FSRA

Financial Services Regulatory
Authority of Ontario

Proposed FY 2019-20
FSRA Priorities and Budget

Consultation Document
January 21, 2019

Ontario

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1. Transmittal Letter

The Financial Services Regulatory Authority of Ontario (FSRA) is a new, independent regulatory agency which will contribute to enhanced public confidence in the sectors it regulates. It will do so by using principles-based regulatory approaches that promote transparency, choice and efficiency in non-securities financial services; foster economic growth; enable innovation; protect the public interest; and promote public education and knowledge about the regulated sectors. This will be achieved through clear policy goals, enunciated in principles and informed by data, risks, facts and analytics.

We continue to make progress in our preparation to assume regulatory functions currently performed by the Financial Services Commission of Ontario (FSCO) and the Deposit Insurance Corporation of Ontario (DICO) in a manner that ensures regulatory continuity and initiates transformation.

With an ambitious transformation mandate, FSRA will not simply be a continuation of existing Ontario regulators. We are committed to doing the right things and doing things right and we will build on the strengths of both FSCO and DICO. A new organizational structure is in place with an experienced and empowered leadership management team, and we are actively shaping a culture of public service, effectiveness and efficiency.

In our first year, our focus is on burden reduction and regulatory effectiveness. As part of this focus, we have identified a number of cross-sector and sector-specific priorities that align with FSRA's legislated mandate, are important to stakeholders, and will drive regulatory transformation.

This document describes FSRA's proposed FY 2019-20 Priorities and draft Budget, reflecting our open and transparent culture, to show our stakeholders as much detail as practicable on our proposed budget and priorities. Building on extensive engagement to date, we look forward to hearing further from stakeholders through meetings being scheduled by FSRA management and through written submissions made at https://www.fsrao.ca/en/consultations by February 8, 2019.

After considering your input, FSRA will finalize its priorities and budget in its Annual Business Plan (ABP). Once the FSRA Board endorses the ABP, it will go to the Minister of Finance for approval and serve as the basis for detailed FY 2019-20 operational plans, accountabilities and performance measurements.

FSRA's success depends on the work of many. Thank you to the people and organizations that have been involved in our work to establish FSRA and plan for our future. In addition to industry and public input, we appreciate the contributions of the Ministry of Finance (MOF), the FSRA Board, and FSCO, DICO and FSRA staff. We look forward to receiving your input as we work towards FSRA's launch in spring 2019.

Bryan Davies, Chair, Board of Directors

Mark White, Chief Executive Officer

2. Executive Summary

FSRA is pleased to propose its inaugural budget and priorities outlining its transformation to a forward-looking, flexible, self-funded, principles-based regulator capable of responding to the dynamic pace of change in the marketplace, industry and consumer[1] expectations.

The recruitment of a new leadership team with deep sector and regulatory experience, an organizational design that focuses on integration, expertise, accountability and collaboration, as well as a commitment to effective and efficient operations, enables our regulatory transformation.

The proposed budget and priorities for F19-20 demonstrate FSRA's intention to regulate differently by using greater expertise, rule-making and other regulatory tools and improved processes to reduce burden and increase regulatory effectiveness while keeping costs as low as reasonably possible.

In our first year of operations we have two priorities across all sectors: burden reduction and regulatory effectiveness. To *reduce burden* FSRA will conduct, in conjunction with our stakeholders, a thorough examination of existing guidance documents, data and filing requirements and service standards to ensure that they are relevant, provide value, and support our Objects (see Appendix 1 for Statutory Objects). *Regulatory effectiveness* is about ensuring that we achieve our legislative objectives and protect the public interest through industry and regulatory expertise, enhanced collaboration and transparency, efficient processes and use of technology and enabling innovation.

In addition to cross-sector priorities, in each sector we have, based on discussions with stakeholders, identified sector-specific opportunities for FSRA to reduce burden and improve regulatory effectiveness. These priorities will be achieved by working with industry and other stakeholders.

To support FSRA as an independent transformed regulator with clear priorities, FSRA is proposing to charge fees and assessments of $97M in F19-20 to cover $95.6M in operating expenses and to commence recovery of its start-up costs. This is a $3.3M increase in operating expenses (3.6%) compared to the combined FY2019 FSCO and DICO budgets. Leaving aside increased depreciation, interest expense and deficit recovery, all related to FSRA's foundation building, FSRA's operating expenses will increase less than $1M over those of its legacy agencies.

The proposed budget provides resources necessary for FSRA to execute on its proposed priorities, and a staffing model that adds more sector expertise and positions in key regulatory and support functions. Cost reductions were also identified, but these have been partially offset by investments in new financial and information technology foundations to facilitate independent operations. Finally, in keeping with the principles articulated in FSRA's fee rule consultation, the budget also provides sector-by-sector transparency in terms of costs and deliverables, including the direct costs planned in each sector and that sector's share of common costs.

Once we have stakeholder feedback on our proposed FY2019-20 priorities and budget, we will prepare our Annual Business Plan, submit it to the Minister of Finance, and continue to work towards the successful launch of FSRA in spring 2019 (see Appendix 2 for timelines). We look forward to hearing from our regulated sectors, consumers and other stakeholders.

[1] *Note: for the balance of this document, the term "consumers" refers to those who purchase or benefit from products and services delivered by the regulated sectors that FSRA will regulate, including pension plan beneficiaries and credit union members.*

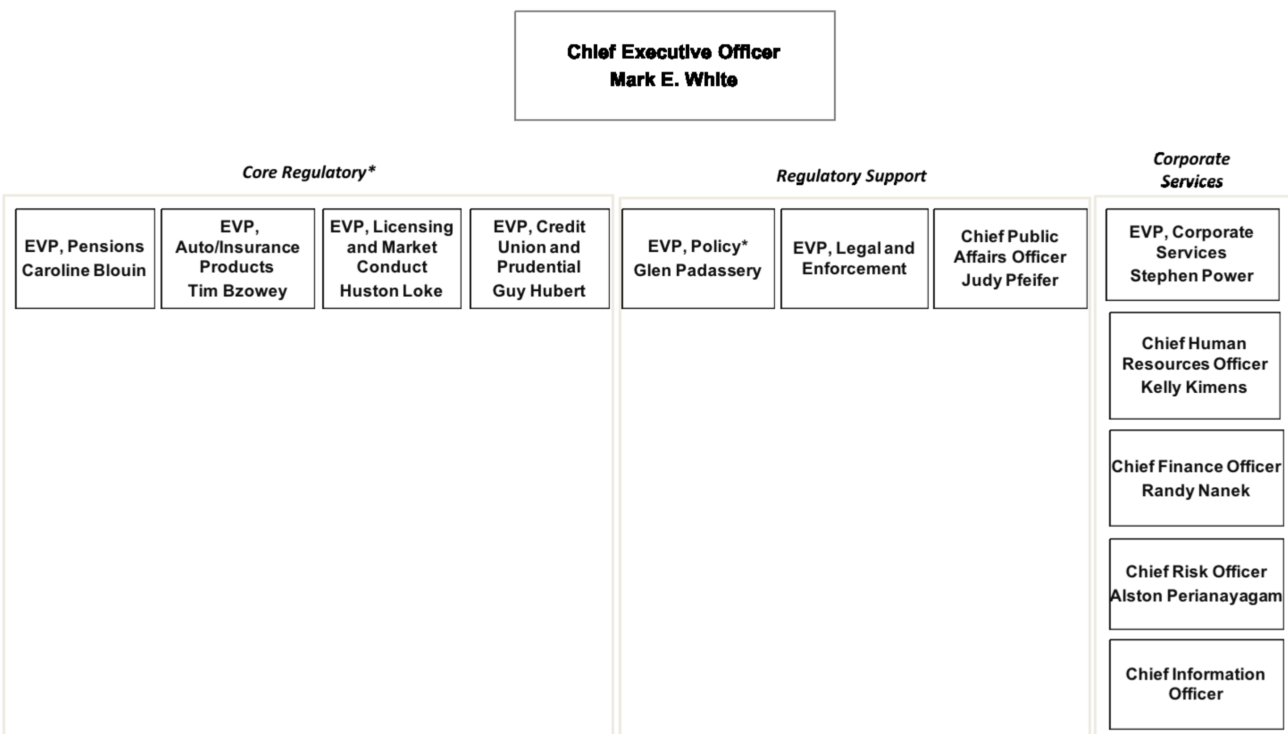
3. Launching a Transformed Regulator

FSRA will operate within a clear legislative framework. We will have powers and accountabilities under the regulated sector statutes and the FSRA Act, including the authority to make rules governing fees, assessments and other matters; to issue guidance; and to supervise the regulated sectors. We will use our expertise and authorities to respond to market and product changes and to serve the public interest.

FSRA continues to work with the MOF, FSCO and DICO to ensure a smooth transition of regulatory authorities to FSRA as well as to initiate transformation.

While providing regulatory continuity, FSRA will be a new organization with a different approach. This is evidenced by our new leadership team, which has extensive industry experience and regulatory expertise. These executives will be responsible for supporting innovation in the regulated sectors, driving continuous improvements across FSRA and championing a culture that is:

- forward-looking, with the expertise to monitor, understand and address changes in markets, sectors and public wants and needs;
- empowered and decisive, to act quickly in a fast-paced environment;
- principles-based and flexible to appropriately respond to the dynamic nature of the financial services sector; and
- transparent and relationship-based, to ensure accountability and responsiveness.



*The Policy function works closely with the Core Regulatory functions

FSRA will create a culture that encourages a cross functional, integrated approach. Given that financial services are complex and evolving, modern regulators need both focused supervisory teams overseeing regulated sectors and specialist teams. These specialists will support the achievement of regulatory objectives through excellence in policy development, understanding of consumer perspectives, effective two-way communications, effective enforcement and traditional corporate services (such as legal services, finance, human resources and technology).

Core Regulatory functions are the active link to the regulated sectors; in supervising regulated sectors, they execute on processes designed to achieve outcomes that support our regulatory objectives and, in doing so, identify legal, enforcement and policy issues, and drive technology improvement. The Regulatory Support and Corporate Services functions support Core Regulatory by providing substantive technical expertise and centralized common resources. This helps FSRA to be efficient and consistent, and helps to maintain appropriate governance and rigour around important activities and decisions supporting the supervision of regulated sectors.

