Office of the Superintendent of Financial Institutions Canada
Bureau du surintendant des institutions financières Canada

OSFI
ANNUAL REPORT **2013-2014**

OSFI BSIF

Canada

Office of the Superintendent of Financial Institutions Canada

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OSFI AT A GLANCE

- OSFI was established in 1987 to contribute to public confidence in the Canadian financial system. It is an independent agency of the Government of Canada and reports to Parliament through the Minister of Finance.

- OSFI regulates and supervises over 400 banks and insurers, and some 1,200 federally registered private pension plans.

- The Office of the Chief Actuary, which is an independent unit within OSFI, provides actuarial valuation and advisory services for the Canada Pension Plan, the Old Age Security program, the Canada Student Loans Program and other public sector pension and benefit plans.

- OSFI recovers its costs, which in 2013-2014 totalled $141.9 million. OSFI is funded mainly through asset-based, premium-based or membership-based assessments on the financial services industry and a user-pay program for selected services. A very small portion of OSFI's revenue is received through an appropriation from the Government of Canada for actuarial valuation and advisory services relating to various public sector pension and benefit plans.

- As of March 31, 2014, OSFI employed 697 people in offices located in Ottawa, Montréal, Toronto and Vancouver.

SUPERINTENDENT'S MESSAGE

The current global economic environment remains far from normal. Interest rates are still at historically low levels and growth in several advanced economies is still not at pre-crisis levels. Potential vulnerabilities in the global financial system remain a source of uncertainty.

While the Canadian financial system continues to benefit from approaches taken in Canada, OSFI and domestic banks and insurance companies need to avoid complacency.

In 2013-2014, OSFI introduced or finalized several guidelines intended to promote and maintain confidence in Canada's financial system. These included: Liquidity Adequacy Requirements that reflect internationally agreed minimum standards for the measurement of short-term liquidity under a stress scenario; Own Risk and Solvency Assessment and Regulatory Capital and Internal Capital Targets to strengthen the insurance industry's enterprise-wide risk management process; and, a Guideline on Mortgage Insurance Underwriting as a follow-up to the Guideline on Residential Mortgage Underwriting Practices and Procedures issued in 2012.

The financial services industry also faces increasing operational risks from ongoing cyber threats. This touches nearly all business consumer relationships and potentially the safety and soundness of the institutions OSFI regulates. In response, OSFI released Cyber Security Self-Assessment Guidance in October 2013 to assist institutions in assessing their own cyber risk and preparedness. Cyber security will be an issue of continuing focus for OSFI going forward.

In 2013, Canada's financial sector, including OSFI, was subject to an International Monetary Fund (IMF) Financial Sector Assessment Program (FSAP) review. The FSAP report identified OSFI's close touch supervision, our clear and straightforward mandate, and our ability to attract and retain financial sector specialists as some of the factors that helped Canada withstand the crisis well.

The FSAP team noted that stress tests OSFI conducted in 2013 show that major financial institutions would continue to be resilient to credit, liquidity, and contagion risks arising from a severe stress scenario. The FSAP assessors also concluded that OSFI continues to be effective with a high level of compliance with international standards. OSFI believes there is always room to improve and will be considering the recommendations made in the FSAP report and how we may be able to address them.

At the international level, we took part in ongoing peer reviews by the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS), as these are important barometers of how we are doing.

The G20 retains its focus on international regulatory reform in order to better insulate the global financial system from future shocks. In 2013-2014, OSFI continued its involvement in the development of international rules that contribute to a strong and stable global financial system. OSFI chaired the FSB Supervisory Intensity and Effectiveness Group, which conducts significant work in relation to the supervision of systemically important financial institutions.

OSFI also looked inward, to strengthen its high-performing and effective workforce by providing more focus on teams responsible for managing domestic systemically important banks, while at the same time creating a staff position that will focus on the requirements of the smaller financial institutions under OSFI's purview. We also made investments in corporate infrastructure, particularly in renewing our Information Technology systems.

Strong cooperation and communication with our federal partners, such as the Bank of Canada, the Department of Finance, Canada Deposit Insurance Corporation and the Financial Consumer Agency of Canada, was also a contributing factor in allowing OSFI to meet its goals in 2013-2014.

This will be my final year as Superintendent of Financial Institutions. During my tenure the world has gone through one of its most difficult financial crises, the effects of which are still being felt today. I am proud of the way the Canadian financial system pulled together to work our way through the numerous challenges that were presented. Regulators, lawmakers and financial institutions all played a role in Canada emerging in relatively good shape when compared to other parts of the globe.

The contribution to public confidence in the Canadian financial system that OSFI has been able to make comes down – as always – to the individual contributions of our employees.

Our people are the most important element of our effectiveness. It has been an honour and pleasure to work with them these past seven years. I know that my successor, and all Canadians, will be able to count on the ongoing dedication and professionalism of OSFI's people.

Julie Dickson

PERFORMANCE AGAINST PRIORITIES 2013-2014

OSFI's role is to contribute to the safety and soundness of the Canadian financial system, while allowing federally regulated financial institutions (FRFIs) and private pension plans to take reasonable risks. With a focus on prudence, we balance international rules with Canadian marketplace realities, and efficiency with thoroughness. Last year's Annual Report listed four priorities through which OSFI sought to achieve its strategic outcomes for 2013-2014. This section reports major accomplishments under each of those priorities. OSFI achieved its goals for the reporting year and continues to work on these multi-year priorities. More details are available in various chapters of this report.

PRIORITY A – Responding to Risks Emanating from the Economy

Steps Taken

- Responded to concerns about low interest rates and high household indebtedness via enhanced monitoring, reviews of retail lending and stress testing

- Conducted significant cross-sector reviews in the areas of
    - Cyber security and information technology operational risk
    - Retail credit cards
    - Corporate governance
    - Catastrophic risk
    - Reinsurance risk

- Issued new/revised guidelines, advisories or letters on
    - Residential Mortgage Insurance Underwriting (draft)
    - Liquidity Adequacy Requirements (draft)
    - Own Risk and Solvency Assessment, and Regulatory Capital and Internal Capital Targets
    - Minimum Continuing Capital and Surplus Requirements (MCCSR) update
    - Minimum Capital Test (MCT) update

- Issued Cyber Security Self-Assessment Guidance to help FRFIs assess their own ability to respond to the rising operational risk

- Participated in an International Monetary Fund (IMF) Financial Sector Assessment Program (FSAP) update for Canada, which included macro stress tests that considered the impact of high consumer debt and other adverse shocks

- Continued to conduct
    - Risk management seminars
    - Supervisory colleges
    - Crisis management and industry information sessions

- Participated actively on various international committees, including
    - Financial Stability Board (FSB)
    - Basel Committee on Banking Supervision (BCBS)
    - Senior Supervisors Group (SSG)
    - International Association of Insurance Supervisors (IAIS)

PRIORITY B – Responding to Risks Emanating from Regulatory Reform (including banking, insurance, pensions and accounting reforms)

Steps Taken

- Released an update to the Life Insurance Regulatory Framework outlining OSFI initiatives through 2018

- Worked with IAIS to develop a global framework to guide the supervision of internationally active insurance groups (ComFrame) as well as a basic capital requirement for global systemically important insurers (G-SIIs)

- Worked with banks and insurance companies to gather data and assess the impact of new capital requirements, and with banks on new liquidity requirements

- Took part in the Regulatory Consistency Assessment Programme (RCAP) of BCBS, which reviews national implementation of Basel minimum prudential standards, by completing a Canada RCAP assessment and participating in Australia, Switzerland and Singapore RCAPs

- Monitored International Accounting Standards Board and Financial Accounting Standards Board decisions as they impact the Canadian bank and insurance capital frameworks

- Provided comments on, or participated in, domestic audit quality initiatives of the Chartered Professional Accountants of Canada and the Canadian Public Accountability Board

PRIORITY C – A High-Performing and Effective Workforce

Steps Taken

- Finalized implementation of a new Human Resources service delivery model with appropriate policies, processes and controls

- Implemented organizational changes in the Supervision Sector to provide more focus on teams responsible for managing domestic systemically important banks

- Continued enhancements to the corporate planning processes to further integrate HR planning and enterprise risk management (ERM) processes

- Continued to ensure individual and group learning plans were driven by business needs

PRIORITY D – An Enhanced Corporate Infrastructure

Steps Taken

- Met all project milestones as part of our Information Technology renewal program, including
  - Upgraded OSFI's external website and Human Resources Management system
  - Launched Phase 1 of a new system for returns processing (Regulatory Returns System) in partnership with the Bank of Canada and the Canada Deposit Insurance Corporation and an upgraded Business Intelligence solution for deposit-taking institutions
  - Implemented an integrated enterprise resource planning (ERP) software solution for finance-related processes
  - Developed correspondence and inquiry management and document/records management/collaboration systems

- Implemented the Regulatory Data Governance Framework to ensure OSFI effectively captures and shares FRFI information enterprise-wide

The following five priorities will guide the achievement of strategic outcomes for 2014-2015

1. Anticipating and Responding to Risks Emanating from the Economy and Financial System

2. Enhancing Supervisory Processes

3. Anticipating and Responding to Risks Emanating from Regulatory Reform

4. A High-Performing and Effective Workforce

5. An Enhanced Corporate Infrastructure

Details can be found on OSFI's website under Reports and Accountability / OSFI Priorities for 2014-2017.

CORPORATE OVERVIEW

ROLE AND MANDATE

OSFI was established in 1987 by an Act of Parliament: the *Office of the Superintendent of Financial Institutions Act* (OSFI Act). OSFI supervises and regulates all banks in Canada and all federally incorporated or registered trust and loan companies, insurance companies, cooperative credit associations, fraternal benefit societies and private pension plans. Under the OSFI Act, the Superintendent is solely responsible for exercising OSFI's authorities and is required to report to the Minister of Finance from time to time on the administration of the financial institutions legislation.

