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

OSFI
ANNUAL REPORT
2018-2019

Office of the Superintendent of Financial Institutions

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OSFI BSIF

Canada

Overview and mandate

- The Office of the Superintendent of Financial Institutions (OSFI) is an independent federal government agency established in 1987.

- OSFI regulates and supervises more than 400 federally regulated financial institutions (FRFIs) and 1,200 private pension plans to determine whether they are in sound financial condition and meeting their regulatory and supervisory requirements.

- These include all banks in Canada and all federally incorporated or registered trust and loan companies, insurance companies, fraternal benefit societies and private pension plans.

- OSFI's approach to supervision is risk-based to reflect the nature, size, complexity and risk profile of an institution. Financial institutions must be allowed to take reasonable risks and compete effectively. OSFI seeks to balance competitiveness with financial stability, and international standards with Canadian market realities.

- Although OSFI plays an essential oversight role, the executive management and boards of directors of institutions and trustees of private pension plans are responsible for their success or failure.

- Consumer-related issues or matters in the securities industry are the responsibility of other agencies, both federal and provincial/territorial.

- OSFI reports to Parliament through the Minister of Finance and works closely with its federal partners, including the Department of Finance, the Bank of Canada, the Canada Deposit Insurance Corporation and the Financial Consumer Agency of Canada.

- OSFI is funded mainly through assessments on the financial institutions and private pension plans it regulates and a user-pay program for legislative approvals and other select services. Operating costs in 2018-19 were $170.4 million.

- OSFI's Audit Committee (four independent members and the Superintendent) provides objective advice and recommendations to the Superintendent regarding the adequacy and functioning of OSFI's governance, risk management and control practices.

- The Office of the Chief Actuary -- 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.

- At March 31, 2019, OSFI employed some 780 people in offices located in Ottawa, Montréal, Toronto and Vancouver.

Mandate

Fostering sound risk management and governance practices

OSFI advances a regulatory framework designed to control and manage risk.

Supervision and early intervention

OSFI supervises federally regulated financial institutions and pension plans to determine whether they are in sound financial condition and meeting regulatory and supervisory requirements. OSFI promptly advises financial institutions and pension plans if there are material deficiencies, and takes corrective measures, or requires that they be taken to expeditiously address the situation.

Environmental scanning linked to safety and soundness of financial institutions

OSFI monitors and evaluates system-wide or sectoral developments that may have a negative impact on the financial condition of federally regulated financial institutions.

Taking a balanced approach

OSFI acts to protect the rights and interests of depositors, policyholders, financial institution creditors and pension plan beneficiaries, while having due regard for the need to allow financial institutions to compete effectively and take reasonable risks. OSFI recognizes that management, boards of directors and pension plan administrators are ultimately responsible for risk decisions, and that financial institutions can fail and pension plans can experience financial difficulties resulting in the loss of benefits.

In fulfilling its mandate, OSFI supports the government's objective of contributing to public confidence in the Canadian financial system.

Benefit to Canada

A properly functioning financial system is important to economic stability and national prosperity. It inspires a high level of confidence among consumers and other users of financial institutions. OSFI's regulation and supervision activities help sustain a strong and stable financial system in which Canadians can place their trust and confidence.

Superintendent's Message

OSFI sets goals and priorities that respond to existing and emerging risks that can negatively affect the entities we regulate and supervise. During 2018-19, we implemented a new strategic planning framework that included new governance, processes and tools. A key component of this framework is the OSFI Strategic Plan, which charts a path for our future that builds on the many achievements and learnings of the past.

At its centre is our vision*: building OSFI for today and tomorrow: preserving confidence, ever vigilant, always improving.* The vision focuses us on a core strategic agenda and lays out criteria for success. Moreover, it emphasizes the importance of not only *what* we do, but *how* we do it. We hope that by inviting Canadians to look at our plan, they will appreciate our transparency and that it will sustain the high level of confidence they have in Canada's financial system.

OSFI's core tools to improve the safety and soundness of financial institutions and private pension plans are strong guidance and robust supervision. During the reporting period, we issued new or revised guidance such as:

- amendments to the *Capital Adequacy Requirements* guideline to implement the significant improvements in the Basel III accord
- revisions to the *Liquidity Adequacy Requirements* guideline to strengthen liquidity at deposit-taking institutions
- a final version of the *Total Loss-Absorbing Capacity* guideline that requires "bail-in" capacity at Canada's largest banks
- developed and implemented the domestic stability buffer, which requires domestic systemically important banks to hold additional capital to make them more resilient to key vulnerabilities and system-wide risks
- a revised *Corporate Governance Guideline* (CGG) to strengthen governance at financial institutions and provide boards of directors with clear principles
- implemented the first phase of a review for a reinsurance framework for federally regulated insurers as set out in a discussion paper

Our supervisory activity focused on addressing risks to the Canadian financial system, in particular mortgage debt; cyber security risks, climate change and other financial and non-financial risks.

People and partners

It is always gratifying when someone from your organization is chosen for a senior role at a leading international organization. Carolyn Rogers, Assistant Superintendent, Regulation Sector has been selected to become the next Secretary General of the Basel Committee on Banking Supervision (BCBS) for an initial term of three years. I thank Carolyn for her valued contributions and wish her every success in her new role. Fortunately, we did not have to look very far for her replacement - Ben Gully, who was Assistant Superintendent, Risk Support Sector, assumed her role in the fall.

Leadership in the Office of the Chief Actuary also changed. Assia Billig, an internationally recognized expert, became the new Chief Actuary. Assia has worked in the OCA for more than a decade, specializing in actuarial analysis of social security issues. She succeeds Jean-Claude Ménard, who retired in mid-April. Jean-Claude's 20 years' service as Chief Actuary include many significant accomplishments and I thank him for his leadership and contributions.

Canada has one of the strongest financial systems in the world. There are many reasons for this; among them is our collaboration and coordination with our federal partners (Department of Finance, Bank of Canada, Financial Consumer Agency of Canada and the Canada Deposit Insurance Corporation). Each partner brings to the table a set of unique skills, and together this makes our system work very well.

OSFI is fortunate to have so many dedicated and talented people. As a knowledge-based organization, our greatest asset is our people. We have all the components we need to build OSFI for today and tomorrow: preserving confidence, ever vigilant and always improving.

The environment in which we operate is in constant evolution and continues to increase in its complexity. It is likely that the pace of change within the industry will continue to accelerate and we must rise to new challenges and meet expectations head-on. We need to adapt and respond to the changing landscape to continue to contribute to a sound and strong Canadian financial system.

That is exactly what we plan to do.

Jeremy Rudin

Performance against Priorities

Five priorities were identified for 2018-19. This section reports key accomplishments for each priority.

Priority A: Tighten the link between effort at OSFI and results in the field

Steps Taken

- Achieved a more consistent application of the Supervisory Framework by establishing a new consistency unit within the Common Supervisory Services group.
- Strengthened supervisory quality assurance by conducting thematic analyses and developing new tools that support supervisors' work.
- Created a Culture and Conduct Risk division to focus on behaviour and people risk at FRFIs that will be enhanced with behavioural science expertise.
- Improved the quality of cultural assessments and work plans by researching and incorporating approaches used by peer organizations.
- Consulted with FRFIs and third parties to better understand and apply culture measurement and root causes of potential misconduct and related prudential implications.
- Completed a cross-sector review of compensation practices relative to the Financial Stability Board's Principles and Standards to control aggressive risk-taking by material risk takers.
- Advanced the development of a multi-functional platform (Project Vu) for performing core supervisory activities and managing information that will be implemented in 2019-20.
- Adapted to changes in the risk environment by revising the Risk Support Sector strategy and approach with an added emphasis on addressing non-financial risks at FRFIs, including the assessment of cyber and technology risks.

Priority B: Strengthen our ability to anticipate and respond to severe but plausible risks to the Canadian financial system

Steps Taken

- Promoted greater transparency and understanding of OSFI's capital regime by making public the domestic stability buffer requirements for domestic systemically important banks.
- Drafted and issued for consultation a discussion paper on the proposed implementation of the final Basel III reforms in Canada.
- Revised and issued key guidance, including the annual Capital Adequacy Requirements (CAR) and revisions to the securitization framework and standardized approach counterparty credit risk; total loss-absorbing capacity (TLAC), asset securitization, large exposure limits, leverage requirements, MCT, mortgage insurer capital adequacy test, risk management frameworks for internal regulatory capital models, interest rate risk management.

- Developed and issued for consultation a draft CAR Chapter 8 on operational risk.
- Issued the draft Net Stable Funding Ratio Disclosure Requirements (NSFR) component of the Liquidity Adequacy Requirements guideline and draft updates to the Liquidity Coverage Ratio and the Net Cumulative Cash Flow; and introduced the liquidity activity monitor tool.
- Gained a better understanding of fintech developments and implications of increased use of innovative technology by FRFIs through research and outreach.
- Established a Technology Risk Division to focus on FRFI use of advanced analytics, including artificial intelligence and machine learning techniques as well as third-party relationships.
- Promoted new cyber security incident reporting procedures to FRFIs by drafting and issuing an advisory.

Priority C: Reinforce our principles-based guidance and supervision

Steps Taken

- Revised the Corporate Governance guideline to consolidate and clarify expectations of boards of directors and senior management at federally regulated financial institutions.
- Designed and conducted corporate governance supervisory training and industry workshops.
- Drafted and issued for consultation a discussion paper on the Reinsurance Framework, followed by a quantitative impact study, and updating the Sound Reinsurance Practices and Procedures guideline.
- Met the P&C MCT Advisory Committee's mandate on policy development work on the use of internal models by property and casualty insurance companies for regulatory capital.
- Prepared a draft guideline for consultation on the oversight and control of risks associated with the use of internal models for calculating MCT insurance risk regulatory capital.
- Provided policy and legislative support to the departments of Finance and Justice on the legislative review of the *Insurance Companies Act* and the *Bank Act.*

Priority D: Influence international guidance, standards and reforms

Steps Taken

- Provided advice and guidance on accounting, auditing and disclosure best practices to key international standard-setting boards.
- Supported a robust implementation of the IFRS 17 Insurance Contracts project through industry consultations on accounting policy and implementation issues, engagement with auditors and design and delivery of an internal training/knowledge-sharing program.
- Provided guidance to insurers and insurance holding companies on requirements for IFRS 17 transition and progress reports.
- Actively participated on the response to the International Accounting Standards Board discussion paper on Financial Instruments with Characteristics of Equity.

- Contributed to the International Auditing and Assurance Standards Board's finalization and approval of ISA 540 Auditing Accounting Estimates and Related Disclosures.
- Played a key role in the finalization of revisions to market risk rules through guidance on the domestic implication of disclosure requirements to promote transparency and market discipline.
- Developed guidance for public consultation outlining proposals on the domestic implementation of the NSFR disclosure requirements.
- Created a group within the Capital Division to support an increased focus on the proportionality of capital and liquidity requirements for small and medium-sized banks.

Priority E: Set and meet high standards for managing our own resources

Steps Taken

- Advanced the Human Capital Strategy by launching the leadership development and talent management programs; redesigning the recognition program; and finalizing the enterprise change management framework.
- Created a formal internal control framework for the continued development of a comprehensive library of standards, procedures and guides that support supervisory work.
- Redesigned the core learning program for supervisors to make it more focused and streamlined.
- Prepared new proactive disclosure requirements in anticipation of revisions to the *Access to Information Act and the Privacy Act.*
- Reviewed the organizational capacity of the cyber security strategy, updating internal directives and conducting risk and assurance assessments on all new systems.
- Defined and improved internal governance by overhauling corporate planning and developing a three year strategic plan and standing committee of planners to define and implement planning processes.
- Launched a project to replace the legacy enterprise time reporting system with a modern, scalable and flexible system that will provide optimal planning and resource management functionalities.
- Established a steering committee and strategic data working group for the data strategy and identified business needs for data by completing a data stock-taking exercise.

Federally Regulated Financial Institutions

OPERATING ENVIRONMENT

Federally regulated financial institutions have experienced supportive business conditions, led by a benign credit environment and a favourable economic backdrop, which has contributed to profitability and financial stability.

Business strategies continue to focus on product innovation and new services, expansion into new markets, efficiency improvements and reaping benefits from investment in technology.

To fulfill our mandate, OSFI strives to ensure that financial institutions can withstand severe but plausible risk scenarios that may affect their financial health and the stability of the broader financial system. The past year marked the tenth anniversary of the global financial crisis. OSFI and other foreign financial regulators have learned much from the crisis, including the setting of an appropriate quantity and quality of capital at financial institutions. An effective capital regime requires institutions to hold adequate capital buffers to protect against severe but plausible stress, while also encouraging them to use their buffers during times of stress to avoid fire sales of assets or drastic reductions in activities such as lending.

To maintain the effectiveness of Canada's capital regime, OSFI publicly disclosed the domestic stability buffer for Canada's six domestic systemically important banks (five D-SIBs and one G-SIB). The adjustable capital buffer is counter-cyclical, such that OSFI will lower the buffer in the event systemic risks materializes. Other measures taken by OSFI to support regime effectiveness include the release of the Total Loss-Absorbing Capital (TLAC) public disclosure guideline and the TLAC public disclosure guideline for D-SIBs and the Life Insurance Capital Adequacy Test (LICAT) guideline and LICAT public disclosure guideline.

Financial Risks

On an ongoing basis, OSFI monitors and evaluates system-wide developments that may have a negative impact on financial institutions and the financial system. A primary risk to financial institutions continues to be elevated levels of household debt and asset imbalances, which would include Canadian housing markets. History has shown that relaxing financial institution's underwriting standards can lead to extreme and persistent levels of financial instability.

Lenders subject to OSFI supervision hold nearly 80 percent of all residential mortgages issued in Canada, and residential mortgage loans account for almost 30 percent of the total assets held by these lenders. Sound mortgage underwriting practices reduce risks to the financial system. OSFI has required lenders to assess a borrower's ability to pay their loan under a variety of conditions. Revisions to the guideline included measures requiring institutions to apply more rigor when assessing a borrower's ability to repay their loans such as employment status and income history; a revised minimum qualifying rate (stress test) and greater scrutiny on property valuations. OSFI has been monitoring the impacts of B-20 and has noted that fewer mortgages are being approved for highly indebted or over-leveraged individuals. The B-20 revisions are having the desired effect of promoting sound mortgage underwriting practices in financial institutions.

OSFI monitors and responds to other risks facing financial institutions, including liquidity, market and credit risks. The global financial crisis underscored the importance of adequate levels of liquidity to the proper functioning of the banking and financial system. Broker-deposit funding remains an area of focus because of its susceptibility to rapid withdrawal in a stress scenario. OSFI is paying close attention to the funding profiles of financial institutions and their dependency on broker-deposit funding. OSFI constantly reviews the liquidity, funding position and related risk management practices of all federally regulated institutions to ensure adequacy and appropriateness. OSFI updated its Liquidity Adequacy Requirements (LAR) guideline to include targeted modifications related to the Liquidity Coverage Ratio (LCR) and Net Cumulative Cash Flow (NCCF) metrics. These revisions promote the safety and soundness of institutions and allow the metrics to better reflect the increased risks posed by different types of retail deposits that may be subject to sudden withdrawals.

