



Office of the Superintendent of Financial Institutions

2011-12 Estimates

Part III – Report on
Plans and Priorities

Minister of Finance

Table of Contents

Message from the Superintendent.....	1
Section I – Agency Overview.....	2
1.1 Summary Information.....	2
Raison d’être.....	2
Responsibilities.....	2
Strategic Outcomes.....	3
Program Activity Architecture.....	3
1.2 Planning Summary.....	4
Financial Resources.....	4
Human Resources.....	4
Contribution of Priorities to Strategic Outcomes.....	6
Risk Analysis.....	8
Expenditure Profile.....	11
Estimates by Vote	13
Section II – Analysis of Program Activities by Strategic Outcome.....	14
2.1 Strategic Outcome One.....	14
2.1.1 - Program Activity: Regulation and Supervision of Federally Regulated Financial Institutions.....	14
Program Activity Summary.....	15
Planning Highlights.....	16
Benefits for Canadians.....	16
2.1.2 - Program Activity: Regulation and Supervision of Federally Regulated Private Pension Plans.....	18
Program Activity Summary.....	18
Planning Highlights.....	19
Benefits for Canadians.....	19
2.1.3 - Program Activity: International Assistance.....	20
Program Activity Summary.....	20
2.2 Strategic Outcome Two.....	21
2.2.1 - Program Activity: Actuarial Valuation and Advisory Services.....	21
Program Activity Summary.....	22
Planning Highlights.....	23
Benefits for Canadians.....	23
2.3 Program Activity: Internal Services.....	24
Program Activity Summary.....	25
Planning Highlights.....	25
Section III: Supplementary Information.....	26
3.1 Financial Highlights.....	26
3.2 List of Tables.....	27
3.3 Other Items of Interest.....	27

Message from the Superintendent



The Office of the Superintendent of Financial Institutions (OSFI) is tasked with overseeing the solvency of federally regulated financial institutions in the interest of depositors and policyholders, and protecting members in federal private pension plans. This 2011–2012 Report on Plans and Priorities highlights several areas where OSFI will focus its efforts. We will continue our contribution to a strong domestic financial system, in the face of a volatile global economic climate and transformational international regulatory changes.

With the Global economy adjusting to new rules and continued uncertainty, the coming years will represent a new set of challenges to the financial institutions and pension plans subject to our oversight. OSFI will be focusing on anticipating and addressing risks resulting from regulatory changes and creating higher standards for effective risk management and governance. We will be paying particular attention to the effects of implementation of international accounting rule changes and of Basel III capital adequacy requirements. In addition, OSFI will continue to work on reform of the capital framework for insurance companies and moving toward a market consistent approach.

OSFI's participation and leadership in international fora like the Basel Committee on Banking Supervision, the International Senior Supervisors Group, the Financial Stability Board and the International Association of Insurance Supervisors is an important part of ensuring that Canada maintains a flexible and robust financial framework. The economic crisis has shown us that problems can quickly spread across many jurisdictions and even those institutions that were well managed and supervised were impacted. It is clear that there is a need for strong international standards and our participation in these fora help to ensure that the Canadian experience can be shared and that Canada can continue to apply global best practices.

OSFI is responsible for providing high quality supervision and regulation of financial institutions but we are not alone in ensuring that the Canada has a safe and sound financial system. Prudent financial sector participation and strong cooperation and communication among Financial Institutions Supervisory Committee (FISC) partners - OSFI, the Bank of Canada, the Canada Deposit Insurance Corporation, the Financial Consumer Agency of Canada and the Department of Finance – are responsible for contributions to Canadian and international confidence in our financial system.

It is important that OSFI has the right people and right tools to continue to be effective in the face of transformational rule changes and new risks that may arise. Our plan includes a critical renewal of our information management and technological infrastructure and a renewed focus on forward-looking Human Resources strategies particularly in very specialized areas of financial institution operations so as to continue to identify and assess risks at very early stages.

Section I – Agency Overview

1.1 Summary Information

Raison d’être

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

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

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

Responsibilities

OSFI's legislated mandate was implemented in 1996 and under the legislation, OSFI's mandate is to:

- Supervise federally regulated financial institutions and private pension plans to determine whether they are in sound financial condition and meeting minimum plan funding requirements, respectively, and are complying with their governing law and supervisory requirements;
- Promptly advise institutions and plans in the event there are material deficiencies and take, or require management, boards or plan administrators to take, necessary corrective measures expeditiously;
- Advance and administer a regulatory framework that promotes the adoption of policies and procedures designed to control and manage risk; and
- Monitor and evaluate system-wide or sectoral issues that may impact institutions negatively.

