\$)	Fee Type ⁽²⁾	Fee Setting Authority	Date Last Modified	2004-05					Planning Years		
					Forecast Revenue (\$000)	Actual Revenue (\$000)	Full Cost (\$000)	Performance		Fiscal Year	Forecast Revenue (\$000)	Estimated Full Cost (\$000)
								Standard	Result ⁽³⁾			

Category 6 – Non-precedential Confirmations of Quality of Capital												
Written, non-precedent-setting confirmation of quality of capital	4,000 + GST	R	OSFI Act	Aug. 13, 2003	44	93	93	90% will be processed in less than 60 calendar days of receipt	100% were processed in less than 60 calendar days of receipt	2005-06 2006-07 2007-08	48 48 n/a	48 48 n/a
Category 7 – Copies of Corporate documents and certificates of confirmation												
Copies of any one of the following corporate documents (per request and per body corporate): (a) a certificate of confirmation; (b) a certified copy of letters patent or of incorporation or amalgamation documents; and (c) the corporate history of a body corporate	160 for up to 20 copies plus 5 for each additional copy	O	OSFI Act	Aug. 13, 2003	113	110	110	90% will be processed in less than 2 business days of receipt	100% were processed in less than 2 business days of receipt	2005-06 2006-07 2007-08	123 123 n/a	123 123 n/a
Total					3,421	2,717	2,717			2005-06 2006-07 2007-08	3736 \$952 n/a	3736 952 n/a

⁽¹⁾ Fee proposed for elimination.

⁽²⁾ A fee is either identified as “Regulatory” (“R”) or “Other Products and Services” (“O”). A Regulatory fee relates to an activity undertaken by a department that is integral to the effectiveness of a program and successful achievement of the program mandate requires moderating,

directing, testing, or approving the actions of external parties. All OSFI service fees are classified as “Regulatory” except those found in category 7.

⁽³⁾ Results of performance against service standards are available for only six of the seven categories and only for the last three quarters of fiscal 2004-2005. Performance standards for all categories will be monitored for all categories beginning in fiscal 2005-2006.

Access to Information User Fees											
<u>A. User Fee:</u>	Fee Type	Fee Setting Authority	Date Last Modify	Forecast Revenue	Actual Revenue	Full Cost	Performance Standard	Performance Results	Fiscal Year	Forecast Revenue	Estimated Full Cost
				(\$)	(\$)	(\$)				(\$)	(\$)
Fees charged for the processing of access requests filed under the Access to Information Act	O	Access to Information Act	1992	N/A	1,203	76,405	Framework under development by TBS. More info: http://lois.justice.gc.ca/en/a-1/8.html	Statutory deadlines met 84% of the time	2005-06 2006-07 2007-08	N/A N/A N/A	N/A N/A N/A
Total				N/A	1,203	76,405				N/A	N/A
B. Date Last Modified: N/A											
C. Other Information: N/A											

Table 7B: Service Standards for External Fees

Policy on Service Standards for External Fees

In order to enhance its accountability and transparency, OSFI is in the process of developing performance measures. As part of this process, service standards have been developed for services provided by OSFI for which a fee is charged. OSFI's initiative is part of the Government of Canada's commitment toward enhancing the fundamental principles of parliamentary oversight, strengthened accountability, and stakeholder consultations in the development and management of user charges.

These service standards comply with the Government of Canada's November 29, 2004 "*Policy on Service Standards for External Fees*" (the Policy). (Note: While the term "service standards" is used in the Policy and the term "performance standards" is used in the *User Fee Act*, these terms are interchangeable for OSFI's purposes.) Further, while this Policy requires all federal departments and agencies to develop service standards for all external fees that are measurable and relevant for paying stakeholders and requires that the standards and a summary of stakeholder feedback from the consultation be published in the annual Departmental Performance Report (DPR) no later than the 2005/06 DPR, OSFI has developed service standards for all fees as at April 1, 2005 and can report performance against the standards for six of the seven categories of performance standards developed for the last three quarters of 2004-2005.