OSFI's mandate is to:

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

From its mandate, OSFI has identified two strategic outcomes:

1. A safe and sound Canadian financial system
2. A financially sound and sustainable Canadian public retirement income system

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

OSFI works with a number of key partners on the Financial Institutions Supervisory Committee (FISC), which the Superintendent chairs, including the Department of Finance, the Bank of Canada, the Canada Deposit Insurance Corporation and the Financial Consumer Agency of Canada. Together, these organizations constitute Canada's network of financial regulation and supervision and provide a system of depositor and policyholder protection.

The Office of the Chief Actuary (OCA), which is an independent unit within OSFI, provides actuarial valuation and advisory services to the Government of Canada in the form of reports tabled in Parliament. While the Chief Actuary reports to the Superintendent, he is solely responsible for the content and actuarial opinions in reports prepared by the OCA. He is also solely responsible for the actuarial advice provided by the OCA to the relevant government departments, including the executive arm of provincial and territorial governments, which are co-stewards of the Canada Pension Plan (CPP).

RESOURCES

Financial Resources

OSFI recovers its costs, as stipulated under the OSFI Act. The organization is funded mainly through asset-based, premium-based or membership-based assessments on the financial services industry and a user-pay program for selected services. A very small portion of OSFI's revenue (0.7%) is received through an appropriation from the Government of Canada, primarily for actuarial valuation and advisory services relating to the Canada Pension Plan, the Old Age Security program, the Canada Student Loans Program and various public sector pension and benefit plans.

Human Resources

As at March 31, 2014, OSFI employed 697 people in offices located in Ottawa, Montréal, Toronto and Vancouver.

ACCOUNTABILITY

Auditing

OSFI's Audit Committee met five times in 2013-2014. The Committee is comprised of three independent members, one of whom is the Chair, and the Superintendent. The mandate of the Committee is to provide objective advice and recommendations to the Superintendent regarding the adequacy and proper functioning of OSFI's risk management, control and governance frameworks and processes, including accountability and auditing systems. During 2013-2014, the Audit Committee received information and, as appropriate, provided advice and guidance on key activities including but not limited to: Enterprise Risk Management; Quarterly and Annual Financial Statements; IM/IT Strategy; Performance Measurement

Nadim El-Hage, Release / QA Manager
Application Management
Corporate Services Sector

Katie Brown, Manager, Corporate Planning, Performance and Risk Management
Finance and Corporate Planning
Corporate Services Sector

Reporting; Internal Control over Financial Reporting; Values and Ethics; Internal Audit Reports; and Internal Audit operations.

Surveys and Consultations

OSFI regularly conducts anonymous surveys of knowledgeable industry observers to help assess its performance and effectiveness as a regulator. Survey results are disclosed on OSFI's website.

In the fall of 2013, The Strategic Counsel, on behalf of OSFI, conducted a series of confidential, one-on-one interviews with a sample of senior executives representing a cross-section of life insurance companies regulated by OSFI. The results indicate that overall satisfaction with OSFI is strong and largely attributable to perceptions of how OSFI interacts with those it regulates. Some areas for improvement were also identified through the consultation and, where appropriate, OSFI has developed action plans to address these. The survey report is entitled *Life Insurance Sector Consultation 2013-14 Report of Qualitative Research Findings.*

BENEFITS TO CANADIANS

OSFI's strategic outcomes, supported by our plans and priorities, are intrinsically aligned with broader government priorities, specifically strong economic growth, and income security and employment for Canadians. A properly functioning financial system that inspires a high degree of confidence among consumers and others who deal with financial institutions makes a material contribution to Canada's economic performance.

Connecting with Stakeholders

During 2013-2014, OSFI again regularly communicated its plans and activities to a wide range of stakeholders via its website and other means. As in previous years, OSFI received many requests to address external conferences and events. The Superintendent and senior OSFI officials delivered presentations to industry and regulatory forums across Canada and internationally. Senior OSFI officials appeared before the House of Commons Standing Committee on Finance and the Senate Standing Committee on National Finance.

OSFI's external newsletter, *The Pillar,* was published four times in 2013-2014. It serves to remind key stakeholders of the latest guidelines, notices, public statements, and other pertinent information released by the Office.

Sharing OSFI's Expertise

Throughout 2013-2014, OSFI shared its expertise with interested Canadians, including members of the general public, industry, regulators, legislators and the news media, as follows:

- Served 1,344,216 visitors to OSFI's website
- Responded to 11,679 public enquiries, 101 enquiries from Members of Parliament and 166 enquiries from representatives of the news media
- Delivered over 70 presentations to industry and regulatory forums, including 13 key speeches that were posted to OSFI's website
- Processed 20 access to information requests and 32 consultations within permitted statutory timelines, as per the *Access to Information Act,* and 4 privacy requests within permitted statutory timelines, as per the *Privacy Act*.

Gary Walker, Assistant Superintendent, Corporate Services Sector • **Andrew Kriegler,** Deputy Superintendent, Supervision Sector • **Julie Dickson**, Superintendent of Financial Institutions • **Mark Zelmer**, Deputy Superintendent, Regulation Sector

FEDERALLY REGULATED FINANCIAL INSTITUTIONS

Risk Assessment and Intervention

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

During 2013-2014, domestic household indebtedness, interest rate levels, and ongoing global financial uncertainty continued to be seen as sources of potential systemic vulnerability. OSFI took action to address the possible impact of these challenges and achieve its strategic priorities by communicating its expectations for risk management to FRFIs and conducting significant reviews in several areas, including stress testing, cyber security and information technology operational risk, retail credit cards, catastrophic risks, and corporate governance and risk appetite frameworks. We continued to develop supporting guidance for OSFI's Supervisory Framework and initiated a review of our supervisory processes and tools.

REVIEW BY SECTOR

Deposit-Taking

The Canadian banking industry performed satisfactorily in 2013; solid profitability was driven by continued revenue growth and a stable credit environment. Average return on equity for the banking sector of 16.2% (compared to 17.2% in 2012) reflects increased capital levels.

The Canadian banking industry is comprised of six large domestic banks and many smaller deposit-taking institutions (DTIs). The six largest banks account for approximately 90% of total assets among Canada's federally regulated DTIs. Their diversified business lines extend beyond traditional deposit-taking and lending activities into trading, investment banking, wealth management and insurance. In addition to their primary domestic focus, these large banks have operations in many countries across the globe.

The remaining 10% of Canadian banking assets are held by smaller institutions with niche market and business strategies, such as mortgage lending, commercial real estate or credit cards.

OSFI fully implemented the Basel III capital rules, and banks began reporting the new Common Equity Tier 1 (CET1) capital adequacy ratios in 2013. Canadian banks remain above the target level of 7% for CET1. Further, OSFI will apply a 1% capital surcharge above minimum Basel requirements to the six large domestic banks in Canada (identified as domestic systemically important banks or D-SIBs), targeted by Basel for January 2016. As well, OSFI obliges Canadian D-SIBs to meet enhanced disclosure requirements, and to have in place advanced practices in terms of the design and operation of oversight functions and internal controls. D-SIBs are also subject to more intense supervision than other financial institutions.

The banking industry benefited from the relatively stable Canadian economy in 2013-2014. While credit performance for retail lending (mortgages, auto loans, credit cards) remains acceptable, vulnerabilities continue related to high household debt levels, the risk of a sharp rise in interest rates and weak global economic conditions. Growth continued in corporate and commercial lending including Commercial Real Estate, whereas credit performance has been stable.

OSFI, in conjunction with the Bank of Canada, conducted another macroeconomic stress-testing exercise in 2013, in the context of the International Monetary Fund (IMF) Financial Sector Assessment Program (FSAP) update for Canada. This involved prescribing a common scenario to participating banks in order to better understand, and to increase awareness in financial institutions about, potential system-wide risks and vulnerabilities. OSFI shared the individual results of our review with participating banks, and has used the findings to inform our assessment of bank risk exposures and their ability to withstand adverse events.

Life Insurance

The capital position of the Canadian life insurance industry remained acceptable and, indeed, improved in 2013. OSFI's supervisory target ratio for both the Minimum Continuing Capital and Surplus Requirement (MCCSR) for operating federally regulated Canadian life insurance companies and the Test of Adequacy of Assets and Margin (TAAM) for branches of foreign companies operating in Canada is 150%. The aggregate capital ratio for Canadian life insurers in 2013 was 242% (218% in 2012) with all companies reporting capital ratios above OSFI's target capital level. Higher capital ratios reflect improvement in the economic environment, as available capital increased with earnings and required capital declined due to the impact of higher interest rates and strong equity markets.

During 2013, the life insurance industry benefited from improving equity markets and modest increases in long-term interest rates. With a sound capital base and strong reserve levels, the life insurance industry was healthy going into 2014; however, challenges remain with current low interest rates, and sensitivity to potential equity market declines and volatility.

Recognizing that investment portfolios are generating lower earnings in the wake of low yields on fixed-income investments, some life insurance companies have been exploring alternative, higher risk/return investments. OSFI will continue to closely monitor both conformance to, and changes in, risk appetite policies among federally regulated companies.

The life insurance industry net income after extraordinary items and discontinued operations for 2013 increased 9% over 2012, to $8.1 billion (78% from the three largest life insurance companies). This compares with a 2012 performance of $7.4 billion in net income (73% from the three largest companies). Return on equity for the industry was 9.9% in 2013 compared to 9.8% in 2012.

Credit experience in life insurer investment portfolios was stable in 2013. In aggregate, no significant changes were recorded in the levels of credit provisions at the conglomerate companies. OSFI continues to monitor the credit environment and industry practices relating to credit risk management.

