



Office of the Superintendent of
Financial Institutions Canada

Bureau du surintendant des
institutions financières Canada

Office of the Superintendent of Financial Institutions

2012-13

Departmental Performance Report

The Honourable James M. Flaherty
Minister of Finance



Canada

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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. In general, Canadian financial institutions have performed well in this environment. However, 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 as well as enhanced disclosure practices and recovery and resolution planning by institutions. But, key to the safety and soundness of any financial system is 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. 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. A strong supervisory regime, where action is taken early to address problems, contributes to public confidence in the financial system.

In 2012-2013, OSFI introduced or finalized several guidelines intended to promote and maintain confidence in Canada's financial system, including: 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, the Financial Consumer Agency of Canada, and the Financial Transactions and Reports Analysis Centre of Canada to address the issues and challenges facing the financial sector.

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 (IAIS), the Senior Supervisors Group, and the Financial Action Task Force. 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's greatest strength is its people, and all of the achievements I have mentioned are due to OSFI employees continuing to work with focus, dedication and expertise.

Section I: Organizational Overview

Raison d'être

The Office of the Superintendent of Financial Institutions (OSFI) supervises and regulates all federally incorporated or registered deposit-taking institutions (e.g., banks), life insurance companies, property and casualty (P&C) insurance companies, and federally regulated private pension plans.

OSFI safeguards depositors, policyholders and private pension plan members by enhancing the safety and soundness of federally regulated financial institutions and private pension plans.

The Office of the Chief Actuary (OCA) is a separate unit within OSFI and provides expert actuarial services and advice on the state of various public pension plans and on the financial implications of options being considered by policy makers. In conducting its work, the OCA plays a vital and independent role towards a financially sound and sustainable Canadian public retirement income system.

Responsibilities

OSFI's legislated mandate was implemented in 1996 and under the 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; and
- Monitor and evaluate system-wide or sectoral issues that may impact institutions negatively.

OSFI's prudential mandate supports a safe and sound Canadian financial system.

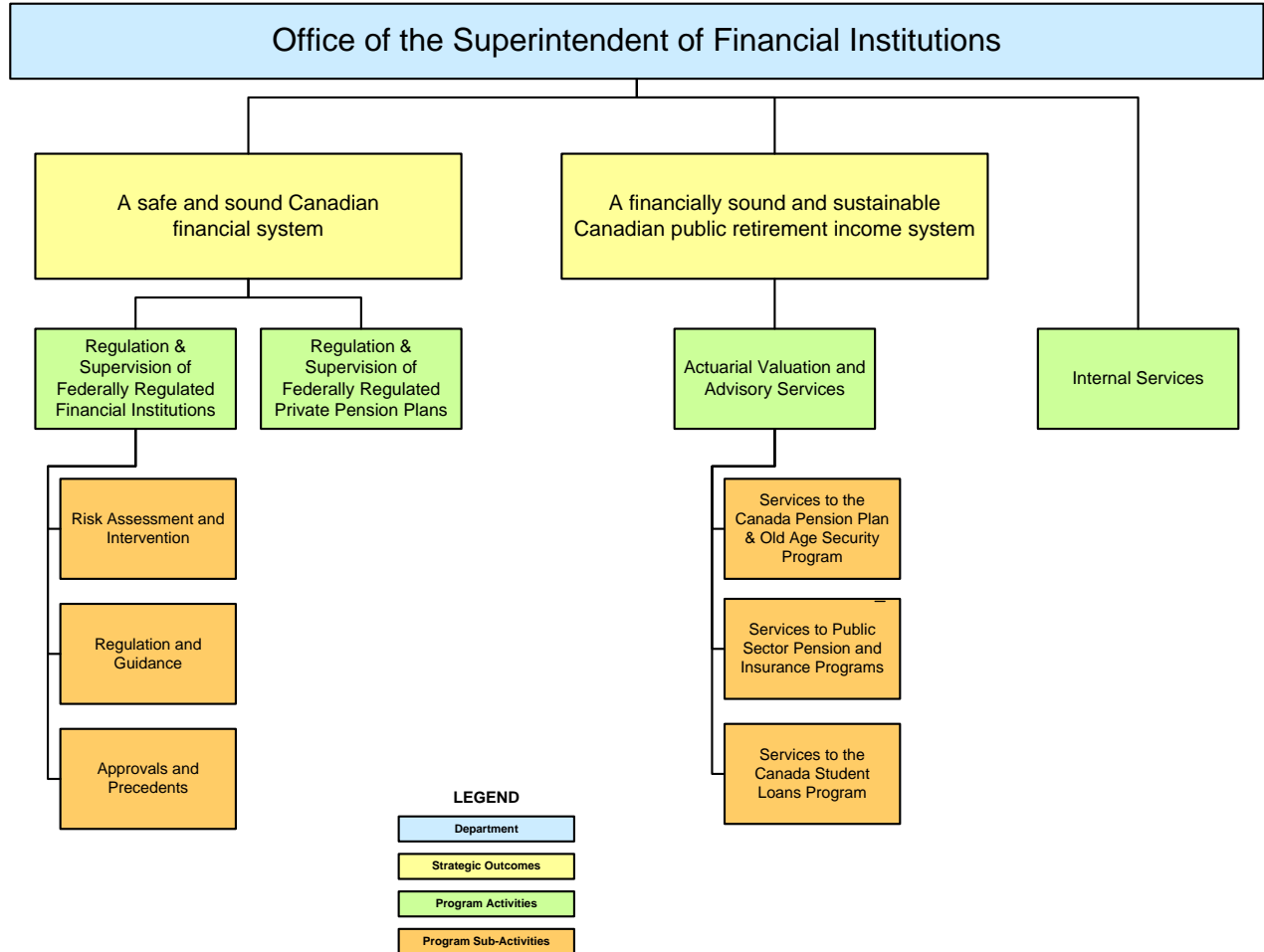
OSFI's legislation also acknowledges the need to allow institutions to compete effectively and take reasonable risks. It recognizes that management, boards of directors, and plan administrators are ultimately responsible and that financial institutions and pension plans can fail.

Strategic Outcomes and Program Alignment Architecture (PAA)

Primary to OSFI's mandate and central to its contribution to Canada's financial system are two strategic outcomes:

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

The diagram below illustrates OSFI's framework of programs and sub-programs, which roll-up and contribute to progress toward the strategic outcomes.



Organizational Priorities

The following tables present a summary of achievements against OSFI's priorities in 2012-2013.

| Priority | Type | Strategic Outcome(s) and/or program(s) |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|------------------------------------------------------------------|
| Priority A - Responding to Risks Emanating from the Economy | Ongoing | Strategic Outcome 1: A safe and sound Canadian financial system. |
| Summary of Progress | | |
| <p>In 2012-2013, the following steps were undertaken and successfully supported Priority A. They contributed to fostering a safe and sound Canadian financial system through the provision of guidance, strong oversight in targeted areas and by drawing from and contributing to international financial sector forums.</p> <p>Steps Taken</p> <ul style="list-style-type: none"> • 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 reviews in the areas of: <ul style="list-style-type: none"> ▪ 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: <ul style="list-style-type: none"> ▪ Risk management seminars ▪ Supervisory colleges ▪ Crisis management and industry information sessions • Participated actively on various international committees, including: <ul style="list-style-type: none"> ▪ 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 | Type | Strategic Outcome(s) and/or program(s) |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|------------------------------------------------------------------|
| Priority B - Responding to Risks Emanating from Regulatory Reform | Ongoing | Strategic Outcome 1: A safe and sound Canadian financial system. |
| Summary of Progress | | |
| <p>In 2012-2013, the following steps were undertaken and successfully supported Priority B. They contributed to fostering a safe and sound Canadian financial system through research and analysis and the provision of guidance. Also, efforts allowed to anticipate, understand, and when practicable, influence changes to international standards and practices.</p> <p>Steps Taken</p> <ul style="list-style-type: none"> • Issued new/revised guidelines, advisories or letters on: <ul style="list-style-type: none"> ▪ 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 | Type | Strategic Outcome(s) and/or program(s) |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Priority C - A High-Performing and Effective Workforce | Ongoing | Strategic Outcome 1: A safe and sound Canadian financial system. Strategic Outcome 2: A financially sound and sustainable Canadian public retirement income system. |
| Summary of Progress | | |
| <p>In 2012-2013, the following steps were undertaken and successfully supported Priority C. They contributed to fostering a safe and sound Canadian financial system as well as a financially sound and sustainable Canadian public retirement income system by helping to ensure that OSFI has the expertise it needs to deliver on business objectives.</p> <p>Steps Taken</p> <ul style="list-style-type: none"> • 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 | Type | Strategic Outcome(s) and/or program(s) |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Priority D - An Enhanced Corporate Infrastructure | Ongoing | Strategic Outcome 1: A safe and sound Canadian financial system. Strategic Outcome 2: A financially sound and sustainable Canadian public retirement income system. |
| Summary of Progress | | |
| <p>In 2012-2013, the following steps were undertaken and successfully supported Priority D. They contributed to fostering a safe and sound Canadian financial system as well as a financially sound and sustainable Canadian public retirement income system by helping to ensure that OSFI has the information, tools and systems it needs to deliver on business objectives.</p> <p>Steps Taken</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ▪ Document/records management ▪ External website ▪ Business Intelligence Tool ▪ Corporate Systems (HR and Finance) ▪ Correspondence and Enquiry Management | | |

Risk Analysis

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

While this section focuses on externally driven risks, OSFI has also dedicated significant efforts to managing internal risks related to its human resources and systems. This is noteworthy given the important role that OSFI staff and supporting systems play in responding to changes in the business environment.

