FSRA

Financial Services Regulatory
`Authority of Ontario

Draft F2020-21
FSRA Priorities and Budget

Consultation Document
October 18, 2019

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1. Transmittal Letter

The Financial Services Regulatory Authority of Ontario (FSRA) is an independent regulatory agency. It was established in 2017 to enhance public confidence in the financial service and pension sectors it regulates.

FSRA's mandate is stated in its legislative objects set forth in the Financial Services Regulatory Authority of Ontario Act, 2016 (FSRA Act). FSRA's vision is financial safety, fairness and choice for Ontarians. FSRA's mission is public service through dynamic, principles-based and outcomes-focused regulation.

We are pleased to have launched on June 8, 2019. FSRA assumed substantially all of the regulatory functions previously performed by the Financial Services Commission of Ontario (FSCO) and the Deposit Insurance Corporation of Ontario (DICO). At launch, FSRA was focused on ensuring regulatory continuity and initiating transformation.

With an ambitious transformation mandate, FSRA committed to doing the right things and doing things right, and is building on the strengths of both FSCO and DICO. Our new organizational structure and an experienced and empowered leadership team is largely in place. Our leadership is actively shaping a culture of public service, effectiveness and efficiency through principles-based and outcomes focused regulation.

Although only a few months into our first year as a regulator, despite over two months without regulatory authority and resource and other challenges, we remain on track to completing our inaugural fiscal 2019-22 Business Plan priorities. With a heightened focus on burden reduction and regulatory effectiveness, we are implementing a number of cross-sector and sector-specific priorities that align with FSRA's legislated mandate, support the government's vision, are important to stakeholders, and will drive regulatory transformation.

We are proud of our achievements to date – for example, through our review of our inherited guidance, we aim to reduce the quantity of guidance to our sectors by as much as 40%, while maintaining important guidance and improving its content. We have also developed a new guidance framework, which will be used to ensure clarity and consistency and ensure the intended impact of FSRA's guidance's is unambiguous. Building on FSRA's strong commitment to collaboration, another key accomplishment is the establishment of formal and informal engagement mechanisms with stakeholders and consumers for work priorities already underway and to seek feedback on future priorities.

Building upon our initial F2019-2020 priorities, this document describes FSRA's draft F2020-21 Priorities and Budget, reflecting our progress made to date and the progress we expect over the remainder of our F2019-20 year. Building on what we have heard to date, we look forward to hearing from stakeholders and consumers through meetings being scheduled by FSRA management, engagement of our Board Stakeholder Advisory Committees and through written submissions made through the FSRA website by November 18, 2019. The feedback received may inform changes to the priorities as it relates to our business plan.

After considering stakeholder input, FSRA will finalize its priorities and budget in its proposed Annual Business Plan (ABP). After the FSRA Board endorses the ABP, the proposed ABP will be submitted to the Minister of Finance by the end of 2019. Once approved by the Minister, the ABP will serve as the basis for detailed F2020-21 operational plans, accountabilities and performance measurements.

FSRA's success depends on the work of many. In addition to industry and public input, I appreciate the contributions of the Ministry of Finance (MOF), the FSRA Board, and our employees. We look forward to receiving your input as we work towards finalizing our priorities and budget for the upcoming year.

Mark White
Chief Executive Officer

2. Executive Summary

FSRA is pleased to provide these draft F2020-2021 priorities, and corresponding budget, for public comment. This draft reflects a bold new existence and applies experience and insights gained through FSRA's first months of operation to its date of issuance, and reflects FSRA's expectations of continuing progress during the balance of F2019-20.

The highly competent and experienced FSRA executive team have taken on the operational and strategic challenges of a start-up regulator. Despite launch delays, resource shortages and other challenges, FSRA has achieved notable results and is on a path to substantially complete its F2019-20 priorities, operating well within its F2019-20 budgets. To name a few of FSRA's achievements to date, notable results have included the development of a plan to reduce syndicated mortgage investment harm, streamlining administration of rate regulation in auto, strengthening prudential supervision for our pension sector, supporting the development of industry-led codes of conduct in our credit union and mortgage brokering sectors, reducing burden through reduction of guidance and regulatory filings/data requests, driving forward on regulatory innovation and strengthening the voice of the consumer.

These achievements were attained in spite of resource shortages and the need for transformation that will require a new build or overhaul of existing processes, infrastructure and systems. While our statutory mandate is clear, one of our key achievements on the road to cultural transformation has been the creation of an aspirational vision, a clearly articulated mission and supporting organizational values and behaviours that will generate enhanced efficiency and effectiveness as we continue on our path (*see Appendix 1 for FSRA's vision, mission, and values*).

Thanks to overwhelming support from internal and external stakeholders, including our employees, and our industry stakeholders, we are making a significant progress on our F2019-20 priorities. As a result of continued consultation and our commitment to transparency, several key priorities, while markedly progressed, will remain for the year ahead, in certain cases in a refreshed form to reflect our progress and necessary next steps. We also identify new priorities that will help us achieve our mandate, vision and mission. We are pleased to continue the work to make Ontario a great place for providers and consumers of financial services and pension plans.

Our approach has created momentum and this, along with the continued support of our stakeholders, positions us to succeed. We invite you to read through the remainder of our draft priorities to better understand our approach, and the budgetary and financial resources we require to execute on those priorities and our core regulatory activities.