OSFI is also paying close attention to commercial real estate (CRE). The CRE market is highly cyclical; a market downturn can affect asset values resulting in financial losses. OSFI has directed its work at ensuring sound underwriting practices and appropriate risk management by financial institutions. Another area of emphasis is debt to the non-financial corporate sector. Business debt has seen significant growth in the past few years with a growing proportion of weaker structures, e.g. less strict loan covenants. OSFI examines the underwriting practices of federally regulated institutions to ensure that proper standards are applied. We also assess the soundness of risk management practices.

Other risks we are monitoring include the potential for financial system stress emanating from the financial market, including trade or geopolitical developments in Europe and China.

Non-Financial Risks

Financial institutions are expanding their business capabilities through a powerful combination of new technology and rapid digitization. Institutions are extending channels for existing financial products and services, digitizing paper-based processes and outsourcing many aspects of their businesses to third-party providers, some of which are significant in size and span of control. Many of these developments have been outside of the traditional banking institutions, giving rise to new risks.

Globally, highly publicized cases of financial institution misconduct, significant fines and impacts to reputation risk have heightened the focus by regulators and behavioural scientists on the importance of culture and its impact on the effectiveness of risk management, boards and senior management. OSFI has conducted a number of risk culture assessments of institutions and is looking to advance our abilities and skill sets to assess other prudential aspects related to culture such as the decision-making process and leadership development. OSFI also issued a revised Corporate Governance guideline (September 2018), which reinforces the role of the board and senior management in establishing and overseeing a sound risk culture.

This shifting landscape requires OSFI to maintain its focus on financial resilience while also considering the quality of risk management of non-financial risks by financial institutions.

The creation of a new non-financial risk group brings four divisions under one umbrella, namely the Technology Risk Division, which includes cyber and fintech; the Model Risk Division, the Operational Risk Division and the Culture and Conduct Risk Division. Shifting toward a more integrated and functional view allows risk capabilities to be responsive and evolve more seamlessly over time.

Within the non-financial risk space, three areas warrant increased attention. The first area is reliance by financial institutions on significant third parties, which may lack information security protocols and can expose financial institutions to operational disruption. Secondly, the increase in advanced analytics through artificial intelligence or machine learning enhances greater predictability from new and different forms of data but poses operational and reputation risks. The credibility of analytical outcomes may erode as transparency and justification become more difficult to demonstrate and explain. OSFI continues to monitor developments in this area with plans to develop regulatory and supervisory expectations around the use of advanced analytics.

Lastly, cyber risk, brought on by information technology and digitization advances, has the potential to present serious vulnerabilities that could put depositors, policyholders and creditors at risk, and may undermine the security and confidence of Canada's financial system. Cyber risk is an area that requires partnership and collaboration to mitigate the potential for disruption and damage. OSFI is involved in a number of national and international forums to leverage best practices in guidance and supervision. We are also working with the new Canadian Centre of Cyber Security to enhance coordination and collaboration in the event of a national security incident.

Climate risks

Climate change risk has become an area of increased focus and can have significant impacts on financial institutions and private pension plans.

Property and Casualty insurers face physical risk due to the increasing frequency and magnitude of physical damage from climate-related events. Other institutions and pension plans also face transition risks as the economy adjusts to a low-carbon environment, including exposure to investment risk associated with carbon-linked investments. A third type of risk is liability risk associated with injured parties seeking to recover losses from other parties they hold responsible. The industry is very familiar with this type of long-term risk exposure from asbestos-related liabilities.

OSFI supports the view that institutions should adopt a strategic approach to addressing climate change risk. OSFI will be evaluating the progress made by financial institutions in identifying, monitoring, assessing and responding to climate change risk. OSFI will be enhancing our knowledge and understanding of the risks, developing supervisory capabilities and assessing the impacts on supervisory practices and guidance.

How climate change risk will evolve ultimately remains uncertain. Climate change and global warming are the subject of frequent discussions at international regulatory meetings. OSFI has joined 22 other countries as a member of the Sustainable Insurance Forum (SIF). The SIF is a network of leading insurance supervisors and regulators seeking to strengthen their understanding of, and responses to, sustainability issues for the insurance business. As a member, OSFI will contribute to an issues paper on the level of insurance company awareness and adoption of the recommendations of the Task Force on Climate-Related Disclosures. Some insurers have started to test the impacts of climate change through DCAT, ORSA and other scenario-testing methods.

OSFI will continue to monitor global developments such as climate change risk, and determine appropriate responses that support overall financial stability.

Overall, OSFI is keeping abreast of developments supporting risk identification, monitoring, assessment and measurement to determine appropriate responses that will promote the safety and soundness of financial institutions and financial stability.

Looking forward

In 2019-20, OSFI will work to meet the four goals in its strategic plan through a number of key initiatives.

Goal 1: Federally regulated financial institution and pension plan preparedness and resilience to financial risks is improved, both in normal conditions and in the next financial stress event.

OSFI will refine its domestic regulatory frameworks (i.e. capital and liquidity) to align with international reforms and actions planned as a result of lessons learned exercises. It will also work to tailor its regulatory and supervisory approaches for small and medium-sized institutions. In accounting, we will continue to prepare for the implementation of new financial reporting standards as well as regulatory returns and monitoring metrics where appropriate. On governance, we will work closely with regulated entities to monitor practices and assess whether the objectives of the recently revised Corporate Governance guideline were achieved. We will apply our risk tolerance perspective to guide the level of regulatory and supervisory intensity. We will also work with our federal partners to enhance our crisis preparedness framework. OSFI will explore regulatory responses to threats associated with climate change and catastrophic events affecting life and property and casualty insurers.

Goal 2: Federally regulated financial institutions and pension plans are better prepared to identify and develop resilience to non-financial risks before they negatively affect their financial condition.

OSFI will strengthen its oversight capabilities of non-financial risks in such areas as operational resilience, technology, cyber, culture and conduct. Our work in the cyber area will be advanced within the broader context of the Government of Canada's cyber strategy. We will assess options for overseeing the management of cyber risk by financial institutions and private pension plans. We will deepen our understanding of risk factors arising outside of our direct responsibilities (e.g. financial technologies) and adjust prudential expectations if warranted.

Goal 3: OSFI's agility and operational effectiveness are improved.

OSFI will improve its agility and operational effectiveness through employee development, its infrastructure and data management as well as its business processes and practices.

Goal 4: Support from Canadians and cooperation from the financial industry are preserved.

OSFI will enhance its accountability with external stakeholders through increased transparency, consultation and communications to maintain the trust and confidence Canadians have in the safety and soundness of financial institutions and pension plans.

RISK ASSESSMENT AND INTERVENTION

Deposit-taking Supervision

The deposit-taking industry in Canada comprises six large domestic banks designated as domestic systemically important banks (D-SIBs) and many smaller deposit-taking institutions. (Royal Bank of Canada was also designated a global systemically important bank by the Financial Stability Board in November 2017.)

Through the year, OSFI closely monitored economic, financial and other risks facing deposit-taking institutions, including system-wide or sector developments that could have a negative impact on their financial condition. A key focus has been addressing risks and vulnerabilities related to mortgage lending, which continues to be elevated given low lending rates and significant increases in household debt, particularly mortgage debt. Should an economic downturn lead to a meaningful fall in housing prices, there is a risk that lenders could face material credit losses.

Other key areas of supervisory focus included cyber security risks, implementation of revised corporate governance guidance and liquidity risks.

The six largest banks account for about 90 percent of total assets held by federally regulated deposit-taking institutions. Their diversified business lines extend beyond traditional deposit-taking and lending activities to trading, investment banking, wealth management and insurance. In addition to their primary domestic focus, these large banks operate in many other countries.

The remaining 10 percent of assets are held by small and medium-sized institutions with various market and business strategies such as mortgage lending, commercial real estate lending and credit card lending.

Canadian banks reported capital ratios well above the minimum common equity tier 1 (CET1) requirements during 2018-19. The D-SIBs remained above the eight percent Pillar 1 capital requirement, reflecting a minimum seven percent plus a one percent D-SIB capital surcharge. The D-SIBs remained above the capital requirement of 9.75 percent. Small and medium-sized banks also reported capital ratios above the minimum level of seven percent.

Overall, income remained stable or grew at deposit-taking institutions. Return on equity for the industry was about 15.2 percent at the end of the 2018 fiscal year, primarily due to solid net income generation and a mainly favourable credit environment.

More detailed financial information on the institutions subject to OSFI regulation and supervision is available through the Financial Data application on the OSFI website.

The top risks facing small and medium-sized banks (SMSB) include funding, housing market and consumer indebtedness, cyber security and commercial real estate lending. Mitigating actions taken by OSFI include: monitoring market and strategic factors which may reduce SMSB access to broker deposit channels; identifying financial institutions most vulnerable to a downturn in real estate secured lending based on reputational, liquidity and regulatory compliance factors; and strengthening cyber security event reporting protocols and reviewing cyber risks raised through third-party services.

Insurance Supervision

Life Insurance

The life insurance industry in Canada comprises three large institutions and more than 70 domestic companies and foreign branches. The large insurers account for more than 90 percent of the assets, and have operations in Canada, the U.S., Europe and Asia. They offer a broad range of wealth management, life and health insurance products through a number of distribution channels. The smaller insurers are more restricted in product breadth and distribution.

In 2018, the life insurance industry began measuring capital based on the Life Insurance Capital Adequacy Test (LICAT) guideline, which replaced the Minimum Continuing Capital and Surplus Requirement (MCCSR) guideline as the key metric used to assess capital adequacy. The LICAT improves the overall measurement of the quality of available capital and incorporates refined risk measurement techniques. Overall, the industry's transition to this new capital metric has been smooth.

During the last several years, there has been strong growth in the equity markets with increases in interest rates in the U.S. and Canada. While this has alleviated the pressure on insurers with long-term liabilities, it is unlikely rates will rise to pre-2008 levels in the near future. OSFI has observed a small increase in insurers' investment risk profiles as they seek higher yield. Moreover, a number of macroeconomic and geopolitical issues have contributed to recent increases in market volatility that will further challenge the industry.

The International Accounting Standards Board (IASB) has proposed deferring the effective date of International Financial Reporting Standard 17 *Insurance Contracts* (IFRS17) by one year to January 1, 2022. Nonetheless, a large amount of work remains for the insurance industry to accommodate the significant changes to systems, operations, capital requirements and financial reporting. OSFI requires insurers to provide semi-annual progress reports outlining their project plans and readiness to implement this new standard. The LICAT, which was developed in anticipation of the potential effects of IFRS 17, will require some modifications. OSFI consulted with industry and conducted a quantitative impact study.

The digitization of financial services is creating new competitive challenges for insurers that are accompanied by increased operational risk, including information risk management exposure and cyber security. Addressing these challenges requires expertise and financial resources that may be beyond some insurers' financial capabilities. OSFI will be monitoring developments at insurers as technology evolves as well as collaborating with other regulators.

The 2018 aggregate capital ratio for the industry (first year of reporting under LICAT) was 138 percent. The aggregate level of capital has been well above OSFI's minimum requirements for the last several years as companies built up capital in response to market volatility.

Return on equity was 10 percent compared to 8.4 percent in 2017. Net income for 2018 was $11.7 billion, an increase of $2.7 billion from the prior year. One-time charges, including the impact of U.S. tax changes, affected earnings in 2017. About 90 percent of net income is attributable to the three large insurers.

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Challenges remain as persistently low interest rates make asset/liability management more difficult and put a strain on in-force product profitability given that many products cannot be re-priced due to contractual provisions. OSFI is monitoring changes in risk policies to ensure companies adopt appropriate mitigation practices and controls.

Property and Casualty Insurance

The property and casualty (P&C) industry reported lower net income in 2018 due to declines in underwriting and investment income. Catastrophes and weather-related losses continue to drive earnings volatility. The significant Ontario/Quebec windstorm and a series of smaller weather-related catastrophes affected profitability in 2018.

A key measure of core profitability is the combined ratio, which measures revenue from premiums relative to the sum of claims and expenses. A combined ratio under 100 percent reflects an underwriting profit as premium income exceeds claims and expenses. The aggregated combined ratio deteriorated to 100 percent in 2018 from 98 percent in the previous year. It is expected the trend will continue as weather-related claims require greater time for adjudication.

More detailed financial information on the institutions subject to OSFI regulation and supervision is available through the Financial Data application on the OSFI website.

The Minimum Capital Test (MCT) is the capital metric for Canadian P&C insurers while the Branch Adequacy of Assets Test (BAAT) is the metric for foreign-owned branch operations in Canada. The industry remains well-capitalized, with a capital ratio of 259 percent in 2018, above the supervisory target of 150 percent.

A comprehensive review of reinsurance practices has been a key initiative over the past two years. While reinsurance is an important risk management tool, certain observed industry business models rely too heavily on it and this can result in concentrated counterparty credit risk. Institutions must have adequate financial resources and proper risk management practices in place. OSFI released a discussion paper in June 2018 outlining a number of proposed changes to the reinsurance framework and conducted a quantitative impact study in early 2019 on a key proposed restriction. Further related public consultation on proposed guideline changes are planned for the latter part of 2019-20.

During 2018-19, OSFI continued to actively assess the accounting and capital implications of the new IFRS 17 as well as monitored insurer progress towards implementation of this new accounting standard.

Mortgage Insurance

The mortgage insurance industry in Canada comprises three participants: two private sector insurers regulated by OSFI and the Canada Mortgage and Housing Corporation (CMHC), which is a Crown corporation also subject to OSFI oversight.

At the end of 2018, the average Mortgage Insurance Capital Adequacy Test (MICAT) ratio of the private sector mortgage insurers stood at 170 percent and CMHC's MICAT ratio was 172 percent (including transitional arrangements under the new framework). Capital ratios for each of the mortgage insurers remained above their defined operating and internal target levels as well as the minimum supervisory requirement of 150 percent.

Mortgage insurers achieved favourable financial performance during 2018 despite increased claims expenses and lower net investment income. Total after-tax net income declined by 21 percent from the previous year to $1.6 billion, while their weighted-average return on equity declined to 8.7 percent from 9.5 percent. This was driven by the decline in the total volume of new business written by 56 percent for portfolio insurance, reflecting trends in real estate sales volumes and reduced lender demand for portfolio coverage. Total insurance in-force declined by six percent to $724 billion (not including CMHC's securitization guarantees.)

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Despite continuing favourable financial results and reduced new business volumes, the mortgage insurers remain vulnerable to rising consumer debt levels and the risk of a housing price correction in certain markets. In the event of a significant and sustained increase in mortgage borrowing rates or a significant increase in the unemployment rate, borrowers' repayment capacity may become stretched, potentially elevating the vulnerability of the mortgage insurers to higher claims. Over time, the borrower stress test will help to mitigate this risk.

Planned supervisory activities for the coming year will focus on reviews of the private sector mortgage insurers' compliance with the *Protection of Residential Mortgage or Hypothecary Insurance Act (PRMHIA*) and economic capital modeling practices. Standardized stress tests will also be updated to support ongoing assessment the mortgage insurers' loss-absorbing capacity under severe economic stress scenarios.

SUPERVISORY TOOLS

Managing Risk Effectively

OSFI maintains internal assessment 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.

Risk management seminars are held annually for regulated industries (deposit-taking, life and P&C insurance and mortgage insurance) to reinforce OSFI's expectations in key risk management areas. These seminars are also an opportunity to share lessons learned and information on issues being discussed internationally by peer regulators.