In 2012-2013, OSFI paid particular attention to three risk areas that are detailed below.

| Risk | Risk Response Strategy | Link to Program Alignment Architecture (PAA) | Link to Organizational Priorities |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Economic, Industry and Regulatory Environment: risk pertaining to the ability of federally regulated financial institutions and pension plans to cope with slow economic growth, associated exceptionally low interest rates, and rising household indebtedness.</p> <p>It also links to strategies and business models adopted by federally regulated financial institutions and pension plans to yield benefits in such an environment.</p> <p>Also, it relates to OSFI's ability to foster resilience by positively influencing regulatory changes in the financial sector and through the design and application of its supervisory framework.</p> | <p>The risk was identified in the 2012-2013 Report on Plans and Priorities (RPP).</p> <p>2012-2013 risk responses included:</p> <ul style="list-style-type: none"> • Heightened monitoring of federally regulated financial institutions and private pension plans. • Collaborating with various domestic partners to discuss and coordinate approaches to oversight of the financial sector. • Enhancing collaboration with the Bank of Canada and the Department of Finance on analysis of macroeconomic and systemic risk issues. • Participating in international forums (i.e. the Financial Stability Board, the Basel Committee on Banking Supervision, the Senior Supervisors Group and the International Association of Insurance Supervisors) to develop and implement best practices. <p>The risk response strategy was effective in identifying areas where financial institutions and</p> | <p>Strategic Outcome 1: <i>A safe and sound Canadian financial system.</i></p> <p>Program 1.1: <i>Regulation and Supervision of Federally Regulated Financial Institutions</i></p> <p>Program 1.2: <i>Regulation and Supervision of Federally Regulated Private Pension Plans</i></p> | <p>Priority A: <i>Responding to Risks Emanating from the Economy</i></p> <p>Priority B: <i>Responding to Risks Emanating from Regulatory Reform</i></p> |

| Risk | Risk Response Strategy | Link to Program Alignment Architecture (PAA) | Link to Organizational Priorities |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| | <p>pension plans were exposed to risk, and allowed us to take early intervention actions.</p> <p>Results achieved under Program 1.1 and 1.2 were all met or exceeded, which also speak to the effectiveness of actions undertaken to address the risk.</p> <p>*Of note, steps taken under Priority A and Priority B also contribute to the mitigation of the risk; the risk profile being a key input to organizational priorities.</p> | | |
| <p>Capital Adequacy, Leverage and Liquidity: risk stemming from the redesign of the Basel capital framework for banks and from the need to update prudential regulatory frameworks to address continued disruptions in global financial markets. The risk encompasses the downstream effects – intended and unintended – of the changes made.</p> | <p>The risk was identified in the 2012-2013 RPP.</p> <p>2012-2013 risk responses included:</p> <ul style="list-style-type: none"> • Revising and releasing the Capital Adequacy Requirements Guideline. • Advancing work on frameworks for liquidity and leverage requirements. • Advancing work in developing more risk-sensitive capital frameworks for insurance companies, e.g. quantitative impact studies done in collaboration with the industry to better assess the impact of proposed changes and refine the approach as necessary. <p>The risk response strategy contributed to the effective mitigation of the risk given that it supported strengthening the frameworks for capital, leverage and liquidity consistent with international developments that in turn, promotes a more resilient global financial sector.</p> <p>Performance data presented under the Program 1.1 show positive results, to which the risk response contributed.</p> <p>*Of note, steps taken under Priority B also contribute to the mitigation of the risk.</p> | <p>Strategic Outcome 1: <i>A safe and sound Canadian financial system.</i></p> <p>Program 1.1: <i>Regulation and Supervision of Federally Regulated Financial Institutions</i></p> | <p>Priority B: <i>Responding to Risks Emanating from Regulatory Reform</i></p> |

| Risk | Risk Response Strategy | Link to Program Alignment Architecture (PAA) | Link to Organizational Priorities |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| <p>Changes to IFRS and Auditing Standards: changes in standards will affect accounting, loan values and provisions, actuarial standards, and the regulatory capital regime.</p> <p>The risk relates to OSFI's ability to perform accurate risk assessments of financial institutions and to adjust the regulatory capital framework under the new standards.</p> | <p>The risk was identified in the 2012-2013 RPP.</p> <p>2012-2013 risk responses included:</p> <ul style="list-style-type: none"> • Monitoring and participating in domestic work efforts through the Auditing and Assurance Standards Board and Auditing and Assurance Standards Oversight Council. • Monitoring and participating in international work efforts through the Financial Stability Board, the Basel Committee on Banking Supervision, and the International Association of Insurance Supervisors. <p>The risk response strategy was effective in that it ensured prudential views were understood and in certain cases incorporated into standards by accounting standard setters. It also ensured that supervisors understood the impact of standards and were able to determine changes required to the supervisory regime.</p> <p>Performance data presented under the Program 1.1 show positive results, to which the risk response contributed.</p> <p>*Of note, steps taken under Priority B also contribute to the mitigation of the risk.</p> | <p>Strategic Outcome 1: <i>A safe and sound Canadian financial system.</i></p> <p>Program 1.1: <i>Regulation and Supervision of Federally Regulated Financial Institutions</i></p> | <p>Priority B: <i>Responding to Risks Emanating from Regulatory Reform</i></p> |

Economic, Industry and Regulatory Environment

During 2012-2013, OSFI remained concerned about risks in the global economy, as vulnerabilities that first surfaced in global credit markets in 2007 have not been fully resolved.

External risks include sovereign debt, particularly in Europe, the protracted weak global economic recovery, and the impact of exceptionally low interest rates on the behaviour of financial institutions.

Domestically, while the Canadian financial system remains sound, the level of household indebtedness continues to be a source of systemic vulnerability. Household spending has supported Canada's economic recovery from the global financial crisis. However, the associated

accumulation of debt means that households may have trouble servicing their debts in the event of a significant rise in unemployment or an unexpectedly large jump in interest rates. In addition, interest rates remain near historically low levels in most advanced economies including Canada. This can lead to several risks to the financial system, which require continuing vigilance.

During 2012-2013, OSFI worked with various domestic partners – including the Bank of Canada, the Department of Finance, the Canada Deposit Insurance Corporation, and the Financial Consumer Agency of Canada – to review developments in the financial system, and discuss and coordinate approaches to oversight of the financial sector. We also continued to enhance collaboration with the Bank of Canada and the Department of Finance on analysis of macroeconomic and systemic risk issues.

OSFI also continued to participate actively in international forums to develop and implement best practices. These include the Financial Stability Board, the Basel Committee on Banking Supervision, the Senior Supervisors Group and the International Association of Insurance Supervisors.

Capital Adequacy, Leverage and Liquidity

A fundamental redesign of the Basel capital framework for banks and the need to update prudential regulatory frameworks to address continued disruptions in global financial markets also require banks and regulators to focus more on the measurement of risks and its relation to the overall level of capital adequacy, leverage and liquidity.

In December 2012, OSFI issued the final version of the revised Capital Adequacy Requirements Guideline. The guideline has been revised to reflect the changes to capital requirements that have been approved by the Basel Committee on Banking Supervision, 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 final guideline describes OSFI's expectations of institutions in meeting those goals. This guideline came into effect in January 2013.

Work continued to progress internationally and domestically to finalize the frameworks for liquidity and leverage requirements. The new Liquidity Coverage Ratio (LCR) standard was finalized by the Basel Committee early in 2013 and OSFI will publish a draft Liquidity requirement framework in the latter half of 2013. The international leverage framework is expected to be finalized in 2013.

Work is underway in Canada as well as in many countries and international fora to develop more risk-sensitive capital frameworks for insurance companies, i.e. the Minimum Continuing Capital and Surplus Requirements for life insurers and the Minimum Capital Test for property and casualty insurers. Both companies and regulators recognize the need to have more risk sensitive approaches that better reflect the issues arising from increasingly complex products, dynamic markets, accounting changes, and the need to be more transparent regarding the level of policyholder protection. In 2012-13, work continued on the development of these more risk sensitive frameworks, notably with quantitative impact studies done in collaboration with the industry to better assess the impact of proposed changes and refine the approaches as necessary.

Changes to International Financial Reporting Standards (IFRS)

As Canadian financial institutions report under IFRS, OSFI is focused on two key projects by the International Accounting Standards Board that will have a significant impact on FRFIs over the next two to three years: the replacement of Financial Instruments, and Insurance Contracts Phase II. The Financial Instruments project proposes changes to the classification of financial instruments and an expected loss provisioning model for loans.

