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

Annual Report

2020-2021

April 1, 2020 - March 31, 2021

Office of the Superintendent of Financial Institutions Canada

OSFI BSIF

Canada

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Superintendent's Message

OSFI's job is to provide prudential regulation and supervision of Canada's banks, most of its insurance companies and a number of its private pension plans. We also house the Office of the Chief Actuary, an independent unit that provides a range of actuarial services to the Government of Canada including actuarial reports on the Canada Pension Plan, the Old Age Security Program and the Canada Student Loans Program among others.

These are weighty responsibilities. Many of the organizations we supervise are the lifeblood of our economy. They represent the hopes of many Canadians who have saved and invested for a better life, and their actions are key to a healthy and growing economy.

The period covered by this annual report was dominated by a singular global issue: the COVID-19 pandemic. While the first wave was well underway in Canada before the start of our fiscal year in April 1, 2020, COVID-19 would continue to influence the economy in profound ways during the ensuing 12 months.

Of course, we at OSFI have managed through uncertainty and upheaval before—in 2008, for example, during the global financial crisis, and in 1990 during another worldwide recession. In fact, we have a nearly 35-year track record of success founded on evidence-based, robust regulation and supervision.

Our experiences have taught us that complacency—thinking that what worked then will work again—is the antithesis of financial stability. We also know that the best countermeasure for uncertain times is preparation during periods of stability.

We are proud of the fact that our actions and guidance as a prudential regulator and supervisor helped prepare Canada's financial system to weather the worst that the pandemic had to offer.

In March 2020 we announced a series of regulatory adjustments to support the financial and operational resilience of federally regulated banks, insurers and private pension plans. As uncertainty caused by the pandemic receded, the need for these measures diminished and we reversed many of them over the course of the fiscal year.

Also in March 2020 we paused our consultative and policy development work to allow financial institutions and pension plans to focus on their responses to COVID-19. We restarted that work later in 2020 and, as a result, we have gained a new impetus for our work on emerging issues such as technology risk and climate-related risks.

Despite having to adjust in real time to this crisis as it emerged, we never lost sight of our longer-term goals. We continue to deliver on the Strategic Plan we published in April 2019. We are committed to furthering our work to build preparedness and resilience to financial and non-financial risk throughout the financial system, as well as improve our own agility, operational effectiveness, transparency and accountability.

I am grateful to everyone at OSFI for their efforts in what was, without doubt, an exceptional year, and for the continued support of all our partner agencies.

By the time you read this, OSFI will be led by Peter Routledge, who was appointed Superintendent of Financial Institutions in June 2021. I know that under Peter's leadership, OSFI will continue to deliver on its vision, mandate and strategic goals in the service of a sound and stable financial system.

Jeremy Rudin

J. Rudin

Superintendent

OSFI's Vision, Mandate and Strategic Goals

In January 2021 we released a new video titled "Protecting Canada from a financial crisis". This video provides an overview of our role and the tools we use to prepare for certain risks such as cyberattacks and pandemics like COVID-19. As Canada's financial regulator, we plan and prepare for events that could affect Canada's financial system.

Vision

Building OSFI for today and tomorrow: preserving confidence, ever vigilant, always improving.

Mandate

Our mandate is to protect depositors, policyholders, financial institution creditors and pension plan beneficiaries, while allowing financial institutions to compete and take reasonable risks.

We achieve this through:

Fostering sound risk management and governance practices

We advance a regulatory framework designed to control and manage risk.

Supervision and early intervention

We supervise federally regulated financial institutions (FRFIs) and federally regulated pension plans (FRPPs) to ensure they are in sound financial condition and meet regulatory and supervisory requirements.

We notify financial institutions and pension plans if there are material deficiencies. If there are, we take or order corrective action to quickly address the situation.

Environmental scanning linked to safety and soundness of financial institutions

We monitor and evaluate system-wide or sectoral developments that may affect the financial condition of FRFIs.

Taking a balanced approach

We act to protect the rights and interests of depositors, policyholders, financial institution creditors and pension plan beneficiaries.

We consider financial institutions' need to compete effectively and take reasonable risks.

We recognize that an organization's management, boards of directors and pension plan administrators are ultimately responsible for risk decisions. We also recognize that financial institutions can fail and pension plans can experience financial difficulties resulting in the loss of benefits.

Strategic Plan

In March 2019, we released the 2019-2022 OSFI Strategic Plan. Its focus is a core strategic agenda that lays out the expected criteria for success. Central to the plan are four goals that guide all that we do:

- FRFI and FRPP preparedness and resilience to financial risk is improved, both in normal conditions and in the next financial stress event;
- FRFIs and FRPPs are better prepared to identify and develop resilience to non-financial risks before they negatively affect their financial condition;
- Our agility and operational effectiveness are improved; and
- Support from Canadians and cooperation from the financial industry are preserved.

Following the launch of our Strategic Plan, our sectors prepared a plan to meet the priorities identified through activities, projects and allocated resources.

Reporting Results

Measuring progress against the Strategic Plan is important, both in the actions we take and the results we achieve. As with the 2019-2020 fiscal year, we made significant progress in advancing our strategic goals in 2020-21. Although the Strategic Plan was finalized well before the COVID-19 pandemic took hold, we adapted to include our response to COVID-19 (see next section) and the measures taken to mitigate its effects on Canada's financial sector.

Goal 1 FRFI and FRPP preparedness and resilience to financial risk is improved, both in normal conditions and in the next financial stress event

Sub Priorities

- 1.1 Improve the consistency, accuracy and timeliness of risk assessments and make intervention more effective
- 1.2 Apply a more risk-based and principles-based approach to regulation and supervision
- 1.3 Further adapt regulatory and supervisory approaches to the size and complexity of financial institutions as well as their risk profile; specifically the risk that they pose to the rights and interests of depositors, policyholders and creditors

Progress in 2020-21

- Announced a series of regulatory adjustments in April 2020 to support the financial and operational resilience of federally regulated banks during the COVID-19 pandemic.
- Issued a discussion paper on assurance expectations for capital, leverage and liquidity returns in April 2021—just after the period covered by this annual report—with a public consultation until June 2021.
- Published a discussion paper on OSFI's prudential considerations regarding climate change in January 2021 with a public consultation until April 2021.
- Completed a preliminary assessment and quantification of FRFIs' climate-related transition risk exposure.
- Revised our Capital Adequacy Requirements (CAR) Guideline and Leverage Requirements Guideline with a public consultation from March to June 2021.
- Issued a quantitative impact study to assess the prospective impacts of the public consultation revisions on institutions' capital ratios in March 2021.
- Issued a draft SMSB Capital and Liquidity Requirements Guideline and a Pillar 3 Disclosure Guideline for Domestically Systemically Important Banks (D-SIBs) in March 2021 with a public consultation until June and July 2021 respectively.
- Launched the bi-annual 2021 Macro Stress Testing program in partnership with the Bank of Canada.
- Issued Draft Revised Guideline B-2, Property and Casualty Large Insurance Exposures and Investment Concentration for consultation in November 2020 with a consultation period until March 2021.
- Issued an updated advisory for the International Financial Reporting Standards – Insurance Contracts (IFRS 17) to reflect the International Accounting Standards Board's new effective date and additional progress reporting requirements and held an IFRS 17 Regulatory Return public consultation.

Goal 2 FRFIs and FRPPs are better prepared to identify and develop resilience to non-financial risks before they negatively affect their financial condition

Sub Priorities

- 2.1 Continue to develop our regulatory and supervisory approaches to technology risks, including digitization, cloud computing, modelling and cyber security
- 2.2 Adopt more insightful and effective approaches for risks arising from culture and conduct

Progress in 2020-21

- Contributed to two consultative documents on operational risk and resilience as a member of the Basel Committee on Banking Supervision's Operational Resilience Group.
- Published a technology risk discussion paper in September 2020.
- Completed artificial intelligence/machine learning (AI/ML) modelling studies with selected banks and insurance companies.
- Released the 2020 Life Memorandum to the Appointed Actuary (AAR) in September 2020 including AAR disclosure enhancements related to participating life insurance (par).
- Completed a comparative study on insurers' compliance with our E16 guideline, Participating Account Management and Disclosure to Participating Policyholders and Adjustable Policyholders.
- Completed initial culture-focused supervisory reviews targeting strategic decision making in banking and insurance industries.
- Continued work with our Culture External Advisory Committee, an expert advisory group of senior leaders with expertise across various industries and sectors, to provide practical guidance on our supervision of culture.

Goal 3 Our agility and operational effectiveness are improved

Sub Priorities

- 3.1 Nurture a culture of high performance that embodies our values and encourages diversity of thought
- 3.2 Modernize our supervisory processes and practices through the development and implementation of new technology and other methods
- 3.3 Better leverage our data assets by improving data management and analytics

Progress in 2020-21

- Continued the build-out of data and analytics resources to expand internal capabilities in four key areas: data management and transformation, data engineering and analytics, advanced analytics, and data governance.
- Implemented new enterprise tools to modernize business intelligence reporting, data workflow automation and advanced analytics sandbox environments.
- Established data governance frameworks to manage users, use cases and datasets within OSFI's new reporting and advanced analytics environments.
- Completed the construction phase and releases 2 and 3 of Project Vu, an agile supervisory system for capturing our core supervisory activities that will improve the way supervision teams work.

Goal 4 Support from Canadians and cooperation from the financial industry are preserved

Sub Priorities

- 4.1 Improve Canadians' understanding of what we do
- 4.2 Further advance the protection of our information resources
- 4.3 Enhance our accountability to external stakeholders through increased transparency, consultation and communications

Progress in 2020-21

- Conducted organization-wide security awareness sessions.
- Implemented a cyber security training platform and rolled out the initial wave of self-study security courses.
- Held the first virtual risk management seminars for deposit-taking institutions (DTIs) and property and casualty (P&C) insurers in November 2020, and the first virtual life risk management seminar in June 2020.
- Increased the frequency and reach of, and approach to, communicating with financial sector participants with more than 250 FAQs posted on our website.
- Enhanced communications and organizational visibility through analyst, industry and media briefings related to the extraordinary conditions that the COVID-19 pandemic created for FRFIs and FRPPs.
- Revised our approach to consultations to include broader and more accessible discussion papers designed to collect feedback on issues that span sectors and industries, such as tech-related risks and climate-related risks.
- Launched a new video aimed at a general audience to provide greater insight and transparency regarding OSFI's work to protect Canadians against a financial crisis.

Response to COVID-19

Even before the 2020-2021 fiscal year had begun on April 1, 2020, we acted to support Canada's FRFIs and FRPPs in weathering the risks posed by COVID-19.

During March 2020, we:

- lowered the Domestic Stability Buffer (DSB) requirement for domestic systemically important banks (D-SIBs) to 1% of total risk-weighted assets;
- postponed all consultation and policy development to give the entities we regulate an opportunity to focus on the challenges posed by the pandemic;
- announced a series of regulatory adjustments to support the financial and operational resilience of federally regulated banks, insurers and private pension plans;
- announced the expectation that federally regulated financial institutions not increase regular dividends, undertake common share buybacks or raise executive compensation until further notice; and
- issued direction on how federally regulated deposit-taking institutions should treat new capital made available to Canada's small and medium-sized businesses through the Government of Canada's various COVID-19 relief programs.

By the start of the 2020-2021 fiscal year, Canada was seeing more than 1,000 new cases of COVID-19 daily. Despite the spread of the virus, the early measures we put in place in March 2020 helped ensure Canadian financial institutions and private pension plans were positioned to withstand any pandemic-related economic stress that might affect their operations.

In April 2020 we announced key measures so that federally regulated banks could continue lending, and insurers could operate without increased capital requirements during the first wave of the pandemic.

In December 2020, we reaffirmed our decision to keep the DSB at its lower level of 1%. From the start of the pandemic, the 1% DSB level remained effective in supporting the resilience of the banking system. Our decision to keep the DSB at 1% was supported by the strength in banks' capital levels as well as evidence that banks continued to lend to Canadians.

In the latter half of 2020 we signaled that, under limited circumstances, federally regulated financial institutions may be permitted to offer a non-recurring payment of a special or irregular dividend. We also provided guidance to federally regulated financial institutions on the treatment of new loans to businesses under the Government's Highly Affected Sectors Credit Availability Program, which launched in January 2021.

By the spring of 2021, there were signs that the pandemic's potential impact on the financial sector had lessened. As a result, in March 2021 we announced that the Stressed Value at Risk ("SVaR") multiplier, a component of the market risk capital requirements that ensures that a minimum amount of capital is held against stress periods, would return to pre-pandemic levels.

Further details on specific measures taken by our divisions overseeing deposit-taking institutions, insurers, pension plans, and risk specialists will be outlined throughout this document.

Throughout the extraordinary circumstances posed by the COVID-19 pandemic, we ensured, as always, that our guidance remained credible, consistent, necessary and fit-for-purpose in the Canadian context. We continue to do so.

OSFI's Operating Environment – Overview of Key Risks

Approach to Risk

We aim to ensure that federally regulated financial institutions (FRFIs) are always prepared to continue functioning through a range of severe yet plausible economic scenarios. The COVID-19 pandemic turned out to be such an event.

We evaluate whether these preparations are adequate to deal with the potential impact of risks. This requires us to identify both financial and non-financial risks as well as ways to mitigate and manage these risks. In 2020-21, we expanded and enhanced our tools for identifying new risks, and analyzing and reporting on existing and emerging risks.

Our approach to supervision is risk-based. It reflects the nature, size, complexity and risk profile of an institution and allows these entities to take reasonable risks and compete effectively. As such, our supervisory plans quickly shifted to focus on ensuring we understood and addressed the real and potential impacts of the pandemic. Although we play an essential oversight role, the executive management and boards of directors of institutions and pension plan administrators are responsible for their success or failure.

We constantly evaluate system-wide developments that may have an adverse impact on financial institutions and the financial system as a whole. The following section provides an overview of the key financial and non-financial risks on which we focused in the 2020-2021 fiscal year. More details on specific risks for deposit-taking institutions, insurers and private pension plans are available under the sections pertaining to our work with these entities.

Financial Risks

Financial risks continued to be present for most of the 2020-2021 fiscal year. The operating environment for FRFIs was volatile and challenging. It included a precipitous decline in economic growth and employment—and a deterioration in the credit, liquidity and funding environment—against a backdrop of high and growing household and corporate debt.

Household Debt

Throughout the 2020-2021 fiscal year, overall household indebtedness posed the largest risk for many FRFIs.

COVID-19 created severe pressure on household employment incomes, with a large share of the labour force unemployed or substantially underutilized at the beginning of the pandemic. In fact, the unemployment rate in April 2020 was higher than during the 2007-09 global financial crisis, and those employed were working much fewer hours.

From the onset of the pandemic in March 2020 until January 2021, household debt rose by nearly 3.5%, largely due to an increase in mortgage debt. By the end of the 2020 calendar year, accumulated mortgage debt was 85% of Canada's GDP. This growth in mortgage debt was linked to both elevated levels of housing activity and the corresponding rise in house prices.

In a positive development, however, consumer indebtedness started to decrease in December 2020 as many Canadians made accelerated payments on products such as credit cards and lines of credit. According to the Bank of Canada's 2021 Financial System Review, the vast majority of households that benefitted from loan deferrals in 2020 have resumed making regular payments. As well, the number of personal bankruptcies dropped by 40% in 2020 compared with 2019. However, a long-term trend towards growing household indebtedness persists, and may indicate vulnerability in the Canadian economy and financial system.

Lenders subject to our supervision held nearly 80 percent of all residential mortgages issued in Canada, and residential mortgage loans account for almost 30 percent of the total assets held by these lenders. This meant that any significant fall in housing prices could have led to material credit losses for lenders. Similarly, in the event of a significant and sustained increase in mortgage borrowing rates or the unemployment rate, repayment capacity by borrowers could have elevated the vulnerability of mortgage insurers to higher claims.

Business Credit Risks

In a spring 2020 survey, about one-third of Canadian businesses reported a drop in revenue of at least 40 percent in the first quarter of 2020, compared with the same quarter in 2019. An additional one-fifth of businesses reported drops in revenue between 20 and 40 percent. These declines in revenue disproportionately affected small and medium-sized enterprises, which employ the large majority of private-sector workers.

While declines in business revenue were felt across virtually every sector in the first quarter of 2020, the greatest drops were in accommodation and food services, the arts, entertainment and recreation, and the retail trade.

The sharp drop in revenues caused by COVID-19 meant that many businesses had difficulty meeting fixed payments, including debt repayment. The problem was particularly acute for businesses carrying a high overall level of indebtedness, as well as energy firms: the lower oil prices brought about by COVID-19 were exacerbated by the lingering effects from the collapse in world oil prices in 2014-16.

In the longer term, lingering concerns about the pandemic could lead to lower demand in some parts of the economy—for example, the travel and hospitality industry—with a significant negative effect on firms' revenue and earnings. This could create solvency issues for firms unable to access credit from financial markets and banks, especially if stress in the financial system returns with subsequent waves of the pandemic.

In 2020-21 we also watched credit extension closely, particularly in areas potentially most affected by the pandemic, including commercial real estate and hospitality. Continued economic disruption could have negatively affected asset values resulting in financial losses.

Another area of increased risk monitoring was debt in the non-financial corporate sector. Business debt has seen significant growth in the past few years; last year was no exception, with a growing proportion of weaker structures such as less strict loan covenants (conditions on borrowers).

Climate Risk

As a subset of Environmental, Social and Governance (ESG) issues, climate risk has been garnering increased attention from prudential regulators, both in Canada and globally.

In November 2020 we launched a pilot project on climate-related risk with the Bank of Canada and six participating financial institutions. Through this initiative, we are gaining a better understanding of the risks to the financial system posed by the transition to a low-carbon economy.

This pilot project will also help build enhanced capability in analyzing and enhancing disclosure of climate-related risks, increase understanding of transition risks for the financial sector, and improve our understanding of governance and risk-management practices around climate-related risks and opportunities.

In January 2021 we launched a three-month consultation on the potential impact of climate-related risks on FRFIs and FRPPs with the publication of a discussion paper. In this paper, titled Navigating Uncertainty in Climate Change: Promoting Preparedness and Resilience to Climate-Related Risks, we outlined the possible risks stemming from climate change that could affect the safety and soundness of the organizations we regulate.

As is the case with other regulators, we see three main types of risk associated with climate change that could have a material impact on FRFIs and FRPPs:

1. Physical risk, which comes from the increased frequency and severity of adverse weather events such as wildfires, floods, wind events such as hurricanes and tornados and rising sea levels, among others;
2. Transition risk, which stems from changes in government policies and consumer preferences as well as technological advances as Canada moves to a low- or zero-greenhouse gas economy; and
3. Liability risk, which relates to the potential for organizations to be targeted by climate-related litigation based on their investment and lending policies and practices.