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

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

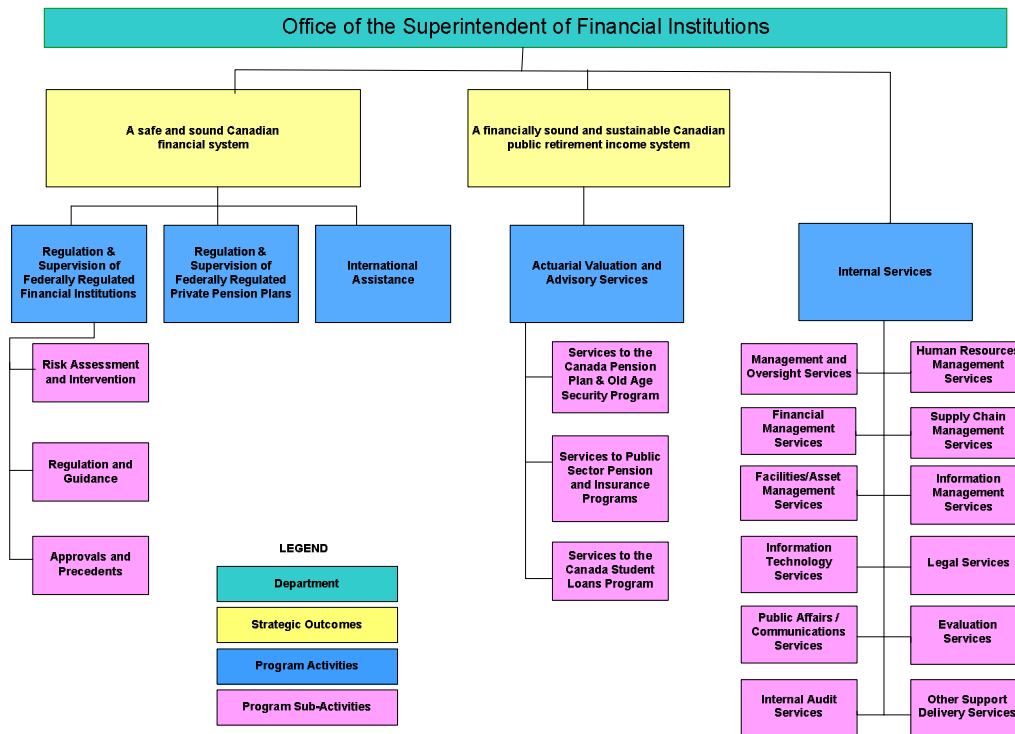
Strategic Outcomes

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

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

Program Activity Architecture (PAA)

The chart below illustrates OSFI's framework of program activities and program sub-activities, which roll-up and contribute to progress toward the Strategic Outcomes.



Effective March 31, 2010, OSFI ceased its International Assistance program activity, which provided technical assistance to supervisory systems in emerging market economies. The Canadian International Development Agency (CIDA), which funded the majority of OSFI's costs in delivering this assistance, has continued the program in partnership with the Toronto International Leadership Centre for Financial Sector Supervision. During the first quarter of fiscal year 2010-2011, OSFI provided transitional support to the Toronto Centre and in-so-doing incurred spending of \$0.4 million, as indicated in section 1.2 of this report.

OSFI's PAA is expected to be modified during 2011-2012 to reflect the elimination of this program activity.

1.2 Planning Summary

Financial Resources (\$ millions)

2011-2012	2012-2013	2013-2014
117.6	115.5	117.9

The financial resources table above provides a summary of the total planned spending for OSFI for the next three fiscal years.¹

Human Resources (Full-time Equivalent – FTE)

2011-2012	2012-2013	2013-2014
563	561	561

The human resources table above provides a summary of the total planned human resources for OSFI for the next three fiscal years.

Strategic Outcome 1: A safe and sound Canadian financial system.						
<u>Performance Indicators</u>						<u>Targets</u>
% of knowledgeable observers ² that rate OSFI as somewhat or very effective in monitoring and supervising their institution or pension plan.						70%
Percentage of estimated recoveries on failed institutions (amount recovered per dollar of claim).						90%
Percentage of estimated recoveries on pension plans that have terminated under-funded.						85%
Program Activity	Expected Results	Forecast Spending (\$ millions)	Planned Spending (\$ millions)			Alignment to Gov't of Canada Outcomes
		2010-2011	2011-2012	2012-2013	2013-2014	
Regulation and Supervision of Federally Regulated Financial Institutions	Protect depositors and policy holders while recognizing that all failures cannot be prevented.	56.5	57.8	58.9	60.5	<ul style="list-style-type: none"> Strong economic growth

¹ Additional information regarding the Financial and Human Resources trends can be found in the Expenditure Profile section of this report (page 11).

² Senior Executives, Plan Administrators, and professionals who act on behalf of federally regulated financial institutions and pension plans.

Regulation and Supervision of Federally Regulated Private Pension Plans	Protect the financial interests of federally regulated private pension plan members and beneficiaries.	4.5	5.6	4.6	4.7	• Income security for Canadians
International Assistance	Emerging market economies are more informed about current approaches to regulatory and supervisory systems, and deploy them to the extent possible.	0.4	0.0	0.0	0.0	• A safe and secure world through international co-operation
Total for SO 1		61.4	63.4	63.5	65.2	

Strategic Outcome 2: A financially sound and sustainable Canadian public retirement income system.						
<u>Performance Indicators</u>				<u>Targets</u>		
Panel of Canadian peer actuaries selected by an international and independent body attests that the Chief Actuary and staff have adequate professional experience, complete work in compliance with professional standards and statutory requirements, access adequate information and complete relevant data tests and analysis, use reasonable methods and assumptions in completing actuarial reports and that these reports fairly communicate the results of the work performed.				Unanimous agreement amongst peers		
Adequacy of professional experience of the Chief Actuary and staff. AND/OR Compliance with Canadian and international professional standards.				Unanimous agreement amongst peers		
				Unanimous agreement amongst peers		
Program Activity	Expected Results	Forecast Spending (\$ millions)	Planned Spending (\$ millions)			Alignment to Gov't of Canada Outcomes
		2010-2011	2011-2012	2012-2013	2013-2014	
Actuarial Valuation and Advisory Services	Stewards of Canada's public retirement income system are provided with independent, accurate, high quality and timely professional actuarial services and advice.	4.3	4.5	4.6	4.7	• Income security for Canadians
Total for SO 2		4.3	4.5	4.6	4.7	

Program Activity	Forecast Spending (\$ millions)	Planned Spending (\$ millions)		
	2010-2011	2011-2012	2012-2013	2013-2014
Internal Services	45.0	49.7	47.4	48.0
Total for Internal Services	45.0	49.7	47.4	48.0

Contribution of Priorities to Strategic Outcomes

All Operational and Management Priorities link to both of OSFI's Strategic Outcomes.