FSRA's full year 2020-2021 operating budget includes expenses of $98.9M, a modest 2% increase over the F2019-20 full-year budget. New investments in human capital resources will provide enhanced life insurance conduct regulation, support CUCPA modernization, improve pension relationship management/supervision and create improved core regulatory technology (such as back office systems and digital transformation of core regulation) that will ultimately deliver efficiencies. These technology investments will be recovered from the sectors over a five year period as this better matches the cost and benefit for fee rule purposes. FSRA will also develop a framework to protect the use of the financial planner and financial advisor titles, and will later recover its costs after commencing these regulatory activities

Once we have stakeholder feedback on our draft F2020-21 priorities and budget, we will prepare our proposed Annual Business Plan for Board approval, and submit it to the Minister of Finance by December 31, 2019 and look forward to Ministerial approval before the start of F2020-21. We look forward to hearing from our regulated sectors, consumers and other stakeholders on our draft priorities and budget by November 18, 2019.

Submit your feedback at:
https://www.fsrao.ca/engagement-and-consultations/proposed-2020-21-statement-priorities-and-budget.

3. FSRA Priorities

In our first year, FSRA is focused on burden reduction and regulatory effectiveness through cross-sector and sector-specific priorities that will be achieved, or substantially advanced, in F2019-20. These measurable activities formed the basis of our F2020-21 priorities document and drive our proposed budget.

FSRA's overall cross-sector draft F2020-21 priorities will continue to build our regulatory foundation, make regulation more effective and efficient and further our legislative objectives. Our proposed priorities will continue to deliver a positive impact in reducing burden and improving regulatory effectiveness, improving stakeholders' regulatory experience and improving safety, fairness and choice for consumers and members of financial services and pensions in Ontario. Once finalized, the priorities will drive internal accountability for executives and serve as the basis for operational planning and performance measurement.

The bulk of our F2019-20 priorities built the foundation for us to continue to advance forward on multi-year priorities (*see Appendix 2 for Year 1 Priorities*). We are on track to complete a number of our first year priorities while advancing others through the evolution into refreshed/restated and new priorities (*see Appendix 3 for retired/subsumed priorities*).[1]

[1] *All new and continuing priorities have been assigned new numbers which continue in sequence, dependent on their sector.*

3.1 Overview of Draft FSRA 2020-21 Priorities

FSRA PRIORITIES 2020-21	
CROSS-SECTORAL PRIORITIES	
Burden Reduction	**Regulatory Effectiveness**
1.1 Review inherited guidance **1.2** Establish meaningful service standards	**2.1** Protect the public interest **2.2** Enable innovation **2.3** Modernize systems and processes
3.1 Transition to Principle Based Regulation (PBR) **3.2** Improve information sharing with regulators	

SECTOR-SPECIFIC: TARGETED HIGH-IMPACT PRIORITIES					
Property & Casualty (Auto) Insurance	**Credit Unions**	**Life & Health Insurance**	**Mortgage Brokering**	**Pensions**	**Financial Planners/ Financial Advisor**
4.1 Empower and protect auto insurance consumers **4.2** Support and implement transformative auto insurance reforms **4.3** Develop a comprehensive auto insurance and data analytics strategy	**5.1** Support modernization of credit union regulatory framework **5.2** Ensure appropriate resolution and Deposit Insurance Reserve Fund (DIRF) oversight framework **5.3** Enhance credit union market conduct supervision **5.4** Update supervisory and risk assessment approach	**6.1** Enhanced market conduct oversight to protect consumers **6.2** Improve licensing effectiveness and efficiency	**7.1** Support government policy direction on the Mortgage Brokering, Lenders and Administrators Act (MBLAA) **7.2** Enhance market conduct oversight to protect consumers	**8.1** Support plan flexibility **8.2** Review prudential framework **8.3** Focus on burden reduction	**9.1** Develop processes for the future approval and supervision of credentialing bodies

4. Cross-Sectoral Priorities

Progress to Date on 2019-20 Cross Sectoral Priorities

PRIORITY	UPDATE AT OCTOBER 2019	NEXT STEPS (2019-20)
Inherited guidance, Data and Filings, Service Standards	1. Segmented inventory of key regulatory processes, data/filing requirements into initial and secondary priority items 2. New guidance framework to be published 3. Review of existing service standards complete	1. Consult and/or implementation of data/filing revisions. 2. Posting of updated material guidance on FSRA website. 3. Posting of Guidance Framework. 4. Implement service standard development plan.
Sectoral Expertise	1. Highly differentiated sectoral needs have been assessed and specialist roles identified 2. Relationship management approach under development	1. Continue to build relationship management as a key skill. 2. Complement expertise in key areas (e.g. prudential/market conduct)
Stakeholder engagement	1. Stakeholder engagement mechanisms (committees) being established 2. Pensions Technical Advisory Committees (TAC) and other sector specific management consultation bodies established	1. Stakeholder Advisory Committees (SACs) being formed for Board input and consultation plan in place.
Consumer Office, Innovation and Modernization	1. Consumer Advisory Panel (CAP) Terms of Reference established 2. Office of Innovation Framework developed 3. IT system modernization underway 4. New FSRA website built	1. CAP formation. 2. Finalize Consumer Office and Innovation Office recruitment. 3. IT plan to update/modernize, processes and systems. 4. Ongoing development of FSRA website.

Draft 2020-21 Cross-Sectoral Priorities

In all aspects of FSRA's operations, we will continue to seek to reduce the regulatory burden for our regulated sectors as we build a regulatory foundation that positions FSRA for success. We will continue to drive effective, efficient regulation and supervision by ensuring that the benefits justify the internal and external costs of regulation and that our regulatory activities achieve the desired outcomes.

