Office of the Superintendent of Financial Institutions Canada

Bureau du surintendant des institutions financières Canada

OSFI Annual Report 2012-2013

OSFI BSIF

Canada

Office of the Superintendent of Financial Institutions Canada

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OSFI at a Glance

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

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

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

- OSFI recovers all of its costs, which in 2012-2013 totalled $127.7 million. OSFI is funded mainly through asset-based, premium-based or membership-based assessments on the financial services industry and a user-pay program for selected services. A small portion of OSFI's revenue is received through an appropriation from the Government of Canada for actuarial valuation and advisory services relating to various public sector pension and benefit plans.

- As of March 31, 2013, OSFI employed 660 people in offices located in Ottawa, Montréal, Toronto and Vancouver.

Superintendent's Message

The past year has seen a continuation of historically low interest rates and generally weak economic conditions, especially in advanced economies. We are now in the sixth year of a challenging and uncertain global economic environment. While Canadian financial institutions have performed well in this environment, there are growing indications that low interest rates are affecting the pricing of financial assets and the risk appetites of financial institutions and pension plans. In response to these pressures, financial institutions, pension plans, and regulators and supervisors must remain vigilant. OSFI and other international regulators have agreed to a series of enhanced rules and standards to strengthen global financial stability, including the Basel III reforms on capital and liquidity, enhanced disclosure practices by institutions, and recovery and resolution planning by institutions. But, key to the safety and soundness of any financial system are the day-to-day implementation of these standards and the day-to-day management of risk by the financial institutions themselves.

Within the uncertain global environment, the Canadian financial sector remains respected for stability and prudence. This reputation is well earned. Canada's financial institutions have not required the taxpayer-funded bail-outs that occurred in other jurisdictions. However, as I have said many times before, we cannot be complacent. For this reason, OSFI continues to focus its efforts on issues that could adversely affect the continued safety and soundness of the Canadian financial system, and to take early action when warranted. A strong supervisory regime, where action is taken early to address problems, contributes to public confidence in Canada's financial system.

In 2012-2013, OSFI introduced or finalized several guidelines intended to promote and maintain confidence in Canada's financial system. These included: a revised Corporate Governance Guideline that sets out expectations for boards of directors and senior management in identifying and managing the risks being undertaken by financial institutions; a new Mortgage Underwriting Guideline that lays out principles for prudent mortgage underwriting; and revised capital adequacy requirements to implement Basel III reforms, including additional requirements for identified domestic systemically important banks. We also published a framework for life insurers that provides a road map of future regulatory changes anticipated in that sector.

Domestically, OSFI worked with the Department of Finance, the Bank of Canada, the Canada Deposit Insurance Corporation and the Financial Consumer Agency of Canada to address the issues and challenges facing the financial sector, and to refine regulatory requirements that promote sound practices and procedures to manage risk.

OSFI's active participation in international forums allows us to share Canadian perspectives and help shape international rule setting. For example, during the year under review, OSFI officials contributed to the ongoing activities of the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors, and the Senior Supervisors Group. Specific initiatives in 2012-2013 included our work on the global thematic review of risk governance conducted by the FSB, our co-chairing of the BCBS review of risk weights used by banks for their trading book assets, and our chairing of the FSB Supervisory Intensity and Effectiveness group.

OSFI employees take pride in knowing that their work has directly benefitted Canadians. As the global financial crisis has shown, a strong financial system is important for economic growth. A strong system means that financial institutions can continue to lend to Canadians, provide other needed financial services and be important investors in the economy.

While this annual report aims to capture last year's accomplishments, OSFI is always looking forward and several initiatives are already underway. A major project for OSFI this coming year is the International Monetary Fund's assessment of the stability of the Canadian financial system (under the Financial Sector Assessment Program). This important international peer review of Canada's financial sector will involve governments and regulatory agencies at the federal and provincial levels and private sector institutions, including an assessment of OSFI's supervisory practices. The outcomes from the review will help Canada's financial system to remain strong and stable. An issue of increasing concern is cyber risk; to address this, OSFI has increased supervisory resources in its operational-risk area and will be conducting in-depth reviews of institutions' current cyber protection practices.

All of the achievements I have mentioned are due to OSFI employees continuing to work with focus, dedication and expertise. Ted Price, Deputy Superintendent, has announced his retirement and I would like to thank him for his 12 years of dedicated service. His contribution to the Canadian and international supervisory community will greatly benefit the next generation of supervisors. I would also like to welcome Andrew Kriegler to OSFI as the new Assistant Superintendent of the Supervision Sector. I expect that he will find his work here as demanding as it is rewarding.

Julie Dickson

Performance Against Priorities 2012-2013

OSFI's role is to contribute to the safety and soundness of the Canadian financial system, while allowing federally regulated financial institutions and private pension plans to take reasonable risks and remain competitive. With a focus on prudence, we balance international rules with Canadian marketplace realities, and efficiency with thoroughness. Last year's Annual Report listed four priorities to achieve OSFI's strategic outcomes for 2012-2013. This section reports major accomplishments under each of those priorities. OSFI achieved its goals for the reporting year and continues to work on these multi-year priorities. More details are available in various chapters of the report.

PRIORITY A – Responding to Risks Emanating from the Economy

Steps Taken

- Responded to concerns about low interest rates and rising household indebtedness by issuing new guidelines to promote financial system stability and reviewing residential mortgage credit portfolios
- Conducted significant cross-sector reviews in the areas of
  - Commercial real estate lending and auto lending
  - Measurement and management of counterparty credit risk
  - Risk data aggregation in management information systems
  - Stress tests (including adverse macroeconomic and earthquake scenarios)
- Continued to conduct
  - Risk management seminars
  - Supervisory colleges
  - Crisis management and industry information sessions
- Participated actively on various international committees, including
  - Financial Stability Board (FSB)
  - Basel Committee on Banking Supervision (BCBS)
  - Senior Supervisors Group (SSG)
  - International Association of Insurance Supervisors (IAIS)
- Prepared documentation for the 2013 Financial Sector Assessment Program Canada review by the International Monetary Fund

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

Steps Taken

- Issued new/revised guidelines, advisories or letters on
  - Corporate Governance
  - Mortgage Underwriting
  - Capital Adequacy Requirements (final Basel III rules for banks and trust and loan companies)

- Domestic systemically important banks
- Progress made in implementing G20 reforms for over-the-counter derivatives markets
- Minimum Continuing Capital and Surplus Requirements (MCCSR) update
- Minimum Capital Test (MCT) update

- Released a Life Insurance Regulatory Framework outlining OSFI initiatives through 2016
- Worked with IAIS towards developing a global framework to guide the supervision of internationally active insurance groups (ComFrame)
- Continued to work with banks and insurance companies to gather data and assess the impact of new capital and liquidity requirements
- Continued to monitor International Accounting Standards Board and Financial Accounting Standards Board decisions as they impact the Canadian capital regime
- Contributed to the Canadian Institute of Chartered Accountants (CICA) / Canadian Public Accountability Board (CPAB) task force on audit committees

PRIORITY C – A High-Performing and Effective Workforce

Steps Taken

- Created a new unit to provide new regulatory oversight of Canada Mortgage and Housing Corporation (CMHC)
- Revised the Training and Development framework to ensure the right processes, policies and controls are in place to continue to train and develop employees adequately to deal with the changing financial sector landscape
- Continued to focus on developing and executing succession plans for critical positions

PRIORITY D – An Enhanced Corporate Infrastructure

Steps Taken

- Continued development of a new system for gathering and processing financial data obtained from banks and other deposit-taking institutions (Tri-Agency Database System) that is on track for implementation in September 2013
- Continued to meet all targeted project milestones as part of our IT renewal program, including
  - Document/records management
  - External website
  - Business Intelligence Tool
  - Corporate Systems (HR and Finance)
  - Correspondence and Enquiry Management

The four priorities above will also guide the achievement of strategic outcomes for 2013-2014. Details can be found on OSFI's website in the *Plan and Priorities 2013-2016*.

In conjunction with its strategic priorities, OSFI has the following ongoing areas of activity:

Federally Regulated Financial Institutions — Accurate risk assessments of financial institutions and timely, effective intervention and feedback; a balanced, relevant regulatory framework of guidance and rules that meets or exceeds international minimums; prudentially effective, balanced and responsive approvals process

Federally Regulated Private Pension Plans — Accurate risk assessments of pension plans; timely and effective intervention and feedback; a balanced, relevant regulatory framework; and a prudentially effective and responsive approvals process

Office of the Chief Actuary — Provision of expert actuarial valuation and advice to contribute to a financially sound Canadian public retirement system, including Canada Pension Plan, federal government public pension and other programs

Corporate Overview

Role and Mandate

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

OSFI's mandate is to:

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

From its mandate, OSFI has identified two strategic outcomes:

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

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

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

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

Resources

Financial Resources

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

Human Resources

As at March 31, 2013, OSFI employed 660 people in offices located in Ottawa, Montréal, Toronto and Vancouver.