College of Supervisors bring together executives from Canadian banks or insurers with supervisors from applicable host-country jurisdictions where these institutions do business. In 2018-19, OSFI hosted colleges for two large bank and one large life insurer.

Crisis Management Groups are held annually with the big six banks in conjunction with the Canada Deposit Insurance Corporation to assess how prepared D-SIBs are in the event of trouble or failure. These sessions help identify weaknesses in the banks' recovery and resolution frameworks.

Composite Risk Ratings

The Composite Risk Rating (CRR) represents OSFI's overall assessment of an institution'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 ratings. At the end of March 2019, OSFI had assigned CRR ratings of low or moderate to 94 percent, and above average or high to six percent of all CRR-rated institutions.

Intervention Ratings

As described in OSFI's guides to intervention, financial institutions are also assigned an intervention (stage) rating, which determines the degree of supervisory attention they receive. Broadly, these ratings are categorized as: normal (stage 0); early warning (stage 1); risk to financial viability or solvency (stage 2); future financial viability in serious doubt (stage 3); and non-viable/insolvency imminent (stage 4). At March 31, 2019, there were 27 staged institutions with a rating of Stage 1 or greater. 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 for federally regulated financial institutions that reflect international minimum standards. OSFI also provides input to the development of federal legislation and regulations affecting regulated financial entities. It comments on accounting, auditing and actuarial standards development, including determining how to incorporate those standards into its regulatory framework. OSFI also participates in a number of international and domestic rule-making activities and groups.

RULE MAKING

Accounting, Auditing and Actuarial Standards

OSFI's supervision and regulation of financial institutions places strong reliance on the quality of audited financial statements. For this reason, OSFI actively participates in several domestic and international standard-setting and oversight bodies related to Canadian auditing and accounting standards:

- Basel Committee's Accounting Experts Group, which develops high-quality international accounting, audit and ethics standards and practices for banks
- Canadian Accounting Standards Board's (AcSB) Insurance Transition Resource Group, which provide the AcSB with user and implementation insights
- Auditing and Assurance Standards Oversight Council (AASOC), which oversees the activities of the Canadian Auditing and Assurance Standards Board (AASB)
- Accounting Standards Oversight Committee (AcSOC), which oversees the activities of the AcSB and the Public Sector Accounting Board (PSAB)
- Canadian Public Accountability Board (CPAB) Council of Governors, which conducts an annual high-level assessment of the CPAB against its mandate
- Public Interest Oversight Board (PIOB), which oversees the international standard-setting of auditing, ethics and education standards

OSFI works closely with the Canadian Institute of Actuaries (CIA) and the Actuarial Standards Board (ASB) toward actuarial standards that are appropriate and lead to acceptable practice in such areas as valuation, and risk and capital assessment at insurance and pension plan entities. In 2018-19, OSFI participated on the CIA IFRS 17 steering committee; several CIA standards and guidance committees; the CIA/ASB group on the harmonization of dynamic capital adequacy testing (DCAT) with insurance companies' Own Risk and Solvency Assessments (ORSA); and joined the ASB designated group updating actuarial standards related to the implementation of IFRS 17.

CAPITAL AND LIQUIDITY GUIDANCE

Deposit-taking Institutions

Following public consultation, OSFI released in October 2018 an updated version of its Capital Adequacy Requirements (CAR) guideline. The CAR is the framework within which OSFI assesses the capital adequacy of federally regulated institutions. The main amendments relate to the domestic implementation of the standardized approach to counterparty credit risk (SA-CCR), capital requirements for bank exposures to central counterparties (CCPs) and the securitization framework.

OSFI updated its Liquidity Adequacy Requirements (LAR) Guideline in April 2019 to include targeted modifications related to the Liquidity Coverage Ratio (LCR) and Net Cumulative Cash Flow (NCCF) metrics. These revisions promote the safety and soundness of federally regulated institutions and allow the metrics to better reflect the increased risks posed by different types of retail deposits that may be subject to sudden withdrawals. The revised LAR guideline also includes final rules to incorporate the Net Stable Funding Ratio (NSFR) for domestic systemically important banks (D-SIBs). The NSFR is a long-term structural liquidity metric designed to promote funding stability and reduce the likelihood that a disruption to an institution's regular sources of funding will erode its liquidity position in a way that could increase the risk of its failure. The implementation of the NSFR as a regulatory requirement in Q1-2020 reflects changes from the global standard intended to suit the unique characteristics of the Canadian market.

The Canadian statutory bail-in regime for D-SIBs, including the bail-in regulations and OSFI's final Total Loss-Absorbing Capacity (TLAC*)* guideline, which sets out requirements for a D-SIB to maintain sufficient loss-absorbing capacity to support its recapitalization in the event of failure, came into force on September 23, 2018. D-SIBs began public disclosure of their TLAC levels in fiscal Q1-2019 and must fully meet their minimum TLAC requirements by November 1, 2021.

OSFI launched an initiative in 2018-19 focused on improving the proportionality of its capital and liquidity frameworks in their application to non-internationally active small and medium-sized deposit-taking institutions. A discussion paper will seek input from stakeholders and will be used to inform the development of new requirements for these institutions.

To provide greater market clarity and transparency, OSFI began communicating publicly its domestic stability buffer (DSB) in June and December. An effective capital regime ensures that banks are holding adequate capital to protect against risks and encourages them to use their buffers during times of stress to avoid unnecessary sales of assets or drastic reductions in lending. The DSB contributes to D-SIBs' resilience to key vulnerabilities and system-wide risks, thereby contributing to financial stability. Increases to the buffer will occur when it would be prudent for a D-SIB to hold additional capital to protect against vulnerabilities. Decreases of the buffer will occur when OSFI identifies that vulnerabilities have diminished or risks have materialized. Decisions on the calibration of the buffer are based on OSFI supervisory judgment, informed by its analytical work on a range of vulnerabilities, and are made in consultation with its federal partners. The DSB was raised from 1.75 percent to 2.00 percent in June 2019.

Insurance Companies

In summer 2018, OSFI issued its first version of the Mortgage Insurer Capital Adequacy Test (MICAT) guideline, which combined elements of the property and casualty insurance capital framework and the 2017 Advisory: Capital Requirements for Federally Regulated Mortgage Insurers. In fall 2018, OSFI released updated versions of its Life Insurance Capital Adequacy Test (LICAT) and Minimum Capital Test (MCT) guidelines for life and property and casualty insurers, respectively. Not only do these updated and new versions incorporate implications of IFRS 16 *Leases*, they make further refinements and clarifications in respect of inquiries or comments received from insurers and stakeholders.

In collaboration with the P&C MCT Advisory Committee, OSFI developed a framework for the use of insurer-specific regulatory capital models to determine insurance capital requirements for P&C insurance companies that are not mortgage insurers.

OSFI also issued an updated version of its Asset Securitization guideline, which sets out expectations for life and P&C insurers for asset securitization transactions. Key amendments reflect events that have affected securitizations since the guideline was first published in November 2004, including the financial crisis and changes to the Basel framework.

Finally, in support of a robust implementation of the new accounting standard IFRS 17 *Insurance Contracts*, OSFI continued to review and consult on the implications of that standard on the LICAT, MICAT and MCT capital frameworks. OSFI communicated its approach to implementing IFRS 17 in the life and P&C capital frameworks in June 2018.

OTHER GUIDANCE

Large Exposure Limits

OSFI updated its guidance on large exposure limits applicable to D-SIBs, releasing a draft version in December 2018 followed by a final version in April 2019. It incorporates the Basel Committee on Banking Supervision guidance to reflect current risk management sound practices and provides additional guidance on methods OSFI expects D-SIBs to use for identifying, measuring, managing and monitoring large exposures. The revised guideline takes effect on November 1, 2019.

Interest Rate Risk Management

In October 2018, OSFI issued a draft revised version of its guideline on the management of interest rate risk. The guideline now incorporates most of the Basel Committee on Banking Supervision guidance to reflect changes in the market, the methods institutions should adopt for measuring, managing and monitoring IRRBB and updated supervisory practices. The final version was released in May 2019.

Disclosure Guidance

Leverage Ratio Disclosure Requirements

In November 2018, OSFI issued an updated version of its Leverage Ratio Disclosure Requirements to align with the revisions to the Leverage Requirements and Capital Adequacy Requirements (CAR) guidelines that were issued in October 2018. Federally regulated deposit-taking institutions implemented the revised requirements for their fiscal Q1 2019 reporting period.

Net Stable Funding Ratio Disclosure Requirements

In April 2019, OSFI issued the final version of the Net Stable Funding Ratio Disclosure Requirement guideline as a complement to the corresponding chapter on NSFR in the Liquidity Adequacy Requirements guideline. NSFR disclosures provide transparency on regulatory funding requirements for deposit taking institutions. D-SIBs are to implement the revised requirements for their fiscal Q1 2020 reporting period.

Total Loss-Absorbing Capacity (TLAC) Disclosure Requirements

In May 2018, OSFI issued the final version of its TLAC disclosure requirements guideline. TLAC disclosures provide transparency on the loss absorbing capacity of a D-SIB to support its recapitalization in the event of non-viability. D-SIBs implemented the new TLAC disclosure requirements in their fiscal Q1 2019 reporting period.

INTERNATIONAL ACTIVITIES

International organizations play a key role in the development of regulatory frameworks for banks and insurers. OSFI is an active participant in a number of these groups, including the Financial Stability Board, the Basel Committee on Banking Supervision, and the International Association of Insurance Supervisors.

OSFI invites international regulators to the College of Supervisors held for D-SIBs and large life insurance companies. It also conducts quarterly conference calls with them to identify potential issues arising in their jurisdiction before they manifest. This collaboration assists in supervisory activities for that institution and reduces the possibility of unexpected events arising.

Financial Stability Board (FSB)

The FSB was established in April 2009 to coordinate 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 among the Department of Finance, the Bank of Canada and OSFI. During 2018-19, OSFI's role included membership on the FSB Plenary, Steering Committee, and Standing Committee on Supervisory and Regulatory Cooperation.

Some of the work during 2018-19:

- completing a processes and transparency review to maximize FSB effectiveness for the next phase of its work on promoting global financial stability
- publishing a report examining the effects of G20 financial regulatory reforms on the incentives to centrally clear over-the-counter (OTC) derivatives
- publishing a cyber lexicon -- a set of core terms related to cyber security and cyber resilience in the financial sector
- publishing a report assessing fintech market developments in the financial system and potential implications for financial stability
- launching an evaluation of the effects of reforms to end the concept of too-big-to-fail and an initiative to explore ways to address the risk of market fragmentation
- working with standard-setting bodies to finalize and operationalize the implementation of G20 post-crisis financial sector reforms in such areas as the insurance sector, resolution regimes and over-the-counter derivatives

Basel Committee on Banking Supervision (BCBS)

OSFI is an active member of the BCBS, which provides a forum for international rule-making and cooperation on banking supervisory matters.

In July 2018, OSFI issued a discussion paper outlining initial views on the scope and timing of the domestic implementation of the final Basel III reforms, issued in December 2017, in Canada. OSFI will continue to consult on the technical details of the proposed rules leading up to implementation of the operational risk framework in Q1-2021, and implementation of the credit risk, capital floor and leverage ratio elements in Q1-2022. These consultations will ensure the capital regime continues to contribute to the safety and soundness of banks in Canada while remaining consistent with our principles for regulation and supervision.

In January 2019, the Governors and Heads of Supervision, the Basel Committee's oversight body, endorsed a set of revisions to the design and calibration of the market risk framework. OSFI has committed to public consultation on incorporating these revisions into its capital adequacy guidance prior to the target implementation date of the revised framework in Q1-2022.

International Accounting and Auditing Standards

As all federally regulated financial institutions 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.

In 2018-19, OSFI worked through the BCBS and the International Association of Insurance Supervisors (IAIS) to:

- contribute to the International Auditing and Assurance Standards Board's finalization and approval of ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures in June 2018
- provide comments to the International Accounting Standards Board on its discussion paper on Financial Instruments with Characteristics of Equity in January 2019

OSFI demonstrated its strong interest in high audit quality and engaged in work to improve audit standards and frameworks over the last year by:

- contributing to the development of the Monitoring Group's White Paper on reform proposals to strengthen the governance and oversight of the international audit and ethics standard-setting boards in the public interest through membership in the BCBS
- overseeing high-quality audit standards through membership on the Public Interest Oversight Board
- completing the IFRS 9 cross-sector review and focusing on the external audit of expected credit losses to understand the application of professional skepticism to accounting estimates

Active participation in the development of these standards and governance frameworks promotes a set of high-quality global standards and enhances our understanding of changes to accounting and auditing standards that may affect federally regulated financial institutions and OSFI's supervisory approach.

International Association of Insurance Supervisors (IAIS)

The IAIS is responsible for developing and assisting in the implementation of principles, standards and other supporting material for the supervision of the insurance sector. OSFI contributes to this work through its active involvement in several committees and working groups, including the Executive Committee, Policy Development Committee (and two of its working groups), Macroprudential Committee and the Supervisory Forum.

OSFI actively participates in the advancement of IAIS projects to help ensure that the outcome adequately considers the Canadian perspective. Key projects underway include the development of a holistic framework for systemic risk in the insurance sector as well as the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), which also includes the creation of a global Insurance Capital Standard (ICS); and ICS Version 2.0, which is expected to be adopted in November 2019 for a five-year monitoring period, after which it would be implemented as a group-wide consolidated prescribed capital requirement.

APPROVALS

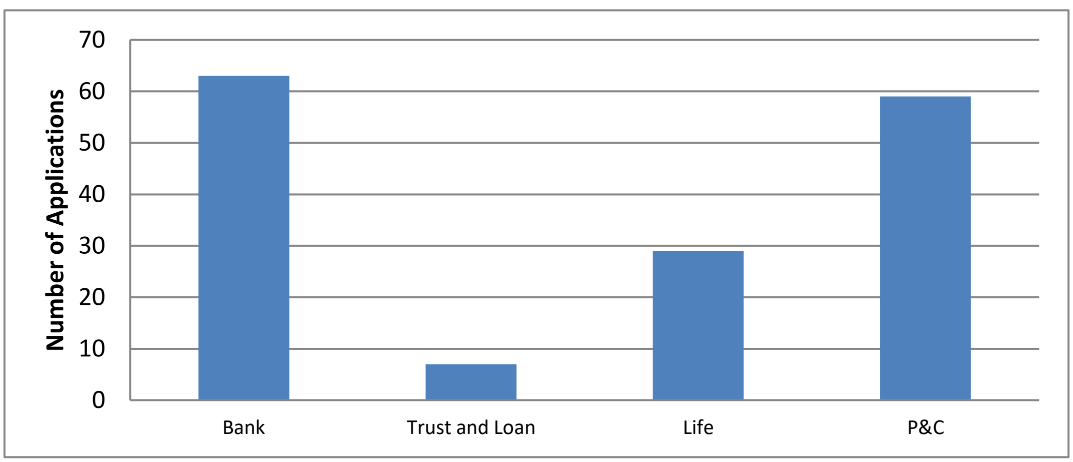
The *Bank Act*, *Trust and Loan Companies Act*, *Insurance Companies Act*, and *Cooperative Credit Associations Act*[1] require federally regulated financial institutions to seek regulatory approval from the Superintendent or the Minister of Finance (after receiving the recommendation of the Superintendent) prior to engaging in certain transactions or business undertakings.