For example, the Policy function will work closely with the Core Regulatory functions to ensure there is a coordinated and informed approach to policy development and implementation; it will provide policy expertise and enable innovation, as well as drive strategy and ensure stakeholder coordination. The Consumer Office will be part of the Policy function so the voice of consumer will be embedded across the organization and will be considered in all of FSRA's strategy and policy development and assessment activities. The Consumer Office will focus on consumer-based research and policy support to shape policies and regulatory approaches; it will also conduct consumer outreach and work with Public Affairs to effect consumer education.

FSRA will review processes and technologies to ensure that we are able to identify opportunities for cost savings and efficiencies as well as invest in the right projects to drive future efficiencies. FSRA is currently implementing a comprehensive back-office system to deliver efficient and effective finance, human resources and other administrative functions. As these critical business functions are currently provided to FSCO by the Ontario Public Service (OPS), this is a key step in ensuring continuity and a smooth transition. Finally, as FSRA prepares for the transfer of staff and functions from FSCO and DICO, we are committed to attracting, retaining and training key talent with the expertise needed to implement our new regulatory vision and drive our culture.

FSRA is assuming many varied and complex legacy systems and processes from FSCO and DICO. Certain FSCO technologies are at the end of their life and at risk of failure, requiring immediate and significant investment to maintain and improve the function of the regulator. For example, a secure, stable data centre infrastructure is being established to ensure safe, recoverable and resilient data, and to strengthen cyber-security and data protection.

Work has begun, and will continue during FSRA's first year, to develop a comprehensive blueprint for information technology renewal to support a more digital approach to regulation and services (see priority 6.2.5).

Launching FSRA is well underway and we are working with the MOF to proclaim existing legislation, and to get approval for FSRA's inaugural fee rule and Annual Business Plan.

4. Fee Rule

To establish FSRA as a self-funded, independent regulator, we proposed a fee rule to obtain funding from the financial services sectors we will regulate. The proposed fee rule will, along with the priorities and budget described herein, enable FSRA to maintain continuity of FSCO and DICO operations and begin the transformation of our regulatory processes through a new organizational design, with enhanced capacity and staff expertise. This will allow FSRA to efficiently and effectively anticipate and respond to changes in marketplace, industry and consumer expectations.

The proposed fee rule is based on key principles: simple, consistent, fair, transparent, future-focused, efficient and effective.

FSRA is committed to collaboration and transparency. Seven ad hoc Industry Advisory Groups (IAGs) were established to provide industry perspectives on the proposed fee rule. Each IAG met twice with FSRA before the fee rule was proposed - once with management and once directly with the Board - for a total of 14 meetings involving over 85 stakeholders. As per the provisions of the FSRA Act, the proposed fee rule was then posted on the FSRA website for a 90-day consultation, during which 84 submissions were received. The consultation period closed on January 4, 2019 and FSRA is now considering all comments. The proposed fee rule and comments received can be viewed at www.fsrao.ca/en/consultations.

Once finalized, FSRA's FY 2019-20 priorities will, using the resources provided by FSRA's FY 2019-20 fees and assessments, direct FSRA in our efforts to go beyond regulatory continuity. These priorities and their supporting budget articulate what FSRA will target to achieve regulatory transformation.

5. Proposed Budget

5.1 FSRA Budget

The proposed FY 2019-20 FSRA budget was developed to support FSRA's mandate to be an independent, self-funding and effective regulator, and to enable FSRA to address its key priorities in its first year of operations.

The budget below presents the forecasted financial activities for the period April 1, 2019 to March 31, 2020. It will form the basis of FSRA's FY 2019-20 Annual Business Plan and reflects the estimated resources required for FSRA to fulfill its regulatory requirements and to transform itself into a principles-based, expert, independent, transparent, decisive and modern regulator.

The total proposed FSRA budget is $97 million; for comparative purposes the relevant portions of the DICO (January 1 to December 31, 2019) and FSCO (April 1, 2018 to March 31, 2019 spending authority) budgets are combined below.

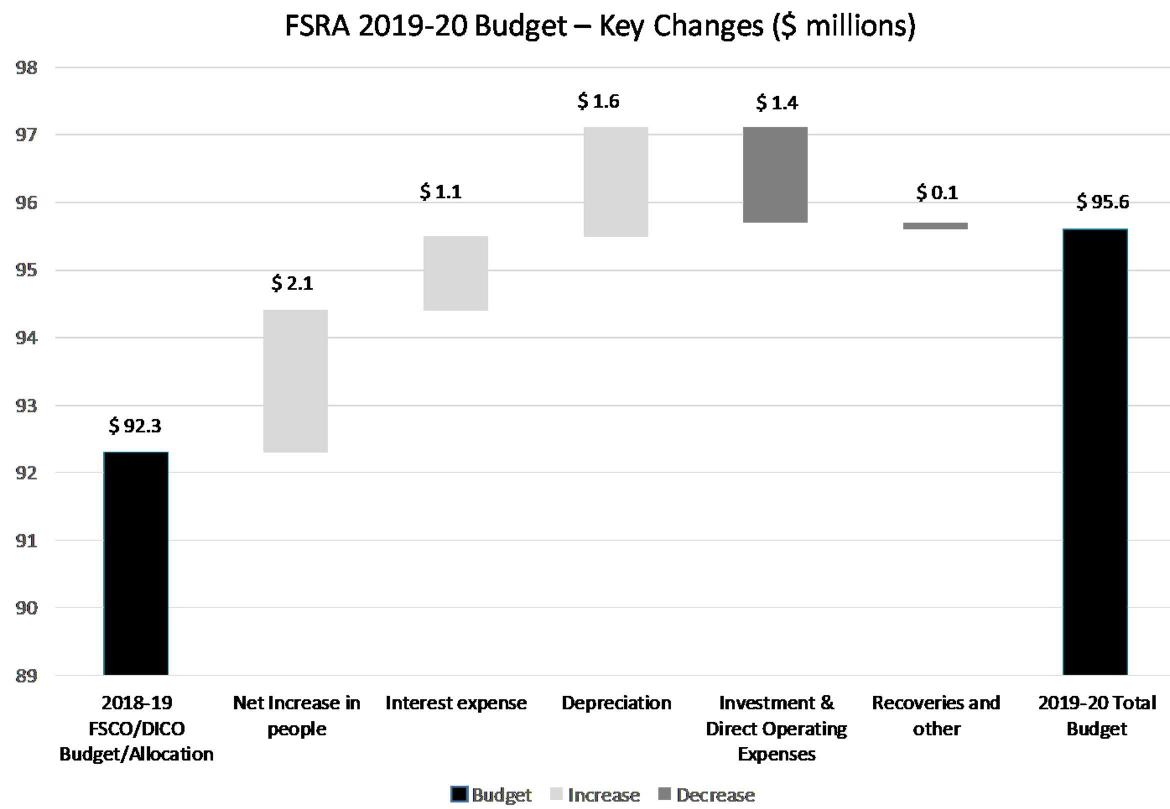
	FSRA 2019-2020 Budget ($OOO's)	FSCO & DICO Combined Fiscal 2019 Budgets ($OOO's)	Variance ($OOO's)	Variance (%)
Revenue				
Activity Fees	6,272			
Fee Assessment	75,507			
Licensing Fees	15,221			
Total Revenue	97,000	92,316	4,684	5.1%
Direct Costs	69,424	68,615	809	1.2%
Common Costs	26,160	23,701	2,459	10.4%
Total Costs	95,584	92,316	3,268	3.5%
Increase/(decrease) in Retained Earnings	1,416	-	1,416	

Additional financial budget information is contained in the Appendices:

- Appendix 3: Financial Assumptions
- Appendix 4: Statement of Financial Position
- Appendix 5: Statement of Cash Flow
- Appendix 6: Investment of Capital Assets

5.2 Budget Analysis

The $3.3 million net increase of FSRA total budgeted costs, compared to the combined budgets of FSCO and DICO, is analyzed in the table below.



The $3.3 million (3.5%) in higher budgeted costs is due to a number of key changes.

To achieve its objectives and deliver on its priorities, FSRA will increase its staff costs to improve its capabilities by investing in sectoral and functional expertise and in hiring highly skilled and experienced leaders and other key regulatory and support positions. In addition, additional staff are required to enable FSRA to operate independently of Government. This includes costs for staff for activities that were not part of FSCO as they received certain back office activities through other government services for no cost, or for less than fair market value. This incremental salary cost increase for FSRA accounts for approximately a $2.1 million net increase in costs.

FSRA has targeted reductions in Investment and Direct Operating Costs. These include no longer paying for services where FSRA has built internal capability, and efficiencies gained by combining and reducing FSCO and DICO costs such as accommodations, Board of Director costs, and administration costs such as consulting fees and legal services. These cost reductions have been partly offset by investments in FSRA's financial systems and information technology foundations to facilitate independent operations. These foundations will also support the building and implementation of future digital and innovative IT solutions to enable leading edge regulatory practices. These categories of expenditures provide a net cost decrease of approximately $1.4 million.

FSRA is self-funded and must account to Government for interest costs incurred by FSRA when financing a deficit – such interest costs were not incurred when FSCO was part of the consolidate revenue fund. Interest charges of $1.1 million on the drawn portion of FSRA's $40 million startup loan and working capital financing are included in this budget.

Further, certain costs related to the establishment of FSRA's IT infrastructure and back office capabilities have been debt-funded by the Government and capitalized. FSRA's first year budget contains the scheduled amortization of those capitalized costs as depreciation charges, and the repayment of this debt financing as cash generated, by charging fees and assessments to the regulated sectors to repay debt. This results in a net increase of depreciation charges of $1.6 million over the combined FSCO and DICO levels.

Finally, FSRA experiences an increase of costs recovered from other agencies and Ministries of approximately $100,000, which makes up the balance of the net cost increase.

FSRA must recover, over 15 years, an accumulated deficit incurred during start-up, which was funded by Government loans. In FSRA's first year, the budget includes cash expenditures to make principal repayment, and revenues to offset the accumulated deficit, of $1.4 million. To offset the accumulated deficit and fund start-up loan repayment to Government, FSRA will charge the regulated sectors the accumulated costs of launching FSRA and preparing it to be operational. This is represented as Deficit Recovery revenue of $1.4.

5.3 Sector Budgets

The application of the Fee Rule methodology results in the following sector allocations for fee and assessment purposes.