Accountability

Auditing

OSFI's Audit Committee met five times in 2012-2013. The Committee is comprised of three independent members, one of whom is the Chair, and the Superintendent. The mandate of the Committee is to provide objective advice and recommendations to the Superintendent regarding the adequacy and proper functioning of OSFI's risk management, control and governance frameworks and processes, including accountability and auditing systems. During 2012-2013, the Audit Committee received information and, as appropriate, provided advice and guidance on key activities including but not limited to: OSFI's *Plan and Priorities 2013-2016*; Quarterly and Annual Financial Statements; IM/IT Strategy; Performance Measurement Reporting; Internal Control over Financial Reporting; Values and Ethics; Internal Audit Reports; and Internal Audit operations.

Surveys and Consultations

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

In the autumn of 2012, The Strategic Counsel, on behalf of OSFI, conducted a series of confidential, one-on-one interviews with a sample of executives representing a cross-section of deposit-taking institutions regulated by OSFI. The survey report is entitled *Deposit-Taking Institutions Sector Consultation 2012-13 Report of Qualitative Research Findings*.

Lyse-Ann Lacourse
Administrative Coordinator,
Office of the Chief Actuary

Jacques Thibault
Senior Translator, Communications and Consultations Division,
Corporate Services Sector

The Strategic Counsel also undertook a financial institutions survey on behalf of OSFI in late 2012. Chief Executive Officers of all federally regulated financial institutions were invited to participate in the brief online survey and nearly 190 institutions responded. The report is entitled *Financial Institutions Survey Report of Quantitative Research Findings*.

Benefits to Canadians

OSFI's strategic outcomes, supported by our plans and priorities, are intrinsically aligned with broader government priorities, specifically strong economic growth, and income security and employment for Canadians, as identified in the Treasury Board Secretariat report *Canada's Performance 2010-11*. A properly functioning financial system that inspires a high degree of confidence among consumers and others who deal with financial institutions makes a material contribution to Canada's economic performance.

Connecting with Stakeholders

OSFI regularly communicates its plans and activities to a wide range of stakeholders. In 2012-2013, OSFI published a number of reports, which can be found on its website.

As in previous years, OSFI received many requests to address external conferences and events. The Superintendent and senior OSFI officials delivered presentations to industry and regulatory forums across Canada and internationally. Senior OSFI officials appeared once before the House of Commons Standing Committee on Finance and three times before the Senate Standing Committee on Banking, Trade and Commerce. Most speeches are available on OSFI's website.

OSFI's external newsletter, *The Pillar*, was published four times in 2012-2013. It serves to remind key stakeholders of the latest guidelines, notices, public statements, and other pertinent information released by the Office.

Sharing OSFI's Expertise

Throughout 2012-2013, OSFI shared its expertise with interested Canadians, including members of the general public, industry, regulators, legislators and the news media, as follows:

- Served 1,243,445 visitors to OSFI's website
- Responded to 12,444 public enquiries, 105 enquiries from Members of Parliament and 211 enquiries from representatives of the news media
- Delivered 11 speeches and over 50 presentations to industry and regulatory forums
- Processed 24 access to information requests and 43 consultations within permitted statutory timelines, as per the *Access to Information Act*, and one privacy request within permitted statutory timelines, as per the *Privacy Act*

Carmen Chan
Audit Manager,
Internal Audit

Dave Jailal
Manager,
Deposit-taking Group, Supervision Sector

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

Andrew Kriegler was appointed Assistant Superintendent, Supervision Sector, in February 2013, and replaces Deputy Superintendent Ted Price, who retired after 12 years at OSFI.

Federally Regulated Financial Institutions

RISK ASSESSMENT AND INTERVENTION

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

Throughout 2012-2013, OSFI exercised a heightened level of monitoring of financial institutions and markets as the global outlook remained clouded by sovereign indebtedness and weak economic recovery. Domestically, the level of household indebtedness continued to be seen as a source of systemic vulnerability. OSFI took action to address the potential impact of these challenges and achieve its strategic priorities by: developing supporting guidance for the updated Supervisory Framework; strengthening the design and application of supervisory processes; conducting significant reviews in several areas, including stress testing, commercial real estate and residential mortgage credit risk; and communicating our expectations for risk management to FRFIs.

Review by Sector

Deposit-Taking Institutions

The Canadian banking industry performed satisfactorily in 2012, despite the challenging global environment. Strong and consistent revenue and earnings performance led to an improved average return on equity for the banking sector of 17.3% in 2012 compared to 15.5% in 2011.

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

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

Canadian deposit-taking institutions made significant progress in implementing Basel III capital requirements during 2012-2013. OSFI fully implemented the new Basel III capital rules as planned, with the publication of a new Capital Adequacy Guideline in December 2012, and Canadian institutions met OSFI's 7% "all-in" common equity Tier 1 capital target on schedule in January 2013.

Also consistent with international standards, OSFI increased its supervisory activities and dedicated more resources to review and monitor the six large domestic banks, which were designated as "domestic systemically important banks" (D-SIBs) in March 2013. These banks will be expected to meet enhanced disclosure requirements and a 1% capital surcharge above the minimum Basel capital requirements. They are well positioned to meet this latter requirement by the target date (January 2016).

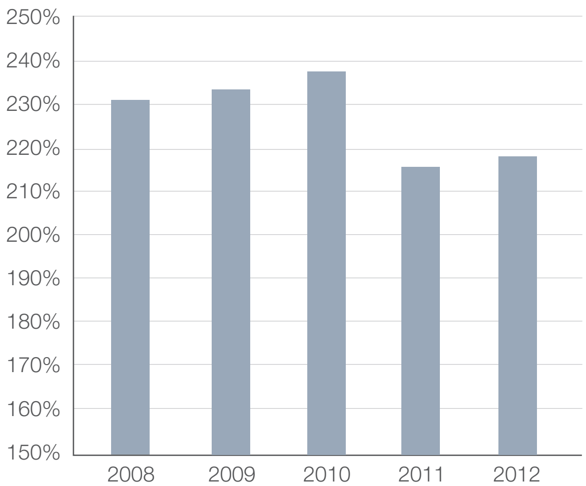
The banking industry benefited from the relatively stable Canadian economy in 2012-2013. While credit quality of retail lending (mortgages, auto loans, credit cards) remains acceptable, the continued growth in domestic household debt has led to significant work continuing in bank lending practices in this area. Persistent low interest rates have the potential to shift risk-taking behavior towards more exposure to higher-yielding, riskier assets. OSFI is closely reviewing banks' risk appetite practices to understand how this is evolving and being managed. While growth in commercial lending including Commercial Real Estate has increased, credit quality and risk have been stable.

OSFI, in conjunction with the Bank of Canada, conducted another macroeconomic stress-testing exercise. This involved prescribing a common scenario to participating banks in order to better understand, and to increase awareness in financial institutions about, potential system-wide risks and vulnerabilities. OSFI shared the individual results with participating banks, and has used the findings to inform our assessment of bank risk exposures and their ability to withstand adverse events.

Life Insurance Companies

The capital position of the Canadian life insurance industry remained acceptable and stable in 2012 *(see figure 1)*. OSFI's supervisory target ratio is 150% for both the Minimum Continuing Capital and Surplus Requirement (MCCSR) for operating federally regulated Canadian life insurance companies, and the Test of Adequacy of Assets and Margin (TAAM), for branches of foreign companies operating in Canada. The aggregate capital ratio for Canadian life insurers in 2012 was 218% (216% in 2011), remaining significantly above OSFI's target capital level.

FIGURE 1
Life Insurance Companies: Capital Ratios*



*As at fiscal year-end of financial institution

In 2012, the aggregate capital ratio for Canadian life insurers was 218%, up slightly from 2011 and significantly above OSFI's target of 150%.

Adri van Hilten
Director,
Supervision, Supervision Sector

Pamela Hopkins
Managing Director,
Supervision, Supervision Sector

With a sound capital base and strong reserve levels, the life insurance industry was healthy going into 2013; however, several challenges remain.

Low interest rates continue to have a negative impact on the financial results of many life insurers, as do sensitivity to potential declines in equity values and market volatility. Recognizing that investment portfolios are generating lower earnings in the wake of low yields on fixed-income investments, life insurance companies have been exploring higher risk/return investments. OSFI will continue to monitor closely conformance to, and changes in, risk appetite policies among federally regulated companies.

Marc Toulouse
Manager,
Montreal Regional Office,
Supervision Sector

Kenza Sentissi
Senior Supervisor,
Montreal Regional Office,
Supervision Sector

Canadian life insurance industry net income for 2012 increased 75% over 2011 but remains volatile. Total net income of federally regulated life insurance companies and branches for the year was $7.4 billion (73% from the three large conglomerates). This compares with a 2011 performance of $4.3 billion in net income (50% from the three large conglomerates). Return on equity for the industry was 9.8% in 2012 compared to 5.9% in 2011.

Due to low interest rates and rising life insurance premiums over the past five years, policy surrenders have declined noticeably as policyholders' ability to substitute more economical forms of insurance is reduced, and attractive alternative investments for policy cash values declined. The result is that a larger proportion of insurance policies remain in-force until they become claims. In response, life insurers have been increasing their reserves for future claims, increasing the downward pressure on earnings. This trend is expected to continue for the foreseeable future as global markets struggle to recover from the financial crisis that began in 2008.