These service standards apply only to services or fees that incur user fees as per the *Charges for Services Provided by the Office of the Superintendent of Financial Institutions Regulations 2002*. These requirements do not apply where OSFI and the paying stakeholder have negotiated a contract or formal agreement stipulating the service standard (or some equivalent provision) nor do they apply to OSFI's annual assessments.

Table 7-B

Table 7-B is a standard reporting form developed to meet the reporting requirements of the Policy. As the requirements of the User Fee Act and the Policy are very similar, much of the information contained in this table is also found in table 7-A.

Description of Document or Service ⁽¹⁾	Service Fee (\$)	Performance		Stakeholder Consultation
		Standard	Result ⁽²⁾	
Category 1 – Superintendent Deemed Approvals				<p>OSFI undertook considerable analysis of actual performance and research in developing the service standards so as to be realistic against actual performance and comparable to those of our international counterparts where service standards exist (the US Office of the Comptroller of the Currency and the UK Financial Services Authority).</p> <p>In March 2005, paying and on-paying stakeholders were asked to review and comment on the proposed service standards that were developed based on the analysis and research. Comments were received over a three month period and feed back on the comments was provided to each stakeholder who took the opportunity to provide input.</p> <p>Stakeholders were generally supportive of the initiative especially with regard to OSFI's early implementation of the Government's policy.</p> <p>Stakeholders sought clarification as to whether OSFI's initiative to eliminate many of the user fees⁽¹⁾ would similarly reduce the number of services for which OSFI is held to a specific service standard. We noted that as OSFI believes that having specific service standards serves to enhance OSFI's accountability and transparency, it is OSFI's intention to keep the service standards in place for the services provided regardless of whether there is an associated fee.</p> <p>OSFI received some queries with regard to the increased administrative costs associated with monitoring compliance with these new standards. We noted that, as OSFI has monitored application processing time for a number of years, OSFI does not expect to incur additional costs associated</p>
Approval of the acquisition of control of, or the acquisition or increase of a substantial investment in, an entity (Superintendent Approval) ⁽¹⁾	8,000	90% will be processed in less than 30 calendar days of receipt	99% were processed in less than 30 calendar days of receipt	
Permission to retain control of, or to hold a substantial investment in, an entity for an indeterminate period ⁽¹⁾	8,000			
Exemption from requirement to maintain and process information or data in Canada ⁽¹⁾	5,600			
Approval of a time period to do all things necessary to relinquish control of, or a substantial investment in, an entity or to relinquish an increase to a substantial investment in an entity (Superintendent Approval) ⁽¹⁾	4,800			
Approval of a declaration of dividend in excess of net income ⁽¹⁾	4,000			
Approval to return amounts transferred from segregated fund account ⁽¹⁾	4,000			
Approval of asset transactions with a related party or of arrangements applying to such transactions ⁽¹⁾	4,000			
Consent for purchase or redemption of shares or membership shares ⁽¹⁾	3,200			
Approval of special resolution for reduction of stated capital ⁽¹⁾	3,200			