Regulatory approvals are also required by persons wishing to incorporate an institution, 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 Unit is responsible for making recommendations to the Superintendent, and to the Minister of Finance, for matters requiring regulatory approval.

In 2018-19, OSFI processed 172 applications, of which 158 were approved and fourteen were withdrawn. Individual applications often contain multiple approval requests. The 158 approved applications involved 318 individual approvals, 231 of which were granted by the Superintendent and 87 by the Minister. The number of applications remained relatively flat from the previous fiscal year, when 154 applications were approved. The majority of approved applications for 2018-19 related to banks (40%) and P&C insurers (37%).(*See figure 1)*

FIGURE 1

Approved Applications by Industry 2018-19



The most common applications received from deposit-taking institutions related to purchases or redemptions of shares or debentures, substantial investments, and changes in ownership. For insurance companies, the most common applications related to reinsurance with related unregistered reinsurers, purchases or redemptions of shares or debentures, and amending orders to commence and carry on business or insure in-Canada risks.

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[1] While OSFI administers the *Cooperative Credit Associations Act* (the CCAA), no entity has been subject to this legislation since January 2017. As part of the latest review of the legislation governing federally regulated financial institutions, Parliament decided that effective March 30, 2019, no entity may operate under the CCAA.

During 2018-19, letters patent were granted incorporating Equitable Trust as a trust company, and Motus Bank as a domestic bank. Letters patent were also granted continuing Haventree Bank, previously a federal trust company, as a domestic bank, and Coast Capital Savings Federal Credit Union, previously a provincial cooperative credit society, as a federal credit union. In addition, orders to insure *in Canada* risks were issued to Metropolitan Tower Life Insurance Company and SCOR RE, establishing them as foreign insurance branches in Canada.

Upon request, OSFI also provides advance capital confirmations on the eligibility of proposed regulatory capital instruments. A total of 20 such opinions and validations were provided in 2018-19, compared to 29 the previous year.

OSFI has performance standards establishing time frames for processing applications for regulatory approval and for other services, all of which were met during the year. More information on service performance standards can be found on our website.

LEGISLATION

In keeping with the objective of enhancing the transparency of our 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 2018-19, OSFI issued a revised guide to foreign bank branching and revised transaction instructions regarding purchases and redemptions of shares, and reductions of stated capital.

The Government of Canada has committed to review the federal financial institution statutes every five years. OSFI actively participated in the latest review, which resulted in changes to the statutes. Some of these changes came into immediate force while others require regulations to come into force such as expanded powers regarding financial technology activities and investments, and expanded life insurers' powers to invest in infrastructure assets.

Federally Regulated Private Pension Plans

OSFI supervises federally regulated private pension plans and protects pension plan members and other beneficiaries by developing guidance on risk management and mitigation, assessing whether private pension plans are meeting their funding requirements and managing risks effectively, and intervening promptly when corrective actions need to be taken. Pension plan administrators are ultimately responsible for sound and prudent management of their plans.

Approximately seven percent of private pension plans in Canada are federally regulated (Statistics Canada data as at January 2018). As at March 31, 2019, 1,214 private pension plans were registered under the *Pension Benefits Standards Act, 1985* (PBSA), covering more than 1,154,600 active members and other beneficiaries in federally regulated areas of employment such as banking, inter-provincial transportation and telecommunications. Between April 1, 2018, and March 31, 2019, federally regulated private pension plan assets decreased by 1.7 percent, to a value of approximately $215.5 billion (*see figure 2*).

Under the federal *Pooled Registered Pension Plan Act* (PRPP Act) and its regulations, OSFI is responsible for licensing PRPP administrators, registering PRPPs and supervising these plans. At the end of 2018, there were five federally registered PRPPs, with one reporting 11 participating employers and 186 members (the total value of investments was $297,224) (*see figure 2*).

Private Pension Plan Environment

The overall solvency position of federally regulated pension plans deteriorated in 2018 due to a sharp decrease in investment returns in the final quarter of 2018 that reversed most of the gains achieved in the first nine months of the year. The first quarter of 2019 saw revived equity market returns, which helped offset most of the 2018 end-of-year decline. However, because the valuation date of actuarial reports is generally at the end of the calendar year, the rebound will not affect the funding requirements of defined benefit pension plans for 2019.

Federal solvency funding requirements for plans with defined benefit provisions are based on a plan's three-year average solvency position, meaning the 2018 solvency ratio replaces the 2015 value in calculating the average. For most plans, the three-year average solvency position has increased slightly despite solvency ratios in 2018 generally being lower than in 2017 because 2018 solvency ratios are generally higher than 2015 ratios. As a result, most plans are not expected to experience an increase in their required solvency funding payments for 2019 compared to 2018.

The recent market volatility demonstrates how rapidly a pension plan's solvency position can change and many plan sponsors continue to explore ways to manage volatility and pension risks. One such option is the transfer of liabilities from a pension plan to an insurance company through the purchase of annuities. The fourth quarter of 2018 was the most active quarter in Canadian annuity market history, with an estimated $1.5 billion of annuities purchased.

FIGURE 2

Federally regulated private pension plans by type, as at March 31 (last 4 years)

Plans Subject to the *Pension Benefits Standards Act, 1985*		**2016**	**2017**	**2018**	**2019**
Number of Plans	Defined Benefit	306	294	283	278
	Combination	124	126	121	122
	Defined Contribution	803	810	810	814
	Total	1,233	1,230	1,214	**1,214**
Active Membership	Defined Benefit	250,600	244,100	240,700	236,600
	Combination	249,400	250,500	249,300	256,300
	Defined Contribution	130,700	129,800	133,400	138,400
	Total	630,700	624,400	623,400	**631,300**
Other Beneficiaries	Defined Benefit	237,600	246,500	259,200	265,200
	Combination	223,900	230,000	230,100	237,700
	Defined Contribution	17,100	18,100	19,300	20,400
	Total	478,600	494,600	508,600	**523,300**
Assets ($ millions)	Defined Benefit	99,150	101,678	108,845	107,814
	Combination	92,352	97,131	102,582	100,063
	Defined Contribution	6,797	7,098	7,688	7,589
	Total	198,299	205,907	219,115	215,466
Plans Subject to the *Pooled Registered Pension Plans Act*		**2016**	**2017**	**2018**	**2019**
Number of plans		4	4	5	5
Total membership		25	53	111	186
Assets ($)		16,900	77,300	150,100	297,200

Risk Assessment, Supervision and Intervention

In 2018-19, three major reviews began: how OSFI supervises investments of pension plans; pension plans with defined contribution (DC) provisions; and data collected on regulatory returns.

The review of supervision of investments is considering the investment information and data being collected and analyzed as well as the supervisory procedures OSFI follows to ensure that potential risks are appropriately identified. This review will continue in 2019-20 and is intended to strengthen OSFI's principles- and risk-based approaches to pension plan supervision.

The review of pension plans with DC provisions is intended to enhance OSFI's risk-based approach to supervision by requesting specific information on plan fees, default investment options and the number and type of investment options offered to members. In 2019-20, OSFI will analyze the information and may adjust its supervisory procedures or update external guidance based on the risks identified.

We reviewed data collected on annual regulatory returns to consider its usefulness and to identify duplication. The data was mapped and summarized and an analysis was performed resulting in decisions to add, remove and streamline data on annual regulatory filings. Some modifications to the returns are expected to be introduced in 2019-20 while other changes will be implemented following the completion of the investment and DC projects described above.

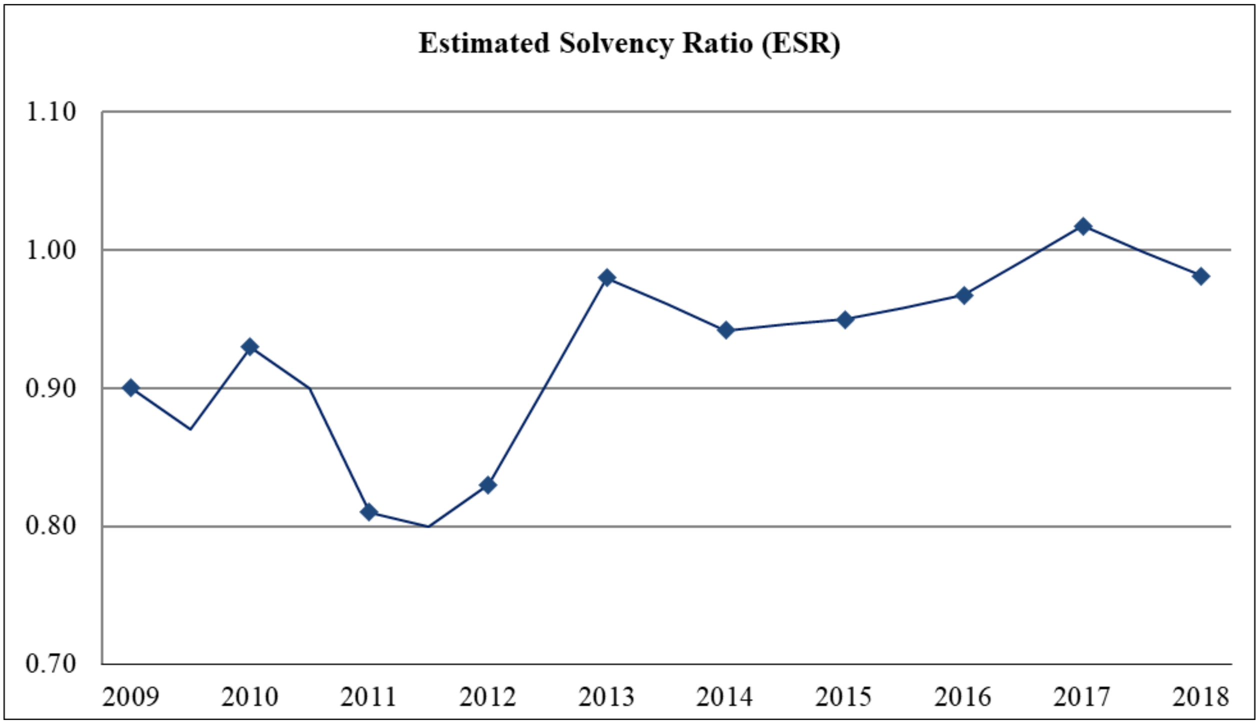
Solvency Testing

OSFI regularly estimates the solvency ratio (the ratio of assets over liabilities on a plan termination basis) for about 360 plans with defined benefit provisions. The Estimated Solvency Ratio (ESR) results help identify (before a plan files its actuarial report) any solvency issues that could affect the security of members' promised pension benefits and broader trends.

The liability-weighted average ESR for all pension plans was 0.98 at December 31, 2018, down from 1.02 at the end of 2017 (*see figure 3*). The ESR results indicated that 74 percent of defined benefit plans were underfunded at December 31, 2018, up from 63 percent at the end of 2017. In addition, there has been an increase in the number of plans that are more significantly underfunded (ESRs below 0.80) from 13 percent at the end of 2017 to 16 percent at the end of 2018.

FIGURE 3

Solvency Position of Pension Plans as at December 31 (past 10 years)



Actuarial Reports

OSFI assesses whether private pension plans are meeting funding requirements under the PBSA and expectations set out in guidance. Actuarial reports are reviewed for defined benefit plans and if risks are noted or if the approval of the Superintendent is required, the report is reviewed more in depth, and any concerns are then raised with the plan's actuary. Issues raised provide an opportunity for actuaries to discuss the concerns OSFI has with actuarial reports, which may have an impact on current and future funding requirements.

Nearly 300 actuarial reports were filed with OSFI in 2018-19, and 62 were reviewed more in depth. OSFI intervention in 2018-19 resulted in some plans being required to amend and re-submit their actuarial report or in some cases, to file their subsequent actuarial report early.

Examinations

As part of its risk-based supervisory approach, OSFI conducts examinations of select plans. During 2018-19, six examinations were performed: two defined benefit plans; two defined contribution plans; and two combination plans (having both defined benefit and defined contribution provisions). The examinations may be limited to a desk review or may be conducted on the plan administrator's premises.

Watch List

Pension plans facing higher risk due to their financial condition, plan management or other reasons, are placed on a watch list and actively monitored. At March 31, 2019, 26 plans were on the watch list, a decrease from 37 the year before. Of the 26 plans on the watch list, 19 were defined benefit and seven were defined contribution plans. During 2018-19, five new plans were added to the watch list and 16 plans were removed.

Rules and Guidance

Regulations Amending the Assessment of Pension Plans Regulations: These amendments streamline the annual assessment process for plan administrators and OSFI and eliminate annual assessments for certain terminated pension plans where annual assessments of these plans was not considered appropriate. The regulations are made under the *OSFI Act* and came into force on April 1, 2019.

Guidance: To enhance its accountability to external stakeholders, OSFI regularly reviews and updates existing guidance and issues new guidance when warranted. In August 2018, OSFI issued a revised instruction guide for a refund of surplus to the employer. The revisions mainly clarified OSFI's expectations for the process of making an application to the Superintendent for consent to a refund of surplus to the employer.

In June 2018, OSFI issued five PRPP member guides for members of federally registered PRPPs that describe the general requirements as well the various requirements impacting individual benefits for federal, British Columbia, Saskatchewan, Ontario and Nova Scotia members. A guide for Manitoba members will follow. Under the *Multilateral Agreement Respecting Pooled Registered Pension Plans and Voluntary Retirement Savings Plans*, OSFI is responsible for supervising multijurisdictional PRPPs that are federally registered and contain members covered by legislation of the provinces that are party to the agreement, with the exception of Quebec.

In May 2018, OSFI issued revisions to its instruction guide for completing certified financial statements and submitting an auditor's report. The revisions included changes to the guide and accompanying form to ensure consistency with the Regulatory Reporting System (RRS) and clarity regarding filing requirements.

InfoPensions

OSFI published its newsletter, *InfoPensions* in May and November 2018. It includes announcements and reminders for plan administrators, pension advisors and other stakeholders as well as descriptions of how OSFI applies provisions of the pension legislation and its guidance.

Approvals

Federally regulated private pension plans are required to seek approval from the Superintendent for several types of transactions: plan registrations and terminations; asset transfers between registered defined benefit pension plans; refunds of surplus; and reductions of accrued benefits. The number of pension transactions submitted to the Superintendent for approval increased to 63 in 2018-19 from 37 in 2017-18. OSFI processed 47 applications for approval in 2018-19, compared to 54 the previous year.

In 2018-19, 14 new plans were registered (two defined benefit and 12 defined contribution), while 16 plan termination reports were approved (five defined benefit and 11 defined contribution).

In response to feedback from a 2017 survey, OSFI reviewed its procedures for approving pension plan transactions to ensure that approvals are processed efficiently.

FIGURE 4

Asset Breakdown of Private Pension Plans Regulated by OSFI [1]

	2017		2018	
Asset Class	**$ Millions**	**%**	**$ Millions**	**%**
Debt securities and cash	103,058	47.0	105,081	48.8
Equity	87,538	40.0	79,711	37.0
Diversified investments	10,615	4.9	10,830	5.0
Other investments	27,016	12.3	31,108	14.4
Accounts receivable net of liabilities	(9,112)	-4.2	(11,264)	-5.2
TOTAL NET ASSETS	**219,115**	**100.0**	**215,466**	**100.0**

[1] Not including Pooled Registered Pension Plans. Investment return net of investment and custodial fees was 0.2% in 2018, compared to 9.7% in 2017.