Sector	Insurance					Pensions	Credit Unions	Mortgage Brokers	Health Service Providers	Loans & Trusts	Secretariats	Total
Sub Sector	Auto Rates	P&C Conduct	P&C Prudential Regulation	Life Conduct	Total Insurance							
					($ 000's)							
Revenue												
Activity Fees	$ 16	$ 187	$ 1	$ 5,679	$ 5,883	$ 58	$ 184		$ 147			$ 6,272
Fee Assessment	12,460	19,714	485	1,885	34,544	27,392	13,326			246		75,508
Licensing Fees					-			9,812	3,916			13,728
Fixed Fee Deficiency								1,492				1,492
HSP Fixed Fee Shortfall	384				384				(384)			-
Total Revenue	$ 12,860	$ 19,901	$ 486	$ 7,564	$ 40,811	$ 27,450	$13,510	$ 11,304	$ 3,679	$ 246	$ -	$ 97,000
Direct Expenditures	$ 8,962	14,294	349	5,433	29,038	19,716	9,805	8,119	2,918	177	(350)	$ 69,423
Common Expenditures	3,514	5,607	137	2,131	11,389	7,734	3,705	3,185	1,145	69	350	27,577
Total Expenditures	$ 12,476	$ 19,901	$ 486	$ 7,564	$ 40,427	$ 27,450	$13,510	$ 11,304	$ 4,063	$ 246	$ -	$ 97,000
% of Total	12.9%	20.5%	0.5%	7.8%	41.7%	28.3%	13.9%	11.7%	4.2%	0.3%	0.0%	100.0%
Combined FSCO and DICO Fiscal 2019 Budgets					$ 38,358	$ 24,390	$12,670	$ 11,169	$ 5,494	$ 233	$ -	$ 92,314
% of Total					41.6%	26.4%	13.7%	12.1%	6.0%	0.3%		
Difference					$ 2,453	$ 3,060	$ 840	$ 135	(1,815)	$ 13	$ -	$ 4,686
% Difference					6.4%	12.5%	6.6%	1.2%	-(33.0%)	5.6%		5.1%

FSRA's overall budgeted revenue of $97 million is $4.7 million (5.1%) higher than the combined 2019 FSCO and DICO budget. Specific sectors had specific expenditures that would increase the relative percentage increase above 5.1%. Sectors with specific expenditures that increase the revenue required to cover those costs are discussed above and a breakdown of costs by sector is outlined below.

The pension sector has an increase of five senior staff positions to address improved policy development, relationship management, risk analysis, market intelligence, technical actuarial consulting and enhanced prudential capabilities. These investments assist FSRA in deploying the appropriate skills to implement a relationship model for larger plans, have greater prudential expertise and move towards risk-based approaches and more efficient processing of transaction requests.

Specific expenditures attributed to Credit Unions reflects FSRA's initiative to move more towards an integrated relationship management approach, with greater sectoral, policy and financial markets expertise, and to cover policy development, prudential, transactional and conduct matters. For example three key senior resources have been added to the organization as direct costs to support FSRA in being successful as an enhanced regulator. The plan also reflects an entire year of the analytics group implemented part way through the fiscal 2018 year.

The insurance sector costs reflect an investment in the conduct area in the form of two senior staff to assist in the coordination and effectiveness of conduct-related activities and in having sectoral expertise. In addition a Director and a Senior Manager in the Auto subsector of Insurance were added to support improved auto rate regulation processes (e.g., implement risk classification approaches) and to support the development and implementation of auto insurance rate reform initiatives. The policy area has added a senior staff member to address auto rate policy development and another to support policy development around conduct in distribution channels, as well as staff to support auto reform and conduct-related initiatives.

6. Proposed Priorities

In its first year, FSRA will focus on burden reduction and regulatory effectiveness through cross-sector and sector-specific priorities that can be achieved, or substantially advanced, in FY 2019-20. These measurable activities will form the basis of our priorities document and drive our proposed budget.

FSRA's overall cross-sector priorities will reset the regulatory foundation, make regulation more effective and efficient and further our legislative objectives. In our preliminary priorities consultation, stakeholders brought forward a number of sector-specific suggestions. Our proposed priorities will deliver a positive impact in reducing burden and improving regulatory effectiveness, improving stakeholders' regulatory experience. Once finalized, the priorities will drive internal accountability for incoming executives and serve as the basis for operational planning and performance measurement.

Overall Priorities	
Burden Reduction	**Regulatory Effectiveness**
• Review inherited guidance • Review data collection and filing requirements • Establish meaningful service standards	• Protect the public interest • Increase sectoral expertise • Enable innovation • Enhance stakeholder collaboration • Modernize systems and processes

Sector-specific: Targeted High-impact Priorities				
Auto Insurance	**Credit Unions**	**Insurance Conduct**	**Mortgage Brokering**	**Pensions**
• Streamline Rate Regulation Process • Support Auto Reform Strategy • Review Health Service Provider (HSP) Regulation • Develop Fraud Reduction Strategy	• Integrate Conduct and Prudential Supervision • Support Modernization of Regulatory Framework • Adopt Industry Code of Conduct • Ensure Appropriate Resolution and Deposit Insurance Reserve Fund (DIRF) Framework	• Adopt Effective Conduct Standards • Improve Licensing Effectiveness and Efficiency • Harmonize Treating Consumers Fairly Guidance	• Provide Effective Syndicated Mortgage Investment (SMI) Oversight • Improve Licensing Effectiveness and Efficiency • Adopt Industry Code of Conduct	• Support Plan Flexibility • Review Prudential Framework • Focus on Burden Reduction

7. Burden Reduction

In all aspects of FSRA's operations, we will seek to reduce the regulatory burden for our regulated sectors, and to drive effective, efficient regulation and supervision by ensuring that the benefits justify the internal and external costs of regulation.

A regulatory framework that imposes unnecessary costs (e.g., by not being risk-based), or has unclear or unnecessary guidance and requirements, can negatively impact Ontario's economy, regulated businesses and individual Ontarians. For that reason, FSRA has made reducing regulatory burden a cross-sector priority, with a specific focus on three key initiatives:

1. Review Inherited Guidance
2. Review Data Collection and Filing Requirements
3. Establish Meaningful Service Standards

7.1 Burden Reduction

7.1.1 Burden Reduction: Review Inherited Guidance

The current FSCO and DICO guidance framework varies significantly by sector, and can be inconsistent, confusing and/or ambiguous within sectors.

FSRA will examine all inherited guidance to ensure clarity and consistency, to eliminate overlapping and potentially inconsistent requirements, and to ensure that its intended impact is clear (e.g., is it a legal interpretation; advice on supervisory expectations; overarching principles; examples to guide best practices or activities; or information or other advice?). Regulated entities and the public are best served when guidance is necessary (e.g., provides necessary consumer protection; produces more benefit than the costs it imposes), consistent, accessible and actionable, and when its intended effect is well-understood. FSRA will develop and apply a cohesive, principles-based regulatory guidance framework to streamline, clarify and update current guidance for greater regulatory effectiveness, transparency, accountability, and burden reduction.

FSRA will seek to use cost-benefit analysis to evaluate whether guidance is necessary or could be improved, enhanced (e.g., streamlined), or eliminated.

Approach

- Pre-launch
    - Conduct an inventory and, where practicable, an initial assessment of the current guidance by sector;
    - With input from the MOF, stakeholders and other regulators, identify priority areas for review (e.g., see section 8 for sector-specific priorities); and
    - Develop plan by sector for guidance review and restatement.
- Year 1
    - Complete initial review of all existing guidance;
    - Establish a FSRA guidance framework as a foundation for the review of applicable guidance;
    - Revise, consolidate and streamline high priority guidance; and
    - Remove low-benefit guidance.

- Year 2 and ongoing
    - Revise guidance on an ongoing basis based on the FSRA guidance framework and defined controls and processes, including the use of prioritization and cost/benefit assessments.

Dependencies

- Coordination with the MOF where guidance is referenced in, or dependent on, regulation or legislation; and
- Coordination with national organizations and other regulators where guidance is consistent across jurisdictions.

Year 1 Target

- Completed review of all inherited guidance;
- Complete re-issuance of all high-priority guidance; and
- Complete removal/simplification of all low-impact/low-priority/unnecessary guidance.

7.1.2 Burden Reduction: Review Data Collection and Filing Requirements

Regulated entities have expressed concerns about duplicative reporting requirements, unnecessary data collection and burdensome filings requirements. There is also a perceived lack of timely analysis of and reporting back using the data collected. FSRA will review current data and filing requirements to identify ways to streamline data reporting requirements to reduce the burden on regulated sectors, increase transparency and information sharing, and enhance industry benchmarking and analytics.

Approach

- Pre-launch
    - Consult with stakeholders on data/filing principles and begin to establish a framework for data/filing requirements, including a cost-benefit framework for analysis; and
    - Consider and confirm an initial focus on requirements for consumer/member disclosure.
- Year 1
    - Review existing data and filing requirements against the principles and costs/benefits;
    - Conduct a review of FSRA data/filing needs and information sources to identify potential ways to minimize burden while leveraging data to improve regulatory outcomes; and
    - Increase transparency by clarifying how collected data/filing information is used and consulting on desired information and analytics and how they could provide more useful information to stakeholders.

Dependencies

- Potential implications of changes to inter-jurisdictional agreements and legislation; and
- IM/IT system limitations and need for IT renewal.

Year 1 Target

- Completed review of data and filing requirements.

7.1.3 Regulatory Effectiveness: Establish Meaningful Service Standards

There is a perceived lack of accountability and responsiveness in the current regulatory framework. Stakeholders are adversely affected if timely, reasonable, predictable and well-understood delivery of regulatory activities does not consistently occur. Service standards are a key tool to ensure unnecessary regulatory burden is minimized.

FSRA will increase transparency and accountability for our delivery of regulatory activities by working with stakeholders to develop and implement service standards that effectively measure our effectiveness in meeting our objectives, and that meet the needs of our stakeholders. This includes timely and responsive processing of regulatory matters in a timeframe that facilitates the cost-effective provision of financial services.

Approach

- Pre-launch
  - Initiate discussion to understand stakeholder expectations and processes in each regulated sector and any current services standards and their effectiveness.
- Year 1
  - Initiate and complete development of service standard principles and a review of service standards (including review of best practices in other jurisdictions) for each key regulatory objective/process in each sector;
  - Implement new service standards, where practicable, in existing processes; and
  - Reflect service standards in employee performance targets.

