



June 5, 2024

Senate Standing Committee on Banking, Commerce and the Economy
The Senate of Canada
Ottawa ON K1A 0A6

Attn: Pamela Wallin, Chair
Tony Loffreda, Deputy Chair

Dear Chair and Deputy Chair,

At his May 22, 2024, appearance at the Standing Committee on Banking, Commerce and the Economy, Office of the Superintendent of Financial Institutions (OSFI)'s Chief Financial Officer, Michael Hammond, was asked to provide further information on certain questions raised by the Committee during discussion of Bill C-69. Please find herein, those questions along with OSFI's responses.

Question 1: Senators Martin and Massicotte and the Deputy Chair asked for more information on the request to increase the maximum amount that expenditures made out of the Consolidated Revenue Fund be increased to \$100,000,000.

First, we should note that the financial sector in Canada has grown in both size and complexity over time. Simply put, there is more for us to supervise and regulate given: we have more institutions to supervise, an intensifying risk environment, more complex financial and non-financial risks, and changes to our mandate. While OSFI has been required to grow to meet its changing responsibilities and evolving mandate, our access to the Consolidated Revenue Fund to manage financial pressures, has not changed in more than 30 years. Our growth in recent years has been necessary to keep pace with industry. In fact, when you look at the budget of OSFI as a ratio of the assets we supervise, it is very similar to that ratio of 20 years ago. Simply put, a larger and more complex financial sector facing a wider and deeper array of risks and threats requires additional capacity and a more robust supervisory response. This is also a key driver for our Supervisory Framework Renewal which was fully implemented on April 1, 2024.

It is important to note that this request is not a budget increase. It is effectively a temporary loan, similar to a line of credit, where OSFI accesses the Consolidated Revenue Fund (CRF) early in the year to manage a timing difference, so that OSFI can balance early-year expenses before we have received our revenues. OSFI replaces the funds borrowed from the CRF when we recuperate costs through the billing of financial institutions later in the year – usually in the August timeframe. Of note, OSFI recovers virtually all of its costs by charging fees to the financial institutions and pension plans it supervises.



The limit in question has never been increased since being put in place at OSFI's creation in 1987. Approaching it this way, will enable OSFI to meet its current and near-future needs, and allow the Office to operate effectively for the foreseeable future.

OSFI's mandate is to ensure that the financial institutions we regulate and supervise have adequate measures in place to manage the risks that could impact their stability. These actions help to maintain public confidence in the Canadian financial system. The process by which OSFI receives its funds pose a challenge early in the fiscal year, before OSFI's finances are received from the institutions we regulate.

With an annual approved budget of approximately \$325 million, more than a quarter of OSFI's business and expenses could be incurred before funding is received through the invoicing process over the summer.

The cap on OSFI's access to the CRF has not increased since OSFI's creation in 1987, and the current limit of \$40M is insufficient to cover the early year costs associated with carrying out our mandate. Increasing the cap to \$100 million represents an amount equal to roughly 1/3 of its current operating budget and enables OSFI to sustain operations during the early part of the year and cover relevant costs throughout that time.

Question 2: Further to question 1, Senator Martin requested an explanation of the increased risks that OSFI is facing.

Since our creation in 1987, OSFI's supervisory and regulatory roles have evolved to encompass an increasing number and complexity of financial and nonfinancial risks. As noted, OSFI's operating environment has changed significantly since its creation, with more institutions to supervise and regulate, an intensifying risk environment, more complex financial and non-financial risks, and changes to our mandate. Parliament has given OSFI a mandate comprised of two fundamental principles. It asks OSFI to ensure financial institutions are in sound financial condition and to ensure they adequately protect themselves against threats to their integrity or security including foreign interference. We currently regulate and supervise approximately 400 federally regulated institutions (banks and insurance companies) and 1200 federally regulated pension plans.

Concerning the evolving risk environment, OSFI is committed to transparency, and since 2022 has publicly released an annual summary of key risks. In May 2024 OSFI issued its third [Annual Risk Outlook](#) (ARO), which provides an overview of the current risk environment, and context concerning the top risks facing the Canadian financial system. This year's ARO focuses on four significant risks – real estate secured lending and mortgage risks; wholesale credit risks; funding and liquidity risks; and integrity, security, and foreign interference. While this list is not exhaustive, it identifies the risks that OSFI considers most critical. We also recognize the importance of a range of other risks and dedicate resources to them accordingly, including climate, geopolitics, cyber, third-party risks, and transmission risk from the less-regulated or unregulated financial sector, to name a few.

Question 3: Senator Miville-Dechêne asked the Department of Finance and OSFI whether Part 4 of Division 13 of Bill C-69 includes measures to address Bill S-211 or if there are any requirements for regulated pension plans to disclose details related to modern slavery, forced labour, child labour etc. as identified under Bill S-211.

C-69, Section 4, Division 13 proposes to require OSFI to publish certain information. The Department of Finance is responsible for the amendments proposed to the Pension Benefits Standards Act, 1985 (PBSA) under Part 4, Division 13 of the 2024 Federal Budget, including decisions around scoping of requirements, timelines, coming into force and other aspects. As such, they would be best placed to respond to this question. OSFI officials would be pleased to appear at a future date to discuss implementation of any changes to our requirements after details have been finalized.

OSFI recognizes that effective communication to pension plan members and beneficiaries promotes transparency and enables members and beneficiaries to make informed financial planning decisions, better understand how a pension plan works, recognize the value of their pension, and have confidence in the administration of the plan. Details about the types of information which must be disclosed to pension plan members and beneficiaries is available in OSFI's instruction guides (for [defined benefit plans](#) and [defined contribution plans](#)).

There is currently no requirement under the legislation for federally regulated pension plans to disclose details related to S-211 to OSFI or to plan members, as posed in the question. We would refer you to the Department of Finance on this issue.

Additionally, Senator Miville-Dechêne posed additional questions seeking precision on three key points, as follows.

1. Les pays dans lesquels les fonds de pension investissent sont-ils connus?

Pension plans are not currently required to report a breakdown of plan investments by country to OSFI. On the annual Certified Financial Statements (OSFI 60), OSFI collects a regional breakdown of plan assets under the following categories: US, Europe, Asia, Latin America, and other non-Canadian.

2. Le pourcentage et les pays où sont faits les investissements sont-ils communiqués aux travailleurs?

Under current legislation and regulations, pension plans are not required to disclose a breakdown of investments, by country or by region, to plan members or beneficiaries. Upon request once a year, plan members and beneficiaries are able to consult their plan's Certified Financial Statements, which include a breakdown of investments by region.

3. J'ai travaillé sur le projet de loi S-211 contre l'esclavage moderne et qui est devenu loi. Le traitement des travailleurs dans les pays où on investit fait-il partie des données que l'on transmet aux investisseurs ou aux pensionnés?

Under current legislation and regulations, pension plans are not required to disclose information regarding the treatment of workers in countries in which the plan invests to plan members or beneficiaries.

I trust that this information addresses the questions of the committee members.

Sincerely,

Tracie Nofle
Executive Director
Communications, Engagement and Stakeholder Affairs
Office of the Superintendent of Financial Institutions