Credit experience in life insurer investment portfolios was stable in 2012. In aggregate, no significant changes were recorded in the levels of credit provisions at the conglomerate companies. OSFI continues to monitor closely the credit environment and industry practices relating to credit risk management.

In 2012, OSFI asked a select number of life insurers and life reinsurers to complete a macroeconomic stress test. This involved prescribing a common scenario to participating insurers in order to better understand, and to increase awareness in financial institutions about, potential system-wide risks and vulnerabilities. OSFI shared the individual results with the participating companies, and will use the findings to inform our assessment of the companies' risk exposures and their ability to withstand adverse events.

Property and Casualty Insurance Companies

The financial performance of the property and casualty (P&C) industry in Canada was positive in 2012. Net income improved to $4.4 billion and return on equity was 11.3%, up from the 9.6% reported in 2011.

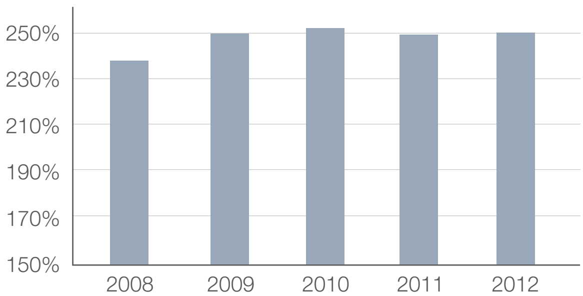
A key measure of the industry's core profitability is the 'combined ratio', which measures the revenue from premiums relative to the sum of claims plus expenses. A combined ratio under 100% indicates that premium income exceeds claims and expenses (before net investment returns) and that an underwriting profit has been earned. In 2012, the combined ratio was 96%, a modest improvement over recent years.

Investment income before realized gains of $2.9 billion, and realized gains of $852 million, in 2012 were similar to those reported in 2011 but on a larger investment base, and reflect lower yields from the low-interest-rate environment. This continuing decline highlights the importance of focusing on core underwriting to achieve and sustain financial results.

The Minimum Capital Test (MCT) is the capital metric for Canadian companies and the Branch Adequacy of Assets Test (BAAT) is used for foreign companies. Capital levels in the Canadian P&C industry in 2012 were stable relative to 2011, with an industry combined MCT/BAAT ratio of 250% — well above OSFI's supervisory target of 150% *(see figure 2).*

FIGURE 2

P&C Insurance Companies: MCT/BAAT Ratios*



*As at fiscal year-end of financial institution

The 2012 combined MCT/BAAT ratio was 250% — a 0.8% increase from 2011 and well in excess of OSFI's minimum supervisory target of 150%.

With nearly half of the Canadian P&C insurance industry (by premium volume) being foreign owned, market conditions in the home jurisdiction can occasionally affect Canadian operations. Sovereign debt concerns in Europe also continued to require enhanced monitoring of parent jurisdictions. Globally, with fewer high severity events, insured catastrophe claims for the P&C insurance industry improved in 2012 over 2011.

Domestically, personal auto insurance continued to be the major underwriting challenge. The largest auto insurance market, Ontario, had experienced deteriorating profitability for several years but improved in 2011, largely due to reforms introduced by the Government of Ontario that took effect in September 2010. However, in 2012, the overall improvement in results due to reduced accident benefits claims activity was offset by increased third-party liability claims, the other major component of auto insurance. It is unclear whether the recent improvement will continue, as post-reform claims currently in the dispute resolution process are expected to begin to reach the arbitration stage in 2013.

The property insurance segment continued to see catastrophe-related claims from severe weather events. In 2012, these severe-weather-related claims were estimated at $1.2 billion. In response to this increased exposure to severe weather events, insurers have been increasing premium rates in recent years. Overall profitability in mortgage insurance rose on improved underwriting results, along with recognition of one-time gains on the wind up of the guarantee fund following the enactment of the *Protection of Residential Mortgage or Hypothecary Insurance Act* in 2011. Commercial lines of business had favourable results during 2012.

Supervisory Tools

Managing Risk Effectively

In 2012-2013, OSFI began updating internal guidance to support its risk-based Supervisory Framework, which considers an institution's inherent business risks, risk management practices (including corporate governance) and financial condition.

In 2012-2013, OSFI again held annual risk management seminars for the industries it regulates (DTIs, life insurance, and P&C insurance) to reinforce the need for strong risk management and to share lessons learned. The goal is to communicate OSFI's expectations related to key risk management areas based on detailed work OSFI has undertaken during the year, and to share information on issues being discussed internationally by regulators. The seminars also provide participants with the opportunity to ask questions of OSFI's senior supervisory and regulatory teams.

Continuing the practice of organizing Colleges of Supervisors, in 2012-2013, OSFI hosted a college for two of Canada's largest banks, in line with Financial Stability Board recommendations, bringing together executives from each bank with supervisors from several jurisdictions where they do business. OSFI also hosted a supervisory college for a large life insurance company. In addition, OSFI hosted a series of Anti-Money Laundering themed colleges for each of Canada's five biggest banks. Crisis management and industry information sessions were conducted again for deposit-taking institutions, in conjunction with the Canada Deposit Insurance Corporation.

Composite Risk Ratings

The Composite Risk Rating (CRR) represents OSFI's overall assessment of an institution's safety and soundness. There are four ratings for Composite Risk: 'low', 'moderate', 'above average' and 'high'. The CRR is reported to most institutions at least once a year (certain inactive or voluntary wind-up institutions may not be rated). Supervisory Information Regulations prohibit institutions from publicly disclosing their rating. As at the end of March 2013, OSFI had assigned a low or moderate CRR to 89% of all rated institutions and had rated 11% as either above average or high risk (compared to 92% and 8% as at March 31, 2012).

Intervention Ratings

Financial institutions are also assigned an intervention (stage) rating, as described in OSFI's guides to intervention for FRFIs, which determines the degree of supervisory attention they receive. Broadly, these ratings are categorized as: normal (stage 0); early warning (stage 1); risk to financial viability or solvency (stage 2); future financial viability in serious doubt (stage 3); and non-viable/insolvency imminent (stage 4). As at March 31, 2013, there were 43 staged institutions. With a few exceptions, the majority of the staged institutions were in the early warning (stage 1) category.

REGULATION AND GUIDANCE

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

During 2012-2013, OSFI continued to promote sound risk management practices through its rule-making activities. OSFI's emphasis on robust risk management systems at financial institutions is reflected in the fact that the World Economic Forum continues to rank Canada's banking system as the world's soundest.

DOMESTIC RULE MAKING

Revisions to Financial Institutions Legislation

The governing statutes applicable to FRFIs are reviewed every five years to ensure they remain current and promote an efficient, competitive and prudent financial services sector. During 2012-2013, OSFI spent considerable time conducting consultations related to the eventual revision of the *Assessment of Financial Institutions Regulations, 2001* and worked closely with the Department of Finance and the Treasury Board Secretariat regarding the Regulations *Amending the Related Party Transactions Regulations*. As part of the requirements under the Government's Red Tape Reduction exercise, OSFI released its Forward Regulatory Plans for 2013. These plans, which will be an annual exercise, describe anticipated regulatory changes or proposals that a department or agency intends to introduce over a 24-month period. The plans are intended to improve transparency and predictability for the institutions OSFI regulates.

Accounting, Auditing and Actuarial Standards

OSFI is a member of the Canadian Accounting Standards Board's (CASB) User Advisory Council and an observer on the Reporting on Supplementary Matters Arising from an Audit or Review Engagement Task Force of the Canadian Auditing and Assurance Standards Board (AASB). OSFI is also a non-voting member of the Auditing and Assurance Standards Oversight Council, which oversees the activities of the AASB. OSFI works closely with the Canadian Institute of Chartered Accountants (CICA) and the Canadian Public Accountability Board (CPAB) on domestic initiatives to improve audit quality and, in 2012-2013, OSFI actively contributed to the joint CICA and CPAB discussion paper on Enhancing Audit Quality: The Role of the Audit Committee in External Auditor Oversight.

OSFI works closely with the Canadian Institute of Actuaries (CIA) and the Actuarial Standards Board (ASB) to ensure that actuarial standards are appropriate and lead to acceptable practice in areas such as valuation, risk and capital assessment, at entities regulated by OSFI. In 2012-2013, we continued to participate on several CIA practice committees and continue to consult with the CIA on developments related to our work on a new solvency framework for life insurance companies.

Capital and Liquidity Guidance

Banks and Trust and Loan Companies – Capital Adequacy Requirements

In December 2012, OSFI released its Capital Adequacy Requirements (CAR) Guideline. The revised guideline reflects the changes to capital requirements approved by the Basel Committee on Banking Supervision (BCBS) reforms commonly referred to as Basel III. These changes are intended to strengthen global capital rules with the goal of promoting a more resilient global banking sector. The guideline, which came into effect January 2013, describes OSFI's expectations for all banks, bank holding companies, federally regulated trust and loan companies and cooperative retail associations in meeting those goals.

OSFI released a letter to institutions in January 2013 on the G20 over-the-counter (OTC) derivatives market reforms. The letter advised federally regulated deposit-taking institutions of OSFI's progress and contributions in implementing G20 reforms for the OTC derivatives markets and outlined on-going and future initiatives.