As part of this discussion paper and consultation period, we sought comments on and insight into how FRFIs and FRPPs define, identify, measure and build resilience to climate related risks, and the role we might play in fostering preparedness for, and resilience to, these risks.

We are a member of the Basel Committee on Banking Supervision's high-level task force on climate-related financial risks, where we shared regulatory and supervisory initiatives with other banking regulators. This task force is expected to publish two reports on transmission channels and measurement methodologies for climate-related financial risks in mid-2021.

On the insurance side of climate-related risks, we track and contribute to work being done through the Sustainable Insurance Forum and the International Association of Insurance Supervisors. We have also joined a working group organized by the Network for Greening the Financial System that is examining data gaps in micro-prudential surveillance.

We continue to advance our understanding of climate-related risks of relevance to FRFIs and FRPPs. We will release a summary of comments received during our climate-related risk consultations and next steps in the 2021-22 fiscal year.

Non-Financial Risks

In all cases of non-financial risk, we are most concerned with how these risks might impact a FRFI's reputation risk and possibly materialize as financial losses. Mismanaging non-financial risk events such as data breaches, cyber attacks and most recently the COVID-19 pandemic can impact operational continuity of critical services and functions, divert resources to focus on the disruption and impact confidence in financial institutions.

In 2020-21 we enhanced our capabilities in assessing non-financial risks by building assessment frameworks and approaches to oversee technology and cyber risk as well as "people" risk. We also furthered our thinking on the topic of operational resilience and third-party risk management by providing input at international forums, gathering information on current practices through our technology risk discussion paper published in September 2020 and completing a third-party study.

Model Risk

While the use of modelling across different aspects of their businesses—such as risk measurement, pricing, marketing effectiveness and instances of fraud, among others—is invaluable for the financial institutions overseen by OSFI, the pandemic has demonstrated the fragility of such models as well as challenges related to model responsiveness. Financial institutions' swift actions such as applying model overlays and tightening conditions for model use have addressed model shortcomings in the short term, but a deterioration in model performance is expected once government relief programs have ended.

One of the key upcoming modeling challenges is reconciling new data and relationships that have emerged during the pandemic with existing data, which has historically followed a different regime. In some cases, this may result in the data prior to the pandemic losing its predictive ability, while in other instances data from the pandemic period may carry little importance for future modeling and assessment of risk. These challenges further illustrate the need to develop more agile and robust model risk management (MRM) frameworks, including new analytical approaches that can quickly adapt to new and radically different environments.

Advanced analytics tools such as Artificial Intelligence and Machine Learning (AI/ML) are expected to increase in importance both in terms of advancing MRM frameworks and in enhancing or creating new products and services. In addition to their benefits and opportunities, these advanced techniques introduce new risk and amplify existing ones. To that end, we are focusing on assessing how institutions use and manage AI/ML as well as developing additional principles to address emerging risks resulting from their use. This work is ongoing and will be used to inform an industry letter on advanced analytics and model risk as well as a revised model risk guideline, to be published in Q1 2022 and 2022-23 respectively.

Technology and Cyber Security Risk

Technology risk is the risk arising from the inadequacy, disruption, failure, loss or malicious use of the information technology systems, infrastructure, people or processes that enable and support business needs. The lack or ineffectiveness of controls to mitigate these risks can impact the confidentiality, integrity and availability of data and systems that support business services.

Throughout the year, technology risks were front and center at the FRFIs we regulate. The pandemic shone a spotlight on issues related to technology currency and technology debt, authentication, vulnerability and patch management, technology change management, accelerated movement to the cloud, and an advancement in digital innovation. All of these technology-related issues have an impact on existing business models. In addition to our increased and focused monitoring throughout the pandemic, OSFI shared technology risk bulletins focusing on Multi-Factor Authentication, and more recently on API security and risks, with FRFIs.

One component of technology risk is cyber security risk. This year, we observed increases in ransomware and supply chain attacks. While FRFIs themselves faired relatively well against ransomware, this threat affected their third and fourth parties—in other words, not just FRFIs' providers and suppliers, but their providers' and suppliers' providers and suppliers—causing notable disruptions to and impacts on FRFIs.

Supply-chain attacks have also been capturing headlines in the second half of 2020 with increased attacks on trusted suppliers such as Solarwinds, Microsoft, FireEye and Accellion, among others.

Early in the COVID-19 pandemic we also saw increased trends in phishing and malware, a development that has amplified overall cyber threat level.

In September 2020, we issued a discussion paper titled Developing Financial Sector Resilience in a Digital World: selected themes in technology and related risks. Accompanied by a three-month public consultation, this paper shared our thinking and recent work on technology risk—spanning operational risk and resilience, cyber security, advanced analytics, data, and the third-party ecosystem—and invited feedback to help develop regulatory guidance and supervisory approaches in these areas. The feedback we received from our stakeholders will help us draft a technology and cyber risk guideline, which we plan to issue for consultation later in 2021.

Culture

An organization's culture can influence the effectiveness of its risk management, potentially leading to excessive risk-taking and negative financial and reputational outcomes. As a prudential regulator, understanding the impact of culture—for example, on decision-making behaviour—can provide an early warning and help prevent or minimize events that can ultimately weaken an institution's operational resilience, leading to an erosion of public confidence.

In 2020, we began culture-focused supervisory reviews targeting strategic decisions. These reviews provide insights into behavioural indicators such as transparency and communication, diversity of thought, ability to provide challenge and reflective learning.

Compensation, incentives and rewards remain a focus for OSFI as key drivers of organizational behaviour and culture. We are a member of the Financial Stability Board's (FSB) Compensation Monitoring Contact Group (CMCG), which monitors and reports on implementation of the FSB's Principles and Standards for sound compensation practices. We issued a CMCG survey questionnaire to select FRFIs to gather information on compensation practices, including non-financial measures and impacts related to COVID-19. The FSB is expected to publish its biennial progress report in late 2021 using the results of this survey.

Elevated people risks as a result of the pandemic have been a key focus of our risk monitoring. Prolonged working from home compounded by isolation due to social distancing requirements has led to heightened stress and anxiety—and an increased risk of misconduct due to financial pressure. Some FRFIs implemented more frequent and targeted employee surveys for insights into employee sentiment to better monitor their people risk. We continue to monitor FRFIs' responses to maintaining organizational norms, values and behaviors during the pandemic period.

Compliance

The pandemic has highlighted the importance of organizational change in evolving, adapting and remaining competitive in an ever-changing and uncertain environment.

Execution risk in relation to regulatory compliance continues to be an area of ongoing monitoring in the current remote working environment. COVID-19 has exacerbated execution risk in relation to FRFI regulatory transformation initiatives and readiness projects, the progress of remediation activities and in light of their cost-containment measures.

Since 2020, we have also introduced "culture of compliance" as an area of focus in the scope of our regulatory compliance management reviews.

Operational Resilience

The onset of COVID-19 saw financial institutions rapidly move to remote working, which placed pressure on their operations, technology, staff, processes, controls and suppliers and caused many to invoke their crisis management plans. By and large, however, the pandemic demonstrated that the Canadian financial services sector has a strong baseline of operational resilience, given that there were no significant disruptions to critical operations.

We learned some important lessons about how FRFIs manage through disruption, including the need for up-to-date, well-tested business continuity plans and crisis playbooks that consider a wide range of possible scenarios and action plans. It is important to note that these lessons appear to be specific to the pandemic, which had a limited impact on many services and did not test institutions' ability to provide critical services during multiple concurrent disruptive events.

In response, we focused on monitoring the development and comprehensiveness of financial institutions' scenario testing, as well as how the transition to the "new normal" may impact operational resilience.

As a member of the Basel Committee on Banking Supervision, OSFI also participated in the work that led to the publication of the revised Principles for the Sound Management of Operational Risk and the new Principles for Operational Resilience in March 2021. Finally, OSFI articulated certain aspects of operational resilience in its September 2020 discussion paper, Developing Financial Sector Resilience in a Digital World.

Third-Party Risk

In September 2020 we published an infographic, Strengthening Third-Party Risk Management, which featured five focus areas that can contribute to effective management of third-party risk. These areas are the result of an earlier study that highlighted trends in third-party risk, including:

- Increasing use by financial institutions of third-party providers, including offshore providers;
- Rising concentration risk driven by dominant cloud service providers and the trend of offshore outsourcing to a limited group of countries with lower-cost skilled labour; and
- Increasing use of fourth and further parties.

COVID-19 has exacerbated these trends, as the pandemic accelerated the pace of digitalization and the move to cloud computing. Furthermore, the pandemic highlighted the importance of having current information on third parties, well-tested business continuity plans that take into account third parties and strong third-party risk identification and monitoring processes as well as effective key risk indicators. During 2020-21, understanding the quality of institutions' third-party risk management processes was an area of focus.

Demographic changes

As a broader systemic risk facing the Canadian financial system, demographic shifts in Canada—namely, the increasing average age of the population—have the potential to create stress for the insurers we regulate.

The world's population is expected to peak at the end of the 21st century, then begin declining. There is increasing concern globally regarding the societal impacts of aging populations, including government policy and quality of life at older ages.

In 2020-21 our Insurance Supervision Sector created a working group—the Aging Population Project—to study the impact of this demographic trend on the Canadian insurance industry. This working group interviewed life insurers and reinsurance firms. It also sought input from non-insurers such as the Society of Actuaries, Canadian civil society groups and—since the impact of aging has been most profound in Japan thus far—the Japanese Financial Services Authority.

Preliminary conclusions from the Aging Population Project's work include the following insights:

- Canada's population is aging, particularly in the next 10 years, although the impact will not be as severe as is expected in many other countries;
- With the exception of interest rates, insurers anticipate there will be more benefits than challenges arising from the aging population, with time to anticipate and address the impacts;
- The link between interest rates and aging populations is challenging to measure, although data and research point to a correlation in Canada; and
- A prolonged period of low (and even lower) interest rates and declining investment returns could become increasingly likely. This will continue to present significant challenges to the insurance industry going forward.

Increased digitalization

Quite apart from the technology and cyber security risks facing financial institutions (see Technology and Cyber Security Risks earlier in this section), the increased adoption of digital technologies by all segments of the economy has the potential to affect the FRFIs we regulate. For example, increasing numbers of consumers are opting to use payment platforms that lie outside the regulated financial system.

Digital technologies are transforming the financial sector and giving rise to greater competition between federally regulated financial institutions and emerging—and often unregulated—financial technology (fintech) providers. There is a risk that these new providers may create strategic risk that can destabilize the established FRFIs that make up the foundation of the financial services marketplace and threaten the viability of their business models, potentially leading to insolvencies that could undermine financial stability in Canada.

One way these digital technologies have manifested themselves is in the "disintermediation" of financial services. Whereas most FRFIs offer integrated, one-stop services such as credit cards, mortgages and savings accounts, fintech providers may disaggregate or disintermediate those services to focus on one niche and provide one service. This phenomenon fragments the consumer base for traditional FRFIs' products and services, and thus may create prudential concerns by impacting their capital, earnings and other measures of financial health. Such developments, which FRFIs would need to manage internally, could have an adverse impact on depositors, policyholders and creditors as well as financial stability in Canada writ large.

As part of our Near-Term Plan of Prudential Policy Development released on May 6, 2021—slightly after the period covered by this annual report—we made a commitment to providing a draft guideline on technology and cyber risks in late 2021. This guideline will take into consideration some of the issues surrounding the trend toward increased digitization and the risks associated with disintermediation.

Non-bank financial intermediation

In a similar vein to increased digitization, we are monitoring the risks arising from non-bank financial intermediation (NBFI) as another potential area where FRFIs' business models may face increased competition.

Although NBFI is not covered by OSFI's mandate, its implications for financial stability have the potential to be wide-ranging even though the sector makes up just a small portion—approximately 10.9%—of Canada's financial system.

While investment funds were the largest NBFI subsector, accounting for 45% of NBFI assets, since 2008 financing companies have shown strong growth with an average annual growth rate of 5%. These financing companies vary from crowd-funded debt platforms and vendor-issued consumer loans for big-ticked purchases, to credit cards and mortgage loans offered by non-DTIs.

OSFI'S WORK: Deposit-Taking Institutions

We regulate and supervise deposit-taking institutions (DTIs) including domestic and foreign banks, foreign bank branches, trust and loan companies, and federal credit unions.

The federally regulated deposit-taking industry in Canada is comprised of six large domestic banks that have been designated as domestic systemically important banks (D-SIBs), four mid-tier institutions, and many smaller institutions. The Financial Stability Board has also designated two of the D-SIBs as global systemically important banks.

D-SIBs account for about 93 percent of total assets held by federally regulated DTIs in Canada. Their diversified business activities include deposit-taking and lending, trading, investment banking, wealth management and insurance. In addition to their primary domestic focus, most of the D-SIBs operate in other jurisdictions including the United States, United Kingdom, Europe and the Americas.

Small and medium-sized institutions account for the remainder of total assets held by federally regulated DTIs. These institutions engage in various businesses and markets such as mortgage lending, commercial real estate lending and credit card lending.

We closely monitor the financial and non-financial risks facing deposit-taking institutions, including system-wide or sector developments that could have a negative impact on their financial condition.

Deposit-Taking Institutions Environment

The COVID-19 pandemic created a challenging environment for DTIs. The Government of Canada, including OSFI, took extraordinary measures to support the economy, financial markets and DTIs' ongoing resilience throughout this period of uncertainty in 2020-21.

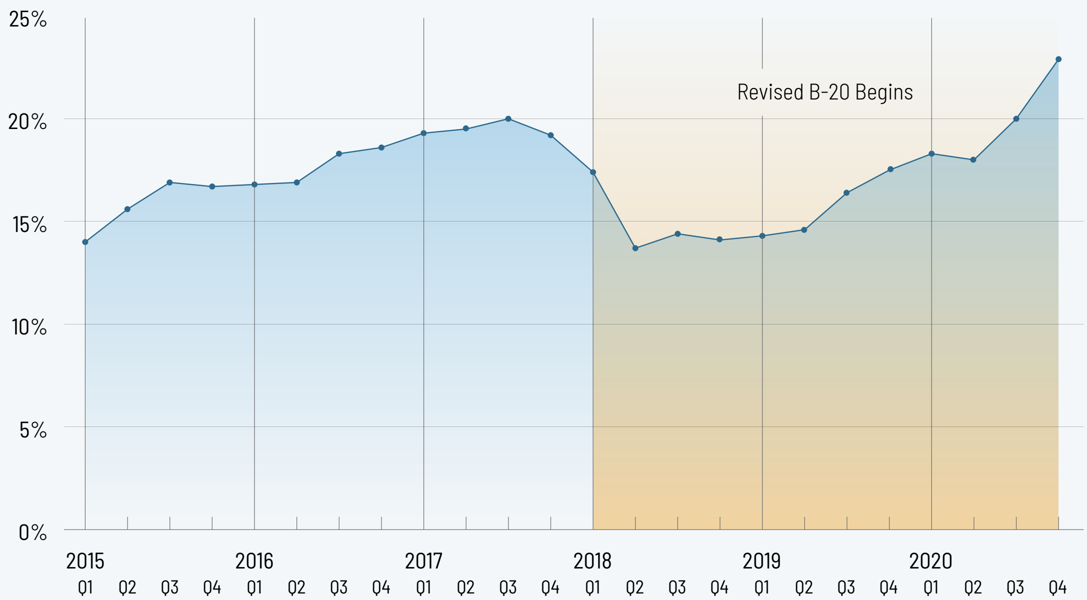
At the outset of the pandemic Canada's DTIs were well placed in terms of capital and liquidity, and had prepared measures such as business continuity plans that enhanced their operational resilience. This strong position served them well as the pandemic worsened and the economic impact was more profoundly felt.

These DTIs were also able to effectively manage loan deferrals offered during the initial phase of the pandemic with no impact on capital. While there were initial concerns of a "deferral cliff" looming, no such problems have materialized to date. On the liquidity side, liquidity levels actually improved as Canadians increased their deposit levels with Canadian DTIs. This increase in deposit levels reflected the government support provided to Canadian consumers and businesses through the pandemic.

Our supervisory activities related to DTIs focused on key areas such as operational resilience, capital, liquidity and credit risk. Particular subjects of interest included payment deferral programs, delinquencies and allowance for credit losses. Monitoring of technology risk, including cyber security threats, was heightened in 2020-21 given the pandemic and work-from-

More detailed financial information on the institutions subject to OSFI regulation and supervision is available through the Financial Data application on our website.

Loan to income greater than 450%



home environment. We will continue to monitor the financial and non-financial risks posed by the current environment.

Sound Mortgage Underwriting

In 2020-21 we acted to promote sound mortgage underwriting practices that reduce the risks to the financial system. Specifically, our supervisory reviews of deposit-taking institutions ensured that the institutions had appropriate standards and adequate controls to assess a borrower's ability to pay their loan under a variety of conditions.

In February 2020 we launched consultations on the B-20 minimum qualifying rate for uninsured mortgages, which were subsequently suspended in March 2020 due to the COVID-19 pandemic. In April 2021, just after the end of the 2020-21 fiscal year covered by this annual report, we released a new proposal for the rate: the higher of the mortgage contract rate plus 2%, or 5.25%. This new rate was implemented on June 1, 2021 and will be reviewed annually at a minimum.

The Domestic Stability Buffer

The Domestic Stability Buffer (DSB) is a capital buffer requirement for domestic systemically important banks (D-SIBs). During challenging times the DSB's countercyclical design enables D-SIBs to use the capital they set aside during more stable economic conditions.

In March 2020, a series of coordinated announcements in response to the uncertainty caused by COVID-19 for Canada's financial system were made in an unprecedented news conference with the Minister of Finance, the Governor of the Bank of Canada and the Superintendent of Financial Institutions. At that news conference, the Superintendent announced the lowering of the DSB by 1.25% of risk-weighted assets, from 2.25% to 1.00%.

The lowering of the DSB supported more than $300 billion in additional lending capacity for the D-SIBs, allowing them to supply credit to the economy during an unexpected period of disruption. We also committed to not increasing the buffer for at least 18 months and signalled our readiness to lower the DSB further if conditions required.

What are capital buffers?

One of the ways OSFI protects the interests of bank depositors is by requiring banks to have sufficient capital to cover unexpected losses.