Dependencies

- Collaboration and agreement with stakeholders regarding expectations for FSRA; and
- Data collection and systems limitations.

Year 1 Target

- Implementation of updated and new service standards; and
- Completion of service standards principles framework.

7.2 Regulatory Effectiveness

7.2.1 Regulatory Effectiveness: Protecting the Public Interest

The financial services sector is undergoing significant change and this heightens the need for regulators to understand and protect the public interest. Consumer expectations for choices and services are high, driving new technologies, business models, products and services. FSRA is committed to supporting industry innovation, investment and growth, and to ensuring competition and continued new product availability. Across the organization there will be an enhanced focus to embrace the consumer perspective to support innovation, and efficiencies that will benefit consumers while ensuring their interests are properly addressed.

Approach

- Pre-launch
  - Consult to gain further insights on consumer perspectives and priorities, including engaging consumer stakeholders in the regulated sectors;

    - Identify current channels and sources of consumer information and knowledge (e.g., industry, other regulators, consumer-focused organizations); and
    - Assess information portals for consumers (e.g., websites and call centres) to identify areas for improvement in how FSRA conveys and collects information.
- Year 1
    - Review FSRA's supervision, monitoring and enforcement (i.e., core regulatory activities) to ensure we are protecting and responding to consumers' needs, including evolving trends;
    - Clearly identify and track consumer issues to inform and help prioritize regulatory reform;
    - Conduct consumer experience mapping to ensure that our information and processes are "user-friendly" to members of the public;
    - Launch a Consumer Office, under the policy function, to provide a 'consumer lens' to enterprise-wide decision making so that FSRA strategies, policies and supervisory practices incorporate effective ways to protect, support and inform the public;
    - Formally engage stakeholders and build relationships across all material groups of consumer stakeholders and members;
    - Identify and leverage existing sources of research and analysis on behavioural economics and effective consumer outreach;
    - Increase internal awareness and understanding of consumer perspectives to inform how FSRA applies current guidance and develops new approaches;
    - Launch a new FSRA website with clear, easily accessible, user-friendly public information and resources on the regulated sectors; and
    - Identify and improve avenues for consumers and businesses to report information about fraud and bad actors.

Year 1 Target

- New website with clear, easily accessible public information;
- Consumer Office policy function launched and operational (e.g., an articulated framework for consumer/member engagement);
- Integration of the consumer lens in the guidance and burden reduction process identified and acted upon; and
- Established relationships with key consumer stakeholders on approach and research needed to support consumer protection.

7.2.2 Regulatory Effectiveness: Sectoral Expertise

The financial services sector is increasingly complex, requiring sector and regulatory expertise to anticipate trends and respond to opportunities and issues. A lack of expertise can result in misunderstanding, unclear direction and frustration. FSRA will retain, recruit and empower individuals with regulated sector and professional expertise, build high-performing policy and supervisory functions that emphasize sectoral knowledge, and ensure staff are appropriately trained. This will enable more effective collaboration with regulated sectors, promote innovation and new business models, and enable more efficient and responsive regulatory activities.

In FSRA's policy function and its conduct and other core regulatory supervisory functions, FSRA will identify the need for industry expertise, experience and knowledge – and will staff accordingly.

Approach

- Pre-launch
  - Establish enterprise-level policy, conduct and other supervisory functions with sufficient scope for industry expertise;
  - Retain and recruit executive vice presidents and key staff with appropriate expertise; and
  - Identify key relationship managers for targeted regulated sector entities.
- Year 1
  - Train key relationship managers to be effective in dealing with targeted entities;
  - Conduct ongoing work to renew and enhance expertise including in-house training; and
  - Develop metrics for sectoral expertise and credibility of the regulator with regulated sectors.

Dependencies

- Availability of talent with industry experience, expertise and knowledge, given government, collective agreement and other constraints.

Year 1 Target

- Executive vice presidents and full team in place with improved expertise and a plan to remedy gaps; and
- Performance management metrics defined.

7.2.3 Regulatory Effectiveness: Enable Innovation

Older, inflexible regulatory frameworks hold back innovators and limit consumer choice and the economic benefits of industry competition and innovation. Stakeholders are concerned about future disruption and falling behind in a rapidly changing business environment and whether Ontario will support technological advances that enable new business models and products. FSRA will create an Innovation Office to:

- support an "open for business" approach across FSRA and focus on identifying and supporting opportunities to foster innovation and business transformation;
- promote collaboration with stakeholders to facilitate the process for regulated entities seeking to bring innovative products and services to market (i.e., help navigate regulatory requirements; where FSRA has authority, develop and implement customized trials and new product/service offerings using available FSRA powers to grant waivers and exemptions); and
- work with stakeholders and the MOF to identify legal and regulatory barriers to innovation, and develop and promote ways to adapt the regulatory regime to foster innovation.

Approach

- Pre-launch
  - Set up and hire lead for Innovation Office;
  - Identify high priority initiatives that the office of innovation can support; and
  - Consult with stakeholders on additional tools and resources required to support innovation.
- Year 1
  - Launch Innovation Office with full staff complement;
  - Develop, implement and communicate principles and process/framework to support innovation; and
  - Reach out to stakeholders engaged in innovation to understand needs and accordingly target/focus FSRA support.

Dependencies

- Collaboration with stakeholders and the MOF to resolve any identified barriers and ensure appropriate regulatory framework.

Year 1 Target

- Innovation Office launched and operational;
- Principles and process/framework to support innovation communicated to the regulated sectors; and
- Agreement with stakeholders on additional tools and resources required to support innovation.

7.2.4 Regulatory Effectiveness: Enhancing Stakeholder Collaboration

Dialogue, collaboration and consultation are at the core of FSRA's approach to our ambitious regulatory transformation and modernization plan. We are pleased with the positive stakeholder feedback on the IAGs process to date and on our early engagement. Working with stakeholders, FSRA will identify opportunities for ongoing and longer-term consultation mechanisms.

We will continue to build on current FSRA, FSCO and DICO engagement with industry to work together to shape our regulatory framework, improve service standards and modernize our systems and processes.

Building on a strong commitment to collaboration, FSRA will define and implement mechanisms for stakeholder collaboration at different levels of the organization, seek opportunities to improve stakeholder relationships, and use technology to reach more stakeholders effectively and efficiently.

Approach

- Pre-launch
  - Develop initial objectives and principles for direct consultation mechanisms with key sector participants for FSRA Board and for FSRA management and staff;
  - Conduct stakeholder mapping to ensure that we have identified all stakeholders (both consumer and industry), their preferred engagement approach and topics; and
  - Evaluate the current mechanism for the Board’s consultation with stakeholders.
- Year 1
  - Where consultation is insufficient, establish or expand stakeholder engagement mechanisms to result in more effective dialogue (e.g., establish direct stakeholder consultation mechanisms to support the Board in rule-making);
  - Develop stakeholder consultation plans on specific initiatives, such as a comprehensive guidance review to reduce the burden on regulated sectors;
  - Evaluate current FSCO and DICO advisory committees and working groups to ensure effective, ongoing technical expertise and advice from industry experts and leaders;
  - Initiate focused relationship engagement by FSRA sectoral experts with regulated sectors, including bilateral meetings with industry, to improve understanding of industry needs, promote innovation, support industry investment and growth, and encourage new products and business models;
  - Employ additional channels such as webinars, social media and online chats to reach stakeholders across Ontario more effectively; and
  - Establish service standards for stakeholder engagement.

Year 1 Target

- Sector specific engagement plans developed with stakeholders;
- Launch of online and digital engagement tools including an improved website;
- Review of existing stakeholder/management consultation avenues completed; and
- Board/stakeholder consultation mechanisms established.

7.2.5 Regulatory Effectiveness: Modernize Systems and Processes

Certain FSCO information management (IM)/information technologies (IT) are at end of life and at risk of failure, requiring immediate and significant investment to maintain and improve FSRA's ability to function. Others are outdated, inefficient, costly and unable to support modern, flexible regulation. Modernization of these IM/IT systems and the processes they support is expected to be a multi-year, multi-million dollar investment. FSRA will target and prioritize areas for process redesign and IM/IT improvement and investment to deliver effective, efficient and timely services that are fully aligned with FSRA strategy and priorities. This allows us to establish fully business aligned, flexible and efficient cross-sector strategies, tactics and enabling foundations for technologies and data, and to develop and complement sector-specific processes and IM/IT strategies and enhancements. Systems development is intended to provide flexibility to respond to changing regulatory needs.

Approach

- Pre-launch
  - Install and operate back-office operations and data centre; and
  - Ensure smooth transition of IT services to FSRA upon launch.
- Year 1
  - Launch new initial FSRA website
  - Initiate and complete review of IM/IT systems and key regulatory processes, with stakeholder input and consultation;
  - Redesign regulatory processes where practicable, and plan to redesign where work will continue;
  - Implement low-cost or high priority initial IM/IT improvements where practicable in alignment with FSRA priorities; and
  - Develop strategy, plan and roadmap for FSRA IM/IT architecture and for process/sector-specific IM/IT transformation in alignment with FSRA priorities.
- Year 2 and ongoing
  - Complete targeted process redesign;
  - Begin implementation of IM/IT strategy for FSRA and key regulatory processes; and
  - Implement prioritized high benefit projects where practicable.

Dependencies

- Effective engagement of stakeholders to ensure process and IM/IT redesign is responsive to current and potential future needs.

Year 1 Target

- Completion of review of processes and existing IM/IT tools;
- Commenced redesign of processes;
- Developed IM/IT strategy, roadmap and design for FSRA (i.e., foundation) and commenced implementation for high priority items; and
- Developed IM/IT strategy for key regulatory processes and sectors and developed implementation roadmap and plan.

8. Sector-Specific Priorities

The cross-sector priorities described above outline FSRA's plan to reduce burden and increase the effectiveness of regulation. In addition, FSRA has identified a number of opportunities within each sector that support these overarching priorities and will create a dedicated focus within FSRA and accountability to specific stakeholders. These sector-specific priorities are described in the following section (listed in alphabetical order by sector).

