

Financial Consumer Agency of Canada

Financial Highlights

For the three months ended June 30, 2016

Raison d'être

FCAC was established to protect consumers by supervising federally regulated financial entities and by strengthening the financial literacy of Canadians.

Role and Mandate

FCAC derives its mandate from the *Financial Consumer Agency of Canada Act* (the Act). The Act outlines FCAC's functions, administration and enforcement powers, and lists the sections of federal laws and regulations under its supervision.

FCAC has the following objects as set out in sections 3(2) and 3(3) of the Act:

3. (2)

(a) supervise financial institutions and external complaints bodies to determine whether the institution or body is in compliance with

(i) the consumer provisions applicable to them, and

(ii) the terms and conditions or undertakings with respect to the protection of customers of financial institutions that the Minister imposes or requires, as the case may be, under an Act listed in Schedule 1 and the directions that the Minister imposes under this Act;

(b) promote the adoption by financial institutions and external complaints bodies of policies and procedures designed to implement the provisions, terms and conditions, undertakings or directions referred to in paragraph (a);

(b.1) promote the adoption by financial institutions of policies and procedures designed to implement

(i) voluntary codes of conduct that are designed to protect the interests of their customers, that are adopted by financial institutions and that are publicly available, and

(ii) any public commitments made by them that are designed to protect the interests of their customers;

(c) monitor the implementation of voluntary codes of conduct that are designed to protect the interests of customers of financial institutions, that have been adopted by financial institutions and that are publicly available and to monitor any public commitments made by financial institutions that are designed to protect the interests of their customers;

(d) promote consumer awareness about the obligations of financial institutions and of external complaints bodies under consumer provisions applicable to them and about all matters connected with the protection of consumers of financial products and services;

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(e) foster, in co-operation with any department, agency or agent corporation of the Government of Canada or of a province, financial institutions and consumer and other organizations, an understanding of financial services and issues relating to financial services;

(f) monitor and evaluate trends and emerging issues that may have an impact on consumers of financial products and services;

(g) collaborate and coordinate its activities with stakeholders to contribute to and support initiatives to strengthen the financial literacy of Canadians.

3. (3)

(a) supervise payment card network operators to determine whether they are in compliance with the provisions of the *Payment Card Networks Act* and its regulations;

(b) promote the adoption by payment card network operators of policies and procedures designed to implement the provisions of the *Payment Card Networks Act* and its regulations;

(c) monitor the implementation of voluntary codes of conduct that have been adopted by payment card network operators and that are publicly available, and to monitor any public commitments made by them regarding their commercial practices in relation to payment card networks; and

(d) promote public awareness about the obligations of payment card network operators under a voluntary code of conduct or under the *Payment Card Networks Act*.

Basis of presentation

These quarterly financial statements have been prepared by management as required by Section 65.1 of the *Financial Administration Act* and in accordance with International Financial Reporting Standards (IFRS), using the accrual basis of accounting.

These quarterly financial statements have not been subject to an external audit or review.

FCAC's funding model

FCAC recovers its costs from several revenue sources. FCAC is funded mainly through asset-based, premium-based or transaction-based assessments on the financial entities it supervises.

The accompanying quarterly financial statements reflect FCAC's legislated authority to spend assessments and revenues per Section 13(2) of the *Financial Consumer Agency of Canada Act* (FCAC Act) as well as any authorities granted by Parliament and used by FCAC. FCAC receives a statutory expenditure of \$5 million pursuant to Section 13(3) of the FCAC Act to support, collaborate and coordinate its activities and efforts with stakeholders to improve and strengthen the financial literacy of Canadians. Such funding is presented as Government Funding in the *Statement of Operations* and the amount is consistent with and subject to the terms and conditions approved by the Treasury Board.

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Financial Review and Highlights - Year to Date Results

FCAC's total expenses for the three months ended June 30, 2016 were \$3.78 million, a \$207,301 increase or 5.81% from the same period last year. This increase is primarily due to increase human resource costs for which expenses are \$385,555 higher than the prior fiscal year, and an offsetting decrease in Professional Services of \$128,224.

Human resources cost increased by \$385,555 or 15.27% from the same period last year due to the hiring of casual and part time employees, as well as students. The increase can also be attributed to higher parental benefit costs in the current year. Finally, the staffing of vacant and new positions and the planned growth in employees' compensation in accordance with terms and conditions of employment also account for part of the increase.

During the first quarter of 2015-16 fiscal year, FCAC fielded the Organisation for Economic Co-operation and Development (OECD) and the International Network on Financial Education (INFE) Survey on Financial Literacy and Financial Inclusion in Canada, for which Professional Services expenses were incurred. Other Professional Services expenses specific to the first quarter of 2015-16 fiscal year also included fees for a review and analysis of the Agency's structure for an internal reorganization. These expenses did not reoccur in 2016-17 resulting in Professional Services being \$128,224 or 26.11% lower than the same period last year.