Capital can be considered a bank's own equity rather than money borrowed such as the deposits of businesses and households. A bank's equity is comprised of items such as investors' contributions and retained earnings.

Regulators worldwide require banks to hold capital because it provides both a buffer against unforeseen losses and an incentive to manage risk taking. Strong capital levels allow a bank to operate normally even if it experiences losses.

Banks hold capital in several layers of buffers each intended to establish cushions for losses. For example, OSFI requires banks to hold minimum capital levels, a Capital Conservation Buffer, a capital surcharge for large banks and the Domestic Stability Buffer.

Domestic stability buffer

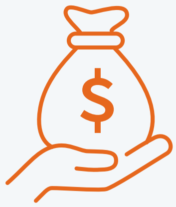
Surcharge for large banks

Capital conservation buffer

Minimum capital levels

How do buffers help?

In some cases, regulators add additional cushions that are specifically meant to be used up when losses occur. This means a bank is expected to use up some of its capital to absorb losses.



For instance, during an economic downturn, banks may suffer losses. They might decide to limit lending to minimize their risk of further losses. At the same time, a large reduction in lending could worsen a recession by slowing down economic activity. This is when OSFI authorizes banks to use their capital buffers to cover those losses and support the flow of bank lending to the economy.

What is the domestic stability buffer, or DSB?

One of OSFI's capital buffers is called the domestic stability buffer or DSB. The DSB is similar to having "rainy day" funds, just as many people set aside some of their own funds for emergencies and unexpected events.

Through changes to the DSB, OSFI requires banks to build up a buffer of capital when times are good so it will be available when times are not as good. OSFI sets the level or amount that banks must hold and can then release the buffer when times are not good, or when it looks like losses may be about to materialize. One of the chief objectives of the DSB is to signal that OSFI is comfortable with measured declines in capital ratios during times of economic stress, as this is precisely what the buffer was designed for. As a result, banks are still able to keep lending to Canadians and fulfill their important role in the economy.

Our June and December 2020 decisions to maintain the DSB at 1% of total risk-weighted assets were based on our assessment that this level remained effective in supporting banking system resilience. This stance was supported by an upward trend in banks' capital levels and strength in pre-provision net revenues, as well as indications that banks were continuing to lend to Canadians.

Canadian banks demonstrated resilience throughout the pandemic in 2020-21, and were well-supported by government programs, monetary policy actions and regulatory relief measures.

The next scheduled DSB announcement was held on June 17, 2021—after the period covered by this annual report—at which time the DSB was raised to 2.5% of total risk-weighted assets. The process to review the DSB level is ongoing and our focus is on evaluating recent conditions and the status of key vulnerabilities and risks.

Response to COVID-19 – Deposit-Taking Institutions

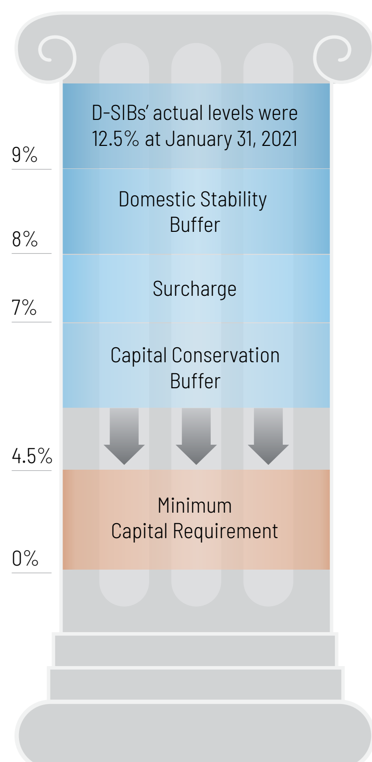
In addition to a lower DSB level, in March and April 2020 we announced a series of regulatory adjustments to support the financial and operational resilience of federally regulated banks as COVID-19 spread across Canada. This suite of adjustments to existing capital and liquidity requirements targeted certain requirements that were not appropriate in the extraordinary circumstances created by the pandemic. We took these measures to provide institutions with further flexibility to address conditions while promoting financial resilience and stability.

Over the course of 2020-21 we provided updated guidance—and in some cases unwound certain measures altogether—as financial market conditions stabilized and institutions' operational capacity and management of the economic challenges related to the pandemic improved.

Other specific areas of action include:

- **Payment deferrals**: In late August 2020 we updated our guidance on the special capital treatment of loans subject to payment deferrals to gradually phase out this treatment as institutions' positions improved. This change allowed DTIs to employ their business-as-usual alternatives to support troubled borrowers.
- **Leverage ratio**: In November 2020 we announced an eight-month extension for DTIs to continue to exclude central bank reserves and sovereign-issued securities from their leverage ratio exposure measures.
- **Stressed VaR**: In March 2021 we announced that federally regulated DTIs subject to market risk requirements should restore their Stressed Value-at-Risk (SVaR) multipliers to levels in place prior to spring 2020.
- **Covered bonds**: On April 6, 2021—just after the end of the 2020-21 fiscal year covered by this annual report—we announced the immediate unwinding of regulatory relief related to the covered bond limit.

D-SIBs' Capital Requirements



Guidance – Deposit-Taking Institutions

Through our regulation, we play an important oversight role by developing guidelines, policies and procedures for institutions designed to control and manage risk. We balance safety and soundness with institutions' need to take reasonable risks and compete.

In March 2021, we launched a public consultation on revisions to the *Capital Adequacy Requirements (CAR) Guideline, Leverage Requirements (LR) Guideline and Liquidity Adequacy Requirements (LAR) Guideline*, with a view to implementing these changes in early 2023. The proposed revisions to the CAR and LR guidelines reflect our domestic implementation of the final Basel III reforms. All three guidelines also include proposed revisions to reflect specific capital and liquidity requirements for small and medium-sized institutions (SMSBs).

In March 2021 we also released a draft *SMSB Capital and Liquidity Guideline* to help stakeholders understand how the CAR, LR and LAR guidelines apply to SMSBs including deposit-taking subsidiaries of D-SIBs.

Guideline E-4: Foreign Entities Operating in Canada on a Branch Basis

In October 2020 we published our draft Guideline *E-4: Foreign Entities Operating in Canada on a Branch Basis* for public consultation. This draft guideline reflects the responsibilities of foreign entities and their management to oversee day-to-day operations of their Canadian businesses. It also reflects new requirements governing the location of records which came into force in July 2021 under the Bank Act. Once final, this guideline will replace the existing *E-4B: Role of the Principal Officer and Record Keeping Requirements* guideline.

Anti-Money Laundering/Anti-Terrorist Financing (AML/ATF)

In October 2020 we launched a consultation on our supervisory activities related to anti-money laundering/anti-terrorist financing (AML/ATF). This consultation was part of an initiative by OSFI and the Financial Transactions and Reports Analysis Centre of Canada to eliminate duplication and redundancy in how AML/ATF regulatory requirements are applied to FRFIs.

As a result of this consultation, on May 17, 2021—slightly after the period covered by this annual report—we announced that we will rescind Guideline B-8 (Deterring & Detecting Money Laundering and Terrorist Financing), effective July 26, 2021. While no amendments to Guideline E-13 (Compliance Management) will be made in the near term, we will launch a comprehensive review of this guideline in 2022.

OSFI'S WORK: Insurance

We regulate and supervise life, property and casualty and mortgage insurance companies as well as fraternal benefit societies.

The federally regulated **life insurance** industry in Canada is comprised of three large internationally active institutions and more than 75 domestic companies that together hold $1.8 trillion in assets. The largest life insurers offer a broad range of wealth management, life and health insurance products through a number of distribution channels, while smaller insurers are more restricted in product breadth and distribution.

A **fraternal benefit society** is an institution operated for fraternal, benevolent or religious purposes, including to insure its members and their spouses or children against accident, sickness, disability or death. There are 12 such societies in Canada, all of which are subject to our supervision and regulation.

We closely monitor risks that could affect insurers' financial condition. We conduct risk assessments and intervene if necessary to ensure that the industry remains prepared and resilient to financial risks during stress events.

More detailed financial information on the institutions subject to OSFI regulation and supervision is available through the Financial Data application on our website.

We supervise **145 property and casualty (P&C) insurers**. The top 10 institutions represent 69 percent or $48 billion of the gross written premium for the industry.

The mortgage insurance industry in Canada consists of three participants: two private-sector insurers that we regulate and the Canada Mortgage and Housing Corporation (CMHC), a Crown corporation subject to our oversight. These mortgage insurers provide lending institutions with protection against the risk of default by borrowers and insured $721 billion in residential mortgages at the end of 2020. CMHC provides a further $500 billion of guarantees covering securitized residential mortgage pools.

Insurance Institutions Environment

Starting in early 2020, low long-term interest rates, COVID-19 and heightened market volatility brought increased challenges and uncertainty for the life insurance industry. Insurers managed disruptions to operations by implementing business continuity plans and other responsive measures.

Overall, the P&C industry had strong financial results in 2020, although experiences differed significantly between primary insurers and reinsurers. Reduced exposures related to stay-at-home orders, a hard market for property insurance—where premiums increase while capacity to offer coverage decreases—and commercial lines and relatively low non-catastrophe weather events have meant favourable results for primary insurers. Catastrophe weather losses, COVID-19 business interruption and liability claims and the effect of lower interest rates were the major contributors to reinsurer's poor results in 2020.

Mortgage insurers achieved relatively favourable financial results in 2020. An industry-wide decrease in underwriting income driven mainly by strengthening of reserves for potential COVID-19 related claims was offset by an overall improvement in net investment income. Capital levels also strengthened. Over the course of 2020-21, however, mortgage insurers remained vulnerable to rising consumer debt levels and the risk of a housing price correction in certain markets.

To address the rapidly evolving economic impacts of COVID-19, mortgage insurers acted to support homeowners through mortgage payment deferrals and lending institutions through insurance coverage to facilitate access to liquidity. They also introduced initiatives to ensure their own financial and operational resilience. The impact of COVID-19 on mortgage insurers during 2020-21 is complicated by the asymmetric impacts of the pandemic on vulnerable segments of the population such as renters, oil-dependent provinces and insured homeowners who are employed in lagging industry sectors. We will continue to monitor the mortgage insurance segment of the financial industry closely.

International Financial Reporting Standard (IFRS) 17

International Financial Reporting Standard 17 (IFRS 17) is an international financial accounting standard issued by the International Accounting Standards Board (IASB) in May 2017.

In June 2020 the IASB issued amendments to IFRS 17 for annual periods beginning on or after January 1, 2023. After analyzing the prudential impacts of the accounting amendments by the IASB, in September 2020 we issued a revised IFRS 17 Advisory. Canadian insurers have made a significant effort and allocated considerable resources to prepare for the new insurance contract measurement and disclosure standard. This work includes significant changes to systems, operations and financial reporting.

In fall 2020 we consulted on revised draft capital guidelines updated for IFRS 17. We also conducted another quantitative impact study (QIS) to assess insurers' capital ratios under the draft frameworks. This consultation and quantitative testing resulted in enhancements to the draft capital guidelines. In April 2021 we issued revised regulatory returns for 2023 to comply with IFRS 17, and draft versions of insurance capital guidelines for public consultation in June 2021.

Throughout 2020-21, we monitored progress made on implementing this new standard by insurance companies through our semi-annual progress reporting process. In August 2020, we provided an update to industry on milestones completed and activities underway to support the robust implementation of IFRS 17.

Response to COVID-19 – Insurance

In our March 2020 and April 2020 letters to insurers we announced capital measures offering special capital treatment for loan and insurance premium payment deferrals. Influenced by our monitoring of the evolving COVID-19 situation and our frequent dialogue with insurers, in August 2020 we announced a phasing-out of these special capital measures. We continue to monitor the impacts of COVID-19 on insurers and remain prepared to adjust our guidance as necessary.

Guidance – Insurance

Guideline E-4: Foreign Entities Operating in Canada on a Branch Basis

In October 2020, we published draft Guideline E-4: Foreign Entities Operating in Canada on a Branch Basis for public consultation. This proposed guideline better reflects the responsibilities of foreign entities and their management to oversee day-to-day operations of their Canadian businesses. It also reflects new requirements governing the location of records which came into force in July 2021 under the Insurance Companies Act. Once final, this guideline will replace the existing E-4A Role of the Chief Agent and Record Keeping Requirements guideline.

Reinsurance

Reinsurance is essentially insurance for insurance companies. A comprehensive review of reinsurance practices has been a key OSFI initiative over the past few years. In June 2018 we issued a discussion paper including proposals to enhance and clarify expectations for prudent reinsurance practices and in June 2019 we issued a revised B-3 – Sound Reinsurance Practices and Procedures guideline.

Building on this work, in November 2020 we issued a draft B-2 – P&C Large Exposures and Investment Limits guideline. Both the B-3 and B-2 guidelines reflect valuable feedback received during consultations as well as ongoing discussions with industry. We will issue final B-3 and B-2 guidelines in tandem by December 2021.

Capital Guidance

In November 2020 we released an advisory to formally include in the *Life Insurance Capital Adequacy Test* (LICAT) framework a smoothing technique for determining interest rate risk (IRR) requirements for participating business (par). Also included in the advisory is clarification of our expectations related to negative DSRs (Dividend Stabilization Reserves or other similar experience leveling mechanisms).

We also continued to develop a new approach for determining capital requirements for segregated fund guarantee (SFG) risk which will reflect IFRS 17. The new approach comes into effect on January 1, 2023 and will replace the current Chapter 7 of the *Life Insurance Capital Adequacy Test* (LICAT) guideline.

As part of this development work, in December 2020 we launched a consultation of the draft approach as well as a quantitative impact study and sensitivity tests. Submissions were due on March 31, 2021 and are being used to assess whether further refinements to the methodology are necessary.

OSFI'S WORK: Private Pension Plans

We regulate and supervise more than 1,200 federally regulated private pension plans in federally regulated areas of employment such as banking, inter-provincial transportation and telecommunications. These plans include more than 1.18 million active members and other beneficiaries, and hold assets of about $260.5 billion.

We develop guidance on risk management and mitigation, assess whether plans are meeting their funding requirements and managing risks effectively, and intervene promptly if we identify a need for corrective action. Administrators are ultimately responsible for sound and prudent management of their pension plans.

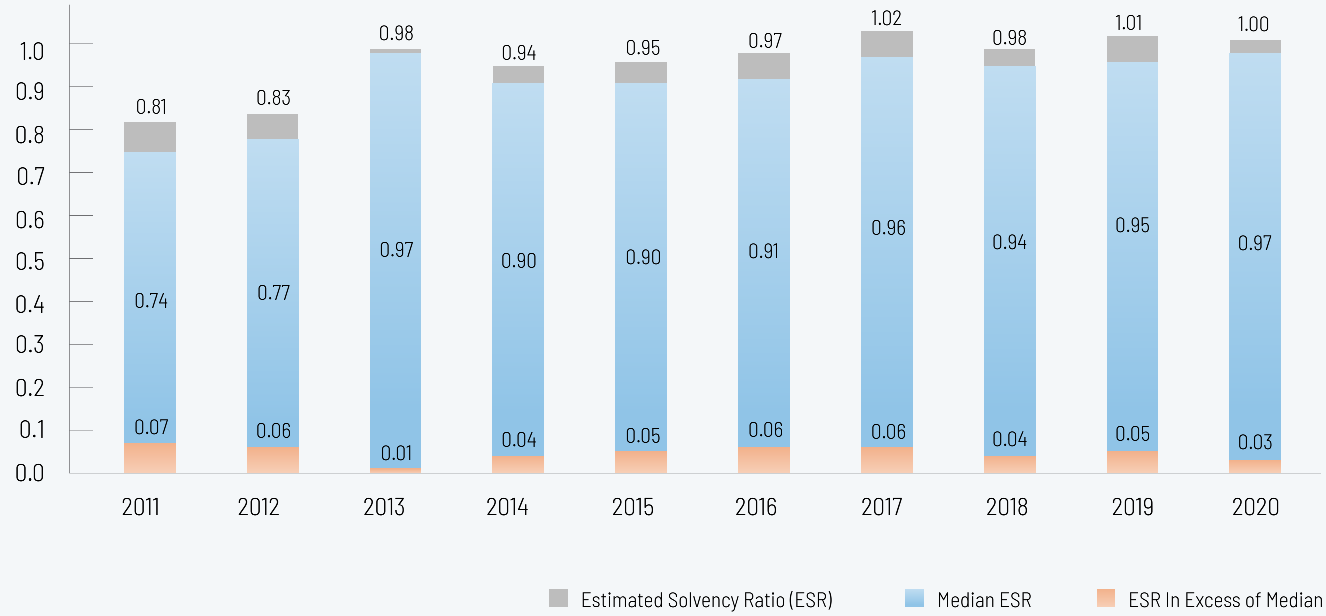
Private Pension Plan Environment

In the first quarter of 2020 the COVID-19 pandemic affected both defined benefit and defined contribution plans. The overall solvency position of defined benefit plans deteriorated significantly at the outset of the pandemic as a decline in equity markets reduced asset values and the continued drop in bond yields increased liabilities. However, the last quarter of 2020 saw equity market returns improve, which helped offset most of the first-quarter decline. By the end of 2020, this resulted in the overall solvency position of pension plans

Federally Regulated Private Pension Plans by Type, as at March 31

Plans Subject to the Pension Benefits Standards Act, 1985		2020	2021
Number of Plans	Defined Benefit	271	268
	Combination	122	119
	Defined Contribution	817	826
	Total	**1,210**	**1,213**
Active Membership	Defined Benefit	203,400	173,800
	Combination	306,600	330,500
	Defined Contribution	144,900	149,200
	Total	**654,900**	**653,500**
Other Beneficiaries	Defined Benefit	260,900	236,400
	Combination	243,400	272,300
	Defined Contribution	21,000	22,200
	Total	**525,300**	**530,900**
Assets ($ millions)	Defined Benefit	118,000	119,800
	Combination	113,500	131,100
	Defined Contribution	8,700	9,600
	Total	**240,200**	**260,500**

Solvency Position of Pension Plans as at December 31, 2020



returning to levels similar to those seen at the beginning of the year.

Under the *Pension Benefits Standards Act, 1985*, solvency funding requirements for plans with defined benefit provisions are based on a plan's three-year average solvency position. This means that the 2020 solvency ratio replaces the 2017 value in calculating the average solvency position. The three-year average solvency position of pension plans is similar to what it was last year. As a result, without taking into account the solvency funding relief available in 2020 described in the next paragraph, plans on average should not need to increase their required solvency funding payments for 2021 above 2020 payment levels.