8.1 Auto Insurance Sector

Auto insurance is mandatory in Ontario and represents over $12 billion in direct written premiums. It represents protection for all Ontarians, a cost of owning a vehicle for the province's ten million licensed drivers, and a major source of premiums and claims costs for the insurance industry. The auto insurance system is highly regulated, and FSRA will work closely with the MOF; other regulators and agencies; the public (including consumer and claimant representatives); the insurance industry (including companies and intermediaries); and service providers to claimants (including health care practitioners and legal representatives), on improving the system with a focus on the following four key auto sector priorities:

1. Streamline Rate Regulation
2. Support Auto Reform Strategy
3. Review Health Service Provider Regulation
4. Develop Fraud Reduction Strategy

8.1.1 Auto Insurance: Streamline Rate Regulation Process

Insurance companies see the existing processes for reviewing and approving auto insurance rate filings, particularly processes related to rates for personal vehicles, as inflexible, lengthy and overly complex. These issues create barriers to innovation and prevent insurance companies from responding quickly to changes. FSRA will improve the rate regulation process to reduce regulatory costs and burden on auto insurance companies, and to create better outcomes for consumers, through more timely rate approvals.

Approach

- Pre-launch
    - Review existing processes to identify early opportunities to reduce burden and shorten timelines;
    - Establish rate approval process improvement target; and
    - Consult with industry on proposed approach.
- Year 1
    - Complete process review and identify how rate regulation can be improved; and
    - Implement process improvement changes based on opportunities identified in the pre-launch and early Year 1 review.

Dependencies

- Process improvements may need to be adjusted/changed to support Priority 8.1.2.

Year 1 Target

- Implementation of outcomes from process reviews.

8.1.2 Auto Insurance: Support Auto Reform Strategy

Upward pressure on auto insurance rates continues, reflecting underlying cost increases. Consumers are interested in getting the best possible policy for the lowest price while auto insurers indicate they do not earn a profit sufficient to sustain widespread industry viability and product availability. The combination of increasing rates, consumer expectations and concerns that the current auto insurance regulatory system creates barriers to effective pricing, cost control, good underwriting and innovation could make the market less attractive and result in less choice, competition and product availability for consumers. In the 2018 Fall Economic Statement the government made a number of commitments aimed at improving the auto insurance system, and FSRA will support the MOF in delivering on those commitments.

Approach

- Pre-launch
    - Collaborate with the MOF and FSCO on work related to the government's auto insurance commitments, such as a joint review of auto insurance rate regulation.
- Year 1
    - Support the government's review of auto insurance, including providing leadership as requested; and
    - Work with the MOF to consult with stakeholders about reforms and to commence implementation of changes at FSRA that implements reforms.
- Year 2 and ongoing
    - Continue implementation of changes at FSRA that support reforms.

Dependencies

- Significant reforms may require legislative changes for implementation.

Year 1 Target

- In collaboration with government partners, complete stakeholder consultation regarding auto insurance reform and identified areas requiring additional actions (e.g., FSRA guidelines, legislation, regulation) or development (e.g., metrics); and
- Developed implementation plan for FSRA to support any reforms identified in Year 1.

8.1.3. Auto Insurance: Review Health Service Provider Regulation

The current licensing regime for health service providers in Ontario's auto insurance system is seen by some as ineffective in achieving the intended objectives of controlling costs and ensuring effective provision of benefits by reducing fraud, and is therefore of questionable regulatory benefit, particularly when there is already supervision by health regulatory colleges. We will review how health service providers are regulated by FSRA with an emphasis on burden reduction and on access to treatment for claimants. The review will consider the objectives and outcomes of the current framework, with a particular emphasis on:

- how such health service providers should be regulated by FSRA or another entity and how those regulatory activities benefit our auto insurance system;
- streamlining the licensing process and revising the approach to supervision of health service providers, including examinations, to achieve the desired regulatory objectives;

- identifying the appropriate role for auto insurers in fraud cost control and health service provision, and what FSRA and other regulators can do to support insurers (e.g., provision of data); and
- reviewing the role of the information and technology in fraud reduction.

Approach

- Pre-launch
  - Work with the MOF and industry to define the specific terms of and process for the review.
- Year 1
  - Initiate and complete the review;
  - Ensure alignment with actions supporting the government's auto insurance rate reform initiative and FSRA's Fraud Reduction priority 8.1.4;
  - Initiate implementation of any regulatory process improvements identified through the review.

Dependencies

- Collaboration and cooperation with stakeholders and other regulatory and government bodies, such as colleges and IM/IT technological changes.

Year 1 Target

- Completed review and recommendations and implementation plan presented to the MOF.

8.1.4 Auto Insurance: Develop Fraud Reduction Strategy

Stakeholders in Ontario's auto insurance system are looking to FSRA to enhance public confidence and contain costs by taking an active role in reducing fraud, both in health and vehicle repair claims. Many different parties have roles to play in controlling and deterring auto insurance fraud, and consensus on the appropriate approach is required. FSRA will take a leadership role in bringing together government, regulators and stakeholders to drive the development of an improved anti-fraud strategy related to auto insurance that focuses on:

- clarifying the appropriate roles and expectations of the various parties;
- working with stakeholders to review and improve the effectiveness of information and technology systems and tools to control and deter auto insurance fraud;
- identifying opportunities for improved use of data and analytics; and
- considering the need for improved public communications about the costs of fraud for Ontario consumers, and the potential benefits of increased public awareness in reducing fraud.

Approach

- Pre-launch
  - Identify parties and define mechanisms for collaboration and cooperation.
- Year 1
  - Work with stakeholders to initiate forum/process to develop and implement anti-fraud strategies;
  - Clearly define accountability for implementation of new initiatives identified through the forum/process and any required process, guidance or regulatory changes (e.g., empowerment).

- Year 2 and ongoing
  - Work with stakeholders to complete implementation of agreed strategy.

Dependencies
- Collaboration and cooperation with many different parties that are accountable for controlling fraud; may require legislative change or technology improvements.

Year 1 Target
- Establishment of forum/process for government, regulators and stakeholders to evaluate and improve fraud control;
- Report to the MOF on recommendations to reduce fraud;
- Implementation of changes to processes and activities within FSRA's control which were identified to help deter fraud.

8.2 Credit Union Sector

Ontario's 79 credit unions play an important role with 1.6 million members, over 7,300 staff and total assets of over $63.5 billion. These credit unions are diverse in size; the five largest credit unions account for more than half of these assets. The sector has been in a period of rapid consolidation, with the number of credit unions declining from 343 in 2000. The sector is currently overseen by two regulators – DICO for capital and lending/investment requirements (prudential oversight) and deposit insurance; and FSCO for market conduct. The government has passed legislation that will, upon FSRA's launch, merge FSRA and DICO, combining these two functions. Following consultations with stakeholders, FSRA has identified the following priorities for our oversight of the sector:

1. Integrate Credit Union Prudential and Conduct Supervision
2. Support Modernization of Credit Union Regulatory Framework
3. Adopt Industry Code of Conduct
4. Ensure Appropriate Resolution and Deposit Insurance Reserve Fund (DIRF) Framework

8.2.1 Credit Union: Integrate Credit Union Prudential and Conduct Supervision

The current separation between the prudential and market conduct regulators results in duplication of efforts and inefficiency for credit unions in dealing with two regulators. The amalgamation of DICO and FSRA will create efficiencies and better align oversight of credit unions while ensuring the continuity of the regulator's expertise.

Approach
- Pre-launch
  - Build integrated credit union team with relationship management focus to cover prudential, transactional and conduct matters and to leverage specialist regulators (e.g., conduct);
  - Put amalgamation plan and organizational design in place at launch to improve efficiency and effectiveness.
- Year 1
  - Modernize methodology, tools and credit union regulatory approach so relationship managers cover prudential, conduct and transactional matters on an integrated basis;
  - Develop enhanced supervision approach reflecting integration and any required improvements.

Dependencies

- Proclamation of amendments to the CUCPA and the FSRA Act is necessary for amalgamation and integration.

Year 1 Target

- Integration plan in place and implemented.
- Development of enhanced, integrated supervision approach.

8.2.2 Credit Union: Support Modernization of Credit Union Regulatory Framework

Credit unions expect regulatory flexibility to support transforming business models, enhance competitiveness and respond to new product offerings and innovations in the sector. A revised/updated regulatory framework consisting of legislation, regulations, rules and guidelines would set the foundation for future regulatory effectiveness in the credit union sector.

FSRA will actively work with the MOF and the credit union sector to support any government initiatives aimed at modernization of the legislation and regulations, including the capital rules. FSRA intends to develop an enhanced supervision approach supported by guidance and, where applicable, rules tailored to the nature, size, complexity and risk profile of individual credit unions.

Approach

- Pre-launch
  - Provide dedicated policy resources as well as sophisticated transactional and prudential expertise to support any MOF initiatives aimed at modernizing the credit union legislative and regulatory framework, such as any potential changes to the capital adequacy framework.
- Year 1
  - Continue to support any MOF initiatives aimed at modernizing the credit union legislative and regulatory framework;
  - Develop and consult on any rules within purview of FSRA, as needed;
  - Review existing DICO guidance for modernization; and
  - Collaborate with the MOF and other regulators to define best practices for the sector that would inform guidance development.

Dependencies

- Modernizing the credit union framework likely requires new legislation and regulations by MOF.

Year 1 Target

- Effective support provided to the MOF for any initiatives aimed at modernizing the credit union legislative and regulatory framework; and
- Review of DICO guidance; identification of and progress on revision of priority rules and guidance.

8.2.3 Credit Union: Adopt Industry Code of Conduct

International best practices and consumer expectations related to conduct and regulation continue to evolve across the financial services sector. Sector participants have, through their industry association, the Canadian Credit Union Association (CCUA), agreed to develop and have the credit union industry adopt a national code of conduct against which credit unions would self-assess and FSRA could supervise. Collaboration with the MOF will be required to review options for adopting the industry code of conduct to ensure alignment with consumer protection measures in credit union legislation.

Approach

- Pre-launch
  - Support industry associations by commenting on the proposed national industry code of conduct for credit unions; a draft is expected for regulatory review in spring 2019.
- Year 1
  - Review the national industry code and, after discussions with stakeholders, consider whether and how to use it as part of the FSRA supervisory framework;
  - Discuss harmonization with other credit union regulators; and
  - To the extent it forms part of the FSRA supervisory framework, develop a plan for including code of conduct in examinations/supervision.
- Year 2 and ongoing
  - Further implement a plan for conduct examinations on any code used by the supervisory framework.