Operational Priorities	Type	Description
Risks Emanating from the Economy	Ongoing	<ol style="list-style-type: none"> 1. Effectively monitor and manage the more dynamic, increasingly complex regulatory and financial environments, both internationally and domestically, while the volume and pace of new issues are increasing: <ol style="list-style-type: none"> a. Internationally, continue to participate in discussions (such as the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS), and Senior Supervisors Group(SSG)) to proactively and strategically anticipate and address risks from economic uncertainty in a more dynamic, increasingly complex regulatory and financial environment. b. Domestically, continue work with Financial Institutions Supervisory Committee (FISC) partners and the regulated industries on similar issues in the Canadian context. c. Continue to identify, monitor and report on emerging risks, including system-wide risks that may have a material impact on Canadian financial institutions and federally regulated pension plans. d. Put into practice updates made to the Supervisory Framework including an enhanced Quality Assurance (QA) process. 2. Develop and set higher standards for federally regulated entities (FREs) in the areas of effective risk management practices and governance.
Risks Emanating from Regulatory Reform	Ongoing	<ol style="list-style-type: none"> 1. Banking Reforms: <ol style="list-style-type: none"> a. Determine the impacts of the fundamental redesign of global banking regulation on our banks' capital levels and what domestic adjustments need to take place. b. In response to the Basel III framework, revise the definition of capital and develop new rules, guidelines, and a common reporting framework for Canadian federally regulated banks. 2. Insurance Reforms: <ol style="list-style-type: none"> a. Enhance the supervisory regime for insurance companies by revising domestic regulatory capital requirements. b. Proactively and strategically anticipate and address risks related to insurance capital. c. Conduct frequent consultations across industries as capital adequacy rules are drafted to provide for risk sensitive capital. 3. Pensions Reforms: <ol style="list-style-type: none"> a. Adjust the monitoring of risks facing pension plans and other supervisory processes to address the impact of changes to pension legislation and regulations. 4. Accounting Reforms (International Financial Reporting Standards - IFRS): <ol style="list-style-type: none"> a. Review impacts of changes to the accounting for insurance contracts (Phase II Insurance Contracts) under IFRS and revise capital/accounting/and actuarial guidelines as necessary. b. Internationally, OSFI will continue to participate in discussions with international fora identified under Priority A to represent OSFI's views and participate in developing final standards to ensure the ability to maintain OSFI's reliance regime. c. As IFRS changes regarding financial instruments will impact FRFI's

		reporting and the use of fair values (FV), OSFI will determine the impacts of these new accounting standards on FRFIs' capital levels and what domestic guideline adjustments need to take place.
--	--	---

Management Priorities	Type	Description
A High-Performing and Effective Workforce	Ongoing	<ol style="list-style-type: none"> 1. Continue to implement OSFI's multi-year Human Resources (HR) Strategy, and to focus on HR Planning to identify and proactively plan for changing human resources requirements and ensure capacity and skills of employees are in place to meet OSFI's business plan and priorities. 2. Implement individual learning and development (training) plans to ensure our employees are equipped to deal with their work plans and with the impact of emerging risks.
An Enhanced Corporate Infrastructure	Ongoing	<ol style="list-style-type: none"> 1. Continue to implement the long-term strategies and IT Renewal Program for Information Management and Information Technology necessary to support our evolving supervisory and regulatory activities. 2. Implement appropriate strategy, governance, oversight and control over FRFI data management. Ensure data tagging processes are adaptable to the changing environment. 3. Proceed with the development of enhanced systems supporting the pension supervisory processes.

Risk Analysis

Enterprise Risk Management

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

OSFI's Enterprise-wide Risk Management (ERM) framework divides risks into external and internal categories. The external risk category consists of economic and financial conditions, the financial industry environment, OSFI's legal environment and catastrophic events. External risks arise from events that OSFI cannot influence, but must be able to monitor and respond to in order to mitigate the impact. The internal risk category consists of risks that can broadly be categorized as people, processes, systems, and culture.

Economic, Industry and Regulatory Environment

Although the global financial system continues to recover gradually from the significant dislocations experienced in recent years, downside risks remain. With the global economic recovery expected to be prolonged, the process of repairing the international financial sector is likely to be protracted, and achieving a sustainable fiscal position will pose a significant challenge for several countries. Market concerns over acute fiscal strains in some euro-area member states and their potential to lead to wider turmoil in the international financial system have intensified. As well, with weaker growth, interest rates may remain at relatively low levels for a period, potentially creating additional sources of vulnerability in the financial system over time.

A feature of the recent recovery is the uneven nature of economic activity across major economic regions, with modest, relatively slow recovery in many advanced economies, particularly in comparison to more rapid recovery in emerging-market economies. The global environment is also associated with large current account imbalances. After narrowing during the recession, these imbalances have widened again with the recovery, leading to tensions in currency markets and increasing the risk of a disorderly adjustment. More generally, these factors imply corresponding relative price adjustments, such as (but not limited to) exchange rate adjustments, which the global economy will need to work through.

Despite the fragile international financial environment, the Canadian financial system remains relatively strong, with domestic financial markets functioning well and the capital and liquidity positions of Canada's major banks showing continuing strength. In particular, the pace of loan-loss provisioning in the domestic banking sector has moderated from its cyclical peak in the second quarter of 2009. The aggregate financial position of the Canadian non-financial corporate sector also remains sound, with considerably lower leverage than in most other advanced economies. The rising indebtedness of Canada's household sector, however, is a potential source of concern.

In sum, there are several interconnected sources of risk from the external environment:

- (i) lingering financial fragility associated, in part, with the weak global economic recovery;
- (ii) the need for significant fiscal adjustment over the medium-term in major trading partners;
- (iii) sovereign debt concerns in several countries;
- (iv) large, external imbalances implying a need for corresponding relative price adjustments;
and
- (v) the potential for excessive risk-taking behaviour arising from a prolonged period of low interest rates in some advanced economies.

The main domestic source of risk arises from the financial position of Canadian households, which may leave them more vulnerable to adverse events.

OSFI's ERM process has identified several key risks to the achievement of its mandate and objectives, as follows:

External Risks

Global Economies and the Industry

As noted above, the risks posed by the current environment, both at the level of the economy and within the financial sector, and taking into account ongoing global developments, continue to be of concern. Global financial events require that OSFI be in a position to respond effectively to a continually evolving economic and regulatory environment. On a micro-level, prevailing conditions continue to put pressure on OSFI staff to provide interpretations or to reassess existing guidance to ensure its effectiveness under stressful and evolving conditions. Specific strategies have been put in place within individual Divisions, consistent with specialized responsibilities and current projects, to address ongoing industry developments. Resources continue to be reassigned and priorities realigned as necessary.