In April 2020, the Department of Finance announced the *Solvency Special Payments Relief Regulations*, which established a moratorium on certain solvency special payments due during the period beginning on April 1, 2020, and ending on December 30, 2020. This moratorium took effect in May 2020.

Based on the Solvency Information Returns filed by pension plans in February 2021, 18% of plans with defined benefit provisions took solvency funding relief in 2020 for a total amount of $955 million. More than two-thirds (68%) of these plans reduced their solvency special payments for the entire period of the moratorium.

Response to COVID-19 – Private Pension Plans

In response to COVID-19, we adjusted our policies to continue to protect the interests of pension plan members and beneficiaries, and to allow plan administrators to focus on addressing challenges posed by the pandemic. In addition to extending filing deadlines and suspending a number of consultations and policy development initiatives, we implemented a temporary freeze on portability transfers and annuity purchases relating to defined benefit provisions of pension plans.

By September 2020, we lifted the temporary portability freeze subject to certain conditions. Previously suspended work on developing pension-related guidance had also resumed.

We kept pension plan stakeholders aware of the measures we took to protect plan members and beneficiaries through information posted on our website and through technical briefings. Communication and feedback from stakeholders, as well as information-sharing initiatives with other regulators, proved crucial in developing an effective policy response to COVID-19.

In addition, we increased our monitoring in the areas of risk management, employers' ability to make contributions, business continuity, and employers operating in sectors highly impacted by the crisis. From late March until the end of December 2020 we frequently calculated the estimated solvency ratio of the defined benefit pension plans we regulate. This allowed us to stay on top of the impact of volatility in the financial and economic environment.

In response to these measures plan members, administrators and other industry stakeholders submitted an unprecedented number of enquiries. By the end of December 2020 we responded to nearly 500 written enquiries on these measures. In addition, we received close to 90 requests for the Superintendent's consent to allow for portability transfers or annuity purchases.

Risk-Based Reviews

We advanced our work on two major projects in 2020-21 to identify areas where we can strengthen our principles- and risk-based approach to pension plan supervision.

As part of our review of how we supervise pension plan investments, we worked with plan administrators and pension investment consultants to better understand the factors driving the shift towards non-traditional investments, including leveraged investment strategies and private market assets. Analysis of data collected through a pension investment questionnaire permitted a deeper understanding of the nature and level of inherent pension investment risks, as well as the form and quality of risk management practices. Risk management gaps identified through this review will inform our supervisory approach to pension investments and regulatory expectations.

The second major project we advanced in 2020-21 assessed how we supervise plans with defined contribution provisions. The Financial Services Regulatory Authority of Ontario (FSRA) and OSFI together established a special purpose committee to review our respective approaches to supervising defined contribution plans and, where possible, find opportunities for regulatory harmonization. Through this collaboration, FSRA and OSFI will work towards improving outcomes for plan members and enhancing regulatory efficiency and effectiveness for defined contribution plans.

We also continued work on two additional initiatives related to emerging

Asset Breakdown of Private Pension Plans Regulated by OSFI[1]

	2019		2020	
Asset Class	$ Millions	%	$ Millions	%
Debt securities and cash	122,632	51.1	124,587	47.8
Equity	88,999	37.1	92,926	35.7
Diversified investments	13,472	5.6	15,021	5.8
Other investments	38,786	16.1	47,730	18.3
Accounts receivable net of liabilities	(23,689)	-9.9	(19,729)	-7.6
TOTAL NET ASSETS	**240,200**	**100.0**	**260,535**	**100.0**

1 Investment return for assets in respect of defined benefits, net of investment and custodial fees, was 11.2% in 2020, compared to 14.0% in 2019.

risks faced by pension plans: a review of the consideration of environmental, social and governance (ESG) factors in plan investment decisions, and the analysis of the potential risks associated with technology, including cyber and third-party risk.

While these reviews and initiatives are still ongoing based on preliminary findings, we expect recommendations to include adjusted annual reporting requirements and/or updated guidance.

Actuarial Reports

We review actuarial reports for defined benefit plans, and conduct a more in-depth review of these reports where risks are noted. Nearly 290 actuarial reports were filed with us in 2020-21—approximately 20% of these were subjected to a more in-depth review. Any issues revealed during an in-depth review are raised with plan actuaries, particularly when these concerns have an impact on current and future funding requirements. Our interventions have resulted in some plans being required to amend and re-submit their actuarial reports.

Examinations

During 2020-21, to allow plan administrators to focus their efforts on addressing challenges posed by the COVID-19 pandemic, we suspended all but one examination being conducted as part of our risk-based supervisory approach. We expect to resume examinations in 2021-22 with a focus on desk reviews.

Guidance

In September 2020 we resumed our consultation on the draft revisions to the Instruction Guide for the Preparation of Actuarial Reports for Defined Benefit Pension Plans. The final guide was posted in November 2020.

In November 2020 we resumed our consultation on the draft revisions to the Instruction Guide for the Termination of a Defined Benefit Pension Plan and began consultations on the Instruction Guide for the Termination of a Defined Contribution Pension Plan. The final guides for both defined benefit and defined contribution plans were posted in May 2021.

In December 2020 we posted an Instruction Guide for Filing Plan Amendments Using the Regulatory Reporting System (RRS) as well as the revised OSFI 593: Defined Contribution Pension Plan Amendment Information Form and OSFI 594: Defined Benefit/Combination Pension Plan Amendment Information Form.

Throughout the first quarter of 2021, we issued revised instruction guides and forms to improve the quality and usefulness of data collected and assist plan administrators in completing and submitting annual regulatory filings. Revisions were made to the instruction guides and accompanying forms for completing and filing the Solvency Information Return (SIR), the Actuarial Information Summary (AIS) and the

Private Pension Plan Environment

Approvals		Cases Processed				
Fiscal Year	Cases Submitted	Total	Registrations	Terminations	DB Asset Transfers	Other
2018-2019	63	47	14	16	12	5
2019-2020	40	42	16	19	1	6
2020-2021	31	37	10	10	9	8

Replicating Portfolio Information Summary (RPIS).

Although scheduled for publication in May 2020, *InfoPensions 23* was postponed until November 2020 due to the pandemic. This regular newsletter includes announcements and reminders for plan administrators, pension advisors and other stakeholders as well as descriptions of how we apply provisions of the pension legislation and its guidance. The November 2020 edition also provided an update on measures taken in response to COVID-19.

Approvals

Federally regulated private pension plans are required to seek our approval for several types of transactions, including plan registrations and terminations, asset transfers between registered defined benefit pension plans, refunds of surplus and reductions of accrued benefits.

In 2020-21, 31 such pension transactions were submitted for approval, compared to 40 in 2019-20. We processed 37 applications for approval in 2020-21, compared to 42 the previous year.

In 2020-21, 10 new plans were registered (two defined benefit/ combination plans and eight defined contribution plans), 10 plan termination reports were approved (eight defined benefit/combination plans and two defined contribution plans) and nine defined benefit asset transfer requests were authorized.

OSFI'S WORK: Regulation

In addition to creating, implementing and enforcing regulatory guidance and expectations to the industries we supervise, we regulate by interpreting legislation and providing approvals for some transactions.

Legislation

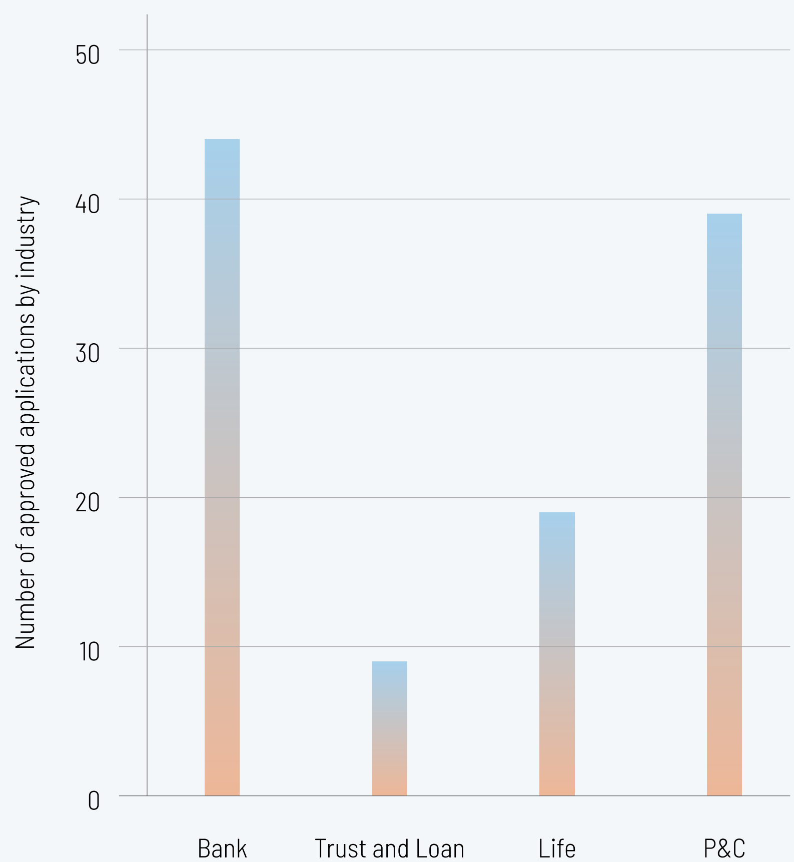
The federal statutes governing financial institutions generally restrict the use of words that could lead a person to believe that a company or business is a federal financial institution when it is not. We may, however, approve the use of such words in certain circumstances by entities that are not federally regulated financial institutions.

In order to enhance transparency and efficiency in this approval process, in December 2020 we published a webpage that provides an application form for such approval requests as well as responses to frequently asked questions on this subject.

Approvals

The *Bank Act, Trust and Loan Companies Act and Insurance Companies* Act require federally regulated financial institutions to seek regulatory approval from OSFI or the Minister of Finance prior to engaging in certain transactions or business undertakings.

Regulatory approval is also required by persons wishing to incorporate an institution, and by foreign banks or



foreign insurance companies wishing to establish a presence or to make certain investments in Canada.

In 2020-21 we processed 123 applications of this nature, 111 of which were approved and 12 of which were withdrawn. The majority of approved applications are related to banks (40%) and P&C insurers (35%).

The most common applications processed from DTIs were for purchases or redemptions of shares or debentures, transfers of assets in excess of 10 percent, exemption from requirements for solicitation of proxies and substantial investments.

For insurance companies, the most common applications were for purchases or redemptions of shares or debentures, amending orders to commence and carry on business or insure in Canada risks, and non-cash consideration for shares.

Regulatory approval and letters patent were granted to PNB Trust, allowing it to incorporate as a trust company. In addition, orders to insure in Canada risks under the *Insurance Companies Act* were issued to Shelter Mutual Insurance Company and Hudson Insurance Company, establishing them as foreign insurance branches in Canada.

Upon request, we also provide advance capital confirmations on the eligibility of proposed regulatory capital instruments. We provided a total of 27 such opinions and validations in 2020-21, compared to 21 in the previous year.

We have performance standards that establish timeframes for processing applications for regulatory approvals and for other services, all of which were met during the year. More information on service standards is located at the Application and Approvals section of our website.

OSFI'S WORK with Partners

Canada's financial system is one of the safest and strongest in the world. This is due in part to effective financial sector policy, regulation and supervision, liquidity support, deposit insurance, recovery and resolution strategies and consumer protection and financial education.

Oversight of Canada's Financial System

- Office of the Superintendent of Financial Institutions
- Bank of Canada
- Department of Finance Canada
- Canada Deposit Insurance Corporation
- Financial Consumer Agency of Canada

Domestic

We report to Parliament through the Minister of Finance and work closely with federal partners, including the Department of Finance, the Bank of Canada, the Canada Deposit Insurance Corporation (CDIC) and the Financial Consumer Agency of Canada. We also work with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) and consult with provincial counterparts and industry stakeholders.

In 2020-21 we continued to hold regular meetings with our partners and industry stakeholders despite the COVID-19 pandemic. We also participated in an annual crisis management exercise with CDIC to assess institutional preparedness.

Domestic Accounting, Auditing and Actuarial Standards

Our supervision and regulation of financial institutions relies on high-quality audited financial statements. For this reason, we actively participate in domestic standard-setting and oversight bodies related to Canadian auditing and accounting standards.

In September 2020, we co-hosted a virtual meeting on audit quality with the Canadian Public Accountability Board (CPAB). The forum provided an opportunity for more than twenty-five of Canada's public accounting and regulatory leaders to discuss ways to support continued financial system stability by enhancing public confidence in audit quality.

In 2020-21, we continued to participate in the CIA IFRS 17 steering committee and several CIA standards and guidance committees. We also participated in two Actuarial Standards Board (ASB) designated groups related to the implementation of IFRS 17, including the impact on the role of the actuary.

Canadian Association of Pension Supervisory Authorities

We are a member of the Canadian Association of Pension Supervisory Authorities (CAPSA), a national association of pension regulators with a mission to facilitate an efficient and effective pension regulatory system in Canada.

CAPSA developed the 2020 Agreement Respecting Multi-jurisdictional Pension Plans which came into force July 1, 2020. The Agreement provides a clear legal framework for the administration and regulation of multi-jurisdictional pension plans in Canada. Alberta, British Columbia, New Brunswick, Nova Scotia, Ontario, Quebec, Saskatchewan and the federal government have all signed onto the Agreement.

International

Our work with international organizations plays a key role in developing regulatory frameworks for banks and insurers and contributes to a strong, stable and resilient global financial system. We have earned a strong international reputation through our active participation in these organizations, allowing us to share the Canadian perspective and help shape new international regulatory and supervisory rules and accounting and actuarial standards that are fit for purpose for the Canadian financial system.

Working with partner organizations in other jurisdictions has also allowed us to expand our knowledge of international best practices in the regulatory domain and leverage established international relationships that proved useful during the pandemic.

Financial Stability Board

Canadian representation on the Financial Stability Board (FSB) includes the Department of Finance, the Bank of Canada and OSFI. During 2020-21 our role included membership on the FSB Plenary, Steering Committee, and Standing Committee on Supervisory and Regulatory Cooperation as well as:

- helping coordinate the global response to the COVID-19 pandemic;
- publishing a toolkit of effective practices for cyber incident response and recovery;
- working with other jurisdictions in advancing reform around major interest rate benchmarks and the transition away from London Inter-Bank Offered Rate (LIBOR);
- publishing an issues note on the regulatory issues associated with the emergence of global stablecoins;
- publishing a report assessing the financial stability implications of Big Tech firms' entry into finance as well as third-party dependencies associated with cloud services;
- initiating work to examine the financial stability implications of climate change;
- building on a stock-take of financial authorities' experience with climate risk inclusion in their financial stability monitoring;
- publishing a final report on the evaluation of the effects of reforms to end the concept of too-big-to-fail as well as work to address the risk of market fragmentation;
- working with standard-setting bodies to finalize and operationalize the implementation of G20 post-crisis financial sector reforms in insurance and resolution regimes; and
- co-hosting and chairing the FSB's Roundtable on External Audit in a virtual format this past year (see sidebar box on page 31).

Basel Committee on Banking Supervision

We are an active member of the Basel Committee on Banking Supervision (BCBS), which provides a forum for international rulemaking and cooperation on banking supervisory matters. This year we continued to work closely with the BCBS on a number of important initiatives.

We actively participated in BCBS discussions and information- gathering exercises to better understand the impact of the COVID-19 pandemic on the global banking system, including sharing information on the domestic regulatory and supervisory measures taken by members in response to the crisis.

We also participated in discussions related to the strategic review of the Basel Committee's future priorities, structure and processes. As a result of updates to the BCBS's structure that were finalized at the end of 2020 we now co-chair the Supervisory

Cooperation Group, which aims to strengthen supervision of banks worldwide and promote strong and effective supervisory cooperation on cross border banking issues.

We also now co-chair the Credit Risk and Large Exposures Group, a technical working group that provides analysis and policy recommendations related to international credit risk and large exposure frameworks.

Starting in April 2020 we participated in the BCBS's Accounting and Audit Experts Group's (AAEG) monitoring of COVID-19-related accounting issues and expected credit losses issues pertaining to internationally active banks.

Also starting in April 2020 we participated in the BCBS Audit Sub Group's (ASG) monitoring of COVID-19-related auditing issues pertaining to internationally active banks.

From October 19-22 2020, OSFI was proud to host the 21st International Conference for Banking Supervisors (ICBS) in collaboration with the Bank of Canada. Originally scheduled to take place in Vancouver, it was reimagined to be an entirely virtual conference due to the COVID-19 pandemic.

Delegates discussed a wide range of issues related to the future of banking supervision in a changing world. The discussions covered the digitalization of finance and the evolution of banking models, operational resilience, climate-related financial risks and remote working arrangements.

Participants also exchanged views on the challenges for central banks and bank supervisors in advanced and emerging market economies during the COVID-19 pandemic, as well as adapting to the changing operating environment for central banks and supervisors.

The conference marked a number of significant firsts: the first ICBS hosted by Canada, and the first-ever completely virtual version of the event. Due to the use of dynamic online platforms and innovative approaches, the conference was a great success, attracting more than 450 participants from close to 100 countries. The virtual format of the conference allowed approximately 200 more participants than usual to attend.

In December 2020 the BCBS published its Supplemental note to External audits of banks - audit of expected credit loss in which we played a significant role. The objective of the guidelines is to contribute to the high-quality audits of internationally active banks by communicating supervisory expectations for the audit of expected credit loss estimates and providing questions that banks' audit committees may ask the external auditor.

International Association of Insurance Supervisors

This past year we continued to be an active member in several committees and working groups at the International Association of Insurance Supervisors (IAIS). These include the Executive Committee, Policy Development Committee (and two of its working groups), the Macroprudential Committee and the Supervisory Forum.

Recognizing that the IAIS has recently completed several initiatives and there is a shift to implementation-related activities, we joined a new IAIS Committee, the Implementation and Assessment Committee.

In September 2020 OSFI Superintendent Jeremy Rudin chaired the Financial Stability Board's Roundtable on External Audit.

This event brought together senior representatives from FSB member authorities, audit oversight bodies, the International Forum of Independent Audit Regulators (IFIAR), the Committee of European Auditing Oversight Bodies, the International Auditing and Assurance Standards Board (and its oversight body the Public Interest Oversight Board) and the six largest global audit networks.

The roundtable provides a forum for constructive dialogue on promoting financial stability by enhancing public confidence in the quality of external audits. The discussion focused on current challenges linked to the economic downturn and volatility in financial markets and the estimation of expected credit losses, as well as goodwill impairment and other complex components of banks' financial statements.

