



▶ ADVISORY ON
NON-VIABILITY
CONTINGENT
CAPITAL 3



▶ PRESENTATIONS
BY CHIEF ACTUARY
JEAN-CLAUDE
MENARD 3



▶ 2010-2011 OSFI
ANNUAL REPORT
TABLED IN
PARLIAMENT 4

○ ISSUE 3 | ○ VOLUME 5 | ○ AUTUMN 2011



The OSFI *Pillar*

FROM THE OFFICE OF THE SUPERINTENDENT OF
FINANCIAL INSTITUTIONS CANADA (OSFI)

The Lasting Impact of the Crisis on the Global Financial System

On September 26, 2011, Superintendent Julie Dickson spoke to the Economic Club of Canada, in Toronto. The following is an excerpt from that speech:

I have been seeking a narrative to help describe the global financial crisis that began four years ago and is still being felt: from how these events are changing the way we look at the financial system worldwide, to approaches to help us better anticipate and moderate the impact of future crises.

It occurred to me that there are several striking parallels between financial markets and the controversy surrounding concussions in sports. I would not describe myself as a sports fan, but sometimes I catch what is going on before I have time to change the channel! And a topic that I have heard a lot about over the past several months is concussions.

What are the parallels between the financial crisis and concussions? I have noticed striking similarities in their vocabularies. According to the Merriam-Webster dictionary, a concussion is “a stunning, damaging, or shattering effect from a hard blow, especially: a jarring

(cont'd on page 2...)

OSFI welcomes new Assistant Superintendent



Mark Zelmer

Superintendent Julie Dickson has announced the appointment of Mark Zelmer as Assistant Superintendent, Regulation Sector, effective December 1, 2011.

Mr. Zelmer will join OSFI from the Bank of Canada, where he has held numerous positions since 1985, most recently Chief, Financial Stability Department.

He also served at the International Monetary Fund (IMF) as Senior Economist and Deputy Division Chief in the Monetary and Exchange Affairs

Department from 2000 to 2003. He holds a Master of Science, Business Administration (Finance) from the University of British Columbia, and a Bachelor of Commerce Honours degree in Finance from Queen's University.

Mr. Zelmer will bring extensive experience and a deep understanding of bank capital rules and financial sector policy issues to OSFI. As Assistant Superintendent, Regulation Sector, he will be responsible for such areas as Legislation and Approvals, Capital, Accounting, Research, Actuarial, and Legal Services.

Upon his arrival, OSFI's executive committee will be comprised of Superintendent Julie Dickson; Ted Price, Deputy Superintendent, Supervision Sector; Gary Walker, Assistant Superintendent, Corporate Services Sector; and Mr. Zelmer.

Dickson: Lasting Impact

(continued from page 1)

injury of the brain resulting in disturbance of cerebral function.” The Mayo Clinic adds that, “effects are usually temporary, but can include problems with headache, concentration, memory, judgment, balance and coordination.”

Another parallel is that concussions and financial crises are serious events. Recovery is slow and uneven. Over time, we are learning just how very complex and severe both phenomena can be, and both have lingering effects. In my remarks today, I will begin with a brief review of the financial crisis and its impact. Then, I will discuss three topical issues: consumer debt, systemically important financial institutions (often referred to as SIFIs) and the importance of supervisory oversight. Finally, I will say a few words about the risks of complacency.

To view the complete remarks, visit the OSFI website at www.osfi-bsif.gc.ca.

Memorandum to the Actuary (Life Insurance)

Every year, OSFI updates the Memorandum to the Actuary pursuant to Section 667(2) of the *Insurance Companies Act*. This year’s Memorandum, issued on September 14, includes the following changes from the 2010 Memorandum:

- The ongoing low interest rate environment continues to be of concern. As a result, OSFI requires disclosure for scenarios of 2%, 2.5% and 3% for all future reinvestment assumptions.
- Based on implementation of IFRS 4 Phase 1, policy liabilities have been separated into liabilities for insurance contracts, investments contracts and reinsurance assets. OSFI requires companies to disclose all of these amounts in the AAR. The Appointed Actuary’s Memorandum has been updated to reflect the changes that have been made to LIFE-1 and LIFE-2 returns.
- The Actuarial Standards Board has promulgated new mortality improvement rates for valuations on or after October 2011. Changes to the Standards of Practice related to provisions for adverse deviations for mortality were also implemented. OSFI has modified its disclosure requirements in the memorandum.

