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

OSFI
ANNUAL REPORT
2015-2016

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 provides prudential regulation and supervision to over 400 banks and insurers, and some 1,200 federally registered private pension plans.
- The Office of the Chief Actuary, which is an independent unit within OSFI, provides actuarial valuation and advisory services for the Canada Pension Plan, the Old Age Security Program, the Canada Student Loans Program, and other public sector pension and benefit plans.
- OSFI recovers its costs, which in 2015-2016 totalled $143.5 million. OSFI is funded mainly through asset-based, premium-based or membership-based assessments on the financial services industry and a user-pay program for selected services. A very small portion of OSFI's revenue is received through an appropriation from the Government of Canada for actuarial valuation and advisory services relating to various public sector pension and benefit plans.
- As of March 31, 2015, OSFI employed some 700 people in offices located in Ottawa, Montréal, Toronto, and Vancouver.

Superintendent's Message

The year under review was notable for the continuing low interest rate environment globally, growing levels of household debt in Canada, and unsettled commodity markets. In 2015-2016, the Office of the Superintendent of Financial Institutions (OSFI) undertook a number of initiatives to address developing risks in these areas, and others, in order to further strengthen Canada's system of prudential regulation and supervision.

In December 2015, to address growing risks in the residential housing market, OSFI announced planned changes to capital requirements for residential mortgages. The changes will impact the regulatory capital requirements for Canadian deposit-taking institutions engaged in mortgage lending, and the standardized capital requirements for Canada's private mortgage insurers. These steps will ensure that capital requirements continue to keep pace with housing market developments, and more accurately reflect the underlying risks.

In August 2015, OSFI issued a draft Operational Risk Management guideline for public consultation. The guideline recognizes that regulated entities will have different operational risk management practices depending on such factors as their size, ownership structure, complexity of operations and risk profile. This principles-based approach to regulation gives Canadian financial institutions some flexibility in how they manage their risks, supporting effective competition while reducing compliance costs.

In March 2016, OSFI issued the draft Life Insurance Capital Adequacy Test (LICAT). The LICAT is the culmination of over a decade of work undertaken to replace the current Minimum Continuing Capital and Surplus Requirements (MCCSR) guideline, which has been in place since 1992. The draft guideline takes into account the current economic realities of the life insurance business, recent developments in actuarial and financial reporting standards as well as economic and financial practices, and international trends in solvency frameworks. OSFI will be receiving input from the industry over the summer months and expects to be able to release the guideline in final form in the fall of 2016.

The year under review saw OSFI's continuing collaboration with our federal financial regulatory partners. During the year, I chaired four meetings of the Financial Institutions Supervisory Committee (FISC) composed of the Governor of the Bank of Canada, the Deputy Minister of Finance, the Chief Executive Officer of Canada Deposit Insurance Corporation and the Commissioner of the Financial Consumer Agency of Canada. Bi-laterally, we worked with the Bank of Canada to conduct macro stress-tests of Canadian Domestic Systemically Important Banks (D-SIBs) and prepared for the implementation of a bail-in regime in collaboration with the Department of Finance and Canada Deposit Insurance Corporation. Our strong relationships with our FISC partners continued to support Canada's robust financial system.

Internally, our focus continued to be on supporting a high-performing workforce. This year saw the kick-off of our Supervision Training Initiative, a multi-year plan to ensure OSFI supervisors continue to have access to the skills and knowledge necessary to perform their robust oversight of Canada's federally regulated financial sector. We also began migrating content into a new documents and record management system, which will ensure employees have access to the information they need, when they need it. We also finished development, and started the implementation, of a cyber-security strategy and action plan.

The past year saw OSFI continue to work proactively to protect the interests of Canadian depositors, policyholders and pension plan members, but none of this would be possible without the sustained dedication of my OSFI colleagues. Their professionalism, knowledge and integrity are the foundation of our success as Canada's world class prudential regulator and supervisor.

J. Rudin

Jeremy Rudin

Performance against Priorities 2015-2016

OSFI identified five priorities for 2015-2016 through which to achieve its mandate. This section reports key 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 subsequent chapters of this report.

PRIORITY A – Anticipating and Responding to Risks

Steps Taken

- OSFI conducted a standardized stress test on reinsurance related risks, and, with the Bank of Canada, OSFI also conducted a macro stress test with Domestic Systemically Important Banks (D-SIBs) that explored severe but plausible scenarios and associated system impacts.

- Examined issues of interconnection between regulated entities and the shadow banking sector in order to better understand the role of shadow banking in the marketplace and how this may translate into prudential concerns for the Canadian financial system at large.

- Issued a draft Operational Risk Management guideline for public consultation in August 2015. After reviewing industry comments and incorporating appropriate revisions, OSFI will issue the final version of the guideline in 2016.

- Conducted a cross-system review of compensation practices and determined that the Domestic Systemically Important Banks' (D-SIBs) compensation practices are generally aligned with regulatory expectations.

- Actively monitored regulated entities' progress in the development of their cyber security programs.

PRIORITY B – Enhancing Supervisory Processes

Steps Taken

- Embarked on a project to review our supervisory processes tools and related technologies.

- Established a Small and Mid-Size (SMS) advisory program to review the application of guidelines and methodology, to ensure that OSFI's expectations continue to be risk-based and scaled to the size and complexity of small and mid-sized institutions.

- Worked to develop a Risk Tolerance Framework to assist in prioritizing supervisory work across OSFI.

PRIORITY C – Completing the Post-Crisis Reform Agenda

Steps Taken

- OSFI, in partnership with AMF and Assuris and in consultation with industry, worked to develop a more advanced risk-based capital approach for life insurers. The review included available capital, credit, market, insurance, and operational risks as well as credits for risk mitigation and diversification. A draft guideline, the Life Insurance Capital Adequacy Test (LICAT), was released in March 2016 for public consultation.

- Introduced a significantly revised version of the Minimum Capital Test for Property and Casualty insurers for implementation in 2015, and introduced a number of smaller amendments in 2016 related to capital requirements for equity derivatives and recognition of eligible equity hedging strategies.

- Issued the final version of the guideline on Margin Requirements for Non-centrally Cleared Derivatives. This guideline applies only to federally regulated financial institutions that meet minimum requirements for outstanding notional values of non-centrally cleared derivatives.

- Developed a new model for determining capital requirements for mortgage insurance risk and have been discussing calibration of the new model with the private mortgage insurers and Canada Mortgage Housing Corporation (CMHC). The new approach with final calibration will be described in an advisory and implemented in 2017.

- Issued draft guidelines outlining OSFI's expectations for regulated entities regarding the application of IFRS 9 Financial Instruments and Disclosures, and for deposit-taking institutions regarding the revised Pillar 3 Disclosure Requirements.

PRIORITY D – Maintaining a High-Performing Workforce

Steps Taken

- Implemented a new, more robust intranet site with increased functionality. This intranet update provides the space and capacity to ensure all employees are kept up-to-date on the latest internal initiatives, while at the same time informing employees of regulatory activities being implemented externally.

- Introduced webcast town halls to simultaneously communicate with all OSFI staff and to enhance communication with staff across all OSFI offices.

- Worked on the development of a modular training program to establish core and specialized learning for OSFI employees.