Life Insurance Companies

In September 2012, OSFI released a Life Insurance Regulatory Framework that provides life insurance companies and industry stakeholders with an overview of regulatory initiatives that OSFI will be focusing on over the period ending 2016. It outlines how the regulatory framework will evolve to ensure Canadians continue to benefit from a strong life insurance industry. In addition, the Framework outlines OSFI's priorities and addresses issues such as corporate governance and risk management, evolving regulatory capital requirements, and promoting transparent information on the financial condition of life insurance companies.

OSFI undertook its annual update of the Minimum Continuing Capital and Surplus Requirements (MCCSR) guideline during 2012, with the revised version coming into effect for the 2013 fiscal year. With stakeholder input considered, the guideline was updated to clarify certain elements or make the guidance more risk-based. During 2012-2013, OSFI continued to consult stakeholders in the life insurance industry. A fourth Quantitative Impact Study (QIS) was issued in November 2012 to gather information related to potential methods for determining the capital requirements for all the main risks. Potential revisions to the criteria for available capital elements were also tested. Industry submissions were received in early 2013 and the results are being analyzed.

Property and Casualty Insurance Companies

OSFI released an updated Minimum Capital Test (MCT) Guideline in November 2012, which consolidates the

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MCT and the Branch Adequacy of Assets Test (BAAT) into one document. The latest version came into effect as of January 1, 2013. The guideline reflects OSFI's ongoing intention to maintain a risk-based P&C insurance capital test.

During 2012-2013, OSFI continued developing a new capital framework for its standardized MCT approach in consultation with the industry, e.g., through a data request launched in May 2012. OSFI's objectives are to improve fairness, effectiveness and consistency of the capital test. Progress was made in the review of other risks, mainly insurance risk. This initiative is in keeping with OSFI's long-term plan and priorities to ensure the MCT remains a sensitive and forward-looking risk management tool.

The P&C MCT Advisory Committee continued to develop a framework for the use of company-specific models to determine capital requirements for P&C insurance companies. Following a public consultation that began in August 2012, OSFI released a revised version of its Guideline B-9: Earthquake Exposure Sound Practices in February 2013. The guideline benefited from the expertise of a working group with the British Columbia Financial Institutions Commission (FICOM), the Québec Autorité des marchés financiers (AMF), the Insurance Bureau of Canada (IBC) and submissions received during the consultation period. The guideline was revised to, among other things, emphasize and strengthen the principles-based approach to managing earthquake exposure, and help Canadian insurance companies continue to be well prepared for the financial consequences if a major earthquake were to occur in Canada.

Other Guidance

Own Risk and Solvency Assessment Guideline

In order to strengthen the industry's enterprise-wide risk management process, in December 2012, OSFI issued for public consultation two draft guidelines for federally regulated life and property and casualty insurers: Guideline E-19: Own Risk and Solvency Assessment (ORSA) and Guideline A-4: Regulatory and Internal Target Capital Ratios.

These two draft guidelines would require insurers to conduct a comprehensive forward-looking internal assessment that would include: identifying material risks; assessing the adequacy of their risk management; and current and likely future solvency positions. All of this would be done in a manner proportionate to the nature, scale and complexity of their own business and risk profile. The new draft guidelines would thus assist

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insurers in self-assessing if their internal capital position is adequate and likely to remain so in the future. The guidelines should also enhance insurers' understanding of the interrelationships between their risk profile and capital needs.

Corporate Governance

OSFI released the original version of its Corporate Governance Guideline in January 2003 to provide information to boards of directors and management of FRFIs about OSFI's expectations and the factors it takes into account in assessing the quality of governance of each institution. Since then various events, including the financial crisis, have reinforced the need for an ongoing focus on maintaining robust corporate governance frameworks. Thus, in August 2012, OSFI released for comment a draft revised guideline on Corporate Governance. OSFI reviewed 30 submissions from various stakeholders and incorporated a number of changes to the final version of the guideline released in January 2013.

Appointed Actuary (AA): Legal Requirements, Qualifications and Peer Review

Guideline E-15, originally issued in 2003, introduced the concept of external peer review, which was intended to: provide professional education for AAs; narrow their range of practice; improve the quality of their work; and maintain and strengthen stakeholder confidence in the work of the AA. OSFI's recently updated Supervisory Framework includes a revised view of how OSFI makes use of the role of the AA to contribute to the safety and soundness of insurance companies.

After reviewing the results of the peer review process that has been in place since the introduction of Guideline E-15 in 2003, OSFI determined that the effectiveness of the work of the external peer reviewer needed to increase so as to better assist OSFI with its review of the actuarial function in insurance companies. To this end, in February 2012, OSFI published a draft revised version of Guideline E-15 for public comment. OSFI received numerous submissions from industry associations, various companies and individuals and incorporated a number of these suggestions into the final version that was released in September 2012. The revised Guideline is effective for financial statements in 2013.

Mortgage Underwriting

In March 2012, OSFI issued a draft guideline on Residential Mortgage Underwriting Practices and Procedures, which reflects and expands upon the Financial Stability Board's Principles for Sound Residential Mortgage Underwriting issued in the fall of 2011. The guidance sets out OSFI's expectations for FRFIs in addressing the risk inherent in mortgage underwriting activities, such as high household indebtedness and other vulnerabilities, and requires financial institutions to publicly disclose information to facilitate market participants' ability to evaluate the soundness and condition of their residential mortgage operations. After receiving and reviewing approximately 70 submissions from various stakeholders, OSFI incorporated a number of revisions and released the guideline in final form in June 2012.

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

At the international level, work on strengthening the financial system against money laundering and terrorism financing is led by the Financial Action Task Force (FATF). During 2012-2013, the FATF worked to develop its methodology for assessing compliance with international AML/ATF standards (the 40 Recommendations), and OSFI helped to determine how the FATF will evaluate the work of prudential regulators who apply Core Principles supervisory standards to AML/ATF supervision in the regulated sectors. OSFI also contributed its AML/ATF supervisory experience to the development of FATF guidance on risks and risk management.

OSFI is a member of the Basel Committee on Banking Supervision's (BCBS) AML Experts Group, and in 2012-2013 this group began revising and updating BCBS guidance on AML/ATF to bring it into line with international standards. Revised guidelines are expected to be issued in 2013.

The Minister of Finance is responsible for the Canadian AML/ATF regime. OSFI is a member of the Public/Private Sector Advisory Committee established by the Department of Finance, which meets regularly for ongoing discussions on Canada's AML/ATF regime. In 2012, the Department of Finance formed a national ML/TF Risk Assessment Committee and OSFI is also part of this initiative.

During 2012-2013, OSFI continued its AML/ATF supervisory assessment program and regular follow-up work at a wide variety of large and small financial institutions. As AML/ATF programs have become more sophisticated, we have responded with a greater emphasis on monitoring improvements to FRFI AML/ATF controls. We continued to identify issues related to financial institutions' ability to identify high risk customers, apply enhanced scrutiny to them and their activities, and provide effective auditing of their programs. OSFI continued to intensify its processes relating to the review of AML/ATF risk assessments undertaken by those applying to establish new FRFIs.

Via its website, OSFI also continued its role as lead communicator in helping to ensure that the Canadian financial sector is promptly notified of sanctions imposed by the United Nations Security Council and the Government of Canada on designated individuals and organizations.

OSFI continued to share supervisory findings with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) as authorized under the OSFI Act. During 2012, OSFI and FINTRAC began work on a concurrent examination methodology, designed to reduce supervisory burden on FRFIs and streamline processes. The new methodology was piloted late in 2012-2013 and we expect it to be fully rolled out in 2013-2014.

INTERNATIONAL ACTIVITIES

International organizations play a key role in the development of regulatory frameworks for banks and insurers. While the Canadian financial system continues to benefit from approaches taken in Canada, the global marketplace is still recovering from an extended period of severe stress. As a result, the G20 retains its focus on international regulatory reform. In 2012-2013, OSFI continued its participation in the development of international rules that contribute to a strong and stable global financial system.

Several Canadian financial institutions are active internationally and, in some cases, this represents a material and increasing portion of their business. Although some curtailment of activity has been noted due to adverse global market conditions, international financial institutions remain active in Canada through branches and subsidiaries, with approximately 50 foreign banks and 170 foreign insurance companies operating in Canada.

OSFI strengthened relationships with foreign supervisors by participating in international rule-making discussions, participating in and hosting several international supervisory colleges (both banking and insurance), and developing information-sharing agreements with a number of host-country supervisory authorities that regulate significant foreign operations of Canadian banks and insurers. In 2012-2013, OSFI finalized a memorandum of understanding (MoU) with the Central Bank of Ireland, bringing the total number of completed agreements close to 40. OSFI will continue to negotiate such agreements, as they lead to improved coordination of supervisory work between home and host supervisors. OSFI also signed a multilateral MoU with the International Association of Insurance Supervisors (IAIS), which allows for information exchange among the various international signatories under the IAIS MoU.