Through our membership in these committees and working groups we contributed to key IAIS deliverables during the year, including implementation work related to the holistic framework for the assessment and mitigation of systemic risk in the insurance sector and the ongoing development of the global insurance capital standard (ICS).

Version 2.0 of the ICS was adopted for a five-year monitoring period in November 2019. At that time we communicated that while broadly supportive of its goals, we did not support the design of the standard due to its inappropriateness for the Canadian market. Since then, we have continued to work with the IAIS and member jurisdictions with the goal of achieving a standard that would be suitable for the Canadian context.

International Accounting and Auditing Standards

All federally regulated financial institutions in Canada are required to follow International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA). Our role is to interpret and assess international rules that may apply to Canadian financial institutions.

In 2020-21 we worked through the BCBS and the IAIS to provide comment letters and verbal feedback on various standards, including:

- To the International Accounting Standards Board on:
  - Interest Rate Benchmark Reform – Phase 2 exposure draft (May 2020);
  - General Presentation and Disclosures (Primary Financial Statements) exposure draft (September 2020);
  - Amendments to IFRS 17 Insurance Contracts (April 2020); and
  - Business Combinations – Disclosures, Goodwill and Impairment Discussion Paper (December 2020).
- To the International Auditing and Assurance Standards Board (IAASB) on:
  - IAASB proposed revisions to ISA 600, Special Considerations – Audits of Group Financial Statements (September 2020); and
  - Potential future updates to ISA 240 The Auditor's Responsibilities relating to Fraud In An Audit of Financial Statements and ISA 570 (Revised) Going Concern (January 2021).
- And to the IFRS Foundation Trustees' consultation paper on sustainability reporting (December 2020).

We demonstrated our strong support in high audit quality and worked to improve audit standards and frameworks by:

- hosting the 2020 FSB Roundtable on External Audit to promote international financial stability by enhancing public confidence in auditors and the quality of audits, especially for systemically important financial institutions; and
- overseeing high-quality audit standards through membership on the Public Interest Oversight Board.

Colleges of Supervisors

In 2020-21 we hosted four Colleges of Supervisors sessions—which involve large banks and insurers as well as international regulators—and one crisis management group. We also conducted quarterly conference calls with international regulators to identify potential issues in their jurisdiction before they manifest, and attended the colleges of companies with significant operations in Canada.

Office of the Chief Actuary

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

The OCA provides actuarial valuation and advisory services for the CPP, the Old Age Security (OAS) program, the Canada Student Loans Program and the Employment Insurance program. It also provides these services for pension and benefit plans covering the federal public service, the Canadian Forces, the RCMP, federally appointed judges and Members of Parliament.

The OCA operates within OSFI as an independent and impartial unit. Although the Chief Actuary reports to the Superintendent of Financial Institutions, the OCA's accountability framework makes it clear that its staff is solely responsible for the actuarial advice provided.

The 16th Actuarial Report on the Old Age Security program

The Old Age Security (OAS) program, financed from the Government of Canada's general tax revenues, is one of the cornerstones of Canada's retirement income system. Benefits within the program include the basic Old Age Security pension, the Guaranteed Income Supplement and the Allowance. The OCA is required by law to produce an actuarial report on the OAS program every three years.

The 16th Actuarial Report on the OAS program as at 31 December 2018 was tabled in Parliament on October 20, 2020. It provides information on the OAS program's future expenditures until 2060. This information facilitates a better understanding of the program and the factors that influence its costs. This report also reflects the expected impacts of the COVID-19 pandemic on the economic assumptions regarding the program.

In 2020, about 6.5 million Canadians received OAS benefits totalling approximately $61 billion or 2.8 percent of gross domestic product (GDP). Due to population ageing, the ratio of total OAS expenditures to GDP is projected to reach a high of 3.1 percent between 2030 and 2037, and then slowly decrease to a level of 2.6 percent by 2050.

External Peer Review of the 30th Canada Pension Plan Actuarial Report

In May 2020 the OCA released the findings of an independent peer review panel commissioned to review the 30th Actuarial Report on the CPP. The complete review report is available in the Office of the Chief Actuary section on the OSFI website.

The peer review panel complimented the Chief Actuary and staff on their competence, commitment and professionalism. The peer review resulted in nine recommendations dealing with various aspects of the report, including data, methodology, communication of results and other actuarial issues.

The OCA has either acted or plans to act on these recommendations. To enhance the accessibility of information, starting with the next actuarial report a summary infographic will be available for those who do not wish to read the entire report.

To further increase the transparency and independence of the peer review process, an external party oversaw the review. The U.K. Government Actuary's Department (GAD) selected the peer review panel members and released an opinion in April 2020 noting that the peer reviewers adequately covered all the main issues. This opinion is available on our website.

Public-Sector Pension and Benefit Plans

In 2020-2021, the OCA completed four actuarial reports on public sector insurance and pension plans, which were submitted to the President of the Treasury Board for tabling before Parliament.

The Actuarial Report on the Pension Plan for the Federally Appointed Judges as at 31 March 2019 and the Actuarial Report on the Pension Plan for the Members of Parliament as at 31 March 2019 were tabled on November 24, 2020. The Actuarial Report on the Pension Plans for the Canadian Forces Regular Force and Reserve Force as at 31 March 2019 and the Actuarial Report on the Regular Force Death Benefit Account were tabled on November 24, 2020.

These reports provide actuarial information to decision-makers, parliamentarians and the public, thereby increasing transparency and confidence in Canada's retirement income system. These reports also reflect the expected impacts of the COVID-19 pandemic on the economic assumptions.

In 2020-21, the OCA also completed numerous actuarial valuations for the Office of the Comptroller General. These actuarial valuations are prepared for purposes of reporting and disclosure in the consolidated financial statements of the Government of Canada.

Actuarial Report on the Employment Insurance program Premium Rate

In 2020-21, the OCA presented to the Canada Employment Insurance Commission (CEIC) the 2021 Actuarial Report on the Employment Insurance Premium Rate, which was tabled in Parliament on October 6, 2020. The report provides the forecast breakeven premium rate for the upcoming year and a detailed analysis.

The OCA also presented to the CEIC a memorandum on the estimated impact on the breakeven rate and on the EI Operating Account of additional measures related to the COVID-19 pandemic that were announced after the completion of the original report.

For a complete list of studies, meetings, presentations and speeches, visit the Office of the Chief Actuary section on the OSFI web site.

Special Events, Presentations and Studies

The impacts of increasing longevity on the sustainability of pension plans continued to attract attention both in Canada and around the world. In November 2020, the OCA published the Old Age Security Mortality Fact Sheet, which noted that there is a slowing trend in the pace of increases in life expectancy for both sexes between 2005 and 2019. Preliminary data for 2020, which were not included in this study, show a surge in the number of deaths as a result of the COVID-19 pandemic. In 2020-21, the Chief Actuary and OCA staff continued to discuss topics of longevity at national and international events and participated in the work of professional actuarial groups dealing with this issue.

In 2020-21, the OCA also published a fact sheet on Registered Pension Plans (RPP) and Other Types of Savings Plans in Canada which showed that, despite an increase in number of active RPP members over the last 10 years, the number of active RPP members both as a percentage of the labour force and as a percentage of employees has slightly decreased.

Corporate Services

We take pride in people: our staff, and the Canadians we work with and engage with every day. In February 2021, we were named as one of the National Capital Region's Top 100 employers by Mediacorp Canada for our efforts to create an exceptional place to work.

This recognition stems in part from the measures we took to address the impact on employees due to COVID-19 and the need to work remotely. These measures include providing up to $500 for employees to set up comfortable, functional home offices and our "One Office Update," an email newsletter sent to staff three times a week at the outset of the COVID-19 pandemic to keep them informed. It also noted that we provide employees with five days annually for in-house training or external development opportunities as well as subsidies for tuition or professional accreditation programs.

In addition to being known for our track record of regulatory excellence, we are committed to raising our existing profile as an employer of choice that offers a great working environment and reflects the richness of Canada's people.

Engaging with Canadians

In 2020-21 we communicated information about our plans, programs and activities to Canadians through our website, traditional and social media, public events, speeches and parliamentary appearances. We added a COVID-19 Updates page to our website, which was created as a central source for institutions and the public to be able to access our announcements, FAQs and regulatory guidance and expectations for FRFIs and FRPPs related to the extraordinary response to COVID-19.

We released a new informational video, "Protecting Canada from a financial crisis," in January 2021 to explain our role in safeguarding Canada's financial system against risks such as cyberattacks and pandemics like COVID-19.

Our Executive Committee and senior officials also presented and spoke at a variety of events across Canada and internationally that were held virtually due to the COVID-19 pandemic.

We planned and organized 23 events (17 external and five internal) during the year, ranging from annual risk management seminars and information sessions for financial institutions to industry meetings and workshops as well as international working group meetings.

Some of our meeting highlights include:

- Our June 2020 Life Risk Management Webcast, which was attended via videoconference by 193 guests (up from 139 attendees in 2019);
- Our November 2020 Property and Casualty Risk Management Webcast, which was attended via videoconference by 335 guests (up from 245 attendees in 2019);
- Our November 2020 Deposit-Taking Institutions Risk Management Webcast, which was attended via videoconference by 649 guests (up from 353 attendees in 2019); and
- Our March 2021 Small and Medium Sized Banks webcast, which was attended via videoconference by 520 participants (up from 242 in 2019).

In addition, we responded to more than 5,700 written and telephone inquiries and requests for information, including:

OSFI posts regularly on the following social media channels:

OSFI Twitter | OSFI LinkedIn | OSFI YouTube

- 117 inquiries from Members of Parliament;
- 98 inquiries from news media;
- 44 access to information requests (concluded); and
- 32 access to information consultations from government departments or other governments (also concluded).

Human Resources

As of March 31, 2021, OSFI employed approximately 860 people in offices located in Ottawa, Montréal, Toronto and Vancouver. Our employees have a range of skills and experience in financial services, regulatory affairs, risk management and a variety of corporate services.

The swift spread of COVID-19 in Canada meant we had to act quickly to maintain business continuity while also ensuring the safety of our staff. In March 2020 we activated our Business Continuity Plan. Since then, the vast majority of our staff have been teleworking or working remotely, with a small group of employees working in essential functions receiving extra support to work onsite. We continued to support business operations through seamless transition to virtual delivery of services, including recruitment and onboarding of new employees, adapting training courses for a virtual format, continuity of pay services, awards and recognitions, and performance management. We leveraged new and available technology to continue to engage employees and support them in their people leader responsibilities.

For those employees in essential functions requiring them to work onsite, we implemented a number of mitigation measures to reduce the risk of virus transmission in the workplace, ensuring our worksites remain healthy, safe, and secure during the COVID-19 pandemic.

Our leadership team believes in investing in human capital. To this end, in 2020-21 we continued to deliver on our multi-year Human Capital Strategy (HCS) launched in 2017. The strategy provides a framework for how we manage and develop our people. The HCS consists of five priority areas: leadership development; talent management; learning and development; culture and community; and enterprise change management. In 2021, we introduced an additional pillar to account for and guide work under our Hiring and Promotion Review, and our commitment to improving employment equity representation.

In 2020-21, activities we undertook to advance the goals in our strategy included:

- A review of our hiring and promotion practices to identify and address potential biases or barriers in our processes, policies, and approaches;
- The design and development of a talent management program for the non-executive group of employees, and the launch of several pilots of the process and supporting tools such as training and guidebooks;
- An enhanced onboarding program to support the virtual integration of new employees;
- Updates to the Management Essentials Program to provide training and support all people leaders in developing their skills;
- The design, development and roll-out of the Managing Virtually Program, to support people leaders in leading virtual teams;
- A comprehensive suite of coaching services, both in-house and through external parties, aimed at building a coaching culture;
- The design and development of a Wellbeing Strategy, to be implemented in 2021/2022;
- Continued investments to promote and support employee wellness, and diversity and inclusion; and
- A Diversity, Equity, and Inclusion (DEI) Framework to set the groundwork for the design and development of an enterprise wide DEI Strategy.

We strengthened our foundational policy instruments including the refresh of our corporate values, which inform our Statement of Values and Code of Conduct, and an update of our Conflict of Interest Policy to mitigate risks in the procurement and contracting processes. We also introduced a new Procedure for the Disclosure of Wrongdoing, and developed a new Workplace Harassment and Violence Prevention Policy and accompanying Procedure to align with recent legislative changes.

In March 2021 we launched PIVOT, an ongoing transformation agenda for our operating model. PIVOT encompasses how we work now and will work in the future, and includes a combination of remote and in-office work arrangements for staff. It is our integrated approach to managing all of the necessary components of the evolution of our workplace, including where and how we work, technology-enabled solutions, evolving human resources and leadership practices, greening operations and physical space, and more.

We are still in the early stages of PIVOT. We are confident however that the lessons we have learned as a result of the COVID-19 pandemic and throughout 2020/2021 will serve us well in the future and help create a safe and productive workplace for all employees.

Information Management and Technology

The COVID-19 pandemic drove home the importance of having robust, reliable and available information technology and network connectivity.

Despite the challenges of provisioning and serving a remote workforce, we made significant progress on our Information Management and Technology strategy, developed in 2019-20. This strategy provides a long-term plan for the continued evolution of the group's people and our processes and technology investments. It also serves as an umbrella strategy for more specific blueprints that will guide the modernization of our internal operations and evolution to digital services.

Achievements under the strategy in 2020-21 include:

- delivery of the final phase of the enterprise system for supervisory activity;
- improved and more secure collaboration and data analytics capabilities, to enable work from home and remote interactions with the industries we supervise and regulate;
- the first foundational elements to enable our cloud adoption roadmap;
- launch of the self-study cyber security awareness program, providing a solid foundation for mandatory annual cyber security training; and
- actions in response to new legislative requirements in response to the government's Policy on Service and Digital for information management and cloud computing

The transition from Skype for Business—first to Zoom, then to Microsoft Teams—coupled with user training and significant improvements to the core network capacity (bandwidth), enabled the majority of staff to work remotely with only minor impacts to overall productivity during both the initial and subsequent waves of the COVID-19 pandemic.

Data Strategy

Over the past year, we have continued to implement our Enterprise Data Strategy to transform the way our supervisors work with, and drive value from, the data we collect. The importance of timely and accurate data was heightened throughout the pandemic and will continue to be a focus area going forward.

Initiatives under the strategy are implemented in close collaboration with key technology and business partners to drive adoption and increase overall data literacy across OSFI.

Achievements under the Data Strategy in 2020-21 include:

- the continued build-out of data and analytics resources to expand internal capabilities in four key areas: Data Management and Transformation, Data Engineering & Analytics, Advanced Analytics and Data Governance;
- new enterprise tools to modernize business intelligence reporting, data workflow automation and advanced analytics sandbox environments; and
- new data governance frameworks to enhance how OSFI protects and processes its data assets.

Disclosure of Information

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

We promote effective disclosure by publishing select financial information on our external website, providing guidance to federally regulated financial institutions (FRFIs) on their disclosures, and participating in international supervisory groups with similar objectives.

Public Disclosures Associated with Maintaining Financial Stability

Public disclosure of risk management practices and risk exposures made by FRFIs are paramount to maintaining financial stability and market confidence. Over the past several years, publications released by international organizations such as the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS) have stressed the need for clear, comprehensive and meaningful risk disclosures. We believe that strong disclosures and market discipline are key elements of effective corporate governance and sound risk management practices within an institution.

During 2020-2021, we issued guidance for the following disclosure requirements:

- In March 2020 as part of our actions to address operational issues stemming from COVID-19, we communicated our disclosures expectations for deposit-taking institutions to allow users to understand assumptions and judgements made by management as a result of the pandemic.
- In March 2021 we issued draft guideline on Pillar 3 Disclosure Requirements for Canadian Domestic Systemically Important Banks (D-SIBs). OSFI's existing Pillar 3 Disclosure Requirements Guideline requires the D-SIBs to prepare disclosures in accordance with Phase I of the BCBS's Pillar 3 Framework. The draft Pillar 3 Guideline for D-SIBs implements Phases II and III of the Pillar 3 Framework for D-SIBs.
- Also in March 2021 we issued consultative questions to consider the applicability of the Pillar 3 Framework for SMSBs through its SMSB proportionality project. A future Draft Pillar 3 Disclosure Guideline for Small and Medium-sized Banks is expected later in 2021.

In 2020-21 we participated as a member of the Financial Stability Board's Work Stream on Climate Disclosures, which will explore ways to promote globally comparable, high-quality and auditable standards of climate-related financial disclosure.

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

OSFI's 2020-21 Financial Review and Highlights

We are funded mainly through assessments on the financial institutions and private pension plans we regulate and a user-pay program for legislative approvals and other select services.

The amount charged to individual institutions is set out in regulations for our main activities:

- risk assessment and intervention (supervision);
- approvals and precedents; and
- regulation and guidance.

In general, our system is designed to allocate costs based on the approximate amount of time spent supervising and regulating each industry. Costs are then assessed to individual institutions based on the applicable formula for the industry and the size of the institution. Staged institutions are assessed a surcharge on their base assessment, approximating the extra supervision resources required. As a result, well-managed, lower-risk institutions bear a smaller share of our costs.

In addition to yearly reporting of our financial statements through this report, we report our financial statements quarterly.

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

We collect administrative monetary penalties from financial institutions when they contravene a provision of a *Office of the Superintendent of Financial Institutions Act* and are charged in accordance with the Administrative Monetary Penalties (OSFI) Regulations. These penalties are collected and remitted to the consolidated revenue fund. By regulation, these funds cannot be used to reduce the overall assessment costs for the industry.

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

2020-21 Financial Overview

Overall, we have fully recovered all costs for the fiscal year 2020-2021. Our financial statements for the 2020-2021 fiscal year can be found in Annex A.

Our total costs were $201.3 million, an $11.5 million or 6.1% increase from the previous year. Personnel costs, OSFI's largest expense, rose by $15.7 million, or 11.0%. This variance reflects an increase in the number of full-time equivalent employees, an increase in the provision for unused vacation pay as employees, on average, used less than their full annual vacation entitlement and normal economic and merit increases to basic salaries. Rental costs increased by $1.3 million or 9.8% due to the full year impact of space added at the end of the prior year and increased rent on the renewal of some leases. Travel costs decreased by $3.6 million or 100 percent due to pandemic travel restrictions. Machinery and Equipment costs decreased by $1.3 million or 44.3% as most of the costs to fit up the new space discussed above were incurred in the prior year. All other costs, in total, decreased by $0.6 million or 2.3%.