OSFI asked a select number of life insurers and life reinsurers to complete a macroeconomic stress test in 2013, as we did in 2012, also in the context of the

Alexander Kim, Senior Manager
Deposit-taking Group
Supervision Sector

IMF-FSAP update for Canada. A common scenario was prescribed to participating insurers in order to better understand, and to increase awareness in financial institutions about, potential system-wide risks and vulnerabilities. OSFI shared the individual results of our review with the participating companies, and will use the findings to inform our assessment of the companies' risk exposures and their ability to withstand adverse events.

Property and Casualty Insurance (excluding mortgage insurance)

The financial performance of the property and casualty (P&C) industry in Canada was impacted by the catastrophe claims arising from the Calgary flood in June and the Toronto rain storm in July of 2013. As a result, underwriting income was effectively break-even, with investment returns being the main contributor to overall earnings. Net income for the P&C industry of $2.4 billion decreased 37.5% over the previous year's net income of $3.9 billion, while return on equity fell to 7.4%, from 11.4% a year earlier.

A key measure of the industry's core profitability is the 'combined ratio', which measures the revenue from premiums relative to the sum of claims plus expenses. A combined ratio under 100% indicates that premium income exceeds claims and expenses and that an underwriting profit has been earned. In 2013, the combined ratio was 100.2%, consistent with an approximate break-even underwriting income. This is a deterioration compared to the previous year's combined ratio of 96.2%.

For the P&C industry, investment income before realized gains of $2.5 billion in 2013 was similar to that reported last year, but the return on investments before realized gains continued to decline, falling to 2.64% in 2013 from 2.71% in 2012. Realized gains (from the sale of higher yielding assets) fell to $290 million in 2013 compared with $862 million in 2012. These results reflect the lower yields available as the portfolio is reinvested. This continuing decline highlights the importance of core underwriting to achieve and sustain financial results.

Jennifer Marsan, Senior Supervisor
Montreal Regional Office
Supervision Sector

Sylvia Quenum, Senior Supervisor
Montreal Regional Office
Supervision Sector

The Minimum Capital Test (MCT) is the capital metric for Canadian P&C companies and the Branch Adequacy of Assets Test (BAAT) is used for foreign-owned P&C operations in Canada. Capital ratios for the P&C industry in 2013 were stable relative to 2012, with an industry weighted MCT/BAAT ratio of 258% — well above OSFI's supervisory target of 150%.

With nearly half of the Canadian P&C insurance industry (by premium volume) being foreign owned (ultimate parents are typically located in the United States or Europe), market conditions in the home jurisdiction can affect Canadian operations; hence OSFI monitors parent company conditions. Globally, with a lower level of catastrophic events in 2013, underwriting results were generally favourable and capital levels were maintained.

Domestically, personal auto insurance continued to be the major underwriting challenge. Reforms related to accident benefits improved profitability in Ontario, the largest auto insurance market. However, the legislated target of 15% rate reductions in Ontario by August 2015 (with 8% reductions to be realized by August 2014) may negatively impact Ontario personal auto insurance underwriting profitability if the additional claims-related measures introduced in the 2013 Ontario budget are delayed in implementation. The property insurance segment continued to see increases in catastrophe-related claims from severe weather events. With $3.5 billion in insured losses in Canada, 2013 was the worst year on record for insured catastrophe losses. The commercial liability insurance market remains competitive with pricing remaining soft in some segments. P&C product lines are experiencing significant innovation and structural change.

Mortgage Insurance

The mortgage insurance industry in Canada continued to experience favourable financial results during 2013, with improvements in net income over 2012, mostly reflecting a reduction in claims expenses (excluding a one-time gain during 2012). Investments generated a modest increase in average yield. The MCT capital ratio increased over that of 2012, largely reflecting the one-time gain due to the cancellation of guarantee funds, which were eliminated with the introduction of the *Protection of Residential Mortgage* or *Hypothecary Insurance Act* and are now recognized in the MCT. Notwithstanding the currently favourable financial results, mortgage insurance remains vulnerable to consumer debt levels, housing prices, interest rates and unemployment rates.

SUPERVISORY TOOLS

Managing Risk Effectively

In 2013-2014, OSFI continued updating internal guidance to support its risk-based Supervisory Framework, which considers an institution's inherent business risks, risk management practices (including corporate governance) and financial condition.

OSFI again held annual risk management seminars in 2013-2014 for the industries it regulates (DTIs, life insurance, and P&C insurance) to reinforce the need for strong risk management and to share lessons learned. The goal is to communicate OSFI's expectations related to key risk management areas based on detailed work OSFI has undertaken during the year, and to share information on issues being discussed internationally by regulators. The seminars also provide participants with the opportunity to ask questions of OSFI's senior supervisory and regulatory teams.

Continuing the practice of organizing Colleges of Supervisors, in 2013-2014 OSFI hosted a college for each of Canada's five largest banks. In line with Financial Stability Board recommendations, the colleges brought together executives from each bank with supervisors from jurisdictions where they do business. OSFI also hosted a supervisory college for a large life insurance company. Crisis management and industry information sessions were again held for the seven largest deposit-taking institutions, in conjunction with the Canada Deposit Insurance Corporation.

Composite Risk Ratings

The Composite Risk Rating (CRR) represents OSFI's overall assessment of an institution's safety and soundness. Beginning in 2013-2014, a Branch Risk Rating (BRR) was assigned to Foreign Bank Branches (FBBs) operating in Canada, rather than a CRR, reflecting OSFI's limited access to the information needed to assess the FBB's safety and soundness. There are four possible risk ratings: 'low', 'moderate', 'above average' and 'high'. The CRR is reported to most institutions at least once a year (certain inactive or voluntary wind-up institutions may not be rated). Supervisory Information Regulations prohibit institutions (or OSFI) from publicly disclosing their rating. As at the end of March 2014, OSFI had assigned CRR ratings of low or moderate to 91% and above average or high to 9% of all CRR-rated institutions. In comparison, as at March 31, 2013, 89% of all rated institutions were assessed as low or moderate CRR, and 11% were assessed above average or high CRR.

Intervention Ratings

Financial institutions are also assigned an intervention (stage) rating, as described in OSFI's guides to intervention for FRFIs, which determines the degree of supervisory attention they receive. Broadly, these ratings are categorized as: normal (stage 0); early warning (stage 1); risk to financial viability or solvency (stage 2); future financial viability in serious doubt (stage 3); and non-viable/insolvency imminent (stage 4). As at March 31, 2014, there were 35 staged institutions. With a few exceptions, most of the staged institutions were in the early warning (stage 1) category.

Regulation and Guidance

OSFI provides a regulatory framework of guidance and rules that meets or exceeds international minimums for financial institutions. In addition to issuing guidance, OSFI provides input into the development of federal legislation and regulations affecting federally regulated financial institutions (FRFIs) and comments on accounting, auditing and actuarial standards development, which includes determining how to incorporate them into our regulatory framework. OSFI also participates in a number of international and domestic rule-making activities.

DOMESTIC RULE MAKING

REVISIONS TO FINANCIAL INSTITUTIONS LEGISLATION

The governing statutes applicable to FRFIs are reviewed every five years (most recently in 2012) to ensure they remain current and promote an efficient, competitive and prudent financial services sector. During 2013-2014, OSFI continued its consultations related to the eventual revision of the *Assessment of Financial Institutions Regulations, 2001*. As part of the requirements under the federal government's Red Tape Reduction exercise, OSFI released its Forward Regulatory Plan for the period of 2014-2016. These plans, which are a bi-annual exercise, describe regulatory changes or proposals that a department or agency expects to introduce over a 24-month period. The plans are intended to improve transparency and predictability for the institutions OSFI regulates.

Neil Colligan, Senior Financial Analyst
Risks, Surveillance, and Analytics Division
Supervision Sector

Victor Adesanya, Manager, Operations
Property and Casualty Insurance Group
Supervision Sector

ACCOUNTING, AUDITING AND ACTUARIAL STANDARDS

OSFI is a member of the Canadian Accounting Standards Board's (AcSB) User Advisory Council and an observer on the Insurance Accounting Task Force. OSFI is also an observer on the Reporting on Supplementary Matters Arising from an Audit or Review Engagement Task Force of the Canadian Auditing and Assurance Standards Board (AASB). Additionally, OSFI is a non-voting member of the Auditing and Assurance Standards Oversight Council, which oversees the activities of the AASB. OSFI works closely with Chartered Professional Accountants of Canada (CPA Canada), formerly the Canadian Institute of Chartered Accountants (CICA), and the Canadian Public Accountability Board (CPAB) on domestic accounting rules and initiatives to improve audit quality. In 2013-2014, OSFI provided positions on the following initiatives:

- AcSB Exposure Draft: Insurance Contracts
- Joint CPA Canada and CPAB discussion paper on Enhancing Audit Quality: The Role of the Audit Committee in External Auditor Oversight
- CPA Canada Exposure Draft on the independence standard contained in the Rule of Professional Conduct 204 Independence
- CPAB draft Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees

In addition to providing positions on domestic audit quality initiatives, OSFI issued an industry-wide letter outlining expectations regarding early adoption of:

- amendments to IFRS 9 – General Hedging and Own Credit Risk
- amendments to IAS 36 – Recoverable Amount Disclosures for Non-financial Assets

OSFI works closely with the Canadian Institute of Actuaries (CIA) and the Actuarial Standards Board (ASB) to ensure that actuarial standards are appropriate and lead to acceptable practice in areas such as valuation, risk and capital assessment at entities regulated by OSFI. In 2013-2014, we continued to participate on several CIA practice committees and to consult with the CIA on developments related to our work on a new solvency framework for life insurance companies.