- Adopted a structured approach to managing IT investment outcomes with a focus on accountability for results to ensure that projects do not only meet their scope, schedule and budget targets, but that they also achieve value for money and realize expected benefits for OSFI.

PRIORITY E – Enhancing OSFI's Corporate Infrastructure

Steps Taken

- Commenced phased migrations into OSFI's new document and records management system.

- Continued the development and implementation of enterprise information management policy instruments and guidance to better enable OSFI employees in utilizing and sharing information assets.

- Developed a cyber-security strategy and action plan.

The above five priorities will also guide the achievement of strategic outcomes for 2016-2017. Details can be found in the Reports and Accountability section of OSFI's website.

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:

Fostering sound risk management and governance practices

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

Supervision and early intervention

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

OSFI promptly advises financial institutions and pension plans if there are material deficiencies, and takes corrective measures or requires

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that they be taken to expeditiously address the situation.

Environmental scanning linked to safety and soundness of financial institutions

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

Taking a balanced approach

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

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

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

OSFI works with a number of key partners on the Financial Institutions Supervisory Committee (FISC), which the Superintendent chairs, and includes the Department of Finance, the Bank of Canada, Canada Deposit Insurance Corporation and the Financial Consumer Agency of Canada. Together, these organizations constitute Canada's network of federal 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. The Chief Actuary 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).

Financial Resources

OSFI recovers its costs, as stipulated under the OSFI Act. The organization is funded mainly through asset-based, premium-based or membership-based assessments on the financial services industry and a user-pay program for selected services. A very small portion of OSFI's revenue 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

Given that we work in a knowledge-based environment, we count on the expertise of our staff to meet our mandate and maintain our position as a world-class financial regulator. As at March 31, 2016, OSFI had some 700 talented staff in offices located in Ottawa, Montréal, Toronto and Vancouver. OSFI employees have a wide range of skills including financial services experience, regulatory expertise and risk management backgrounds, and use these skills in positions ranging from accountants and actuaries, to economists and professionals supporting corporate activities.

Accountability

Auditing

OSFI's Audit Committee, comprised of three independent members and the Superintendent, provides objective advice and recommendations to the Superintendent regarding the adequacy and functioning of OSFI's governance, risk management and control practices. With four meetings held in 2015-2016 and a new Chair introduced as of February 2016, the Audit Committee continued to demonstrate significant value providing advisory services to the Superintendent with respect to key OSFI activities including: Enterprise Risk Management, Quarterly and Annual Financial Statements, IM/IT Strategy, and the Internal Audit function.

Surveys and Consultations

OSFI routinely undertakes consultations with the financial institutions it regulates to help assess its performance and effectiveness as a regulator. Copies of the research reports are available on OSFI's website.

In 2015-2016, The Gandalf Group conducted the Deposit-Taking Institutions Sector Consultation on OSFI's behalf. The consultation takes place every three years and consists of one-on-one interviews with senior executives from deposit-taking institutions regulated by OSFI.

The overall results of the consultation were positive; feedback from participants indicates that OSFI is perceived to be professional, open and transparent. Some areas for improvement were also identified, and where appropriate, OSFI is developing action plans to address these.

Benefits to Canadians

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

Jamey Hubbs, Assistant Superintendent, Deposit-taking Supervision Sector • **Mark Zelmer,** Deputy Superintendent, Regulation Sector • **Jeremy Rudin,** Superintendent of Financial Institutions • **Gary Walker,** Assistant Superintendent, Corporate Services Sector • **Neville Henderson,** Assistant Superintendent, Insurance Supervision Sector

Michelle Doucet was named Assistant Superintendent, Corporate Services Sector, in June 2016.

Carolyn Rogers was named Assistant Superintendent, Regulation Sector, in August 2016.

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. In doing so, OSFI recognizes that management and boards of directors of FRFIs are ultimately responsible and that those institutions can fail.

In 2015-2016, high levels of domestic household indebtedness, low interest rates, sustained low oil prices, and ongoing global financial uncertainty continued to be seen as sources of potential systemic vulnerability. OSFI took action to address the possible impact of these challenges and achieve its strategic priorities by communicating its expectations for risk management to FRFIs and conducting significant reviews in several areas, including corporate and commercial lending, retail lending, outsourcing, cyber-risk, risk management, and compliance. We continued to develop supporting guidance for OSFI's Supervisory Framework and initiated a review of our supervisory processes and tools.

Review by Sector

Deposit-Taking Institutions

The Canadian deposit-taking industry is comprised of six large domestic banks designated as Domestic Systemically Important Banks (D-SIBs) 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 also have operations in many countries across the globe.

The remaining approximately 10% of Canadian deposit-taking assets are held by smaller and mid-sized institutions with various market and business strategies, such as mortgage lending, commercial real estate lending or credit cards.

Overall, return on equity for the industry was about 15% in 2015, similar to 2014. The main contributing factors were continued solid net income generation and a stable credit environment. While loan loss provisions for corporate and retail lending (mortgages, auto loans, credit cards) remained low, banks began to report that some portfolio metrics were showing signs of the impacts of low oil prices.

OSFI fully implemented the Basel III capital rules in 2013, at which time banks began reporting new Common Equity Tier 1 (CET1) capital adequacy ratios. Smaller Canadian banks' CET1 capital ratios remain above the target level of 7%; while the six D-SIBs remain above the higher 8% capital requirement (reflecting the 1% capital surcharge). OSFI's liquidity adequacy framework—which includes the Basel III Liquidity Coverage Ratio (LCR) requirement—came into effect in January 2015. Also, at the same time, the Basel III leverage framework and associated minimum 3% Leverage Ratio (LR) requirement replaced the Assets to Capital Multiple (ACM) leverage constraint. Canadian banks continue to report ratios above the minimum requirements established for these metrics.

Life Insurance

The life insurance industry consists of three conglomerates and over 70 domestic companies and foreign branches. The conglomerates account for over 90% of the assets for the sector and have operations in Canada, the U.S., Europe and Asia. The conglomerates offer a broad range of wealth management as well as life and health insurance products through a range of distribution channels. The non-conglomerates tend to be more restricted in product breadth and distribution.

The key metric used to assess capital adequacy for Canadian supervisory purposes is the Minimum Continuing Capital and Surplus Requirement (MCCSR). This metric is to be replaced by the Life Insurance Capital Adequacy Test (LICAT) effective January 2018.

LICAT represents an evolution in OSFI's regulatory capital expectations and is designed to take account of significant changes in the nature and management of risk within the insurance industry. It improves the overall measurement of the quality of Available Capital and better aligns measures of risks with today's economic realities for life insurers. The draft guideline was released in March, 2016, for public consultation. Industry responses will be considered in issuing the final guideline in the fall of 2016 and sensitivity tests are planned prior to the effective date to ensure a smooth transition.

The macro-economic environment continues to be a challenge for the life insurers, as it has since the 2008 financial crisis. Life insurers have ceased selling products with high-risk market guarantees, de-risked and re-priced product offerings, increased their hedging of product risks, divested themselves of high risk blocks of business, and strengthened their

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governance and risk management practices. As a result, life insurers have significantly decreased their sensitivity to interest rate and equity fluctuations.