The Insurance Contracts Phase II project proposes to fundamentally change the valuation of insurance liabilities and recognition of revenue. The impacts of the changes for these projects are extensive in that they will not only change the accounting, but will also significantly impact loan values and provisions, actuarial standards, and the regulatory capital regime. It is crucial that OSFI continues to anticipate, understand and, when practicable, influence such changes so that OSFI will continue to be able to perform accurate risk assessments of financial institutions and will be able to adjust the regulatory capital framework as required.

The 2008 financial crisis has motivated much international and domestic consultation and proposals on how the audit function could be enhanced in order to contribute to increased financial stability. OSFI is actively monitoring and participating in domestic and international work efforts (internationally through the Financial Stability Board, the Basel Committee on Banking Supervision, and the International Association of Insurance Supervisors and domestically through the Auditing and Assurance Standards Board and Auditing and Assurance Standards Oversight Council).

Summary of Performance

The tables below identify OSFI's financial and human resources, planned and actual, for the 2012-2013 fiscal year.

2012–2013 Financial Resources (millions)

| Total Budgetary Expenditures (Main Estimates) 2012–13 | Planned Spending 2012–13 | Total Authorities (available for use) 2012–13 | Actual Spending (authorities used) 2012–13 | Difference (Planned vs. Actual Spending) |
|----------------------------------------------------------------------|-------------------------------------|--------------------------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------------|
| \$127.7 | \$127.7 | \$127.7 | \$128.6 | (\$0.9) |

2012–2013 Human Resources (Full-Time Equivalent)

| Planned 2012–13 | Actual 2012–13 | Difference 2012–13 |
|----------------------------|---------------------------|-------------------------------|
| 609 | 636 | (27) |

Performance Summary Table for Strategic Outcomes and Programs (millions)

Strategic Outcome 1: A safe and sound Canadian financial system.

| Program | Total Budgetary Expenditures (Main Estimates 2012–13) | Planned Spending | | | Total Authorities (available for use) 2012–13 | Actual Spending (authorities used) | | | Alignment to Government of Canada Outcomes |
|--------------------------------------------------------------------------|-------------------------------------------------------|------------------|-------------|-------------|-----------------------------------------------|------------------------------------|-------------|-------------|--------------------------------------------|
| | | 2012–13 | 2013–14 | 2014–15 | | 2012–13 | 2011–12 | 2010–11 | |
| Regulation and Supervision of Federally Regulated Financial Institutions | 65.9 | 65.9 | 74.0 | 76.5 | 65.9 | 67.1 | 62.8 | 55.5 | Strong economic growth |
| Regulation and Supervision of Federally Regulated Private Pension Plans | 4.5 | 4.5 | 4.6 | 4.7 | 4.5 | 4.7 | 5.5 | 4.5 | Income security for Canadians |
| International Assistance | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | Discontinued |
| Strategic Outcome 1 Sub-Total | 70.4 | 70.4 | 78.6 | 81.2 | 70.4 | 71.8 | 68.3 | 60.4 | |

Strategic Outcome 2: A financially sound and sustainable Canadian public retirement income system.

| Program | Total Budgetary Expenditures (Main Estimates 2012–13) | Planned Spending | | | Total Authorities (available for use) 2012–13 | Actual Spending (authorities used) | | | Alignment to Government of Canada Outcomes |
|-------------------------------------------|-------------------------------------------------------|------------------|------------|------------|-----------------------------------------------|------------------------------------|------------|------------|--------------------------------------------|
| | | 2012–13 | 2013–14 | 2014–15 | | 2012–13 | 2011–12 | 2010–11 | |
| Actuarial Valuation and Advisory Services | 4.6 | 4.6 | 5.2 | 5.2 | 4.6 | 4.5 | 4.2 | 4.2 | Income security for Canadians |
| Strategic Outcome 2 Sub-Total | 4.6 | 4.6 | 5.2 | 5.2 | 4.6 | 4.5 | 4.2 | 4.2 | |

Performance Summary Table for Internal Services (millions)

| Internal Services | Total Budgetary Expenditures (Main Estimates 2012-13) | Planned Spending | | | Total Authorities (available for use) 2012-13 | Actual Spending (authorities used) | | |
|-------------------|-------------------------------------------------------|------------------|---------|---------|-----------------------------------------------|------------------------------------|---------|---------|
| | | 2012-13 | 2013-14 | 2014-15 | | 2012-13 | 2011-12 | 2010-11 |
| | 52.7 | 52.7 | 56.5 | 51.3 | 52.7 | 52.3 | 52.3 | 41.3 |
| Sub-Total | 52.7 | 52.7 | 56.5 | 51.3 | 52.7 | 52.3 | 52.3 | 41.3 |

Total Performance Summary Table (millions)

| Strategic Outcomes and Internal Services | Total Budgetary Expenditures (Main Estimates 2012-13) | Planned Spending | | | Total Authorities (available for use) 2012-13 | Actual Spending (authorities used) | | |
|------------------------------------------|-------------------------------------------------------|------------------|---------|---------|-----------------------------------------------|------------------------------------|---------|---------|
| | | 2012-13 | 2013-14 | 2014-15 | | 2012-13 | 2011-12 | 2010-11 |
| | 127.7 | 127.7 | 140.3 | 137.7 | 127.7 | 128.6 | 124.8 | 105.9 |
| Total | 127.7 | 127.7 | 140.3 | 137.7 | 127.7 | 128.6 ¹ | 124.8 | 105.9 |

Actual spending across all programs increased 21.4% between 2010-2011 and 2012-2013.

During this period, OSFI added regulatory and supervisory resources to address the increase in volume and complexity of its work, new permanent work driven by lessons learned from the financial crisis, and to implement the significant regulatory reforms. New work included development of new and more sophisticated risk-sensitive liquidity, leverage and capital rules, increase in requirements around supervision of Systematically Important Financial Institutions (SIFIs), and new international initiatives and commitments. OSFI also enhanced its specialization in the Life industry and its monitoring and review of the actuarial functions within institutions. Effective July 2012, OSFI's work expanded to include the review and assessment of the safety and soundness of Canada Mortgage and Housing Corporation (CMHC)'s commercial activities, largely their mortgage insurance and securitization programs. The increase in OSFI's programs in 2013-2014 and beyond is attributed to the full year impact of new resources added in 2012-2013 and to normal merit and inflationary increases.

In addition to new resources to support program-related work, significant investment in OSFI's Information Technology Renewal (ITR) program began in 2010-2011. Work continues to advance the ITR initiative with the updating of OSFI's ageing technologies and annual investments to upgrade systems and renew core infrastructure and selected applications. The

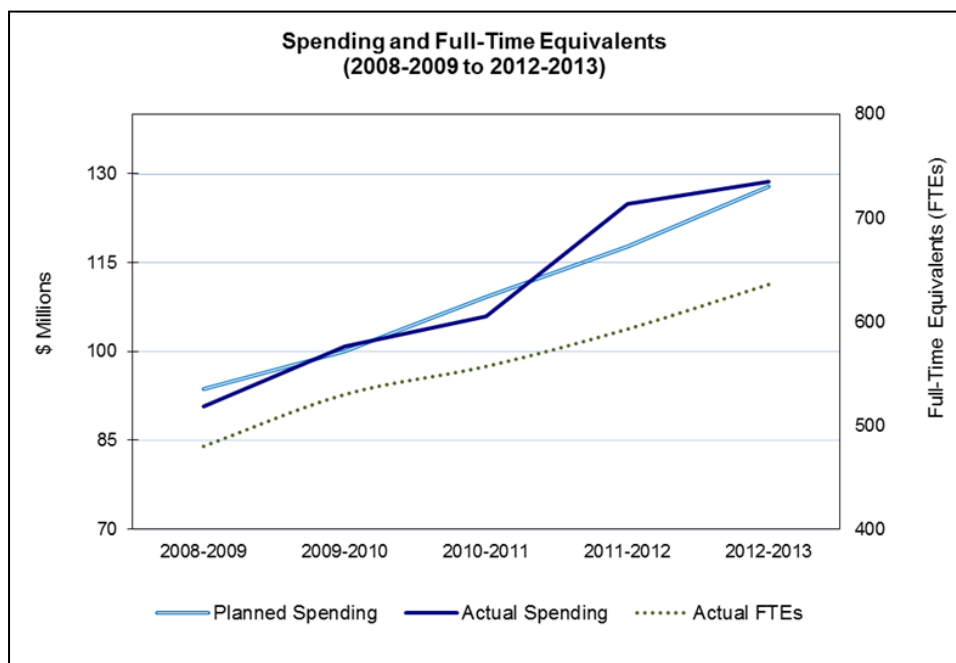
¹ During 2012-2013, OSFI used an additional \$0.9 million, or 0.7%, in authorities for resources related to the initial review and assessment of the safety and soundness of Canada Mortgage and Housing Corporation (CMHC)'s commercial activities. This work falls under the Regulation and Supervision of Federally Regulated Financial Institutions program, which is fully cost recovered and not a part of OSFI's voted appropriation.

reduced level of spending in Internal Services after 2013-2014 reflects the completion of the implementation of the ITR program. Additionally, facilities costs were higher in 2012-2013 and are associated with incremental space to accommodate the larger staff complement in Toronto and Ottawa.