Capital Adequacy

Work is underway in many countries and in international fora to develop more risk-sensitive capital frameworks for insurance companies as both companies and regulators recognize the need to have more risk sensitive approaches that better reflect the issues arising from increasingly complex products and dynamic markets. As a result, there is a need to improve the risk sensitivity of the Minimum Continuing Capital and Surplus Requirement (MCCSR) and the Minimum Capital Test (MCT), as well as to incorporate changes due to IFRS, while maintaining the integrity of the existing capital tests.

Impending changes to the Basel capital framework for banks and the need to update prudential regulatory frameworks to address recent market events also require banks and regulators to focus more on the measurement of risks and its relation to the overall level of capital adequacy, leverage and liquidity. Due to the breadth of change and the novelty of certain measures, OSFI expects that the review, consultation and implementation of these changes will require more resources by both financial institutions and OSFI. It is expected that policies creating OSFI's current prudential framework will have to be updated to incorporate new issues, information and lessons learned from the times of stress and the new internationally required minimum prudential standards.

Internal Risks

People Risks

OSFI's success is dependent upon having employees with highly specialized knowledge, skills and experience to regulate and supervise financial institutions, identify significant issues, and perform accurate risk assessments. OSFI is also being called on to take an increasing leadership role domestically and internationally and to devote resources to further improving financial regulation and considering systemic issues. OSFI's ability to meet these expectations is impacted by compensation restraints and budget constraints in light of the fiscal restraint initiatives currently in effect.

A volatile global economy, increasingly complex products, changes to prudential regulation and emerging risks in the industry also mean that OSFI needs to be able to attract, motivate, develop and retain skilled people, particularly those whose skills are in demand in the financial sector. In addition, a significant increase in hiring over the last two years due to market conditions, and normal turnover and retirement rates mean that a continuous learning environment is necessary to enable employees to meet the challenges of this constantly changing environment. Not having sufficient skill sets in place can result in an over reliance on certain key resources, which can lead to other people risks.

Systems Risks

Enabling technology and a robust, secure and well-supported Information Technology (IT) infrastructure are key success factors to OSFI in meeting its mandate. OSFI must ensure that the necessary information systems and infrastructure are in place to effectively support its supervisory and regulatory activities. Implementation issues related to the new IM/IT strategy are being closely monitored and evaluated.

Changes to International Financial Reporting Standards (IFRSs)

Canada will move to IFRS in 2011 as required by the Canadian Accounting Standards Board for publicly accountable enterprises, which include FRFIs. OSFI will have completed its preparation for FRFIs to use IFRS, including all our systems modifications. Additionally, OSFI will be monitoring the impact that this changeover has on FRFIs as OSFI relies on FRFIs' audited financial information. Further, key accounting projects proposed by the International Accounting Standards Board (IASB) for finalization subsequent to the 2011 implementation of IFRS will also significantly impact FRFIs and OSFI. There are two key projects that will impact banks and insurers: replacement of financial instruments and insurance contracts Phase II. The financial instruments project proposes increased use of fair value and expected losses provisioning for loans. The Phase II project proposes to fundamentally change the valuation of insurance liabilities and recognized revenue. The impacts of the changes for these projects are extensive in that they will not only change the accounting, but will also significantly impact loan values and provisions, actuarial standards, and the regulatory capital regime. As a reliance-based regulator, it is crucial that OSFI anticipate, understand and, when practicable, influence such changes so that OSFI will continue to be able to perform accurate risk assessments of financial institutions and will be able to adjust the regulatory capital framework as required.

Expenditure Profile

In accordance with the Treasury Board Secretariat's *Guide to the Preparation of Part III of the 2011-2012 Estimates*, the financial and human resources presented in this Report on Plans and Priorities reflect OSFI's approved Annual Reference Level Update (ARLU) estimates, which were prepared in early summer 2010. At the time of writing this Report on Plans and Priorities (RPP), OSFI was completing its business planning process for fiscal years 2011-2012 to 2013-2014 and assessing its capacity requirements. As a result, changes to OSFI's approved ARLU estimates will be reflected in next year's RPP.

During the 2011-2014 planning period, OSFI will focus on responding to risks emanating from the economy and from regulatory reforms, primarily in insurance, banking and accounting (IFRS). The global economic recovery is expected to be prolonged and the process of repairing the international financial sector is likely to be protracted. The risks posed by the current environment, both at the level of the economy and within the financial sector, continue to be of concern for OSFI.

On the regulatory front, OSFI will be implementing fundamental changes to how it supervises insurance companies by taking on a much larger role in verifying actuarial assumptions of each federally regulated insurance company. OSFI will also be determining the impacts of the fundamental redesign of global banking regulation on the capital levels of Canada's banks. Lastly, expected new, but as yet undetermined, accounting rule changes could have major impacts on the life insurance industry in particular. Accordingly, increases to the resource levels presented in these tables are foreseen, particularly in the Regulation and Supervision of Federally Regulated Financial Institutions program activity where expertise in technical skills are required to deal with the issues outlined above.

Changes identified during OSFI's business planning process, which was completed in December 2010, have been incorporated into the future-oriented financial statement.

(\$ millions except for percentages)	Actual Spending	Forecast Spending	Planned Spending		
	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Gross Expenditures	100.9	110.7	\$117.6	\$115.5	\$117.9
<i>Change from previous year</i>		9.7 %	6.2 %	(1.8 %)	2.1 %
Less:					
Respendable Revenue	111.1	109.8	116.7	114.6	117.0
Total Planned Spending	(10.2)	0.9	0.9	0.9	0.9

Total gross expenditures in 2010-2011 are forecasted to increase by 9.7% from the previous year, to \$110.7 million, primarily due to the increase in human resources and the full-year impact in 2010-2011 of employees hired during 2009-2010 (which in combination, result in a growth of 27 full-time equivalents), a 30 basis point increase in the employee benefits rate charged by Treasury Board, normal inflationary and merit adjustments and continued annual investments in information systems related to the Private Pension Plans program activity, systems updates and renewal of core infrastructure and selected applications.