Office of the Chief Actuary

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

The OCA provides actuarial valuation and advisory services for the CPP, the Old Age Security (OAS) program, the Canada Student Loans Program and the Employment Insurance program, as well as for pension and benefits plans covering the federal public service, the Canadian Forces, the Royal Canadian Mounted Police, federally appointed judges and members of Parliament.

The OCA is established within OSFI as an independent unit. The fact that it is hosted by OSFI ensures its independence and impartiality. Although the Chief Actuary reports to the Superintendent, the accountability framework of the OCA makes it clear that its staff is solely responsible for actuarial advice provided.

Appointment of Chief Actuary and Head of the Office of the Chief Actuary

On March 5, 2019, Jeremy Rudin announced the appointment of Assia Billig as Chief Actuary and head of the OCA. Ms. Billig will succeed Jean-Claude Ménard, who will retire in April 2019 after twenty years of service as Chief Actuary.

Ms. Billig joined the OCA in 2008, where she was involved in the preparation of statutory actuarial reports on the CPP and OAS as well as of various national and international actuarial studies. Prior to joining the OCA, she worked in private pension consulting.

Ms. Billig is recognized around the world as an expert on actuarial aspects of social security programs. She is the vice-chair of the International Actuarial Association Social Security Committee and the chair of the Technical Commission on Statistical, Actuarial and Financial Studies of the International Social Security Association. She is the author or co-author of several articles, many of which can be found in *International Social Security Review* and on OSFI’s web site.

Ms. Billig is a Fellow of the Society of Actuaries and the Canadian Institute of Actuaries. She has completed her undergraduate studies in Moscow State University and has a PhD in Mathematics from the University of Alberta.

Tabling of the 29th Actuarial Report Supplementing the 27th and 28th Actuarial Reports on the Canada Pension Plan

Division 19 of Part 6 of Bill C-74, the *Budget Implementation Act, 2018, No. 1* (Bill C-74) introduced proposed amendments to the base and additional components of the CPP. In addition to introducing child-rearing and disability drop-in provisions to the additional CPP, the proposed amendments enhance the survivor benefits under both the base and additional CPP as well as the disability and death benefits under the base CPP. The 29th Actuarial Report supplementing the 27th and 28th Actuarial Reports on the

Canada Pension Plan as at 31 December 2015 was prepared to show the effect of Bill C-74 on the long-term financial state of the base and additional CPP.

The report, which was tabled in Parliament on May 1, 2018, provides the long-term projected impact of these amendments on the number of beneficiaries and the benefit expenditures. It also presents long-term financial projections to support the report's conclusion that if the amendments are implemented, the legislated contribution rates of both the base CPP and the additional CPP result in projected contributions and investment income that are sufficient to fully pay for the projected expenditures over the long term. Under the proposed amendments and current legislated contribution rates, the base CPP assets and additional CPP assets are projected to reach $1,442 billion and $1,322 billion respectively by 2050.

Public Sector Insurance and Pension Plans

In 2018-19, the OCA completed two actuarial reports on public sector insurance and pension plans, which were submitted to the President of the Treasury Board for tabling in Parliament. The *Actuarial Report on the Pension Plan for the Public Service of Canada as at 31 March 2017* and the *Actuarial Report on the Public Service Death Benefit Account as at 31 March 2017* were tabled in Parliament on November 2, 2018.

These reports provide actuarial information to decision makers, parliamentarians and the public, thereby increasing transparency and confidence in Canada's retirement income system.

Actuarial Report on the Employment Insurance Premium Rate

In 2018-19, the OCA presented to the Canada Employment Insurance Commission the *2019 Actuarial Report on the Employment Insurance Premium Rate*, which was tabled in Parliament on September 27, 2018. The report provides the forecast break-even premium rate for the upcoming year and a detailed analysis.

Actuarial Report on the Canada Student Loans Program

In 2018-19, the OCA submitted to the Minister of Employment, Workforce Development and Labour the *Actuarial Report on the Canada Student Loans Program as at July 31, 2017*. The report, which was tabled in Parliament on July 18, 2018, presents a valuation of the program's overall financial costs and increases the level of information available to decision makers, parliamentarians and the public.

Special Events, Presentations and Special Studies

In 2018-19, the OCA released *Actuarial Study No.19: Measuring and Reporting Actuarial Obligations of the Canada Pension Plan* and *Actuarial Study No.20: Technical Paper on the Additional Canada Pension Plan Regulations.* Actuarial Study No.19 discusses different methodologies used to produce a social security pension system's balance sheet. It concludes that if the CPP financial sustainability is to be measured using a balance sheet approach, it should be done on an open-group basis that reflects the partially funded nature of the CPP. Actuarial Study No. 20 provides technical information on the methodology for calculating the contribution rates of the additional CPP as prescribed in *Calculation of Contribution Rates Regulations, 2018*. It also discusses the design of the *Additional Canada Pension Plan Sustainability Regulations*, which provide a mechanism for adjusting additional CPP benefits and/or contributions under specific sets of circumstances. In its conclusion, the study highlights that the design of the sustainability regulations shares adjustments between current beneficiaries, contributors and their employers. It aims at minimizing intergenerational transfers to be consistent with the design and financing objectives of the additional CPP, and provides to all generations of Canadians the confidence of being treated fairly.

The impacts of increasing longevity on the sustainability of pension plans attract attention both in Canada and around the world. The OCA published the *Old Age Security Mortality Fact Sheet,* which noted that despite continued increases in life expectancies for OAS beneficiaries between 2000 and 2017, there has been a decreasing trend in the annual mortality improvement rates for all age groups.

In 2018-19, the Chief Actuary and OCA staff continued to discuss topics of longevity at national and international events and participated in the work of professional actuarial groups dealing with this matter. A number of presentations were also given by OCA employees throughout the year covering a wide variety of topics such as the funding risks for federal public sector pension plans, the sustainability of the CPP and design considerations of multi-pillar pension systems in Canada and abroad.

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

Corporate Services

Engaging with Canadians

One of OSFI's goals is to preserve support from Canadians and cooperation from the financial services industry by being transparent and accountable.

OSFI provides a great deal of information about its plans, programs and activities to Canadians through its website, traditional and social media, public events and speeches, and Parliamentary appearances. The Executive Committee and senior officials have delivered a number of presentations and remarks across Canada and internationally, and OSFI officials frequently speak at industry conferences and seminars.

- We published our external newsletter *The OSFI Pillar* three times in 2018-19. As OSFI's official newsletter, it provides updates and reminders on the latest guidelines, industry notices, public statements and other pertinent information, including feature articles and speeches.

- We engaged regulated entities by organizing and hosting 27 events and presentations, including risk management seminars, colleges of supervisors, crisis management groups and information sessions.

- We also sought feedback from regulated entities through regular surveys and consultations to identify any issues or concerns and to improve our performance.

- We responded to nearly 7,000 correspondence and telephone inquiries and requests for information, including 73 inquiries from members of Parliament; 143 from news media; and 80 access to information requests and consultations.

We will continue to explore ways to raise awareness and explain OSFI's role and activities that help keep Canada's financial system strong and resilient.

Information Management and Technology

OSFI's IM/IT achievements in 2018/19 included entering into an agreement with a system integrator to design and deliver a new system to automate and support supervisory activities. Work also began to procure a new time reporting tool to replace an outdated system and modernize planning and resource management. In support of the Human Capital Strategy, a business case was developed and approved recommending investment in a new learning management platform to promote, develop, deliver and measure learning at OSFI.

OSFI also continued to strengthen its cyber security posture through the implementation of a new cyber security policy. The policy advances best practices in the risk mitigation of cyber threats and guides further maturation of our cyber security controls. Efforts also continued to enhance OSFI's privacy and information management program and respond to access to information requests.

Human Resources

OSFI’s 780 employees have a wide range of skills, including financial services experience, regulatory expertise, risk management and a variety of corporate services backgrounds.

The leadership team believes in investing in its human capital. To this end, in 2017, OSFI launched its Human Capital Strategy as a renewal platform with the objective of ensuring that its programs, policies and practices are modern and conducive to a productive and inclusive work environment where all employees have the support and tools they need to meet their full potential.

In 2018-19, activities under this strategy focused on the delivery and implementation of new HR programs and the review of existing programs. Progress has been made in each of the five pillars: Leadership Development, Talent Management, Learning and Development, Culture and Community and Enterprise Change Management. Highlights include:

- a leadership development program with about 80 participants the first year
- implementation of a talent management program for executives
- learning modules for a core learning program for supervisory staff
- learning and professional development opportunities, including e-learning, in-class sessions, conferences, seminars and lunch and learn events
- an Inclusion Network to plan events, meetings, activities and awareness campaigns that celebrate diversity in the following streams: accessibility, diversity of thought, family responsibility, gender, invisible differences, LGBTQI2S, mental health, multiculturalism and unconscious bias
- a new recognition program, including peer-to-peer recognition, long service awards and formal awards
- full implementation of an Enterprise Change Management framework, methodology and tools, which were applied to a number of large enterprise-wide initiatives

OSFI revised and updated its *Conflict of Interest Policy,* which provides guiding principles to help employees avoid situations that could give rise to a real or apparent conflict of interest. New collective agreements were signed with both bargaining units.

Initiatives underway in 2019-20 include the rollout of talent management to all employees; development of a workplace well-being strategy; development of an organizational learning strategy to guide learning investments; growing capacity to create e-learning products; and work on assessing organizational culture and refreshing corporate values.

Financial Review and Highlights

OSFI recovers its costs from several revenue sources. OSFI is funded mainly through 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 2018-2019.

OSFI's total costs were $170.4 million, a $13.1 million or 8.3% increase from the previous year. Personnel costs, OSFI's largest expense, rose by $11.3 million, or 9.6%. The increase is a result of normal economic and merit increases to basic salaries, a decision to match the broader federal public service economic adjustment to salaries retroactive to 2015 for the executive group of employees, and an increase in the average number of full-time equivalent employees. Professional services costs rose by $1.2 million or 8.0%, largely due to an increase in Information Management/Technology consulting costs in support of a multi-year technology project that commenced in 2018 to modernize OSFI's supervisory processes, practices and tools. All other costs, in total, increased by $0.6 million or 1.6%.

OSFI's average number of full-time equivalent employees in 2018-2019 was 741, a 6.6% increase from the previous year because of the addition of new positions to increase capacity in all sectors of the organization, and the filling of a number of vacant positions.

Federally Regulated Financial Institutions

Revenues

Total revenues from federally regulated financial institutions were $154.7 million, an increase of $12.8 million or 9.0% 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 $12.7 million or 9.3% from the previous year.

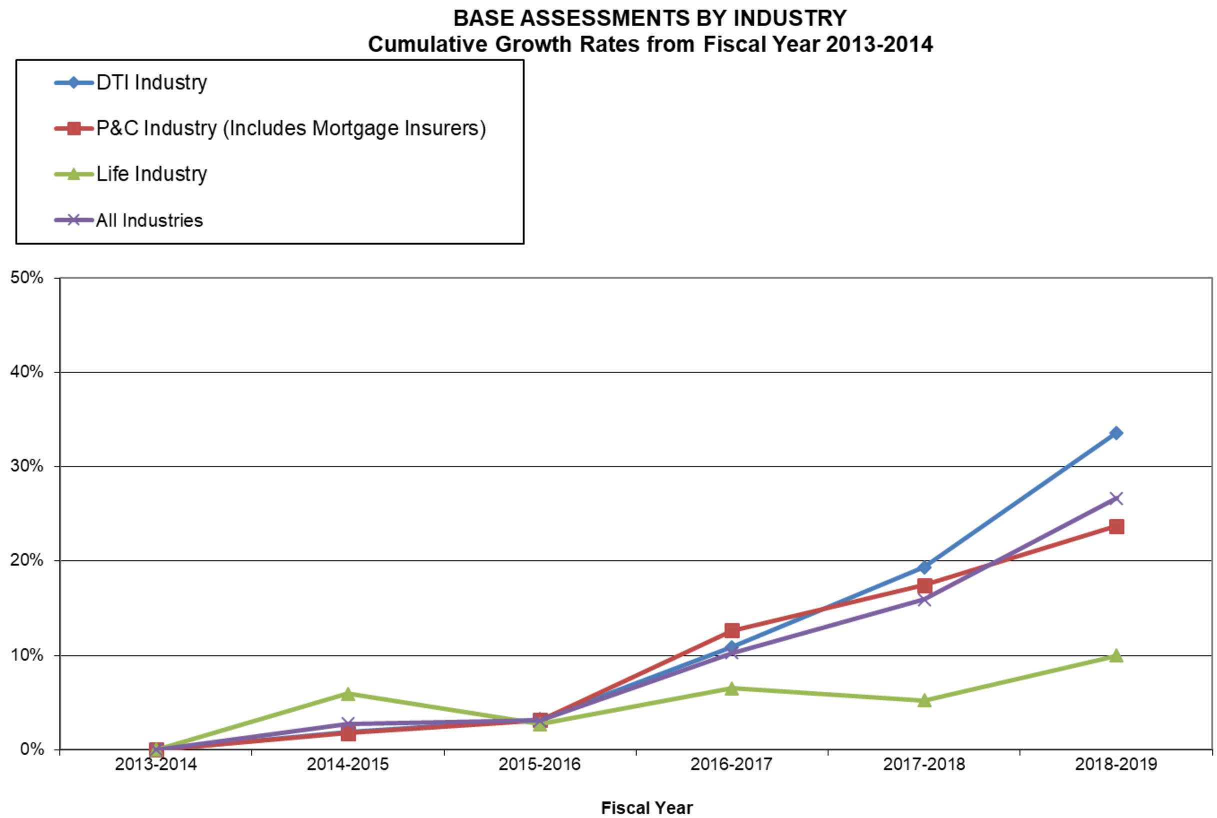
Revenue from user fees and charges increased by $0.6 million or 31.7% because of increases in the volume of approvals-related work that attracts a user fee and in surcharge assessments.

Costs

Total costs attributed to federally regulated financial institutions were $154.7 million, an increase of $12.8 million or 9.0% from the previous year. The increase is primarily due to higher personnel costs ($11.1 million) and higher professional services costs ($1.4 million), as explained above.

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 2013-2014 as the base year.



Base assessments on the deposit-taking institutions (DTI) industry increased in 2014-2015 in line with OSFI's total expenses. In 2015-2016, base assessments increased slightly, despite a decrease in OSFI's total expenses, due to a reduction in surcharge assessments. Base assessments rose in 2016-2017 through to 2018-2019 because of the increases in OSFI's total expenses. The rate of growth in 2017-2018 was higher in this industry because of a review of the sales practices of D-SIBs and increased supervisory activity related primarily to the revised mortgage underwriting guideline B-20. In 2018-2019, the rate of growth in the DTI industry continued to outpace that of the other industries due to increased time spent on mortgage underwriting, the domestic stability buffer and small and medium-sized banks.

The increase in assessments on the property and casualty (P&C) insurance industry in 2014-2015 was consistent with the growth in OSFI's total expenses. In 2015-2016, base assessments increased slightly, despite a decrease in OSFI's total expenses, due to a reduction in surcharge assessments. Base assessments rose in 2016-2017 through to 2018-2019 in line with the increase in OSFI's total expenses.