In 2012-2013, OSFI spent \$0.9 million (0.7%) more than planned, largely driven by personnel costs to support new work within the Regulation and Supervision of Federally Regulated Financial Institutions program. Additionally, OSFI settled a pay equity claim dating from 1987 to 1997 that had been previously provisioned for. The settlement resulted in an overall reduction in expenses as the amount paid out was lower than what was provisioned. Details of the 2012-2013 results are explained in the Performance Analysis and Lessons Learned section.

Expenditure Profile

Departmental Spending Trend



The “Spending and Full-Time Equivalents” table presents a five-year trend of OSFI’s planned and actual spending, and actual FTEs. OSFI’s personnel costs typically account for approximately 75% of its spending, which explains the correlation between the spending and FTE trend lines.

During 2009-2010, OSFI increased its staff complement by 10.4% driven by the full-year impact of new resources hired during the previous year and due to new positions added to enhance the Corporate Services Sector to support the significant growth in staff complement in the preceding years. In 2010-2011 and 2011-2012, OSFI increased its regulatory and supervisory resources to support the need for new and more sophisticated risk-sensitive liquidity, leverage and capital rules, to enhance its specialization in the Life and P&C industries, to fulfill its international commitments, and to address higher workloads from new international initiatives and supervision of SIFIs. This resulted in a growth of 5.1% and 6.5% in 2010-2011 and 2011-2012, respectively. The 2012-2013 fiscal year saw further growth in FTEs of 7.3%, primarily driven by the addition of new resources required for OSFI’s expanded role to include CMHC’s commercial activities, as well as additional internal services personnel to support the recent growth in staff.

OSFI’s total actual spending rose by 11.2% in 2009-2010, due to a 10.4% increase in FTEs, normal economic and merit increases in employee compensation and the 15-basis-point increase in the Employee Benefit Plan rate as prescribed by TBS. In 2010–2011, OSFI’s expenses grew by 4.9% largely due to the full-year impact of the additional resources added in 2009-2010 and higher IM/IT costs associated with the implementation of OSFI’s approved IM/IT strategy. Actual spending in 2011-2012 increased by 17.9%, primarily driven by a 6.5% increase in FTEs, an adjustment to the compensation structure and curtailment of severance for non-unionized

employees. Actual spending increased 3.0% in 2012-2013 due to the increase in FTEs and normal inflationary and merit increases.

While OSFI's total costs in 2012-2013 increased over the previous year as a result of the increase in FTEs discussed above, OSFI continues to remain committed to containing its costs and limiting expense growth wherever possible. Total costs, excluding human resource and related accommodation costs, have actually decreased by 1.3% compared to 2011-2012. Travel expense has declined by 27.2% since 2008-2009.

Estimates by Vote

For information on OSFI's organizational Votes and/or statutory expenditures, please see the [*Public Accounts of Canada 2013 \(Volume II\)*](#). An electronic version of the Public Accounts 2013 is available on the Public Works and Government Services Canada's website.ⁱ

Strategic Environmental Assessment

During 2012–13, none of the initiatives undertaken by the OSFI were subject to the *Cabinet Directive on the Environmental Assessment of Policy, Plan and Program Proposals*.

Section II: Analysis of Programs and Sub-Programs by Strategic Outcome

Strategic Outcome 1

| Strategic Outcome 1: A safe and sound Canadian financial system. | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|----------------------------------------------------------------------------------------------|
| Performance Indicators | Targets | 2012-2013 Performance |
| Percentage of knowledgeable observers ² that rate OSFI as somewhat or very effective in monitoring and supervising their institution or pension plan. <i>Source: Financial Institution Survey (FIS) 2012</i> | 70% | 91% |
| Percentage of estimated recoveries on failed institutions (amount recovered per dollar of claim). <i>Source: Canada Deposit Insurance Corporation</i> | 90% | 100% |
| Percentage of estimated recoveries on pension plans that have terminated underfunded. <i>Source: Internal data</i> | 85% | Five pension plans terminated underfunded in 2012-2013. The estimated recovery ratio is 100% |

During 2012-2013, the economic outlook remained clouded by sovereign indebtedness and weak economic recovery. Domestically, the high level of household indebtedness and persistent low interest rates continued to be seen as sources of systemic vulnerability. Notwithstanding these challenges, OSFI's actions to address their potential impact led to very positive results.

For example, during 2012-2013, OSFI exercised a heightened level of monitoring of federally regulated financial institutions and private pension plans. OSFI also issued updated guidance on key areas such as capital adequacy, earthquake exposure, corporate governance and residential mortgage underwriting. Such guidance assists financial institutions to better manage their risks.

This combination of robust monitoring and strong guidance is seen by the industry as beneficial, as the vast majority of institutions considered OSFI to be effective in exercising oversight. The continued strength of the Canadian financial sector relative to that in many other jurisdictions is a good indication that our robust system of oversight has led to positive results.

Program 1.1: Regulation and Supervision of Federally Regulated Financial Institutions

This program involves regulating and supervising federally regulated financial institutions (FRFIs) to determine whether they are in sound financial condition and are complying with their governing statute law and supervisory requirements; monitoring the financial and economic environment to identify issues that may impact these institutions negatively; and intervening in a

² Senior executives, plan administrators, and professional advisors who act on behalf of federally regulated financial institutions and private pension plans.

timely manner to protect depositors and policyholders from undue loss, while recognizing that management and boards of directors are ultimately responsible, and that financial institutions can fail.

Costs for this program are recovered through base assessments and user fees and charges paid by the federally regulated financial institutions covered under the *Bank Act, Trust and Loan Companies Act, Insurance Companies Act* and *Cooperative Credit Associations Act*. The Office of the Superintendent of Financial Institutions also receives revenues for cost-recovered services to provinces, for which it provides supervision of their institutions on a fee for service basis.

Financial Resources (millions)

| Total Budgetary Expenditures (Main Estimates) 2012-13 | Planned Spending 2012-13 | Total Authorities (available for use) 2012-13 | Actual Spending (authorities used) 2012-13 | Difference 2012-13 |
|-------------------------------------------------------------|-----------------------------|-----------------------------------------------------|--------------------------------------------------|-----------------------|
| 65.9 | 65.9 | 65.9 | 67.1 | (1.2) |

Human Resources (FTEs)

| Planned 2012-13 | Actual 2012-13 | Difference 2012-13 |
|--------------------|-------------------|-----------------------|
| 376 | 390 | (14) |

Performance Results

| Expected Results | Performance Indicators | Targets | Actual Results |
|------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------------------|
| Protect depositors and policy holders while recognizing that all failures cannot be prevented. | Percentage of estimated recoveries on failed institutions (amount recovered per dollar of claim). <i>Source: Canada Deposit Insurance Corporation</i> | 90% | 100% ³ |

Program Performance Analysis and Lessons learned

³ This measure is a proxy for whether OSFI intervened early enough to prevent undue loss to depositors and/or policyholders. Estimated recovery is the amount on the dollar per claim each policyholder or depositor would receive upon the completion of the liquidation. Expectation \geq \$0.90.

The measure is provided annually, based on the updates on the estimated recoveries received from the agent or liquidator. Liquidation may span several years (e.g. life insurance) and affect a number of annual updates to the estimated recovery. As such, an annual update is made to the actual result for this indicator, regardless of whether any FRFI's failed that year or not.

During the 2012-2013 period, OSFI exercised strong oversight over FRFIs. For example, with respect to supervision, OSFI increased its activities and dedicated more resources to review and monitor the six largest domestic banks, which have been designated as “domestic systemically important banks”. These banks are subject to more stringent supervision, increased reporting requirements and will be subject to additional capital requirements above the minimum capital standards. OSFI also conducted macroeconomic stress-testing exercise to assist banks in their awareness of potential system-wide risks and vulnerabilities. Similar stress testing was performed for selected life insurance companies. OSFI also held risk management seminars for all industries and hosted Colleges of Supervisors in relation to two of Canada’s largest banks. With regard to guidance, OSFI issued updated capital adequacy requirements for banks and trust and loan companies to reflect the requirements in Basel III, and issued new or revised guidance in the areas of corporate governance, mortgage underwriting and earthquake risk, among others. OSFI also continued work towards developing more risk sensitive capital tests for the life as well as property and casualty sectors.

This combination of strong supervision, monitoring and guidance is reflected in industry opinions that OSFI is effective in monitoring and supervising financial institutions and pension plans and shows progress toward the *Strategic Outcome 1: A safe and sound Canadian financial system*.

Sub-Program 1.1.1: Risk Assessment and Intervention

This program involves the administration and application of an effective supervisory process to assess the safety and soundness of regulated financial institutions by evaluating an institution’s risk profile, financial condition, risk management processes, and compliance with applicable laws and regulations. This program includes activities to monitor and supervise financial institutions; monitor the financial and economic environment to identify emerging issues; and intervene on a timely basis when a financial institution’s business practices may be imprudent or unsafe, by exercising supervisory powers to take, or require management or boards to take, necessary corrective measures as rapidly as possible to protect depositors and policy holders, while recognizing that all failures cannot be prevented.