Total gross expenditures in 2011-2012 are planned to increase by 6.2% over 2010-2011 forecast, to \$117.6 million, mainly due to an increase of 1.1% in full-time equivalents, normal inflationary and merit adjustments and investments in information systems as noted above. Gross expenditures for 2012-2013 are planned at \$115.5 million, or a year-over-year reduction of 1.8%, due to the planned completion of the Risk Assessment System for Pensions (RASP) project in 2011-2012 and the shifting of completion timelines of some information management / information technology projects. The growth in 2013-2014 is due to normal inflationary and merit adjustments. As noted above, however, OSFI is currently completing its business planning cycle and the planned increases in resources has been incorporated into the future-oriented financial statements and will be reflected in the body of next year's Reports on Plans and Priorities.

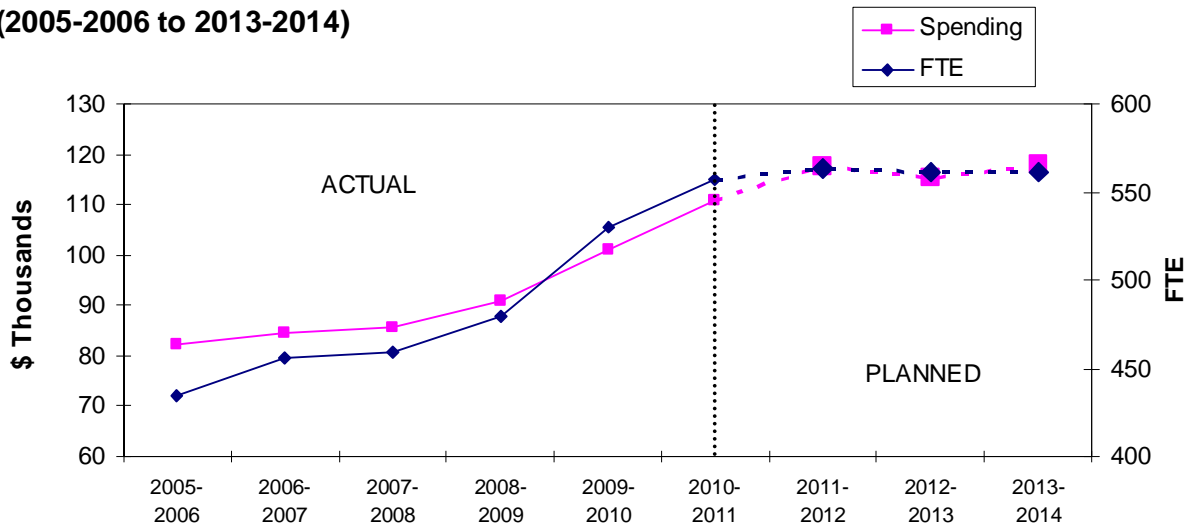
Net of Respendable Revenues, total planned spending is \$0.9 million for each of the planning years. This amount is assumed to remain unchanged over the planning horizon but may be adjusted by Treasury Board to reflect changes in collective agreements or continued cost constraint measures.

Figure 1 below provides a trend of OSFI's actual and planned expenditures and full-time equivalents (FTEs) over the fiscal years 2005-2006 to 2013-2014. The growth in FTEs starting in late 2007-2008 through to 2009-2010 was driven by the global financial market turmoil, which began in August 2007, and the serious economic downturn in the following year while financial market turmoil still prevailed. During this period, OSFI added staff in specialized areas in order to more intensely monitor and assess risk in the financial sector. In the current planning period, OSFI is expecting to further increase its staff complement to address the increased volume and complexity of its work, new initiatives and new international commitments as a result of the lessons learned from the global financial crisis, to implement the significant regulatory reforms and implement OSFI's approved Information Management/Information Technology (IM/IT) Strategy.

OSFI continues to re-evaluate its programs to ensure that they contribute to OSFI's mandate and are efficiently managed. In so doing, OSFI has been successful at minimizing ongoing operating cost increases and at judiciously managing its human resources in optimal ways.

Figure 1

**OSFI Expenditures and FTE - Planned and Actuals
(2005-2006 to 2013-2014)**



Estimates by Vote

Estimates by Vote are presented in the 2011-12 Main Estimates which are available here: <http://www.tbs-sct.gc.ca/est-pre/20112012/me-bpd/info/info-eng.asp>.

Section II – Analysis of Program Activities by Strategic Outcome

The following section describes OSFI’s program activities and identifies the expected results, performance indicators and targets for each of them. This section also explains how OSFI plans on meeting the expected results and presents the financial and non-financial resources that will be dedicated to each program activity.

2.1 Strategic Outcome One – *A safe and sound Canadian financial system.*

2.1.1 - Program Activity:					
Regulation and Supervision of Federally Regulated Financial Institutions					
Human Resources (FTEs) and Planned Spending (\$ millions)					
2011–2012		2012–2013		2013–2014	
FTEs	Planned Spending	FTEs	Planned Spending	FTEs	Planned Spending
341	57.8	339	58.9	339	60.5
Program Activity Expected Results			Performance Indicators		Targets
Protect depositors and policy holders while recognizing that all failures cannot be prevented.			Percentage of estimated recoveries on failed institutions. (amount recovered per dollar of claim)		90%
Accurate risk assessments.			Percentage of knowledgeable observers ³ who agree that their institution's Composite Risk Rating is appropriate.		70%
Timely and effective intervention and feedback.			Time to issue Supervisory Letter. (within prescribed target days)		80% of letters are issued within 45 days
Regulations, guidance and other rules that balance prudential considerations and the need to compete.			Percentage of knowledgeable observers ³ who rate OSFI as good or very good at developing regulations, guidelines and other rules that strike an appropriate balance between prudential considerations and the need for institutions to compete.		50%

³ Senior Executives and professionals who act on behalf of federally regulated financial institutions.