OSFI's full-time equivalent employees in 2020-2021 was 867, a 9.3% increase from the previous year because of the addition of new positions to increase capacity in all sectors of the organization in accordance with OSFI's Strategic Plan, and the filling of a number of vacant positions.

Federally Regulated Financial Institutions

Revenues

Total revenues from federally regulated financial institutions were

$183.8 million, an increase of $10.4 million or 6.0% from the previous year. Base assessments on financial institutions, which are recorded at an amount necessary to balance revenue and expenses after all other sources of revenue are taken into account, increased by $11.0 million or 6.5% from the previous year.

Revenue from user fees and charges decreased by $0.5 million or 25.5% because of a reduction in surcharge assessments.

Costs

Total costs attributed to federally regulated financial institutions were $183.8 million, an increase of $10.1 million or 5.8% from the previous year. The increase is primarily due to higher personnel costs ($14.5 million), largely offset by decreased travel costs ($3.5 million), as explained above.

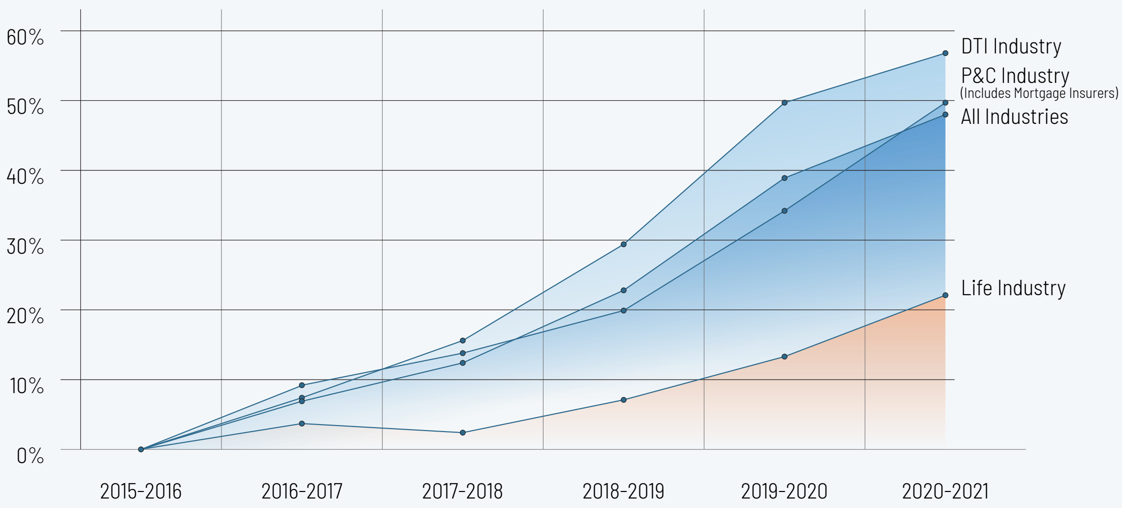
Base Assessments by Industry

Base assessments are the costs allocated to an industry, less user fees and charges and cost-recovered services revenues. Base assessments are differentiated to reflect the share of OSFI's costs allocated to each industry group. The chart below compares the cumulative growth of base assessments by industry group over the past five years, using 2015-2016 as the base year.

Overall, the increase in average full-time equivalent employees because of the addition of new positions and filling a number of vacant positions) from 2016-2017 through 2020-2021 contributed to overall growth in assessments. In 2018-2019, investments to implement a comprehensive human capital strategy, modernize OSFI's supervisory processes, practices and tools, and execute a cyber-security strategy and its associated action plan also increased base assessments across all industries. In 2019-2020 and 2020-2021 we made investments in additional employees, supervisory tools and supporting resources to implement our new three-year Strategic Plan. The implementation of the Strategic Plan allows OSFI to keep pace with the continually evolving and increasingly complex environment within which it operates by focusing on the four goals noted in the Priorities vs. Performance section of the annual report.

Base Assessments by Industry

Cumulative Growth Rates from Fiscal Year 2015-2016 to 2020-2021



Base assessments on the deposit-taking institutions (DTI) industry increased in 2016-2017 through to 2020-2021 because of the increases in OSFI's total expenses. The rate of growth in 2017-2018 was higher in this industry because of increased resources dedicated to supervision in this sector driven by ongoing strengthening of the supervisory regime and increased supervisory activity related primarily to the revised mortgage underwriting guideline B-20. From 2018-2019 through 2020-2021, the rate of growth in the DTI industry continued to outpace that of the other industries due to increased time spent on mortgage underwriting, the domestic stability buffer and small and medium-sized banks. Supervisory capacity was also increased in areas such as non-financial risks within this sector.

Growth in P&C - Base assessments from 2016-2017 through to 2020-2021 has been for the most part consistent with the increase in OSFI's total expenses.

Life - Base assessments rose in 2016-2017 because of the increase in OSFI's total expenses, albeit at a lower rate than that for the DTI and P&C industries because resources allocated to the Life industry remained unchanged from the previous year. In 2017-2018, base assessments decreased slightly due to a lower utilization of shared regulatory resources for life insurance matters as a result of the completion of the new Life Insurance Capital Adequacy Test Guideline (LICAT) in prior years. Base assessments continued to rise from 2018-2019 through 2020-2021 because of the increase in OSFI's total expenses to support the implementation of its new three-year Strategic Plan. The rate of growth in base assessments is lower than that for the DTI and P&C industries because resources allocated to the life insurance industry did not grow proportional to overall growth.

Federally Regulated Private Pension Plans

Assessments

Our costs to regulate and supervise private pension plans are recovered from an annual assessment charged to plans based on their number of beneficiaries. Plans are assessed upon applying for registration under the *Pension Benefits Standards Act, 1985* (PBSA) and annually thereafter.

The assessment rate is established based on our estimate of current year costs to supervise these plans, adjusted for any excess or shortfall of assessments in the preceding years. The estimate is then divided by the anticipated number of assessable beneficiaries to arrive at a base fee rate. The rate established for 2020-2021 was $10.00 per assessable beneficiary, increased from $9.00 the previous year. Total fees assessed during the fiscal

Assessments and Costs for Fiscal Years 2015-2016 to 2020-2021

($000, except Basic Fee Rate)

Fiscal Year	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Assessments	6,701	6,366	5,612	5,612	6,295	7,131
Costs	6,633	7,035	7,193	6,664	6,646	7,175
Basic fee rate* per assessable beneficiary	10.00	9.00	8.00	8.00	9.00	10.00

* The minimum and maximum annual assessment per plan is derived by multiplying the annual assessment by 50 and 20,000 respectively. With an annual assessment of $10.00 per member, the minimum annual assessment is $500 and the maximum is $200,000.

year were $7.1 million (up from $6.3 million in 2019-2020) whereas total fees recognized as revenue in 2020-2021 were $7.2 million (up from $6.6 million in 2019-2020). The difference between revenue recognized and fees assessed is the drawdown of excess assessments from prior years, as discussed below.

The excess or shortfall of assessments in any particular year is amortized over five years in accordance with the assessment formula set out in regulations whereby the annual shortfall or excess is recovered or returned to the pension plans over a period of five years commencing one year from the year in which they were established through an adjustment to the annual fee rate. Up to 2008-2009, rates had been set to recover an accumulated shortfall. A small surplus position was re-established in 2008-2009 and continued to rise through 2011-2012 as expenses were lower than planned each year. After 2012-2013, rates were set to gradually draw the surplus down. The rate established and published in the Canada Gazette in September 2020 for 2021-2022 is set at $10.00 per assessable beneficiary, unchanged from 2020-2021. OSFI anticipates that the rate for 2021-2022 will fully recover the estimated annual costs of this program; however, variations between actual and estimated costs or plan beneficiaries in any particular year will cause an excess or shortfall of assessments.

Costs

The cost of administering the PBSA for 2020-2021 was $7.2 million, an increase of $0.5 million or 8.0% from the previous year primarily due to an increase in personnel costs as a result of staffing vacant positions and an increase in associated overhead costs.

Office of the Chief Actuary

Actuarial Valuation and Advisory Services

The OCA is funded by fees charged for actuarial valuation and advisory services and by an annual parliamentary appropriation. Total expenses in 2020-2021 were $10.3 million, an increase of $0.9 million, or 9.3 percent, from the previous year primarily due to higher personnel costs as a result of staffing vacant positions and an increase in associated overhead costs.

FINANCIAL STATEMENTS: March 31, 2021

Statement of Management Responsibility Including Internal Control over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2021 and all information contained in these statements rests with the management of the Office of the Superintendent of Financial Institutions (OSFI). These financial statements have been prepared by management in accordance with Public Sector Accounting Standards.

Some of the information in the financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of OSFI's financial transactions.

Management is also responsible for maintaining an effective system of internal control over financial reporting designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the Financial Administration Act and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through an organizational structure that provides appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout OSFI; and through conducting an annual assessment of the effectiveness of the system of internal control over financial reporting.

The system of internal control over financial reporting is designed to mitigate risks to a reasonable level based on an ongoing process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

Under the responsibility of the Chief Financial Officer, an assessment for the year ended March 31, 2021 was completed in accordance with the Treasury Board Policy on Financial Management and the results and action plan are summarized in the annex.

The effectiveness and adequacy of OSFI's system of internal control is reviewed by the internal audit staff, who conduct periodic risk based audits of different areas of OSFI's operations, and by OSFI's Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting, and which reviews and provides advice to the Superintendent on the audited financial statements.

Deloitte LLP has audited the financial statements of OSFI and reports on their audit to the Minister of Finance. This report does not include an audit opinion on the annual assessment of the effectiveness of OSFI's internal controls over financial reporting.

Marc Desautels
Chief Financial Officer

Jeremy Rudin
Superintendent of Financial Institutions

Ottawa, Canada
June 21, 2021

Independent Auditor's Report

To the Superintendent of Financial Institutions and the Minister of Finance

Opinion

We have audited the financial statements of the Office of the Superintendent of Financial Institutions ("OSFI"), which comprise the statement of financial position as at March 31, 2021, and the statements of operations, changes in net financial assets and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of OSFI as at March 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards ("PSAS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of OSFI in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for public sector, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing OSFI's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate OSFI or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing OSFI's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OSFI's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on OSFI's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause OSFI to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
June 21, 2021

Deloitte LLP
100 Queen Street
Suite 1600
Ottawa ON K1P 5T8
Canada
Tel: 613-236-2442
Fax: 613-236-2195
www.deloitte.ca

Deloitte.

Stament of Financial Position

As at March 31, 2021 (in thousands of Canadian dollars)

	Note(s)	2021	2020
Financial assets			
Cash entitlement		$ 48,015	$ 52,683
Trade and other receivables, net	3, 4	8,766	4,488
Accrued base assessments	3	5,220	616
Total financial assets		**62,001**	**57,787**
Financial liabilities			
Accrued salaries and benefits	11	37,477	30,559
Trade and other payables	4, 11	3,017	6,703
Unearned pension plan assessments	11	833	877
Deferred revenue		66	90
Employee benefits – severance	6	4,697	4,785
Employee benefits – sick leave	6	10,311	8,978
Total financial liabilities		**56,401**	**51,992**
Net financial assets		**5,600**	**5,795**
Non-financial assets			
Tangible captital assets	5	18,465	18,520
Prepaid expenses		1,615	1,365
Total non-financial assets		**20,080**	**19,885**
Accumulated surplus	**12**	**$ 25,680**	**$ 25,680**
Contingencies	10		

The accompanying notes form an integral part of these financial statements.

Marc Desautels
Chief Financial Officer

Jeremy Rudin
Superintendent of Financial Institutions

Statement of Operations

For the year ended March 31, 2021 (in thousands of Canadian dollars)

	Note(s)	Budget 2020-21	2021	2020
Regulation and supervision of federally regulated financial institutions				
Revenue		$ 178,982	$ 183,754	$ 173,405
Expenses		178,982	183,754	173,669
Net results before administrative monetary penalties		-	-	(264)
Administrative monetary penalties revenue	8	50	45	96
Administrative monetary penalties revenue earned on behalf of the Government		(50)	(45)	(96)
Net results		**-**	**-**	**(264)**
Regulation and supervision of federally regulated private pension plans				
Revenue		7,323	7,175	6,646
Expenses		7,323	7,175	6,646
Net results		**-**	**-**	**-**
Actuarial valuation and advisory services				
Revenue		9,684	9,103	8,212
Expenses		10,895	10,329	9,449
Net results		**(1,211)**	**(1,226)**	**(1,237)**
Net results from operations before government funding		(1,211)	(1,226)	(1,501)
Government funding	4	1,211	1,226	1,501
Surplus from operations	$	- $	- $	-

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Net Financial Assets

For the year ended March 31, 2021 (in thousands of Canadian dollars)

	Note(s)	Budget 2020-21	2021	2020
Surplus from operations	$	- $	- $	-
Tangible capital assets				
Acquisition of tangible capital assets	5	(9,176)	(4,199)	(9,645)
Amortization of tangible capital assets	5	4,295	4,254	5,078
		(4,881)	55	(4,567)
Non-financial assets				
Change in prepaid expenses		-	(250)	287
Decrease in net financial assets		(4,881)	(195)	(4,280)
Net financial assets, beginning of the year		**5,795**	**5,795**	**10,075**
Net financial assets, end of the year		**$ 914**	**$ 5,600**	**$ 5,795**

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flow

For the year ended March 31, 2021 (in thousands of Canadian dollars)

	Note(s)	2021	2020
Operating activities			
Cash receipts from financial institutions, pension plans and other government entities		$ 196,736	$ 198,344
Cash paid to suppliers and employees		(197,160)	(181,862)
Administrative monetary penalties revenue remitted to the consolidated revenue fund	8	(45)	(96)
Net cash (used in) provided by operating activities		**(469)**	**16,386**
Capital activities			
Acquisition of tangible capital assets	5	(4,199)	(9,645)
Net cash used in capital activities		(4,199)	(9,645)
Net (decrease) increase in cash entitlement		**(4,668)**	**6,741**
Cash entitlement, beginning of the year		52,683	45,942
Cash entitlement, end of the year		$ 48,015	$ 52,683

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended March 31, 2021 (in thousands of Canadian dollars)

1. Authority and Objectives

The Office of the Superintendent of Financial Institutions (OSFI) was established by the *Office of the Superintendent of Financial Institutions Act* (OSFI Act) in 1987. Pursuant to the Financial Administration Act (FAA), OSFI is a division of the Government of Canada for the purposes of that Act and is listed in schedule I.1 of the Act. The Government of Canada is OSFI's parent and the ultimate controlling party of OSFI.

OSFI's mandate is:

Fostering sound risk management and governance practices
OSFI advances a regulatory framework designed to control and manage risk.

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

OSFI promptly advises financial institutions and pension plans if there are material deficiencies, and takes corrective measures or requires that they be taken to expeditiously address the situation.

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

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

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

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

The Office of the Chief Actuary provides a range of actuarial valuation and advisory services, under the *Canada Pension Plan Act and the Public Pensions Reporting Act to the Canada Pension Plan* (CPP) and some federal government departments, including the provision of advice in the form of reports tabled in Parliament.

Revenue and spending authority

Pursuant to Section 17 of the OSFI Act, the Minister of Finance may spend any revenues collected under Sections 23 and 23.1 of the OSFI Act to defray the expenses associated with the operation of OSFI. The Act also establishes a ceiling or expenses at

$40,000 above the amount of revenue collected to be drawn from the Consolidated Revenue Fund of Canada (CRF).

OSFI's revenues comprise assessments, service charges and fees. The expenses against which assessments may be charged include those in connection with the administration of the *Bank Act, the Cooperative Credit Associations Act, the Green Shield Canada Act*, the *Insurance Companies Act*, the *Protection of Residential Mortgage or Hypothecary Insurance Act and the Trust and Loan Companies Act*. The formula for the calculation of assessments is included in regulations.

Subsections 23(1.1) and 23(5) of the OSFI Act provide that assessments may be charged for the administration of the *Pension Benefits Standards Act, 1985* (PBSA, 1985) and the *Pooled Registered Pension Plans Act*. The assessments for the administration of pension plans subject to the PBSA are set annually in accordance with the *Assessment of Pension Plans Regulations*.

Section 23.1 of the OSFI Act provides that the Superintendent may assess against a person a prescribed charge (service charge) and applicable disbursements for any service provided by or on behalf of the Superintendent for the person's benefit or the benefit of a group of persons of which the person is a member. "Person" includes individuals, corporations, funds, unincorporated associations, Her Majesty in Right of Canada or of a province, and a foreign government. The service charges are detailed in the regulations.

Pursuant to Section 16 of the OSFI Act, Parliament has provided annual appropriations to support the operations of the Office of the Chief Actuary (OCA).

2. Significant Accounting Policies

The financial statements of OSFI have been prepared in accordance with Canadian Public Sector Accounting

Standards (PSAS) as issued by the Public Sector Accounting Board (PSAB). The accounting policies used in the financial statements are based on the PSAS applicable as at March 31, 2021. The policies set out below are consistently applied to all periods presented.

The significant accounting policies of OSFI are set out below:

a) Cash entitlement (Cash overdraft)

OSFI does not have its own bank account. The financial transactions of OSFI are processed through the CRF. Cash entitlement represents the maximum amount OSFI is entitled to withdraw from the CRF without further authority.

OSFI has a statutory revolving expenditure authority pursuant to Section 17(4) of the OSFI Act. This authority establishes a ceiling for expenses at $40,000 above the amount of revenue collected to be drawn from the CRF. Drawings on this facility are presented as cash overdraft.

No interest is earned or charged on these amounts.

b) Financial instruments

The classification of financial instruments at either fair value or amortized cost is determined by OSFI at initial recognition and depends on the purpose for which the financial assets were acquired, or liabilities were incurred. All financial instruments are recognized initially at fair value. The fair value of financial instruments on initial recognition is based on the transaction price, which represents the fair value of the consideration given or received. Subsequent to initial recognition, financial instruments are measured based on the accounting treatment corresponding to their classification.