CAPITAL AND LIQUIDITY GUIDANCE

Banks and Trust and Loan Companies – Capital Adequacy Requirements

In November 2013, OSFI released its Draft Liquidity Adequacy Requirements (LAR) Guideline for public consultation. The draft guideline reflects internationally agreed minimum standards for the measurement of short-term liquidity under a stress scenario that will be applied to all banks, bank holding companies, and trust and loan companies in Canada. The final guideline was issued in May 2014 and will come into effect as of January 2015.

In August 2013, OSFI provided additional guidance on the application of its Capital Adequacy Requirements (CAR) Guideline's credit risk capital requirements for Credit Valuation Adjustments (CVA). This guidance was intended to ensure a phased-in transition process comparable to that put in place in other major jurisdictions to meet Basel III standards on CVA.

Life Insurance Companies

In November 2013, OSFI released an update to the Life Insurance Regulatory Framework, which provides life insurance companies and industry stakeholders with an overview of regulatory initiatives that OSFI will be focusing on over the period ending 2018. It outlines how the regulatory framework will evolve to ensure Canadians continue to benefit from a strong life insurance industry.

During 2013-2014, OSFI continued to consult stakeholders in the life insurance industry. OSFI undertook its annual update of the Minimum Continuing Capital and Surplus Requirements (MCCSR) Guideline during 2013, with the revised version coming into effect for the 2014 fiscal year. With stakeholder input considered, the guideline was updated to clarify certain elements and/or to make the guidance more risk-based. A fifth Quantitative Impact Study (QIS) was issued in October 2013 to gather information related to potential methods for determining the capital requirements for key risks. Industry submissions were received in early 2014 and the results are being analyzed.

Property and Casualty Insurance Companies

During 2013-2014, OSFI continued developing a new capital framework for its standardized Minimum Capital

Test (MCT) approach in consultation with the property and casualty (P&C) insurance industry. OSFI issued a discussion paper in May 2013 outlining intended modifications to its capital framework, as well as a QIS to assess the impact of the proposed changes. Based on comments provided by various stakeholders, OSFI made some adjustments to the proposed capital framework and a draft MCT guideline was issued in December 2013 for further public consultation. This initiative is in keeping with OSFI's long-term plan and priorities to ensure the MCT remains a sensitive and forward-looking risk management tool.

The P&C MCT Advisory Committee continued to develop a framework for the use of company-specific models to determine capital requirements for P&C insurance companies.

OTHER GUIDANCE

Own Risk and Solvency Assessment Guideline

In order to strengthen the insurance industry's enterprise-wide risk management process, in November 2013, after public consultation, OSFI issued its final guidelines for federally regulated life insurers and property and casualty insurers: Guideline E-19: Own Risk and Solvency Assessment (ORSA) and Guideline A-4: Regulatory Capital and Internal Capital Targets.

These two guidelines require insurers to conduct a comprehensive forward-looking internal assessment that includes identifying material risks, assessing the adequacy of their risk management and determining current and likely future solvency positions. These assessments are to be done in a manner proportionate to the nature, scale and complexity of the insurers' own business and risk profile. These guidelines assist insurers in self-assessing the adequacy of the insurers' internal capital position and if it is likely to remain so in the future.

Mortgage Insurance Underwriting

OSFI issued Guideline B-20 on Residential Mortgage Underwriting Practices and Procedures in June 2012. Following release of the guideline, OSFI indicated that it would follow up with a separate guideline on mortgage insurance underwriting. During 2013-2014, OSFI developed the underwriting guideline, B-21, with a draft for comment issued in April 2014 and the final version anticipated in the fall of 2014.

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Anti-Money Laundering (AML) and Anti-Terrorism Financing (ATF)

At the international level, work on strengthening the financial system against money laundering and terrorism financing is led by the Financial Action Task Force (FATF). During 2013-2014, OSFI contributed its AML/ATF supervisory experience to the development of FATF guidance on money laundering/terrorist financing risks and risk management. As a member of the Basel Committee on Banking Supervision's AML Experts Group, OSFI participated in updating and publishing guidance on AML/ATF risk management.

OSFI is also a member of the Public/Private Sector Advisory Committee (PPSAC), established by the Department of Finance for ongoing discussions with the private sector on Canada's AML/ATF regime. During the year, OSFI made a presentation on its approach to ML/TF risk management for the benefit of the PPSAC.

During 2013-2014, OSFI continued its AML/ATF supervisory assessment program and regular follow-up work at a wide variety of large and small financial institutions. As AML/ATF programs have become more mature, we have responded with a greater emphasis on monitoring improvements to FRFIs' AML/ATF controls. We identified issues related to financial institutions' ability to identify high risk customers, apply enhanced scrutiny to them and their activities, and provide effective auditing of their programs. OSFI further intensified its processes relating to the review of AML/ATF risk assessments and procedures required of those applying to establish new FRFIs.

OSFI continued to share AML/ATF supervisory findings with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) as authorized under the OSFI Act. During 2013-2014, OSFI and FINTRAC successfully rolled out their concurrent examination methodology, designed to streamline processes and reduce the supervisory burden on FRFIs.

Via its website, OSFI maintained its role as lead communicator in helping to ensure that the Canadian financial sector is promptly notified of sanctions imposed by the United Nations Security Council and the Government of Canada on designated individuals and organizations. OSFI is participating in inter-departmental discussions aimed at streamlining the publication process and making it easier for the financial sector to obtain information quickly on sanctioned entities and individuals.

INTERNATIONAL ACTIVITIES

International organizations play a key role in the development of regulatory frameworks for banks and insurers and OSFI is an active participant in a number of these groups.

Financial Stability Board

The Financial Stability Board (FSB) was established in April 2009 to coordinate, at the international level, the work of national financial authorities and international standard setting bodies. It develops and promotes the implementation of effective regulatory, supervisory and other financial sector policies.

Canadian representation on the FSB is shared by the Department of Finance, the Bank of Canada and OSFI. During 2013-2014, OSFI continued its involvement with the FSB through membership on the FSB Plenary, Steering Committee, Standing Committee on Supervisory and Regulatory Cooperation, and Regional Consultative Group for the Americas. OSFI Superintendent Julie Dickson chaired the Supervisory Intensity and Effectiveness group, which continues to conduct significant work in relation to the supervision of systemically important financial institutions.

Some of the work in which OSFI and its Canadian partners participated during 2013-2014 included:

- actions to strengthen the intensity and effectiveness of the supervision of systemically important financial institutions
- actions to strengthen oversight and regulation of shadow banking
- work to implement the G20 financial sector reforms, including in the areas of resolution regimes and over-the-counter derivatives

Basel Committee on Banking Supervision

OSFI is an active member of the Basel Committee on Banking Supervision (BCBS), which provides a forum for international rule making and cooperation on banking supervisory matters.

The BCBS provides regular updates on the progress of member countries in implementing Basel standards. OSFI has actively supported the international work done to determine whether internationally active banks are calculating the risk-weighted assets portion of minimum capital ratio standards in a consistent manner.

In 2013-2014, OSFI participated in quantitative impact studies and multiple work streams on: liquidity, additional capital adequacy reforms, a fundamental review of capital rules for trading book activities and the design of appropriate limits on concentrated credit exposures to single customers.

OSFI also strengthened relationships with foreign supervisors during 2013-2014 by participating in the Regulatory Consistency Assessment Programme (RCAP) of Australia, Switzerland and Singapore. The RCAP brings together teams drawn from the Basel Committee countries to review national implementation of Basel minimum prudential standards, starting with the standard for minimum capital. A Canada RCAP assessment took place in late 2013 (results to be published by BCBS in June 2014), and OSFI is leading an EU-RCAP currently underway. In addition to these efforts, OSFI took a leadership role in benchmarking studies to gauge consistency across jurisdictions for the treatment of risk-weighted assets in the determination of capital ratios of global banks. This work is being conducted with the goal of achieving more consistent implementation of international risk-based capital standards.

International Accounting and Auditing Standards

Since all FRFIs in Canada are required to follow International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA), OSFI interprets and assesses international rules that may apply to Canadian financial institutions. OSFI works with the International Accounting Standards Board (IASB) and International Auditing and Assurance Standards Board (IAASB) through active participation and leadership in the Accounting Experts Group of the BCBS and the Accounting and Auditing Issues Subcommittee of the International Association of Insurance Supervisors (IAIS). In 2013-2014, OSFI worked through the BCBS and the IAIS to provide its positions on:

- IASB revised Exposure Draft: Insurance Contracts
- IASB Discussion Paper: A Review of the Conceptual Framework for Financial Reporting
- IASB Exposure Draft: Financial Instruments: Expected Credit Losses
- IAASB Exposure Draft: Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing

In addition, OSFI contributed to finalization of the BCBS guidance entitled External Audit of Banks, which sets out supervisory expectations regarding audit quality and how it relates to the external auditor's work in a bank.

Active participation in the development of these standards promotes a set of high-quality global standards and enhances our understanding of key IFRS and ISA that impact FRFIs. Significant changes to accounting standards require early involvement and close consultation and communication with standard setters, other regulators, and both international and domestic firms. OSFI collaborates closely with all stakeholders as key accounting and auditing standards are developed.

International Association of Insurance Supervisors

OSFI participates in the work of the International Association of Insurance Supervisors (IAIS), which represents the insurance regulators and supervisors of approximately 140 countries. IAIS objectives are to contribute to the improved supervision of the insurance industry for the protection of policyholders worldwide, to promote the development of well-regulated insurance markets and to contribute to global financial stability.