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, along with regulatory effectiveness, FSRA has continued to make reducing regulatory burden a cross-sector priority, with a specific focus on five of the eight original key initiatives.[2]

Burden Reduction	Regulatory Effectiveness
1.1 Review inherited guidance **1.2** Establish meaningful service standards	**2.1** Protect the public interest **2.2** Enable innovation **2.3** Modernize systems and processes
3.1 Transition to Principle Based Regulation (PBR) **3.2** Improve Information Sharing with Regulators	

4.1 Burden Reduction

Priority 1.1 Review Inherited Guidance

A well-designed, consistent and unambiguous guidance framework with relevant guidance documentation for regulated entities contributes to the efficient operation and reduced burden for such entities.

As part of this continuing priority, FSRA has reviewed and proposes to eliminate up to 40% of our inherited guidance and has begun the examination of all remaining guidance to ensure clarity and consistency, to eliminate overlapping and potentially inconsistent requirements, and to ensure that its intended impact is clear. 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 has developed a cohesive, principles-based regulatory guidance framework to streamline, clarify and update current guidance for greater regulatory effectiveness, transparency, accountability, and burden reduction and is consulting on this proposed guidance framework. Once finalized, all updated and new guidance will be issued under the new framework, e.g. existing guidance will be revised to meet these proposed new standards.

[2] *The Data and Filings Review has been incorporated into Priority 2.3: Modernize Systems and Processes.*

As part of this initiative, FSRA will continue to use cost-benefit analysis to evaluate whether guidance is necessary or could be improved, enhanced (e.g. streamlined), or eliminated.

#	Refreshed Milestones	Timeline
A	Conduct inventory and initial assessment	Complete
B	Complete external stakeholder consultation on guidance review priorities	2019-20
C	Sector-specific plans published (including agreed upon burden reduction target)	2019-20
D	Propose principles-based guidance framework	2019-20
E	Define cost-benefit analysis process	2019-20
F	Complete re-issuance of all high priority guidance for each sector	2019-20
G	Complete re-issuance of all other guidance for each sector	2020-21

Priority 1.2 Establish Meaningful Service Standards

There is a perceived lack of accountability and responsiveness in the regulatory framework inherited by FSRA. 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 responsive processing of regulatory matters in a timeframe that facilitates the cost-effective provision of financial services.

Dependencies

- Automated tools to record, measure, and monitor service standards

#	Refreshed Milestones	Timeline
A	Determine baseline expectations	Complete
B	Develop workplan	Complete
C	Workshop development and implementation across functional areas	2019-20
D	Consult with regulated entities on development of service standards	2019-20

E	Revise/update report tool and processes; plan new processes and tools	2019-20
F	Reflect service standards in employee/function performance targets	2020-21
G	Reflect Standards across FSRA	2020-21

4.2 Regulatory Effectiveness

Priority 2.1 Protecting the Public Interest

The financial services sector continues to undergo significant changes 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 a continued focus to embrace the consumer perspective to support innovation, and efficiencies that will benefit consumers while ensuring their interests are properly addressed.

#	Refreshed Milestones	Timeline
A	Launch Consumer Advisory Panel	2019-20
B	Stakeholder engagement on approach, principles and research needed to support consumer protection completed. Implementation plan being developed.	2019-20
C	Consultation with Panel and FSRA Regulatory areas on proposed research topics	2019-20
D	Research/compile current Consumer issues	2020-21
E	Launch new website with clear/easily accessible consumer information	2020-21
F	Develop and publish consumer profiles on sector specific issues	2020-21
G	Conduct Consumer Research (as identified by panel – e.g. consumer disclosures)	2020-21
H	Initiate ongoing consumer issue process for identification and tracking	2021-22
I	Complete Consumer Experience mapping.	2021-22
J	Complete research and analysis of behavioural economics and effective consumer outreach	2021-22

Priority 2.2 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 about the extent of available support for technological advances that enable new business models and products.

FSRA's Innovation Office will, when open:

- 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 wavier grants and exemptions); and
- Work with stakeholders and MOF to identify legal and regulatory barriers to innovation, and develop and promote ways to adapt the regulatory regime (e.g. exemptive relief) to foster innovation.

Dependencies

- *As the sectors evolve, FSRA may need additional regulatory tools to be able to respond and adapt to changing market conditions*

#	Refreshed Milestones	Timeline
A	Development of innovation framework	2019-20
B	Consult with industry on innovation framework	2019-20
C	Conduct analysis of regulatory changes required to support innovation	2020-21
D	Develop and execute outreach plan to identify new product/services	2020-21
E	Participate in Global Innovation Pilot(s)	2020-21+
F	Implement new product/service delivery (by sector)	2020-21
G	Implement Innovation Framework (e.g. new rule-making, exemptive relief powers, target for new product/service support)	2021-22

Priority 2.3 Modernize Systems and Processes

While FSRA has implemented a modern enterprise resource planning system, core regulatory operations continue to rely on a number of outdated, inefficient, costly and in some cases at-end-of-life systems, unable to support effective and flexible regulation.

FSRA will continue to modernize its IM/IT systems and the processes they support by developing and following a multi-year transformation roadmap. The roadmap incorporates sector-specific business priorities and practical technology constraints, while creating a flexible and adaptable business-operating model. This flexibility will be key to delivering on the burden reduction priority through optimized and streamlined data and filing collection, improved service levels, and enhanced ability for FSRA to respond quickly to changing regulatory needs.