Program Activity Expected Results	Performance Indicators	Targets
Regulations, guidance and other rules which are clear and scrutinized by industry.	Percentage of knowledgeable observers ³ that rate OSFI's guidance as somewhat or very effective in providing an indication of OSFI's expectation. AND/OR Percentage of knowledgeable observers ³ who rate OSFI as good or very good at consulting with industry on the development of regulations, guidelines and other rules.	75% 60%
Prudentially sound decisions which are transparent.	Percentage of knowledgeable observers ³ who understand somewhat or very well the basis upon which OSFI makes its decisions as part of the approval process.	85%
Regulatory approvals which are timely.	Percentage of completed applications for regulatory approvals that are processed within established performance standards.	90%

Program Activity Summary

This program involves regulating and supervising FRFIs to determine whether they are in sound financial condition and are complying with their governing law and supervisory requirements; monitor system-wide or sectoral issues that may impact FRFIs negatively; and intervening in a timely manner to protect depositors and policyholders from undue loss, while recognizing that management and boards of directors are ultimately responsible, and that financial institutions can fail.

Costs for this program are recovered through base assessments and user fees and charges covered under the *Bank Act*, *Trust and Loan Companies Act*, *Insurance Companies Act* and *Cooperative Credit Associations Act*. OSFI also provides supervision services to the provinces, for which its costs are recovered on a fee for service basis.

This program has three sub-activities:

1. **Risk Assessment and Intervention:** This program involves the administration and application of an effective supervisory process to assess the safety and soundness of FRFIs by evaluating an institution's risk profile, financial condition, risk management processes, and compliance with applicable laws and regulations. This program includes activities to monitor and supervise financial institutions; monitor industry and environmental factors to identify emerging risks; and intervene by exercising supervisory powers to take, or require management or boards to take, necessary corrective measures in a timely manner to protect depositors and policy holders, while recognizing that all failures cannot be prevented.
2. **Regulation and Guidance:** This program involves advancing and administering a regulatory framework that promotes the adoption of sound risk management practices, policies and procedures. This program encompasses the development of regulations, the issuance of guidance, providing input into federal legislation and regulations affecting financial institutions; contributions to accounting, auditing and actuarial standards; and involvement in international regulatory activities.

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

Planning Highlights

In order to achieve the expected result, OSFI plans to undertake the following:

- Improve our ability to identify, monitor and report on emerging risks including system-wide risks that may have a material impact on the Canadian financial system:
 - Enhance OSFI's use of stress testing to better assess risk and capital adequacy.
 - Perform selected comparative reviews of FRFIs in key risk areas, such as Structural Interest Rate Risk (SIRR), or Asset Liability Management (ALM) risk.
 - Internationally, continue to participate in discussions (such as the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS), and Senior Supervisors Group (SSG)) to identify and respond to the key issues arising from global financial events, including future changes to regulatory approaches and requirements, and to make recommendations for action. Domestically, continue work with Financial Institutions Supervisory Committee (FISC) partners and the regulated industries on similar issues in the Canadian context.
- Put into practice updates made to the Supervisory Framework including an enhanced Quality Assurance process.
- Maintain strong communications and continue to promote improved risk management practices with FRFIs.
- Enhance risk sensitivity of capital requirements in the insurance sector.
- Ensure that capital adequacy rules are interpreted and operationalized effectively and consistently within industry sectors.
- Continue to implement the transition to IFRS by assessing the impact on FRFIs and pension plans, and by addressing implications to OSFI's prudential regime, regulatory policies, and regulatory returns.
- Continue to work with a variety of stakeholders on various IFRS issues including Insurance Contracts Phase II to understand the future impact on OSFI's reliance based regime and on insurers.

Benefits for Canadians

A prudentially sound financial system, in which depositors and policy holders have a high degree of confidence, materially contributes to Canada's economic performance. OSFI is the primary regulator and supervisor of all federally registered financial institutions, numbering about 450. The achievement of OSFI's strategic objectives, which are shared by partners within government and the financial institutions OSFI regulates, provides the foundation upon which the Canadian economy has the potential to be both productive and competitive.

Canadians will continue to benefit from a regulatory environment which encourages sound risk management practices and discourages excessive risk taking.

OSFI supports the government's priority regarding issues of safety and security by contributing to the fight against money laundering and the financing of terrorism. As an example, by providing consolidated lists of officially listed terrorists and terrorist organizations, OSFI is assisting financial institutions with their legal obligations to identify and freeze assets of these individuals and entities. In addition, in conjunction with Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), OSFI conducts reviews of anti-money laundering / anti-terrorism financing programs established by financial institutions.

2.1.2 - Program Activity:					
Regulation and Supervision of Federally Regulated Private Pension Plans					
Human Resources (FTEs) and Planned Spending (\$ millions)					
2011–2012		2012–2013		2013–2014	
FTEs	Planned Spending	FTEs	Planned Spending	FTEs	Planned Spending
26	5.6	26	4.6	26	4.7
Program Activity Expected Results					
Program Activity Expected Results		Performance Indicators		Targets	
Protect the financial interests of federally regulated private pension plan members and beneficiaries.		Percentage of estimated recoveries on pension plans that have terminated under-funded.		85%	
Regulations, guidelines and other rules which are clear and balanced.		Percentage of knowledgeable observers ⁴ that rate OSFI's guidance as somewhat or very effective in providing an indication of OSFI's expectation.		75%	
		AND/OR Percentage of knowledgeable observers ⁴ who rate OSFI as being good or very good at developing regulations, guidelines and other rules that strike an appropriate balance between interests of plan sponsors and plan members.		50%	
Regulatory approvals which are timely and transparent.		Percentage of knowledgeable observers ⁴ that understand somewhat or very well the basis upon which OSFI makes its decisions as part of the approval process.		60%	
		AND/OR Percentage of completed applications for regulatory approvals that are processed within established benchmarks.		90%	

Program Activity Summary

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

⁴ Plan Administrators and professionals who act on behalf of pension plans.

Planning Highlights

In order to achieve the expected results, OSFI plans to undertake, in addition to ongoing activities, the following initiatives:

- Build, test and implement systems to support the pensions risk assessment framework published in 2009;
- Update and enhance guidance for pension plans to support recent amendments to the legislation and regulations and new supervisory priorities⁵; and
- Refine the monitoring of risks facing pension plans, including the impact of rule changes, and adjust supervisory processes as warranted.