To view the complete memorandum, visit the OSFI website at www.osfi-bsif.gc.ca.

Disclosures for Basel II Pillar 3

On July 13, OSFI released a letter in relation to changes set out in recent Basel Committee on Banking Supervision guidance, Enhancements to the Basel II Framework and Revisions to the Basel II Market Risk Framework. The letter, addressed to banks, bank holding companies and federally regulated trust and loan companies, provides additional clarification on the implementation of the Pillar 3 enhanced disclosure requirements for federally regulated deposit-taking institutions.

To view the letter, visit the OSFI website at www.osfi-bsif.gc.ca.

Principles for the Sound Management of Operational Risk

OSFI has released a letter in relation to the Basel Committee on Banking Supervision paper, 'Principles for the Sound Practices of Operational Risk'. The OSFI letter to banks, bank holding companies and federally regulated trust and loan companies notes the relevance of the sound practices set out in the paper for deposit-taking institutions.

To view the letter, visit the OSFI website at www.osfi-bsif.gc.ca.

Life Insurance Sector Consultation Report

In the winter of 2010-2011, OSFI commissioned The Strategic Counsel, an independent research firm, to undertake a confidential consultation with the life insurance sector to explore perceptions of OSFI’s performance in the discharge of a number of key elements of its mandate. The findings of this consultation, posted to OSFI’s website on July 20, indicate that, overall, respondents indicated that they are highly satisfied with the performance of OSFI in almost all areas.

To view the complete report, visit the OSFI website at www.osfi-bsif.gc.ca.

Presentations by Chief Actuary Jean-Claude Ménard

On September 26-27, Jean-Claude Ménard, Chief Actuary, made a trio of presentations at the Pension, Benefits and Social Security Colloquium, in Edinburgh, U.K.

Topics included:

- Guidelines for social security actuaries;
- Pension reform in Canada; and
- Getting the balance of state and private provisions right.

All three presentations are available on the OSFI website at www.osfi-bsif.gc.ca.



Jean-Claude Ménard
Chief Actuary

Policy Advisory: Benefits Subject to Consent

On August 26, OSFI issued a policy advisory on benefits subject to the consent of the plan administrator. The advisory, which updates previous policies on this topic, provides details on OSFI's expectations with respect to the discretion of the administrator in granting or denying the benefit.

To view the advisory, visit the OSFI website at www.osfi-bsif.gc.ca.

Canadian Vision for Property and Casualty Insurer Solvency Assessment

On July 25, the Property and Casualty Minimum Capital Test Advisory Committee released its vision paper *Canadian Vision for Property and Casualty Insurer Solvency Assessment*, for a new principle-based solvency framework, seeking comments from interested stakeholders by no later than October 15, 2011.

The paper calls for regulatory asset requirements to be calculated on two bases – a Target Asset Requirement and, at a minimum level, the Minimum Asset Requirement.

To view the paper, visit the OSFI website at www.osfi-bsif.gc.ca.

Advisory on Non-Viability Contingent Capital (NVCC)

On August 17, OSFI issued an advisory on Non-Viability Contingent Capital (NVCC) outlining OSFI's expectations in respect of non-common capital instruments to be issued by banks, bank holding companies, and federal trust and loan companies to satisfy NVCC requirements. These NVCC requirements will become effective for deposit-taking institutions on January 1, 2013.

The advisory outlines the principles governing inclusion of NVCC instruments in regulatory capital, as well as the process under which OSFI will assess whether such instruments qualify as additional Tier 1 or Tier 2 capital.