Dependencies

- Coordination of views on the proposed code with other stakeholders reviewing the code of conduct to determine if the code is ultimately acceptable to FSRA for use in its supervisory framework; and
- National harmonization would require the agreement of other credit union regulators.

Year 1 Target

- Established code in place acceptable to FSRA (or articulated reasons why the code can't be used by FSRA), with associated supervisory plan commencing and organizational readiness to implement ongoing supervision against the code.

8.2.4 Credit Union: Ensure Appropriate Resolution and DIRF Framework

FSRA will continue to enhance and refine the Readiness Strategy inherited from DICO, which will include an enhanced resolution strategy and a requirement for large institutions to have a recovery plan, and to ensure effective and appropriate resolution strategies and capabilities to thereby mitigate the risk of loss to the DIRF.

FSRA will administer the DIRF, which is intended to pay deposit insurance claims and costs associated with the continuance or orderly winding up of credit unions/caisses populaires in financial difficulty. DIRF preservation and governance is important as a dedicated protection for depositors in credit unions, confidence in the sector, and mitigation of conflict of interest. With the amalgamation of DICO and FSRA and the implementation of FSRA's proposed fee rule, FSRA's operating costs (e.g., the costs associated with regulatory activities) will be funded by an assessment which will be separate from future DIRF premium assessments. A proposal will be developed to amend the deposit insurance premium calculation, so that premiums are calculated to be at the level necessary only to fund the DIRF.

Approach

- Pre-launch
  - Develop governance processes to oversee the DIRF by a Board committee (e.g., when and how the DIRF can be accessed by FSRA and used to pay deposit insurance claims and costs

associated with the continuance or orderly winding up of credit unions/caisses populaires in financial difficulty) and ensure that it remains separate from other FSRA assets; and
    - Support the MOF in the development of proposed amendments to the deposit insurance premium calculation set out in O.Reg 237/09.
- Year 1
    - Consult on and communicate proposed recovery plan requirements;
    - Review existing resolution strategies and discuss with stakeholders, with a view to determining an enhanced resolution strategy;
    - Monitor the governance of DIRF to ensure processes are effective; and
    - Update the framework for assessing DIRF adequacy after consultation with stakeholders.
- Year 2
    - Put recovery plan requirements into effect; and
    - Assess and report to Minister on DIRF adequacy.

Dependencies
- Legislative proclamation of DICO and FSRA amalgamation and related legislation; and
- Potential IT requirements.

Year 1 Target
- Enhanced resolution strategy developed and recovery plan requirements communicated;
- Updated DIRF governance framework in place;
- Framework in place for assessing DIRF adequacy; and
- Commence, in 2019-20, an actuarial report on DIRF adequacy to be provided to the Minister of Finance in 2020-21

8.3 Insurance Conduct

The insurance sector provides property and casualty insurance (P&C), and life, accident and health insurance and related investment products (LAH), to help individuals protect the current and future values of key aspects of their lives against risk of loss. With over $48B of premium (combined life and health, and property and casualty), the sector drives a significant component of the economy. The sector includes over 250 insurers, over 50,000 agents and approximately 12,000 brokers. Insurance is a well-established and regulated sector; however, concerns regarding effective conduct standards, a need for improvement in licensing effectiveness, a desire for uniform and increased oversight of intermediaries, and overall national harmonization are present. Within this context, and through extensive consultation with industry and government stakeholders, FSRA has proposed the following priorities for conduct regulation in the P&C and LAH sectors:

1. Adopt Effective Conduct Standards
2. Improve Licensing Effectiveness and Efficiency
3. Harmonize Treating Financial Services Consumers Fairly Guidance

8.3.1 Insurance Conduct: Adopt Effective Conduct Standards

Concerns have been expressed by the International Monetary Fund (IMF) and by leading insurers and industry associations that FSCO does not have adequate resources to monitor conduct across so many individual agents. The Canadian Council of Insurance Regulators (CCIR) and Canadian Insurance Services Regulatory Organizations (CISRO) have jointly issued conduct guidance that is relevant across both the P&C and LAH sectors, including those relating to treatment of claims, complaints, product suitability, disclosure requirements, conflict of interest, advertising, etc. In the LAH sector, stakeholders have raised the lack of regulation of intermediaries between insurers and agents (licensed corporate agents or managing general agents) who perform oversight/management functions and should have corresponding conduct requirements. In the P&C sector, stakeholders have raised concerns over compliance with Ontario's "take all comers" auto insurance requirement. Strengthened conduct standards will eliminate oversight gaps in the industry, ensure a level playing field for all industry participants and help increase fairness to consumers.

Approach

- Pre-launch
  - Engage with stakeholders and other regulators to better understand positions and opportunities for consensus.
- Year 1
  - Separate consultation processes to evaluate and, if necessary, improve conduct requirements in each of the LAH and P&C segments;
  - Develop resourcing and implementation plan to support appropriate oversight and enforcement of new conduct guidelines in LAH and P&C; and
  - If stakeholders in a particular subsector (P&C or LAH) adopt a code of conduct, FSRA will review it (comment if a proposed code) and consider adopting it for use in its supervision of such sector.

Dependencies

- Significant coordination and collaboration with stakeholder groups across the insurance spectrum and the MOF in the event that any barriers to effective oversight are identified.

Year 1 Target

- Completed consultation process and presentation of observations and recommended improvements for both LAH and P&C sectors to stakeholders; and
- Reviewed any relevant codes of conduct and either adopted for use in supervisory framework or articulated why it was not adopted.

8.3.2 Insurance Conduct: Improve Licensing Effectiveness and Efficiency

Stakeholders in P&C and LAH have raised concerns regarding perceived lack of coordination and information sharing to identify and remove "bad actor" (non-compliant) registrants, and weak standards for continuing education and professional insurance to support good practices. There is interest in ensuring that non-compliant registrants or those individuals who have been excluded from participating in one industry (e.g., the securities industry), or in another jurisdiction, are also excluded from activities in the insurance sector. FSCO operates numerous licensing systems, some of which are paper-based, which are not integrated and do not have the capacity to analyze data to ensure a strong entry gate. As well, licensing systems have also been criticised for a lack of ease of use and lack of alignment across jurisdictions which creates unnecessary burden. For example, many direct agents in the P&C sector hold licences in each province in which the company operates, and are subject to different requirements and systems which aren't integrated across jurisdictions.

Approach

- Pre-launch
  - Consult with stakeholders (MOF, regulated sectors) in each of P&C and LAH sectors to identify required improvements in licensing systems and requirements to ensure

appropriate continuing education, insurance requirements and to restrict entry/require exit of "bad actors";

- Year 1
  - Develop an implementation plan to integrate licensing and tracking systems to ensure appropriate alignment of systems and reduce burden while providing industry and FSRA with appropriate functionality;
  - In consultation with industry and stakeholders in each of the P&C and LAH sectors, develop new licensing requirements to ensure appropriate continuing education, insurance requirements and to restrict entry/require exit of non-compliant registrants
- Year 2 and future
  - Put system build and requirements in place;
  - Improve and integrate licensing and/or conduct rules to achieve regulatory objectives.

Dependencies

- Significant coordination with industry associations and other regulators and government in the event that any barriers to improved licensing effectiveness are identified;
- Consideration of privacy legislation (e.g., to share and/or consider other financial services licensing information) and the need for consumers and other regulators to be aware of non-compliant registrants; and
- IM/IT system limitations and needs; timelines for IT renewal.

Year 1 Target

- In consultation with industry, new licensing requirements developed to ensure appropriate continuing education, insurance requirements and to restrict entry/require exit of non-compliant registrants;
- Identified the extent licensing can control bad actors and commence implementation of such change; and
- Made recommendations to the MOF on additional measures required to control/exit non-compliant registrants.

8.3.3 Insurance Conduct: Harmonize Treating Financial Services Consumers Fairly Guidance

Insurance industry stakeholders in both P&C and LAH are concerned that there are overlapping and potentially inconsistent Fair Treatment of Consumers (FTC) guidance documents issued by different regulatory bodies; FTC guidance jointly issued by CCIR and CISRO applies to insurance, whereas the Treating Financial Services Consumers Fairly guidance issued by FSCO applies to all regulated financial services sectors. These different guidance documents create uncertainty and potential inconsistency between jurisdictions in Canada. FSRA will work with stakeholders and other regulators to seek harmonized conduct expectations and provide clarity about how this guidance is to be interpreted and applied in day-to-day business through the product life cycle.

Approach

- Pre-launch
  - Consult with stakeholders and other regulators to determine harmonized conduct expectations so FSRA can provide clarity about how this guidance is to be interpreted and applied in day-to-day business throughout the P&C and LAH product life cycle in Ontario.
- Year 1
  - Based on pre-launch review and stakeholder engagement, develop any proposed changes/clarifications necessary; and

- Communicate to and consult on approach with stakeholders.
- Year 2
  - Work with other regulators to seek consistent application of FTC guidance across Canada including with respect to examples of fair or unfair treatment.

Dependencies

- Coordination with CCIR/CISRO and other regulators to develop national consensus on applying FTC guidance.

Year 1 Target

- Clarity provided on FTC guidance in Ontario, how it is consistent with CCIR/CISRO guidance, and what are examples of acceptable and unacceptable consumer treatment.

8.4 Mortgage Brokering Sector

The Ontario Mortgage Brokering sector enables the financing of a home purchase for many Ontarians, with over 318,000 mortgages valued at approximately $126B arranged by mortgage brokerages annually. The sector represents approximately 12,500 agents, and 2,700 brokers employed by 1,200 brokerages. Since its introduction in 2008, the sector has grown in size. At the same time, the distribution of Syndicated Mortgage Investments (SMIs) has, in some cases, failed to comply with the regulatory framework and failed to meet expectations of its stakeholders. Within this context, and through extensive consultation with industry and government stakeholders, FSRA has proposed the following priorities for the sector:

1. Provide Effective SMI Oversight
2. Improve Licensing Effectiveness and Efficiency
3. Adopt Industry Code of Conduct

8.4.1 Mortgage Brokering: Provide Effective SMI Oversight

The legacy SMI regulatory framework and the new SMI disclosure requirements may not be fully successful in ensuring that risks are disclosed in an effective way to allow investors to make fully informed decisions. To strengthen investor protection, mortgage brokers and administrators must provide adequate disclosure of SMI risks that investors can easily comprehend.