Benefits for Canadians

OSFI supports the government's priority for income security for Canadians. OSFI supervises 1,398 federally regulated private pension plans in Canada, which cover 637,000 active members as at March 31, 2010. OSFI works to promote responsible pension plan governance and actuarial practices. OSFI's actions and decisions affect plan members as well as the sponsors and administrators of the plans.

⁵ This includes guidance on stress testing, investments, disclosure guideline as a result of changes to the *Pension Benefits Standards Act, 1985*.

2.1.3 - Program Activity: International Assistance					
Human Resources (FTEs) and Planned Spending (\$ millions)					
2011–2012		2012–2013		2013–2014	
FTEs	Planned Spending	FTEs	Planned Spending	FTEs	Planned Spending
0	0.0	0	0.0	0	0.0

Program Activity Summary

This program incorporates activities related to providing assistance to selected developing and emerging market economies to improve their supervisory systems in line with international banking and insurance supervisory standards, thereby enhancing the stability of the global financial system. In order to achieve efficiency and economy in program delivery and training of supervisors from many different jurisdictions, this program also collaborates with a number of regional banking and insurance associations and other technical assistance providers such as the Financial Stability Institute. The costs for this program are recovered via Memoranda of Understanding between OSFI and the Canadian International Development Agency.

Effective March 31, 2010, OSFI ceased its International Assistance program activity, which provided technical assistance to supervisory systems in emerging market economies. The Canadian International Development Agency (CIDA) has continued the program in partnership with the Toronto International Leadership Centre for Financial Sector Supervision.

OSFI's Program Activity Architecture is expected to be modified during 2011-2012 to reflect the elimination of this program activity, through an annual update process coordinated by the Treasury Board Secretariat.

2.2 Strategic Outcome Two – *A financially sound and sustainable Canadian public retirement income system.*

2.2.1 - Program Activity: Actuarial Valuation and Advisory Services					
Human Resources (FTEs) and Planned Spending (\$ millions)					
2011–2012		2012–2013		2013–2014	
FTEs	Planned Spending	FTEs	Planned Spending	FTEs	Planned Spending
33	4.5	33	4.6	33	4.7
Program Activity Expected Results					
Program Activity Expected Results		Performance Indicators		Targets	
Stewards of Canada’s public retirement income system are provided with independent, accurate, high quality and timely professional actuarial services and advice.		Adequacy of professional experience of the Chief Actuary and his staff. AND/OR Compliance with Canadian and international professional standards.		Unanimous agreement amongst peers*	
Accurate and high quality actuarial valuations inform CPP and OAS stakeholders and Canadians of the current and projected financial status of the Plan and Program.		Reviews are comprehensive (methods, assumptions, analysis) AND/OR Percentage of the recommendations within the scope and influence of the OCA that are implemented before the next peer review.		Unanimous agreement amongst peers* 80%	
CPP and OAS Triennial Actuarial Reports		Timeliness of tabling in Parliament of Reports on Canada Pension Plans & Old Age Security.		100% by the deadline	
Accurate and high quality actuarial valuations of Public Pension and Insurance Plans provided to departments to inform design, funding and administration of plans.		Reviews are comprehensive (methods, assumptions, analysis). AND/OR Actuarial opinion is appropriate.		Unanimous agreement amongst peers*	
Public Sector Triennial Actuarial Reports		Timeliness of tabling in Parliament of Reports on Public Pension Plans.		100% by the deadline	
Accurate and high quality actuarial valuations of the Canada Student Loans Program inform the Department of Human Resources and Skills Development Canada (HRSDC) of the future costs and provision rates of the program.		Actuarial valuations of the Canada Student Loans Program are comprehensive (accurate, high quality) and informative of future costs and provision rates of the program.		Annual renewal of the MOU with HRSDC	
Actuarial Report on the Canada Student Loans Program		Timeliness of tabling in Parliament of Reports on Canada Student Loans.		100% by the deadline set by HRSDC	
* Independently selected panel of peers.					

Program Activity Summary

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

This program activity provides a range of actuarial services to the stewards of the CPP and some federal government departments. As required by legislation, it conducts statutory actuarial valuations of the CPP, Old Age Security (OAS) and Canada Student Loans programs, and pension and benefits plans covering the Federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police (RCMP), federally appointed judges, and Members of Parliament.

The Office of the Chief Actuary (OCA) is funded by fees charged for its actuarial valuation and advisory services and by an annual parliamentary appropriation.

This program activity has three sub-activities:

1. Services to the CPP and OAS Program: This program involves the conduct of statutory actuarial valuations of the CPP and OAS Program. These valuations estimate the financial status of these plans and programs as required by legislation. This program estimates long-term expenditures, revenues and current liabilities of the CPP and estimates long-term future expenditures for OAS programs. Pursuant to the *Canada Pension Plan* and the *Public Pensions Reporting Act*, the OCA prepares statutory triennial actuarial reports on the financial status of these programs, as required by legislation.
2. Services to Public Sector Pension and Insurance Programs: This program involves the conduct of statutory actuarial valuations of various federal public sector employee pension and insurance plans. These valuations estimate the financial status of these plans as required by legislation. Pursuant to the *Public Pensions Reporting Act*, this program involves preparing statutory triennial actuarial reports on the financial status of federal public sector employee pension and insurance plans covering the federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police, the federally appointed judges and Members of Parliament. This program supports plan members, thereby serving the public interest, by ensuring good governance of the plan, appropriate disclosure in the actuarial reports and contributing to the overall accountability of the plan sponsor to members. This program also involves the provision of sound actuarial advice that assists different government departments in the design, funding and administration of these plans. As part of this program, the Chief Actuary submits the actuarial reports to the President of Treasury Board, with the exception of the Actuarial Report on the RCMP (Dependants) Pension Fund, which is submitted to the Minister of Finance.
3. Services to the Canada Student Loans Program (CSLP): Pursuant to the *Canada Student Financial Assistance Act*, this program involves the conduct of statutory actuarial valuations of the CSLP. The program also involves the preparation of a statutory actuarial

report of the CSLP by evaluating the portfolio of loans and the long-term costs of the program. As part of this program, the Chief Actuary submits the actuarial report to the Minister of Human Resources and Skills Development Canada.

