



Office of the Superintendent of  
Financial Institutions Canada

Bureau du surintendant des  
institutions financières Canada

# ANNUAL REPORT 2019-2020

(April 1, 2019-March 31, 2020)

Office of the Superintendent of Financial Institutions Canada

255 Albert Street, 16th floor, Ottawa, ON K1A 0H2

Telephone: 613-990-7788 Facsimile: 613-952-8219

Toll-free line: 1-800-385-8647 Website: [www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca)

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## SUPERINTENDENT'S MESSAGE



As Canada's prudential regulator and supervisor of banks, most of its insurance companies as well as a large number of private pension plans, our role is to make sure that these institutions and pension plans are in sound financial condition and prepared to navigate through a variety of circumstances. Doing so ensures that banks can continue to make loans and deposits available to Canadians; that insurance companies can pay policyholders; and that pension plans can continue to make payments to retirees. We also house the Office of the Chief Actuary (OCA), which is an independent unit that provides a range of actuarial valuation and advisory services to the federal government.

A large part of what we do is to think about and prepare for severe but plausible scenarios that can cause disruptions to the financial system. This past year we continued to monitor and assess financial risk adapting our approach to changing financial conditions; but we also focussed our efforts towards examining the impact that non-financial risks can have on institutions and how these risks ultimately will have prudential implications.

In spring 2020 with the onset of the COVID-19 pandemic, we responded quickly to the disruptions in the economy by announcing a series of measures to support the Canadian financial system and protect pension plan members. Throughout this period, our guidance and actions continued to be credible, consistent and fit-for-purpose during these extraordinary circumstances while remaining risk-focused and forward-looking.

This year marked the first anniversary of the [2019-2022 OSFI Strategic Plan](#). The plan, and in particular its four strategic goals, served us well this past year especially during challenging and unprecedented times. It provided us with our strategic direction and kept us focused on what we needed to do. Through this report, I am pleased to show our progress on this plan, which was realized through the ongoing commitment, dedication and professionalism of our employees.

As we continue to adjust to the *new normal*, Canadians can be confident that we are working hard to protect depositors, policyholders, creditors and private pension plan beneficiaries.

A handwritten signature in dark ink, reading "J. Rudin". The signature is fluid and cursive, with a long horizontal stroke at the end.

Jeremy Rudin  
Superintendent

# OSFI'S VISION, MANDATE AND GOAL

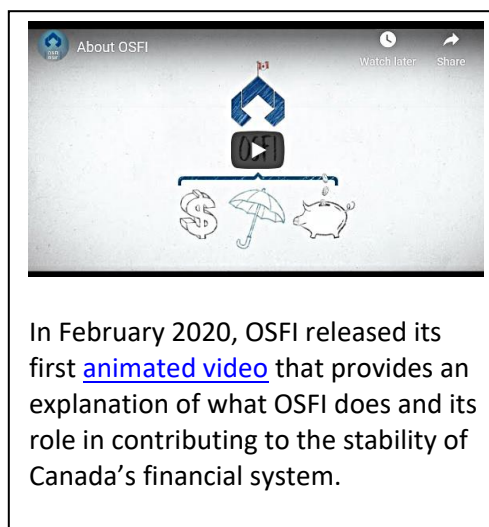
## Vision

Building OSFI for today and tomorrow:  
preserving confidence, ever vigilant, always  
improving.

## Mandate

Our mandate is to protect depositors,  
policyholders, financial institution creditors and  
pension plan members, while allowing financial  
institutions to compete and take reasonable  
risks.

Specifically we achieve this through:



## 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.

## ***Strategic Plan***

In March 2019, we released the [2019-2022 OSFI Strategic Plan](#). It focuses us on a core strategic agenda and lays out the expected criteria for success. Central to the plan are the four goals that guide all that we do.

Following the plan launch, each of our sectors undertook a planning process in line with the goals of the strategic plan. These sector plans responded to priorities identified in the strategic plan through activities, projects and allocated resources.

## ***Reporting Results***

Measuring our progress against the strategic plan is important not only in the actions that we take but also in the outcomes that we achieve. We made significant progress in advancing our strategic goals in 2019-20.

<b>Goal 1: Federally regulated financial institutions and pension plan preparedness and resilience to financial risk is improved, both in normal conditions and in the next financial stress event</b>	
Sub Priorities	<p>1.1. Improve the consistency, accuracy and timeliness of risk assessments and make intervention more effective</p> <p>1.2. Apply a more risk-based and principles-based approach to regulation and supervision</p> <p>1.3. Further adapt regulatory and supervisory approaches to the size and complexity of financial institutions as well as their risk profile; specifically the risk that they pose to the rights and interests of depositors, policyholders and creditors</p>
Progress in 2019-20	<ul style="list-style-type: none"><li>• Bolstered resilience in the banking system by raising the level of the domestic stability buffer (DSB) twice in 2019, which required domestic systemically important banks to build their capital to use when risks materialized. As conditions required in spring 2020, the DSB was lowered to help banks withstand the shocks of an uncertain economic period.</li><li>• Continued ongoing financial risk surveillance using a horizontal perspective on emerging risks, most notably completing supervisory practices benchmarking and assessment to identify the impacts of climate-related risks on financial institutions.</li><li>• Strengthened the <a href="#">liquidity adequacy ratio guideline</a> to make standards for measuring and monitoring liquidity risk comprehensive and to reflect current sound practice, thereby increasing an institution's resilience to a potential liquidity event.</li><li>• Revised <a href="#">liquidity risk management practices (B-6)</a> to make them current, relevant and appropriate for the scale and complexity of financial institutions.</li></ul>

	<ul style="list-style-type: none"> <li>• Organized and hosted more than two dozen events for regulated industries, including annual risk management and information seminars to explain new guidance or supervision processes.</li> <li>• Engaged industry stakeholders on potential changes to capital and liquidity requirements for <a href="#">small and medium-sized deposit-taking institutions</a> so that requirements will better reflect their nature, size and complexity.</li> <li>• Implemented an updated <a href="#">guideline on Large Exposure Limits for D-SIBs (B-2)</a> to better address risks caused by a large investment concentration and provide additional guidance on risk management practices.</li> <li>• Worked with insurers to prepare for the implementation of <i>IFRS 17</i>, a new reporting standard that sets out the requirements for a company reporting information about insurance contracts it issues and reinsurance contracts it holds.</li> </ul>
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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	
Sub Priorities	<p>2.1 Continue to develop OSFI's regulatory and supervisory approaches to technology risks, including digitization, cloud computing, modelling and cyber security</p> <p>2.2 Adopt more insightful and effective approaches for risks arising from culture and conduct</p>
Progress in 2019-20	<ul style="list-style-type: none"> <li>• Completed a survey of artificial intelligence and machine learning use, development and deployment by financial institutions to support the development of informed regulatory and supervisory expectations.</li> <li>• Studied the approach taken by other prudential regulators on how to regulate and supervise technology and non-financial risks; initiated dialogue with industry stakeholders; and developed a draft discussion paper.</li> <li>• Conducted a cyber security risk tabletop exercise with one large bank and life insurer to enhance the Incident Response Protocol, share lessons learned, and to help inform regulatory and supervisory expectations and its link to financial risk (including reputation risk).</li> <li>• Conducted a culture scan with a cross-section of 20 financial institutions to assess culture initiatives, frameworks and processes, and began culture-focused reviews targeting strategic decision making to advance the development of a methodology to assess this risk consistent with other risk approaches.</li> </ul>

### GOAL 3: OSFI's agility and operational effectiveness are improved

Sub-Priorities	<p>3.1 Nurture a culture of high performance that embodies OSFI's values and encourages diversity of thought</p> <p>3.2 Modernize OSFI's supervisory processes and practices through the development and implementation of new technology and other methods</p> <p>3.3 Better leverage OSFI's data assets by improving data management and analytics</p>
Progress in 2019-20	<ul style="list-style-type: none"> <li>• Developed and implemented a formal recognition program to promote improved employee morale and motivation.</li> <li>• Supported diversity and inclusion through employee-led activities from the Inclusion Network (IN).</li> <li>• Improved preparedness for responding to deposit-taking institution crises by developing a playbook based on best practices, recent experiences and simulation exercises.</li> <li>• Developed and implemented year 1 of an enterprise data strategy that modernizes how OSFI collects, transforms and uses data.</li> <li>• Implemented the first phase of new supervisory technology system (Project Vu) and enhanced related supervisory monitoring processes and practices.</li> <li>• Introduced a new governance structure to support integrated strategic decision making through four senior internal governance committees: People and Culture, Data and Technology, Operations, and Business Risk and Issues Management.</li> </ul>

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

Sub-Priorities	<p>4.1 Improve Canadians' understanding of what OSFI does</p> <p>4.2 Further advance the protection of OSFI's information resources</p> <p>4.3 Enhance OSFI's accountability to external stakeholders through increased transparency, consultation and communications</p>
Progress in 2019-20	<ul style="list-style-type: none"> <li>• Promoted awareness and transparency by publicly announcing important changes and decisions as well as providing technical briefings with subject matter experts on such issues as the domestic stability buffer and exceptional measures taken as a result of the COVID-19 pandemic.</li> <li>• Developed and implemented year 1 of a communications strategy to improve Canadians' understanding of OSFI's role and mandate, and enhance accountability to external stakeholders through increased transparency, consultation and communication.</li> </ul>

	<ul style="list-style-type: none"><li>• Devised and instituted new processes to enable proactive publication of information on the Open Government website in accordance with new Government of Canada legislative requirements that came into force June 2019.</li></ul>
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## OSFI'S OPERATING ENVIRONMENT – OVERVIEW OF KEY RISKS

### ***Approach to Risk***

We aim to make sure that financial institutions are always prepared to continue functioning through a range of severe yet plausible economic scenarios. We evaluate if those preparations are adequate to deal with the potential impact of risks. This requires us to identify both **financial** and **non-financial** risks and ways to mitigate and manage these risks.

Our approach to supervision is risk-based to reflect the nature, size, complexity and risk profile of an institution, and allow these entities to take reasonable risks and compete effectively. Although we play an essential oversight role, the executive management and boards of directors of institutions and administrators of private pension plans are responsible for their success or failure.

We constantly evaluate system-wide developments that may have a negative impact on financial institutions and the financial system. While we are always scanning and monitoring the financial system environment, the following are the key financial and non-financial risks that we focussed on this year.