Market volatility and persistently low interest rates have had an effect on in-force product profitability as investment yields have declined below anticipated yields when these products were originally priced. However, companies have set-up additional balance sheet provisions so they will be able to meet their future obligations to policyholders.

The aggregate capital ratio for the life insurance industry at year-end 2015 was 237% compared to 239% for 2014. The aggregate level has been well above OSFI's minimum requirements for the last several years as companies conserve capital in response to market volatility.

Return on equity for the industry was 9% and net income was $8.8 billion in 2015, compared to 11% and $10.8 billion respectively in 2014. Approximately 75% of the industry's net income is attributable to the three large conglomerates. The decline in return on equity is an industry-wide issue due to persistent low interest rates. The decline in net income is largely due to the impact of low commodity prices, particularly oil and gas. Challenges remain as persistently low interest rates make asset/liability management more difficult and strain in-force product profitability as many products cannot be re-priced due to contractual provisions. OSFI is reviewing adherence to accepted actuarial practice when companies price new products, and is monitoring changes in risk policies to ensure companies adopt appropriate mitigation practices and controls if they move up the risk curve.

Property and Casualty Insurance (excluding mortgage insurance)

Nearly half of the Canadian Property and Casualty (P&C) insurance industry (by premium volume) is foreign owned (parent companies are typically located in the United States or Europe). As market conditions in the home jurisdiction can affect Canadian operations, OSFI monitors both domestic and parent company conditions.

The P&C insurance industry in Canada reported $5.1 billion of net income in 2015, an increase of 13% over the previous year, mainly driven by strong underwriting results.

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 underwriting profits where premium income exceeds claims and expenses. The P&C industry aggregated combined ratio improved to 96% in 2015 from 99% in the previous year, driven by fewer severe weather and catastrophe events.

Net investment income declined 10% from last year due to the low interest rate environment and a few large institutions holding their investments at fair value. Most insurers continued to record low investment yields in 2015, reflecting the lower yields available as the portfolio is reinvested and highlighting the importance of core underwriting to achieve and sustain financial results.

The Minimum Capital Test (MCT) is the capital metric for Canadian P&C companies while the Branch Adequacy of Assets Test (BAAT) is used for foreign-owned P&C branch operations in Canada. The capital framework was substantially revised, effective Jan 1, 2015, with a more robust risk-based approach. The industry was well positioned to meet the revised requirements and the industry's capital ratio remained relatively stable at 270% at the end of the year. All institutions maintained capital ratios above the OSFI's supervisory target of 150%.

OSFI observed that some institutions are adopting a business model of insuring risks in Canada and reinsuring a significant portion of the risk offshore to affiliates reinsurers. While this is not an industry wide phenomenon, these business models introduce concentrated counterparty credit risk and operation risk in distressed situations. During the year, OSFI reviewed a number of reinsurance programs and the related risk management practices, and conducted a standard stress test focused on reinsurance to further identify concerns. OSFI has begun discussing potential remedial actions with individual companies and this work is expected to continue over the next year. Related OSFI guidelines are also being reviewed and will be revised, as appropriate.

Mortgage Insurance

The mortgage insurance industry in Canada is composed of three main players, two insurers regulated by OSFI, and the Canada Mortgage and Housing Corporation (CMHC). Private mortgage insurers continued to display improving financial performance during 2015, with net income of federally regulated private mortgage insurers in Canada rising 8% to $489 million, reflecting stronger underwriting income and higher investment returns. The average MCT capital ratio rose by 12 points to 233%, which is above OSFI's supervisory requirement of 150%. Despite the currently favourable financial results, the mortgage insurers remain vulnerable to both rising consumer debt levels and the potential impact of sustained low oil prices in certain Canadian regions.

Supervisory Tools

Managing Risk Effectively

OSFI maintains internal assessment guidance to support its risk-based Supervisory Framework, which consider an institution's inherent business risks, risk management practices (including corporate governance) and financial condition.

OSFI again held annual risk management seminars in 2015-2016 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 of these seminars is to communicate OSFI's expectations in 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 holding Colleges of Supervisors, in 2015-2016 OSFI hosted a college for three of Canada's five largest banks, with colleges planned for two others in 2016-2017. In line with Financial Stability Board recommendations, the colleges bring together executives from the banks with supervisors from jurisdictions where they do business. OSFI also hosted a supervisory college for a large life insurance company. In conjunction with Canada Deposit Insurance Corporation, Crisis Management Groups (CMGs) and Outreach Panels were again held for the six largest deposit-taking institutions.

Composite Risk Ratings

The Composite Risk Rating (CRR) represents OSFI's overall assessment of an institution's safety and soundness. There are four possible risk ratings: 'low', 'moderate', 'above average' and 'high'. The CRR is reported to most institutions at least once a year (certain inactive or voluntary wind-up institutions may not be rated). The Supervisory Information Regulations for both deposit-taking and insurance companies prohibit institutions (or OSFI) from publicly disclosing their rating. As at the end of March 2016, OSFI had assigned CRR ratings of low or moderate to 94% and above average or high to 6% of all CRR-rated institutions.

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

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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, 2016, there were 24 staged institutions, most falling in the early warning (stage 1) category.

Regulation and Guidance

OSFI provides a regulatory framework of guidance and rules that incorporates international minimum standards 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). It also comments on accounting, auditing and actuarial standards development, including determining how to incorporate those standards into its regulatory framework. OSFI also participates in a number of international and domestic rule-making activities.

DOMESTIC RULE MAKING

Accounting, Auditing and Actuarial Standards

OSFI is a member of the Canadian Accounting Standards Board's (AcSB) User Advisory Council and an observer on its Insurance Accounting Task Force. With respect to auditing standards, OSFI is a non-voting member of the Auditing and Assurance Standards Oversight Council, which oversees the activities of the Canadian Auditing and Assurance Standards Board (AASB). OSFI also holds a seat on the Canadian Public Accountability Board (CPAB) Council of Governors, which carries out an annual high-level assessment of CPAB against its mandate.

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 insurance and pension plan entities regulated by OSFI.

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Tara-Lea Herkert
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In 2015-2016, we continued to participate on several CIA practice committees and to consult with the CIA on developments related to our work on a new solvency framework for life insurance companies.

In addition, through 2015-2016, OSFI discussed with the CIA potential changes to Dynamic Capital Adequacy Testing (DCAT) in light of the requirement that insurance companies now conduct their Own Risk and Solvency Assessment (ORSA).

OSFI also works with the International Actuarial Association (IAA) and supports the profession by establishing guidance related to initiatives on insurance company valuation for International Financial Reporting Standards (IFRS), and the International Association of Insurance Supervisors' (IAIS) Insurance Capital Standard (ICS).

Capital and Liquidity Guidance

Deposit-Taking Institutions

Capital Adequacy Requirements

During 2015-2016, OSFI worked to update the regulatory capital requirements for loans secured by residential real estate properties. The proposed changes, which were issued in draft in April 2016, will help ensure that the capital requirements keep pace with developments in the Canadian mortgage market and are more sensitive to the underlying risks. Final requirements are expected to be in place no later than 2017.

Life Insurance Companies

OSFI undertook its annual update of the Minimum Continuing Capital and Surplus Requirements (MCCSR) guideline during 2015, with the revised version coming into effect for the 2016 fiscal year. With stakeholder input considered, the guideline was updated to clarify a number of elements.