Classification	Accounting Treatment
Cash entitlement	■ Cash entitlement shall be measured at fair value. ■ Gains and losses arising from changes in the fair value of a cash entitlement shall be recorded in Net results from operations before government funding in OSFI's *Statement of Operations*.
Trade and other receivables and Accrued base assessments	■ Trade and other receivables and Accrued base assessments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. ■ Subsequent to initial recognition at fair value, Trade and other receivables and Accrued base assessments are measured at amortized cost using the effective interest method, less impairment, if any. Any gain, loss or interest income is recorded in revenue or expenses depending on the nature of the receivables that gave rise to the gain, loss or income.
Financial liabilities	■ Accrued salaries and benefits, Trade and other payables excluding employer's contributions for employee benefit plans, Unearned base assessments, and Unearned pension plan assessments are measured at amortized cost using the effective interest method. Any gain, loss or interest expense is recorded in revenue or expenses depending on the nature of the financial liability that gave rise to the gain, loss or expense.

c) Impairment of financial assets

OSFI assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For financial assets carried at amortized cost, OSFI first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If OSFI determines that there is objective evidence of impairment for an individual financial asset, it must be assessed for impairment either individually, or in a group of financial assets with similar credit risk characteristics. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The impairment assessment must be based on the best estimates available in light of past events, current conditions, and taking into account all circumstances known at the date of the preparation of the financial statements. If a future write-off is later recovered, the recovery is credited to the *Statement of Operations*.

d) Tangible capital assets

Tangible capital assets are stated at historical cost, net of accumulated amortization and/or accumulated impairment losses, if any. Historical cost includes the costs of replacing parts of property and equipment when incurred, if the recognition criteria are met. Repair and maintenance costs are recognized in the *Statement of Operations* as incurred.

Amortization is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Assets	Useful life
Leasehold improvements	Lesser of useful life or remaining term of the lease
Furniture and fixtures	7 years
Office equipment	4 years
Informatics hardware	3 to 5 years
Informatics software	5 to 10 years

Internally developed and externally purchased software are capitalized as tangible capital assets. Software acquired separately is measured on initial recognition at cost. The cost of internally developed software consists of directly attributable costs necessary to create, produce, and prepare the software to be capable of operating in the manner intended by OSFI. Amortization of the assets begins when development is complete and the assets are available for use. Costs incurred during the pre-development or post-implementation stages are expensed in the period incurred.

The assets' residual values, useful lives and methods of amortization are reviewed at each financial year end and adjusted prospectively, if appropriate.

e) Impairment of non-financial assets

OSFI assesses at each reporting date whether there are any internal indicators that an asset may be impaired (e.g., damaged assets or assets no longer being used). If any indication exists, or when annual impairment testing for an asset is required, OSFI estimates the asset's recoverable amount.

OSFI assesses at each reporting date whether there is any objective evidence that an asset may be impaired. When a non-financial asset no longer contributes to OSFI's ability to provide goods and services, or the value of future economic benefits associated with the non-financial asset is less than its net book value, the cost of the non-financial asset is reduced to reflect the decline in the asset's value. Any writedowns are reflected in the Statement of Operations in the period the decline is recognized.

OSFI assesses internally developed software not yet in use for impairment on an annual basis.

f) Employee benefits

Short-term benefits are recorded in the *Statement of Operations* when an employee has rendered the service. Unpaid short-term compensated leave that has vested at the reporting date is accrued at the reporting date and not discounted. OSFI contributes to the Government of Canada sponsored Public Service Health Care Plan and Dental Service Plan for employees. These contributions represent the total obligation of OSFI with respect to these plans.

Pension benefits

Substantially all of the employees of OSFI are covered by the Public Service Pension Plan (the Plan), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and OSFI to cover current service cost. Pursuant to legislation currently in place, OSFI has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan.

Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of OSFI.

Severance

On termination of employment, employees are entitled to certain benefits provided for under their conditions of employment through a severance benefits plan. The cost of these benefits is accrued as the employees render their services necessary to earn severance benefits. The severance benefits are based upon the final salary of the employee.

The projected accrued benefit obligation is determined using an accrued benefit method which incorporates management's best estimate of salary, retirement age and discount rate.

Other benefits

The Government of Canada sponsors a variety of other benefit plans from which former employees may benefit upon retirement. The Public Service Health Care Plan and the Pensioners' Dental Service Plan are the two major plans available to OSFI retirees. These are defined benefit plans sponsored by the Government of Canada. Contributions are required by OSFI to cover current service costs. Pursuant to legislation currently in place, OSFI has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total obligation of OSFI with respect to these plans.

Sick leave

Employees are eligible to accumulate sick leave until retirement or termination. Unused sick leave is not eligible for payment on retirement or termination, nor can it be used as vacation. All sick leave is an accumulating non-vesting benefit. A liability is recorded for sick leave balances expected to be taken in excess of future allotments.

The cost of sick leave as well as the present value of the obligation is determined using an actuarial valuation.

g) Leases

Leases in which a significant portion of the risks and rewards of ownership related to the leased property are substantially retained by the lessor shall be accounted for as operating leases. OSFI records the costs associated with operating leases in the *Statement of Operations* in the period in which they are incurred. Any lease incentives received from the lessor are charged to the *Statement of Operations* on a straight-line basis over the period of the lease.

OSFI does not have borrowing authority and therefore cannot enter into lease agreements that are classified as leased tangible assets. OSFI has established procedures to review all lease agreements and identify if the proposed terms and conditions would result in a transfer to OSFI of substantially all the benefits and risks incidental to ownership.

h) Statement of Operations

The format of the *Statement of Operations* has been designed to show the revenues and expenses by each of OSFI's business lines. It is considered that this format best represents the nature of the activities of OSFI.

Expenses have also been disclosed by nature in Note 7 of these financial statements.

i) Revenue recognition

OSFI recognizes revenue so as to recover its expenses. Any amounts that have been billed and for which costs have not been incurred are classified as unearned on the *Statement of Financial Position*. Revenue is recorded in the accounting period in which it is earned (service provided) whether or not it has been billed or collected. At the end of the period, amounts may have been collected in advance of the incurrence of costs or provision of services, or alternatively, amounts may not have been collected and are owed to OSFI.

Base assessments – Revenue from federally regulated financial institutions base assessments is recognized based on actual costs incurred as services are charged based on cost recovery and all costs are considered recoverable. Base assessments are billed annually based on an estimate of the current fiscal year's operating costs (an interim assessment) together with adjustments related to the final accounting of the previous year's assessment for actual costs incurred. Assessments are calculated prior to December 31 of each year, in accordance with Section 23(1) of the OSFI Act and the *Assessment of Financial Institutions Regulations, 2017*. Differences between billed estimates and actual costs incurred at the end of the period are recorded as accrued base assessments or unearned base assessments.

Pension plan assessments are earned from registered pension plans. Assessment rates are set annually by regulation based on budgeted expenses, pension plan membership and actual results from previous years. Pension plan assessments are charged in accordance with Section 23(1.1) and 23(5) of the OSFI Act. Revenue from pension plan assessments is recognized based on actual costs incurred as services are charged based on cost recovery and all costs are considered recoverable. Differences between the amounts billed to industry and actual costs incurred at the end of the period are recorded as accrued pension plan assessments or unearned pension plan assessments.

User fees and charges include revenue earned pursuant to the Charges for Services Provided by the Office of the Superintendent of Financial Institutions Regulations, 2002 – as amended from time to time – in respect of legislative approvals and approvals for supervisory purposes, and surcharges assessed to federally regulated financial institutions assigned a "stage" rating pursuant to the Guide to Intervention for Federal Financial Institutions. Assessment surcharges are charged in accordance with the Assessment of Financial Institutions Regulations, 2017. Revenue from user fees and charges is recognized by reference to the stage of completion of the service. Percentage of completion is measured based on actual services performed to date as a percentage of total services to be completed.

Administrative monetary penalties are penalties levied to financial institutions when they contravene a provision of a financial institutions Act and are charged in accordance with the Administrative Monetary Penalties (OSFI) Regulations. Penalties levied are not available to reduce the net costs that OSFI assesses the industry (i.e., they are non-respendable) and are remitted to the CRF when collected. OSFI assesses its Administrative monetary penalties revenue against specific criteria in order to determine if it is acting as principal or agent. OSFI has concluded that it is acting as a principal for Administrative monetary penalty revenue.

Cost-recovered services represent revenue earned from sources other than those listed above. These services are provided in accordance with the terms and conditions agreed to by the transacting parties. Revenue from costrecovered services is recognized based on actual costs incurred, and all costs are considered recoverable. Revenue and the matching expenses from cost-recovered services not specifically related to the Regulation and supervision of federally regulated pension plans or Actuarial valuation and advisory services are grouped with the Regulation and supervision of federally regulated financial institutions on the Statement of Operations. This includes costs recovered from other government entities such as the Canada Mortgage and Housing Corporation for OSFI's supervisory oversight in accordance with the National Housing Act.

j) Government funding

Government funding, including parliamentary appropriations, is recognized in the period that the appropriation was authorized, and any eligibility criteria met. Parliamentary appropriations for operating purposes are considered to be without stipulations restricting their use and are recognized as revenue when the appropriations are authorized.

k) Contingent liabilities

Contingent liabilities are potential liabilities, which may become liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

l) Budget figures

The 2020-2021 budget is reflected in the *Statement of Operations* and the *Statement of Changes in Net Financial Assets* as approved by OSFI's Executive Committee.

m) Significant judgments, estimates and assumptions

The preparation of OSFI's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability, in which case the impact will be recognized in the financial statements of a future fiscal period.

In the process of applying its accounting policies, management has made certain judgments. The following specific judgments have the most significant effect on the amounts recognized in the financial statements:

- Recognition of internally developed software;
- Lease classification;
- Estimated useful lives of tangible capital assets;
- Actuarial assumptions used to value sick leave and severance obligations;
- Likelihood of occurrence for contingent liabilities;
- Estimates for the allowance for doubtful accounts; and,
- Estimates related to accrued salary increases.

3. Trade and Other Receivables

The breakdown of all amounts owing to OSFI, by type, is as follows:

	Federally regulated financial institutions	Federally regulated private pension plans	Actuarial valuation and advisory services	Other	Total March 31, 2021
Trade receivables	$ 3,649	$ 1,065	$ -	$ 1,661	$ 6,375
User fees and charges	1,039	-	-	-	1,039
Cost-recovered services and other	-	-	116	1.878	1,994
Trade and other receivables, gross	4,688	1,065	116	3,539	9,408
Allowance for doubtful accounts	(55)	(587)	-	-	(642)
Trade and other receivables, net	4,633	478	116	3,539	8,766
Accrued base assessments	5,220	-	-	-	5,220
Total	**$ 9,853**	**$ 478**	**$ 116**	**$ 3,539**	**$ 13,986**
% of Total exposure	**70.5 %**	**3.4 %**	**0.8 %**	**25.3 %**	**100.0 %**

	Federally regulated financial institutions	Federally regulated private pension plans	Actuarial valuation and advisory services	Other	Total March 31, 2020
Trade receivables	$ 179	$ 482	$ -	$ 120	$ 781
User fees and charges	1,663	-	-	-	1,663
Cost-recovered services and other	7	-	114	2,240	2,361
Trade and other receivables, gross	1,849	482	114	2,360	4,805
Allowance for doubtful accounts	(2)	(315)	-	-	(317)
Trade and other receivables, net	1,847	167	114	2,360	4,488
Accrued base assessments	616	-	-	-	616
Total	**$ 2,463**	**$ 167**	**$ 114**	**$ 2,360**	**$ 5,104**
% of Total exposure	**48.3 %**	**3.3 %**	**2.2 %**	**46.2 %**	**100.0 %**

The majority of OSFI's revenue is comprised of assessments which are invoiced once a year, usually in the second quarter. As a result, trade receivable balances will vary significantly during the year and may also vary from year to year depending on the timing of the invoicing.

OSFI records an allowance for doubtful accounts considering the age of an outstanding receivable and the likelihood of its collection. An allowance for doubtful accounts is also made where collection of the receivable is doubtful based on information gathered through collection efforts. An allowance is reversed once collection of the debt is successful or the amount is written off. Impairment losses on trade and other receivables recognized during the year ended March 31, 2021 were $353 (Year ended March 31, 2020 - $100). Recoveries during the same period totaled $28 (Year ended March 31, 2020 - $54).

A receivable will be considered to be impaired and written off when OSFI is certain that collection will not occur and all requirements of the OSFI Act or the Debt Write-Off Regulations, 1994 have been met. No amounts were written off during the year ended March 31, 2021 (Year ended March 31, 2020 - $2). During the period, no interest was earned on impaired assets and none of the past due amounts were renegotiated. Those that are neither past due nor provided for or impaired are considered to be fully collectible.

The aging of trade receivables was as follows:

Days outstanding	Current	31-60	61-90	91-120	>120	Total
March 31, 2021	$ 1,797	$ 7	$ 1,592	$ 496	$ 2,483	$ 6,375
March 31, 2020	$ 150	$ 1	$ 2	$ 60	$ 568	$ 781

Refer to Note 11 b) for further information on credit risk applicable to OSFI.

4. Related Party Transactions

OSFI is related, in terms of common ownership, to all Government of Canada departments, agencies and crown corporations. OSFI enters into transactions with these entities in the normal course of business and on normal trade terms. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the year ended March 31, 2021, OSFI purchased goods and services for $45,871 (2020 - $42,984) and earned revenue of $11,614 (2020 - $10,702) from transactions with other government entities. Although most transactions or groups of similar transactions are not individually significant, OSFI did have the following individually significant transactions:

Entity	Nature	2021 Expenditure	2021 Payable	2020 Expenditure	2020 Payable
Treasury Board Secretariat	Pension contributions, other employee benefits and other services	$ 30,769	$ 3,933	$ 27,676	$ 1,787
Public Services and Procurement Canada	Rent and other services	$ 11,912	$ 263	$ 12,436	$ 1,373

Entity	Nature	2021 Expenditure	2021 Payable	2020 Expenditure	2020 Payable
Employment and Social Development Canada	Actuarial valuation and advisory services	$ 4,972	$ 43	$ 4,655	$ 96
Canada Mortgage and Housing Corporation	Cost recovered services	$ 1,433	$ 2,988	$ 1,556	$ 1,556

As at March 31, 2021, the amount of trade and other receivables and trade and other payables from these related arties was $3,240 (March 31, 2020 - $1,982) and $4,480 (March 31, 2020 - $3,702), respectively.

OSFI receives an annual parliamentary appropriation pursuant to Section 16 of the OSFI Act to support its mandate relating to the OCA. During the year ended March 31, 2021 OSFI was granted $1,226 (2020 - $1,501) which was recognized into net results and shown on the Statement of Operations. There are no unfulfilled conditions or stipulations attached to this appropriation.

5. Tangible Capital Assets

March 31, 2021	March 31, 2020	Acquisitions	Transfer to "in use"	Disposals	March 31, 2021
Leasehold improvements	$ 17,255	$ 250	$ -	$ -	$ 17,505
Furniture and fixtures	2,107	-	-	-	2,107
Office equipment	2,307	102	-	-	2,409
Informatics hardware	6,211	492	-	(130)	6,573
Externally purchased software	613	109	-	-	722
Internally developed software	25,520	-	4,892	-	30,412
Internally developed software under development	1,646	3,246	(4,892)	-	-
Total	**$ 55,659**	**$ 4,199**	**$ -**	**$ (130)**	**$ 59,728**

Accumulated amortization	March 31, 2020	Amortization		Disposals	March 31, 2021
Leasehold improvements	$ 14,397	$ 503	$ -	$ -	$ 14,900
Furniture and fixtures	1,929	106	-	-	2,035
Office equipment	1,507	311	-	-	1,818
Informatics hardware	3,399	1,262	-	(130)	4,531
Externally purchased software	306	104	-	-	410
Internally developed software	15,601	1,968	-	-	17,569
Total	**$ 37,139**	**$ 4,254**	**$ -**	**$ (130)**	**$ 41,263**
Net book value	**$ 18,520**	**$ -**	**$ -**	**$ -**	**$ 18,465**

March 31, 2020 Cost	March 31, 2019	Amortization	Transfer to "in use"	Disposals	March 31, 2019
Leasehold improvements	$ 15,671	$ 1,584	$ -	$ -	$ 17,255
Furniture and fixtures	3,286	-	-	(1,179)	2,107
Office equipment	2,065	475	-	(233)	2,307
Informatics hardware					
Externally purchased software	463	-	5,825	-	25,520
Internally developed software	19,695	-	5,825	-	25,520
Internally developed software under development	968	6,503	(5,825)	-	1,646
Total	**$ 47,507**	**$ 9,645**	**$ -**	**$ (1,493)**	**$ 55,659**

Accumulated amortization	March 31, 2019	Acquisitions		Disposals	March 31, 2020
Leasehold improvements	$ 12,866	$ 1,531	$ -	$ -	$ 14,397
Furniture and fixtures	2,971	137	-	(1,179)	1,929
Office equipment	1,447	293	-	(233)	1,507
Informatics hardware	2,183	1,261	-	(45)	3,399
Externally purchased software	235	107	-	(36)	306
Internally developed software	13,852	1,749	-	-	15,601
Total	**$ 33,554**	**$ 5,078**	**$ -**	**$ (1,493)**	**$ 37,139**
Net book value	**$ 13,953**	**$ -**	**$ -**	**$ -**	**$ 18,520**

None of the assets held have any restriction on title and none of the assets have been pledged as security for liabilities. As at March 31, 2021, OSFI had $29,847 of tangible capital assets at cost that were fully amortized and still in use. These assets are near the end of their useful life and are scheduled to be replaced. Their fair value is insignificant.

6. Employee Benefits

a) Post-employment benefits

i. Pension benefits

Substantially all of the employees of OSFI are covered by the public service pension plan (the Plan), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and OSFI. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate, on pensionable earnings, effective as at March 31, 2021 was 10.339% (2020 - 10.060%). Total contributions of $13,117 were recognized as expense for the year ended March 31, 2021 (2020 - $11,549).

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2 percent of pensionable service times the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

ii. Severance benefits

OSFI used to administer a severance benefits plan for its employees. On termination of employment, eligible employees were entitled to certain benefits provided for under their conditions of employment based on their years of service. The plan was substantially curtailed in 2013 and employees no longer accumulate years of service. OSFI's remaining liability in regards to this plan relates primarily to employees who chose to defer receipt of their entitlement until departure. Current service benefit costs relate to the cost of involuntary departures.

Information about OSFI's severance benefit plan is presented in the table below.

	March 31, 2021	March 31, 2020
Accrued benefit obligation, beginning of the year	**$ 5,518**	**$ 5,604**
Current service cost	202	159
Interest cost	52	94
Benefits paid	(377)	(619)
Actuarial (gain)/loss	(265)	280
Accrued benefit obligation, end of the year[1]	**5,130**	**5,518**
Unamortized net actuarial loss	(433)	(733)
Accrued benefit liability	**$ 4,697**	**$ 4,785**

[1] The cost corresponding to annual changes in the accrued benefit liability is recovered from OSFI's various sources of revenue outlined in Note 2 i) to the financial statements. Amounts collected in excess of benefits paid are presented on the *Statement of Financial Position* under the heading of Cash entitlement.