Description of Document or Service ⁽¹⁾	Service Fee (\$)	Performance		Stakeholder Consultation
		Standard	Result ⁽²⁾	
Approval of amendment to by-laws to change name ⁽¹⁾	3,200			with monitoring compliance with these service standards. We further noted that, while OSFI did incur a small one time incremental cost to change its systems to accommodate the new receipting procedures, this cost is not a direct cost of implementing the service standards. While OSFI received suggestions for tightening some of the service standards, the suggestions were not pursued because, as noted above, OSFI undertook considerable analysis of actual performance and research in developing the service standards so as to be realistic against actual performance and comparable to those of our international counterparts where service standards exist, we indicated that we believed it would be premature until we have more experience working with the standards. We emphasized that, at the outset OSFI's goal was to process all applications as quickly and as efficiently as possible and, in developing these standards, OSFI recognized that processing times are dependent on the number and complexity of the applications received at any point – two variables that are difficult to predict and that can vary widely during any period. Further, in developing these standards OSFI was sensitive to the fact that, in processing applications, situations sometimes occur that require OSFI to take additional time to assess the application. For example, where a prudential concern is identified or where precedential issues or additional information requirements are identified, OSFI may not be able to meet the service standard. As such, the service standards have been designed to allow for a small percentage to exceed the service standard. We therefore committed to continue to review and revise the standards on an ongoing basis once experience with the application of the standards has developed and indicated that suggestions to tighten or modify certain standards will form part of this ongoing analysis.
Approval for the issuance of shares or other securities in consideration for property ⁽¹⁾	3,200			
Extension of the deadline to do all things necessary to relinquish control of, or a substantial investment in, an entity or to relinquish an increase to a substantial investment in an entity (Superintendent Approval) ⁽¹⁾	3,200			
Approval of an acquisition or a transfer of assets in excess of 10% of the total value of assets ⁽¹⁾	3,200			
Approval of an acquisition or a transfer of assets in excess of 5% of the total value of assets from a related party that is not a federal financial institution ⁽¹⁾	3,200			
Approval to be reinsured by a related party that is not a company or foreign company ⁽¹⁾	800			
Category 2 – Superintendent Non-deemed Approvals except those in Category 3				
Order increasing the aggregate financial exposure limit ⁽¹⁾	8,000	90% will be processed in less than 60 calendar days of receipt	98% were processed in less than 60 calendar days of receipt	
Authorization for the release of assets in Canada ⁽¹⁾	5,600			
Approval to maintain a representative office of a foreign bank	4,800			
Approval to maintain a representative office of a foreign bank ⁽¹⁾	4,800			

Description of Document or Service ⁽¹⁾	Service Fee (\$)	Performance		Stakeholder Consultation
		Standard	Result ⁽²⁾	
Approval of transactions that are part of the restructuring of a bank holding company or of an insurance holding company or any entity controlled by such a company and to which self-dealing provisions will not apply ⁽¹⁾	4,000			
Approval of the making or acquisition of commercial loans, or the acquisition of control of an entity that holds commercial loans, if the total value of commercial loans held exceeds the specified limit ⁽¹⁾	3,200			
Variation of an order approving the commencement and carrying on of business of a body corporate or approving the insuring in Canada of risks by a foreign body corporate	3,200			
Exemption from requirement to provide financial statements for non-bank affiliates ⁽¹⁾	3,200			
Reservation of a name	800			
Accreditation of a provincial reinsurer	4,000			
Approval of an amendment to an approved asset-to-capital multiple or borrowing multiple ⁽¹⁾	3,200 + GST			
Approval of the issuance of subordinated debt to a parent ⁽¹⁾	3,200 + GST			
Consent for purchase or redemption of securities other than shares ⁽¹⁾	3,200 + GST			
Category 3 – Superintendent Non-deemed Approvals of Deposit and Trust Agreements and Letters of Credit (Processed by the Securities and Administration Unit)				
Approval of a deposit agreement or of a trust deed to maintain assets in Canada ⁽¹⁾	800	90% will be processed	Not available	

Description of Document or Service ⁽¹⁾	Service Fee (\$)	Performance		Stakeholder Consultation
		Standard	Result ⁽²⁾	
Approval of a reinsurance trust agreement or of an amendment to a reinsurance trust agreement ⁽¹⁾	800	in less than 15 business days of receipt		
Approval of a letter of credit in lieu of assets ⁽¹⁾	800			
Category 4 – Ministerial approvals				
Letters patent of incorporation	32,000	80% will be processed in less than 90 calendar days of receipt	97% were processed in less than 90 calendar days of receipt	
Letters patent of continuance	32,000			
Order permitting a foreign bank to carry on business in Canada	32,000			
Order approving the insuring in Canada of risks by a foreign body corporate	32,000			
Letters patent of amalgamation ⁽¹⁾	16,000			
Approval of an agreement respecting the sale of all or substantially all assets ⁽¹⁾	16,000			
Approval of the acquisition or increase of a significant interest ⁽¹⁾	16,000			
Approval of a purchase, reinsurance or transfer of policies, a reinsurance against risks undertaken by the company, or a sale of assets ⁽¹⁾	8,000			
Approval of the acquisition of control of, or the acquisition or increase of a substantial investment in, an entity ⁽¹⁾	8,000			
Approval to retain control of, or to continue to hold a substantial investment in, an entity for longer than 90 days ⁽¹⁾	8,000			