A new capital adequacy guideline, the Life Insurance Capital Adequacy Test (LICAT), will replace the current MCCSR in 2018. As part of its development work, OSFI conducted a seventh Quantitative Impact Study (QIS) in October 2015 to gather information related to potential methods for determining the capital requirements for the main risks faced by life insurers with the exception of segregated funds. Industry submissions were received in January 2016 and the results were analyzed with a view to finalizing the new life insurance solvency framework.

A draft version of the new LICAT guideline was issued publicly for comment in March 2016. The LICAT is scheduled for implementation in 2018, with the revised capital requirements for segregated funds risk to follow.

Property and Casualty Insurance Companies

In November 2015, OSFI issued a revised version of its Minimum Capital Test (MCT), which is applicable for 2016. Changes were kept to a minimum following the major revisions to the guideline the previous year. OSFI continued to enhance the risk-based capital guidance by adding capital requirements for equity derivatives and short positions, and allowing the recognition of equity hedges.

The Property and Casualty (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.

Mortgage Insurance Companies

OSFI continued to develop a new regulatory capital framework for mortgage insurers. During the past year, OSFI focused on developing new capital requirements for the default risk associated with residential mortgages. These new requirements, which are more risk sensitive and capture more risk characteristics, are expected to be implemented in 2017.

Other Guidance

Operational Risk Management

In August 2015, OSFI issued for comment its draft Operational Risk Management guideline which sets out OSFI's expectations for operational risk management for FRFIs using a principles-based approach. The final guideline will be released in 2016.

Margin Requirements for Non-centrally Cleared Derivatives

In February 2016, OSFI released the final version of its guideline on Margin Requirements for non-centrally Cleared Derivatives, which establishes minimum standards for the exchange of margin to secure performance on non-centrally cleared derivative transactions undertaken by covered entities. These margin requirements will mitigate systemic risk in the financial sector as well as promote central clearing of derivatives where practicable.

Pillar 3 Disclosure Requirements

In January 2016, OSFI released the draft version of its guideline on Pillar 3 Disclosure Requirements. The draft guideline provides clarification on the domestic implementation of the revised Basel Pillar 3 standards for Canadian Domestic Systemically Important Banks (D-SIBs) and for non-D-SIBs.

IFRS 9 Financial Instruments and Disclosures

In March 2016, OSFI released a draft version of its guideline on *IFRS 9 Financial Instruments and Disclosures*. The draft guideline outlines OSFI's expectations regarding the domestic implementation of IFRS 9 *Financial Instruments.* This guideline is expected to be finalized in mid-2016 in order for FRFIs to apply the guidance for implementation of IFRS 9 starting in fiscal 2018.

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

At the international level, ongoing work on strengthening the financial system against money laundering and terrorism financing is led by the Financial Action Task Force (FATF). During 2015-2016, OSFI continued its support of FATF standard-setting on money laundering/terrorist financing risks and risk management. In addition, OSFI contributed a financial assessor to the mutual evaluation of the United States by the FATF of compliance with AML/ATF standards. OSFI is also a member of the AML Experts Group of the Basel Committee for Banking Supervision.

During 2015-2016, OSFI continued its AML/ATF supervisory assessment program and regular follow-up work at a wide variety of financial institutions. In addition, the program was reviewed by the FATF as part of the mutual evaluation of Canada. Initial feedback received from the assessors indicates that OSFI's approach to ML/TF risk and its focus on risk management has been very effective. The mutual evaluation report is expected to be released in the summer of 2016. OSFI's assessment program is conducted collaboratively with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). During the year, OSFI continued discussions with FINTRAC to move to a more coordinated approach through joint examinations.

OSFI is required under the *Criminal Code* and the *United Nations Act* regulations to monitor compliance by the FRFI sector with sanctions imposed on designated persons. 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 (UNSC) and the Government of Canada on terrorists and terrorist organizations, as well as UNSC sanctions against Iran and North Korea.

INTERNATIONAL ACTIVITIES

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

Financial Stability Board

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

Canadian representation on the FSB is shared by the Department of Finance, the Bank of Canada and OSFI. During 2015-2016, OSFI continued its involvement with the FSB through membership on the FSB Plenary, Steering Committee, and Standing Committee on Supervisory and Regulatory Cooperation.

Some of the work in which OSFI and its Canadian partners participated during 2015-2016 included:

- finalizing the international standard to enhance the total loss-absorbing capacity of Global Systemically Important Banks (G-SIBs) in resolution;
- strengthening the resilience of market-based finance, including co-leading the development of policy recommendations to address structural vulnerabilities in asset management activities, with the aim of finalizing the recommendations by the end of 2016; and
- working to finalize implementation of the G20 financial sector reforms, including in the areas of resolution regimes and over-the-counter derivatives.

Basel Committee on Banking Supervision

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

In 2015-2016, a major area of focus for the BCBS was completing the final chapter of Basel III. A new market risk capital framework was issued in its final form and a number of proposals were issued for public comment to reduce excessive variability in the calculation of minimum capital requirements across banks and across jurisdictions. This included revising the standardized frameworks for credit and operational risk to make them more risk sensitive, as well as proposals to constrain the role of bank risk models in the calculation of regulatory capital requirements. Work on all of these areas is targeted for completion by the end of 2016 and is being guided by the principle that they should not result in a significant increase in regulatory capital requirements for the global banking system as a whole.

International Accounting and Auditing Standards

As all Financial Institutions in Canada are required to follow International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA), OSFI interprets and assesses international rules that may apply to Canadian financial institutions. OSFI works with the International Accounting Standards Board (IASB) and International Auditing and Assurance Standards Board (IAASB) through active participation and leadership in the Accounting Experts Group of the BCBS and the Accounting and Auditing Working Group of the International Association of Insurance Supervisors (IAIS). In 2015-2016, OSFI worked through the BCBS and IAIS to provide comments to the IASB on its positions on a variety of IASB projects of key interest to OSFI, such as Amendments to *IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* and the *Conceptual* Framework. OSFI also proposed changes to International Standards of Auditing through the BCBS and IAIS.

In addition, OSFI led the development of the BCBS's *Guidance on accounting for expected credit losses*, which was finalized in December 2015 in order for internationally active banks to apply IFRS 9 in fiscal 2018. This document sets out supervisory requirements on sound credit risk practices associated with the implementation and ongoing application of expected credit losses accounting frameworks in a robust, high-quality and consistent manner.

Active participation in the development of these standards promotes a set of high-quality global standards and enhances our understanding of key IFRSs and ISAs 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.

Cheyen Quach
Senior Supervisor, Supervision, Montréal office

Jean-François Turpin
Senior Supervisor, Supervision, Montréal office

International Association of Insurance Supervisors

OSFI participates in the work of the International Association of Insurance Supervisors (IAIS), whose membership includes insurance regulators and supervisors from 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, Financial Stability and Technical, and Audit and Risk committees, as well as the Supervisory Forum and several working groups. In October 2013, the IAIS announced plans to develop a risk-based global Insurance Capital Standard (ICS). Through various committees, OSFI is engaged in the development of the ICS, the first version of which is targeted for completion by 2017. A second version of ICS is planned for completion in 2019 and implementation in 2020. The IAIS plans to issue a consultation document on ICS and updated technical specifications for testing ICS in 2016. In the interim, the IAIS completed a basic capital requirement in October 2014 for implementation by Global Systemically Important Insurers (G-SIIs) in 2017. Through its continued involvement in the Capital, Solvency and Field Testing Working Group, OSFI contributes to the development of these very important projects.