OSFI is a member of the IAIS Executive, Technical and Financial Stability Committees, the Supervisory Forum and several subcommittees. The IAIS has been working on the development of a solvency and supervisory common framework for internationally active insurance groups (ComFrame) since 2010. OSFI has been engaged in the development of ComFrame through membership on the Solvency and Insurance Groups Subcommittees. In October 2013, the IAIS announced plans to develop a risk-based global insurance capital standard by 2016 with full implementation to begin in 2019. The IAIS will also develop a basic capital requirement to be ready for implementation by global systemically important insurers (G-SIIs) in late 2014. By joining both the High Loss Absorbency Drafting Group and the Field Testing Task Force, OSFI is playing a key role in the development of these very important projects.

As a member of the Financial Stability Committee, OSFI is participating in the development of a methodology to assess which, if any, reinsurance companies may be global systemically important insurance institutions and the supervisory measures that would apply to those so identified. This IAIS initiative will extend through 2014.

Through membership on the Accounting and Auditing Issues Subcommittee, OSFI continues to monitor key developments and contribute to international policy work on issues of main concern to OSFI such as the IASB's key insurance project: IFRS 4 Insurance Contracts (Phase II).

Joint Forum

The Joint Forum, established in 1996 by the BCBS, the IAIS and the International Organization of Securities Commissions (IOSCO), works to achieve consistency of supervisory approaches to issues of common interest across financial sectors and national borders.

In 2013-2014, the Joint Forum was engaged in a number of reviews flowing from the financial sector reforms agenda of the G20, which includes strengthening the global financial system through more effective oversight and supervision. OSFI was involved in the development of the following reports:

- Point of sale disclosure in the insurance, banking and securities sectors – This consultative draft report (August 2013) identifies and assesses differences and gaps in regulatory approaches to point of sale (POS) disclosure for investment and savings products across the financial sectors.

- *Mortgage insurance: market structure, underwriting cycle and policy implications* – This final report (August 2013) examines the interaction of mortgage insurers with mortgage originators and underwriters, and makes a set of recommendations directed at policymakers and supervisors.

- *Longevity risk transfer markets: market structure, growth drivers and impediments, and potential risks* – This final report (December 2013) focuses attention on the risks and issues related to emerging longevity risk transfer markets so that global policymakers and supervisors can remain ahead of the curve as these markets continue to grow.

OSFI also maintained its involvement with a number of other international groups, including the Integrated Financial Supervisors and the Association of Supervisors of Banks of the Americas.

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Approvals and Precedents

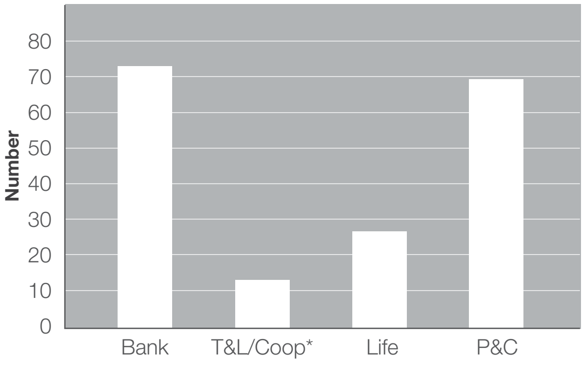
The *Bank Act*, *Trust and Loan Companies Act, Insurance Companies Act,* and *Cooperative Credit Associations Act* sometimes require federally regulated financial institutions (FRFIs) to seek regulatory approval from the Superintendent of Financial Institutions or the Minister of Finance (after receiving the recommendation of the Superintendent), prior to engaging in certain transactions or business undertakings.

Regulatory approvals are also required by persons wishing to incorporate a FRFI, and by foreign banks or foreign insurance companies wishing to establish a presence or to make certain investments in Canada. OSFI administers a regulatory approval process that is prudentially effective, responsive and transparent. OSFI's Approvals team ensures that recommendations made to the Superintendent and to the Minister follow the requirements set out in the statutes.

In 2013-2014, OSFI processed 199 applications of which 183 were approved (individual applications often contain multiple approval requests). The 183 approved applications involved a total of 406 approvals, 290 of which were granted by the Superintendent and 116 by the Minister. This represents a decrease in completed applications over the previous year, when 214 applications involving 462 approvals were processed. Most applications for 2013-2014 related to banks (40%) and property and casualty insurers (38%). *(See figure 1)*

FIGURE 1

Approved Applications by Industry 2013-2014



*Trust and Loan/Cooperative Associations

In 2013-2014, OSFI processed 199 applications of which 183 were approved, involving 406 approvals, and 16 were withdrawn.

The most common applications received from deposit-taking institutions related to purchases or redemptions of shares or debentures, asset transactions in excess of 10% and substantial investments. Applications received from insurance companies related mainly to reinsurance with related unregistered reinsurers, amendments to orders to insure in Canada risks, and non-cash consideration for shares.

During 2013-2014, letters patent were granted incorporating Rogers Bank and Red Brick Bank as domestic banks, and continuing two federal companies as banks: The Equitable Trust Company and Continental Currency Exchange Corporation. In addition, orders authorizing the establishment of a foreign bank branch in Canada were issued to The Royal Bank of Scotland plc, BNP Paribas and China Construction Bank, and orders authorizing the establishment of a foreign insurance branch in Canada were issued to AXA Art Insurance Corporation, Ironshore Insurance Ltd., Starr Insurance & Reinsurance Limited, and British Insurance Company of Cayman.

Upon request, OSFI also provides advance capital confirmations on the eligibility of proposed capital instruments. A total of seven such opinions and validations were provided in 2013-2014, compared to 17 the previous year.

GUIDANCE AND EDUCATION

In keeping with the objective of enhancing the transparency of OSFI's legislative approval process and promoting a better understanding of our interpretation of the federal financial institution statutes, OSFI develops and publishes legislative guidance including advisories, rulings, and transaction instructions. In 2013-2014, OSFI published revised versions of the following transaction instructions:

- Reinsurance with an Unregistered Related Reinsurer
- Guide for Incorporating Banks and Federally Regulated Trust and Loan Companies
- Guide for Incorporating Federally Regulated Insurance Companies
- Establishment of an Insurance Branch
- Acquisition of Control of, or a Significant Interest in, a FRFI

- Substantial Investments Requiring Superintendent Approval - Permitted Entities
- Substantial Investments Requiring Ministerial Approval - Permitted Entities
- Asset Transactions Greater than 10% of Assets

OSFI has performance standards establishing time frames for processing applications for regulatory approval and for other services, all of which were surpassed during 2013-2014. More information on service performance standards can be found on OSFI's website.

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Approvals and Precedents
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FEDERALLY REGULATED PRIVATE PENSION PLANS

OSFI supervises federally regulated private pension plans and intervenes in a timely manner to protect members and beneficiaries of such pension plans from loss, while recognizing that plan administrators are ultimately responsible and that funding difficulties can result in a loss of benefits.

Approximately 6% of private pension plans in Canada are federally regulated (Statistics Canada data as at January 2012). As at March 31, 2014, 1,234 private pension plans were registered under the *Pension Benefits Standards Act*, *1985* (PBSA), covering over 639,000 employees in federally regulated areas of employment, such as banking, inter-provincial transportation and telecommunications. Between April 1, 2013 and March 31, 2014, federally regulated private pension plan assets increased by 10%, to a value of approximately $171 billion *(see figure 2)*.

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FIGURE 2

Federally Regulated Private Pension Plans by Type (last 4 years)*

	2011	2012	2013	2014
Total Plans	**1,396**	**1,354**	**1,234**	**1,234**
Defined Benefit	360	358	347	335
Combination	95	94	100	111
Defined Contribution	941	902	787	788
Total Membership	**647,000**	**646,000**	**639,000**	**639,000**
Defined Benefit	376,000	378,000	358,000	353,000
Combination	146,000	144,000	154,000	162,000
Defined Contribution	125,000	124,000	127,000	124,000
Total Other Beneficiaries	**-**	**-**	**420,000**	**430,000**
Defined Benefit	-	-	265,000	268,000
Combination	-	-	142,000	147,000
Defined Contribution	-	-	13,000	15,000
Total Assets	**$132 billion**	**$142 billion**	**$155 billion**	**$171 billion**
Defined Benefit	$93 billion	$102 billion	$104 billion	$112 billion
Combination	$34 billion	$35 billion	$46 billion	$54 billion
Defined Contribution	$5 billion	$5 billion	$5 billion	$5 billion

* as at March 31st

As at March 31, 2014, there were 1,234 private pension plans registered under the *Pension Benefits Standards Act, 1985*, covering over 639,000 employees. Total Other Beneficiaries data is available only as of 2013. The drop from 1,354 plans in 2012 to 1,234 plans in 2013 was largely due to a Supreme Court of Canada decision that affected the jurisdiction of 110 First Nations pension plans.

PRIVATE PENSION ENVIRONMENT

During 2013, federally regulated private pension plans benefited from strong equity market returns and higher discount rates used to value plan liabilities. These positive factors, combined with special payments made by employers during the year, contributed to a significant improvement in the solvency positions of defined benefit plans in 2013. Although funding pressures are expected to ease for most federally regulated private pension plans in 2014, the effect will be moderated by the fact that minimum required solvency special payments are based on solvency ratios averaged over three years in order to reduce funding volatility.

In recent years some employers have closed their defined benefit plans to new members, ceased further benefit accruals for existing members, and offered defined contribution arrangements instead. This trend appears likely to continue, with defined contribution arrangements becoming an increasingly important part of the private pension plan environment.

RISK ASSESSMENT, SUPERVISION AND INTERVENTION

In 2013-2014, as the financial position of pension plans improved, OSFI focused its pension plan supervision activities on general risk management, including plan governance. In accordance with its risk assessment framework, OSFI monitored pension plan asset management and encouraged plan administrators to implement good governance practices, such as documenting administrative processes, key actions and decisions.