Description of Document or Service ⁽¹⁾	Service Fee (\$)	Performance		Stakeholder Consultation
		Standard	Result ⁽²⁾	
Approval, for an indeterminate period, to retain control of, or to hold a substantial investment in, an entity that was acquired by way of a loan workout or realization of a security interest ⁽¹⁾	8,000			
Order exempting a foreign bank from certain provisions of Part XII of the <i>Bank Act</i>	8,000			
Order approving a foreign bank or an entity associated with a foreign bank to carry out any activity described in section 522.22 of the <i>Bank Act</i>	8,000			
Designation order	8,000			
Approval of a time period to do all things necessary to relinquish control of, or a substantial investment in, an entity or to relinquish an increase to a substantial investment in an entity ⁽¹⁾	4,800			
Letters patent of dissolution ⁽¹⁾	4,000			
Short-term exemption order ⁽¹⁾	4,000			
Letters patent of, or approval of, continuance or amalgamation under any other Act of Parliament or any Act of the legislature of a province ⁽¹⁾	4,000			
Approval to amend an incorporating instrument ⁽¹⁾	3,200			

Description of Document or Service ⁽¹⁾	Service Fee (\$)	Performance		Stakeholder Consultation
		Standard	Result ⁽²⁾	
Extension of the deadline to do all things necessary to relinquish control of, or a substantial investment in, an entity or to relinquish an increase to a substantial investment in an entity ⁽¹⁾	3,200			

Category 5 – Precedent/Rulings/Interpretations			
Written, precedent-setting ruling relating to the quality of capital	6,400 + GST	80% will be processed in less than 180 calendar days of receipt	100% were processed in less than 180 calendar days of receipt
Written interpretation of Acts, regulations, guidelines or rulings	4,000 + GST		
Category 6 – Non-precedential Confirmations of Quality of Capital			
Written, non-precedent-setting confirmation of quality of capital	4,000 + GST	90% will be processed in less than 60 calendar days of receipt	100% were processed in less than 180 calendar days of receipt
Category 7 – Copies of Corporate Documents and certificates of confirmation			
Copies of any one of the following corporate documents (per request and per body corporate): (a) a certificate of confirmation; (b) a certified copy of letters patent or of incorporation or amalgamation documents; and (c) the corporate history of a body corporate	160 for up to 20 copies plus 5 for each additional copy	90% will be processed in less than 2 business days of receipt	100% were processed in less than 180 calendar days of receipt

⁽¹⁾ Fee proposed for elimination.

⁽²⁾ Results of performance against service standards are available for only six of the seven categories and only for the last three quarters of fiscal 2004-05. Performance standards for all categories will be monitored for all categories beginning in fiscal 2005-06.

Access to Information Requests Policy on Service Standards for External Fees		
Service Standard	Performance Result	Stakeholder Consultation
Framework under development by TBS. More info: http://lois.justice.gc.ca/en/a-1/8.html	Statutory deadlines met 84% of the time.	The service standard is established by the <i>Access to Information Act</i> and the <i>Access to Information Regulations</i> . Consultations with stakeholders were undertaken for amendments done in 1986 and 1992.
<u>B. Other information:</u> Four complaints were filed with the Office of the Information Commissioner regarding the exemptions and exclusions applied. The investigations are still ongoing.		

Table 8: Major Regulatory Initiatives

OSFI develops proposals for new regulations or changes to existing regulations consistent with its mandate. The Minister of Finance, based on advice from OSFI, can recommend new regulations or regulatory changes to the Governor in Council, who ultimately approves new regulations and or regulatory changes.

The following table provides a summary of the performance of OSFI's Regulatory Initiatives as outlined in the 2004-2005 RPP as well as additional items that were not anticipated at the time the RPP was written (indicated by “*NEW*”).

Performance Measures

To monitor and assess the overall impact of its regulatory initiatives, OSFI uses a combination of performance measures including independent assessments (surveys) and peer reviews.