This continuing priority focuses on supporting the development of FSRA as a modern, enabled regulatory body. It absorbs the second phase of the former Data and Filing Review priority which will focus on how FSRA collects information as well as what information needs to be collected.

#	Refreshed Milestones	Timeline
A	Commence implementation of low cost or high priority initial IM/IT improvements in alignment with FSRA priorities.	2019-20
B	Develop strategy, plan and roadmap for FSRA IM/IT architecture and for process/sector-specific IM/IT transformation in alignment with FSRA priorities.	2019-20
C	Develop sector work plans for implementation of transformed process & technology.	2019-20
D	Procure enabling technology platform including CRM, case management system, enterprise content management system and data analytics tools.	2020-21
E	Continued roll out of user centric website	2020-21
F	Digitize or archive existing paper-based documents	2020-21
G	Hire vendors to provide system integration and change management services	2020-21
H	Develop foundational, enterprise-wide components and capabilities in preparation for sector-specific implementations	2020-21
I	Enable data analytics for each of the regulated sectors, to empower FSRA policy and supervisorial activities	2020-21

4.3 Burden Reduction & Regulatory Effectiveness

Priority 3.1 Transition to Principles-Based Regulation (PBR[3])

A core foundation of FSRA's activities is how we will align with principles-based and outcomes-focused regulation. To be more efficient and effective, we will transition to a principles-based regulatory approach to facilitate innovation and to modernize our processes and systems. We will use the related priorities of building expertise and increased collaboration and transparency to enable the implementation of PBR.

As we evolve as a transformed regulator, an emerging area of focus will be how we shift our activities/oversight from the traditional prescriptive approach (e.g. detailed processes, legislation/regulation/inherited guidance hierarchy) to one that supports a principles-based approach. Given the rapidly evolving nature of financial services, and the opportunities to enable innovation and to encourage new entrants to the market, there is a need to move away from 'one-size-fits-all' solutions.

To work well, such a shift requires enhanced capabilities, both within the regulator and at regulated entities. For our part as the regulator, we are already developing a new Guidance Framework (*See Priority 1.1*) and building our expertise to be able to apply the judgment needed to evaluate whether principles are being applied in a way that is delivering desired outcomes. We also recognize that regulated entities also need to operate differently (e.g. directors and management need to embed principles and to have governance, controls, policies, oversight and processes to support/monitor principles).

We have already developed new processes for engaging regulated sectors to get their views and mutual agreement on new approaches to regulating their activities as meaningful consultation is central to any PBR approach.

#	Milestone	Description of Activities	Proposed Timeline
A	Develop Principles	Leverage existing principles to develop an external-facing set of principles geared towards management of a conducive relationship and achievement of desired outcomes with appropriate stakeholder consultation (includes both regulator and sector principles)	2020-21
B	Consultation with Stakeholders	Consultation with stakeholders on proposed Principles	2020-21

[3] *PBR is generally viewed as more effective than prescriptive regulation in sectors where there is complexity and significant diversity in the participants or their business models. Principles allow for situationally appropriate proportionality, and for the evolution of regulation as a regulated entity or market evolves. PBR requires the assessment of risks and market imperfections to be addressed by the regulatory regime. It is aligned with risk-based regulation to allow focus to be placed on material issues and to dedicate greater resources to material risks.*

C	Issue Guidance	Revise existing guidance and issue new guidance (sector specific) to facilitate PBR implementation	see sector specific priorities
D	Consultation with Sectors	Consult on proposed guidance with affected sectors (e.g. CU by-law #5)	see sector specific priorities
E	Develop Supervision Approach	Application of PBR to supervision requires expertise and skill which facilitates risk-based and proportional movement across the prescriptive/principles continuum	2020-21
F	Develop Training	Develop training for internal FSRA teams as well as for the regulated entities to understand how best to achieve outcomes with the support of PBR	2021-22
G	Implement supervision approach	Complete training and update external supervisory/regulatory processes	2021-22

Priority 2.7 Improve Information Sharing with Regulators

FSRA's current information sharing with regulators is limited. Our ability to act expediently, with clear direction based on an assessment of the full set of available and up to date information regarding an issue and/or entity, needs to be improved. Work is underway to identify potential barriers that will ultimately lead to how we can improve regulatory outcomes.

This new priority will support the improvement of FSRA's information sharing with other regulators through facilitating Memorandums of Understanding (MOUs) and other arrangements (e.g. shared data), by better responding to legal implications (e.g. privacy considerations) to pursuing these arrangements, and by developing and implementing a strategy to respond.

Improvements to information sharing amongst regulators will lead to improved regulatory effectiveness but will also support our burden reduction priority (e.g. reduction in data requested across multiple regulators).