### **Financial Risks**

Financial risks continued to be present for most of 2019-20. The operating environment for federally regulated financial institutions was stable but challenging, and included slower economic growth and low interest rates together with a favourable credit environment and an increase in household debt.

### ***Residential Mortgage Risk***

Mortgage risk continued to be the largest risk that most federally regulated banks, trusts as well as some mortgage insurers carried in 2019-20. Lenders subject to our supervision held 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. For most of this year, this risk continued to be elevated given low interest rates and significant increases in household debt, particularly mortgage debt. This meant that any significant fall in housing prices would have led to material credit losses for lenders. Similarly, in the event of a significant and sustained increase in mortgage borrowing rates or the unemployment rate, repayment capacity by borrowers could have elevated the vulnerability of mortgage insurers to higher claims.

### ***Business Credit Risks***

In 2019-20, we also watched credit extension closely, particularly in the commercial real estate and oil and gas sectors. Both of these markets are highly cyclical; a market downturn could have negatively affected asset values resulting in financial losses.

Another area of increased risk monitoring was debt to the non-financial corporate sector. Business debt has seen significant growth in the past few years, and last year was no exception, with a growing proportion of weaker structures, e.g. less strict loan covenants (conditions on borrowers).

### ***Climate Risk***

This year, we focused some of our work on the impact that climate risk can have on the financial position of insurance companies, as some insurers had direct exposure to increasing insurance claims for property damage. Specifically, a key trend was that climate-related property damage has risen in recent years in Canada from extensive wildfires, ice storms, floods and tornadoes.

Litigation related to climate change continued to rise and defendants in these lawsuits have some liability insurance coverage, which means that their insurers are also exposed. The eventual cost of liability claims is often uncertain and cases can take decades to unfold. Finally, we also closely monitored the transition risk that arises from efforts to reduce greenhouse gas emissions. Specifically, this can effect the value of investments that insurers have as well as increase the risk for banks on the value of loans and other exposures in affected industries.

### ***COVID-19-Related Risks***

In March 2020 as COVID-19 began causing disruptions to Canadian business operations and the economy, it also raised unprecedented uncertainty and risk to the financial system. Financial institutions needed to adapt quickly to the new economic environment as well as a new operating environment that relied heavily on telework. During this period, we closely monitored the situation and evaluated the short- and long-term impacts that the business interruption as well as the credit worthiness of borrowers has had on financial institutions. We also suspended policy development in light of the extraordinary demands on financial institutions operations.

### **Non-Financial Risks**

In 2019-2020, we increased our response to non-financial risks by building new capability and infrastructure to treat it as key component of financial safety and soundness. In all cases of non-financial risk, we are most concerned with how these risks can materialize as financial risk. An emphasis on *financial loss* focuses our work on our overarching prudential mandate and overarching concern with solvency; however, it is important to recognize that losses due to data breaches, reputation damage, etc. are in most instances the most likely immediate impact of many non-financial risks.

### ***Technology Risk***

Technology risk is the risk of financial loss arising from the inadequacy, misuse, significant disruption or failure of information technology governance, systems, processes and assets. In

2019-20, we monitored trends in the rise of artificial intelligence and machine learning models as they continued to become an integral part of the operating models of financial institutions.

### ***Cyber Security Risk***

A component of technology risk is cyber security risk. In 2019-20, we saw a rise in the number of cyber-related threats and incidents against financial institutions, some of which garnered significant public profile and media attention. According to the Office of the Privacy Commissioner of Canada, it is estimated that over [28 million Canadians](#) were affected by a data breach that involved information loss or theft in 2019, making the impact of this non-financial risk one of the most critical we monitored during this time period. Additionally, early in the COVID-19 pandemic, we saw increased trends in fraud activity with related phishing and malware, which has amplified these cyber threats as well as an increase in cyber security attacks against third-party information technology and professional services providers.

### ***Culture and Conduct***

Culture risk is a non-financial risk that is qualitative in nature, difficult to quantify and unique to each institution. An organization's culture can influence the effectiveness of its risk management, potentially leading to excessive risk-taking and negative financial and reputational outcomes. In 2019, we identified that institutions are at various stages in developing programs to mitigate the risk of misconduct. In response to COVID-19, the primary focus of our risk monitoring and supervision shifted towards the elevated people risks in the pandemic environment and operations.

## OSFI'S WORK: DEPOSIT-TAKING INSTITUTIONS

We regulate and supervise deposit-taking institutions (DTIs) including banks, foreign bank branches, trust and loan companies, and cooperatives.

The federally regulated deposit-taking industry in Canada comprises six large domestic banks designated as domestic systemically important banks (DSIBs), four mid-tier institutions, and many smaller institutions. Two of the larger banks (Royal Bank of Canada and Toronto Dominion Bank) have been designated global systemically important by the Financial Stability Board.

The six largest banks account for 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.

Small and medium-sized institutions account for the other ten percent of assets. These institutions pursue various market and business strategies such as mortgage lending, commercial real estate lending and credit card lending.

We closely monitor economic, financial and non-financial risks facing deposit-taking institutions, including system-wide or sector developments that could have a negative impact on their financial condition.

### ***Deposit-Taking Institutions Environment***

In 2019-20 prior to COVID-19, the overall performance of DTIs was strong. This was primarily due to solid net income generation and a mainly favourable credit environment.

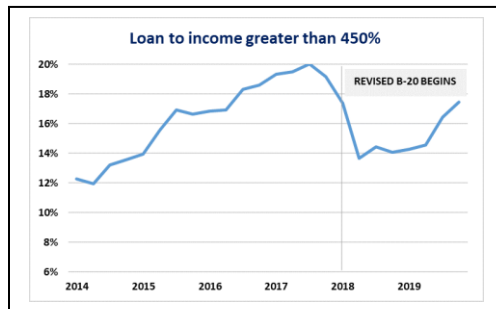
In this period, we focused our efforts on monitoring and addressing the key risks and vulnerabilities that faced financial institutions including those related to mortgage lending, which continued to be elevated given low interest rates and significant increases in household debt, particularly mortgage debt.

More detailed financial information on the institutions subject to OSFI regulation and supervision is available through the [Financial Data](#) application on our website.

Other risks that we were monitoring included elevated credit risk in retail, commercial and consumer lending, and corporate and commercial sectors. In early 2020, the primary focus of our risk monitoring and supervision shifted towards the financial and operational risks associated with COVID-19.

## Sound Mortgage Underwriting

In 2019-20, we took measures to promote sound mortgage underwriting practices to reduce risks to the financial system. Specifically, our supervisory reviews of deposit-taking institutions ensured that the institutions applied appropriate standards and had adequate controls to assess a borrower's ability to pay their loan under a variety of conditions.



In June 2019, we [released an update](#) outlining how B-20 was contributing to the safety and soundness of Canada's financial system. It showed fewer approved mortgages for highly indebted or over-leveraged individuals; the stress test did not affect a borrower's ability to renew; and individuals were not taking on longer amortization rates because of the stress test. We [updated these findings](#) in January 2020, and our conclusions remained consistent with the original

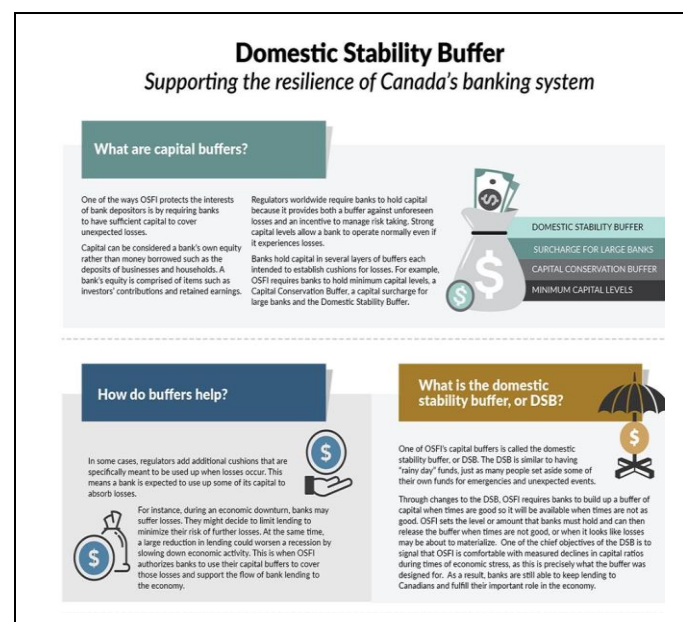
findings that showed the stress test was performing as intended.

In January 2020, we also signaled that we were [reviewing the benchmark](#) rate due to the widening between it and contract rates. We observed that the benchmark was less responsive to market changes than when it was first proposed. In February 2020, we announced the launch of [consultations](#) on this issue to seek perspectives and input. We suspended the consultations due to the onset of COVID-19 in March 2020.

## The Domestic Stability Buffer

The Domestic Stability Buffer (DSB) is a capital buffer requirement for domestic systemically important banks (DSIBs). The DSB's countercyclical design enables DSIBs to use capital during challenging times that they had set aside during more stable economic conditions.

We announced increases to the DSB in [June 2019](#) and [December 2019](#). In June 2019, we raised the DSB from 1.75 % to 2.00% of risk-weighted assets noting that Canadian household indebtedness, asset imbalances and institutional indebtedness remained elevated. In December, we raised the DSB further to 2.25% after seeing continued growth in household indebtedness, asset imbalances and institutional indebtedness as well as global vulnerabilities related to rising trade



tensions and leverage. These raises took place during a time when economic conditions were favourable. In both instances, we reached out to news media, analysts and industry partners to communicate our decision and explain further details.