A transfer of responsibility for the regulation of non-qualified SMI offerings and related disclosures from FSCO/FSRA is contemplated for early 2020, but FSRA will continue to be the regulator for mortgage brokers and administrators that participate in SMIs, and will have responsibility for regulation of legacy SMI transactions.

Approach

- Pre-launch
  - Develop plan to evaluate the effectiveness of SMI disclosures and the mortgage broker/ administrator supervision FSRA inherits from FSCO.
- Year 1
  - Implement plan to evaluate, and if necessary, improve the effectiveness of SMI disclosures and FSRA supervision of mortgage brokers/administrators and SMI transactions;
  - Work with stakeholders (MOF, regulated sectors, other regulators) to ensure smooth transfer of oversight of the regulation of non-qualified SMI offerings to the Ontario

  - Securities Commission (OSC), including effective delivery of any oversight by FSRA of mortgage broker registrants and legacy transactions;
  - Work with the MOF to implement any required revisions to the SMI disclosure requirements; and
  - Work with the MOF to consider merits of creating separate category of registrant permitted to complete SMIs.

Dependencies

- Collaboration with the MOF in the event that any legal barriers exist to effective SMI disclosure and oversight (e.g., to create a new category of SMI registrant); and
- IM/IT system limitations and needs; timelines for IT renewal.

Year 1 Target

- SMI supervisory processes assessed and improved, as required;
- Complete industry consultation on SMI disclosures, supervision and transfer to OSC ;
- SMI oversight and disclosure framework reviewed and enhanced, or (if outside FSRA powers) proposals made to enhance, as required; and
- Supported OSC preparation for transfer of the regulation of non-qualified SMI offerings.

8.4.2 Mortgage Brokering: Improve Licensing Effectiveness and Efficiency

Industry and consumer feedback indicate that the licensing framework may not sufficiently cover the requirements of more complex products (SMIs) or set a high enough bar to restrict non-compliant registrants from entry into the sector or to allow them to be effectively removed from the sector. The current licensing platform is not in line with available technological capabilities, nor with the national scope of many in the industry, and is increasing the burden on industry participants. FSCO operates numerous licensing systems, some of which are paper-based, not integrated and do not have the capacity to analyze data to ensure a strong entry gate or analytics to support identification of those who should exit or be more closely supervised.

Licensing is a key control that should act as a strong barrier to entry for those unprepared or unable (e.g., due to other financial services licensing issues) to meet acceptable standards or for those who are currently licensed but no longer meet required standards.

Approach

- Pre-launch
  - Consult with stakeholders (government, regulated sectors and consumer advocates) to identify required improvements in licensing systems and requirements
- Year 1
  - Develop plan to integrate licensing and tracking system and increase FSRA's capacity to manage/analyze data to support regulatory objectives;
  - In consultation with industry, the MOF and consumer advocates, develop new licensing requirements, implement where practicable and otherwise develop a plan to implement; and
  - Identify how licensing can help control entry into sectors and help remove non-compliant registrants from the sector, and where other tools will be required to restrict entry or continued registrations.
- Year 2 and future
  - System build and requirements in place; and

- Licensing and/or conduct rules improved and integrated to achieve regulatory objectives.

Dependencies

- Significant coordination with industry associations, other regulators and the MOF in the event that any barriers are identified;
- Consideration of privacy legislation (e.g., to share and/or consider other financial services licensing information) and the need for consumers and other regulators to be aware of non-compliant registrants; and
- IM/IT system limitations and need; timelines for IT renewal.

Year 1 Target

- Plan in place for enhanced licensing system and new requirements, and implemented where practicable;
- Identified the extent licensing can control non-compliant registrants and commenced implementation of such change; and
- Made recommendations to MOF on any additional measures required to control/exit non-compliant registrants.

8.4.3 Mortgage Brokering: Adopt Industry Code of Conduct

Mortgage products and brokerage services have grown in sophistication and complexity but conduct requirements have not kept pace. The sector is developing appropriate standards of conduct and behaviour through the work of its industry and professional associations, and through the practices of its established and leading members. The reputational and professional objectives of the sector, and the interests of consumers and investors dealing with registrants, will be furthered by industry registrants' adoption of a FSRA-supported Industry Code of Conduct that will enhance industry professionalism.

Approach

- Pre-launch
  - Support industry associations in initiating the development of a national industry code of conduct for mortgage brokering participants.
- Year 1
  - Work with Mortgage Brokers Regulators' Council of Canada, other regulators, the MOF and industry stakeholders to review any proposed industry code of conduct for appropriateness.
  - Communicate FSRA's expectations related to the code of conduct and how FSRA proposed to incorporate such a code in its supervisory practices.

Dependencies

- Industry development of an appropriate code of conduct; and
- Significant coordination and collaboration with stakeholder groups across the mortgage spectrum and MOF if any barriers to regulatory effectiveness are identified.

Year 1 Target

- Conduct standards agreed upon with the mortgage broker national association (or if not agreed upon by FSRA, has articulated reasons for disagreement); and
- If agreed, FSRA supervisory practices established to implement ongoing supervision against the code.

8.5 Pension Sector

Pension plan coverage in Ontario has remained steady at about a third of the labour force. Given the changing labour force and economy, some plan sponsors are looking at new and innovative ways to provide pensions. FSRA will work to ensure appropriate implementation of the regulatory framework to facilitate asset transfers, consolidation and other sector evolutions which will support the pension sector and retirement options for current and future plan members.

Pensions represent a significant financial asset for many Ontarians. There are 2.2 million active and 1.8 million retired members in plans that vary by size and type. While defined contribution plans have increased in popularity, the majority of members and assets remain in defined benefit plans (with assets of approximately $618B in Defined Benefit (DB) plans and $22B in Defined Contribution (DC) plans). FSRA will work with the MOF to ensure appropriate oversight of the pension sector as it grows/evolves, and has identified the following priorities:

1. Support Plan Evolution
2. Review Prudential Supervision Framework
3. Refocus Pension Regulation on Burden Reduction

8.5.1 Pension: Support Plan Evolution

Approach

- Pre-launch
  - Support MOF in its policy-making and ongoing legislative change related to the evolution of the pension sector.
- Year 1
  - Develop and implement changes to organizational structure to attract appropriate resources and deploy them optimally, including instituting a relationship model for larger plans/Jointly Sponsored Pension Plans (JSPPs);
  - Create and implement a framework for improved relationships with larger and evolving plans to thereby further the interests of their members and beneficiaries;
  - Use available discretion and powers (e.g., through articulation of principles, and guidance/ rulings) and dedicated resources, to better support complex transactions including plan mergers, and evolution of more robust plans;
  - Initiate consultation on key (inherited) FSRA pension policies and guidance.

Dependencies

- Collaboration with MOF in the event that barriers to appropriate regulation are identified.

Year 1 Target

- Consultation complete and concrete changes made to processes and structures and to the way large and evolving plans are supervised and supported;
- Review/revision of policies/guidance completed

8.5.2 Pension: Review Prudential Supervision Framework

FSRA will review our oversight of prudential pension matters to ensure appropriate assessment of risks and targeting of supervision. This will include consideration of appropriate governance of plans; how regulatory oversight manages and identifies potential risks to the Pension Benefit Guarantee Fund (PBGF); approaches to distressed plans; evaluating risks to the benefits/entitlements of plan members, and sector reputation.

Approach

- Pre-launch
  - Assess FSRA's expertise and risk-orientation of legacy prudential risk management (e.g., understanding of governance over asset and liability issues) in PBGF-eligible and other pension plans; and review of FSCO practices and other regulator best prudential/supervisory practices; and
  - Consider resource, program and IT/data requirements to provide more effective oversight of plans and more effective management of distressed pension plans.
- Year 1
  - Initiate data/systems requirements improvements;
  - Develop and consult on prudential framework for evaluating and supervising plan governance, risk management, controls and effective challenge processes; and
  - Evaluate how FSRA can identify and communicate best practices regarding various topics related to prudential risk including: large and complex plan strategies, investments, assets and transactions governance, control, and risk management; start such evaluation and communication.
- Year 2
  - Continue to implement and execute on prudential risk evaluation and communication;
  - Work with the MOF to consider developing appropriate additional tools over time, including support for distressed pension plans.

Dependencies

- Significant coordination and collaboration with stakeholders
- IM/IT system limitations and needs; timelines for IT renewal.

Year 1 Target

- Prudential supervision framework developed and consultation in process on policies and practices required to develop and implement the framework.

8.5.3 Pension: Refocus Pension Regulation on Burden Reduction

We propose to focus FSRA's resources on high-value regulatory activity and to reduce unnecessary regulatory burdens and low-return regulatory activities. The allocation of resources to areas of low regulatory value limits attention available for higher risk or more significant benefit regulatory activity. FSRA will continue to assess the effectiveness and efficiency of our regulatory framework and other practices for all plan types, to ensure they are principles-based and risk-based and to identify opportunities to reduce burden and improve regulatory effectiveness.

Approach

- Pre-launch
  - Plan for continued shift of FSRA's focus with emphasis on risk-based regulatory priorities; develop general principles-based approach to pension regulation.
- Year 1
  - Implement changes to organizational structure to redeploy resources; document practices and processes; identify areas where principles-based discretion can be used or guidance can be provided, or where process efforts can be streamlined or redirected to improve outcomes;
  - Support the MOF in consideration of efficacy of existing pension regulation and identification of opportunities for improvement.

Dependencies

- Collaboration with the MOF if barriers to appropriate regulation are identified.

Year 1 Target

- Regulatory processes tailored to ensure appropriate focus of limited pension regulation resources on higher-value regulatory and supervisory objectives;
- Implemented improved principles-based processes to use discretion and issue guidance to provide clarity/simplicity and reduce burden.