The increase in assessments on the life insurance industry in 2014-2015 reflected the addition of staff with specific expertise in life insurance, OSFI's efforts in developing a new framework for the standardized Minimum Continuing Capital and Surplus Requirements (MCCSR) approach, and continued work on the development of a new Life Insurance Solvency Framework Standard Approach (that was released in 2017-2018). In 2015-2016, base assessments decreased in line with OSFI's total expenses. Base assessments rose in 2016-2017 as a result of the increase in OSFI's total expenses, albeit at a lower rate than that for the DTI and P&C industries because resources allocated to the life industry remained unchanged from the previous year. In 2017-2018, base assessments decreased slightly due to a lower utilization of shared regulatory resources for life insurance matters as a result of the completion of the new Life Insurance Capital Adequacy Test Guideline (LICAT). Base assessments rose in 2018-2019 because of the increase in OSFI's total expenses. Consistent with the last several years, the rate of growth in base assessments is lower than that for the DTI and P&C industries because resources allocated to the life insurance industry remained relatively unchanged from the previous year.

In addition to these industry-specific cost drivers, the increase in average full-time equivalent employees as a result of the addition of new positions and filling a number of vacant positions during 2016-2017 through 2018-2019 contributed to overall growth in assessments. In 2018-2019, investments to implement a comprehensive human capital strategy, modernize OSFI's supervisory processes, practices and tools, and execute a cyber security strategy and its associated action plan also increased base assessments across all industries.

Federally Regulated Private Pension Plans

Assessments

OSFI's costs to regulate and supervise private pension plans are recovered from an annual assessment charged to plans based on their number of beneficiaries. Plans are assessed upon applying for registration under the *Pension Benefits Standards Act*, *1985* (PBSA) and annually thereafter.

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 number of assessable beneficiaries to arrive at a base fee rate. The rate established for 2018-2019 was $8.00 per assessable beneficiary, unchanged from the previous year. Total fees assessed during the fiscal year were $5.6 million, also unchanged from 2017-2018. Total fees recognized as revenue in 2018-2019 were $6.7 million. The difference between revenue recognized and fees assessed of $1.1 million is the drawdown of excess assessments from prior years, as discussed below.

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 whereby the annual shortfall or excess is recovered or returned to the pension plans over a period of five years commencing one year from the year in which they were established through an adjustment to the annual fee rate. Prior to 2009-2010, rates had been set to recover an accumulated shortfall. A small surplus position was re-established in 2008-2009 and continued to rise through 2011-2012 as expenses were lower than planned each year. Since 2012-2013, rates have been set to gradually draw the surplus down. The rate established and published in the *Canada Gazette* in September 2018 for 2019-2020 is set at $9.00 per assessable beneficiary, up from $8.00 from 2018-2019. OSFI anticipates that the rate for 2019-2020 will fully recover the estimated annual costs of this program; however, variations between actual and estimated costs or plan beneficiaries in any particular year will cause an excess or shortfall of assessments.

Costs

The cost of administering the PBSA for 2018-2019 was $6.7 million, a decrease of $0.5 million or 7.4% from the previous year due to a reduction in amortization expense as certain assets became fully amortized, and a reduction in usage of legal services from the Department of Justice.

Assessments and Costs for Fiscal Years 2013-2014 to 2018-2019
($000, except Basic Fee Rate)

Fiscal year	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Assessments	6,842	6,725	6,701	6,366	5,612	5,612
Costs	7,196	6,666	6,633	7,035	7,193	6,664
Basic fee rate* per assessable beneficiary	10.00	10.00	10.00	9.00	8.00	8.00

* 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 $8.00 per member, the minimum annual assessment is $400 and the maximum is $160,000.

Actuarial Valuation and Advisory Services

The OCA is funded by fees charged for actuarial valuation and advisory services and by an annual parliamentary appropriation. Total expenses in 2018-2019 were $9.0 million, an increase of $0.8 million, or 9.7%, from the previous year primarily due to higher personnel costs a result of normal economic and merit increases to basic salaries, the decision to match the broader federal public service economic adjustment to salaries retroactive to 2015 for the executive group of employees, and an increase in the average number of full-time equivalent employees.

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

Office of the Superintendent of Financial Institutions

FINANCIAL STATEMENTS

March 31, 2019

OSFI
BSIF

Canada

Statement of Management Responsibility Including Internal Control over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2019 and all information contained in these statements rests with the management of the Office of the Superintendent of Financial Institutions (OSFI). These financial statements have been prepared by management in accordance with Public Sector Accounting Standards.

Some of the information in the financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of OSFI's financial transactions.

Management is also responsible for maintaining an effective system of internal control over financial reporting designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through an organizational structure that provides appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout OSFI; and through conducting an annual assessment of the effectiveness of the system of internal control over financial reporting.

The system of internal control over financial reporting is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

Under the responsibility of the Chief Financial Officer, an assessment for the year ended March 31, 2019 was completed in accordance with the Treasury Board *Policy on Financial Management* and the results and action plan are summarized in the annex.

The effectiveness and adequacy of OSFI's system of internal control is reviewed by the internal audit staff, who conduct periodic risk based audits of different areas of OSFI's operations, and by OSFI's Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting, and which reviews and provides advice to the Superintendent on the audited financial statements.

Deloitte LLP has audited the financial statements of OSFI and reports on their audit to the Minister of Finance. This report does not include an audit opinion on the annual assessment of the effectiveness of OSFI's internal controls over financial reporting.

Michele Bridges, CPA, CGA
Chief Financial Officer

Jeremy Rudin
Superintendent of Financial Institutions

Ottawa, Canada
June 27, 2019

Office of the Superintendent of Financial Institutions
STATEMENT OF FINANCIAL POSITION
As at March 31, 2019 (in thousands of Canadian dollars)

	Note(s)	March 31, 2019	March 31, 2018
Financial assets			
Cash entitlement		$ 45,942	$ 50,749
Trade and other receivables, net	3, 4	4,458	4,522
Accrued base assessments	3	4,643	3,564
Total financial assets		**55,043**	**58,835**
Financial liabilities			
Accrued salaries and benefits	10	25,308	30,281
Trade and other payables	4, 10	4,582	3,396
Unearned base assessments	10	561	1,165
Unearned pension plan assessments	10	1,228	2,280
Deferred revenue		176	126
Employee benefits – severance	6	5,090	5,185
Employee benefits – sick leave	6	8,023	7,474
Total financial liabilities		**44,968**	**49,907**
Net financial assets		**10,075**	**8,928**
Non-financial assets			
Tangible capital assets	5	13,953	15,564
Prepaid expenses		1,652	1,188
Total non-financial assets		**15,605**	**16,752**
Accumulated surplus	11	**$ 25,680**	**$ 25,680**

The accompanying notes form an integral part of these financial statements.

Michele Bridges, CPA, CGA
Chief Financial Officer

Jeremy Rudin
Superintendent of Financial Institutions

Office of the Superintendent of Financial Institutions

STATEMENT OF OPERATIONS

For the year ended March 31, 2019 (in thousands of Canadian dollars)

	Note(s)	Budget 2018-19	2019	2018
Regulation and supervision of federally regulated financial institutions				
Revenue		$ 147,665	$ 154,691	$ 141,867
Expenses		147,665	154,691	141,867
Net results before administrative monetary penalties revenue		-	-	-
Administrative monetary penalties revenue	8	-	21	121
Administrative monetary penalties revenue earned on behalf of the Government		-	(21)	(121)
Net results		**-**	**-**	**-**
Regulation and supervision of federally regulated private pension plans				
Revenue		7,128	6,664	7,193
Expenses		7,128	6,664	7,193
Net results		**-**	**-**	**-**
Actuarial valuation and advisory services				
Revenue		8,262	7,692	7,259
Expenses		9,207	9,003	8,204
Net results		**(945)**	**(1,311)**	**(945)**
Net results from operations before government funding		**(945)**	**(1,311)**	**(945)**
Government funding	4	**945**	**1,311**	**945**
Surplus from operations		**$ -**	**$ -**	**$ -**

The accompanying notes form an integral part of these financial statements.

Office of the Superintendent of Financial Institutions

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

For the year ended March 31, 2019 (in thousands of Canadian dollars)

	Note	Budget 2018-19	2019	2018
Surplus from operations		$ -	$ -	$ -
Tangible capital assets				
Acquisition of tangible capital assets	5	(5,344)	(3,235)	(3,551)
Amortization of tangible capital assets	5	4,986	4,846	5,175
		(358)	1,611	1,624
Non-financial assets				
Change in prepaid expenses		-	(464)	54
Increase/(decrease) in net financial assets		**(358)**	**1,147**	**1,678**
Net financial assets, beginning of the year		**8,928**	**8,928**	**7,250**
Net financial assets, end of the year		**$ 8,570**	**$ 10,075**	**$ 8,928**

The accompanying notes form an integral part of these financial statements.

Office of the Superintendent of Financial Institutions
STATEMENT OF CASH FLOW
For the year ended March 31, 2019 (in thousands of Canadian dollars)

	Note(s)	2019	2018
Operating activities			
Cash receipts from financial institutions, pension plans and other government entities		$ 171,669	$ 167,742
Cash paid to suppliers and employees		(173,220)	(160,164)
Administrative monetary penalties revenue remitted to the consolidated revenue fund	8	(21)	(121)
Net cash (used in) provided by operating activities		**(1,572)**	**7,457**
Capital activities			
Acquisition of tangible capital assets	5	(3,235)	(3,551)
Net cash used in capital activities		**(3,235)**	**(3,551)**
Net (decrease) increase in cash entitlement		**(4,807)**	**3,906**
Cash entitlement, beginning of the year		**50,749**	**46,843**
Cash entitlement, end of the year		**$ 45,942**	**$ 50,749**

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2019 (in thousands of Canadian dollars)

1. AUTHORITY AND OBJECTIVES

The Office of the Superintendent of Financial Institutions (OSFI) was established by the *Office of the Superintendent of Financial Institutions Act* (OSFI Act) in 1987. Pursuant to the *Financial Administration Act* (FAA), OSFI is a division of the Government of Canada for the purposes of that Act and is listed in schedule I.1 of the Act. The Government of Canada is OSFI's parent and the ultimate controlling party of OSFI.

OSFI's mandate is:

Fostering sound risk management and governance practices
OSFI advances a regulatory framework designed to control and manage risk.

Supervision and early intervention
OSFI supervises federally regulated financial institutions and pension plans to determine whether they are in sound financial condition and meeting regulatory and supervisory requirements.

OSFI promptly advises financial institutions and pension plans if there are material deficiencies, and takes corrective measures or requires that they be taken to expeditiously address the situation.

Environmental scanning linked to safety and soundness of financial institutions
OSFI monitors and evaluates system-wide or sectoral developments that may have a negative impact on the financial condition of federally regulated financial institutions.

Taking a balanced approach
OSFI acts to protect the rights and interests of depositors, policyholders, financial institution creditors and pension plan beneficiaries while having due regard for the need to allow financial institutions to compete effectively and take reasonable risks.

OSFI recognizes that management, boards of directors and pension plan administrators are ultimately responsible for risk decisions and that financial institutions can fail and pension plans can experience financial difficulties resulting in the loss of benefits.

In fulfilling its mandate, OSFI supports the government's objective of contributing to public confidence in the Canadian financial system.

The Office of the Chief Actuary provides a range of actuarial valuation and advisory services, under the *Canada Pension Plan Act* and the *Public Pensions Reporting Act* to the Canada Pension Plan (CPP) and some federal government departments, including the provision of advice in the form of reports tabled in Parliament.

Revenue and spending authority

Pursuant to Section 17 of the OSFI Act, the Minister of Finance may spend any revenues collected under Sections 23 and 23.1 of the OSFI Act to defray the expenses associated with the operation of OSFI. The Act also establishes a ceiling for expenses at $40 million above the amount of revenue collected to be drawn from the Consolidated Revenue Fund of Canada (CRF).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2019 (in thousands of Canadian dollars)

1. AUTHORITY AND OBJECTIVES (continued)

OSFI's revenues comprise assessments, service charges and fees. The expenses against which assessments may be charged include those in connection with the administration of the *Bank Act*, the *Cooperative Credit Associations Act*, the *Green Shield Canada Act*, the *Insurance Companies Act*, the *Protection of Residential Mortgage or Hypothecary Insurance Act* and the *Trust and Loan Companies Act*. The formula for the calculation of assessments is included in regulations.

Subsections 23(1.1) and 23(5) of the OSFI Act provide that assessments may be charged for the administration of the *Pension Benefits Standards Act, 1985* (PBSA, 1985) and the *Pooled Registered Pension Plans Act.* The assessments for the administration of pension plans subject to the PBSA are set annually in accordance with the *Assessment of Pension Plans Regulations*.

Section 23.1 of the OSFI Act provides that the Superintendent may assess against a person a prescribed charge (service charge) and applicable disbursements for any service provided by or on behalf of the Superintendent for the person's benefit or the benefit of a group of persons of which the person is a member. "Person" includes individuals, corporations, funds, unincorporated associations, Her Majesty in Right of Canada or of a province, and a foreign government. The service charges are detailed in the regulations.

Pursuant to Section 16 of the OSFI Act, Parliament has provided annual appropriations to support the operations of the Office of the Chief Actuary (OCA).

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of OSFI have been prepared in accordance with Canadian Public Sector Accounting Standards (PSAS) as issued by the Public Sector Accounting Board (PSAB). The accounting policies used in the financial statements are based on the PSAS applicable as at March 31, 2019. The policies set out below are consistently applied to all periods presented.

The significant accounting policies of OSFI are set out below:

a) Cash entitlement (Cash overdraft)

OSFI does not have its own bank account. The financial transactions of OSFI are processed through the CRF. Cash entitlement represents the maximum amount OSFI is entitled to withdraw from the CRF without further authority.

OSFI has a statutory revolving expenditure authority pursuant to Section 17.4 of the OSFI Act. This authority enables OSFI to draw up to $40 million from the CRF to ensure availability of funds prior to receipt of revenue. Drawings on this facility are presented as cash overdraft.

No interest is earned or charged on these amounts.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial instruments

The classification of financial instruments at either fair value or amortized cost is determined by OSFI at initial recognition and depends on the purpose for which the financial assets were acquired, or liabilities were incurred. All financial instruments are recognized initially at fair value. The fair value of financial instruments on initial recognition is based on the transaction price, which represents the fair value of the consideration given or received. Subsequent to initial recognition, financial instruments are measured based on the accounting treatment corresponding to their classification.

Classification	Accounting Treatment
Cash entitlement	Cash entitlement shall be measured at fair value. Gains and losses arising from changes in the fair value of a cash entitlement shall be recorded in Net results from operations before government funding in OSFI's *Statement of Operations.*
Trade and other receivables and Accrued base assessments	Trade and other receivables and Accrued base assessments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition at fair value, Trade and other receivables and Accrued base assessments are measured at amortized cost using the effective interest method, less impairment, if any. Any gain, loss or interest income is recorded in revenue or expenses depending on the nature of the receivables that gave rise to the gain, loss or income.
Financial liabilities	Accrued salaries and benefits, Trade and other payables excluding employer's contributions for employee benefit plans, Unearned base assessments, and Unearned pension plan assessments are measured at amortized cost using the effective interest method. Any gain, loss or interest expense is recorded in revenue or expenses depending on the nature of the financial liability that gave rise to the gain, loss or expense.

c) Impairment of financial assets

OSFI assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2019 (in thousands of Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Impairment of financial assets (continued)

For financial assets carried at amortized cost, OSFI first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If OSFI determines that there is objective evidence of impairment for an individual financial asset it must be assessed for impairment either individually, or in a group of financial assets with similar credit risk characteristics. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The impairment assessment must be based on the best estimates available in light of past events, current conditions, and taking into account all circumstances known at the date of the preparation of the financial statements. If a future write-off is later recovered, the recovery is credited to the *Statement of Operations*.

d) Tangible capital assets

Tangible capital assets are stated at historical cost, net of accumulated amortization and/or accumulated impairment losses, if any. Historical cost includes the costs of replacing parts of property and equipment when incurred, if the recognition criteria are met. Repair and maintenance costs are recognized in the *Statement of Operations* as incurred.