Planning Highlights

In order to achieve the expected results, OSFI plans to undertake the following activities:

- The Actuarial Reports for the OAS, CSLP, CFSA-Regular Force, the CFSA-Reserve Force, and the Regular Force Death Benefit Account will be sent to the appropriate Minister.

Benefits for Canadians

Canada has set in place a public pensions system that is expected to be sustainable and affordable well into the future in the face of changing demographic conditions. While OSFI does not supervise public pensions, the OCA prepares statutory actuarial reports on various public pension programs, to come to conclusions about the financial sustainability under certain assumptions. In this way, the OCA provides appropriate checks and balances on the future costs of the different pension plans and social programs that fall under its responsibilities.

2.3 Program Activity: Internal Services

2.3 - Program Activity: Internal Services					
Human Resources (FTEs) and Planned Spending (\$ millions)					
2011–2012		2012–2013		2013–2014	
FTEs	Planned Spending	FTEs	Planned Spending	FTEs	Planned Spending
163	49.7	163	47.4	163	48.0
Program Activity Expected Results		Performance Indicators		Targets	
OSFI's financial statements accurately reflect the financial position of OSFI.		An audit by the Office of the Auditor General attests that OSFI's financial statements present fairly, in all material respects, the financial position of OSFI at the year-end and the results of its operations and its cash flows for the year in accordance with GAAP.		N/A	
OSFI maintains or improves its strong performance on its Results-based Management Accountability Framework, (MAF) as assessed by Treasury Board from time to time.		Treasury Board's next assessment of OSFI's MAF indicates equal or improved ratings, including in the two areas where, in the last assessment, Treasury Board suggested a need to focus.		N/A	
Operational units within program support are efficient and effective, i.e. deliver services at reasonable cost and turn-around time relative to peers. AND Operational units are operating within applicable acts, policies and guidelines.		Treasury Board's audits of OSFI, in the scope of its government-wide Horizontal Audits, confirm no material findings for OSFI. AND Internal Audits of reviewed units find that controls are in place and units are operating within applicable acts, policies and guidelines, and/or identify areas for action.		N/A	
A stable, committed and skilled workforce.		Knowledgeable observers ⁶ are of the view that OSFI staff knowledge is good or very good. AND Voluntary turnover reports are satisfactory. AND Employee Survey finds that OSFI employees are committed and the consolidated mean score of the Employee Survey has increased since the last survey.		N/A	
Multi-year Information and Technology Renewal (ITR) Program remains dynamic and evolves to accommodate OSFI's changing strategic directions, priorities and resource constraints.		ITR Program is implemented as per established timelines and targeted results are achieved.		N/A	

⁶ Senior Executives, Plan Administrators, and professionals who act on behalf of federally regulated financial institutions and pension plans.

Program Activity Summary

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

Planning Highlights

For the 2011-2012 planning period, key planning highlights for OSFI's Internal Services include:

- A High-Performing and Effective Workforce
 - Continue to identify changing human resources requirements (through ongoing HR Planning including succession planning) to: ensure timely availability of qualified staff and the assignment of these resources based on identified risks and priority areas; implement strategic learning and development (training) plans; and
- An Enhanced Corporate Infrastructure
 - Continue to implement the long-term strategies for Information Management and Information Technology necessary to support our evolving supervisory and regulatory activities.

Section III: Supplementary Information

3.1 Financial Highlights

The future-oriented financial highlights presented within this RPP are intended to serve as a general overview of OSFI's operations. These financial highlights are prepared on an accrual basis to strengthen accountability and improve transparency and financial management and to provide relevant, reliable, comparable and understandable information to the primary users of OSFI's financial statements. The primary users are the regulated financial institutions and private pension plans – that is, the paying stakeholders to whom OSFI is accountable – and their respective industry associations, who on the whole operate financially on an accrual basis based on standards applicable to publicly accountable enterprises (PAEs) in the *CICA Handbook – Accounting*.

The primary users of OSFI's financial statements are required to adopt IFRS and OSFI will be doing the same effective April 1, 2011. Accordingly, the Forecast for 2011-2012 has been prepared in accordance with IFRS.

Future-oriented financial statements can be found on OSFI's web site at: http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?ArticleID=1548.

Future-oriented Condensed Statement of Operations

For the Year (Ending March 31)

(\$ millions)

	% Growth	Estimated Results 2010–2011	Forecast 2011–2012
Expenses	12.1	112.0	125.5
Total Expenses	12.1	112.0	125.5
Revenues	12.1	112.0	125.5
Total Revenues	12.1	112.0	125.5
Net Cost of Operations	0	0	0

OSFI matches its revenues to its costs. The difference between the figures above and the planned spending amounts provided in other sections of the RPP is due to a different basis of accounting and relate to such items as non-respendable revenues, amortization, severance pay liability adjustment and accrued interest costs. For more information, refer to the full future-oriented financial statement found on OSFI's Web site. In addition, the Forecast for 2011-2012, presented

on a modified cash basis, includes an increase of \$10.2 million, or an 8.7% increase over the planned spending for 2011-2012 provided in this report. The increase is largely related to additional resource requirements and OSFI's continued investments in information systems, as explained in the "Expenditure Profile" section of this report. This also accounts for the year-over-year increase of 12.1% in revenues and expenses in 2011-2012 on an accrual basis.

3.2 List of Tables

All electronic supplementary information tables which accompany the 2011–2012 Report on Plans and Priorities can be found on the Treasury Board of Canada Secretariat's web site at: <http://www.tbs-sct.gc.ca/rpp/2011-2012/info/info-eng.asp>.

The following tables are available on the TBS web site:

- Greening Government Operations
- Internal Audits
- Sources of Respendable and Non-Respendable Revenue
- Summary of Capital Spending by Program Activity

3.3 Other Items of Interest

OSFI Plan and Priorities 2011-2014, available on OSFI's web site at: http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=1249