Dependencies

- *Practical and legal ability to protect information to facilitate sharing by other regulators*

#	Milestone	Description of Activities	Proposed Timeline
A	Capture current information sharing activity and agreements	Find and record all existing information sharing agreements to identify gaps with other regulators	2019-20
B	Identify information required	Create a listing of the types of information required/provided from/to other regulators for effective regulation, with examples where possible	2019-20
C	Identify barriers	Identify the legislative, policy, and operational barriers to promotion of information sharing between regulators and/or jurisdictions	2019-20
D	Conduct consultations with sharing partners	Discussions with existing and potential information providers, as well as supporting partners to vet barriers and begin to craft an understanding of effort required for sharing improvements (through existing regulatory coordinating bodies) Complete multi-jurisdictional analysis of existing agreements, required agreements, barriers, and best practices for protecting/sharing information	2020-21
E	Develop strategy/ approach	Develop strategy/approach for mitigating or eliminating barriers to required information sharing opportunities	2020-21
F	Implement	Implement short-term activities, and start to implement long-term activities, to improve information flow through the FSRA network	2020-21
G	Reciprocal MoU	Enter into a reciprocal information sharing MoU with other regulators to close information gaps	2020-21

5. Sector-Specific Priorities

The draft 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 draft sector-specific priorities are described in the following section

5.1 Property and Casualty (Auto) Insurance Sector

5.1.1 Progress to Date on 2019-20 Auto Insurance Priorities

PRIORITY	UPDATE AT OCTOBER 2019	NEXT STEPS (2019-20)
Streamline Auto Rate Regulation	1. Completed consultation with stakeholders on auto insurance rate regulation process improvements 2. Implemented improvements through new Standard Filing process	1. Year 1 Target complete, begin planning based on future priorities for transforming rate regulation
Support Auto Reform Strategy	1. Participated in stakeholder consultations conducted by government 2. Completed implementation of electronic proof of auto insurance	1. Continue to participate in government consultations 2. Develop implementation plan for FSRA to support further government reforms
Review Health Service Provider Regulation	1. Completed landscape review of current service provider licensing regime 2. Initiated implementation of quick wins, including reduced annual reporting requirements	1. Stakeholder consultation to inform development of recommendations for change 2. Submit recommendations to government
Develop Fraud and Abuse Reduction Strategy	1. Identified key stakeholders required for collaboration and cooperation 2. Validated priority opportunities with technical experts	1. Engage stakeholders to evaluate and improve control of fraud and abuse and plan implementation of new recommendations 2. Submit recommendations to government

5.1.2 Progress to Date on 2019-20 Insurance Conduct Sector Priorities
(P&C Insurance Conduct coordinated with L&H Insurance Sector priority 5.3.1)

PRIORITY	UPDATE AT OCTOBER 2019	NEXT STEPS (2019-20)
Adopt Effective Conduct Standards	1. Stakeholder consultations have yielded additional insights which have altered this priority from the original 2019-20 Business Plan 2. Participating in work underway by industry and through CCIR/CISRO*	1. Consult with stakeholders and insurers to understand industry expectations and to further evaluate/improve conduct requirements. 2. Collect, validate and analyze internal data to assess specific market conduct issues and determine how to address gaps in oversight
Improve Licensing Effectiveness and Efficiency	1. Engaged with stakeholders and other regulators to better understand positions and opportunities for consensus for common licensing credentials and criteria to ensure entry to only suitable licensees.	1. Develop a common process for capturing and consolidating licensing statistics, from the date of assignment to approval for all products 2. Develop meaningful key metrics to ensure FSRA has the capacity to deliver on service level standards, inform future growth and inform licensees by way of meaningful, real time approval timelines. 3. Develop criteria to publish service expectations for licensees
Harmonize Treating Consumers Fairly Guidance	1. Completed stakeholder/regulator consultations on harmonized conduct expectations 2. Developed necessary changes/clarifications	1. Inform CCIR and CISRO partners of FSRA plan for FTC guidance via stakeholder consultation 2. Prepare stakeholder information bulletin for publication.

** CCIR – Canadian Council of Insurance Regulators / CISRO – Canadian Insurance Services Regulatory Organizations*

5.1.2 2020-21 Draft Property and Casualty (Auto) Priorities

Empower and Protect Auto Insurance Consumers	Support and Implement Transformative Auto Insurance Reforms	Develop a Comprehensive Auto Insurance Data and Analytics Strategy

Priority 4.1 Empower and Protect Auto Insurance Consumers

FSRA's mission is to promote safety, fairness and choice in financial services, including P&C insurance. We will build on our core 2019-20 priority for effective regulation by taking action to empower and protect consumers in Property and Casualty (P&C) insurance, with a focus on auto insurance.

By the end of F2019-20, FSRA will have:

- Delivered a streamlined rate regulation process for private passenger auto insurance (Standard Filing process) that will help foster innovation, competition, consumer choice and market stability for Ontario auto insurance consumers
- Initiated a stakeholder dialogue in order to identify and validate misconduct, which will guide future monitoring reviews
- Provided clarity on the application of Fair Treatment of Customers guidance in Ontario

To deliver on this priority going forward, FSRA will:

- Transform auto insurance rate and policy form/endorsement regulation to support innovative and consumer-focused business models, pricing structures and technologies
- Improve auto insurance rating and underwriting accuracy by developing and implementing new supervisory processes focused on advanced risk management and compliance systems within regulated entities
- Enhance auto insurance transparency, disclosure of information and consumer choice by studying consumer behaviour and expectations, improving FSRA's public reporting and identifying opportunities for development of products that increase consumer understanding and assist in making informed choices
- Enhance market conduct oversight with an emphasis on the fair treatment of customers and focused monitoring activities in areas that may pose significant consumer harm such as the circumvention of "take all comers" auto insurance requirements
- Improve licensing effectiveness and efficiency by streamlining licensing approvals for agents, adjusters and companies
- In consultation with stakeholders and regulators, seek consistent application of Fair Treatment of Customers guidance across Canada including with respect to examples of fair and unfair treatment

Dependencies:

- *Rules proposed by FSRA under legislated rule-making powers require review and approval by the Minister of Finance.*
- *IM/IT systems will be a change enabler for effective conduct supervision.*

Priority 4.2 Support and Implement Transformative Auto Insurance Reforms

The government has committed to a number of reforms designed to put drivers first in Ontario's auto insurance system. FSRA's first Business Plan identified supporting government's auto insurance reform strategy as a priority, and by the end of F2019-20 we will have:

- Participated in stakeholder consultations and reviews of auto insurance as required by government
- Implemented early changes identified as priorities by government, such as approving electronic proof of auto insurance for use in Ontario
- Delivered recommendations to government for a fraud and abuse reduction strategy and for changes to the regulatory regime for health service providers

As this priority continues into future years, we will:

- Support and implement reforms that create a sustainable auto insurance system that delivers value and choice for consumers
- Subject to government direction in response to recommendations delivered in 2019-20, support and implement recommended fraud and abuse reduction initiatives
- Subject to government direction in response to recommendations delivered in 2019-20, support and implement any recommended changes required to overhaul service provider licensing

Dependencies:

- *Auto insurance reforms may require legislative changes to implement.*
- *Rules proposed by FSRA under legislated rule-making powers require review and approval by the Minister of Finance.*

Priority 4.3 Develop a Comprehensive Auto Insurance Data and Analytics Strategy

Understanding the regulatory environment, how the industry behaves, and the outcomes for consumers and markets is key to performing FSRA's role. Auto insurance is a data-intensive industry. As the amount of data generated by the industry and collected by the regulator continues to grow and change, the importance of leveraging the collected data to support FSRA's focus on a new approach to rate regulation and auto insurance reform in general becomes critical.

Currently, the value of the data is limited by both FSRA's ability to access, share and process data in a timely way. Our limited ability to derive useful information from data is due to fragmented and delayed data and information, outdated technology, lack of analytical tools and unclear roles and responsibilities among regulators, statistical agents and service providers.

By the end of F2020-21, as part of FSRA's effort to modernize systems and processes, we will develop a comprehensive auto insurance data and analytics strategy. Our focus on addressing these issues will have:

- Improve auto insurance data collection and management processes, including timeliness, quality, availability and data sharing. FSRA will,
- Complete a review of data collection and filing requirements for auto insurance, and develop and implement a plan to reduce unnecessary cost and improve efficiency
- Develop, consult on and finalize an implementation plan to integrate data from existing third party data sources, including process, governance and required technical infrastructure.
- Develop new reporting and analytical tools to enable proactive regulatory monitoring and evidence-based policy decisions. FSRA will:
- Report on the health of Ontario's auto insurance system
- Commence implementation of new supervisory tools that will leverage insurers' data to validate the effectiveness of regulated entities' governance of rating and risk classification systems.
- Assess the alignment of the General Insurance Statistical Agency (GISA) with FSRA's new data collection and analytics framework by reviewing key processes, roles and responsibilities and governance. We will also propose and consult on an implementation plan.

Dependencies:

- *IM/IT systems will enable more effective data and analytics strategy.*
- *Implementation of any recommended changes to multi-jurisdictional commitments (i.e. GISA) will require coordination with partner jurisdictions.*

5.2 Credit Union Sector

5.2.1 Progress to Date on 2019-20 Priorities

PRIORITY	UPDATE AT OCTOBER 2019	NEXT STEPS (2019-20)
Integrate Prudential and Conduct Supervision	Amalgamation plan and organizational design put in place at launch to improve efficiency and effectiveness	1. Continue integration of prudential and market conduct functions (single point of contact for credit unions) 2. Developing a plan for modernization of methodology, tools and regulatory/ supervision approach 3. Targeted completion in current fiscal year
Support Modernization of Credit Union Regulatory Framework*	Key participant in supporting the Ministry of Finance in the re-write of Ontario's credit union legislation and working collaboratively with sector	1. Consult on FSRA rule to replace DICO By-Law #3 in current fiscal year 2. Consult on new guidance on residential mortgage lending to be complete in current fiscal year 3. Continue to review existing DICO guidance for modernization, continuing to F2020-21
Adopt Industry Code of Conduct**	Reviewed and commented on CCUA's[i] Market Conduct Code (MCC)	1. Continue to work with CCUA to finalize MCC this fiscal year 2. Implement MCC by incorporation into supervisory framework (e.g., rule replacing By Law #5) in F2020-21 3. Discuss national implementation with CUPSA[ii]
Ensure Appropriate Resolution and DIRF Framework*	1. Developed governance processes for oversight of the DIRF by a committee of the FSRA Board 2. Supported the Ministry of Finance in developing amendments to regulations under the CUCPA[iii] that set out the calculation of DIRF premiums	1. Continuing to review the resolution strategy and recovery plan framework, targeted completion this fiscal year 2. Consulting with stakeholders on the framework for assessing DIRF adequacy, as well as on guidance for a recovery and resolution framework in F2020-21

** Priorities continuing into F2020-21 / ** Priority will not continue, but implementation component continuing in new F2020-21 priority*
[i] CCUA – Canadian Credit Union Association / [ii] CUPSA – Credit Union Prudential Supervisors Association
[iii] CUCPA - Credit Unions and Caisses Populaires Act, 1994

5.2.2 2020-21 Draft Credit Union Priorities

Support Modernization of Credit Union Framework	Ensure Appropriate Resolution and DIRF Framework	Enhance Credit Union Market Conduct Supervision	Update Supervisory and Risk Assessment Approach

FSRA's role in the credit union sector includes:

- providing insurance against the loss of certain deposits with credit unions;
- promoting and otherwise contributing 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; and
- pursuing the above objects for the benefit of persons having deposits with credit unions and in such manner as will minimize the exposure of the Deposit Insurance Reserve Fund to loss.