Amortization is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Assets	**Useful life**
Leasehold improvements	Lesser of useful life or remaining term of the lease
Furniture and fixtures	7 years
Office equipment	4 years
Informatics hardware	3 to 5 years
Informatics software	5 to 8 years

Internally developed and externally purchased software are capitalized as tangible capital assets. Software acquired separately is measured on initial recognition at cost. The cost of internally developed software consists of directly attributable costs necessary to create, produce, and prepare the software to be capable of operating in the manner intended by OSFI. Amortization of the assets begins when development is complete and the assets are available for use. Costs incurred during the pre-development or post-implementation stages are expensed in the period incurred.

The assets' residual values, useful lives and methods of amortization are reviewed at each financial year end and adjusted prospectively, if appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment of non-financial assets

OSFI assesses at each reporting date whether there are any internal indicators that an asset may be impaired (e.g., damaged assets or assets no longer being used). If any indication exists, or when annual impairment testing for an asset is required, OSFI estimates the asset's recoverable amount.

OSFI assesses at each reporting date whether there is any objective evidence that an asset may be impaired. When a non-financial asset no longer contributes to OSFI's ability to provide goods and services, or the value of future economic benefits associated with the non-financial asset is less than its net book value, the cost of the non-financial asset is reduced to reflect the decline in the asset's value. Any writedowns are reflected in the *Statement of Operations* in the period the decline is recognized.

OSFI assesses internally developed software not yet in use for impairment on an annual basis.

f) Employee benefits

Short-term benefits are recorded in the *Statement of Operations* when an employee has rendered the service. Unpaid short-term compensated leave that has vested at the reporting date is accrued at the reporting date and not discounted. OSFI contributes to the Government of Canada sponsored Public Service Health Care Plan and Dental Service Plan for employees. These contributions represent the total obligation of OSFI with respect to these plans.

Pension benefits
Substantially all of the employees of OSFI are covered by the public service pension plan (the Plan), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and OSFI to cover current service cost. Pursuant to legislation currently in place, OSFI has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of OSFI.

Severance
On termination of employment, employees are entitled to certain benefits provided for under their conditions of employment through a severance benefits plan. The cost of these benefits is accrued as the employees render their services necessary to earn severance benefits. The severance benefits are based upon the final salary of the employee.

The projected accrued benefit obligation is determined using an accrued benefit method which incorporates management's best estimate of salary, retirement age and discount rate.

Other benefits
The Government of Canada sponsors a variety of other benefit plans from which former employees may benefit upon retirement. The Public Service Health Care Plan and the Pensioners' Dental Service Plan are the two major plans available to OSFI retirees. These are defined benefit plans sponsored by the Government of Canada. Contributions are required by OSFI to cover current service cost. Pursuant to legislation currently in place, OSFI has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total obligation of OSFI with respect to these plans.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Employee benefits (continued)

Sick leave
Employees are eligible to accumulate sick leave until retirement or termination. Unused sick leave is not eligible for payment on retirement or termination, nor can it be used as vacation. All sick leave is an accumulating non-vesting benefit. A liability is recorded for sick leave balances expected to be taken in excess of future allotments.

The cost of sick leave as well as the present value of the obligation is determined using an actuarial valuation.

g) Leases

Leases in which a significant portion of the risks and rewards of ownership related to the leased property are substantially retained by the lessor shall be accounted for as operating leases. OSFI records the costs associated with operating leases in the *Statement of Operations* in the period in which they are incurred. Any lease incentives received from the lessor are charged to the *Statement of Operations* on a straight-line basis over the period of the lease.

OSFI does not have borrowing authority and therefore cannot enter into lease agreements that are classified as leased tangible assets. OSFI has established procedures to review all lease agreements and identify if the proposed terms and conditions would result in a transfer to OSFI of substantially all the benefits and risks incidental to ownership.

h) Statement of Operations

The format of the *Statement of Operations* has been designed to show the revenues and expenses by each of OSFI's business lines. It is considered that this format best represents the nature of the activities of OSFI. Expenses have been disclosed by nature in Note 7 of these financial statements.

i) Revenue recognition

OSFI recognizes revenue so as to recover its expenses. Any amounts that have been billed for which costs have not been incurred are classified as unearned on the statement of financial position. Revenue is recorded in the accounting period in which it is earned (service provided) whether or not it has been billed or collected. At the end of the period, amounts may have been collected in advance of the incurrence of costs or provision of services, or alternatively, amounts may not have been collected and are owed to OSFI.

<u>Base assessments</u> – Revenue from base assessments is recognized based on actual costs incurred as services are charged based on cost recovery and all costs are considered recoverable. Base assessments are billed annually based on an estimate of the current fiscal year's operating costs (an interim assessment) together with a final accounting of the previous year's assessment for actual costs incurred. Assessments are calculated prior to December 31 of each year, in accordance with Section 23(1) of the OSFI Act and the *Assessment of Financial Institutions Regulations, 2017*. Differences between billed estimates and actual costs incurred at the end of the period are recorded as accrued base assessments or unearned base assessments.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Revenue recognition (continued)

Pension plan assessments are earned from registered pension plans. Assessment rates are set annually by regulation based on budgeted expenses, pension plan membership and actual results from previous years. Pension plan assessments are charged in accordance with Section 23(1.1) and 23(5) of the OSFI Act. Revenue from pension plan assessments is recognized based on actual costs incurred as services are charged based on cost recovery and all costs are considered recoverable. Differences between the amounts billed to industry and actual costs incurred at the end of the period are recorded as accrued pension plan assessments or unearned pension plan assessments.

User fees and charges include revenue earned pursuant to the *Charges for Services Provided by the Office of the Superintendent of Financial Institutions Regulations, 2002* – as amended from time to time – in respect of legislative approvals and approvals for supervisory purposes, and surcharges assessed to federally regulated financial institutions assigned a "stage" rating pursuant to the Guide to Intervention for Federal Financial Institutions. Assessment surcharges are charged in accordance with the *Assessment of Financial Institutions Regulations, 2017*. Revenue from user fees and charges is recognized by reference to the stage of completion of the service. Percentage of completion is measured based on actual services performed to date as a percentage of total services to be completed.

Administrative monetary penalties are penalties levied to financial institutions when they contravene a provision of a financial institutions Act and are charged in accordance with the *Administrative Monetary Penalties (OSFI) Regulations*. Penalties levied are not available to reduce the net costs that OSFI assesses the industry (i.e., they are non-respendable) and are remitted to the CRF when collected. OSFI assesses its Administrative monetary penalties revenue against specific criteria in order to determine if it is acting as principal or agent. OSFI has concluded that it is acting as a principal for Administrative monetary penalty revenue.

Cost-recovered services represent revenue earned from sources other than those listed above. These services are provided in accordance with the terms and conditions agreed to by the transacting parties. Revenue from cost-recovered services is recognized based on actual costs incurred, and all costs are considered recoverable. Revenue and the matching expenses from cost-recovered services not specifically related to the Regulation and supervision of federally regulated pension plans or Actuarial valuation and advisory services are grouped with the Regulation and supervision of federally regulated financial institutions on the *Statement of Operations*. This includes costs recovered from other government entities such as the Canada Mortgage and Housing Corporation for OSFI's supervisory oversight in accordance with the *National Housing Act*.

j) Government funding

Government funding, including parliamentary appropriations, is recognized in the period that the appropriation was authorized, and any eligibility criteria met. Parliamentary appropriations for operating purposes are considered to be without stipulations restricting their use and are recognized as revenue when the appropriations are authorized.

k) Contingent liabilities

Contingent liabilities are potential liabilities, which may become liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2019 (in thousands of Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Budget figures

The 2018-2019 budget is reflected in the *Statement of Operations* and the *Statement of Changes in Net Financial Assets* as approved by OSFI's Executive Committee.

m) Significant judgments, estimates and assumptions

The preparation of OSFI's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability, in which case the impact will be recognized in the financial statements of a future fiscal period.

In the process of applying its accounting policies, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements:

- Recognition of internally developed software;
- Lease classification;
- Administrative monetary penalties revenue – OSFI as principal;
- Estimated useful lives of tangible capital assets;
- Actuarial assumptions used to value sick leave and severance obligations;
- Likelihood of occurrence for contingent liabilities; and,
- Estimates for the allowance for doubtful accounts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2019 (in thousands of Canadian dollars)

3. TRADE AND OTHER RECEIVABLES

The breakdown of all amounts owing to OSFI, by type, is as follows:

	Federally regulated financial institutions	Federally regulated private pension plans	Actuarial valuation and advisory services	Other	Total March 31, 2019
Trade receivables	$ 36	$ 316	$ -	$ 154	$ 506
User fees and charges	1,713	-	-	-	1,713
Cost-recovered services and other	-	-	-	2,512	2,512
Trade and other receivables, gross	1,749	316	-	2,666	4,731
Allowance for doubtful accounts	(2)	(271)	-	-	(273)
Trade and other receivables, net	1,747	45	-	2,666	4,458
Accrued base assessments	4,643	-	-	-	4,643
Total	**$ 6,390**	**$ 45**	**$ -**	**$ 2,666**	**$ 9,101**
% of Total exposure	70.2 %	0.5 %	- %	29.3 %	100.0 %

	Federally regulated financial institutions	Federally regulated private pension plans	Actuarial valuation and advisory services	Other	Total March 31, 2018
Trade receivables	$ 212	$ 305	$ -	$ 62	$ 579
User fees and charges	1,334	-	-	-	1,334
Cost-recovered services and other	13	-	14	2,874	2,901
Trade and other receivables, gross	1,559	305	14	2,936	4,814
Allowance for doubtful accounts	(35)	(257)	-	-	(292)
Trade and other receivables, net	1,524	48	14	2,936	4,522
Accrued base assessments	3,564	-	-	-	3,564
Total	**$ 5,088**	**$ 48**	**$ 14**	**$ 2,936**	**$ 8,086**
% of Total exposure	62.9 %	0.6 %	0.2 %	36.3 %	100.0 %

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2019 (in thousands of Canadian dollars)

3. TRADE AND OTHER RECEIVABLES (continued)

The majority of OSFI's revenue is comprised of assessments which are invoiced once a year, usually in the second quarter. As a result, trade receivable balances will vary significantly during the year and may also vary from year to year depending on the timing of the invoicing.

OSFI records an allowance for doubtful accounts considering the age of an outstanding receivable and the likelihood of its collection. An allowance for doubtful accounts is also made where collection of the receivable is doubtful based on information gathered through collection efforts. An allowance is reversed once collection of the debt is successful or the amount is written off. Impairment losses on trade and other receivables recognized during the year ended March 31, 2019 were $87 (March 31, 2018 - $115). Recoveries during the same period totaled $95 (March 31, 2018 - $81).

A receivable will be considered to be impaired and written off when OSFI is certain that collection will not occur and all requirements of the OSFI Act or the *Debt Write-Off Regulations, 1994* have been met. A total of $11 was written off during the year ended March 31, 2019 (March 31, 2018 - $4). During the period, no interest was earned on impaired assets and none of the past due amounts were renegotiated. Those that are neither past due nor provided for or impaired are considered to be fully collectible.

The aging of trade receivables was as follows:

Days outstanding	**Current**	**31-60**	**61-90**	**91-120**	**> 120**	**Total**
March 31, 2019	$ 183	$ 18	$ 1	$ -	$ 304	**$ 506**
March 31, 2018	$ 235	$ 1	$ 13	$ 9	$ 321	**$ 579**

Refer to Note 10 b) for further information on credit risk applicable to OSFI.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2019 (in thousands of Canadian dollars)

4. RELATED PARTY TRANSACTIONS

OSFI is related, in terms of common ownership, to all Government of Canada departments, agencies and crown corporations. OSFI enters into transactions with these entities in the normal course of business and on normal trade terms. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the year ended March 31, 2019, OSFI purchased goods and services for $38,356 (2018 - $36,419) and earned revenue of $10,641 (2018 - $10,938) from transactions with other government entities. Although most transactions are not individually significant, OSFI did have the following individually significant transactions:

Entity	Nature	2019 Expenditure	2019 Payable	2018 Expenditure	2018 Payable
Treasury Board Secretariat	Pension contributions, other employee benefits and other services	$ 24,639	$ 1,752	$ 22,613	$ 845
Public Services and Procurement Canada	Rent and other services	$ 10,722	$ 672	$ 10,639	$ 75

Entity	Nature	2019 Revenue	2019 Receivable/ (Payable)	2018 Revenue	2018 Receivable
Employment and Social Development Canada	Actuarial valuation and advisory services	$ 4,242	$ (63)	$ 4,002	$ 14
Canada Mortgage and Housing Corporation	Cost recovered services	$ 2,162	$ 2,162	$ 2,419	$ 2,419

As at March 31, 2019, the amount of trade and other receivables and trade and other payables from these related parties was $2,301 (March 31, 2018 - $2,612) and $2,746 (March 31, 2018 - $1,237), respectively.