Financial Stability Board

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

Canada is represented by the Department of Finance, the Bank of Canada and OSFI. During 2012-2013, OSFI continued its close involvement with the FSB through its membership on the FSB Plenary, Steering Committee, and Standing Committee on Supervisory and Regulatory Cooperation. OSFI Superintendent Julie Dickson chairs the Committee on Supervisory Intensity and Effectiveness, which is conducting significant work in relation to the supervision of systemically important financial institutions.

Some of the work in which OSFI and its Canadian partners participated during 2012-2013 included:

- reviews of compensation practices;
- strengthening the intensity and effectiveness of the supervision of systemically important financial institutions;
- actions to strengthen oversight and regulation of shadow banking;
- work to enhance financial institutions' risk disclosure practices; and
- work to improve supervisory dialogue with external auditors.

Basel Committee on Banking Supervision

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

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

In 2012-2013, OSFI participated in quantitative impact studies and multiple work streams on: liquidity, capital adequacy reforms, capital standards for exposures to central counterparties for derivatives contracts; a fundamental review of capital rules for trading book activities; and, the risks of financial institutions that have globally significant operations. OSFI also worked with other BCBS members to develop and issue draft rules for capitalizing bank exposures to central counterparties clearing derivative transactions and on methodologies for assessing global and domestic systemically important banks.

More information on these important initiatives, and plans for their implementation, can be found on the BIS website under BCBS and, with respect to Canadian implementation, on the OSFI website.

International Accounting and Auditing Standards

Since all FRFIs in Canada are required to follow IFRS and International Standards on Auditing (ISA), OSFI interprets and assesses international rules that may apply to Canadian financial institutions. OSFI works with the International Accounting Standards Board (IASB) and the International Auditing and Assurance Standards Board (IAASB) through active participation and leadership in the Accounting Task Force of the BCBS and the Accounting and Auditing Issues Subcommittee of the International Association of Insurance Supervisors (IAIS). In 2012-2013, OSFI worked through the BCBS and the IAIS to provide positions on:

- changes in accounting for IFRS 9 Financial Instruments;
- the IAASB Exposure Draft on ISA 720 - The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon; and
- the IAASB Invitation to Comment on Improving the Auditor Report.

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

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

International Association of Insurance Supervisors

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

OSFI is a member of the IAIS Executive, Technical and Financial Stability Committees, the Supervisory Forum and several subcommittees. The IAIS has been working on the development of a solvency and supervisory common framework for internationally active insurance groups (ComFrame) since 2010. OSFI has been actively engaged in the development of ComFrame through membership on the Solvency and Insurance Groups Subcommittees. In July 2012, the IAIS released the 2012 draft of the ComFrame for public consultation, marking the completion of the second step in its three-year Development Phase. As a member of the Financial Stability Committee, OSFI is participating in the development of a methodology to assess which, if any, insurance companies may be global systemically important insurance institutions and the supervisory measures that would apply to a G-SII. This IAIS initiative will extend through 2013.

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

Joint Forum

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

In 2012-2013, the Joint Forum was engaged in a number of reviews flowing from the financial sector reforms agenda of the G20, which includes strengthening the global financial system through more effective oversight and supervision.

In September 2012, a report entitled *Principles for the Supervision of Financial Conglomerates* was published following a period of public consultation. This report updates and expands on the 1999 principles and takes into account recent updates and developments in the principles frameworks of the Joint Forum's parent committees. These updated principles are intended to close regulatory gaps, eliminate supervisory "blind spots", and ensure supervisors address the risks arising from unregulated financial activities and entities.

In February 2013, a report entitled "Mortgage insurance: market structure, underwriting cycle and policy implications", was released for public consultation. The report examines the interaction of mortgage insurers with mortgage originators and underwriters, and makes a set of recommendations directed at policymakers and supervisors.

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

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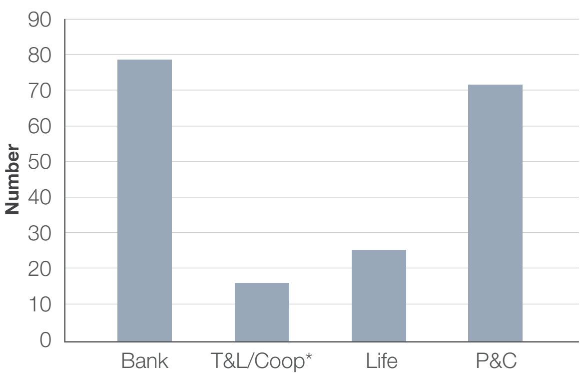
APPROVALS AND PRECEDENTS

The *Bank Act, Trust and Loan Companies Act, Insurance Companies Act,* and *Cooperative Credit Associations Act* all require federally regulated financial institutions (FRFIs) to seek regulatory approval from the Superintendent of Financial Institutions or the Minister of Finance (acting on the advice of OSFI), prior to engaging in certain transactions or business undertakings. Such regulatory approvals are also required by persons wishing to incorporate a FRFI, and by foreign banks or foreign insurance companies wishing to establish a presence or to make certain investments in Canada. OSFI administers a regulatory approval process that is prudentially effective, responsive, innovative and transparent. OSFI's Approvals team strives to ensure that recommendations made to the Superintendent and to the Minister are in the best interest of depositors and policyholders as well as the Canadian financial sector.

In 2012-2013, OSFI processed 214 applications involving 462 Superintendent or Ministerial approvals (individual applications often contain multiple approval requests). Of the 214 applications, 23 were withdrawn and 191 were approved (of which 14% were granted approval by the Minister). This represents a small decrease in completed applications over the previous year, when 222 applications involving 347 approvals were processed. The majority of approved applications related to banks (41%) and property and casualty insurers (37%). *(See figure 3)*

FIGURE 3
Approved Applications by Industry 2012-2013



*Trust and Loan/Cooperative Associations

In 2012-2013, OSFI processed 214 applications involving 462 approvals, of which 191 applications were approved and 23 withdrawn.

The most common applications received from deposit-taking institutions related to redemptions of shares/debentures, substantial investments, and changes in ownership. Applications received from insurance companies related mainly to reinsurance with related unregistered reinsurers, amendments to orders to insure risks, and redemptions of shares/debentures.

During 2012-2013, letters patent were granted incorporating Canadian Stock Transfer & Trust Company as a trust company and Arch Insurance Canada Ltd. as a P&C insurance company; letters patent were granted continuing a federal trust company, B2B Trust, under the *Bank Act.*

Upon request, OSFI provides advance capital confirmations on the eligibility of proposed capital instruments. A total of 17 such opinions and validations were provided in 2012-2013, compared to 26 the previous year.

Guidance and Education

In keeping with the objective of enhancing the transparency of OSFI's legislative approval process and promoting a better understanding of our interpretation of the federal financial institution statutes, OSFI develops and publishes legislative guidance including advisories, rulings, and transaction instructions. In July 2012, OSFI published one revised transaction instruction regarding Termination of Insurance Business in Canada of Foreign Insurance Companies. In January 2013, OSFI published an Advisory concerning Business and Powers – Ownership Interests in Commodities.

In keeping with OSFI's and the Government of Canada's commitment to enhanced accountability and transparency relating to services provided, OSFI has performance standards establishing time frames for processing applications for regulatory approval and for other services. During 2012-2013, OSFI surpassed all of these standards. More information on service performance standards can be found on OSFI's website.

Federally Regulated Private Pension Plans

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

Approximately 7% of private pension plans in Canada are federally regulated (Statistics Canada data as at January 2011). As at March 31, 2013, 1,234 private pension plans were registered under the *Pension Benefits Standards Act, 1985* (PBSA), covering over 639,000 employees in federally regulated areas of employment, such as banking, inter-provincial transportation and telecommunications. Between April 1, 2012 and March 31, 2013, federally regulated private pension plan assets increased by 9%, to a value of approximately $155 billion *(see figure 4).*

Private Pension Environment

During 2012, federally regulated private pension plans operated in an environment of continued economic uncertainty. Though equity markets remained volatile over the period, pension plans' investment returns for the year as a whole were generally strong. The solvency position of defined benefit plans is estimated to have improved slightly in 2012, primarily due to investment returns and employer contributions. In spite of improved financial positions, it is expected that funding requirements will continue to increase over the next couple of years, since they are based on solvency ratios averaged over the past three years.

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FIGURE 4

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

	2009-2010	2010-2011	2011-2012	2012-2013
Total Plans	**1,398**	**1,396**	**1,354**	**1,234**
Defined Benefit	359	360	358	347
Combination	100	95	94	100
Defined Contribution	939	941	902	787
Total Membership	**637,000**	**647,000**	**646,000**	**639,000**
Defined Benefit	379,000	376,000	378,000	358,000
Combination	137,000	146,000	144,000	154,000
Defined Contribution	121,000	125,000	124,000	127,000
Total Assets	**$123 billion**	**$132 billion**	**$142 billion**	**$155 billion**
Defined Benefit	$89 billion	$93 billion	$102 billion	$104 billion
Combination	$30 billion	$34 billion	$35 billion	$46 billion
Defined Contribution	$4 billion	$5 billion	$5 billion	$5 billion

* as at March 31st

As at March 31, 2013, there were 1,234 private pension plans registered under the *Pension Benefits Standards Act, 1985*, covering over 639,000 employees. The drop (from 1,354 plans to 1,234) is largely due to a Supreme Court of Canada decision that affected the jurisdiction of 110 First Nations pension plans.