Approximately 47% of federally regulated private pension plan assets are invested in equity, 40% in debt instruments and 13% in diversified and other assets. Equities produced strong returns last year, compensating for the negative results on debt instruments. Investment returns for federally regulated private pension plans were 12% in 2013 compared to 9% in 2012.

Risk Assessment

OSFI's risk assessment system analyses information from pension plan filings and other sources and generates key risk indicators for each pension plan registered with OSFI, thereby enabling early identification of issues. Additionally, OSFI conducts in-depth risk assessment reviews of plans identified as higher risk.

As plans offering capital accumulation provisions are maturing and growing in number and size, OSFI has undertaken a review to ensure that it has adequate early warning signals in place regarding risks for these plans.

Solvency Testing

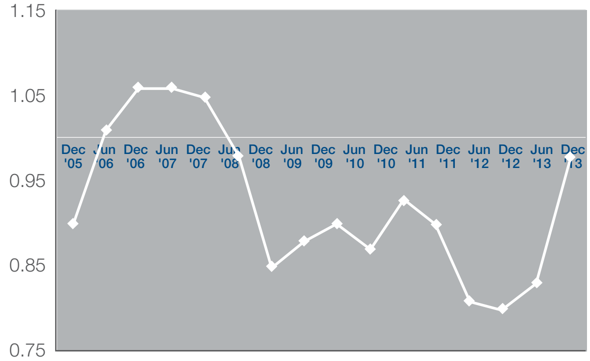
OSFI typically runs a test on a semi-annual basis to estimate solvency ratios (ratio of assets over liabilities on a plan termination basis) for the defined benefit pension plans it regulates. This test provides OSFI with important information that enables earlier intervention in higher-risk pension plans. At December 31, 2013, the average estimated solvency ratio (ESR) for all plans was 0.98, up from 0.83 at year-end 2012 *(see figure 3)*. ESRs calculated by OSFI at year-end 2013 showed that approximately 61% of all defined benefit plans supervised by OSFI were underfunded (down from 90% in 2012), meaning their estimated liabilities exceeded assets, on a plan termination basis.

On-Site Examinations

As part of its risk-based supervisory approach, OSFI conducts on-site examinations of selected pension plans to gather additional information and better assess the plan's quality of risk management. During 2013-2014, OSFI performed 15 on-site examinations, which were focused on plan administration, including governance, asset management, and communication to members. Certain plans considered more mature (i.e. that have a larger proportion of retirees compared to active membership) were selected for examination to review issues including pension fund asset mix allocation and retiree audit processes.

FIGURE 3

Defined Benefit Plans' Estimated Solvency Ratio (ESR) Distribution (past 8 years)



The average ESR increased from 0.83 to 0.98 since year-end 2012.

Watch List

Pension plans facing higher risk due to their financial condition, plan management or for other reasons are placed on a watch list and closely monitored. The number of watch list plans at March 31, 2014 decreased to 92 from 128 at March 31, 2013. Of the 92 plans, 80 were defined benefit plans and 12 were defined contribution plans. During the course of 2013-2014, 14 new plans were added to the watch list and 50 were removed. Although the estimated solvency ratio (ESR) as at December 31, 2013 has improved substantially compared to the ESR as at December 31, 2012, the watch list will decrease as a result of improved solvency positions only when solvency improvements are confirmed by filed valuation reports.

Intervention

OSFI strives to protect members' benefits through cooperation with plan administrators and employers before exercising its powers to enforce legislative requirements. In 2013-2014, OSFI interventions with respect to high-risk pension plans included issuing a direction of compliance requiring an employer to remit outstanding contributions and, in another case, restricting portability of benefits in order to stop the impairment of a pension fund.

RULES AND GUIDANCE

Pooled Registered Pension Plans (PRPPs)

The federal *Pooled Registered Pension Plan Act* and its associated regulations came into force on December 14,

2012. OSFI's responsibilities with respect to this new type of pension plan include licensing PRPP administrators, registering PRPPs and providing ongoing supervision.

Pension Industry Outreach

In March 2014, OSFI joined the Canada Revenue Agency in presenting a joint web conference or "webinar" on PRPPs, focusing on the requirements and procedures for registering a PRPP with OSFI and with the Canada Revenue Agency.

In order to reach a greater number of stakeholders across the country, OSFI is hosting webinars in 2014 to communicate recent developments affecting federal pension plans it regulates, as well as OSFI's expectations, to plan administrators, advisors and other stakeholders. These replace the annual industry forum.

Guidance

In keeping with the objectives of promoting prudent practices and a transparent regulatory framework, OSFI regularly provides guidance to plan administrators on legislative requirements and OSFI's expectations. In August 2013, OSFI issued a Draft Policy Advisory on Longevity Swaps and Longevity Insurance for comment. The draft Advisory provides guidance to federally regulated defined benefit pension plans that are considering entering this type of contract as a means of hedging longevity risk. The Advisory is expected to be issued in final form in 2014. Additionally, OSFI released a revised Instruction Guide for the Preparation of Actuarial Reports for Defined Benefit Pension Plans in March 2014. Key updates in this latest version of the Instruction Guide cover recent changes to the Canadian Institute of Actuaries Standards of Practice and OSFI's position regarding alternative settlement methods for solvency valuations.

InfoPensions

OSFI published its bi-annual newsletter *InfoPensions* in May and November 2013. This newsletter includes announcements, policy interpretations and reminders on issues relevant to federally regulated private pension plans and their stakeholders. Based on the results of a survey of *InfoPensions* readers in 2012, OSFI took steps in 2013 to increase stakeholders' awareness of the newsletter and to improve its usefulness to readers. These included an updated format, improved visibility on the OSFI website, and the solicitation of ongoing feedback and topic suggestions from plan administrators.

APPROVALS

Federally regulated private pension plans are required to seek approval from the Superintendent for several different types of transactions, including plan registrations and terminations, asset transfers between registered defined benefit pension plans, refunds of surplus, and reductions of accrued benefits. During 2013-2014, the number of transactions requiring the Superintendent's approval increased considerably due in large part to an increase in the number of requests to reduce accrued benefits. OSFI processed 104 applications for approval and received 89 new requests, compared to 55 processed applications and 77 new requests in 2012-2013. Thirty-one new plans were registered with OSFI in 2013-2014 (12 defined benefit plans and 19 defined contribution plans), while 21 plans applied for plan termination (9 defined benefit plans and 12 defined contribution plans).

In addition to the approvals noted above, OSFI is responsible for reviewing applications from, issuing licences to, and registering PRPPs for administrators under the *Pooled Registered Pension Plans Act*. In 2013-2014, OSFI issued five PRPP licences; no PRPPs were registered. A corporation must hold a licence to be a PRPP administrator and must register a PRPP before it can enter into a contract with any persons to provide a PRPP.

FIGURE 4
Asset Breakdown* of Pension Plans Regulated by OSFI

($ millions)	2012		2013	
Cash	**$1,159**	**0.8%**	**$1,266**	**0.7%**
Debt Securities				
Short Term Notes, Other Term Deposits	4,812	3.1%	5,676	3.3%
Government Bonds	39,617	25.5%	36,681	21.4%
Corporate Bonds	12,010	7.8%	12,606	7.4%
Mutual Funds - Bonds, Cash Equivalent & Mortgage	10,530	6.8%	11,883	6.9%
Mortgage Loans	627	0.4%	780	0.5%
General Fund of an Insurer	172	0.1%	195	0.1%
Total Debt Securities	**67,768**	**43.7%**	**67,821**	**39.6%**
Equity				
Shares in Investment, Real Estate or Resource Corporation	4,422	2.9%	4,275	2.5%
Common and Preferred Shares	45,825	29.5%	52,710	30.8%
Stock Mutual Funds	16,496	10.6%	19,825	11.5%
Real Estate Mutual Funds	1,103	0.7%	1,504	0.9%
Real Estate	2,647	1.7%	2,922	1.7%
Total Equity	**70,493**	**45.4%**	**81,236**	**47.4%**
Diversified and Other Investments				
Balanced Mutual Funds	6,220	4.0%	5,938	3.5%
Segregated Funds	2,702	1.7%	2,825	1.7%
Hedge Funds	2,301	1.5%	4,879	2.9%
Private Equity	776	0.5%	1,272	0.7%
Infrastructure	1,855	1.2%	2,059	1.2%
Miscellaneous Investments	5,243	3.4%	6,528	3.8%
Total Diversified and Other Investments	**19,097**	**12.3%**	**23,501**	**13.8%**
Other Accounts Receivables (net of liabilities)	**(3,372)**	**-2.2%**	**(2,575)**	**-1.5%**
TOTAL NET ASSETS	**155,145**	**100.0%**	**171,249**	**100.00%**

* Represents asset distribution as reported in the financial statements of pension plans during respective years.

OFFICE OF THE CHIEF ACTUARY

Jean-Claude Ménard
Chief Actuary

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

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

The OCA was established within OSFI as an independent unit. The Chief Actuary reports to the Superintendent; however, the accountability framework of the OCA makes it clear that the Chief Actuary is solely responsible for content and actuarial opinions in reports prepared by the OCA.

TABLING OF THE 26TH ACTUARIAL REPORT ON THE CANADA PENSION PLAN

The OCA is required by law to produce an actuarial report on the CPP every three years. The 26th Actuarial Report on the CPP as at December 31, 2012 was tabled before Parliament on December 3, 2013. This triennial report projects CPP revenues and expenditures over a 75-year period in order to assess the future impact of historical and projected demographic and economic trends.

The CPP provides protection to millions of Canadian workers and their families against the loss of income due to retirement, disability and death. In 2013, more than six and a half million Canadians received CPP benefits, with a total value of approximately $38 billion. Canadians want to feel confident that the CPP will be able to meet their needs in future years, and the actuarial report provides them with the most recent information on the financial status of the Plan.