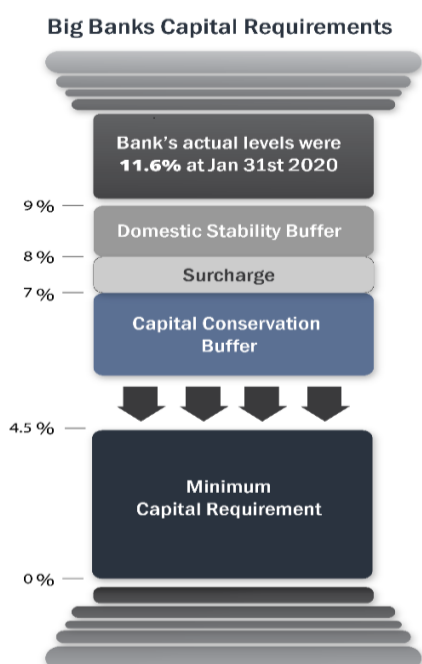
On March 13, 2020, responding to the uncertainty that COVID-19 was causing in Canada's financial system, a series of coordinated announcements were made in an unprecedented news conference with the Minister of Finance, the Governor of the Bank of Canada and the Superintendent of Financial Institutions. At that news conference, the Superintendent [announced](#) the lowering of the DSB by 1.25% of risk-weighted assets to 1.00% from 2.25%. The lowering of the DSB supported in excess of \$300B of additional lending capacity for the DSIBs to supply credit to the economy during an expected period of disruption. We also committed to not increasing the buffer for at least 18 months and signaled our readiness to lower the DSB further, if conditions required.

### ***Climate Risk***

In 2019-20, we joined the Basel Committee on Banking Supervision's high-level task force on climate-related financial risks, where we shared regulatory and supervisory initiatives with other banking regulators.

### ***Response to COVID-19***

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. As mentioned, [releasing this buffer](#) was an important measure we took early in responding to the impacts of the COVID-19 pandemic on the financial system. Other measures we took in response to the impact of COVID-19 included:

- Increasing supervisory dialogue with institutions
- Adjusting [capital and liquidity requirements](#)
- [Delaying implementation](#) of the remaining measures of the Basel 3 international capital standard until 2023
- [Delaying implementation](#) of minimum capital and liquidity requirements for small and medium-sized banks until 2023

- [Determining that bank loans](#) subject to payment deferrals such as mortgage loans, small business loans and retail loans will continue to be treated as performing loans
- [Temporarily raising the limit](#) on the amount of assets pledged for covered bonds to 10% from 5.5% to provide issuers greater capacity to access stable funding through the Bank of Canada
- [Encouraging banks to use operating buffers](#) that are normally held above the authorized leverage ratio
- [Reinforcing that institutions' liquid asset pools](#) (i.e. high-quality liquid assets or HQLA under the liquidity adequacy requirements) are for use against the potential onset of liquidity stress

## ***Guidance***

We regulate and play an important oversight role by developing guidelines, policies and procedures for institutions designed to control and manage risk. In doing so, we balance the goals of safety and soundness with the need for institutions to take reasonable risks and compete. In 2019-20, we issued the following guidance for DTIs:

In April 2019, we released an updated guideline on [large exposure limits for domestic systemically important banks](#). The revised guideline incorporated the new Basel committee standard and provided additional guidance on risk management practices that we expected DSIBs to use for identifying, measuring, managing and monitoring large exposures. All other federally regulated DTIs remained subject to the original version of Guideline B-2.

Also in April 2019, we published the revised [Liquidity Adequacy Requirements \(LAR\) guideline](#) to include targeted modifications related to the Liquidity Coverage Ratio (LCR) and Net Cumulative Cash Flow (NCCF) metrics. This change promoted the safety and soundness of institutions and better reflected the increased risks posed by different types of retail deposits that may be subject to sudden withdrawals. The revised guideline also includes final rules to incorporate the Net Stable Funding Ratio (NSFR) for DSIBs.

The NSFR is a long-term structural liquidity metric that promotes funding stability and reduces 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. In April 2019, we issued guidance related to NSFR public disclosure requirements that will be fully implemented in 2021.

We updated Guideline A-10: [Foreign Bank Branch Deposit Requirement](#) in December 2019 to reflect current practices and simplify the document, which was last published in 2002.

In May 2019, we released final revisions to [Guideline B-12: Interest Rate Risk Management](#), which provides a risk control framework for managing interest rate risk levels at institutions.

The revised guideline took effect in January 2020 for DSIBs. For all other institutions, the current version will apply until the end of 2021, after which the revised version will apply.

We released final updates to [Guideline B-6: Liquidity Principles](#) in December 2019 to set out our expectations around the management of institutions' liquidity risk. The changes ensured that it remains current and relevant as well as appropriate for the scale and complexity of institutions. It also includes additional clarity on liquidity risk management practices.

In January 2020, we issued a [consultative document](#) on an initiative to develop more tailored minimum capital and liquidity requirements for small and medium-sized DTIs (i.e. SMSB Proportionality). It provided an overview of the feedback from a July 2019 discussion paper and an update on Pillar 1 capital and liquidity requirements. This work was in preparation of the rollout of a new framework that will coincide with the domestic implementation of the final Basel 3 reforms, currently expected in 2023.

### ***Addressing Non-Financial Risk***

This year we undertook a number of measures to address some emerging and evolving non-financial risks facing deposit-taking institutions. Specifically, we examined the approach taken to technology risk by other prudential regulators. Following this, we initiated dialogue with industry stakeholders and developed a draft discussion paper that outlined an approach to technology risk that could be applied in the Canadian context. This included completing a survey of artificial intelligence and machine learning (AI/ML) use, development and deployment by financial institutions.

Recognizing how advances in technology has grown and evolved in the financial services industry in the decade since we last revised Guideline B-10 in 2009, in 2019-20 we completed a study of third-party risk management practices at a subset of financial institutions. We identified five focus areas (risk assessment, monitoring and incident management, data security and access, continuity of critical operations, and cloud risk management) that can contribute to the effective management of third-party risk.

When responding to increased cyber security risk this year, we shared anonymized threat and incident information through intelligence bulletins and information sharing sessions at industry forums. These bulletins provided early warnings to institutions and identified potential areas of vulnerabilities so that the institutions could focus preventative efforts accordingly. We also conducted a cyber-risk crisis simulated exercise with one large bank and one insurer to enhance the Incident Response Protocol, share lessons learned, and to help inform regulatory and supervisory expectations and their link to financial risk, including reputation risk.

Recognizing that an institution's culture is a key dimension in ensuring effective risk management, in 2019, we undertook a culture scan with 10 DTIs to take stock of the range of practices, processes and tools institutions use in developing, governing, promoting and



monitoring their culture. This data is foundational work for the development of methodology for assessing culture to accurately measure and mitigate the financial impact of this risk. Additionally, to provide practical guidance in advancing this work, we established the Culture External Advisory Committee in 2019 consisting of retired senior leaders from the financial services industry, academics and current leaders from other industries that have a strong safety or risk management culture.

## OSFI'S WORK: INSURANCE

We regulate and supervise life, property and casualty and mortgage insurance companies as well as fraternal benefit societies.

The federally regulated **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, while the smaller insurers are more restricted in product breadth and distribution.

We supervise 150 **property and causality** (P&C) insurers, with annual premiums of \$55 billion and assets of \$175 billion. The top 10 institutions represent 64 percent of total assets.

The **mortgage insurance** industry in Canada consists of three participants: two private sector insurers that we regulate; and the Canada Mortgage and Housing Corporation (CMHC), which is a Crown corporation subject to our oversight.

A fraternal benefit society is an institution operated for fraternal, benevolent or religious purposes, including the insurance of members or the spouses or children of members, against accident, sickness, disability or death. There are only 12 in Canada and they are subject to our supervision and regulation.

We closely monitor risks facing insurers that could have a negative impact on their financial condition. We are making risk assessments and intervening as necessary to ensure that the industry remains prepared and resilient to financial risks during stress events.

### ***Insurance Institutions Environment***

Predominantly, 2019-20 saw continued growth in equity markets; however beginning in early 2020, challenges posed by low long-term interest rates, COVID-19 and heightened market volatility brought increased uncertainty for the **life insurance industry**. Insurers managed disruptions to operations through the implementation of business continuity plans and other response measures.

More detailed financial information on the institutions subject to OSFI regulation and supervision is available through the [Financial Data](#) application on our website.

**The property and casualty (P&C) industry** reported higher net income in 2019 due to increases in both underwriting and investment income. Measures of core profitability also showed a slight increase due mainly to lower catastrophe losses and improving commercial market conditions.

**Mortgage insurers** achieved favourable financial performance during 2019, supported by higher underwriting income and net investment income. In 2019-20, mortgage insurers remained vulnerable to rising consumer debt levels and the risk of a housing price correction in certain markets.

### ***International Financial Reporting Standard (IFRS) 17***

*IFRS 17 Insurance Contracts* is an international financial reporting standard issued by the [International Accounting Standards Board](#) (IASB) in May 2017. This year we saw Canadian insurers allocating a substantial proportion of their resources to prepare for its implementation. This included accommodating significant changes to systems, operations and financial reporting. In March 2020, the IASB deferred the effective date of to January 1, 2023, along with the exemption to implement IFRS 9 Financial Instruments for some insurers.

In June 2019, we released draft capital guidelines updated for IFRS 17 and followed up by conducting a quantitative impact study (QIS) to assess insurers' capital ratios under that draft framework. This consultation resulted in enhancements to the Life Insurance Capital Adequacy Test (LICAT) draft guidelines. Following this, in November 2019, we issued for [public consultation](#) draft regulatory forms and instructions to support IFRS 17 implementation. This consultation work was paused due to the onset of COVID-19 in March 2020.

Throughout 2019-20, we continued monitoring implementation progress of this new standard by insurance companies through the semi-annual progress reporting process. In August 2019, we provided an [update to industry](#) on the milestones completed and activities underway to support a robust implementation of IFRS 17.

### ***Reinsurance***

Reinsurance in its most basic form is insurance for insurance companies. A comprehensive review of reinsurance practices has been a key initiative for us over the past few years. In June 2018, we issued a discussion paper that included proposals to enhance and clarify expectations for prudent reinsurance practices. Building on this work, in June 2019 we issued a revised [B-3 -- Sound Reinsurance Practices and Procedures](#), which incorporated the feedback from the consultations. Over the past year, we have also continued to work on proposals aimed to address risks associated with large exposures and concentration. In this regard, we did a qualitative impact survey (QIS) and solicited other feedback from the industry.

## ***Climate Risk***

In 2019-20, we continued our work on climate risk and worked closely with counterparts around the world to share ideas and experience in this area, including the UN-sponsored grouping of financial regulators called the Sustainable Insurance Forum. We were also involved in the climate-related work of the International Association of Insurance Supervisors.