Risk Assessment, Supervision and Intervention

In 2012-2013, OSFI continued to focus on prudent and effective risk management by pension plan administrators. OSFI encouraged plan administrators to implement risk management tools such as stress testing and funding policies in order to emphasize the importance of risk mitigation.

Approximately 45% of federally regulated private pension plan assets are invested in equity, 44% in debt instruments and 11% in diversified and other assets. Equities produced strong returns for these plans last year, while debt returns were more modest. Investment returns for these plans recorded a 9% return in 2012 compared to 4% in 2011.

Risk Assessment

As part of an ongoing emphasis on the effectiveness and efficiency of its operations, OSFI implemented an important upgrade to the system supporting its risk assessment framework for pension plans in May 2012. This system facilitates the early identification of issues and integrates OSFI's supervisory tools. Using the new system, OSFI conducted in-depth reviews on approximately 28% of its plans.

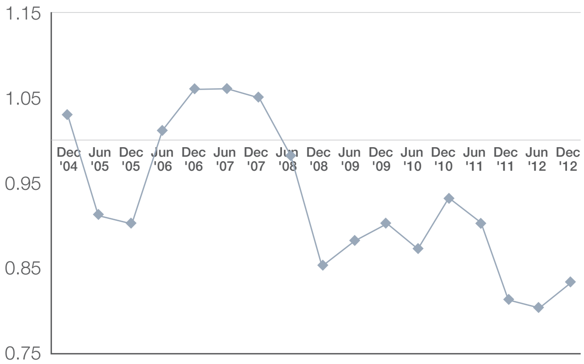
Solvency Testing

OSFI runs a test on a semi-annual basis to estimate solvency ratios (ratio of assets over liabilities on plan termination basis) for all defined benefit pension plans it regulates. This test provides OSFI with important information that enables earlier intervention in higher-risk pension plans. At December 31, 2012, the average estimated solvency ratio (ESR) for all plans was 0.83, up from 0.81 at year-end 2011 *(see figure 5)*. ESRs calculated by OSFI at year-end 2012 showed that approximately 90% of all defined benefit plans supervised by OSFI were underfunded (unchanged from 2011), meaning their estimated liabilities exceeded assets, on a plan termination basis.

As the December 2011 ESR results showed a general deterioration in the solvency position over the preceding year, in May of 2012, OSFI asked that certain plan administrators provide plan members with enhanced and timely disclosure of the solvency position of their pension plan.

FIGURE 5

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



The average ESR increased slightly (from 0.81 to 0.83) since year-end 2011.

On-Site Examinations

As part of OSFI's risk-based supervisory approach, on-site examinations of selected pension plans are conducted. This allows OSFI to better assess the quality of risk management as well as the financial situation of the plan. During 2012-2013, OSFI performed 14 examinations with a continued focus on governance, risk management and disclosure to members. OSFI set a target of less than 27 working days after an examination wrap-up meeting to issue its findings, which it met or exceeded 93% of the time in 2012-2013.

Watch List

Pension plans facing higher risk due to their financial condition, plan management or for other reasons are placed on a watch list and actively monitored. The number of watch list plans at March 31, 2013 grew to 128 from 115 at March 31, 2012. Of the 128 plans, 114 were defined benefit plans and 14 were defined contribution plans. During the course of 2012-2013, 33 new plans were added to the watch list and 20 were removed.

Intervention

OSFI aims to find reasonable and beneficial solutions to issues that OSFI believes may jeopardize members' benefits. In 2012-2013, OSFI intervened with respect to high-risk pension plans, including to restrict portability of benefits in order to stop the impairment of the pension fund, and to terminate three plans. These actions were taken to ensure equitable treatment of all members.

Rules and Guidance

Pooled Registered Pension Plans (PRPPs)

The federal *Pooled Registered Pension Plan Act* and its associated regulations came into force on December 14, 2012. OSFI's responsibilities with respect to this new type of pension plan include licensing PRPP administrators, registering PRPPs and providing ongoing supervision.

Industry Forum

OSFI held its annual pension industry forum in Toronto in February 2013 for administrators of plans it supervises. The forum communicates recent legislative and regulatory developments, discusses OSFI's supervision of pension plans, and addresses guidance issued during the year.

Guidance

In keeping with the objectives of promoting prudent practices and a transparent regulatory framework, OSFI regularly provides guidance to plan administrators on the legislative requirements and OSFI's expectations. In July 2012, OSFI issued the finalized Instruction Guide for Authorization of Amendments Reducing Benefits in Defined Benefit Pension Plans. Additionally, OSFI released a revised Instruction Guide for the Preparation of Actuarial Reports for Defined Benefit Pension Plans in January 2013.

OSFI is a member of the Canadian Association of Pension Supervisory Authorities (CAPSA) — a forum for discussing common issues faced by federal and provincial pension plan supervisory authorities — and an active contributor to many of its initiatives. In 2012-2013, CAPSA published the draft Defined Contribution Pension Plans Guideline.

InfoPensions

OSFI published its bi-annual newsletter *InfoPensions*, which includes announcements, policy interpretations and reminders on issues relevant to federally regulated private pension plans and their stakeholders. In 2012, OSFI conducted a survey of *InfoPensions* readers to gauge their satisfaction with it and to seek their suggestions for how to improve, and increase stakeholders' awareness of, the newsletter.

Approvals

Federally regulated private pension plans are required to seek approval from OSFI for different types of transactions affecting pension plans, including plan registrations and terminations, asset transfers between registered defined benefit (DB) pension plans, refunds of surplus, or reduction of benefits. During 2012-2013, the number of transactions requiring approval increased significantly. OSFI processed 55 applications for approval and received 77 new requests, compared to 60 processed applications and 54 new requests in 2011-2012. Eighteen new plans were registered with OSFI in 2012-2013 (4 defined benefit plans and 14 defined contribution plans), while 21 plans applied for plan termination (12 defined benefit plans and 9 defined contribution plans).

FIGURE 6
Asset Breakdown* of Pension Plans Regulated by OSFI

($ millions)	2011		2012	
Cash	$570	0.4%	$1,159	0.8%
Debt Securities				
Short Term Notes, Other Term Deposits	4,535	3.2%	4,812	3.1%
Government Bonds	36,852	25.8%	39,617	25.5%
Corporate Bonds	11,320	8.0%	12,010	7.8%
Mutual Funds – Bonds, Cash Equivalent & Mortgage	9,752	6.9%	10,530	6.8%
Mortgage Loans	709	0.5%	627	0.4%
General Fund of an Insurer	162	0.1%	172	0.1%
Total Debt Securities	**63,330**	**44.5%**	**67,768**	**43.7%**
Equity				
Shares in Investment, Real Estate or Resource Corporation	4,083	2.9%	4,422	2.9%
Common and Preferred Shares	42,704	30.0%	45,825	29.5%
Stock Mutual Funds	14,424	10.1%	16,496	10.6%
Real Estate Mutual Funds	996	0.7%	1,103	0.7%
Real Estate	2,256	1.6%	2,647	1.7%
Total Equity	**64,463**	**45.3%**	**70,493**	**45.4%**
Diversified and Other Investments				
Balanced Mutual Funds	5,748	4.0%	6,220	4.0%
Segregated Funds	2,548	1.8%	2,702	1.7%
Hedge Funds	1,602	1.1%	2,301	1.5%
Private Equity	722	0.5%	776	0.5%
Infrastructure	1,443	1.0%	1,855	1.2%
Miscellaneous Investments	4,122	2.9%	5,243	3.4%
Total Diversified and Other Investments	**16,185**	**11.4%**	**19,097**	**12.3%**
Other Accounts Receivables (net of liabilities)	**(2,374)**	**-1.7%**	**(3,372)**	**-2.2%**
TOTAL NET ASSETS	**142,174**	**100.0%**	**155,145**	**100.0%**

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

Office of the Chief Actuary

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

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

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

Tabling of the 11th Actuarial Report on the Old Age Security Program

The OCA is required by law to produce an actuarial report on the Old Age Security (OAS) Program every three years or whenever a bill is introduced before Parliament that has a significant impact on the financial status of the OAS Program.

Bill C-38, *An Act to implement certain provisions of the budget tabled in Parliament on March 29, 2012 and other measures*, received Royal Assent on June 29, 2012. Part 4 of Bill C-38 amended the *Old Age Security Act* to gradually increase the age of eligibility for OAS benefits from 65 to 67, commencing April 1, 2023, with full implementation by January 2029. As required by the legislation, the Chief Actuary prepared the *11th Actuarial Report Supplementing the Actuarial Report on the Old Age Security Program as at 31 December 2009* (11th OAS Program Actuarial Report) in order to show the effect of this bill on the long-term financial status of the OAS. This report was tabled before Parliament on August 22, 2012.

The OAS program, one of the cornerstones of Canada's retirement income system, is financed from Government of Canada general tax revenues. Given the large number of Canadians reaching age 65 and continued increases in life expectancy, the total OAS expenditures before Bill C-38 changes were projected to increase to $109 billion or 3.2% of GDP in 2030. As a result of the amendments, the 11th OAS Program Actuarial Report shows a reduction of $11 billion in the total OAS expenditures in 2030 as compared to the previous projections.