The report finds that under the 9.9% legislated contribution rate, assets are projected to increase significantly over the next decade as contribution revenue is expected to exceed expenditures over that period. Assets will continue to grow thereafter until the end of the projection period, but at a slower pace, reaching a level of six years of annual Plan expenditures by 2050. Thus, despite the projected substantial increase in benefits paid as a result of an aging population, the CPP is expected to be able to meet its obligations throughout the projection period and remain financially sustainable over the long term, with assets projected to accumulate to $300 billion by the end of 2020. However, the report cautioned that if life expectancies continue to increase at the current rate, especially for ages 75 to 89, it could put additional pressure on the minimum contribution rate causing the rate to increase above 9.9%.

EXTERNAL PEER REVIEW OF THE 26TH CPP ACTUARIAL REPORT

The OCA commissioned an external peer review of the 26th CPP Actuarial Report. First introduced in 1999, external peer review of OCA actuarial reports on the CPP by an independent panel of reviewers is intended to ensure that the actuarial reports meet high professional standards and are based on reasonable assumptions in order to provide sound actuarial advice to Canadians.

The independent panel's findings confirm that the work performed by the OCA on the 26th CPP Actuarial Report meets all professional standards of practice and statutory requirements, and that the assumptions and methods used are reasonable. The panel also stated that the report fairly communicates the results of the work performed by the Chief Actuary and his staff.

The Canadian Institute of Actuaries standard on assumptions requires that the assumptions, individually and in the aggregate, should be appropriate. The panel has concluded that the assumptions adopted for the 26th CPP Actuarial Report are reasonable, both individually and in the aggregate, and are therefore appropriate.

The external peer review of the 26th CPP Actuarial Report is public, as were previous peer reviews of the CPP Actuarial Reports, and is available on the OSFI website under Office of the Chief Actuary.

PUBLIC SECTOR INSURANCE AND PENSION PLANS

In 2013-2014, the OCA completed four actuarial reports with respect to the public sector insurance and pension plans. These reports were submitted to the President of the Treasury Board for tabling before Parliament. The Actuarial Report on the Pension Plan for the RCMP as at March 31, 2012 was tabled on October 16, 2013, the Actuarial Report on the Benefit Plan financed through the RCMP (dependents) Pension Fund as at March 31, 2013 was tabled on January 22, 2014, and the Actuarial Report on the Pension Plan for the Federally Appointed Judges as at March 31, 2013 was tabled on March 27, 2014. These reports provide actuarial information to decision makers, Parliamentarians and the public, thereby increasing transparency and confidence in Canada's retirement income system.

The *Pension Reform Act* amended the *Members of Parliament Retiring Allowances Act* so that, by no later than January 1, 2017, the total amount of contributions to be paid by members will represent 50% of the current service cost. In addition, for service after January 1, 2016, the age at which a pension may be paid without a reduction is raised from age 55 to age 65. This Act received Royal Assent on November 1, 2012. To reflect the amendments brought forward by the Pension Reform Act, the OCA prepared an actuarial report updating the Actuarial Report on the Pension Plan for Members of Parliament. The report was tabled before Parliament on May 31, 2013.

ACTUARIAL REPORT ON THE EMPLOYMENT INSURANCE PREMIUM RATE

In 2013-2014, the OCA presented to the Canada Employment Insurance Commission the 2014 Actuarial Report on the Employment Insurance Premium Rate that was tabled before Parliament on October 28, 2013. This report provides the forecast break-even premium rate for the upcoming year and a detailed analysis in support of this forecast.

SPECIAL EVENTS, PRESENTATIONS AND SPECIAL STUDIES

Demographic changes such as increasing longevity, as well as uncertain future economic conditions, affect the sustainability of pension systems around the world. Throughout the year, Chief Actuary Jean-Claude Ménard delivered presentations addressing these topics to a range of audiences including the British Columbia Public Pension Conference, the Society of Actuaries Living to 100 International Symposium, the Board of Directors of the Canada Pension Plan Investment Board, and the International Social Security Association World Social Security Forum. Further, on June 18, 2013, the Chief Actuary appeared before the House of Commons Standing Committee on Government Operations and Estimates in regard to Review of Statutory Programs – Public Service Pension Plan.

For a complete list of meetings, presentations and speeches, see OSFI's website under Office of the Chief Actuary.

CORPORATE SERVICES

ENHANCING COMMUNICATIONS

During 2013-2014, OSFI launched its redesigned website at osfi-bsif.gc.ca. Prior to commencing work on the new site, OSFI consulted a wide selection of visitors about their needs and perceptions of our website. Subsequently, changes were made to address the stated needs of these website users and to present information in a more intuitive manner.

Information on the website is now grouped by industry segment, with the most frequently accessed information easily reached through quick links on the front page. This new iteration of the OSFI website is also accessible to those with disabilities who may require the use of special 'readers' in order to access content.

After launch of the new site, OSFI website subscribers were surveyed for their initial impressions, and feedback has been overwhelmingly positive.

RENEWING TECHNOLOGY AND SYSTEMS

2013-2014 was the fourth year of a five-year Information Technology Renewal program. By the end of the fiscal year, a number of significant systems were renewed and are now in use. These include: OSFI's new website, which enabled improved information search, navigation and web accessibility; and, a new Regulatory Returns System and upgraded Business Intelligence (BI) toolset that improved OSFI's ability to analyze and report on regulatory filings from deposit-taking institutions.

MANAGING HUMAN RESOURCES CHALLENGES

To achieve its strategic outcomes, OSFI's priority is to have a high-performing and effective workforce.

In 2013-2014, ongoing risks posed by the current environment, both at the level of the economy and within the financial sector, as well as internal factors, continued to have an impact on how we do our work. To mitigate these risks, a number of priorities were identified through the HR planning process and the following actions were taken to address gaps:

- Implemented a new business model for delivery of HR services, supported by an upgraded HR system
- Updated and/or developed new HR policies and guidelines to provide appropriate guidance to managers and employees and support a consistent application across the organization
- Facilitated organization changes in the Supervision Sector for teams responsible for managing domestic systemically important banks
- Completed succession plans for critical positions in the event of retirements and took actions to address gaps

- Focused on employee engagement by conducting bi-annual employee survey
- Provided learning and development opportunities for staff across the organization based on individual learning plans in support of sector business plans
- Implemented a case management approach for dealing with complex disability and sick leave cases on a timely basis

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FINANCIAL REVIEW AND HIGHLIGHTS

OSFI recovers its costs from several revenue sources. OSFI is funded mainly through asset-based, premium-based or membership-based assessments on the financial institutions and private pension plans that it regulates and supervises, and a user-pay program for legislative approvals and other selected services.

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

Staged institutions are assessed a surcharge on their base assessment, approximating the extra supervision resources required. As a result, well-managed, lower-risk institutions bear a smaller share of OSFI's costs.

OSFI also receives revenues for cost-recovered services. These include revenues from provinces for which OSFI provides supervision of their institutions on contract, federal Crown corporations such as the Canada Mortgage and Housing Corporation (CMHC) which OSFI supervises under the *National Housing Act*, and revenues from other federal organizations to which OSFI provides administrative services.

OSFI collects Administrative Monetary Penalties from financial institutions when they contravene a provision of a financial institutions Act and are charged in accordance with the Administrative Monetary Penalties (OSFI) Regulations. These penalties are 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 (OCA) is funded by fees charged for actuarial valuation and advisory services relating to the Canada Pension Plan, the Old Age Security program, the Canada Student Loans Program and various public sector pension and insurance plans, and by a parliamentary appropriation.

Overall, OSFI fully recovered all its costs for the fiscal year 2013-2014.

OSFI's total costs were $141.9 million, a $14.1 million, or 11.1%, increase from the previous year. Human resources costs, the main driver of OSFI's expenses, rose by $12.4 million, or 12.9%. This was a result of: a $3.0 million reversal of a pay equity liability in 2012-2013, staffing vacant positions across all sectors; the full year impact of the previous year's incremental new hires; planned growth in employee compensation in accordance with collective agreements and performance-related pay, which is available to employees at all levels within the organization. During 2012-2013 OSFI settled a pay equity claim dating from 1987 to 1997 that was previously provisioned for. As a result of the settlement, an amount of $3.0 million was reversed and recognized as a reduction in Human Resources Expenses in 2012-2103.

OSFI's average number of full-time equivalent employees in 2013-2014 was 666, a 4.7% increase from the previous year. OSFI ended the year with an actual head count of 697, a 5.6% increase from its head count of 660 as at March 31, 2013. OSFI added resources to supervise the CMHC, address issues related to domestic systematically important banks (D-SIBs) and further strengthen its skillsets in specialized areas such as economic research, credit risk and capital analysis and enhance its ability to guide and supervise federally regulated financial institutions in managing risks. OSFI also enhanced its specialization in the property and casualty and life insurance industries to support more sophisticated risk-sensitive capital rules and to fulfill international commitments.

FEDERALLY REGULATED FINANCIAL INSTITUTIONS

Revenues

Total revenues from federally regulated financial institutions were $127.0 million, an increase of $13.1 million, or 11.5%, from the previous year. Base assessments on financial institutions, which are recorded at an amount necessary to balance revenue and expenses after all other sources of revenue are taken into account, increased by $11.8 million, or 11.0%, from the previous year.

Revenues from cost recovered services increased by $1.6 million, or 64.6%, from the previous year as a result of OSFI's supervision of CMHC.