## ***Response to COVID-19***

In response to challenges posed by COVID-19, we introduced a series of regulatory flexibility measures to help reduce some of the operational stress on institutions and assist insurers in responding to customers who were managing through hardships. Specifically:

- increasing supervisory dialogue with institutions
- [suspending semi-annual progress reporting](#) on the implementation of the new reporting standards such as IFRS 17 *Insurance Contracts*
- [pausing the November 2019 public consultation](#) of draft regulatory forms and instructions to support IFRS 17; the publication of the final version of Guideline E-25; and the February 2020 public consultation of the updates to the LICAT framework
- [ensuring that loan payment deferrals](#) will not increase capital charges on mortgages, leases or loans

## ***Guidance***

In June 2019, we sought comments from the P&C industry on a draft guideline [Internal Model and Oversight Framework \(E-25\)](#). The guideline outlined our expectations for insurers when they establish and maintain an oversight framework for internal models used to determine regulatory capital requirements.

In February 2020, we launched a [public consultation](#) on updates to the Life Insurance Capital Adequacy Test (LICAT) framework to modify an area of the test that could cause some unwarranted volatility, and to clarify an area where the wording of the guideline could lead to a misinterpretation.

## ***Addressing Non-Financial Risks***

In 2019-20, the digitization of financial services created new competitive challenges for insurers. Similar to the work undertaken in this area for DTIs, this past year emphasis was placed on monitoring and work related to managing technology risk as well as collaborating with other regulators in this area. One of the insurance companies we supervise participated in

a tabletop exercise on a potential cyber security risk that was used to refine our Incident Response Protocol.

Insurers have also been evolving their use of third parties since the revision of Guideline B-10 in 2009. As such, a subset of life, property and casualty, and mortgage insurers were included in the third-party study where we identified five focus areas that can contribute to the effective management of third-party risk.

The industry culture scan undertaken in 2019 also included 10 insurance companies, varying in size and activity, to understand the range of practices in their governance, promotion, assessment and monitoring of culture.

## OSFI'S WORK: REGULATION

In addition to creating, implementing and enforcing regulatory guidance and expectations to the industries we supervise, we regulate by interpreting legislation and providing approvals for some transactions.

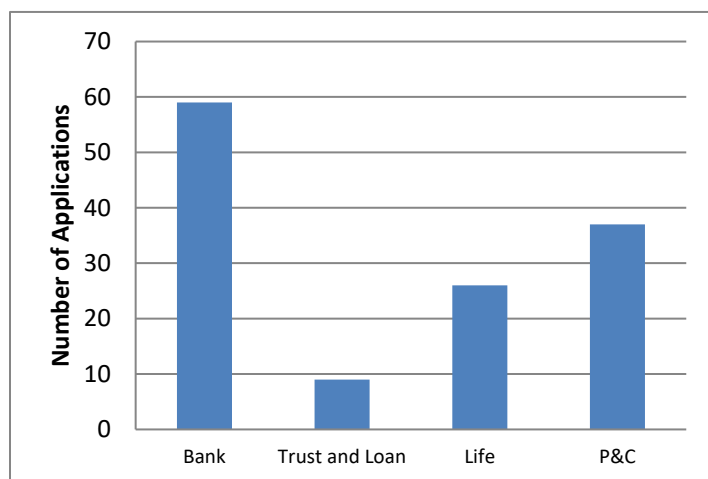
### ***Legislation***

In keeping with the objectives of enhancing the transparency of the legislative approval process and promoting a better understanding of our interpretation of the federal financial institution statutes, in 2019-20, we issued a new advisory regarding mergers involving foreign entities, and revised advisories regarding control in fact, and corporate names, registered names and trade names.

### ***Approvals***

The [Bank Act](#), [Trust and Loan Companies Act](#) and [Insurance Companies Act](#) require federally regulated financial institutions to seek regulatory approval from the Superintendent or the Minister of Finance 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.



In 2019-20 we processed 146 applications, of which 131 were approved and 15 were withdrawn. The majority of approved applications related to banks (45%) and P&C insurers (28%).

The most common applications received from DTIs related to purchases or redemptions of shares or debentures, transfers of assets in excess of 10 percent, changes in ownership, and substantial

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

Letters patent were granted incorporating Peoples Bank of Canada as a domestic bank. In addition, orders to insure in Canada risks were issued to AWP Health & Life SA and Validus Reinsurance, Ltd., establishing them as foreign insurance branches in Canada.

Upon request, we also provide advance capital confirmations on the eligibility of proposed regulatory capital instruments. We provided a total of 21 such opinions and validations in 2019-20, compared to 20 the previous year.

## OSFI'S WORK: PRIVATE PENSION PLANS

We regulate and supervise more than 1,200 federally regulated private pension plans in federally regulated areas of employment such as banking, inter-provincial transportation and telecommunications. These plans represent 1.15 million active members and hold assets of about \$215.5 billion. We develop guidance on risk management and mitigation, assessing whether plans are meeting their funding requirements and managing risks effectively, and intervening promptly when we identify the need for corrective actions. Pension plan administrators are ultimately responsible for sound and prudent management of their plans.

### ***Private Pension Plan Environment***

Federally regulated pension plans ended 2019 with an overall improved financial position compared to the beginning of the year. In the first quarter of 2020, COVID-19 affected both defined benefit and defined contribution plans. Defined benefit plan sponsors saw an impact to both plan assets and liabilities, as equity market declines reduced asset values and the continued drop in bond yields increased liabilities.

### ***Risk-Based Reviews***

In effort to identify areas where we can strengthen our principles and risk-based approaches to pension plan supervision, in 2019-20, we continued two major reviews of our pensions program. The first examined how we supervise investments of plans. The second assessed how we supervise plans with defined contribution (DC) provisions. While these reviews are still ongoing based on preliminary findings, we expect recommendations to include adjusted annual reporting requirements and updated guidance.

We also launched two additional initiatives: a review of the consideration of environmental, social and governance (ESG) factors in plan investment decisions and the analysis of the potential risks associated with technology, including cyber and third-party risk.

### ***Actuarial Reports***

We review actuarial reports for defined benefit plans, and if risks are noted the report is reviewed more in-depth. Nearly 290 actuarial reports were filed in 2019-20, and 48 were subjected to more in-depth review. During the in-depth review we discussed issues raised with the plans' actuaries, particularly when these concerns have an impact on current and future funding requirements. Our interventions resulted in some plans being required to amend and re-submit their actuarial report.



## ***Examinations***

During 2019-20, we completed eight examinations as part of our risk-based supervisory approach.

## ***Response to COVID-19***

In response to COVID-19, we [adjusted our policies](#) to protect the interests of pension plan members and beneficiaries and to allow plan administrators to focus their efforts on addressing the many challenges posed by the crisis. In addition to extending filing deadlines and suspending a number of consultation initiatives and policy development work, we implemented a temporary freeze on portability transfers and annuity purchases relating to defined benefit provisions of pension plans.

## ***Guidance***

In 2019-20, we issued three revised instruction guides in draft form so that plan stakeholders have the opportunity to provide input, although the onset of COVID-19 in March 2020 required these [consultations to be suspended](#):

- proposed revisions to an instruction guide for authorization of amendments reducing benefits in defined benefit plans
- a draft revised instruction guide for the preparation of actuarial reports for defined benefit pension plans
- a revised instruction guide for the termination of a defined benefit pension plan (The revisions reflect amendments to the *Assessment of Pension Plans Regulations* that came into effect April 1, 2019, and remove references to pre-2016 PBSA requirements on information for members and former members.)

In December 2019, we posted a contribution planner [Schedule of Expected Contributions Form](#) to assist plan administrators and fund trustees or custodians in meeting their obligations under the PBSA to provide information in writing to the trustee or custodian of the pension fund of all remitted amounts and to report late remittances.

Throughout the first quarter of 2020, we issued revised instruction guides and forms to improve the quality and usefulness of data collected and assist plan administrators in completing and submitting annual regulatory filings. More specifically, revisions were made to the instruction guides and accompanying forms for completing and filing the [annual information return](#) (AIR), the [pension plan annual corporate certification](#) (PPAC), the [certified financial statements](#) (CFS), the [audited financial statements](#) (AFS), the [solvency information return](#) (SIR), the [actuarial information summary](#) (AIS) and the [replicating portfolio information summary](#) (RPIS).

## ***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. In 2019-20, 40 pension transactions were submitted for approval, compared to 63 in 2018-19. We processed 42 applications for approval in 2019-20, compared to 47 the previous year.

In 2019-20, 16 new plans were registered (two defined benefit/combination and 14 defined contribution), while 19 plan termination reports were approved (10 defined benefit/combination and nine defined contribution).

## ***InfoPensions***

We published our newsletter, *InfoPensions* in [May](#) and [November](#) 2019. It included announcements and reminders for plan administrators, pension advisors and other stakeholders as well as descriptions of how we apply provisions of the pension legislation and its guidance.

# OSFI'S WORK WITH PARTNERS

## DOMESTIC



We report to Parliament through the Minister of Finance and work closely with federal partners, including the Department of Finance, the Bank of Canada, the Canada Deposit Insurance Corporation (CDIC) and the Financial Consumer Agency of Canada. We also work with the Financial Transactions and Reports Analysis Centre of

Canada (FINTRAC) and consult with provincial counterparts and industry stakeholders.

In 2019-20, we continued to hold regular meetings with our partners and industry stakeholders as well as participated in an annual crisis management exercise in conjunction with CDIC to assess institutional preparedness.

### ***Domestic Accounting, Auditing and Actuarial Standards***

Our supervision and regulation of financial institutions places strong reliance on the quality of audited financial statements. For this reason, we actively participate in domestic standard-setting and oversight bodies related to Canadian auditing and accounting standards.

In October 2019, we co-hosted, with the Canadian Public Accountability Board (CPAB) a [roundtable](#) on audit quality. The forum provided an opportunity for more than forty of Canada's public accounting and regulatory leaders to discuss ways to support continued financial system stability by enhancing public confidence in audit quality.

In 2019-20, we also participated on the CIA IFRS 17 steering committee and several CIA standards and guidance committees. This work culminated in new Financial Condition Testing (FCT) standards and guidance, replacing the DCAT. We also participated in two Actuarial Standards Board (ASB) designated groups related to the implementation of IFRS 17, including the impact on the role of the actuary.