OSFI is also participating in the refinement of the methodology to assess which insurance or reinsurance companies may be global systemically important insurance institutions and what kind of supervisory measures would apply to those identified as such. This IAIS initiative is targeted to be completed in 2016.

Through membership on the Accounting and Auditing Working Group, OSFI continues to monitor key developments and contribute to international policy work on issues of concern to OSFI, such as the IASB's Insurance Contracts project.

Approvals and Precedents

The *Bank Act, Trust and Loan Companies Act, Insurance Companies Act,* and *Cooperative Credit Associations Act* require federally regulated

Savio Remedios
Manager, Operations
Supervision Support Group

Scarlett Li
Administrative Coordinator
Supervision Support Group

financial institutions (FRFIs) to seek regulatory approval from the Superintendent of Financial Institutions or the Minister of Finance (after receiving the recommendation of the Superintendent) prior to engaging in certain transactions or business undertakings.

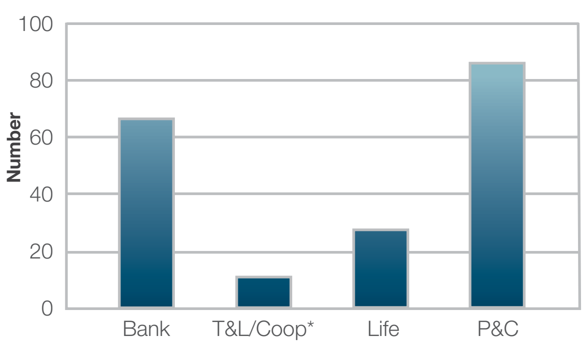
Regulatory approvals are also required by persons wishing to incorporate a FRFI, and by foreign banks or foreign insurance companies wishing to establish a presence or to make certain investments in Canada. OSFI administers a regulatory approval process that is prudentially effective, responsive and transparent. OSFI's Approvals Division is responsible for making recommendations to the Superintendent and to the Minister regarding those matters requiring regulatory approval.

In 2015-2016, OSFI processed 210 applications of which 196 were approved. Individual applications often contain multiple approval requests. The 196 approved applications involved a total of 434 approvals, 282 of which were granted by the Superintendent and 152 by the Minister. The number of applications decreased relative to last year, when 200 applications were approved. The majority of approved applications for 2015-2016 related to P&C insurers (45%) and banks (35%). (*See figure 1*)

The most common applications received from deposit-taking institutions related to purchases or redemptions of shares or debentures, substantial investments, and

FIGURE 1

Approved Applications by Industry 2015-2016



*Trust and Loan/Cooperative Associations

In 2015-2016, OSFI processed 210 applications of which 196 were approved and 14 were withdrawn.

permitted use of a name or trademark. Applications received from insurance companies related mainly to reinsurance with related unregistered reinsurers, changes in ownership, and amending orders to commence and carry on business or insuring in Canada of risks.

During 2015-2016, letters patent were granted incorporating Wealth One Bank of Canada and Cidel Bank Canada as domestic banks, Manulife Assurance Company of Canada[1] as a life insurance company, and continuing two provincial companies as federal P&C insurers: Oxford Mutual Insurance Company and The Pictou County Farmers' Mutual Fire Insurance Company.

In addition, orders authorizing the establishment of a foreign bank branch in Canada were issued to Crédit Agricole Corporate and Investment Bank, Natixis, Bank of China Limited, Bank of Tokyo-Mitsubishi UFJ, Ltd. and orders authorizing the establishment of a foreign insurance branch in Canada were issued to SCOR UK Company Ltd. and AXA Insurance Company.

Upon request, OSFI also provides advance capital confirmations on the eligibility of proposed capital instruments. A total of 47 such opinions and validations were provided in 2015-2016, compared to 43 the previous year.

OSFI has performance standards establishing time frames for processing applications for regulatory approval and for other services, all of which were met during 2015-2016. More information on service performance standards can be found on OSFI's website.

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 2015-2016, OSFI issued the following guidance documents:

- Ruling 2015-01 – Demutualization – Property and Casualty Companies – Eligible Policyholders
- Guide for the Demutualization of Mutual Property and Casualty Insurance Companies with Non-mutual Policyholders

[1] Manulife Assurance is assuming the business of the Standard Life Branch. The purchase of Standard Life's Canadian operations by Manulife Financial was completed in February 2015

Federally Regulated Private Pension Plans

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

Approximately 6% of private pension plans in Canada are federally regulated (Statistics Canada data as at January 2015). As at March 31, 2016, 1,233 private pension plans were registered under the *Pension Benefits Standards Act, 1985*, covering over 1,110,000 active members and other beneficiaries in federally regulated areas of employment, such as banking, inter-provincial transportation and telecommunications. Between April 1, 2015, and March 31, 2016, federally regulated private pension plan assets increased by 5%, to a value of approximately $198 billion (*see figure 2*).

Private Pension Environment

Pension plans continued to face challenging economic conditions in 2015, characterized by renewed market volatility and low long-term interest rates. Though markets generally performed well in early 2015, Canadian equity markets in particular fell sharply after the first quarter due in part to lower oil and commodity prices. For 2015 as a whole, federal defined benefit pension plans, on average, reported modestly positive investment returns, helped by a weaker Canadian dollar that enhanced the performance of their foreign investments. Long-term interest rates, already at historically low levels, declined further over the course of 2015. While this contributed positively to pension funds' investment performance by increasing the market value of long-term bonds, it also increased the value of defined benefit pension plans' liabilities.

The overall solvency position of federally registered plans improved slightly from 2014, reflecting the positive effects of investment returns and contributions offset somewhat by the impact of lower interest rates on plan liabilities. Also, since federal solvency funding requirements are based on a plan's three-year average solvency position, and since the results from December 2015 will replace the generally weaker results from December 2012 in calculating that average, required solvency funding payments for most plans are expected to decline in 2016.

The ongoing challenges of volatile markets, generally lower expected investment returns and long-term interest rates, and longevity improvements are seen by some observers to represent the "new normal" pension environment. As noted in previous years, plan sponsors and administrators continue to explore ways to manage pension risks. These include changes in investment strategies, the closing of existing defined benefit plans to new members

FIGURE 2
Federally Regulated Private Pension Plans by type as at March 31, 2016 (last 4 years)[1]

	2013	2014	2015[2]	2016[2]
Total Plans	**1,234**	**1,234**	**1,226**	**1,233**
Defined Benefit	343	329	317	306
Combination	104	117	118	124
Defined Contribution	787	788	791	803
Total Active Membership	**639,000**	**639,000**	**631,000**	**631,000**
Defined Benefit	298,000	293,000	283,000	251,000
Combination	214,000	222,000	220,000	249,000
Defined Contribution	127,000	124,000	128,000	131,000
Total Other Beneficiaries	**420,000**	**430,000**	**445,000**	**479,000**
Defined Benefit	235,000	232,000	233,000	238,000
Combination	172,000	183,000	195,000	224,000
Defined Contribution	13,000	15,000	17,000	17,000
Total Assets	**$155 billion**	**$171 billion**	**$189 billion**	**$198 billion**
Defined Benefit	$87 billion	$90 billion	$99 billion	$99 billion
Combination	$63 billion	$76 billion	$84 billion	$92 billion
Defined Contribution	$5 billion	$5 billion	$6 billion	$7 billion

[1] Some defined benefit and combination plans have been reclassified in 2016. Figures for prior years are restated for comparison purposes.
[2] Does not include Pooled Registered Pension Plans (5 in 2015 and 4 in 2016).