Financial Resources (millions)

| Planned Spending 2012–13 | Actual Spending 2012–13 | Difference 2012–13 |
|-----------------------------|----------------------------|-----------------------|
| 45.3 | 47.1 | (1.8) |

Human Resources (FTEs)

| Planned 2012–13 | Actual 2012–13 | Difference 2012–13 |
|--------------------|-------------------|-----------------------|
| 264 | 282 | (18) |

Performance Results

| Expected Results | Performance Indicators | Targets | Actual Results |
|--------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|------------------|
| Provide accurate Risk Assessments for institutions which align with their Composite Risk Rating (CRR). | Percentage of knowledgeable observers ⁴ that agree that their institution's Composite Risk Rating is appropriate. <i>Source: Financial Institution Survey (FIS) 2012</i> | 70% | N/A ⁵ |
| Timely and effective intervention and feedback. | Time to issue Supervisory Letter (within prescribed target days). <i>Source: Internal data</i> | 80% of letters are issued within 45 days | 81% |

Performance Analysis and Lessons Learned

Throughout 2012-2013, OSFI took action to address the potential impact of challenges posed by the external environment and faced by FRFIs. The organization continued to refine its approach and operations with regard to risk assessment and intervention by: developing supporting guidance for the updated Supervisory Framework; strengthening the design and application of supervisory processes; conducting significant reviews, including stress testing, in several areas such as commercial real estate and residential mortgage credit risk; and communicating our expectations for risk management to FRFIs.

At year end, OSFI met its target with regard to the Time to issue Supervisory Letter, as 81% of the letters were issued within 45 days, an improvement of 5% over the previous year.

Actual spending was \$1.8 million more than planned. This was driven by an additional 18 FTEs, most of which were brought in to support OSFI's expanded role to include CMHC.

Sub-Program 1.1.2: Regulation and Guidance

This program involves advancing and administering a regulatory framework of rules and guidance that promotes the adoption by regulated financial institutions of sound risk management practices, policies and procedures designed to plan, direct and control the impact on the institution of risks arising from its operations. This program encompasses the issuance of regulations and guidance, input into federal legislation and regulations affecting financial institutions; contributions to accounting, auditing and actuarial standards; and involvement in a number of international regulatory activities.

⁴ Senior Executives and professionals who act on behalf of federally regulated financial institutions.

⁵ It was decided to remove this measure given that it did not provide for an actionable result, i.e. OSFI would not change an institution CRR if the institution did not agree with it.

Financial Resources (millions)

| Planned Spending 2012–13 | Actual Spending 2012–13 | Difference 2012–13 |
|-----------------------------|----------------------------|-----------------------|
| 14.3 | 14.3 | 0.0 |

Human Resources (FTEs)

| Planned 2012–13 | Actual 2012–13 | Difference 2012–13 |
|--------------------|-------------------|-----------------------|
| 82 | 81 | 1 |

Performance Results

| Expected Results | Performance Indicators | Targets | Actual Results |
|-------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Regulations, guidance and other rules that balance prudential considerations and the need to compete. | Percentage of knowledgeable observers ⁶ that rate OSFI as being good or very good at developing Regulations, Guidelines and other rules that strike an appropriate balance between prudential considerations and the need for institutions to compete. <i>Source: Financial Institution Survey (FIS) 2012</i> | 50% | 53% |
| Regulations, guidance and other rules which are clear and scrutinized by industry. | Percentage of knowledgeable observers that rate OSFI's guidance as somewhat or very effective in providing an indication of OSFI's expectation. AND Percentage of knowledgeable observers who rate OSFI as good or very good at consulting with industry on the development of regulations, guidelines and other rules. <i>Source for both: Financial Institution Survey (FIS) 2012</i> | 75% 60% | 93% 68% |

Performance Analysis and Lessons Learned

During 2012-2013, OSFI continued to promote sound risk management practices through its rule-making activities. New or revised guidance in areas such as capital adequacy, corporate governance and mortgage underwriting helped to ensure financial institutions continue to develop and maintain robust risk management systems. OSFI's emphasis on risk management

⁶ Senior Executives and professionals who act on behalf of federally regulated financial institutions.

through the use of minimum expected standards is reflected in the fact that the World Economic Forum continues to rank Canada's banking system as the world's soundest.

As noted above, performance results continue to meet established targets, providing evidence of sound regulation and guidance.

Sub-Program 1.1.3: Approvals and Precedents

Federally regulated financial institutions are required to seek regulatory approval for certain types of transactions. This program: evaluates and processes applications for regulatory consent; establishes positions on the interpretation and application of the federal financial institutions legislation, regulations and guidance; identifies precedential transactions that may raise policy or precedent-setting issues and develops recommendations that recognize the need to allow institutions to compete effectively while undertaking reasonable risks that do not unduly impact the Office of the Superintendent of Financial Institution's primary stakeholders, the policyholders and depositors of FRFIs.

Financial Resources (millions)

| Planned Spending 2012-13 | Actual Spending 2012-13 | Difference 2012-13 |
|-------------------------------------|------------------------------------|-------------------------------|
| 6.3 | 5.7 | 0.6 |

Human Resources (FTEs)

| Planned 2012-13 | Actual 2012-13 | Difference 2012-13 |
|----------------------------|---------------------------|-------------------------------|
| 30 | 27 | 3 |

Performance Results

| Expected Results | Performance Indicators | Targets | Actual Results |
|---------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|----------------|
| Provide prudentially sound decisions on Regulatory Approvals. | Percentage of knowledgeable observers ⁷ that understand somewhat or very well the basis upon which OSFI makes its decisions as part of the approval process. <i>Source: Financial Institution Survey (FIS) 2012</i> | 85% | 87% |
| Regulatory approvals that are timely and transparent. | Percentage of completed applications for regulatory approvals that are processed within established performance standards. <i>Source: Internal data</i> | 90% | 92% |

Performance Analysis and Lessons Learned

OSFI administers a regulatory approval process that is prudentially effective, responsive, innovative and transparent. The soundness of the process is supported by performance results which show that a vast majority of knowledgeable observers understand the basis upon which OSFI makes its decisions. The responsiveness of the process is substantiated by OSFI's 2012-2013 performance results. OSFI surpassed all its standards establishing time frames for processing applications for regulatory approval and for other services. More information on service performance standards can be found on OSFI's website.

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 decline 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%).

OSFI develops and publishes legislative guidance including advisories, rulings, and transaction instructions to promote transparency in its legislative approval process. These documents are also used to promote a better understanding of our interpretation of the federal financial institution statutes. During the year, OSFI published one revised transaction instruction regarding Termination of Insurance Business in Canada of Foreign Insurance Companies and an Advisory concerning Business and Powers – Ownership Interests in Commodities.

Actual spending on this sub-program was \$0.6 million lower than planned, as workload was reprioritized and resources were diverted to the Risk Assessment and Intervention sub-program.

⁷ Senior Executives and professionals who act on behalf of federally regulated financial institutions.

Program 1.2: Regulation and Supervision of Federally Regulated Private Pension Plans

This program involves regulating and supervising federally regulated private pension plans to determine whether they are meeting minimum plan funding requirements and are complying with their governing law and supervisory requirements. This program provides risk assessments of pension plans covering employees in federally regulated areas of employment; timely and effective intervention and feedback to protect the financial interests of plan members and beneficiaries from undue loss, while recognizing that plan administrators are ultimately responsible, and that plans can fail; a balanced relevant regulatory framework; and a prudentially effective and responsive approvals process. This program incorporates risk assessment and intervention, regulation and guidance, and approvals and precedents related to federally regulated private pension plans under the *Pension Benefits Standards Act*, 1985. The costs for this program are recovered from pension plan fees based on the number of members in each federally regulated pension plan.

Financial Resources (millions)

| Total Budgetary Expenditures (Main Estimates) 2012-13 | Planned Spending 2012-13 | Total Authorities (available for use) 2012-13 | Actual Spending (authorities used) 2012-13 | Difference 2012-13 |
|-------------------------------------------------------|--------------------------|-----------------------------------------------|--------------------------------------------|--------------------|
| 4.5 | 4.5 | 4.5 | 4.7 | (0.2) |

Human Resources (FTEs)

| Planned 2012-13 | Actual 2012-13 | Difference 2012-13 |
|-----------------|----------------|--------------------|
| 27 | 28 | (1) |

Performance Results

| Expected Results | Performance Indicators | Targets | Actual Results |
|-------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-----------------------------------------------------------------------------------------------|
| Protect the financial interests of federally regulated private pension plan members and beneficiaries | Percentage of estimated recoveries on pension plans that have terminated underfunded. <i>Source: Internal data</i> | 85% | Five pension plans terminated underfunded in 2012-2013. The estimated recovery ratio is 100%. |
| Regulations, guidelines and other rules that are clear and balanced. | Percentage of knowledgeable observers ⁸ that rate OSFI's guidance as somewhat or very effective in providing an indication of OSFI's expectation. AND | 75% | 81% |
| | Percentage of knowledgeable observers ⁸ who rate OSFI as being good or very good at developing regulations, guidelines and other rules that strike an appropriate balance between interests of plan sponsors and plan members. <i>Source for both: Pension Plans Survey 2011 Final Report</i> | 50% | 65% |
| Regulatory approvals that are timely and transparent. | Percentage of knowledgeable observers ⁸ that understand somewhat or very well the basis upon which OSFI makes its decisions as part of the approval process. <i>Source: Pension Plans Survey 2011 Final Report</i> AND | 60% | 63% |
| | Percentage of completed applications for regulatory approvals that are processed within established performance standards <i>Source: Internal data</i> | 90% | 92% |

Performance Analysis and Lessons Learned

In 2012-2013, the Regulation and Supervision of Federally Regulated Private Pension Plans Program met all of its performance targets. These results speak to ongoing efforts made to protect the financial interests of federally regulated private pension plan members and beneficiaries, which in turn, contribute to fostering a safe and sound Canadian financial system.