## INTERNATIONAL

International organizations play a key role in the development of regulatory frameworks for banks and insurers that contribute to a strong and stable global financial system. We have earned a strong international reputation through our active participation in such organizations, which allows it to share a Canadian perspective, and help shape the development of regulatory and supervisory rules and accounting and actuarial standards.

### **Financial Stability Board (FSB)**

Canadian representation includes the Department of Finance, the Bank of Canada and OSFI. During 2019-20, our role included membership on the FSB Plenary, Steering Committee, and Standing Committee on Supervisory and Regulatory Cooperation as well as:

- finalizing a report evaluating the effects of financial reforms on small and medium-sized enterprise financing
- publishing an issues note on the regulatory issues associated with the emergence of global stablecoins
- publishing a report assessing the financial stability implications of the entry into finance of Bigtech firms as well as third party dependencies associated with cloud services
- publishing a report assessing the financial stability implications of developments in the leveraged loan and CLO markets
- continuing a multi-year evaluation of the effects of reforms to end the concept of too-big-to-fail as well as work 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 insurance and resolution regimes

### **Basel Committee on Banking Supervision (BCBS)**

We are an active member of the BCBS, which provides a forum for international rulemaking and cooperation on banking supervisory matters. This year we continued to work closely with the BCBS on a number of important initiatives.

In July 2019, as part of its Regulatory Consistency Assessment Programme (RCAP), [the BCBS published separate reports](#) related to the Canadian implementation of the net stable funding ratio (NSFR) and of the large exposure framework. The assessments found that the Canadian NSFR and large exposure framework are compliant with the Basel Committee's global standards, which is the highest grade possible.

In March 2020, as part of regulatory flexibility measures related to COVID-19, we [announced a deferral](#) of the following implementation dates of the Basel 3 reform package, [in line with the delay in the international implementation timeline](#) by the group of Governors and Heads of Supervision (GHOS), the BCBS's oversight body.

Finally, in [October 2019](#) the BCBS announced that Canada (ourselves and the Bank of Canada) would host the 2020 International Conference on Banking Supervision (ICBS). The ICBS is held every two years and brings together senior central bankers and bank supervisors from more than 100 countries as well as representatives of international financial institutions. The

conference promotes the discussion of key supervisory issues and fosters continuing cooperation in the oversight of international banking.

### **International Association of Insurance Supervisors (IAIS)**

This past year we continued to be an active member in several committees and working groups, including the Executive Committee, Policy Development Committee and two of its working groups: the Macroprudential Committee and the Supervisory Forum. In this capacity, in November 2019, we contributed to the development of the following frameworks adopted by the IAIS:

- Common Framework (ComFrame), which establishes supervisory minimum standards and guidance for the group-wide supervision of internationally active insurance groups (IAIGs)
- Holistic Framework for the Assessment and Mitigation of Systemic Risk in the Insurance Sector (the Holistic Framework)

As part of the ComFrame development, the IAIS adopted a global Insurance Capital Standard Version 2.0 (ICS) for a five-year monitoring period. We were broadly supportive of the goals of the ICS but [did not support the design of the standard](#) because it was not appropriate for the Canadian market.

### ***Colleges of Supervisors***

In 2019-20, we hosted seven colleges involving large banks and insurers. At these events, we invite international regulators to *Colleges of Supervisors* sessions. We also conducted quarterly conference calls with them to identify potential issues in their jurisdiction before they manifest and attended the colleges of companies with significant operations in Canada.

### ***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), we interpret and assess international rules that may apply to Canadian financial institutions. In 2019-20, we worked through the BCBS and the International Association of Insurance Supervisors to provide comment letters, including:

- International Accounting Standards Board on:
  - *interest rate benchmark reform phase 1 amendments* (June 2019)
  - *amendments to IFRS 17 Insurance contracts* (Sept. 2019)
- International Auditing and Assurance Standards Board (IAASB) on:
  - *IAASB proposed strategy for 2020-23 and work plan for 2020-21* (June 2019)

- exposure drafts on *proposed international standard on quality management* (June 2019)
- International Ethics Standards Board for Accountants on its exposure draft on *proposed revisions to the code to promote the role and mindset expected of professional accountants* (Oct. 2019)

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

- hosting the [2019 FSB Roundtable on External Audit](#) to promote international financial stability by enhancing public confidence in auditors and the quality of audits, especially for systemically important financial institutions
- overseeing high-quality audit standards through membership on the Public Interest Oversight Board

## 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 RCMP, federally appointed judges and members of Parliament.

The OCA operates from within OSFI as an independent and impartial unit. 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.

### ***The 30<sup>th</sup> Actuarial Report on the CPP***

The OCA is required to produce an actuarial report on the CPP every three years. The [30<sup>th</sup> Actuarial Report on the CPP as at 31 December 2018](#) was tabled in Parliament on December 10, 2019. It includes projections of CPP revenues and expenditures over the 75-year projection period so that the impact of historical and projected trends on demographic and economic factors can be properly assessed.

As of January 1, 2019, the CPP has two components: the base and additional plans. The CPP consisted only of the base plan (or base CPP) prior to 2019, and this component continues. The additional plan (or additional CPP) is the new enhancement as of 2019. Unlike the base CPP, the additional CPP is fully funded. The *30<sup>th</sup> Actuarial Report on the CPP as at 31 December 2018* is the first report that combines the assessment of both CPP components.

### ***External Peer Review of the 30<sup>th</sup> CPP Actuarial Report***

In 2019-20, the OCA commissioned [an external peer review of the 30<sup>th</sup> CPP Actuarial Report](#). First introduced in 1999, the external peer review of actuarial reports by an independent panel of reviewers is to ensure that actuarial reports meet high professional standards, and based on reasonable assumptions in order to provide sound actuarial advice to Canadians.

The independent panel's findings confirm that the work performed by the OCA on the *30<sup>th</sup> CPP Actuarial Report* meets professional standards of practice and statutory requirements; the assumptions and methods used are reasonable; and the report fairly communicates the results of the work performed by the Chief Actuary and staff.

### ***The 15th Actuarial Report on the Old Age Security Program***

The legislation following proposals in the 2019 federal budget has enhanced the income exemption for the Guaranteed Income Supplement and Allowance. The OCA prepared the *15th Actuarial Report Supplementing the Actuarial Report on the Old Age Security Program as at 31 December 2015*, which was tabled in Parliament on August 21, 2019.

### ***Public Sector Pension and Benefit Plans***

In 2019-20, the OCA completed the [Actuarial Report on the Pension Plan for the Royal Canadian Mounted Police as at 31 March 2018](#), which was tabled in Parliament on December 12, 2019. The report provides actuarial information to decision makers, parliamentarians and the public, thereby increasing transparency and confidence in Canada's retirement income system.

In 2019-20, the OCA completed numerous actuarial valuations for the Office of the Comptroller General. These actuarial valuations are prepared for purposes of reporting and disclosure in the consolidated financial statements of the Government of Canada.

### ***Actuarial Report on the Employment Insurance Premium Rate***

In 2019-20, the OCA presented to the Canada Employment Insurance Commission the [2020 Actuarial Report on the Employment Insurance Premium Rate](#), which was tabled in Parliament on December 9, 2019. The report provides the forecast breakeven premium rate for the upcoming year and a detailed analysis.

### ***Special Events, Presentations and Studies***

The impacts of increasing longevity on the sustainability of pension plans attract attention both in Canada and around the world. In January 2020, the OCA published the [Old Age Security Mortality Fact Sheet](#), which noted that increases in life expectancy were relatively stable between 2004 and 2013 but between 2014 and 2018 there had been a recent slowing trend in the pace of these increases.

For a complete list of studies, meetings, presentations and speeches, visit the [Office of the Chief Actuary](#) section on the OSFI web site.

In 2019-20, the OCA published a [fact sheet on Registered Pension Plans \(RPP\) and Other Types of Savings Plans](#) in Canada. It showed that the number of active RPP members has increased over the last 10 years, with the number of women increasing faster than number of men. Despite this, the number of



active RPP members as a percentage of the labour force and as a percentage of employees has slightly decreased. The proportion of active RPP members in defined benefit plans has decreased over the last ten years due to a significant decrease in defined benefit coverage in the private sector.

In 2019-20, 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 issue.

## OSFI'S CORPORATE SERVICES

### Engaging with Canadians

In 2019-20, we communicated information about our plans, programs and activities to Canadians through our website, traditional and social media, public events, speeches and parliamentary appearances. The Executive Committee and senior officials delivered a number of presentations and remarks across Canada and internationally and OSFI officials are frequently invited to speak at conferences and seminars.

We published our external newsletter *The OSFI Pillar* in [May 2019](#) and [January 2020](#). It provides updates and reminders on the latest guidelines, industry notices, public statements and other pertinent information, including feature articles and speeches.

We planned and organized 26 events during the year, ranging from annual risk management seminars and information sessions for financial institutions to industry meetings and workshops as well as international working group meetings.

We responded to more than 6,000 correspondence and telephone inquiries and requests for information, including 102 inquiries from members of Parliament; 182 from news media; 39 access to information requests, and 52 access to information consultations from government departments or other governments.

### Human Resources

As of March 31, 2020, OSFI employed some 860 people in offices located in Ottawa, Montréal, Toronto and Vancouver. Our employees have a range of skills and experience in financial services, regulatory affairs, risk management and a variety of corporate services.

The leadership team believes in investing in its human capital. To this end, in 2017, we launched a multi-year human capital strategy that sets out a framework for how we manage and develop our people. The strategy consists of five priority areas: leadership development; talent management; learning and development; culture and community; and enterprise change management. In 2019-20, activities we undertook to advance the goals in our strategy included:

- The design and development of a talent management program for the non-executive group of employees, and the launch of several pilots of the process and its supporting tools.

OSFI posts regularly on the following social media channels:



[OSFI Twitter](#)



[OSFI LinkedIn](#)



[OSFI YouTube](#)

- An enhanced onboarding program to support the integration of new employees.
- A new management essentials program to provide training and support to people leaders.
- A comprehensive suite of coaching services, both in-house and through external parties, aimed at building a coaching culture.
- Continued investments to promote and support employee wellness, and diversity and inclusion. The Inclusion Network held many events, activities and awareness campaigns to celebrate diversity in such streams as accessibility, diversity of thought, family responsibilities, gender, invisible differences, LGBTQI2S, mental health, multiculturalism and unconscious bias.
- The refresh of our corporate values and the completion of an organizational culture assessment.

