



Office of the Superintendent of  
Financial Institutions Canada

Bureau du surintendant des  
institutions financières Canada



# OSFI

and the Canadian Financial System



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Office of the Superintendent of Financial Institutions Canada  
255 Albert Street, 16<sup>th</sup> floor, Ottawa, ON K1A 0H2  
(Head Office)

Telephone: 613-990-7788  
Facsimile: 613-952-8219  
Toll-free line: 1-800-385-8647  
Web site: [www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca)

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# OSFI and the Canadian Financial System

## Our role

The Office of the Superintendent of Financial Institutions (OSFI) is an independent agency of the Government of Canada, established in 1987 to contribute to the safety and soundness of the Canadian financial system. OSFI supervises and regulates federally registered banks and insurers, trust and loan companies, as well as private pension plans subject to federal oversight.

A properly functioning, efficient financial services sector in which Canadians can place their trust and confidence is essential to Canada's economy. To achieve this objective, OSFI must allow financial institutions to take reasonable risks and compete effectively both at home and abroad, while at the same time safeguarding the interests of depositors, policyholders, beneficiaries and pension plan members. OSFI's goal is to balance competitiveness with financial stability, and international standards with Canadian market realities.

OSFI does not manage the daily operations of financial institutions or private pension plans. Their executive management and boards of directors or trustees are ultimately responsible for the success or failure of the financial institution, but OSFI plays an important oversight role in ensuring that the risk management processes of the institution are prudent. OSFI's mandate does not include consumer-related issues or the securities industry.

## Our partners in Canada's federal regulatory system

OSFI reports to the Parliament of Canada through the Minister of Finance. Various formal and informal processes are used to ensure effective execution of OSFI's mandate. For example, the Financial Institutions Supervisory Committee (FISC), whose members are OSFI, the Department of Finance, the Bank of Canada, the Canada Deposit Insurance Corporation (CDIC), and the Financial Consumer Agency of Canada (FCAC), meets on a quarterly basis to facilitate the exchange of information on matters relating to the supervision of federally regulated financial institutions.

OSFI also works closely with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), which is responsible for ensuring compliance with Canada's *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*.

Additionally, OSFI works with provincial counterparts and consults regularly with industry stakeholders.

## Our international context

Financial institutions operate within an extensive worldwide business web; their products and the markets in which they operate are increasingly global, complex and interconnected. To monitor issues that affect the global financial system, OSFI collaborates extensively with international bodies like the Financial Stability Board (an initiative of the G-20), the Basel Committee on Banking Supervision, and the International Association of Insurance Supervisors. OSFI has earned a strong international reputation through its active participation in such international organizations, which play a key role in the development of regulatory and supervisory standards for banks and life insurers.

## Our responsibilities

### *Federally regulated financial institutions*

#### Risk assessment and intervention

##### What we do

OSFI supervises and regulates financial institutions – including banks, trust companies and insurance companies – to determine whether they are in sound financial condition and are complying with their governing statute law and supervisory requirements. OSFI promptly advises the management and board of directors of a financial institution if there are any concerns, and works with management and boards as they implement corrective measures.

##### Why it matters

Risk assessment and timely intervention help safeguard the investments of depositors and policyholders.

## How we get it done

- OSFI assesses the risks inherent in a financial institution's business activities and how effectively those risks are being managed.
- OSFI monitors the financial condition and business lines of financial institutions on an ongoing basis, paying close attention to the external environment to assess its impact on institutions under OSFI's oversight.
- OSFI conducts periodic on-site reviews at financial institutions to test their internal controls and to confirm the adequacy of their risk management and governance practices.
- OSFI uses a risk-based supervisory framework to identify any imprudent or unsafe business practices at financial institutions and intervenes on a timely basis, as required.

## Regulation and guidance

### What we do

OSFI promotes the adoption by financial institutions of policies and procedures designed to control and manage risk. In doing so, OSFI balances the goals of safety and soundness with the need for institutions to operate within a competitive marketplace.

### Why it matters

OSFI's rule-making activities contribute to the development of sound risk management practices, which is key in protecting Canadian depositors and policyholders. Due to the complex and global nature of the financial sector, rules are increasingly being developed in the international arena, where OSFI has a strong voice in rule-making bodies such as the Basel Committee on Banking Supervision and the Financial Stability Board.