FSRA has made significant progress on its identified 2019-20 credit union sector priorities. Going forward, FSRA will pursue the following priorities in support of its role in the credit union sector:

5.1 Support modernization of credit union framework
5.2 Ensure appropriate resolution and DIRF framework
5.3 Enhance credit union market conduct supervision
5.4 Update supervisory and risk assessment approach

Priority 5.1: Support Modernization of Credit Union Framework

The landscape for financial services in Ontario is evolving and the legislative and regulatory frameworks for financial institutions need to keep pace with this change. The government is reviewing Ontario's credit union legislation with the aim of modernizing the framework, reducing burden and better enabling credit unions to serve their members. In 2019, the MOF conducted a public consultation on the review of the CUCPA. Based on the feedback received, key credit union stakeholders advocated for new, principles-based, legislation to replace the *Credit Unions and Caisses Populaires Act, 1994* (CUCPA) that would better enable credit unions to compete in Ontario's financial services marketplace. FSRA will continue to work with MOF and the credit union sector to support the development of the new legislation and determine where the appropriate legislative authority could exist for rule making. FSRA will also continue to develop new, and review existing guidance to ensure alignment with the new modern framework.

By the end of F2019-20, FSRA will have:

- Participated in work led by MOF, aimed at modernizing the credit union framework

- Developed and consulted on a new FSRA Credit Union Deposit Insurance Advertising Rule to replace the existing Deposit Insurance Corporation of Ontario (DICO) By-Law #3
- Initiated a review of existing credit union guidance for modernization, defined best practices for the credit union sector to inform guidance development, and consulted on and finalized principle-based guidance for residential mortgage lending

To deliver on this priority going forward, FSRA will:

- Continue to support MOF in the development of new credit union legislation and modernizing the framework
- Develop, propose, consult on, and, where practicable, start implementation of FSRA rules on topics where legislative authority may be provided to give effect to the new legislative framework if and when it is introduced by the government
- Implement the Credit Union Deposit Insurance Advertising Rule that will replace the Deposit Insurance Corporation of Ontario (DICO) By Law #3, if approved
- Finalize and, if approved, implement a draft rule on sound business and financial practices that would replace DICO By-Law #5, and identify and review guidance and other documents that would require consequential changes in order to implement the new rule
- Propose, consult on and issue a supervisory approach for FSRA's new residential mortgage lending guidance, as well as identify, consult on and re-issue other existing higher priority guidance documents (e.g. securitization guidance)

Dependencies:

- *Any new rules proposed by FSRA under legislative rule-making authority require review and approval by the Minister of Finance*

Priority 5.2: Ensure Appropriate Resolution and Deposit Insurance Reserve Fund Framework

Having an appropriate resolution framework in place, as well as ensuring preservation and strong governance of the Deposit Insurance Reserve Fund (DIRF) are important measures for promoting safety, soundness and consumer confidence in Ontario's credit union system. FSRA will continue to enhance and refine the existing Readiness Strategy, as well as develop an enhanced resolution strategy and a requirement for large institutions to have recovery plans in place, in order to mitigate the risk of loss to the DIRF. FSRA will also continue work that is already underway to update the framework to assess DIRF adequacy, in order to ensure that the DIRF is able to meet any potential deposit insurance obligations and incur costs associated with the rehabilitation, or orderly winding up, of credit unions in financial difficulty.

By the end of F2019-20, FSRA will have:

- Developed governance processes to oversee the DIRF by a Board committee

- Supported MOF in amending the deposit insurance premium calculation
- Completed a review of the resolution strategy and recovery plan framework
- Consulted on and updated framework for assessing DIRF adequacy
- Completed an actuarial report on DIRF adequacy

To deliver on this priority going forward, FSRA will:

- Consult on and implement guidance for an enhanced resolution strategy and recovery plan framework
- Conduct a review of the DIRF's adequacy and investments, considering both liquidity and solvency/capital perspectives (e.g. stress scenarios)
- Assess and report to the Minister of Finance on DIRF adequacy

Dependencies:

- *Feedback received from credit union stakeholders on the enhanced resolution strategy and recovery plan framework*

Priority 5.3: Enhance Credit Union Market Conduct Supervision

In 2019-2020, FSRA integrated its credit union market conduct and prudential regulation activities to improve efficiency and effectiveness by providing one single point of contact for credit unions on all regulatory matters. FSRA will now focus on leveraging its market conduct activities to ensure that credit unions benefit from the same level of market conduct oversight as other regulated sectors and improve FSRA's insight into sector trends. FSRA will also continue to aim to improve standards and best practices within the sector.

In 2019, FSRA worked collaboratively with the Canadian Credit Union Association (CCUA) in finalizing its Market Conduct Code (MCC) for credit unions that would set harmonized market conduct standards across the country. FSRA will now focus on integrating the MCC into its credit union supervisory framework, so that it can assess credit unions' compliance with it.