Over the course of the fiscal year, federally regulated private pension plans operated in an environment of continued economic uncertainty and exceptionally low interest rates. As such, 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.

⁸ Plan Administrators and professionals who act on behalf of pension plans.

As the December 2011 Estimated Solvency Ratio results showed a general deterioration in the solvency position over the preceding year, in May of 2012, OSFI communicated with certain plan administrators to ask them to provide plan members with enhanced and timely disclosure of the solvency position of their pension plan.

During 2012-2013, OSFI performed 14 on-site examinations with a continued focus on pension plan governance, risk management and disclosure to members. OSFI also intervened with respect to high-risk pension plans, including restricting 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.

In keeping with the objectives of promoting prudent practices and a transparent regulatory framework, OSFI regularly provided guidance to plan administrators on the legislative requirements and OSFI's expectations through various means, including OSFI's Pension Industry Forum held February 12, 2012, the release of instruction guides, and the InfoPensions newsletter. OSFI also provides support and assistance to the Department of Finance in developing proposals for changes to federal pension legislation and regulations. During 2012-13, OSFI provided technical support to the development of regulations pursuant to the *Pooled Registered Pension Plans Act*. The Act and regulations were brought into force on December 14, 2012.

Federally regulated private pension plans are required to seek approval from OSFI for different types of transactions affecting pension plans. During 2012-2013, the number of transactions requiring approval increased significantly from 54 new requests for approvals in 2011-12 to 77 in 2012-13. OSFI processed 55 applications for approval in 2012-13, compared to 60 in 2011-2012.

Actual spending on this program was \$0.2 million more than planned as a result of fewer vacancies than expected and for costs associated with the Risk Assessment System for Pensions (RASP) that was implemented at the end of 2012-2013 to optimize the efficiency and effectiveness of pension plan supervision.

Strategic Outcome 2

| Strategic Outcome 2: A financially sound and sustainable Canadian public retirement income system. | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Performance Indicators | Targets | 2012–2013 Performance |
| <p>Panel of Canadian peer actuaries selected by an international and independent body attest that the Chief Actuary and staff: have adequate professional experience, complete work in compliance with professional standards and statutory requirements, access adequate information and complete relevant data tests and analysis, use reasonable methods and assumptions in completing actuarial reports and that these reports fairly communicate the results of the work performed.</p> <p><i>Source:</i> Review of the Twenty-Fifth Actuarial Report on the Canada Pension Plan, dated March 16, 2011</p> | <p>Unanimous agreement amongst peers</p> | <p>The external peer review panel's findings published in May 2011⁹ show there is unanimous agreement that the Chief Actuary and staff have adequate professional experience, complete work in compliance with professional standards and statutory requirements, access adequate information and complete relevant data tests and analysis, use reasonable methods and assumptions in completing actuarial reports and that the 25th Actuarial Report on the Canada Pension Plan (CPP) fairly communicates the results of the work performed by the Chief Actuary and his staff.</p> |
| <p>Adequacy of professional experience of the Chief Actuary and staff.</p> <p>AND</p> <p>Compliance with Canadian and international professional standards.</p> <p><i>Source for both:</i> Review of the Twenty-Fifth Actuarial Report on the Canada Pension Plan, dated March 16, 2011</p> | <p>Unanimous agreement amongst peers</p> | <p>The external peer review panel's findings published in May 2011 show that the 25th Actuarial Report on the Canada Pension Plan complies with all relevant professional standards of practice and statutory requirements, and that the professional experience of the Chief Actuary and his staff who worked on this report meets the high standard required for this work.</p> |

In 2012-2013, OSFI continued to contribute to maintaining a *financially sound and sustainable Canadian public retirement income system* through the provision of high quality expert actuarial valuation and advice to the Government of Canada and to provincial governments that are Canada Pension Plan (CPP) stakeholders. The soundness of services provided is attested by the performance results attained.

Program 2.1: Actuarial Valuation and Advisory Services

The federal government and the provinces, through the Canada Pension Plan (CPP), public sector pension arrangements and other social programs have made commitments to Canadians and have taken on emanated responsibility for the financing of these commitments. Some are long-term and it is important that decision-makers, Parliamentarians and the public understand these and the inherent risks. This program plays a vital and independent role in this process. It provides checks and balances on the future costs of the different pension plans under its responsibilities.

⁹ Next Independent Peer Review to occur in 2014.

This program provides a range of actuarial services, under legislation, to the CPP and some federal government departments. It conducts statutory actuarial valuations of the CPP, Old Age Security (OAS) and Canada Student Loans programs, 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 Office of the Chief Actuary (OCA) is funded by fees charged for its actuarial valuation and advisory services and by an annual parliamentary appropriation.

Financial Resources (millions)

| Total Budgetary Expenditures (Main Estimates) 2012-13 | Planned Spending 2012-13 | Total Authorities (available for use) 2012-13 | Actual Spending (authorities used) 2012-13 | Difference 2012-13 |
|-------------------------------------------------------|--------------------------|-----------------------------------------------|--------------------------------------------|--------------------|
| 4.6 | 4.6 | 4.6 | 4.5 | 0.1 |

Human Resources (FTEs)

| Planned 2012-13 | Actual 2012-13 | Difference 2012-13 |
|-----------------|----------------|--------------------|
| 32 | 30 | 2 |

Performance Results

| Expected Results | Performance Indicators | Targets | Actual Results |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Stewards of Canada’s public retirement income system are provided with independent, accurate, high quality and timely professional actuarial services and advice. | Adequacy of professional experience of the Chief Actuary and staff. AND Compliance with Canadian and international professional standards. <i>Source for both:</i> Review of the Twenty-Fifth Actuarial Report on the Canada Pension Plan, dated March 16, 2011 | Unanimous agreement amongst peers ¹⁰ . | The external peer review panel’s findings published in May 2011 ¹¹ show that the 25th Actuarial Report on the Canada Pension Plan complies with all relevant professional standards of practice and statutory requirements, and that the professional experience of the Chief Actuary and his staff who worked on this report meets the high standard required for this work. |

¹⁰ Independently selected panel of peers / actuaries.

¹¹ Next Independent Peer Review to occur in 2014.

Performance Analysis and Lessons Learned

The Actuarial Valuation and Advisory Services Program is the only program supporting a *financially sound and sustainable Canadian public retirement income system*. As such, its performance represents OSFI’s contribution to the Outcome 2.

In 2012-2013, the OCA continued to provide independent, accurate, high quality and timely professional actuarial services and advice. This claim is supported by a third party assessment of the OCA’s expertise and its compliance with professional standards.

With the view of maintaining high quality in services, and as recommended by the CPP independent peer review panel, the OCA continued 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.” The event was attended by more than 120 officials from federal departments and provincial and territorial ministries of finance. In 2012-2013, the OCA also released studies relevant to establishing the future costs of different plans. It released *Actuarial Study No. 11 - Old Age Security Program Mortality Experience*. Also, 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*. 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.

In 2012-2013, the OCA was involved in development of International Actuarial Association actuarial standards with respect of valuations of social security programs.

Finally, the OCA’s staff maintains its professional qualification through Canadian Institute of Actuaries continuous professional development program.

Sub-Program 2.1.1: Services to the CPP and OAS Program

This program involves the conduct of statutory actuarial valuations of the Canada Pension Plan (CPP) and Old Age Security (OAS) Program. These valuations estimate the financial status of these plans and programs as required by legislation. This program estimates long-term expenditures, revenues and current liabilities of the Canada Pension Plan and estimates long-term future expenditures for Old Age Security programs. Pursuant to the Canada Pension Plan and the *Public Pensions Reporting Act*, the Office of the Chief Actuary prepares statutory triennial actuarial reports on the financial status of these programs, as required by legislation.