As at March 31, 2016, there were 1,233 private pension plans registered under the *Pension Benefits Standards Act, 1985*, covering over 1,110,000 active members and other beneficiaries.

and the purchase of annuities. A more recent development is the use of products or contracts designed specifically to protect pension plans from the risk of unexpected increases in the longevity of pension plan members. Interest in these and other means of managing and reducing pension risks is expected to continue.

In 2014, OSFI registered the first federal Pooled Registered Pension Plans (PRPPs) for PRPP administrators who had received federal licenses in 2013-2014. At the end of 2015, there were four federally registered PRPPs, with one reporting that it had entered into contracts with five employers and had enrolled 49 members. So far, only Quebec has legislation in force for similar plans[2]; however, other provincial jurisdictions are expected to bring PRPP legislation into force in 2016. A draft federal-provincial PRPP agreement aimed at simplifying the regulation and supervision of PRPPs that operate in multiple jurisdictions was released for public comment by the Department of Finance in July 2015. Under the draft PRPP agreement, OSFI will be the primary supervisory authority for PRPPs operating outside of Quebec. The agreement, along with the coming into force of PRPP legislation in more jurisdictions, is expected to encourage more rapid growth of this new type of plan.

[2] Quebec's Voluntary Registered Savings Plans

Risk Assessment and Supervision

In 2015-2016, OSFI continued to focus on prudent and effective risk management given the ongoing challenging economic environment.

OSFI's Risk Assessment System for Pensions (RASP) analyses information from pension plan filings and other sources. Key risk indicators are generated for each federally regulated private pension plan registered with OSFI, thereby enabling early identification of issues. In order to better identify risks, OSFI implemented a number of changes to several key risk indicators. OSFI also implemented many changes to its internal processes to support the prompt identification of a change in a pension plan's overall risk profile.

During 2015-2016, OSFI conducted a study, with respect to plans with defined contribution provisions, that has provided valuable information. In light of the findings, further work will be conducted in 2016-2017 to examine how the supervision of these plans may be improved.

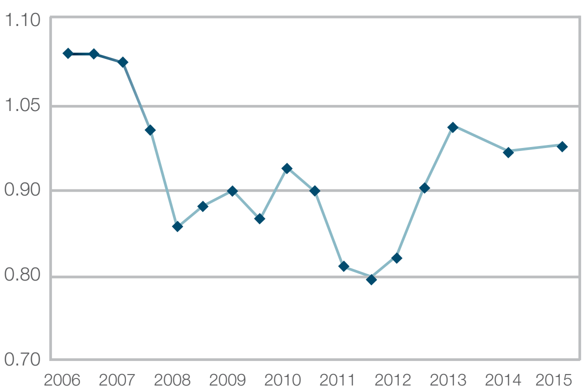
Solvency Testing

OSFI estimates solvency ratios (the ratio of assets over liabilities on a plan termination basis) for the defined benefit pension plans it regulates. At December 31, 2015, the estimated solvency ratio (ESR) for all plans was 0.95, up from 0.94 at year-end 2014 (*see figure 3*).

FIGURE 3

Defined Benefit Plans' Estimated Solvency Ratio (ESR) Distribution (past 9 years)

Estimated Sovency Ration (ESR)



The ESR increased from 0.94 to 0.95 since year-end 2014.

ESRs calculated by OSFI at year-end 2015 showed that approximately 79% of all defined benefit pension plans supervised by OSFI were underfunded (unchanged from 2014), meaning that their estimated liabilities exceeded assets, on a plan termination basis.

Examinations

As part of its risk-based supervisory approach, OSFI conducts examinations of selected federally regulated private pension plans. The examinations may be limited to a desk review or could be conducted on the plan administrator's premises (on-site examinations). During on-site examinations, OSFI reviews more thoroughly the plan administrator's processes by interviewing those involved in the administration of the pension plan. The objective of an examination is to gather additional information and to better assess the plan's quality of risk management. During 2015-2016, OSFI performed nine examinations. As in past years, findings continued to focus on governance, asset management and communication to members.

Watch List

Pension plans facing higher risk — due to their financial condition, plan management or other reasons — are placed on a watch list and actively monitored. The number of watch list plans at March 31, 2016, decreased to 30 from 60 at March 31, 2015. Of the 30 plans, 24 were defined benefit plans and 6 were defined contribution plans. During 2015-2016, 48 plans were removed from the watch list while 18 new plans were added.

Rules and Guidance

Pension Benefits Standards Regulations, 1985

Amendments to the *Pension Benefits Standards Regulations, 1985*, adopted in March 2015, concluded the federal pension reforms announced by the government in October 2009, which involved changes to both the *Pension Benefits Standards Act, 1985* and the Regulations. This most recent round of amendments to the Regulations included a number of changes with a delayed coming-into-force date of July 1, 2016 to allow plan administrators time to make the necessary adjustments to their systems and processes. The changes with a delayed in-force date include expanded requirements on plan administrators to provide information to members and former members as well as changes to the investment rules for pension funds. Through its website and regular *InfoPensions* newsletter, OSFI has provided up-to-date information on the status of changes to the federal pension legislation and its regulations.

Pension Industry Outreach

OSFI hosted two web conferences or "webinars". The first, in June 2015, explained and clarified the process for submitting annual pension returns using the Regulatory Reporting System. The second was a pre-recorded session which provided details of the most recent changes to the *Pension Benefits Standards Regulations, 1985*. It was sent to industry stakeholders in October 2015 and was then posted to the OSFI website.

In March 2016, OSFI held a pension industry forum in Toronto for administrators, advisors and other stakeholders of the pension plans it supervises. The forum provided OSFI's perspective on the pension industry environment, outlined recent legislative and regulatory developments affecting pension plans, and communicated OSFI's expectations of plan administrators. In addition, OSFI presented the estimated solvency ratio results shown above and discussed current actuarial and approvals related topics.

Guidance

In keeping with the objectives of promoting prudent practices and a transparent regulatory framework, OSFI regularly provides guidance to plan administrators on legislative requirements and OSFI's expectations.

In July 2015, OSFI issued a guide to assist administrators of pension plans in completing certain requirements under its new electronic Regulatory Returns System.

In December 2015, OSFI issued a revised *Instruction Guide for the Preparation of Actuarial Reports for Defined Benefit Pension Plans*, which sets out the requirements for actuarial reports filed with OSFI for pension plans with defined benefit provisions.

James Rogers
Supervisor,
Private Pension Plans Division,
Regulation Sector

The revised instruction guide provides further clarification of OSFI's position on actuarial issues, such as alternative settlement methods. It also reflects changes to accepted actuarial practices as well as other issues that have emerged since the guide was last updated in March 2014.