In 2004, OSFI undertook independent, comprehensive consultations with its stakeholders, comprised of senior executives and professionals representing a cross-section of the institutions regulated by OSFI. The results are presented in two reports, both available on OSFI's web site under “[About OSFI/Reports/Consultations](#)”: *Industry Consultation Findings* and *OSFI's Approvals Process Consultation Results*. The findings show a strong level of satisfaction with OSFI's overall performance.

- Satisfaction with OSFI as the principal regulator and supervisor of Canada's financial services sector is high (92%). Stakeholders attributed this in part to OSFI's principles-based approach to regulation.
- The vast majority (95%) believes that OSFI's activities have effectively contributed to making Canada's financial institutions stronger than they were in the past. OSFI is seen to clearly set out regulatory expectations for financial institutions.
- A majority (58%) rate OSFI as doing a “good” or “very good job of achieving a balance between its prudential mandate and recognizing the need to allow companies to compete. This rating was higher than that of regulators in the US (29%) and UK (43%) .

Legislative Acts and/or Regulations	Purpose of Regulatory Initiative	Expected Results	Achieved 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. In addition, to consolidate OSFI's penalties regime, the Filing Penalties (OSFI) Regulations will be subsumed into these regulations and will be repealed concurrently with the coming into force of these regulations.	The administrative monetary penalties regime is intended to encourage federally regulated financial institutions to comply with their governing statute. By encouraging compliance, the regime will assist OSFI in pursuing its mandate of protecting the rights and interests of depositors, policyholders and creditors of FRFI's.	The regulations were published in the April 9, 2005 issue of the Canada Gazette Part I. No significant comments were received. The promulgation process is ongoing.
<i>Alternative Means of Publication Regulations</i>	These Regulations will allow OSFI to publish its annual list of 9-year dormant deposit accounts via the Internet instead of the Canada Gazette.	This will ensure better access to the information and reduce OSFI's publishing costs by approximately \$100,000 per year. These savings will reduce in turn expenses assessed to industry.	It was decided to discontinue development of regulations and present this item as a technical amendment.
<i>Exclusion from List of Subsidiaries Regulations</i>	The regulations will permit federally regulated financial institutions to omit certain subsidiaries from the list of subsidiaries that federal financial institutions statutes currently require them to submit with their annual statements.	The regulations will allow federally regulated financial institutions to prepare the list in a manner that is more consistent with requirements under provincial securities legislation, thereby reducing regulatory burden.	Consultations with the industry have taken place. Progress is ongoing.
<i>Holding Companies Assessment Regulations</i>	These Regulations will prescribe the extent and manner in which the Superintendent may assess bank holding companies and insurance holding companies.	The assessments are intended to reflect the actual cost of supervising such entities and distribute those costs in an equitable manner.	These regulations were incorporated in proposals for more general changes to the Regulations in respect of assessments. The regulations will not be pursued at this time.

Legislative Acts and/or Regulations	Purpose of Regulatory Initiative	Expected Results	Achieved Results
<i>Order Amending the Schedule to the Insurance Companies Act - Classes of Insurance</i>	The schedule to the Insurance Companies Act 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. Harmonized classes will reduce the administrative burden and cost to insurers.	Obtained blue-stamped copies for publication in the Canada Gazette Part I. Process is ongoing.
<i>Pension Benefit Standards Regulations, 1985</i>	The amendments to the PBSR strengthen pension plan member protection by 1) requiring defined benefit plans to fully fund pension benefits on plan termination, and 2) causing an amendment to a plan to be void if the solvency ratio falls below prescribed level, unless authorized by Superintendent.	Amendments being considered would: 1) require plan sponsors to fully fund benefits on plan termination; and 2) implement the "void amendments" provision of the Pension Benefits Standards Act (PBSA) in order to prevent plan improvements from being made in situations where plan funding is below the prescribed level unless offsetting payments are made.	The regulatory proposals were incorporated into a public consultation paper on the legislative and regulatory framework for defined benefit plan, issued by the Department of Finance in May 2005. The regulations will be further developed following this consultation.
<i>Regulations Amending the Assets (Foreign Companies) Regulations</i>	The regulations will change the asset valuation basis for life insurance companies operating in Canada on a branch basis to book value, determined in accordance with accounting principles.	The regulations will ensure a consistent approach to valuing insurance liabilities in Canada and the assets that support those liabilities, thereby, enhancing OSFI's ability to ensure foreign life companies operating in Canada maintain sufficient assets in Canada to protect Canadian policyholders from undue loss.	Consultations with selected stakeholders have taken place. The regulations will come in effect concurrent with the migration to a fair value accounting approach (i.e., 1 January, 2007 tentatively).
<i>NEW Regulations Amending the Charges for Services Provided by the Office of the Superintendent of Financial Institutions Regulations 2002</i>	The regulations would eliminate all service charges except those that are paid by non-FRFIs and those that are charged for rulings, accreditations, interpretations, capital quality confirmations, and copies of certain corporate documents. In addition, the proposed regulations provide for sufficient flexibility to amend the hourly charge payable for certain actuarial services	The regulations recognize that the charges currently do not significantly redistribute OSFI's costs amongst FRFIs and that the charges do not recover a meaningful percentage of OSFI's annual costs. Furthermore, the regulations will modestly reduce OSFI's expenses and will enable OSFI to more effectively allocate resources.	Consultations with the industry have taken place and draft regulations have been developed for legal examination.