Financial Resources (millions)

| Planned Spending 2012–13 | Actual Spending 2012–13 | Difference 2012–13 |
|-----------------------------|----------------------------|-----------------------|
| 1.6 | 1.1 | 0.5 |

Human Resources (FTEs)

| Planned 2012–13 | Actual 2012–13 | Difference 2012–13 |
|--------------------|-------------------|-----------------------|
| 11 | 10 | 1 |

Performance Results

| Expected Results | Performance Indicators | Targets | Actual Results |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Accurate and high quality actuarial valuations inform Canada Pension Plan (CPP) and Old Age Security (OAS) stakeholders and Canadians of the current and projected financial status of the Plan and Program. | Peer review attests that actuarial valuations are comprehensive (i.e. examination of actuarial valuation methods, assumptions and analysis). AND Percentage of the recommendations within the scope and influence of the OCA that are implemented before the next peer review. <i>Source for both:</i> Review of the Twenty-Fifth Actuarial Report on the Canada Pension Plan, dated March 16, 2011 | Unanimous agreement amongst peers ¹² 80% | The external peer review panel's findings published in May 2011 ¹³ show there is unanimous agreement that the Chief Actuary and staff have adequate professional experience, complete work in compliance with professional standards and statutory requirements, access adequate information and complete relevant data tests and analysis, use reasonable methods and assumptions in completing actuarial reports and that the 25th Actuarial Report on the Canada Pension Plan (CPP) fairly communicates the results of the work performed by the Chief Actuary and his staff. In progress (next peer review in 2014). |
| Professional advice provided in CPP and OAS Triennial Actuarial Reports | Reports on Canada Pension Plan & Old Age Security are provided to the Minister on time for tabling in Parliament as per statutory deadlines. <i>Source:</i> Internal data | 100% by the deadline | The 25th CPP Report and the 9th, 10th, and 11th OAS Reports as at 31 December 2009 were provided to the appropriate Ministers as per statutory deadlines. |

¹² Independently selected panel of peers / actuaries.

¹³ Next Independent Peer Review to occur in 2014.

Performance Analysis and Lessons Learned

In 2012-2013, the OCA continued to provide high quality service under its CPP and OAS Program, as demonstrated by performance results.

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.

The *Review of the Twenty-Fifth Actuarial Report on the Canada Pension Plan*, dated March 16, 2011 contained 15 recommendations with respect to different aspects of the preparation of the CPP actuarial report, such as data, methodology, assumptions and communication of results. The OCA continues its work to implement these recommendations.

Actual spending was \$0.5 million lower than planned as resources were reallocated to the Services to the Canada Student Loans Program for new advisory-related work.

Sub-Program 2.1.2: Services to Public Sector Pension and Insurance Programs

This program involves the conduct of statutory actuarial valuations of various federal public sector employee pension and insurance plans. These valuations estimate the financial status of these plans as required by legislation. Pursuant to the *Public Pensions Reporting Act*, this program involves preparing statutory triennial actuarial reports on the financial status of federal public sector employee pension and insurance plans covering the federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police, the federally appointed judges and Members of Parliament. This program supports plan members, thereby serving the public interest, by ensuring good governance of the plan, appropriate disclosure in the actuarial reports and contributing to the overall accountability of the plan sponsor to members. This program also involves the provision of sound actuarial advice that assists different government departments in

the design, funding and administration of these plans. As part of this program, the Chief Actuary submits the actuarial reports to the President of Treasury Board.

Financial Resources (millions)

| Planned Spending 2012–13 | Actual Spending 2012–13 | Difference 2012–13 |
|-----------------------------|----------------------------|-----------------------|
| 2.5 | 2.5 | 0.0 |

Human Resources (FTEs)

| Planned 2012–13 | Actual 2012–13 | Difference 2012–13 |
|--------------------|-------------------|-----------------------|
| 17 | 15 | 2 |

Performance Results

| Expected Results | Performance Indicators | Targets | Actual Results |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Accurate and high quality actuarial valuations of Public Pension and Insurance Plans are provided to departments to inform design, funding and administration of the plans. | Peer review attests that actuarial valuations are comprehensive (i.e. examination of actuarial valuation methods, assumptions and analysis). AND Actuarial opinion is appropriate. <i>Source for both:</i> Office of the Auditor General Peer Review Report on Actuarial Reports prepared in connection with the Public Accounts of Canada as at March 31, 2012 (October 2012) | Unanimous agreement amongst peers ¹⁴ | Ernst & Young (E&Y) was retained by the Office of the Auditor General of Canada (OAG) for purposes of the review of the Public Accounts of Canada as at March 31, 2012. The reviewers have reached a unanimous agreement on accuracy and quality of actuarial valuations of Public Sector Pension and Insurance Plans for Public Accounts purposes as at March 31, 2012. |
| Professional advice provided in Public Sector Triennial Actuarial Reports. | Reports on Public Pension Plans are provided to the Minister on time for tabling in Parliament as per statutory deadlines. <i>Source:</i> Internal data | 100% by the deadline | 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. |

¹⁴ Independently selected panel of peers / actuaries.

Performance Analysis and Lessons Learned

In 2012-2013, the OCA continued to provide high quality service under its Public Sector Pension and Insurance Programs Program, as demonstrated by performance results.

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. These 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. They 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 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. 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.

Comments and recommendations identified in the October 2012 Ernst & Young Report regarding the actuarial reports review for Public Accounts purposes will be reflected – within the scope and influence of the OCA – in future valuation reports.

Actual spending was in line with plan, where savings resulting from two vacancies were offset by the use of professional services.

Sub-Program 2.1.3: Services to the Canada Student Loans Program (CSLP)

Pursuant to the *Student Financial Assistance Act*, as amended by the *Budget Implementation Act*, 2009, this program involves the conduct of statutory actuarial valuations of the Canada Student Loans Program (CSLP). The program also involves the preparation of a statutory actuarial report of the CSLP by evaluating the portfolio of loans and the long-term costs of the program. As part of this program, the Chief Actuary submits the actuarial report to the minister of Human Resources and Skills Development.

Financial Resources (millions)

| Planned Spending 2012–13 | Actual Spending 2012–13 | Difference 2012–13 |
|-----------------------------|----------------------------|-----------------------|
| 0.5 | 0.9 | (0.4) |

Human Resources (FTEs)

| Planned 2012–13 | Actual 2012–13 | Difference 2012–13 |
|--------------------|-------------------|-----------------------|
| 4 | 5 | (1) |

Performance Results

| Expected Results | Performance Indicators | Targets | Actual Results |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Accurate and high quality actuarial valuations inform CSLP stakeholders and Canadians of the future costs and provision rates of the program. | The Office of the Auditor General (OAG) performs an audit of the CSLP and uses work from OSFI's actuarial valuation of the CSLP as audit evidence to support the OAG's independent auditor report for the Public Accounts of Canada. <i>Source:</i> Letter from the OAG, dated May 8, 2012 | Confirmation from the OAG. | In 2012-2013, the OAG used the statutory <i>Actuarial Report on the Canada Student Loans Program as at 31 July 2011</i> prepared by the OCA as audit evidence. |
| Professional advice provided in Actuarial Report on the Canada Student Loans Program. | Reports on Canada Student Loans are provided to the Minister on time for tabling in Parliament as per statutory deadlines. <i>Source:</i> Internal data | 100% by the legislated deadline | The statutory <i>Actuarial Report on the Canada Student Loans Program as at 31 July 2011</i> was tabled before Parliament on June 4, 2012, in accordance with the <i>Canada Student Financial Assistance Act</i> . |

Performance Analysis and Lessons Learned

In 2012-2013, the OCA continued to provide high quality service under its Canada Student Loans Program, as demonstrated by performance results.

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.

Actual spending was \$0.4 million more than planned, mostly driven by new advisory work for non-statutory actuarial services to departments, agencies and crown corporations.

Internal Services

OSFI's Internal Services program activity supports its two strategic outcomes. Activities include developing and implementing cost-effective, secure and reliable information management systems that contain relevant, accurate and timely internal and external data. These information systems are complemented by the development and delivery of effective financial, human resources and administration, security, communication and administrative policies, advice and guidance. The objective is to ensure that OSFI has the processes and systems in place to enable a motivated and skilled workforce to focus on its supervisory and regulatory activities.

Financial Resources (millions)

| Total Budgetary Expenditures (Main Estimates) 2012-13 | Planned Spending 2012-13 | Total Authorities (available for use) 2012-13 | Actual Spending (authorities used) 2012-13 | Difference 2012-13 |
|-------------------------------------------------------------|-----------------------------|-----------------------------------------------------|--------------------------------------------------|-----------------------|
| 52.7 | 52.7 | 52.7 | 52.3 | 0.4 |

Human Resources (FTEs)

| Planned 2012-13 | Actual 2012-13 | Difference 2012-13 |
|--------------------|-------------------|-----------------------|
| 174 | 188 | (14) |

Performance Analysis and Lessons Learned

Overall, Internal Services performed very well in 2012-2013. Over the course of the year, OSFI underwent a Management Accountability Framework assessment of three areas of management and achieved very positive results. Compared to the previous round that took place in 2008-2009, results are:

- Internal Audit (AoM 5): retained an "Acceptable" rating.
- Financial Management and Control (AoM 7): rating improved to a "Strong" from "Acceptable".
- Integrated Risk Management (AoM 9): retained a "Strong" rating.