Canada Student Loans Program Actuarial Report

The statutory *Actuarial Report on the Canada Student Loans Program as at 31 July 2011* was tabled before Parliament on June 4, 2012, in accordance with the *Canada Student Financial Assistance Act*.

The report presents the results of an actuarial review of the Canada Student Loans Program (CSLP) as at July 31, 2011 and includes projections of future costs of the Program through loan year 2035-2036. An actuarial review of the CSLP is prepared to provide an evaluation of the Program's overall financial costs and to increase the level of information available to the Minister of

Human Resources and Skills Development Canada (HRSDC), Parliament and the public.

Public Sector Insurance and Pension Plans

In 2012-2013, the OCA completed four actuarial reports with respect to the public sector insurance and pension plans. These reports were submitted to the President of the Treasury Board for tabling before Parliament. Three reports are actuarial reports as at March 31, 2011 on the pension plans for the Public Service of Canada and the RCMP, as well as on the Public Service Death Benefit Account. These reports provide actuarial information to decision makers, Parliamentarians and the public, thereby increasing transparency and confidence in Canada's retirement income system.

In 2012-2013, important changes were introduced to several public sector pension plans. The *Pension Reform Act* amending *Members of Parliament Retiring Allowances Act* (MPRAA) received Royal Assent on November 1, 2012. The MPRAA is amended to gradually increase member contributions commencing January 1, 2013, with the objective that, by no later than January 1, 2017, the total amount of contributions to be paid by members will represent 50% of the current service cost. In addition, for service after January 1, 2016, the age at which a pension may be paid without a reduction is raised from age 55 to age 65, and pensions are modified to take into account the pension benefits payable under the CPP or a similar provincial pension plan. The *Pension Reform Act* also modifies the allowance to former prime ministers who cease to hold the office after December 31, 2012, and raises the age at which such allowance may be paid from age 65 to age 67. Jean-Claude Ménard, Chief Actuary, appeared before the Standing Senate Committee on National Finance, in October 2012. After introductory remarks, he answered inquiries regarding these changes. The amendments introduced to the MPRAA by the *Pension Reform Act* will be reflected in future actuarial reports.

Further, Bill C-45, *a second Act to implement certain provisions of the budget tabled in Parliament on March 29, 2012 and other measures*, received Royal Assent on December 14, 2012. Part 4 of Bill C-45 amends the *Public Service Superannuation Act* by increasing the pensionable age by five years for contributors entering the plan on or after January 1, 2013, and by increasing the maximum share of the current service cost contribution for contributors from 40% to 50%. As required by the legislation, the Chief Actuary prepared the Actuarial Report updating the Actuarial Report on the Pension Plan for the Public Service of Canada as at 31 March 2011 in order to show the effect of this bill on the cost of the pension plan. This report was tabled before Parliament on March 25, 2013.

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Actuarial Report on the Employment Insurance Premium Rate

In 2012-2013, the Office of the Chief Actuary presented to the Canada Employment Insurance Financing Board the 2013 Actuarial Report on the Employment Insurance Premium Rate. This report provides the forecast break-even premium rate for the upcoming year and a detailed analysis in support of this forecast.

The legislative changes brought in 2012-2013 to the *Employment Insurance Act, Department of Human Resources and Skills Development Act* and *Canada Employment Insurance Financing Board Act* expanded the mandate of the Office of the Chief Actuary by transferring to OSFI the statutory responsibilities of performing the actuarial forecasts and estimates necessary to set the Employment Insurance premium rate under Section 66 of the *Employment Insurance Act*. Moreover, starting next year, the actuarial report setting the Employment Insurance premium rate will be tabled before Parliament by the Minister of HRSDC.

Special Events, Presentations and Special Studies

As recommended by the CPP independent peer review panel, the Office of the Chief Actuary continues its program of inter-disciplinary seminars with presentations from experts on subjects relevant to the preparation of future actuarial reports. In September 2012, the OCA hosted a seminar entitled, "Demographic, Economic and Investment Perspectives for Canada – Years 2012 to 2050." As the Chief Actuary noted in his opening remarks, the retirement of the baby boomers, which has begun, as well as the general aging of the population, make demographic and economic projections difficult, especially regarding the assumption for the proportion of contributors to the CPP. Four renowned Canadian speakers presented their views of the future trends at the event, which was attended by more than 120 officials from federal departments and provincial and territorial ministries of finance. Materials presented at this seminar are available on OSFI's website under Seminar on Demographic, Economic and Investment Perspectives for Canada – Years 2012 to 2050.

Jean-Claude Ménard
Chief Actuary

The OCA regularly produces experience studies covering a wide range of social security, demographic and economic issues that may affect the financial status of pension and benefits plans.

In 2012-2013, the OCA released Actuarial Study No. 11 – Old Age Security Program Mortality Experience. This study shows that over the last decade, life expectancy at age 65 has experienced the largest increase since the OAS program's inception. Over that period, life expectancy at age 65 increased by about two years reaching 20 years in 2010. Moreover, while the growth in the Canadian population is slowing down, the segment of the population aged 80 and older has been one of the fastest growing age groups, and this trend is expected to continue.

As a part of its involvement in the work of the International Social Security Association (ISSA), the OCA prepared a report entitled: Intergenerational Balance of the Canadian Retirement Income System. This report emphasizes that the diversification of the Canadian retirement income system, through its mix of public and private pensions and different financing approaches, allows for periodic corrections of the emerging intergenerational imbalances. The findings of this report were presented by the Chief Actuary, Jean-Claude Ménard, at the ISSA Technical Seminar entitled, "Proactive and Preventive Approaches in Social Security – Supporting Sustainability," in February 2013.

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

Corporate Services

Improving Internal Communication

In 2012-2013, OSFI refocused its internal communication strategy to follow up on the findings of the 2012 Employee Survey. As a result, vodcasts (short interview-format video segments) with employees from various areas within OSFI were introduced to supplement @OSFI, the daily online internal newsletter, and regular town hall meetings that keep employees abreast of changes within OSFI and in the external environment. To further improve cross-sector and inter-office communications, in-house presentations by subject-matter experts helped employees learn more about ongoing initiatives in all areas of the Office.

Renewing Technology and Systems

OSFI has passed the half-way point in a five-year information technology renewal program. In 2012-2013, a new system to manage the Private Pension Plans Division's supervision activities was successfully implemented. Several multi-year projects proceeded on schedule to update the systems required for the following: document and records management; OSFI's external website; and, business intelligence analysis and reporting. In partnership with the Bank of Canada and the Canada Deposit Insurance Corporation, OSFI also continued to work on a project to replace the aging Tri-Agency Database System that is used to collect, validate, manage and maintain

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financial data collected from federally regulated deposit-taking institutions. Other new projects were launched to update systems used for human resources and finance operations, and management of correspondence and enquiries.

Managing Risks to the Working Environment

OSFI completed a review of the Human Resources and Administration Division to ensure adequate resources are in place to support the HR program and to implement a new business model to enhance delivery of HR programs and services.

Managing Human Resource Challenges

To achieve its strategic outcomes, OSFI's priority is to have a high-performing and effective workforce. This is facilitated by reviewing and updating its HR Strategy and HR Plan on an annual basis.

In 2012-2013, ongoing risks posed by the current environment, both at the level of the economy and within the financial sector, as well as internal factors, continued to have an impact on how we do our work. To mitigate these risks, a number of priorities were identified through the HR planning process and actions taken to address gaps:

- Staffing levels were increased in specific areas, based on needs identified in HR plans, including a new unit to supervise the Canada Mortgage and Housing Corporation (CMHC);
- A fit-gap analysis was conducted to identify the extent to which the present HR system fit OSFI's requirements. As part of the analysis, workflows and data were reviewed in preparation for migration to a new system and HR processes and procedures were aligned accordingly;
- The Training and Development framework was revised to ensure the right processes, policies and controls are in place to train and develop employees adequately to deal with the changing financial sector landscape, and to identify and raise significant risks;
- As potential employee departures due to retirement remain a concern, succession plans for critical positions were completed, and required actions taken to address gaps.

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Financial Review and Highlights

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

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

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

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

OSFI collects Administrative Monetary Penalties from financial institutions when they contravene a provision of a financial institutions Act and are charged in accordance with the Administrative Monetary Penalties (OSFI) Regulations. These penalties are collected and remitted to the Consolidated Revenue Fund. By regulation, OSFI cannot use these funds to reduce the amount that it assesses the industry in respect of its operating costs.

The Office of the Chief Actuary (OCA) is funded by fees charged for actuarial valuation and advisory services relating to the Canada Pension Plan Program, the Old Age Security Program, the Canada Student Loans Program and various public sector pension and insurance plans, and by a parliamentary appropriation.

Overall, OSFI fully recovered all its expenses for the fiscal year 2012-2013.