Legislative Acts and/or Regulations	Purpose of Regulatory Initiative	Expected Results	Achieved Results
<i>Regulations Amending the Investment Limits (Banks)(BHCs) Regulations</i>	The amendment to the regulations would exempt banks and bank holding companies with equity of less than \$5 billion but more than \$1 billion (medium banks and BHCs) that are widely held from the limits on investing in equities and real property.	The amendment would make it possible for widely held medium banks and BHCs to increase their investments in equities or real property beyond the investment limits. It would allow these banks and BHCs to hedge risks associated with certain investment products in a more cost effective manner.	The regulations received final approval on February 1, 2005 and were published in the February 23, 2005 issue of the Canada Gazette Part II
<i>NEW Regulations Amending the Property and Casualty Companies Borrowing Regulations</i>	The proposed regulations increase the prescribed percentage of the total assets of a property and casualty company authorized to insure risks falling within the class of mortgage insurance only, from 2% to 10%.	The regulations increase the amount of debt that a monoline P&C company authorized to insure risks falling within the class of mortgage insurance to 10% of total assets. The amendment recognizes the unique nature of the mortgage insurance industry and would enable such companies to efficiently support business growth.	Draft regulations have been developed for legal examination. Process is ongoing.
<i>Other regulatory initiatives</i>	Regulations may be adopted in the event that corporate governance proposals put forward by the Department of Finance will necessitate regulatory changes relating to financial statements, the role of auditors or other issues linked to OSFI's prudential mandate.		No regulations are currently being developed as a result of corporate governance proposals.

Table 9: Travel Policies

OSFI is a separate employer. In order to meet the requirements of its mandate, OSFI has elected to implement a travel policy specifically for OSFI. The OSFI policy is virtually identical to the Treasury Board Secretariat policy with the exception noted below. This exception is currently under review.

Travel Policies		
Department / Agency: The Office of the Superintendent of Financial Institutions		
Policy that Differs from TBS Policy	What is/are the principle difference(s)?	What are the financial implications of the difference(s)?
1. Business Class airfare for specific situations (i)	TBS Guidelines allow for Business Class travel for trips exceeding 9 hours. OSFI's threshold is 5 hours.	For 2004-2005, the estimated net cost of this difference in policy is approximately \$29 thousand, based on 8 trips at an average additional cost of \$3.4 thousand per trip.

(i) Executives may use Business Class if a flight is over 3 hours one way. Non-executives may be authorized to upgrade to Business/Executive Class air travel in accordance with the following principles:

- When the employer requires the employee to travel on a continuous flight of five or more hours;
- When the employee has a physical disability that cannot be accommodated in regular economy class;
- When this is the lowest available fare;
- In exceptional cases such as security or where the OSFI employee is traveling with an external business client who was already booked on the higher-class flight.