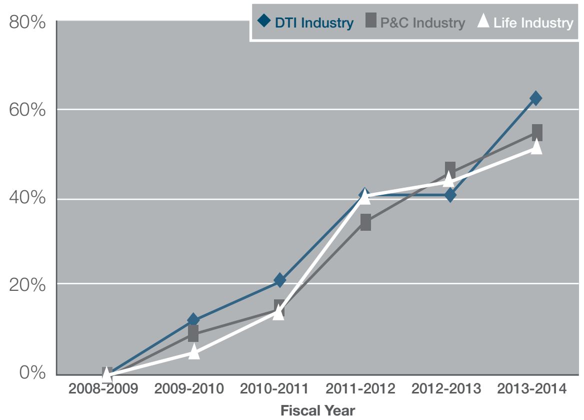
Costs

Total costs were $127.0 million, an increase of $13.1 million, or 11.5%, from the previous year. The increase is due to the aforementioned growth in human resources costs.

Base Assessments by Industry

Base assessments are differentiated to reflect the share of OSFI's costs allocated to each industry group (base assessments are the costs allocated to an industry, less user fees and charges and cost-recovered services revenues). The chart below compares the cumulative growth of base assessments by industry group over the past five years, using 2008-2009 as the base year.

Base Assessments by Industry
Cumulative Growth Rates from Fiscal Year 2009



The increase in base assessments on the deposit-taking institutions (DTI) industry during 2009-2010 was largely due to: growth in supervisory staff and the hiring of employees with current industry experience in credit, market and operational risks in order to focus more effort on higher risk institutions and products; the early detection of problem loan portfolios; and, meeting the increasing number, frequency and intensity of international commitments. In 2010-2011 and 2011-2012, increased assessments were driven by growth in our complement of specialized skills in research, credit risk and capital to enhance OSFI's ability to guide and supervise federally regulated financial institutions in managing risks. While base assessments stabilized in 2012-2013, they increased in 2013-2014 as a result of work related to D-SIBs.

The increase in assessments on the property and casualty (P&C) insurance industry in 2009-2010 reflects OSFI's greater focus on this sector due to weakening industry and market conditions, identification of emerging risks, focus on the IFRS implications for this industry, and its efforts on the Minimum Capital Test (MCT). The increase in 2010-2011 through 2013-2014 reflects OSFI's continued efforts to enhance its specialization in the P&C industry, support more sophisticated risk-sensitive capital rules and to fulfill international commitments.

The increase in assessments on the life insurance industry during 2009-2010 is attributed to the industry's share of incremental OSFI resources to address economic and market conditions and emerging risks. The increase in 2010-2011 through 2013-2014 reflects the addition of staff with specific expertise in life insurance, OSFI's efforts on developing a new framework for the standardized Minimum Continuing Capital and Surplus Requirements (MCCSR) approach, and its continuing focus on reviewing and revising the framework used to determine the capital requirements for segregated fund guarantee products.

In addition to these industry-specific cost drivers, other generic factors caused increases in base assessments on all industries: OSFI's development and implementation of an Information Management/Information Technology (IM/IT) strategy and renewal program from 2010-2011 to 2013-2014 contributed to overall growth in expenditures and assessments; and, slight decreases during 2010-2011 and 2011-2012 in the number of staged institutions across all industries, and hence in surcharge assessments. This in turn had the effect of increasing base assessments. In 2012-2013, there was a further decrease in the number of staged institutions; however, surcharge assessments increased slightly as a result of changes to the mix of staged institutions.

FEDERALLY REGULATED PRIVATE PENSION PLANS

Assessments

OSFI's costs for regulating and supervising private pension plans are recovered from an annual assessment charged to plans, based on the number of plan beneficiaries. Plans are assessed a fee upon applying for registration under the *Pension Benefits Standards Act, 1985* (PBSA) and annually on the due date of their annual information return.

The assessment rate is established based on OSFI's estimate of current year costs to supervise these plans, adjusted for any excess or shortfall of assessments in the preceding years. The estimate is then divided by the anticipated assessable membership to arrive at a base fee rate. The rate established for 2013-2014 was $10.00 per assessable beneficiary, unchanged from the previous year. Total fees assessed during the fiscal year were $6.8 million, up from $6.5 million in 2012-2013.

The excess or shortfall of assessments in any particular year is amortized over five years in accordance with the assessment formula set out in regulations. Prior to 2003-2004, accumulated surpluses had kept assessment rates down; in 2003-2004 and 2004-2005, however, OSFI incurred unplanned expenses related to problem pension plans that depleted the surplus position. Subsequent assessment rates were set to recover the accumulated shortfall and the annual cost of administering the PBSA. The rate established and published in the Canada Gazette for 2014-2015 is set at $10.00 per assessable beneficiary, unchanged from 2013-2014.

Costs

The cost of administering the PBSA for 2013-2014 was $7.2 million, an increase of $0.3 million or 4.2% from the previous year. The increase occurred as a result of normal economic and merit increases and increased amortization mainly related to RASP, a new system for pensions deployed in 2012-2013.

ACTUARIAL VALUATION AND ADVISORY SERVICES

The OCA is funded by fees charged for actuarial valuation and advisory services and by an annual

Fees Assessed and Expenses for Fiscal Years 2008-2009 to 2013-2014

($000, except Basic Fee Rate)

FY	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Fees Assessed	7,927	8,578	7,866	7,949	6,477	6,842
Expenses	5,931	6,529	6,555	6,701	6,905	7,196
Basic Fee Rate* per assessable member	24.00	24.00	22.00	22.00	10.00	10.00

* The minimum and maximum annual assessment per plan is derived by multiplying the annual assessment by 50 and 20,000 respectively. With an annual assessment of $10.00 per member, the minimum annual assessment is $500 and the maximum is $200,000.

parliamentary appropriation. Total costs were $7.6 million, an increase of $0.7 million or 10.7% from the previous year due to the full year impact of filling previously approved positions, and normal economic and merit increases. The 2013-2014 triennial CPP review also contributes to the increase in costs.

CHANGES IN ACCOUNTING STANDARDS

OSFI applied IAS 19 - Employee Benefits (Revised 2011) ("IAS 19") retrospectively in the current period in accordance with the transitional provisions set out in the revised standard. As a result of this change, actuarial gains and losses on Defined Benefit Plans are no longer recognized in *OSFI's Statement of Operations* but in a separate *Statement of Other Comprehensive Income* (OCI). These costs totaling $1,251 thousand in 2012-2013 have been reclassified to the Statement of OCI. The current year gain of $5 thousand is also presented separately on this statement.

Historically these costs were presented as part of human resources costs in Note 13 to the financial statements. They are still included in Note 12 of the financial statements in the costs by business activity, as they are a part of the cost of regulation and supervision of the industries OSFI regulates.

There has been no change to the OSFI financial position as a result of adopting this change in presentation nor has there been a change in OSFI's total expenses. However, prior year comparatives have been restated. Further details about IAS 19 can be found in Note 4 to the Financial Statements.

APPENDIX

Disclosure of Information

Under the OSFI Act, the Superintendent is required to report to Parliament each year on the disclosure of information by financial institutions and the progress made in enhancing the disclosure of information in the financial services industry.

OSFI promotes effective disclosure by: publishing selected financial information on OSFI's website and through Beyond 20/20 Inc. (see their website for more information); providing guidance to federally regulated financial institutions (FRFIs) on their disclosures; and, participating in international supervisory groups with similar objectives.

Public Disclosures Associated with Building a More Stable Future

Public disclosures of risk management practices and risk exposures made by FRFIs have become a significant focus to achieving transparency, financial stability and restoring market confidence since the global financial crisis. Publications released by international organizations, such as the Financial Stability Board (FSB), the European Banking Authority, and the Basel Committee on Banking Supervision (BCBS), have stressed the need to enhance risk disclosures. OSFI believes that strong disclosures and market discipline are key elements for effective corporate governance and sound risk management practices within an institution.

During 2013-2014, OSFI focused on issuing guidance on several disclosure projects including:

- July 2013 – final advisory on public disclosure requirements in respect of Basel III definition of capital
- March 2014 – completed consultation on revisions to Basel III definition of capital advisory, to accommodate Credit Valuation Adjustment (CVA) phase-in
- March 2014 – final advisory on public disclosure requirements for BCBS global systemically important banks framework (G-SIB Framework)
- March 2014 – began consultation on implementing public disclosure requirements on BCBS finalized framework for Liquidity Coverage Ratio (LCR) and Leverage Ratio (LR)

Financial Stability Board Guidance

In 2012, the FSB established the Enhanced Disclosures Task Force (EDTF) to examine how the disclosure of information on bank risk exposures and risk management practices could be enhanced. The Task Force consisted of a group of senior private-sector executives from leading asset management firms, investors and analysts, global banks, credit rating agencies and external auditors. After consulting extensively with regulators and industry groups, the Task Force provided 32 recommendations. In 2013-2014, OSFI worked closely with the six major banks (designated as domestic systemically important banks) in Canada to implement the 32 EDTF recommendations. OSFI performed quarterly reviews of the six banks' disclosures to monitor the progress of implementation and saw that they made substantial improvements to risk disclosures and took significant steps to achieving full compliance by the end of 2014. OSFI expects the six major banks to adopt future disclosure recommendations in the banking arena that are endorsed by international standard setters and the FSB, as well as evolving domestic and international bank risk disclosure best practices.

International Accounting Standards Board (IASB)

The IASB continues to improve several accounting and disclosure standards. As an active member in the Accounting Task Force of the BCBS and the IAIS Accounting and Auditing Issues Subcommittee, OSFI participates in improving disclosures in financial reporting under international standards, including work on Financial Instruments and Insurance Contracts.

OSFI is committed to continuing to improve public disclosures in order to promote safety and soundness in the way institutions conduct business, and contribute to public confidence in the Canadian financial system. OSFI will continue to support disclosure initiatives through its membership in the BCBS and through reviewing our domestic disclosure requirements and practices.