To view the advisory, visit the OSFI website at www.osfi-bsif.gc.ca.

What's New Online (www.osfi-bsif.gc.ca)

- RPP and Retirement Savings Coverage Fact Sheet
- Minimum Capital Test For Federally Regulated Property and Casualty Insurance Companies
- 9th Old Age Security Program Actuarial Report
- Updates to Pension FAQs
- 2011 Updates to Life/P&C Returns & Instructions
- 2011 Updates to DTI Returns & Instructions

More information is available on the OSFI website at www.osfi-bsif.gc.ca

OSFI Annual Report tabled in Parliament

OSFI's 2010-2011 Annual Report was tabled in Parliament on October 5.

Entitled *Taking a Measured Approach*, the report highlights OSFI's achievements and performance against objectives, as well as our priorities.

The following is an excerpt from the Superintendent's Message:



"Taking a measured approach speaks to our dialogue with the financial services industry to find a balance between the free operation of market forces and necessary regulation. This was particularly important in 2010-2011, as Canadian financial institutions began to rebound after the global financial crisis and sought opportunities to grow. We emphasized, and continue to emphasize, the need to act carefully and with prudence in order to maintain stability in the system and secure the foundation for continued success, both for our organization and for those we regulate.

"International regulatory bodies have proposed a number of regulatory changes that may have a transformational impact on the global financial system. Our continuing participation in international forums and rule-making bodies, such as the Financial Stability Board, Basel Committee on Banking Supervision, Senior Supervisors Group, Joint Forum, and International Association of Insurance Supervisors, allows us to contribute our perspective to improving global standards, while securing modifications that reflect the Canadian regulatory experience and that of Canadian financial institutions. Understanding the cumulative impact of these changes will be important.

"We continued to work closely with our federal government partners (Bank of Canada, Department of Finance, Canada Deposit Insurance Corporation, and Financial Consumer Agency of Canada) to monitor the resilience of the financial sector, via discussions on macro-economic and systemic risk issues, as well as discussions concerning the health of financial institutions.

"To ensure that we are promoting the best practices the industry, depositors and policy holders deserve, we planned and conducted comparative reviews for corporate governance, stress testing, commodities and information security. Feedback is provided to federally regulated financial institutions (FRFIs) on the results as the reviews are completed. On the internal front, our Supervisory Framework, which was first produced in 1999 to guide supervisors in their day-to-day reviews of financial institutions, was reviewed and renewed.

"Building on the success of previous years, we continued to host annual risk management seminars for deposit-taking institutions, and the life insurance and property and casualty insurance industries. We also held a number of Colleges of Supervisors, which brought together supervisors from other countries to receive presentations from some of Canada's largest financial institutions, including the first college for a large life insurance company.

"Our people are the most important element of our success. In 2010-2011, we increased our staff complement in specialized skills such as research, insurance, credit risk and capital to enhance our ability to guide and supervise FRFIs in managing risks.

"Taking a measured approach means finding the right balance between sometimes conflicting perspectives. It is essential that we continue to adapt to international changes in markets and regulations while allowing institutions to take risks and innovate. This report highlights how we achieved that balance over the past year."

To view the full Annual Report, visit the OSFI website at www.osfi-bsif.gc.ca

SUBSCRIBER NOTIFICATION



Would you like to be notified when notices or items of interest are posted to the OSFI Web site? Then on your next visit to our site, sign up for notifications at the Subscription Centre located on the home page.

Just select your areas of interest, and when something is posted in that area, you will receive an email with a link to the relevant information.

The OSFI Pillar

The *Pillar* is published by the Communications and Consultations Division of the Office of the Superintendent of Financial Institutions Canada.

For a free subscription, or to provide feedback, please email OSFI Communications and Consultations at: thepillar@osfi-bsif.gc.ca



255 Albert Street
Ottawa, Ontario K1A 0H2