OSFI effectively monitors its travel costs through communications with all staff, directed communications on policies which are not clear, direct communications with managers on travel claim issues, monitoring to budget, and semi-annual detailed analysis of travel expenses.

IV. Other Items of Interest

IV. 1 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 present the full program costs. The following table illustrates how OSFI's 2004-2005 actual Program Support costs are allocated to its other program activities.

(\$ thousands)	Program Activity				
	Regulation and Supervision of Federally Regulated Financial Institutions	Regulation and Supervision of Federally Regulated Private Pension Plans	International Assistance	Office of the Chief Actuary	Total 2004-2005 Actual
Finance and Administration	16,282	801	248	511	17,843
Information Technology	8,786	432	134	276	9,628
Legal	234	12	4	7	256
Communications	1,221	60	19	38	1,338
Human Resources	2,129	105	32	67	2,333
TOTAL Program Support	28,651	1,410	436	900	31,398

For 2004-2005, OSFI had identified two priorities relating to program support with specific initiatives that supported all programs. These activities have been described in Section II. 3. Following is a general description of some of the corporate support initiatives that were undertaken in 2004-2005 and an explanation of how they affected OSFI's performance.

OSFI made major progress in the development and implementation of its multi-year Business Systems Integration Initiative (BSII). The project is designed to re-engineer core supervision processes and allow OSFI to better allocate its resources to high-risk areas. During 2004-2005, OSFI staff reviewed a number of supervisory processes and introduced technology-enabled changes to how they plan and execute their work. These changes resulted in staff reductions in certain areas, and redeployment of some of the affected resources to other areas.

OSFI completed Phase 2 of its implementation of a corporate Electronic Document Management System (EDMS). EDMS will allow OSFI employees to manage electronic documents better and to share information. In 2004-2005, all the financial institution supervisory records were organized, and a monitoring and audit procedure was implemented to monitor and validate the system and its contents.

OSFI made further progress in implementing Enterprise-wide Risk Management (ERM), a contemporary management tool that provides a comprehensive and integrated approach to identifying risks and assessing the quality of risk mitigants. As a result of a series of risk assessments facilitated by the Audit & Consulting Services group in 2004-2005, operational groups can draw clearer linkages between OSFI's priorities, their actions and associated risks.

OSFI created a Project Management Group to provide overall governance for priority IM/IT projects. This group coordinates the design and implementation of major corporate projects that span several internal divisions, leading to improved delivery times and avoiding duplication of effort among OSFI staff.

OSFI's executive team participated in a targeted succession planning process to identify and implement plans to mitigate the risk of potential turnover within critical executive-level positions across OSFI. Not only did this initiative produce some targeted action plans, it also uncovered the need to ensure that leadership and official language development continues to be an ongoing commitment in OSFI's business planning process. In response, OSFI introduced a modularized management development curriculum that all management staff will be required to complete within a two to three year period. This program is designed to enhance the skills of OSFI's leaders to better motivate and develop staff, and to better understand and consistently deliver on their accountabilities within key management processes.

OSFI continued to refine the performance management process introduced in 2003-2004. After completing one full cycle of the new program, employees and management were asked how OSFI might improve the process. Based on their input, changes were made to clarify performance ratings and to expedite the process. Competency definitions were also customized in many parts of the organization to reflect specific work processes. These changes will help employees better understand what is expected of them and will help managers better assess staff relative to expectations.

Training continued to be a high priority at OSFI. A significant portion of OSFI's training efforts were focused on supporting the reengineering of several key business processes and the implementation of enabling technology such as workflow and information management systems.

In addition, OSFI spent considerable resources realigning its processes, systems and reporting to align to the new Program Activity Architecture (PAA) format and meet the requirements for financial transparency and accountability. OSFI also continued to enhance its Business Resumption Planning, successfully conducting test scenarios.

IV.2 Other References

Acts, Legislation And Regulations

Information on the Acts, Legislation and Regulations administered by or impacting OSFI can be found on the OSFI web site, www.osfi-bsif.gc.ca, under “[About OSFI / Frequently Asked Questions](#)” . The acts can be found on the Justice Canada web site under “[Laws](#)” at <http://laws.justice.gc.ca>.

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