OSFI receives an annual parliamentary appropriation pursuant to Section 16 of the OSFI Act to support its mandate relating to the OCA. In the year ended March 31, 2019 OSFI was granted $1,311 (2018 - $945) which was recognized into net results and shown on the *Statement of Operations*. There are no unfulfilled conditions or contingencies attached to this appropriation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2019 (in thousands of Canadian dollars)

5. TANGIBLE CAPITAL ASSETS

March 31, 2019 **Cost**	**March 31, 2018**	**Acquisitions**	**Transfer to "in use"**	**Disposals**	**March 31, 2019**
Leasehold improvements	$ 15,059	$ 612	$ -	$ -	$ 15,671
Furniture and fixtures	5,212	-	-	(1,926)	3,286
Office equipment	2,488	237	-	(660)	2,065
Informatics hardware	6,143	1,297	-	(2,081)	5,359
Externally purchased software	650	117	-	(304)	463
Internally developed software	19,864	-	116	(285)	19,695
Internally developed software under development	112	972	(116)	-	968
Total	**$ 49,528**	**$ 3,235**	**$ -**	**$ (5,256)**	**$ 47,507**

Accumulated amortization	**March 31, 2018**	**Amortization**		**Disposals**	**March 31, 2019**
Leasehold improvements	$ 12,079	$ 787	$ -	$ -	$ 12,866
Furniture and fixtures	4,702	195	-	(1,926)	2,971
Office equipment	1,802	305	-	(660)	1,447
Informatics hardware	3,237	1,027	-	(2,081)	2,183
Externally purchased software	426	113	-	(304)	235
Internally developed software	11,718	2,419	-	(285)	13,852
Total	**$ 33,964**	**$ 4,846**	**$ -**	**$ (5,256)**	**$ 33,554**
Net book value	**$ 15,564**	**$ -**	**$ -**	**$ -**	**$ 13,953**

March 31, 2018 **Cost**	**March 31, 2017**	**Acquisitions**	**Transfer to "in use"**	**Disposals**	**March 31, 2018**
Leasehold improvements	$ 14,121	$ 938	$ -	$ -	$ 15,059
Furniture and fixtures	5,485	8	-	(281)	5,212
Office equipment	2,206	295	-	(13)	2,488
Informatics hardware	4,627	2,037	-	(521)	6,143
Externally purchased software	3,153	6	-	(2,509)	650
Internally developed software	19,859	-	171	(166)	19,864
Internally developed software under development	16	267	(171)	-	112
Total	**$ 49,467**	**$ 3,551**	**$ -**	**$ (3,490)**	**$ 49,528**

Accumulated amortization	**March 31, 2017**	**Amortization**		**Disposals**	**March 31, 2018**
Leasehold improvements	$ 11,351	$ 728	$ -	$ -	$ 12,079
Furniture and fixtures	4,768	215	-	(281)	4,702
Office equipment	1,474	341	-	(13)	1,802
Informatics hardware	3,003	755	-	(521)	3,237
Externally purchased software	2,815	120	-	(2,509)	426
Internally developed software	8,868	3,016	-	(166)	11,718
Total	**$ 32,279**	**$ 5,175**	**$ -**	**$ (3,490)**	**$ 33,964**
Net book value	**$ 17,188**	**$ -**	**$ -**	**$ -**	**$ 15,564**

5. TANGIBLE CAPITAL ASSETS (continued)

None of the assets held have any restriction on title and none of the assets have been pledged as security for liabilities. The internally developed software under development was assessed for impairment at March 31, 2019 and no impairment was recognized. As at March 31, 2019, OSFI had $20,635 of tangible capital assets at cost that were fully amortized and still in use. These assets are near the end of their useful life and are scheduled to be replaced. Their fair value is insignificant.

6. EMPLOYEE BENEFITS

a) Post-employment benefits

i. Pension benefits

Substantially all of the employees of OSFI are covered by the public service pension plan (the Plan), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and OSFI. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective as at March 31, 2019 was 10.427% (2018 - 9.905%). Total contributions of $10,777 (2018 - $9,268) were recognized as expense in the year ended March 31, 2019.

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2 percent of pensionable service times the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

ii. Severance benefits

OSFI used to administer a severance benefits plan for its employees. On termination of employment, eligible employees were entitled to certain benefits provided for under their conditions of employment based on their years of service. The plan was substantially curtailed in 2013 and employees no longer accumulate years of service. OSFI's remaining liability in regards to this plan relates primarily to employees who chose to defer receipt of their entitlement until departure. Current service benefits costs relate to the cost of involuntary departures.

For the year ended March 31, 2019 (in thousands of Canadian dollars)

6. EMPLOYEE BENEFITS (continued)

a) Post-employment benefits (continued)

ii. Severance benefits (continued)

Information about OSFI's severance benefit plan is presented in the table below.

	March 31, 2019	March 31, 2018
Accrued benefit obligation, beginning of the year	**$ 5,186**	**$ 5,601**
Current service cost	147	137
Interest cost	107	130
Benefits paid	(389)	(477)
Actuarial (gain)/loss	553	(205)
Accrued benefit obligation, end of the year[1]	**5,604**	**5,186**
Unamortized net actuarial loss	(514)	(1)
Accrued benefit liability	**5,090**	**5,185**

1 The cost corresponding to annual changes in the accrued benefit liability is recovered from OSFI's various sources of revenue outlined in Note 2 i) to the financial statements. Amounts collected in excess of benefits paid are presented on the *Statement of Financial Position* under the heading of Cash entitlement.

Net benefit plan cost - severance	March 31, 2019	March 31, 2018
Current service cost	$ 147	$ 137
Interest cost	107	130
Amortization of actuarial loss	39	-
Benefit cost	**$ 293**	**$ 267**

The most recent actuarial valuation for severance benefits was completed by an independent actuary as at March 31, 2019. OSFI measures its accrued benefit obligation for accounting purposes as at March 31 of each year.

The significant actuarial assumption adopted in measuring OSFI's accrued benefit obligation is a discount rate of 1.75% (2018 - 2.12%). For measurement purposes, management's best estimate for the general salary increases to estimate the current service cost and the accrued benefit obligation as at March 31, 2019 is an annual economic increase of 2.0% for the plan year 2020 (2018 - 1.0% for the plan year 2019). Thereafter, an annual economic increase of 1.5% is assumed (2018 - 1.0%). The average remaining service period of active employees covered by the benefit plan is 14 years (2018 - 14 years).

For the year ended March 31, 2019 (in thousands of Canadian dollars)

6. EMPLOYEE BENEFITS (continued)

b) Other long-term benefits

i. Sick leave

Information about OSFI's sick leave plan is presented in the table below.

	March 31, 2019	March 31, 2018
Accrued benefit obligation, beginning of the year	**$ 8,202**	**$ 8,243**
Current service cost	897	909
Interest cost	179	204
Benefits used	(708)	(366)
Actuarial (gain)/loss	1,759	(788)
Accrued benefit obligation, end of the year[1]	**10,329**	**8,202**
Unamortized net actuarial loss	(2,306)	(728)
Accrued benefit liability	**$ 8,023**	**$ 7,474**

1 The cost corresponding to annual changes in the accrued benefit liability is recovered from OSFI's various sources of revenue outlined in Note 2 i) to the financial statements. Amounts collected in excess of benefits paid are presented on the *Statement of Financial Position* under the heading of Cash entitlement.

Net benefit plan expense - sick leave	March 31, 2019	March 31, 2018
Current service cost	$ 897	$ 909
Interest cost	179	204
Amortization of actuarial loss	182	58
Benefit cost	**$ 1,258**	**$ 1,171**

The most recent actuarial valuation for sick leave benefits was completed by an independent actuary as at March 31, 2019. OSFI measures its accrued benefit obligation for accounting purposes as at March 31 of each year.

The significant actuarial assumption adopted in measuring OSFI's accrued benefit obligation is a discount rate of 1.80% (2018 - 2.16%). For measurement purposes, management's best estimate for the general salary increases to estimate the current service cost and the accrued benefit obligation as at March 31, 2019 is an annual economic increase of 2.0% for the plan year 2020 (2018 - 1.0% for the plan year 2019). Thereafter, an annual economic increase of 1.5% is assumed (2018 - 1.0%). The average remaining service period of active employees covered by the benefit plan is 14 years (2018 - 14 years).

Office of the Superintendent of Financial Institutions

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2019 (in thousands of Canadian dollars)

7. REVENUE AND EXPENSES BY MAJOR CLASSIFICATION

	Budget for the year ending March 31, 2019	March 31, 2019	March 31, 2018
Revenue			
Base assessments	$ 142,903	$ 149,684	$ 136,983
Cost-recovered services	11,108	10,283	10,309
Pension plan assessments	7,128	6,664	7,193
User fees and charges	1,916	2,416	1,834
Total revenue earned from respendable sources	**163,055**	**169,047**	**156,319**
Expenses			
Personnel	122,723	129,057	117,707
Professional services	15,194	15,603	14,446
Rental	12,068	11,737	11,383
Amortization	4,986	4,846	5,175
Travel	3,678	3,309	2,998
Machinery and equipment	1,126	1,889	1,717
Information	1,442	1,542	1,479
Communications	1,250	1,113	1,140
Repairs and maintenance	1,300	948	797
Materials and supplies	176	301	330
Other	57	13	92
Total expenses	**164,000**	**170,358**	**157,264**
Net results of operations before government funding and non-respendable administrative monetary penalties revenue	**(945)**	**(1,311)**	**(945)**
Government funding	945	1,311	945
Administrative monetary penalties revenue	-	21	121
Administrative monetary penalties earned on behalf of the government	-	(21)	(121)
Surplus (deficit) from operations	**$ -**	**$ -**	**$ -**
Average number of employees	**748**	**741**	**695**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2019 (in thousands of Canadian dollars)

7. REVENUE AND EXPENSES BY MAJOR CLASSIFICATION (continued)

Personnel expenses	Budget for the year ending March 31, 2019	March 31, 2019	March 31, 2018
Wages and salaries	$ 95,891	$ 101,401	$ 91,647
Other benefits	15,777	16,532	16,082
Post-employment benefits other than severance	10,543	10,777	9,268
Severance benefits	257	293	267
Other personnel costs	255	54	443
Total	**$ 122,723**	**$ 129,057**	**$ 117,707**

8. ADMINISTRATIVE MONETARY PENALTIES

Administrative monetary penalties levied by OSFI are remitted to the CRF. The funds are not available for use by OSFI and are not included in the balance of the Cash entitlement. As a result, the penalties do not reduce the amount that OSFI assesses the industry in respect of its operating costs. Refer to Note 2 i) for further information on OSFI's accounting policy as it relates to administrative monetary penalty revenue.

In the year ended March 31, 2019, OSFI levied $21 (2018 - $121) in administrative monetary penalties.

9. OPERATING LEASE ARRANGEMENTS

OSFI has entered into operating lease agreements for office space and office equipment in four locations across Canada. The minimum aggregate annual payments for future fiscal years are as follows:

	As at March 31, 2019
March 31, 2020	$ 9,779
March 31, 2021	10,129
March 31, 2022	9,977
March 31, 2023	8,527
March 31, 2024	7,129
Thereafter	41,830
Total	**$ 87,371**

10. FINANCIAL RISK MANAGEMENT

OSFI's financial liabilities include Accrued salaries and benefits, Trade and other payables, Unearned base assessments and Unearned pension plan assessments. The main purpose of these liabilities is to provide short-term financing for OSFI's operations. Financial assets include Cash entitlement, Trade and other receivables, and Accrued base assessments.

OSFI is exposed to market risk, credit risk and liquidity risk in connection with its financial instruments. OSFI's risk exposures and its processes to manage these risks did not change significantly during the year ended March 31, 2019.

a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity risk. OSFI is exposed to currency risk on any amounts payable that are to be settled in a currency other than the Canadian dollar but is not exposed to interest rate risk nor to other price risk.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. OSFI's exposure to the risk of changes in foreign exchange rates relates primarily to OSFI's operating activities (when expenses are denominated in a currency other than the Canadian dollar).

OSFI manages its exposure to currency risk by structuring its contracts in Canadian dollars wherever possible. The majority of OSFI's transactions presented were denominated in Canadian dollars; as such, OSFI's exposure to currency risk for all periods presented is insignificant.

There is no impact to revenues since all billings are in Canadian dollars.

b) Credit risk

Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument, resulting in a financial loss. The maximum exposure OSFI has to credit risk as at March 31, 2019 is $9,101 (March 31, 2018 - $8,086) which is equal to the carrying value of its Trade and other receivables and Accrued base assessments.

All federally regulated financial institutions and federally regulated private pension plans are required to register with OSFI and pay the assessments as established by OSFI. Any loss incurred by OSFI as a result of a counterparty not meeting its obligations is recorded in the year incurred and collected in the following year through assessments to the industry to which the balance pertains, as outlined in the OSFI Act. All remaining receivables are with other Canadian federal and provincial government organizations, where there is minimal potential risk of loss. OSFI does not hold collateral as security.

10. FINANCIAL RISK MANAGEMENT (continued)

c) Liquidity risk

Liquidity risk is the risk that OSFI will encounter difficulty in meeting its obligations associated with current and future financial liabilities. OSFI's objective is to maintain sufficient Cash entitlement through its collection of base assessments, cost-recovered services and other fees and charges in order to meet its operating requirements. OSFI manages liquidity risk through detailed annual planning and billing processes that are structured to allow for sufficient liquidity from one billing period to the next. OSFI's objective is to accurately estimate its operating costs and cash requirements for the current year and to recover these through its interim base assessments, fees and other sources of revenue.

OSFI's policy is to satisfy liabilities by the following means (in decreasing order of priority):

- Disbursing payments from its Cash entitlement account; and,
- Drawing on its revolving expenditure authority, pursuant to Section 17.4 of the OSFI Act.

Drawings on this facility were $Nil as at March 31, 2019 (2018 - $Nil).

Refer to Note 1 for further information on OSFI's authority and Note 2 a) for further information on the accounting policies for its revolving spending authority.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2019 (in thousands of Canadian dollars)

10. FINANCIAL RISK MANAGEMENT (continued)

The table below summarizes the maturity profile of OSFI's financial liabilities as at March 31, 2019 and March 31, 2018 based on contractual undiscounted payments. When the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which OSFI can be required to pay. When amounts are due in installments, each installment is allocated to the earliest period in which OSFI can be required to pay.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	March 31, 2019 Total
Accrued salaries & benefits	$ 6,710	$ 18,598	$ -	$ -	$ -	$ 25,308
Trade and other payables	-	4,582	-	-	-	4,582
Unearned base assessments	-	-	561	-	-	561
Unearned pension plan assessments	-	178	641	409	-	1,228
Total	**$ 6,710**	**$ 23,358**	**$ 1,202**	**$ 409**	**$ -**	**$ 31,679**

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	March 31, 2018 Total
Accrued salaries & benefits	$ 5,770	$ 17,061	$ 7,450	$ -	$ -	$ 30,281
Trade and other payables	-	3,396	-	-	-	3,396
Unearned base assessments	-	-	1,165	-	-	1,165
Unearned pension plan assessments	-	119	355	1,740	66	2,280
Total	**$ 5,770**	**$ 20,576**	**$ 8,970**	**$ 1,740**	**$ 66**	**$ 37,122**

Unearned pension plan assessments represent the accumulation of in-year surplus or deficit against assessments collected. These are in turn paid or collected over a period of five years commencing one year from the year in which they were established. OSFI does not charge nor pay interest to the various pension plans over the five years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2019 (in thousands of Canadian dollars)

11. ACCUMULATED SURPLUS

	March 31, 2019	March 31, 2018
Contributed surplus	$ 28,327	$ 28,327
Accumulated deficit	(2,647)	(2,647)
Accumulated surplus	**$ 25,680**	**$ 25,680**

OSFI was established on July 2, 1987 by the OSFI Act. OSFI was created through the merger of its two predecessor agencies – the Department of Insurance and the Office of the Inspector General of Banks. To help fund OSFI's first year of operations and establish a pool of working capital necessary to support its annual assessment and expenditure cycle, OSFI was credited with the assessments that recovered the costs of its predecessors for the previous fiscal year. This amount is reflected as contributed surplus.

The accumulated deficit was created as part of OSFI's transition to accrual accounting under Canadian Generally Accepted Accounting Principles (GAAP) in fiscal 2000-2001. The transition to GAAP accounts for $789 of the balance. On April 1, 2010, OSFI transitioned to International Financial Reporting Standards (IFRS) from GAAP which increased the accumulated deficit by $2,170. The balance as at March 31, 2011 increased by an additional $380 as a result of the operations for the year ended March 31, 2011 as determined under IFRS. On April 1, 2017, OSFI ceased to report in accordance with IFRS and adopted PSAS. These new standards were adopted with retrospective restatement, and therefore the 2017 comparative figures were restated. The balance at March 31, 2017 decreased by $692 as a result of the restatement of operations for the year ended March 31, 2017, leaving a balance of $2,647 as at March 31, 2019.