### ***Emergency Preparedness***

Since September 2018, we have actively worked on our Incident Response Protocol and emergency preparedness. In 2019-20, this work included creating and implementing an emergency governance approach, finalising a crisis communications playbook, as well as creating a message centre to increase the speed of emergency broadcasts to employees. This preparedness greatly enhanced our ability to move efficiently and effectively to remote working in March 2020 when the COVID-19 pandemic was declared.

### ***Information Management and Technology***

We developed a new strategy in 2019-20 to provide a long-term plan for the continued evolution of the group's people and our processes and technology investments. It serves as an umbrella strategy for more specific blueprints that will guide the modernization of our internal operations and evolution to digital services.

Specific highlights include a refresh of our computer fleet; infrastructure, application and network upgrades in all four offices; the introduction of Skype for Business; a cloud adoption roadmap with pilot projects; and successful delivery of the first release of Vu, which is a supervisory case management system using an agile project methodology.

Other achievements:

- delivery of an enterprise system for supervisory activity
- new collaboration and data analytics capabilities
- multiple foundational technology refresh initiatives
- a cyber security awareness program
- implementation of new legislative requirements for information management and cloud computing

The continued rollout of Skype for Business, user training and significant improvements to the core network capacity (bandwidth) enabled all staff to transition to a full-time work from home scenario with only minor impacts to overall productivity during the onset of the COVID-19 pandemic.

## OSFI'S 2019-20 FINANCIAL REVIEW AND HIGHLIGHTS

We are funded mainly through assessments on the financial institutions and private pension plans we regulate and a user-pay program for legislative approvals and other select services.

The amount charged to individual institutions is set out in regulations for our main activities:

- risk assessment and intervention (supervision);
- approvals and precedents; and
- regulation and guidance.

In general, the our 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 based on the applicable formula for the industry and the size of the institution. 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 our costs.

In addition to yearly reporting of our financial statements through this report, we report our [financial statements quarterly](#).

We also receive revenues for cost-recovered services. These include revenues from provinces when we provide supervision services of their institutions on contract, federal Crown corporations such as the Canada Mortgage and Housing Corporation (CMHC), which we supervise under the [National Housing Act](#), and revenues from other federal organizations to which we provide administrative services.

We collect 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, these funds cannot be used to reduce the overall assessment costs for the industry.

The Office of the Chief Actuary 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.

### **2019-20 Financial Overview**

Overall, we have fully recovered all costs for the fiscal year 2019-2020. Our financial statements for the 2019-2020 fiscal year can be found in Annex A.

Our total costs were \$189.8 million, a \$19.4 million or 11.4% increase from the previous year. Personnel costs, OSFI's largest expense, rose by \$13.8 million, or 10.7%. The rise is a result of an increase in the average number of full-time equivalent employees, normal economic and merit increases to basic salaries, the impact of a recently signed new collective agreement. Additionally, these costs also include those related to an agreement reached between the Government of Canada and core public administration bargaining agents for damages caused by the Phoenix pay system.

Professional services costs rose by \$2.1 million or 13.5%, largely due to an increase in Information Management/Technology consulting costs in support of Project Vu. Rental costs increased by \$1.4 million or 11.6% due to an increase in software license costs due to both additional software and additional users, increased rent on the renewal of some leases. All other costs, in total, increased by \$1.9 million or 5.0% to support increased staffing levels.

Our full-time equivalent employees in 2019-20 was 793, a 7.0% 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 \$173.4 million, an increase of \$18.7 million or 12.1% from the previous year. Base assessments on financial institutions are recorded at an amount necessary to balance revenue and expenses after all other sources of revenue are taken into account, increased by \$19.6 million or 13.1% from the previous year.

Revenue from user fees and charges decreased by \$0.3 million or 11.3% because of decreases in the volume of approvals-related work that attracts a user fee and in surcharge assessments.

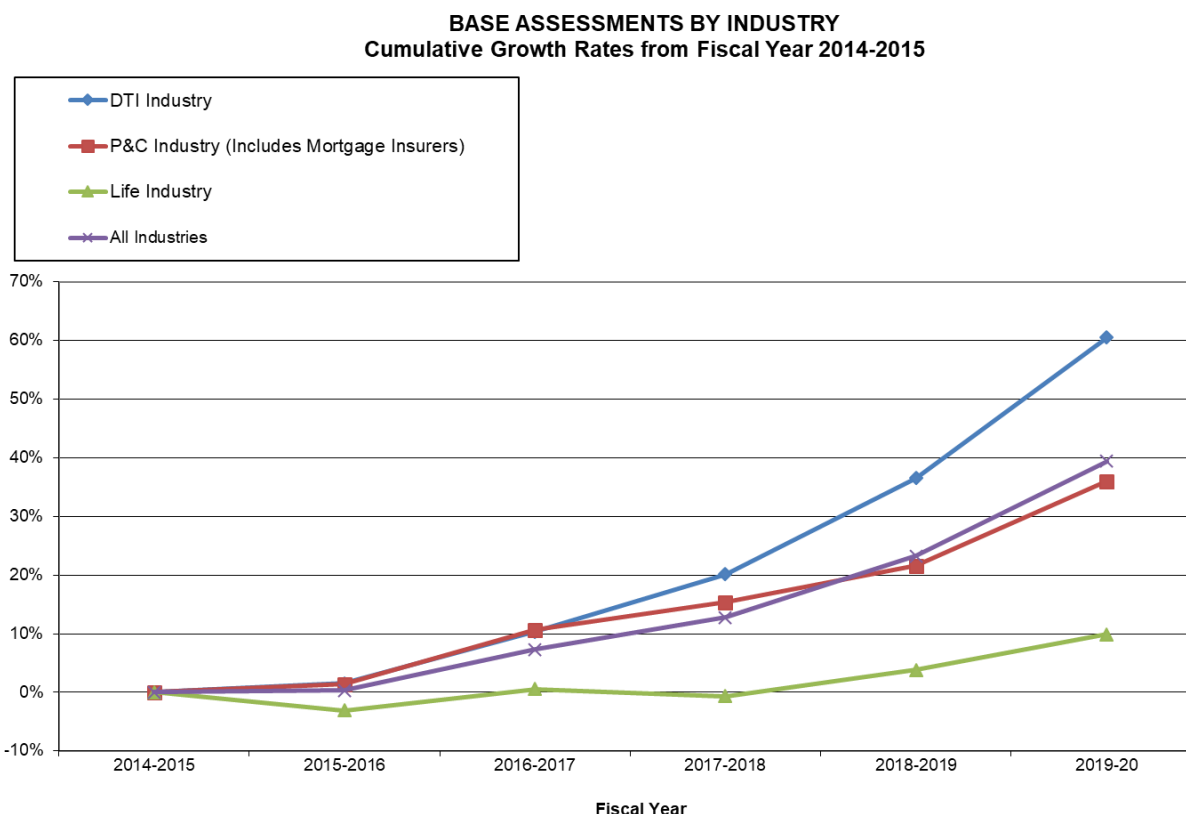
### ***Costs***

Total costs attributed to federally regulated financial institutions were \$173.7 million, an increase of \$19.0 million or 12.3% from the previous year. The increase is primarily due to higher personnel costs (\$13.5 million), higher professional services costs (\$2.0 million), and higher rental costs (\$1.3 million), as explained above.

### ***Base Assessments by Industry***

Base assessments are the costs allocated to an industry, less user fees and charges and cost-recovered services revenues. Base assessments are differentiated to reflect the share of our

costs allocated to each industry group. The chart below compares the cumulative growth of base assessments by industry group over the past five years, using 2014-15 as the base year.



Overall, the increase in average full-time equivalent employees because of the addition of new positions and filling a number of vacant positions from 2016-17 through 2019-20 contributed to overall growth in assessments. In 2018-19, investments to implement a comprehensive human capital strategy; modernize our supervisory processes, practices and tools; and execute a cyber-security strategy and its associated action plan also increased base assessments across all industries. In 2019-20, we made investments in additional employees, supervisory tools and supporting resources to implement our Strategic Plan.

Base assessments on the **deposit-taking institutions (DTI)** industry increased slightly in 2015-16 despite a slight decrease in our total expenses, due to a reduction in surcharge assessments. They rose in 2016-17 through to 2019-20 because of the increases in our total expenses. The rate of growth in 2017-18 was higher in this industry because of increased resources dedicated to supervision in this sector driven by ongoing strengthening of the supervisory regime and increased supervisory activity related primarily to the revised mortgage underwriting guideline B-20. In 2018-19 and 2019-20, 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 (DSB) and small and medium-sized banks. Supervisory capacity also increased in areas such as non-financial risks within this sector.

In 2015-16, base assessments the life insurance industry, decreased in line with our total expenses. It rose in 2016-2017 because of the increase in our 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 2017-18, base assessments decreased slightly due to a lower utilization of shared regulatory resources for life insurance matters due to the completion of the new Life Insurance Capital Adequacy Test Guideline (LICAT) in prior years. Base assessments rose again in 2018-19 and 2019-20 because of the increase in our total expenses to support the implementation of its new three-year Strategic Plan. 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 prior years.

In 2015-16, base assessments on the **property and casualty** (P&C) insurance industry (which includes Mortgage Insurers) increased slightly, despite a decrease in our total expenses, due to a reduction in surcharge assessments. P&C base assessments rose in 2016-17 through to 2019-20 in line with the increase in our total expenses.

## **Federally Regulated Private Pension Plans**

### ***Assessments***

Our 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 our 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 the base fee rate. The rate established for 2019-20 was \$9.00 per assessable beneficiary, unchanged from the previous year. Total fees assessed during the fiscal year were \$6.3 million, up from \$5.6 million in 2018-19. Total fees recognized as revenue in 2019-20 were \$6.6 million. The difference between revenue recognized and fees assessed of \$0.3 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. It stipulates that 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 2009-10, rates had been set to recover an accumulated shortfall. A small surplus position was re-established in 2008-09 and continued to rise through 2011-12 as expenses were lower than planned each year. Since 2012-13, rates have been set to gradually draw the surplus down. The rate established and published in the Canada Gazette in September



2019 for 2020-21 is set at \$10.00 per assessable beneficiary, up from \$9.00 from 2019-20. We anticipate that the rate for 2020-21 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 2019-20 was \$6.6 million, a decrease of \$0.1 million or 0.3% from the previous year due to a reduction in the usage of legal services from the Department of Justice.