Net benefit plan cost - severance	March 31, 2021	March 31, 2020
Current service cost	$ 202	$ 159
Interest cost	52	94
Amortization of actuarial loss	35	61
Benefit cost	**$ 289**	**$ 314**

The most recent actuarial valuation for sick leave benefits was completed by an independent actuary as at March 31, 2021. OSFI measures its accrued benefit obligation for accounting purposes as at March 31 of each year.

The significant actuarial assumption adopted in measuring OSFI's accrued benefit obligation is a discount rate of 1.74% (2020 - 1.20%). For measurement purposes, management's best estimate for the general salary increases to estimate the current service cost and the accrued benefit obligation as at March 31, 2021 is an annual economic increase of 1.5% for the plan year 2022 (2020 - 1.5% for the plan year 2021). Thereafter, an annual economic increase of 1.5% is assumed (2020 - 1.5%). The average remaining service period of active employees covered by the benefit plan is 13 years (2020 - 13 years).

b) Other long-term benefits

i. Sick leave

Information about OSFI's sick leave plan is presented in the table below.

	March 31, 2021	March 31, 2020
Accrued benefit obligation, beginning of the year	**$ 11,289**	**$ 10,329**
Current service cost	1,500	1,196
Interest cost	142	191
Benefits used	(418)	(622)
Actuarial (gain)/loss	(898)	195
Accrued benefit obligation, end of the year[1]	**11,615**	**11,289**
Unamortized net actuarial loss	(1,304)	(2,311)
Accrued benefit liability	**$ 4,697**	**$ 4,785**

[1] The cost corresponding to annual changes in the accrued benefit liability is recovered from OSFI's various sources of revenue outlined in Note 2 i) to the financial statements. Amounts collected in excess of benefits paid are presented on the Statement of Financial Position under the heading of Cash entitlement.

Net benefit plan expense - sick leave	March 31, 2021	March 31, 2020
Current service cost	$ 1,500	$ 1,196
Interest cost	142	191
Amortization of actuarial loss	109	190
Benefit cost	**$ 1,751**	**$ 1,577**

The most recent actuarial valuation for sick leave benefits was completed by an independent actuary as at March 31, 2021. OSFI measures its accrued benefit obligation for accounting purposes as at March 31 of each year.

The significant actuarial assumption adopted in measuring OSFI's accrued benefit obligation is a discount rate of 1.74% (2020 - 1.20%). For measurement purposes, management's best estimate for the general salary increases to estimate the current service cost and the accrued benefit obligation as at March 31, 2021 is an annual economic increase of 1.5% for the plan year 2022 (2020 - 1.5% for the plan year 2021). Thereafter, an annual economic increase of 1.5% is assumed (2020 - 1.5%). The average remaining service period of active employees covered by the benefit plan is 13 years (2020 - 13 years).

7. Revenue and Expenses by Major Classification

	Budget for the year ending March 31, 2021	March 31, 2021	March 31, 2020
Revenue			
Base assessments	$ 175,087	$ 180,307	$ 169,289
Cost-recovered services	11,579	10,952	10,184
Pension plan assessments	7,323	7,175	6,646
User fees and charges	2,000	1,598	2,144
Total revenue earned from respendable sources	**195,989**	**200,032**	**188,263**
Expenses			
Personnel	150,741	158,494	142,809
Professional service	17,500	17,687	17,709
Rental	13,829	14,390	13,102
Amortization	4,295	4,254	5,078
Travel	4,560	(26)	3,585
Machinery and equipment	1,593	1,578	2,834
Information	1,667	1,728	1,721
Communications	1,609	1,541	1,148
Repairs and maintenance	1,083	886	1,060
Materials and supplies	205	381	592
Other	118	345	126
Total expenses	**197,200**	**201,258**	**189,764**
Net results of operations before government funding and non-respendable administrative monetary penalties revenue	**(1,211)**	**(1,226)**	**(1,501)**
Government funding	1,211	1,226	1,501
Administrative monetary penalties revenue	-	45	96
Administrative monetary penalties earned on behalf of the government	-	(45)	(96)
Surplus from operations	**$ -**	**$ -**	**$ -**
Full-time equivalent number of employees	**875**	**867**	**793**

	Budget for the year ending March 31, 2021	March 31, 2021	March 31, 2020
Personnel expenses			
Wages and salaries	$ 117,383	$ 120,630	$ 109,169
Other benefits	20,465	24,376	21,748
Post-employment benefits other than severance	12,578	13,117	11,549
Severance benefits	295	289	314
Other personnel costs	20	82	29
Total	**$ 150,741**	**$ 158,494**	**$ 142,809**

8. Administrative Monetary Penalties

Administrative monetary penalties levied by OSFI are remitted to the CRF. The funds are not available for use by OSFI and are not included in the balance of the Cash entitlement. As a result, the penalties do not reduce the amount that OSFI assesses the industry in respect of its operating costs. Refer to Note 2 i) for further information on OSFI's accounting policy as it relates to administrative monetary penalty revenue.

In the year ended March 31, 2021, OSFI levied $45 (2020 - $96) in administrative monetary penalties.

9. Operating Lease Arrangements

OSFI has entered into operating lease agreements for office space and office equipment in four locations across Canada. The minimum aggregate annual payments for future fiscal years are as follows:

March 31, 2022	$ 10,710
March 31, 2023	8,981
March 31, 2024	7,310
March 31, 2025	7,309
March 31, 2026	7,308
Thereafter	29,101
Total	**$ 70,719**

10. Contingencies

A claim for unspecified damages was lodged during the financial year against the Government of Canada and its constituent entities (including OSFI). The claim has not advanced to a point where the potential outcome or the amount at risk can be determined, as such no provision for contingent liabilities has been accrued at the date of these financial statements. In the normal course of its operations, OSFI is involved in a limited number of legal claims. Although the final result of these claims cannot be determined at this time, management is of the opinion that the results will not have a material impact on the financial statements.

11. Financial Risk Management

OSFI's financial liabilities include: Accrued salaries and benefits, Trade and other payables, Unearned base assessments and Unearned pension plan assessments. These liabilities provide short-term financing for OSFI's operations. Financial assets: include Cash entitlement, Trade and other receivables, Accrued base assessments, Accrued pension plan assessments.

OSFI is exposed to market risk, credit risk and liquidity risk in connection with its financial instruments. OSFI's risk exposures and its processes to manage these risks did not change significantly during the year ended March 31, 2021.

a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity risk. OSFI is exposed to currency risk on any amounts payable that are to be settled in a currency other than the Canadian dollar but is not exposed to interest rate risk nor to other price risk.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. OSFI's exposure to the risk of changes in foreign exchange rates relates primarily to OSFI's operating activities (when expenses are denominated in a currency other than the Canadian dollar).

OSFI manages its exposure to currency risk by structuring its contracts in Canadian dollars wherever possible. The majority of OSFI's transactions presented were denominated in Canadian dollars; as such, OSFI's exposure to currency risk for all periods presented is insignificant.

There is no impact to revenues since all billings are in Canadian dollars.

b) Credit risk

Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument, resulting in a financial loss. The maximum exposure OSFI has to credit risk as at March 31, 2021 is $13,986 (March 31, 2020 - $5,104) which is equal to the carrying value of its Trade and other receivables and Accrued base assessments.

All federally regulated financial institutions and federally regulated private pension plans are required to register with OSFI and pay the assessments as established by OSFI. Any loss incurred by OSFI as a result of a counterparty not meeting its obligations is recorded in the year incurred and collected in the following year through assessments to the industry to which the balance pertains, as outlined in the OSFI Act. All remaining receivables are with other Canadian federal and provincial government organizations, where there is minimal potential risk of loss. OSFI does not hold collateral as security.

c) Liquidity risk

Liquidity risk is the risk that OSFI will encounter difficulty in meeting its obligations associated with current and future financial liabilities. OSFI's objective is to maintain sufficient Cash entitlement through its collection of base assessments, cost-recovered services and other fees and charges in order to meet its operating requirements. OSFI manages liquidity risk through detailed annual planning and billing processes that are structured to allow for sufficient liquidity from one billing period to the next. OSFI's objective is to accurately estimate its operating costs and cash requirements for the current year and to recover these through its interim base assessments, fees and other sources of revenue.

OSFI's policy is to satisfy liabilities by the following means (in decreasing order of priority):

- Disbursing payments from its Cash entitlement account; and,
- Drawing on its revolving expenditure authority, pursuant to Section 17.4 of the OSFI Act.

Drawings on this facility were $Nil as at March 31, 2021 (March 31, 2020 - $Nil).

Refer to Note 1 for further information on OSFI's authority and Note 2 a) for further information on the accounting policies for its revolving spending authority.

The table below summarizes the maturity profile of OSFI's financial liabilities as at March 31, 2021 and March 31, 2020 based on contractual undiscounted payments. When the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which OSFI can be required to pay. When amounts are due in installments, each installment is allocated to the earliest period in which OSFI can be required to pay.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	March 31, 2021 Total
Accrued salaries & benefits	$ 13,481	$ 13,496	$ 10,500	$ -	$ -	$ 37,477
Trade and other payables	-	3,017	-	-	-	3,017
Unearned pension plan assessments	-	53	161	511	108	833
Total	**$ 13,481**	**$ 16,566**	**$ 10,661**	**$ 511**	**$ 108**	**$ 41,327**

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	March 31, 2020 Total
Accrued salaries & benefits	$ 9,642	$ 11,776	$ 9,141	$ -	$ -	30,559
Trade and other payables	-	6,703	-	-	-	6,703
Unearned pension plan assessments	-	125	357	315	80	877
Total	**$ 9,642**	**$ 18,604**	**$ 9,498**	**$ 315**	**$ 80**	**$ 38,139**

Unearned pension plan assessments represent the accumulation of in-year surplus or deficit against assessments collected. These are in turn paid or collected over a period of five years commencing one year from the year in which they were established. OSFI does not charge nor pay interest to the various pension plans over the five years.

12. Accumulated Surplus

	March 31, 2021	March 31, 2020
Contributed surplus	$ 28,327	$ 28,327
Accumulated deficit	(2,647)	(2,647)
Accumulated surplus	**$ 25,680**	**$ 25,680**

OSFI was established on July 2, 1987 by the OSFI Act. OSFI was created through the merger of its two predecessor agencies – the Department of Insurance and the Office of the Inspector General of Banks. To help fund OSFI's first year of operations and establish a pool of working capital necessary to support its annual assessment and expenditure cycle, OSFI was credited with the assessments that recovered the costs of its predecessors for the previous fiscal year. This amount is reflected as contributed surplus.

The accumulated deficit was created as part of OSFI's transition to accrual accounting under Canadian Generally Accepted Accounting Principles (GAAP) in fiscal 2000-2001. The transition to GAAP accounts for $789 of the balance. On April 1, 2010, OSFI transitioned to International Financial Reporting Standards (IFRS) from GAAP which increased the accumulated deficit by $2,170. The balance as at March 31, 2011 increased by an additional $380 as a result of the operations for the year ended March 31, 2011 as determined under IFRS. On April 1, 2017, OSFI ceased to report in accordance with IFRS and adopted PSAS. These new standards were adopted with retrospective restatement, and therefore the 2017 comparative figures were restated. The balance at March 31, 2017 decreased by $692 as a result of the restatement of operations for the year ended March 31, 2017, leaving a balance of $2,647, which remains unchanged as at March 31, 2021.

13. COVID-19

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of COVID-19 are unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of OSFI in future periods.

Annex to the Statement of Management Responsibility including Internal Control over Financial Reporting

(Unaudited)

Fiscal Year 2020-2021

1. Introduction

This document provides summary information on the measures taken by the Office of the Superintendent of Financial Institutions (OSFI) to maintain an effective system of internal control over financial reporting (ICFR) including information on internal control management, assessment results and related action plans.

Detailed information on OSFI's authority, mandate and program activities are available in the Departmental Plan and the Departmental Results Report.

2. Departmental system of internal control over financial reporting

2.1 Internal Control Management

OSFI has a well-established governance and accountability structure to support the assessment efforts and oversight of its system of internal control. An internal control management framework, approved by the Superintendent, is in place that includes:

- Organizational accountability structures as they relate to internal control management to support sound financial management, including roles and responsibilities for senior managers in their areas of responsibility;
- Values and ethics;
- On-going communication and training on statutory requirements, policies and procedures for sound financial management and control; and,
- Monitoring and regular updates on internal control management, as well as the provision of related assessment results and action plans to the Operating Committee and the Audit Committee.

The Audit Committee provides advice to the Superintendent on the adequacy and functioning of the agency's risk management, control and governance frameworks and processes.

2.2 Service arrangements relevant to financial statements

2.2.1 Reliance on other federal government organizations

OSFI relies on other organizations for the processing of certain transactions that are recorded in its financial statements.

Common Arrangements

- Public Services and Procurement Canada (PSPC) centrally administers the payments of salaries, the shared travel system (STS) and the procurement of certain types of goods and services falling outside OSFI's contracting delegation of authority.
- Shared Services Canada (SSC) administers the procurement of certain goods related to information management and information technology falling outside OSFI's contracting delegation of authority.
- The Department of Justice provides legal services to OSFI.
- Treasury Board Secretariat (TBS) provides OSFI with information used to calculate various accruals, such as employee benefits rate.

Readers of this annex may refer to the annexes of the above-noted departments for a greater understanding of the systems of ICFR related to these specific services.

OSFI relies on other departments for the processing of certain information or transactions that are recorded in its financial statements, as follows:

Specific Arrangements

- TBS provides OSFI with corporate financial systems and system support. The services relate to the support of the SAP financial system platform for capturing all financial transactions and the Cognos Business Intelligence Tool for reporting. As the service provider, TBS is responsible for ensuring that IT–general controls over the SAP environment are designed and operating effectively. As the client, OSFI retains responsibility over certain IT–general controls over the SAP environment, such as user access controls and segregation of duties.

2.2.2 Services that other organizations rely upon

Specific Arrangements

- OSFI provides financial services for the calculation of assessments revenue and actuarial services to the Financial Consumer Agency of Canada (FCAC).
- 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.

3. OSFI's assessment results during fiscal year 2020-2021

Progress during the fiscal year 2020-2021

The following table summarizes the status of the ongoing monitoring activities according to OSFI's *Five-Year Risk Based Plan for the Assessment, Remediation and Ongoing Monitoring of Internal Controls over Financial Reporting*. The plan covers the five-year period from April 1, 2019 to March 31, 2024.

Monitoring results for 2020-2021	Status
Accounts Payable and Payments	Completed as planned and no remedial actions required
Procurement and Contracting	Completed as planned and no remedial actions required
Month-end/Year-end Accruals	Completed as planned and no remedial actions required
Quarter-end/Year-end Note Disclosures	Completed as planned and no remedial actions required
Payroll	Completed as planned and no remedial actions required
Revenue – Base Assessments	Completed as planned and no remedial actions required
Revenue – Pension Plan Assessments	Completed as planned and no remedial actions required
Revenue – Other	Completed as planned and no remedial actions required
IT General Controls	Completed as planned and remedial actions required

The key findings and significant adjustments required from the current year's assessment activities are summarized below.

New or significantly amended key controls – In reaction to the current COVID-19 pandemic, OSFI amended the application of certain key controls, such as the use of The key findings and significant adjustments required from the current year's assessment activities are summarized below.

New or significantly amended key controls – In reaction to the current COVID-19 pandemic, OSFI amended the application of certain key controls, such as the use of electronic signatures within the month-end accrual, payroll and procurement processes. There were only minor changes to the design process within the remaining five key business processes.

OSFI reassessed its methodology for entity level controls to ensure alignment to the 2013 COSO Framework. The updated methodology resulted in changes to the design of controls that OSFI uses for validating the effectiveness of entity level controls. The updated methodology will serve as the basis for assessing entity level controls during the fiscal year ending March 31, 2022.

On-going monitoring program – As part of its rotational ongoing monitoring plan, OSFI completed its assessment of financial controls within the following eight key business processes: Accounts Payable & Payments, Procurement & Contracting, Monthend/ Year-end accruals, Quarter-end/Year-end Disclosures, Payroll, Revenue – Base Assessments, Revenue – Pension Plan Assessments and Revenue – Other. Key controls were reviewed, tested, and found to be operating effectively as designed, with remedial actions required in one process.

IT General Controls (ITGCs) over the SAP financial system are shared between OSFI and TBS. OSFI completed the operating effectiveness assessment of controls under its responsibility while TBS completed a *Reporting on Controls at a Service Organization* (commonly called the Canadian Standard on Assurance Engagements (CSAE) 3416) audit over the design and operating effectiveness of the SAP system, which benefits all members of the cluster. As the service provider of the SAP financial system, TBS is responsible for completing any remedial actions identified as a result of the CSAE 3416 audit. TBS reports on the findings of this audit in its Annex to the *Statement of Management Responsibility including Internal Control over Financial Reporting*.

4. OSFI's action plan for the next fiscal year and subsequent years

OSFI's *Five-Year Risk Based Plan for the Assessment, Remediation and Ongoing Monitoring of Internal Controls over Financial Reporting* covers the on-going monitoring activities for the period of April 1, 2019 to March 31, 2024.

OSFI will assess entity level controls based on the updated methodology during the 2021-22 fiscal year.

OSFI's monitoring plan over the next 3 fiscal years is shown in the following table. The ongoing monitoring plan is based on:

- an annual validation of high-risk processes and controls
- related adjustments to the ongoing monitoring plan as required

Key Control Area	2021-2022	2022-2023	2023-2024
Entity level controls	✓		
IT general controls		✓	
Accounts Payable and Payments		✓	
Accounts Receivable and Cash Receipts	✓		
Budgeting and Forecasting	✓		✓
Procurement & Contracting	✓	✓	✓
Month-end/Quarter-end Accruals	✓	✓	✓
Quarter-end/Year-end Note Disclosures		✓	
Payroll	✓	✓	✓
Revenue – Base Assessments	✓	✓	✓
Revenue – Pension Plan Assessments	✓	✓	✓
Revenue – Cost Recovered Services	✓		✓
Revenue – Other			✓

Office of the Superintendent of
Financial Institutions Canada

255 Albert Street, 12th floor,
Ottawa, ON K1A 0H2
Telephone: 613-990-7788
Facsimile: 613-990-5591
Toll-free line: 1-800-385-8647
Website: www.osfi-bsif.gc.ca
Cat. No. IN1-2018E-PDF ISSN 1701-0810