In January 2016, OSFI issued a revised *Pension Members' Guide* to explain, in general terms, some of the minimum standards that apply to pension plans registered under the *Pension Benefits Standards Act, 1985* (PBSA). The guide replaced the previous version, issued in June 2009, and reflects amendments made to the PBSA and its regulations since that time. In March 2016, OSFI issued two revised instruction guides: *Filing and Reporting Requirements for Defined Benefit Pension Plan Terminations and Filing and Reporting Requirements for Defined Contribution Plan Terminations*. The revised instruction guides replaced the previous versions issued in 2009 and 2008 respectively. It reflects amendments made to the PBSA and its regulations since the issuance of the previous guides. In March 2016, OSFI also issued a *Guidance Note on the Administration of Negotiated Contribution Pension Plans*[3]. The guidance note sets out some of OSFI's expectations with respect to managing the funding limitations of these plans. It also describes the additional information that administrators must provide to members and former members of this type of plan.

InfoPensions

OSFI published its bi-annual newsletter *InfoPensions* in May and November 2015. The newsletter includes announcements and reminders on issues relevant to administrators of federally regulated private pension plans, pension advisors, and other stakeholders. It also includes descriptions of how OSFI applies selected provisions of the pension legislation and OSFI guidance. OSFI regularly consults with its stakeholders to ensure that it is communicating effectively and continues to look for ways to ensure that *InfoPensions* is highly readable, accessible and relevant.

Approvals

Federally regulated private pension plans are required to seek approval from the Superintendent for several types of transactions. These include plan registrations and terminations, asset transfers between registered defined benefit pension plans, refunds of surplus, and reductions of accrued benefits. The number of pension transactions submitted to the Superintendent for approval increased to 73 in 2015-2016 from 56 in 2014-2015. OSFI processed 60 applications for approval in 2015-2016, compared to 63 applications in 2014-2015. 26 new plans were registered by OSFI in 2015-2016 (4 defined benefit plans and 22 defined contribution plans), while 15 plan termination reports were approved (12 defined benefit plans and 3 defined contribution plans).

In addition to the approvals noted above, OSFI is responsible for licensing administrators and registering plans under the *Pooled Registered Pension Plans Act*. No new PRPP administrators were licensed or PRPPs registered by OSFI in 2015-2016.

[3] Multi-employer, defined benefit pension plans with funding contributions that are limited in accordance with an agreement, statute or regulation

FIGURE 4
Asset Breakdown of Private Pension Plans Regulated by OSFI*

($ millions)	2014		2015	
Cash	**$986**	**0.5%**	**$1,231**	**0.6%**
Debt Securities				
Short Term Notes, Other Term Deposits	4,619	2.4%	3,690	1.9%
Government Bonds	47,548	25.2%	45,653	23.0%
Corporate Bonds	13,714	7.3%	18,259	9.2%
Mutual Funds - Bonds, Cash Equivalent & Mortgage	15,046	7.9%	16,059	8.1%
Mortgage Loans	864	0.5%	867	0.5%
General Fund of an Insurer	194	0.1%	279	0.1%
Total Debt Securities	**81,985**	**43.4%**	**84,807**	**42.8%**
Equity				
Shares in Investment, Real Estate or Resource Corporation	4,163	2.2%	3,733	1.9%
Common and Preferred Shares	54,174	28.7%	52,814	26.6%
Stock Mutual Funds	20,469	10.8%	22,040	11.1%
Real Estate Mutual Funds	1,958	1.1%	2,584	1.3%
Real Estate	2,697	1.4%	2,822	1.4%
Total Equity	**83,461**	**44.2%**	**83,993**	**42.3%**
Diversified and Other Investments				
Balanced Mutual Funds	5,152	2.7%	5,811	2.9%
Segregated Funds	3,311	1.8%	3,883	2.0%
Hedge Funds	5,986	3.2%	6,851	3.5%
Private Equity	1,887	1.0%	2,408	1.2%
Infrastructure	2,552	1.3%	3,589	1.8%
Miscellaneous Investments	9,287	4.9%	12,739	6.4%
Total Diversified and Other Investments	**28,175**	**14.9%**	**35,281**	**17.8%**
Other Accounts Receivables (net of liabilities)	**(5,682)**	**-3.0%**	**(7,013)**	**-3.5%**
TOTAL NET ASSETS	**188,925**	**100.0%**	**198,299**	**100.0%**

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

Approximately 42% of federally regulated private pension plan assets are invested in equities, 43% in debt instruments and 15% in other assets. Investment returns for federally regulated private pension plans were 7% in 2015 compared to 13% in 2014.

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 content and actuarial opinions in reports prepared by the OCA.

Jean-Claude Ménard
Chief Actuary

Canada Pension Plan

At their meeting on December 21, 2015, the Federal and Provincial Ministers of Finance concluded the 2013-2015 review of the CPP. The Ministers have announced that, based on the estimates presented in the 26th Actuarial Report on the Canada Pension Plan as of December 31, 2012, prepared by the OCA, the current legislated contribution rate of

9.9% is expected to be sufficient to sustain the Plan over the foreseeable future. As a result, no changes to either benefits or contributions rates were recommended.

The statutory 2016-2018 CPP review started in January 2016. Since the triennial statutory actuarial report on the CPP is one of the key inputs to this review, the OCA commenced its work on the 27th Actuarial Report on the Canada Pension Plan as at December 31, 2015.

Public Sector Insurance and Pension Plans

In 2015-2016, the OCA completed two actuarial reports with respect to public sector insurance and pension plans, which were submitted to the President of the Treasury Board for tabling before Parliament. The Actuarial Report on the Pension Plan for the Public Service of Canada as at March 31, 2014, and the Actuarial Report on the Public Service Death Benefit Account as at March 31, 2014, were both tabled on January 25, 2016. These reports provide actuarial information to decision makers, Parliamentarians, and the public, thereby increasing transparency and confidence in Canada's retirement income system.

Actuarial Report on the Employment Insurance Premium Rate

In 2015-2016, the OCA presented to the Canada Employment Insurance Commission the 2016 Actuarial Report on the Employment Insurance Premium Rate that was tabled before Parliament on December 10, 2015. This report provides the forecast break-even premium rate for the upcoming year and a detailed analysis in support of this forecast.

Actuarial Report on Canada Student Loans Program

In 2015-2016, the OCA submitted to the Minister of Employment and Social Development Canada the Actuarial Report on the Canada Student Loans Program as at July 31, 2014, that was tabled before Parliament on January 20, 2016. The report presents an evaluation of the Program's overall financial costs and increases the level of information available to decision makers, Parliamentarians and the public.

Special Events, Presentations and Special Studies

The impacts of increasing longevity on the sustainability of pension plans attract attention both in Canada and across the globe. The magnitude of impacts from ongoing financial turmoil, coupled with high uncertainty with respect to the evolution of future mortality rates, makes the development of appropriate mortality assumptions of paramount importance. In 2015-2016, the OCA published two mortality studies that address mortality assumptions. Actuarial study No. 15 *Pension Plan for the Royal Canadian Mounted Police Mortality Study* found that regular members of the Pension Plan for the Royal Canadian Mounted Police are living longer than the general Canadian population, mainly because of lower mortality rates before age 80. Actuarial study No. 16 *Canada Pension Plan Retirement*, *Survivor and Disability Beneficiaries Mortality Study* highlighted that mortality rates for all three types of the Canada Pension Plan beneficiaries have fallen over the past two decades, leading to gains in life expectancy. Further gains are expected in the future.