Assessments and Costs for Fiscal Years 2014-2015 to 2019-2020  
(\$'000, except Basic Fee Rate)

Fiscal year	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Assessments	6,725	6,701	6,366	5,612	5,612	6,295
Costs	6,666	6,633	7,035	7,193	6,664	6,646
Basic fee rate* per assessable beneficiary	10.00	10.00	9.00	8.00	8.00	9.00

\* 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 \$9.00 per member, the minimum annual assessment is \$450 and the maximum is \$180,000.

### **Office of the Chief Actuary**

#### ***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 2019-20 were \$9.4 million, an increase of \$0.4 million, or 5.0%, from the previous year primarily due to higher personnel costs a result of the staffing of vacancies, normal economic and merit increases to basic salaries and an increase in professional services and software costs related to specialized actuarial software.



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, 2020**



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, 2020 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 ongoing 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, 2020 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.

**Marc Desautels**  
Chief Financial Officer

**Jeremy Rudin**  
Superintendent of Financial Institutions

Ottawa, Canada  
August 25, 2020

# Office of the Superintendent of Financial Institutions

## STATEMENT OF FINANCIAL POSITION

As at March 31, 2020 (in thousands of Canadian dollars)

	Note(s)	2020	2019
<b>Financial assets</b>			
Cash entitlement		\$ 52,683	\$ 45,942
Trade and other receivables, net	3, 4	4,488	4,458
Accrued base assessments	3	616	4,643
<b>Total financial assets</b>		<b>57,787</b>	<b>55,043</b>
<b>Financial liabilities</b>			
Accrued salaries and benefits	10	30,559	25,308
Trade and other payables	4, 10	6,703	4,582
Unearned base assessments	10	-	561
Unearned pension plan assessments	10	877	1,228
Deferred revenue		90	176
Employee benefits – severance	6	4,785	5,090
Employee benefits – sick leave	6	8,978	8,023
<b>Total financial liabilities</b>		<b>51,992</b>	<b>44,968</b>
<b>Net financial assets</b>		<b>5,795</b>	<b>10,075</b>
<b>Non-financial assets</b>			
Tangible capital assets	5	18,520	13,953
Prepaid expenses		1,365	1,652
<b>Total non-financial assets</b>		<b>19,885</b>	<b>15,605</b>
<b>Accumulated surplus</b>	11	<b>\$ 25,680</b>	<b>\$ 25,680</b>

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

**Marc Desautels**  
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, 2020 (in thousands of Canadian dollars)

	Note(s)	Budget 2019-20	2020	2019
<b>Regulation and supervision of federally regulated financial institutions</b>				
Revenue		\$ 173,279	\$ 173,405	\$ 154,691
Expenses		173,279	173,669	154,691
Net results before administrative monetary penalties revenue		-	(264)	-
Administrative monetary penalties revenue	8	50	96	21
Administrative monetary penalties revenue earned on behalf of the Government		(50)	(96)	(21)
<b>Net results</b>		<b>-</b>	<b>(264)</b>	<b>-</b>
<b>Regulation and supervision of federally regulated private pension plans</b>				
Revenue		7,029	6,646	6,664
Expenses		7,029	6,646	6,664
<b>Net results</b>		<b>-</b>	<b>-</b>	<b>-</b>
<b>Actuarial valuation and advisory services</b>				
Revenue		8,619	8,212	7,692
Expenses		9,692	9,449	9,003
<b>Net results</b>		<b>(1,073)</b>	<b>(1,237)</b>	<b>(1,311)</b>
<b>Net results from operations before government funding</b>		<b>(1,073)</b>	<b>(1,501)</b>	<b>(1,311)</b>
Government funding	4	1,073	1,501	1,311
<b>Surplus from operations</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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, 2020 (in thousands of Canadian dollars)

	Note	Budget 2019-20	2020	2019
<b>Surplus from operations</b>	\$	- \$	- \$	-
<b>Tangible capital assets</b>				
Acquisition of tangible capital assets	5	(12,619)	(9,645)	(3,235)
Amortization of tangible capital assets	5	4,612	5,078	4,846
		(8,007)	(4,567)	1,611
<b>Non-financial assets</b>				
Change in prepaid expenses		-	287	(464)
<b>Increase/(decrease) in net financial assets</b>		<b>(8,007)</b>	<b>(4,280)</b>	<b>1,147</b>
<b>Net financial assets, beginning of the year</b>		<b>10,075</b>	<b>10,075</b>	<b>8,928</b>
<b>Net financial assets, end of the year</b>	\$	<b>2,068 \$</b>	<b>5,795 \$</b>	<b>10,075</b>

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, 2020 (in thousands of Canadian dollars)

	Note(s)	2020	2019
<b>Operating activities</b>			
Cash receipts from financial institutions, pension plans and other government entities		\$ 198,344	\$ 171,669
Cash paid to suppliers and employees		(181,862)	(173,220)
Administrative monetary penalties revenue remitted to the consolidated revenue fund	8	(96)	(21)
<b>Net cash provided by (used in) operating activities</b>		<b>16,386</b>	<b>(1,572)</b>
<b>Capital activities</b>			
Acquisition of tangible capital assets	5	(9,645)	(3,235)
<b>Net cash used in capital activities</b>		<b>(9,645)</b>	<b>(3,235)</b>
<b>Net increase (decrease) in cash entitlement</b>		<b>6,741</b>	<b>(4,807)</b>
<b>Cash entitlement, beginning of the year</b>		<b>45,942</b>	<b>50,749</b>
<b>Cash entitlement, end of the year</b>		<b>\$ 52,683</b>	<b>\$ 45,942</b>

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

## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (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 \$40,000 above the amount of revenue collected to be drawn from the Consolidated Revenue Fund of Canada (CRF).



## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (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, 2020. 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 establishes a ceiling for expenses at \$40,000 above the amount of revenue collected to be drawn from the Consolidated Revenue Fund of Canada (CRF). Drawings on this facility are presented as cash overdraft.

No interest is earned or charged on these amounts.

## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (in thousands of Canadian dollars)

#### 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 <i>Statement of Operations</i> .
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 the 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.

## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (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 10 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.

## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (in thousands of Canadian dollars)

#### 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 costs. 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 Plans. 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.

## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (in thousands of Canadian dollars)

#### 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 also 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 and 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.

Base assessments – Revenue from federally regulated financial institutions 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 adjustments related to the 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.

## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (in thousands of Canadian dollars)

#### 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-responsible) 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.

## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (in thousands of Canadian dollars)

#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### l) Budget figures

The 2019-2020 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 certain judgments. The following specific judgments have the most significant effect on the amounts recognized in the financial statements:

- Recognition of internally developed software;
- Lease classification;
- Estimated useful lives of tangible capital assets;
- Actuarial assumptions used to value sick leave and severance obligations;
- Likelihood of occurrence for contingent liabilities;
- Estimates for the allowance for doubtful accounts; and,
- Estimates related to accrued salary increases.

## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (in thousands of Canadian dollars)

#### 3. TRADE AND OTHER RECEIVABLES

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

	<b>Federally regulated financial institutions</b>	<b>Federally regulated private pension plans</b>	<b>Actuarial valuation and advisory services</b>	<b>Other</b>	<b>Total March 31, 2020</b>
Trade receivables	\$ 179	\$ 482	\$ -	\$ 120	\$ 781
User fees and charges	1,663	-	-	-	1,663
Cost-recovered services and other	7	-	114	2,240	2,361
Trade and other receivables, gross	1,849	482	114	2,360	4,805
Allowance for doubtful accounts	(2)	(315)	-	-	(317)
Trade and other receivables, net	1,847	167	114	2,360	4,488
Accrued base assessments	616	-	-	-	616
<b>Total</b>	<b>\$ 2,463</b>	<b>\$ 167</b>	<b>\$ 114</b>	<b>\$ 2,360</b>	<b>\$ 5,104</b>
<b>% of Total exposure</b>	<b>48.3 %</b>	<b>3.3 %</b>	<b>2.2 %</b>	<b>46.2 %</b>	<b>100.0 %</b>

	<b>Federally regulated financial institutions</b>	<b>Federally regulated private pension plans</b>	<b>Actuarial valuation and advisory services</b>	<b>Other</b>	<b>Total March 31, 2019</b>
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
<b>Total</b>	<b>\$ 6,390</b>	<b>\$ 45</b>	<b>\$ -</b>	<b>\$ 2,666</b>	<b>\$ 9,101</b>
<b>% of Total exposure</b>	<b>70.2 %</b>	<b>0.5 %</b>	<b>- %</b>	<b>29.3 %</b>	<b>100.0 %</b>



## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (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, 2020 were \$100 (Year ended March 31, 2019 - \$87). Recoveries during the same period totaled \$54 (Year ended March 31, 2019 - \$95).

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 \$2 was written off during the year ended March 31, 2020 (Year ended March 31, 2019 - \$11). 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, 2020	\$ 150	\$ 1	\$ 2	\$ 60	\$ 568	<b>781</b>
March 31, 2019	\$ 183	\$ 18	\$ 1	\$ -	\$ 304	<b>506</b>

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

## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (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, 2020, OSFI purchased goods and services for \$42,984 (2019 - \$38,356) and earned revenue of \$10,702 (2019 - \$10,641) from transactions with other government entities. Although most transactions or groups of similar transactions are not individually significant, OSFI did have the following individually significant transactions:

Entity	Nature	2020 Expenditure	2020 Payable	2019 Expenditure	2019 Payable
Treasury Board Secretariat	Pension contributions, other employee benefits and other services	\$ 27,676	\$ 1,787	\$ 24,639	\$ 1,752
Public Services and Procurement Canada	Rent and other services	\$ 12,436	\$ 1,373	\$ 10,722	\$ 672

Entity	Nature	2020 Revenue	2020 Receivable/ (Payable)	2019 Revenue	2019 Receivable/ (Payable)
Employment and Social Development Canada	Actuarial valuation and advisory services	\$ 4,655	\$ 96	\$ 4,242	\$ (63)
Canada Mortgage and Housing Corporation	Cost recovered services	\$ 1,556	\$ 1,556	\$ 2,162	\$ 2,162

As at March 31, 2020, the amount of trade and other receivables and trade and other payables from these related parties was \$1,982 (March 31, 2019 - \$2,301) and \$3,702 (March 31, 2019 - \$2,746), 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, 2020 OSFI was granted \$1,501 (2019 - \$1,311) which was recognized into net results and shown on the *Statement of Operations*. There are no unfulfilled stipulations or contingencies attached to this appropriation.

## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (in thousands of Canadian dollars)

#### 5. TANGIBLE CAPITAL ASSETS

<b>March 31, 2020</b>	<b>March 31,</b>		<b>Transfer to</b>		<b>March 31,</b>	
<b>Cost</b>	<b>2019</b>	<b>Acquisitions</b>	<b>"in use"</b>		<b>Disposals</b>	<b>2020</b>
Leasehold improvements	\$ 15,671	\$ 1,584	\$ -	\$ -	\$ -	\$ 17,255
Furniture and fixtures	3,286	-	-	-	(1,179)	2,107
Office equipment	2,065	475	-	-	(233)	2,307
Informatics hardware	5,359	897	-	-	(45)	6,211
Externally purchased software	463	186	-	-	(36)	613
Internally developed software	19,695	-	5,825	-	-	25,520
Internally developed software under development	968	6,503	(5,825)	-	-	1,646
<b>Total</b>	<b>\$ 47,507</b>	<b>\$ 9,645</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,493)</b>	<b>\$ 55,659</b>

<b>Accumulated amortization</b>	<b>March 31,</b>		<b>Disposals</b>		<b>March 31,</b>	
	<b>2019</b>	<b>Amortization</b>			<b>2020</b>	
Leasehold improvements	\$ 12,866	\$ 1,531	\$ -	\$ -	\$ -	\$ 14,397
Furniture and fixtures	2,971	137	-	-	(1,179)	1,929
Office equipment	1,447	293	-	-	(233)	1,507
Informatics hardware	2,183	1,261	-	-	(45)	3,399
Externally purchased software	235	107	-	-	(36)	306
Internally developed software	13,852	1,749	-	-	-	15,601
<b>Total</b>	<b>\$ 33,554</b>	<b>\$ 5,078</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,493)</b>	<b>\$ 37,139</b>
<b>Net book value</b>	<b>\$ 13,953</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18,520</b>

<b>March 31, 2019</b>	<b>March 31,</b>		<b>Transfer to</b>		<b>March 31,</b>	
<b>Cost</b>	<b>2018</b>	<b>Acquisitions</b>	<b>"in use"</b>		<b>Disposals</b>	<b>2019</b>
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
<b>Total</b>	<b>\$ 49,528</b>	<b>\$ 3,235</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (5,256)</b>	<b>\$ 47,507</b>

<b>Accumulated amortization</b>	<b>March 31,</b>		<b>Disposals</b>		<b>March 31,</b>	
	<b>2018</b>	<b>Amortization</b>			<b>2019</b>	
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
<b>Total</b>	<b>\$ 33,964</b>	<b>\$ 4,846</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (5,256)</b>	<b>\$ 33,554</b>
<b>Net book value</b>	<b>\$ 15,564</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 13,953</b>

## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (in thousands of Canadian dollars)

#### 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, 2020 and no impairment was recognized. As at March 31, 2020, OSFI had \$28,225 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, on pensionable earnings, effective as at March 31, 2020 was 10.060% (2019 - 10.427%). Total contributions of \$11,549 (2019 - \$10,777) were recognized as expense in the year ended March 31, 2020.

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.

## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (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, 2020	March 31, 2019
<b>Accrued benefit obligation, beginning of the year</b>	<b>\$ 5,604</b>	<b>\$ 5,186</b>
Current service cost	159	147
Interest cost	94	107
Benefits paid	(619)	(389)
Actuarial loss	280	553
<b>Accrued benefit obligation, end of the year<sup>1</sup></b>	<b>5,518</b>	<b>5,604</b>
Unamortized net actuarial loss	(733)	(514)
<b>Accrued benefit liability</b>	<b>4,785</b>	<b>5,090</b>

<sup>1</sup> 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.

	March 31, 2020	March 31, 2019
<b>Net benefit plan cost - severance</b>		
Current service cost	\$ 159	\$ 147
Interest cost	94	107
Amortization of actuarial loss	61	39
<b>Benefit cost</b>	<b>\$ 314</b>	<b>\$ 293</b>

The most recent actuarial valuation for severance benefits was completed by an independent actuary as at March 31, 2020. 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 0.96% (2019 - 1.75%). 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, 2020 is an annual economic increase of 1.5% for the plan year 2021 (2019 - 2.0% for the plan year 2020). Thereafter, an annual economic increase of 1.5% is assumed (2019 - 1.5%). The average remaining service period of active employees covered by the benefit plan is 13 years (2019 - 14 years).

## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (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, 2020	March 31, 2019
<b>Accrued benefit obligation, beginning of the year</b>	<b>\$ 10,329</b>	<b>\$ 8,202</b>
Current service cost	1,196	897
Interest cost	191	179
Benefits used	(622)	(708)
Actuarial loss	195	1,759
<b>Accrued benefit obligation, end of the year<sup>1</sup></b>	<b>11,289</b>	<b>10,329</b>
Unamortized net actuarial loss	(2,311)	(2,306)
<b>Accrued benefit liability</b>	<b>\$ 8,978</b>	<b>\$ 8,023</b>

<sup>1</sup> 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.

	March 31, 2020	March 31, 2019
<b>Net benefit plan expense - sick leave</b>		
Current service cost	\$ 1,196	\$ 897
Interest cost	191	179
Amortization of actuarial loss	190	182
<b>Benefit cost</b>	<b>\$ 1,577</b>	<b>\$ 1,258</b>

The most recent actuarial valuation for sick leave benefits was completed by an independent actuary as at March 31, 2020. 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 1.20% (2019 - 1.80%). 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, 2020 is an annual economic increase of 1.5% for the plan year 2021 (2019 - 2.0% for the plan year 2020). Thereafter, an annual economic increase of 1.5% is assumed (2019 - 1.5%). The average remaining service period of active employees covered by the benefit plan is 13 years (2019 - 14 years).

# Office of the Superintendent of Financial Institutions

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (in thousands of Canadian dollars)

### 7. REVENUE AND EXPENSES BY MAJOR CLASSIFICATION

	Budget for the year ending March 31, 2020	March 31, 2020	March 31, 2019
<b>Revenue</b>			
Base assessments	\$ 168,653	\$ 169,289	\$ 149,684
Cost-recovered services	11,295	10,184	10,283
Pension plan assessments	7,029	6,646	6,664
User fees and charges	1,950	2,144	2,416
<b>Total revenue earned from respendable sources</b>	<b>188,927</b>	<b>188,263</b>	<b>169,047</b>
<b>Expenses</b>			
Personnel	139,560	142,809	129,057
Professional services	20,582	17,709	15,603
Rental	13,163	13,102	11,737
Amortization	4,612	5,078	4,846
Travel	4,381	3,585	3,309
Machinery and equipment	3,633	2,834	1,889
Information	1,553	1,721	1,542
Communications	1,147	1,148	1,113
Repairs and maintenance	1,105	1,060	948
Materials and supplies	205	592	301
Other	59	126	13
<b>Total expenses</b>	<b>190,000</b>	<b>189,764</b>	<b>170,358</b>
<b>Net results of operations before government funding and non-respendable administrative monetary penalties revenue</b>	<b>(1,073)</b>	<b>(1,501)</b>	<b>(1,311)</b>
Government funding	1,073	1,501	1,311
Administrative monetary penalties revenue	50	96	21
Administrative monetary penalties earned on behalf of the government	(50)	(96)	(21)
<b>Surplus (deficit) from operations</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Full-time equivalent number of employees</b>	<b>843</b>	<b>793</b>	<b>741</b>

## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (in thousands of Canadian dollars)

#### 7. REVENUE AND EXPENSES BY MAJOR CLASSIFICATION (continued)

Personnel expenses	Budget for the year ending		
	March 31, 2020	March 31, 2020	March 31, 2019
Wages and salaries	\$ 108,479	\$ 109,169	\$ 101,401
Other benefits	18,739	21,748	16,532
Post-employment benefits other than severance	12,044	11,549	10,777
Severance benefits	278	314	293
Other personnel costs	20	29	54
<b>Total</b>	<b>\$ 139,560</b>	<b>\$ 142,809</b>	<b>\$ 129,057</b>

#### 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.

For the year ended March 31, 2020, OSFI levied \$96 (2019 - \$21) 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, 2020
March 31, 2021	\$ 10,531
March 31, 2022	10,389
March 31, 2023	8,729
March 31, 2024	7,128
March 31, 2025	7,126
Thereafter	35,245
<b>Total</b>	<b>\$ 79,148</b>



## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (in thousands of Canadian dollars)

#### 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. These liabilities 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, 2020.

##### 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 revenue 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, 2020 is \$5,104 (March 31, 2019 - \$9,101) 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.

## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (in thousands of Canadian dollars)

#### 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, 2020 (March 31, 2019 - \$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.

## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (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, 2020 and March 31, 2019 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, 2020 Total
Accrued salaries & benefits	\$ 9,642	\$ 11,776	\$ 9,141	\$ -	\$ -	30,559
Trade and other payables	-	6,703	-	-	-	6,703
Unearned base assessments	-	-	-	-	-	-
Unearned pension plan assessments	-	125	357	315	80	877
<b>Total</b>	<b>\$ 9,642</b>	<b>\$ 18,604</b>	<b>\$ 9,498</b>	<b>\$ 315</b>	<b>\$ 80</b>	<b>\$ 38,139</b>

	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
<b>Total</b>	<b>\$ 6,710</b>	<b>\$ 23,358</b>	<b>\$ 1,202</b>	<b>\$ 409</b>	<b>\$ -</b>	<b>\$ 31,679</b>

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.

## Office of the Superintendent of Financial Institutions

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2020 (in thousands of Canadian dollars)

#### 11. ACCUMULATED SURPLUS

	<b>March 31, 2020</b>	<b>March 31, 2019</b>
Contributed surplus	\$ 28,327	\$ 28,327
Accumulated deficit	(2,647)	(2,647)
<b>Accumulated surplus</b>	<b>\$ 25,680</b>	<b>\$ 25,680</b>

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, which remains unchanged as at March 31, 2020.

#### 12. COVID 19

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of COVID-19 are unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of OSFI in future periods.