## How we get it done

- OSFI issues guidelines, advisories and rulings for federally regulated financial institutions (FRFIs) in a collaborative and transparent manner.
- OSFI plays a substantive role in reviews of legislation applicable to FRFIs, conducted at least every five years, to ensure that the legislation remains current and promotes an efficient, competitive and safe financial services sector.
- OSFI collaborates with domestic and international standard-setting agencies on matters such as capital and accounting rules.

## Approvals and precedents

### What we do

OSFI provides regulatory approvals for certain types of financial institution transactions, as specified by legislation. In situations requiring the approval of the Minister of Finance, OSFI provides the Minister with reasoned and prudent advice based on relevant legislation and regulation.

### Why it matters

Financial institutions need to receive approvals in a timely and consistent manner to be able to conduct their business competitively. Canadians need to feel confident that transactions that could affect the safety and soundness of financial institutions are carefully considered by the federal regulator.

### How we get it done

- OSFI uses published service standards that establish time frames for analysis and processing of applications for regulatory approval and other services.
- OSFI processes approvals, and develops and publishes advisories and rulings that promote a better understanding of OSFI's interpretation of federal financial institution statutes.

## *Federally regulated private pension plans*

### What we do

OSFI supervises private pension plans covering employees who work in federally regulated areas of employment to determine whether the plans meet minimum funding requirements and are complying with legislative and supervisory requirements. OSFI promptly advises the administrator of a pension plan when problems are identified, and works with the administrator to ensure the necessary corrective measures are taken as rapidly as possible. As required by legislation, OSFI provides regulatory approvals to pension plans for certain types of transactions. OSFI also promotes responsible pension plan administration, risk management, and governance.

## Why it matters

OSFI plays a key role in safeguarding the private pension plans that fall under federal jurisdiction. Canadians need to feel confident that their pension plan benefits are secure and able to fund their retirement. For example, developments affecting actuarial and accounting standards – including market rates and prices – have implications for pensions. Regulators like OSFI need to be aware of the risk implications of innovative investment and plan design strategies.

## How we get it done

- OSFI assesses: the risks inherent in federal pension plans' asset and liability management, communication to members, and plan administration; and takes steps to protect plan members' interests when administration of a plan is contrary to the law or contrary to safe and sound business practices.
- OSFI estimates solvency ratios for federally regulated defined benefit pension plans on a semi-annual basis, between their actuarial valuation reporting periods.
- OSFI conducts on-site examinations of selected pension plans, which assists in assessing the quality of the plan's governance and overall risk management, and analyses information submitted in pension plan filings in order to detect signs of risk within a plan.
- OSFI analyses and processes applications for regulatory approval.
- OSFI issues guidance and advisories for federally registered private pension plans, and is actively involved when revisions are being developed for federal legislation and regulations governing such plans.

## *Office of the Chief Actuary*

The Office of the Chief Actuary (OCA) is an independent unit within OSFI that provides a range of actuarial valuation and advisory services to the Government of Canada. The OCA provides appropriate checks and balances on the future costs of the different pension plans and social programs that fall under its responsibility, including the Canada Pension Plan (CPP), the Old Age Security Program and the Canada Student Loans Program. For example, the OCA produces an actuarial report on the CPP every three years to determine the ongoing sustainability of the plan. The Chief Actuary reports to the Superintendent, but is solely responsible for the content and actuarial opinions in reports prepared by the OCA, and for actuarial advice provided to relevant government departments, as well as to provincial and territorial governments, which are co-stewards of the CPP.

## A dedicated team

OSFI's work requires the concerted efforts of people working in a number of disciplines, including legal, financial, actuarial, accounting, and policy development. It demands a combination of broad perspective and in-depth, specialized expertise. There is a real passion at OSFI for demonstrating our values of professionalism, integrity and respect for people, and that energy is a key driver of OSFI's success.

OSFI's supervision and regulatory functions are supported by a range of essential corporate services, including finance and corporate planning, information management and information technology, human resources, and communications and consultations.

We place great importance on training and developing employees to ensure organizational readiness and to enhance career development. OSFI employs more than 500 people in offices located in Ottawa, Montréal, Toronto and Vancouver. We strive to ensure a balance of industry and public sector experience among employees, especially in the risk assessment and supervision functions. Our job classification and salary structure is designed to attract and retain the necessary technical skills and industry experience.

## How OSFI is funded

OSFI's costs are recovered through assessments on the financial services industry and private pension plans OSFI regulates and supervises, and through a user-pay program for selected services. A small portion of OSFI's revenue is received through an appropriation from the Government of Canada for actuarial services relating to various public sector pension and benefit plans.