Appendix 1: Statutory Objects

FSRA's priorities are driven by its statutory objects and FSRA activities must support these objects and all priorities must link directly to the achievement of these objects. FSRA's objects, as defined in the FSRA Act, are:

General

1. to regulate & generally supervise the regulated sectors
2. to contribute to public confidence in the regulated sectors
3. to monitor & evaluate developments & trends in the regulated sectors
4. to cooperate & collaborate with other regulators where appropriate
5. to promote public education & knowledge about the regulated sectors
6. to promote transparency & disclosure of information by the regulated sectors
7. to deter deceptive or fraudulent conduct, practices & activities by the regulated sectors
8. to carry out such other objects as may be prescribed

Financial Services

9. to promote high standards of business conduct
10. to protect the rights & interests of consumers
11. to foster strong, sustainable, competitive & innovative financial services sectors

Pension Plans

12. to promote good administration of pension plans
13. to protect & safeguard the pension benefits & rights of pension plan beneficiaries

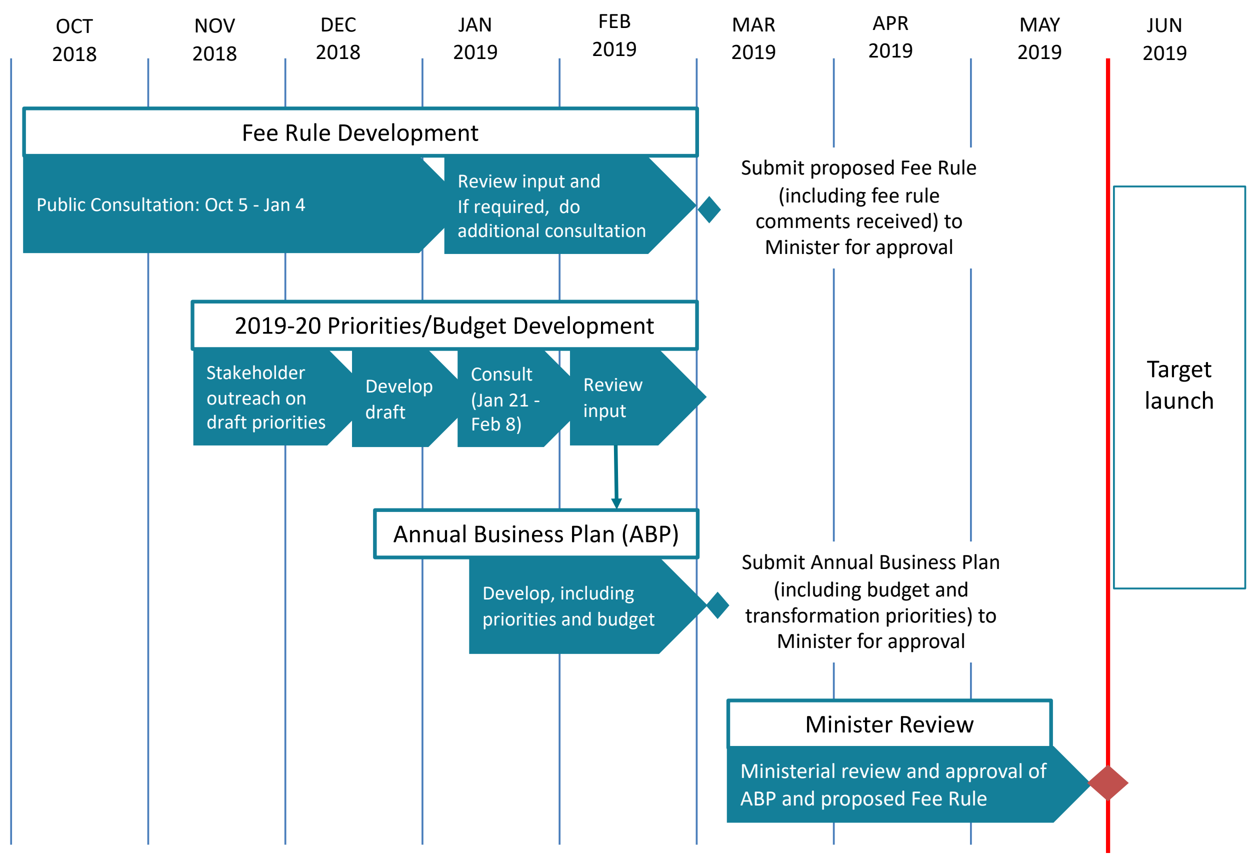
Credit Unions

14. to provide insurance against the loss of part or all of deposits with credit unions
15. to promote & otherwise contribute to the stability of the credit union sector in Ontario with due regard to the need to allow credit unions to compete effectively while taking reasonable risks
16. to pursue the above objects for the benefit of persons having deposits with credit unions & in such manner as will minimize the exposure of the Deposit Insurance Reserve Fund to loss

Priority	Legislative Objects
7.1.1 Burden Reduction: Review Inherited Guidance 7.1.2 Burden Reduction: Review Data Collection and Filing Requirements	1, 2,4, 9, 10, 11, 12, 13 1, 2, 3, 6
7.1.3 Burden Reduction: Establish Meaningful Service Standards	1, 2
7.2.1 Regulatory Effectiveness: Protect the Public Interest	2, 4, 5, 9, 10, 12, 13
7.2.2 Regulatory Effectiveness: Sectoral Expertise	1, 2, 3, 4, 6, 7, 8, 9, 10, 11, 12, 15, 16
7.2.3 Regulatory Effectiveness: Enable Innovation	10, 11, 12, 13, 15
7.2.4 Regulatory Effectiveness: Enhance Stakeholder Collaboration	2, 3, 4, 6, 11, 12, 15
7.2.5 Regulatory Effectiveness: Modernize Systems and Processes	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15
8.1.1 Auto Insurance: Streamline Rate Regulation Process	10, 11
8.1.2 Auto Insurance: Support Auto Reform Strategy	2, 3, 4, 5, 9, 10, 11
8.1.3 Auto Insurance: Review Health Service Provider Regulation	1, 4, 7

Priority	Legislative Objects
8.1.4 Auto Insurance: Develop Fraud Reduction Strategy	2, 4, 7
8.2.2 Credit Union: Modernization of Credit Union Regulatory Framework	1, 2, 3, 4, 11, 15, 16
8.2.1 Credit Union: Integrate Credit Union Prudential and Conduct Supervision	1, 10, 15, 16
8.2.3 Credit Union: Adopt Industry Code of Conduct	1, 2, 4, 7, 9, 10, 15, 16
8.2.4 Credit Union: Ensure Appropriate Resolution and DIRF Framework	2, 6, 10, 14, 16
8.3.1 Insurance Conduct: Adopt Effective Conduct Standards	1, 2, 4, 6, 9, 11
8.3.2 Insurance Conduct: Improve Licensing Effectiveness and Efficiency	1, 2, 4, 6, 9, 11
8.3.3 Insurance Conduct: Harmonize Treating Financial Services Consumers Fairly Guidance	1, 2, 4, 6, 9
8.4.1 Mortgage Brokering: Provide Effective SMI Oversight	1, 2, 4, 6, 10
8.4.2 Mortgage Brokering: Improve Licensing Effectiveness and Efficiency	1, 2, 3, 4, 6, 7
8.4.3 Mortgage Brokering: Adopt Industry Code of Conduct	1, 2, 3, 4, 6, 7, 9
8.5.1 Pension: Support Plan Evolution	1, 2, 3, 12, 13
8.5.2 Pension: Review Prudential Supervision Framework	1, 2, 3, 12, 13
8.5.3 Pension: Refocus Pension Regulation on Burden Reduction	1, 2, 3, 12, 13

Appendix 2: High-level Timeline



Appendix 3: Financial Assumptions

- All FSRA financial information assumes an April 1, 2019 start date and reflects 12 months of activity.
- Comparable figures are based on the April 1, 2018 – March 31 2019 FSCO Budget (revenue allocation) and the December 31, 2019 DICO budget
- FSRA surplus represent the reduction of the accumulated deficit resulting from start-up and is used to fund principal repayments of the start-up loan provided by the Ontario Financing Authority prior to launch.
- Reliance has been placed on FSCO and DICO historical information and allocations to estimate the level and allocation of costs between direct and common costs and among the sectors.
- Estimate of costs associated with new FSRA activities are based upon current planned priorities, transformation activities and human resources plans.
    - No contingency is included in the budget as FSRA has assumed it will have access to debt funding to pay for unexpected events.
    - HSP fixed fee shortfall is a cost to be recovered from the auto rates sector as FSCO will already have been collected and be in receipt of fiscal 2019-20 HSP fees when FSRA is launched and HSP regulation and priorities are related to auto insurance.

Appendix 4: Statement of Financial Position

Financial Services Regulatory Authority of Ontario
Statement of Financial Position

		Forecast 2018-19		Budget 2019-20
Assets				
Cash/(Overdraft draw)	$	0	$	(2,445,358)
Prepaid expenses		780,752		648,712
Capital assets		6,425,012		17,901,012
Accumulated Amortization		(642,501)		(3,365,103)
Net Capital assets		5,782,511		14,535,909
Total Assets	**$**	**6,563,263**	**$**	**12,739,263**
Liabilities & Retained Earnings				
Long-term start-up debt	$	27,235,243	$	31,994,935
Accumulated Deficit		(20,671,980)		(19,255,672)
Total Liabilities & Retained Earnings	**$**	**6,563,263**	**$**	**12,739,263**

Appendix 5: Statement of Cash Flow

Financial Services Regulatory Authority of Ontario
Statement of Cash Flow

		FCST 2018-19		Budget 2019-20
Operating activities				
Increase/(decrease) in Retained Earnings	$	(17,885,963)	$	1,416,308
Change in current assets		(558,000)		132,040
Change in current liabilities		(661,769)		
Capital asset amortization		642,501		2,722,602
		(18,463,231)		4,270,950
Investment in Capital assets		(6,425,012)		(11,476,000)
Loan Draw		9,847,243		6,176,000
Loan Repayment				(1,416,308)
Change in cash		(15,041,000)		(2,445,358)
Cash on hand, beginning of year		15,041,000		0
Cash/(Overdraft Draw)	**$**	**0**	**$**	**(2,445,358)**

Appendix 6: Investment in Capital Assets

Financial Services Regulatory Authority of Ontario
Investment in Capital Assets ($000's)

	Forecast 2018-19	Budget 2019-20	Projection 2020-21	Projection 2021-22
Core Regulatory IT Investments	$ 750	$ 1,000	$ 5,000	$ 4,500
Back Office and Infrastructure	5,674	2,800		
New location Facilities		1,400	7,387	
Other IT Initiatives		1,976	1,393	734
Purchase of FSCO Assets		4,300		
Total Capital Asset purchases	**$ 6,424**	**$ 11,476**	**$ 13,780**	**$ 5,234**