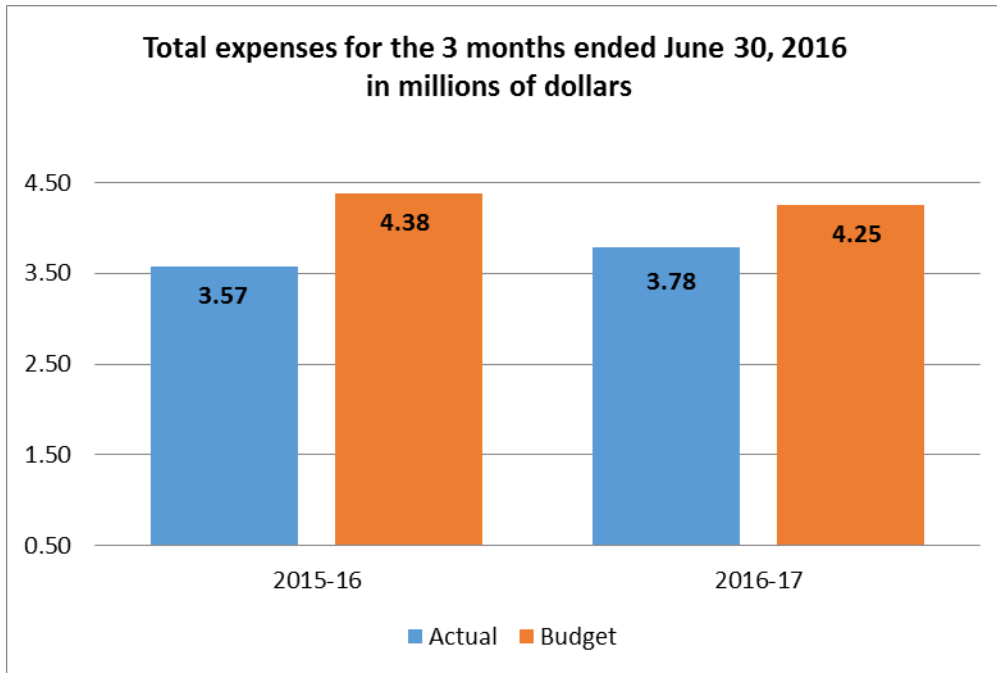
Information Technology (IT) related expenses decreased by \$48,059 or 17.88% when compared to the same period last year due to savings resulting from the use of internal employees to complete application and software development rather than hiring external resources.

Travel expenses increased by \$21,736 or 53.11% compared to the same period last year due to increased participation at the International Financial Consumer Protection Organisation (FinCoNet) and the OECD. FCAC's involvement on these networks requires annual attendance however agenda items can increase participation when directly related to the Agency's mandate.

Interest expense decreased by \$10,461 due to the timing in paying back the Agency's operating loan borrowed from the Consolidated Revenue Fund to temporarily fund expenses. As assessment revenue from financial entities was substantially all received at March 31, 2016, the loan outstanding during the first quarter of the current year was much lower than during the same period last year.

FCAC's total expenses for the three months ended June 30, 2016 totalled \$3.78 million or 88.94% of its budgeted expenses for the period, compared to 81.48% for the same period last year. The variance to budget as at June 30, 2016 of \$469,721 is primarily due to the timing in the implementation of projects for which professional services expenses are incurred, and for the staffing of vacant positions.

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Government Funding

In addition to its revenues from asset-based, premium-based or transaction-based assessments on the financial entities it supervises, FCAC was granted a statutory expenditure of \$5 million for the fiscal year ended March 31, 2017 (2015-16 - \$5 million) to support, collaborate and coordinate its activities and efforts with stakeholders to improve and strengthen the financial literacy of Canadians. In the three months ended June 30, 2016, FCAC used \$752,783 (2015-16 - \$734,837) of this statutory expenditure.

Risks and Uncertainties

Business risks and financial statement implications

Business risks result from significant conditions, events, circumstances, actions, or inactions that could adversely affect FCAC's ability to achieve its objectives and execute its strategies. Business risk is broader than the risk of material misstatement of the financial statements. Business risks may eventually have financial consequences and, therefore, an effect on the financial statements.

Enterprise Risk Management

The environment in which FCAC operates presents an array of risks to the achievement of its mandate and objectives. While many of these challenges are consistently present, the extent to which they present a risk to FCAC's objectives varies, depending on economic and financial conditions and the financial industry environment and its impact on financial consumers. FCAC's ability to achieve its mandate depends on the timeliness and effectiveness with which it identifies, evaluates, prioritizes, and develops initiatives to address areas where its exposure is greatest.

External Risks

Economic, Industry and Supervisory Environment

FCAC operates in a rapidly evolving financial marketplace, which includes increasingly complex financial products and new technologies developed to suit the needs and demands of today's consumers. In some instances, this may present challenges for regulatory regimes to keep pace with this rapid rate of change.

FCAC must continue to determine the impact of these changes, be prepared to act in due course and remain flexible. FCAC must also ensure it stays abreast of new developments and discussions domestically and internationally, and make the most of the resulting opportunities, while managing risks to ensure the continued achievement of its mandate.

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Changes to consumer protection framework

The Government of Canada has proposed a Financial Consumer Code to improve the federal financial consumer protection framework. FCAC will continue to assess potential impacts on its compliance approach and its structure, resources, systems and processes to effectively and efficiently supervise federally regulated financial entities within this new potential framework.

Ability to deliver due to diversity of external influencers

In advancing key components of its financial literacy program and the national strategy for financial literacy, the FCAC relies heavily on a diverse network of partners and stakeholders from the public, private and not-for-profit sectors and seeks to develop sound, strategic and credible alliances. Each partner and stakeholder may have its own organizational interests and goals, and these may differ from those of the FCAC. The Agency will continue to develop partnership criteria for program development and maintain optimal approaches to ensure common goals are achieved.

Financial Risks

Financial risks, primarily liquidity risk and credit risk, are closely managed and continue to be rated low. Please refer to Note 14 of the financial statements for a full analysis of the financial risks to which the FCAC is exposed.

Significant Changes in Relation to Operations, Personnel and Programs

There have been no significant changes in relation to Operations, Personnel and Programs during the quarter ended June 30, 2016.

Approval by Senior Officials

Approved by,

Lucie M.A. Tedesco,
Commissioner
Financial Consumer Agency of Canada

Brigitte Goulard,
Deputy Commissioner
Chief Financial Officer

August 25, 2016