Improving Internal Communication

In 2012-2013, OSFI revised its internal communication strategy as a result of the findings from the 2012 Employee Survey. Vodcasts with employees discussing the focus of their work were posted to OSFI's intranet. To further improve cross-sector and inter-office communication, employees were able to attend presentations from in-house subject-matter experts on a variety of work-related topics.

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: 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 will be used to collect, validate, manage and maintain financial data collected from federally regulated institutions and pension plan sponsors. Other new projects were launched to update systems used for human resources and finance operations, and management of correspondence and enquiries. Organisational change management techniques have become critical to the success of these initiatives as OSFI prepares employees to accept these renewed systems. Intended strategic and business outcomes have also been identified, tracked, and managed to ensure benefits are being realized both during the renewal effort and beyond.

Managing Human Resources

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

In 2012-2013, to mitigate risks to having a high-performing and effective workforce, a number of priorities were identified through the HR planning process and actions taken to address gaps:

- Staffing levels were increased in specific areas, 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. HR processes and procedures are being aligned accordingly.
- The Training and Development framework was revised to ensure that employees were developed adequately to deal with the changing financial sector landscape.
- Succession plans for key and senior positions were completed, and required actions are in progress to address gaps.
- A market survey was conducted as part of OSFI's Compensation Framework, to ensure that OSFI's compensation structure enables us to attract and retain the required talent.

Actual Spending on Internal Services was \$0.4 million lower than planned. While the Internal Services staff complement expanded to support the recent growth in OSFI's program areas, 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 which served to offset the increased staffing costs and the net amount was recognized as an overall reduction in personnel costs. When the settlement payment occurs in 2013-2014, the amounts will be reallocated to the respective program activities accordingly.

Section III: Supplementary Information

Financial Statements Highlights

OSFI operated on a full accrual accounting basis in accordance with International Financial Reporting Standards (IFRS). The tables below provide highlights from OSFI's Statement of Financial Position and Statement of Operations and Total Comprehensive Income, as presented in its audited financial statements. As such, there are differences between these tables and those presented in other sections of the Departmental Performance Report, which are prepared on the appropriation basis of accounting in accordance with the Guide to the Preparation of Part III of the 2012-2013 Estimates. Typically the differences result from the accounting treatment of capital expenditures and accounts receivable.

Condensed Statement of Operations and Departmental Net Financial Position

| Office of the Superintendent of Financial Institutions | | | | | |
|-------------------------------------------------------------------------------------|-------------------------------|-------------------|-------------------|-------------------------------------------------|--------------------------------------------------------|
| Condensed Statement of Operations and Departmental Net Financial Position (Audited) | | | | | |
| For the Year Ended March 31, 2013 | | | | | |
| (\$ millions) | | | | | |
| | 2012-13 Planned Results | 2012-13 Actual | 2011-12 Actual | \$ Change (2012-13 Planned vs. Actual) | \$ Change (2012-13 Actual vs. 2011-12 Actual) |
| Total expenses | 132.1 | 127.7 | 124.0 | 4.4 | 3.7 |
| Total revenues | 131.2 | 126.8 | 122.9 | 4.4 | 3.9 |
| Net cost of operations before government funding and transfers | (0.9) | (0.9) | (1.1) | 0.0 | 0.2 |
| Departmental net financial position | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

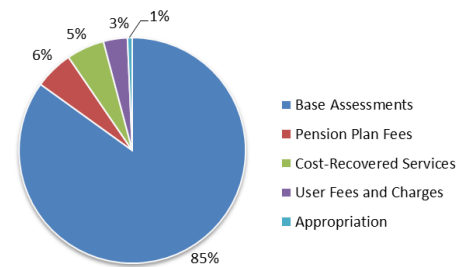
Condensed Statement of Financial Position

| Office of the Superintendent of Financial Institutions Condensed Statement of Financial Position (Audited) As at March 31, 2013 (\$ millions) | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|---------|---------|-----------|
| | 2012-13 | 2011-12 | \$ Change |
| Total net liabilities | 46.2 | 42.5 | 3.7 |
| Total net financial assets | 55.0 | 56.0 | (1.0) |
| Departmental net debt | 8.8 | 13.5 | (4.7) |
| Total non-financial assets | 16.2 | 11.5 | 4.7 |
| Departmental net financial position | 25.0 | 25.0 | 0 |

Revenues and Expenses

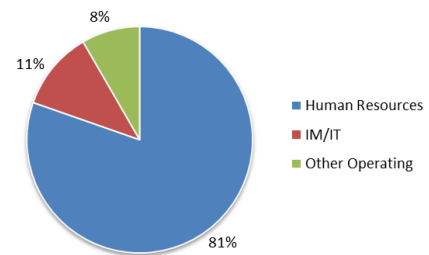
OSFI is funded mainly through asset-based, premium-based or membership-based assessments on the financial institutions and private pension plans that OSFI regulates and supervises, and a user-pay program for selected services. OSFI also receives revenues for cost-recovered services and a very small parliamentary appropriation for actuarial services relating to public sector employee pension and insurance plans. Overall, on an accrual basis, OSFI recovered all its expenses for the year.

Revenue by Type



Total expenses were \$127.7 million, a \$3.7 million, or 3.0%, increase from the previous year, and \$4.4 million lower than planned. 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, 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.

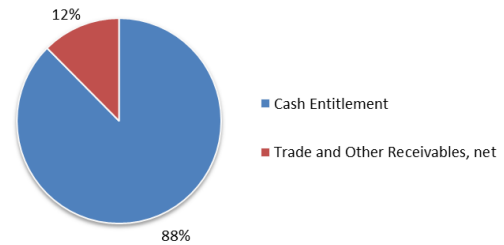
Expenses by Type



Assets and Liabilities

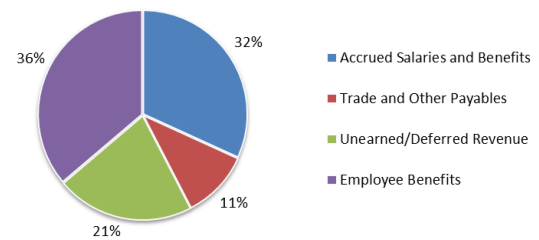
Total financial assets at the end of 2012-2013 were \$55.0 million, a decrease of \$1.0 million over the previous year's assets, mostly driven by a decrease in the cash entitlement, which is dependent on the timing of assessments receivable. The cash entitlement represents the amount OSFI is entitled to withdraw from the Consolidated Revenue Fund without further authority.

Financial Assets by Type



Total net liabilities were \$46.2 million at the end of 2012-2013, representing a \$3.7 million increase from the previous year. The increase was primarily driven by a 28.7% increase in the liability associated with employee future benefits due to a lower discount rate used in the actuarial valuation of OSFI's severance and sick leave liabilities, and the expected impact of the severance curtailment associated with employees under the Professional Institute of the Public Service of Canada (PIPSC) collective agreement.

Liabilities by Type



Financial Statements

OSFI's Audited Financial Statements, which are published in the Annual Report can be found on the [OSFI website](#).ⁱⁱ

Supplementary Information Tables

Electronic supplementary information tables listed in the 2012-13 Departmental Performance Report can be found on [OSFI's website](#).ⁱⁱⁱ

1. [Green Procurement](#)^{iv}
2. [Internal Audits](#)^v
3. [Sources of Respendable and Non-Respendable Revenue](#)^{vi}
4. [User Fees/External Fees](#)^{vii}

Tax Expenditures and Evaluations Report

The tax system can be used to achieve public policy objectives through the application of special measures such as low tax rates, exemptions, deductions, deferrals and credits. The Department of Finance publishes cost estimates and projections for these measures annually in the [Tax Expenditures and Evaluations](#) publication.^{viii} The tax measures presented in the Tax Expenditures and Evaluations publication are the sole responsibility of the Minister of Finance.

Section IV: Other Items of Interest

Organizational Contact Information

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K1A 0H2
Canada

Endnotes

- i. Public Accounts of Canada 2013, <http://www.tpsgc-pwgsc.gc.ca/recgen/cpc-pac/index-eng.html>
- ii. OSFI's Annual Reports, http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=647
- iii. Supplementary Information Tables, <http://www.osfi-bsif.gc.ca/app/DocRepository/1/dpr-rmr/2012-2013/eng/dpr-rmr-eng.htm#s3.3>
- iv. Green Procurement, <http://www.osfi-bsif.gc.ca/app/DocRepository/1/dpr-rmr/2012-2013/eng/gp-ae-eng.htm>
- v. Internal Audits, <http://www.osfi-bsif.gc.ca/app/DocRepository/1/dpr-rmr/2012-2013/eng/ia-vi-eng.htm>
- vi. Sources of Respendable and Non-Respendable Revenue, <http://www.osfi-bsif.gc.ca/app/DocRepository/1/dpr-rmr/2012-2013/eng/snrr-srdrd-eng.htm>
- vii. User Fees/External Fees, <http://www.osfi-bsif.gc.ca/app/DocRepository/1/dpr-rmr/2012-2013/eng/uf-fu-eng.htm>
- viii. Tax Expenditures and Evaluations, <http://www.fin.gc.ca/purl/taxexp-eng.asp>