In 2015-2016, the OCA continued to share its expertise internationally. In particular, the OCA played a key role in developing the joint International Social Security Association (ISSA) and International Labour Organization (ILO) Guidelines for Actuarial Work for Social Security. This document includes 51 guidelines that cover all areas of actuarial involvement in the work of social security institutions from performing valuation of social security programs to providing input to risk management. The draft of these Guidelines was presented at the 18th International Conference of Social Security Actuaries and Statisticians in September 2015, in Hungary, and the final Guidelines will be formally launched at the ISSA World Social Security Forum that will take place in Panama in November 2016.

In the current environment of uncertain economic growth, the question of properly reflecting the impacts of social security programs on the sustainability of public finances is closely examined by governments and major international organizations. Drawing on its involvement in determining assets and liabilities of the CPP for the purpose of the Public Accounts of Canada, the OCA contributed extensively to this discussion. It was accomplished by assisting the International Actuarial Association in providing comments in respect to the International Public Sector Accounting Standards Board consultation paper “Recognition and Measurement of Social Benefits”, and by participating in the events on national accounts reporting organized by the Eurostat, International Labour Organization, International Monetary Fund and Organization for Economic Co-operation and Development. The position of the OCA is that in order to provide a comprehensive and objective picture, future developments (including evolution of future contributors and beneficiaries of a social security program) should be taken into account in both assessing the long-term sustainability and in compiling a balance sheet. Such information enables an intelligent analysis, and allows a meaningful comparison between countries.

Christine Dunnigan
Actuary,
Public Pensions,
Office of the Chief Actuary

ISSA Good Practice Competition for the Americas

In 2015-2016, the ISSA held its regional good practice competition for the Americas. The competition attracted 53 entries from 17 organizations in nine countries. The OCA submission “Actuarial Assumptions Development – deepening the expertise and enhancing the independence of the Chief Actuary” has been awarded by the international jury the Certificate of Merit. This submission stated that considering a wide range of opinions, being open and transparent, and maintaining internal and external controls allow the Chief Actuary to fulfil his or her mandate in a professional and independent manner.

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

Corporate Services

Communicating Effectively

During 2015-2016, OSFI communicated its plans and activities to a wide range of stakeholders via its website and other means. As in previous years, OSFI received many requests to address external conferences and events. The Superintendent and senior OSFI officials delivered presentations across Canada and internationally.

OSFI began using webcast information sessions as a means of providing two-way communication with stakeholders. This format has been very well-received and OSFI will be looking to expand its use of this tool moving forward.

OSFI's external newsletter, *The Pillar*, was published four times in 2015-2016. It updates stakeholders on the latest guidelines, notices, public statements, and other pertinent information.

Throughout 2015-2016, OSFI communicated with interested Canadians, including members of the general public, industry, regulators, legislators and the news media, as follows:

- Served 2,369,820 visitors to OSFI's website;
- Responded to 9,536 public enquiries, 97 enquiries from Members of Parliament and 115 enquiries from representatives of the news media;

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Manager, Information Management,
Enterprise Information Management,
Corporate Services Sector

Annik Faucher
Communications Advisor,
Communications and
Consultations Division,
Corporate Services Sector

- Delivered over 61 presentations to industry and regulatory forums, including 10 key speeches that were posted to OSFI's website; and

- Processed 28 access to information requests and 14 consultations within permitted statutory timelines, as per the *Access to Information Act*

Renewing Technology and Systems

OSFI's Information Management and Information Technology (IM/IT) priorities in 2015-2016 included a focus on strengthening OSFI's cyber security posture and the Office's privacy/information management program. A multi-year project to deliver a new electronic document and records management system to OSFI continued and has successfully moved corporate services staff over to the new system, with the remaining staff scheduled to onboard in 2016-2017. An Outcomes Management policy is now in full effect for IT projects. This ensures that the investments made on technology renewal over recent years achieve value for money and realize expected benefits. Finally, work advanced as planned to assess suitable technologies for a new system to enable supervisory processes and support associated activities. This multi-year project will launch in 2016-2017, with the procurement of the technological solution and an experienced external service provider.

Lise Cardinal
Executive Assistant
Assistant Superintendent -
Corporate Services Sector
Corporate Services Sector

Patrizia Menotti
Financial Analyst,
Finance Divison,
Corporate Services Sector

Managing Human Resources

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

In 2015-2016, a number of priorities were identified through the Human Resources (HR) planning process and the following actions were taken to support OSFI's strategic outcomes.

- Finalized the reorganization of the Supervision Sector, with new senior managers hired to lead the Deposit-taking Supervisions Sector, the Insurance Supervision Sector, and the Supervision Support Group;

- Provided support and oversight to contain costs and growth in the organization, and helped managers identify and reallocate resources to address organizational priorities;

- Launched a bi-annual employee engagement survey with results to be made available in 2016-2017; and

- Supported the supervisory groups in the development of a Supervision Training Initiative, a modular learning program for OSFI supervisors. During 2015-2016, core learning modules were identified and developed, and delivery to staff has begun.

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 external website (and through Beyond 20/20 Inc. for federally regulated insurance companies only – see OSFI's website under Financial Institutions/Financial Data); providing guidance to federally regulated financial institutions (FRFIs) on their disclosures; and participating in international supervisory groups with similar objectives.

Public Disclosures Associated with Building a More Stable Future

Public disclosures of risk management practices and risk exposures made by FRFIs have become a significant focus to achieving transparency, and restoring financial stability and market confidence since the global financial crisis. Over the past few years, publications released by international organizations, such as the Financial Stability Board (FSB), the European Banking Authority, and the Basel Committee on Banking Supervision (BCBS) have stressed the need for enhanced 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 2015-2016, OSFI focused on issuing guidance for several disclosure projects which included:

- September 2015 – revisions to Global systemically important banks – Public disclosure Requirements advisory
- January 2016 – issuance of draft guideline Pillar 3 Disclosure Requirements
- March 2016 – issuance of draft guideline IFRS 9 Financial Instruments and Disclosures

OSFI has also participated as a member of the Working Group on Disclosures subgroup of the BCBS on recent Pillar 3 disclosures initiatives and is developing guidance for the domestic implementation of Pillar 3 disclosure requirements by federally regulated deposit-taking institutions.

Financial Stability Board Guidance

In October 2012, the Enhanced Disclosure Task Force (EDTF), established by the FSB, issued 32 recommendations to improve risk disclosures. Since then, OSFI has worked closely with Canada's six major banks (designated as domestic systemically important banks) to implement the 32 EDTF recommendations and performed quarterly reviews of the six major banks' public disclosures to monitor the progress of implementation. The six major banks, as highlighted by the EDTF in its 2015 progress report, are in substantial compliance with the 32 EDTF recommendations.

OSFI expects the six major banks to adopt future disclosure recommendations in the banking arena that are endorsed by international standard setters and the FSB, as well as evolving domestic and international bank risk disclosure best practices.

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 international associations and through reviewing our domestic disclosure requirements and practices.