OSFI's total expenses were $127.7 million, a $3.7 million, or 3.0%, increase from the previous year. Human resources costs, the main driver of OSFI's expenses, rose by $3.3 million, or 3.5%. This was a result of staffing vacant positions across all sectors, the full year impact of the previous year's incremental new hires and planned growth in employee compensation in accordance with collective agreements, and performance-related pay, which is available to employees at all levels within the organization. During the year, OSFI settled a pay equity claim dating from 1987 to 1997 that was previously provisioned for. As a result of the settlement, an amount of $3.0 million was reversed and recognized as a reduction in Human Resources Expenses.

OSFI's average number of full-time equivalent employees during the year was 636, a 7.3% increase from the previous year. OSFI ended the year with an actual head count of 660, a 6.1% increase from its head count of 622 as at March 31, 2012. The increased head count reflects additional staff hired to supervise the CMHC and increases in OSFI's staff complement in specialized skills such as economic research, credit risk and capital analysis to enhance its ability to guide and supervise federally regulated financial institutions in managing risks. OSFI also enhanced its specialization in the property and casualty and life insurance industries to support more sophisticated risk-sensitive capital rules and to fulfill international commitments.

Federally Regulated Financial Institutions

Revenues

Total revenues from federally regulated financial institutions were $114.0 million, an increase of $3.5 million, or 3.1%, from the previous year. Base assessments on financial institutions, which are recorded at an amount necessary to balance revenue and expenses after all other sources of revenue are taken into account, increased by $2.4 million, or 2.3%, from the previous year.

Revenues from user fees and charges increased by $0.3 million, or 7.1%, from the previous year due to a slight increase in surcharge assessments for staged institutions. While the number of staged institutions and the total number of staged months throughout the year decreased, changes to the mix of staged institutions resulted in a slight increase in assessments.

Expenses

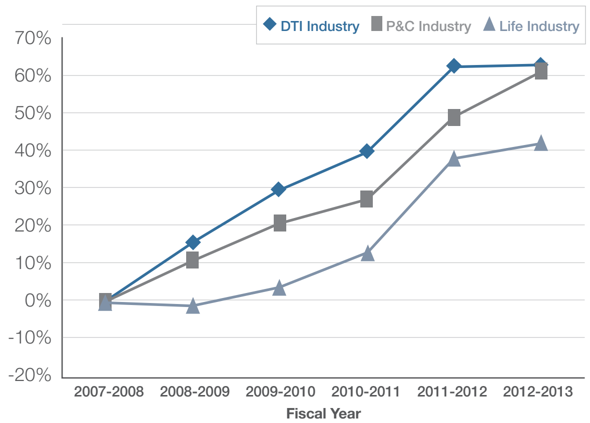
Total expenses were $114.0 million, an increase of $3.2 million, or 2.9%, from the previous year. Human resources costs rose as a result of filling vacancies during the year and the full year impact of positions filled in the previous year.

Base Assessments by Industry

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

The increase in base assessments on the deposit-taking institutions (DTI) industry during the period from 2007-2008 to 2008-2009 reflects OSFI's

Base Assessments by Industry
Cumulative Growth Rates from Fiscal Year 2008



efforts on the New Capital Adequacy Framework (Basel II) implementation. The expiry in late 2007 of the agreement with major banks related to the implementation of the internal ratings-based approach of the New Basel Capital Accord was a further contributing factor to the increase in 2008-2009. In 2009-2010, the growth in expenses was largely due to: growth in supervisory staff and the hiring of employees with current industry experience in credit, market and operational risks in order to focus more effort on higher risk institutions and products; the early detection of problem loan portfolios; and, meeting the increasing number, frequency and intensity of international commitments. In 2010-2011 and 2011-2012, increased assessments were driven by growth in our complement of specialized skills in research, credit risk and capital to enhance OSFI's ability to guide and supervise federally regulated financial institutions in managing risks. In 2012-2013, this number has stabilized.

The increase in assessments on the property and casualty (P&C) insurance industry over the past five years reflects the increase in OSFI's resources during 2007-2008 and 2008-2009 to address OSFI's heightened efforts on actuarial and capital adequacy matters, and the addition of resources to strengthen OSFI's actuarial expertise in this industry. The increase in 2009-2010 reflects OSFI's greater focus on this sector due to weakening industry and market conditions, identification of emerging risks, focus on the IFRS implications for this industry, and its efforts on the Minimum Capital Test (MCT). The increase in 2010-2011 through 2012-2013 reflects OSFI's continued efforts to enhance its specialization in the P&C industry, support more sophisticated risk-sensitive capital rules and to fulfill international commitments.

The decrease in assessments on the life insurance industry during 2008-2009 reflects OSFI's reallocation of resources to higher risk institutions and products within the DTI and P&C industries. The 2009-2010 increase can be attributed to the industry share of incremental OSFI resources to address economic and market conditions and emerging risks. The increase in 2010-2011 through 2012-2013 reflects the addition of staff with specific expertise in life insurance, OSFI's efforts on developing a new framework for the standardized Minimum Continuing Capital and Surplus Requirements (MCCSR) approach, and its continuing focus on reviewing and revising the framework used to determine the capital requirements for segregated fund guarantee products.

In addition to these industry-specific cost drivers, there were other generic factors that caused increases in base assessments on all industries: OSFI's development and implementation of an IM/IT strategy and renewal program in 2010-2011 through 2012-2013 contributed to overall growth in expenditures and assessments. In 2008-2009 and continuing through 2009-2010, prevailing economic and market conditions resulted in a significant increase in the number of staged institutions across all industries, and hence an increase in surcharge assessments. In 2010-2011 and 2011-2012 the number of staged institutions and surcharge assessments decreased slightly, although the number remains high as compared to levels prior to 2008-2009. In 2012-2013, there was a further decrease in the number of staged institutions; however, surcharge assessments increased slightly as a result of changes to the mix of staged institutions.

Federally Regulated Private Pension Plans

Program Changes

In 2011-2012, OSFI changed its pension plan assessment methodology to include retirees and survivors in the assessment base of all plans for plan filings after March 31, 2012. Previously the assessment base of assessable members included only active members of the plans. With the inclusion of all beneficiaries, the assessment base for most plans has increased. As a result, the assessment rate was reduced from $22 per assessable member in 2011-2012 to $10 per assessable beneficiary in the current year.

Assessments

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

The assessment rate is established based on OSFI's estimate of current year costs to supervise these plans, adjusted for any excess or shortfall of assessments in the preceding years. The estimate is then divided by the anticipated assessable membership to arrive at a per beneficiary assessment. The rate established for 2012-2013 was $10 per assessable beneficiary, down from $22 the previous year as a result of the change in assessment methodology discussed above. Total fees assessed during the fiscal year were $6.5 million, down from $7.9 million in 2011-2012.

Fees Assessed and Expenses for Fiscal Years 2007-2008 to 2012-2013

($000, except Basic Fee Rate)

FY	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Fees Assessed	7,703	7,927	8,578	7,866	7,949	6,477
Expenses	5,876	5,931	6,529	6,555	6,701	6,905
Basic Fee Rate* per assessable member	24	24	24	22	22	10

* The minimum and maximum annual assessment per plan is derived by multiplying the annual assessment by 50 and 20,000 respectively. With an annual assessment of $10 per member, the minimum annual assessment is $500 and the maximum is $200,000.

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

Expenses

The cost of administering the PBSA for 2012-2013 was $6.9 million, an increase of $0.2 million or 3.0% from the previous year. The increase occurred as a result of planned growth in employee compensation.

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 were $6.9 million, an increase of $0.3 million or 4.4% from the previous year due to the full year impact of filling previously approved positions, and normal economic and merit increases.

Appendix

Disclosure of Information

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

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

Public Disclosures Associated with Building a More Stable Future

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

During 2012-2013, OSFI performed a targeted review of public disclosures made by large banks to identify best practices and any areas for improvement. Findings were communicated to selected institutions and OSFI saw substantial improvement in liquidity disclosures in subsequent reporting periods.

Also during the period, OSFI issued guidance to implement the Basel III Pillar 3 disclosure requirements on the composition of capital that were published by the BCBS in June 2012. This included:

- October 2012 interim disclosure guidance for the Q1 and Q2 2013 reporting periods; and
- February 2013 draft advisory for all reporting periods subsequent to Q2 2013.

Financial Stability Board Guidance

In 2012, the FSB established the Enhanced Disclosures Task Force to examine how the disclosure of information on bank risk exposures and risk management practices could be enhanced. The Task Force consisted of a group of senior private-sector executives from leading asset management firms, investors and analysts, global banks, credit rating agencies and external auditors.

After consulting extensively with regulators and industry groups, the Task Force provided 32 recommendations on how the disclosure of information on bank risk exposures and risk management practices could be enhanced. The FSB views the report as a valuable step to improving the quality of risk disclosures and OSFI is working with the six major banks to implement these recommendations in Canada. Indeed, one of the obligations of having been designated as domestic systemically important banks is that they are expected to adopt the recommendations of the Task Force, future disclosure recommendations in the banking arena that are endorsed by international standard setters and the FSB, as well as evolving domestic and international bank risk disclosure best practices.

In June 2012, OSFI issued a guideline that sets out OSFI's expectations for enhanced disclosures to be made by all FRFIs that engage in residential mortgage underwriting and the purchase of residential mortgage loans. These additional disclosures were viewed positively by the market.

International Accounting Standards Board

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

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