By the end of F2019-20, FSRA will have:

- Integrated prudential and market conduct oversight functions, so that there is a single point of contact for credit unions
- Worked collaboratively with the CCUA to finalize the content of the MCC

To deliver on this new priority, FSRA will:

- Implement new enhanced market conduct supervisory activities for credit unions by proposing, consulting on, issuing and implementing a supervisory approach to support the MCC
- Further implement a plan for market conduct examinations on the MCC or any similar code used by the supervisory framework

- Continue to work towards national harmonization of market conduct supervisory practices with credit union regulators across Canada

Dependencies:

- *National harmonization would depend on agreement of other credit unions and regulators across Canada*

Priority 5.4: Update Supervisory and Risk Assessment Approach

In 2017, FSRA was established as a principles-based and outcomes-focussed regulator and began a review of existing guidance to determine ways in which it could be modernized and made less prescriptive. As part of this process, FSRA developed new principles-based guidance on residential mortgage lending, in order to apply a non-prescriptive approach to promote the objective of sound residential mortgage underwriting practices across Ontario's credit union system. In the 2020-21 fiscal year, FSRA will continue to build on its commitment to principles-based regulation by reviewing its credit union supervisory approach and risk assessment framework. FSRA will develop, consult on and implement a plan to migrate to a principles-based and outcomes-focused approach.

By the end of 2019-20, FSRA will have:

- Developed a plan to modernize its methodology, tools and regulatory/ supervision approach

To deliver on this new priority, FSRA will:

- Propose a methodology to update FSRA's supervisory and risk assessment approach for credit unions, consult with sector and implement an updated framework
- Finalize and implement a new principles-based and outcomes-focused supervisory and risk assessment approach, including training and process redesign

Dependencies:

- *Consensus among credit union stakeholders on the substance of the new principles-based supervisory and risk assessment approach*

5.3 Life and Health (L&H) Insurance Sector

5.3.1 Progress to Date on 2019-20 Priorities

PRIORITY	UPDATE AT OCTOBER 2019	NEXT STEPS (2019-20)
Adopt Effective Conduct Standards	1. Stakeholder consultations have yielded additional insights, which have altered this priority from the original 2019-20 Business Plan. 2. FSRA is participating in work underway by industry and through CCIR/CISRO*.	1. Consult with stakeholders to understand industry expectations for evaluating/improving conduct requirements. 2. Collect, validate and analyze internal data to assess specific market conduct issues as a first step to determining how to address gaps, if any, in distribution channels that rely on Managing General Agents.
Improve Licensing Effectiveness and Efficiency	1. Now fully staffed, processes will be reviewed to align with priorities going forward. 2. Engaging with stakeholders /other regulators to understand opportunities, common licensing credentials and criteria to omit entry to bad players.	1. Gap analysis on due diligence processes, to ensure effective risk based licensing processes. 2. Develop a common process for capturing and consolidating licensing statistics, from the date of assignment to approval for all products.
Harmonize Treating Consumers Fairly Guidance	1. Stakeholder/regulator consultations on harmonized conduct expectations completed.	1. Inform CCIR and CISRO stakeholders of FSRA plan for FTC guidance at November CCIR meetings. 2. Prepare stakeholder information bulletin for Fall 2019 publication.

** CCIR – Canadian Council of Insurance Regulators / CISRO – Canadian Insurance Services Regulatory Organizations*

5.3.2 2020-21 Draft Life and Health (L&H) Insurance Priorities

Enhanced Market Conduct Oversight to Protect Consumers	Improve Licensing Effectiveness and Efficiency

Priority 6.1 Enhanced Market Conduct Oversight to Protect Consumers

Establishing enhanced market conduct oversight is critical to ensure consumer protection and to maintain public confidence in the Life and Health (L&H) insurance industry.

Stakeholder consultations in 2019-20 and the launch of new CCIR and CISRO priorities / projects yielded additional insights, which have altered this priority from the original 2019-20 Business Plan.

By the end of F2019-20, FSRA will have:

- Consulted with stakeholders to understand industry expectations for evaluating/improving conduct requirements.
- Collected, validated and analyzed internal data to assess specific market conduct issues as a first step to determining how to address gaps in distribution channels that rely on Managing General Agents (MGA).

Going forward, to deliver on this priority FSRA will:

- Lead the exploration and potential implementation of CISRO harmonized industry Code of Conduct for intermediaries.
- Support the Fair Treatment of Customers (FTC) principles in the P&C and L&H sectors by:
- Conducting policy research and undertaking targeted supervisory reviews to develop a proposed regulatory framework and supervisory approach for distribution channels that rely on managing general agents (MGAs).
- This would include reviewing the MGA distribution channel to understand how insurers, agents and MGAs interact with the public during the sales process.
- Building/resourcing an agent conduct team and developing a supervisory framework.
- When building this framework, FSRA would consider solutions for improving advisor oversight proposed by the industry-regulatory G4 task force (Canadian Life and Health Insurance Association, Canadian Association of Independent Life Brokerage Agencies, Independent Financial Brokers and Financial Advisors Association of Canada).

Dependencies:

- *Significant coordination and collaboration with stakeholder groups, other regulators across the insurance spectrum and with MOF in the event that any barriers to effective oversight are identified in the sector (e.g. legislative changes).*

Priority 6.2 Improve Licensing Effectiveness and Efficiency

The adoption of simplified, more efficient and effective licensing processes will enable FSRA to regulate the L&H insurance sector more effectively.

Processes will be reviewed to align with revamped 2020-21 priorities.

By the end of F2019-20, FSRA will have:

- Had ongoing engagement with stakeholders/other regulators to understand common licensing credentials and criteria to omit entry to bad players.
- Initiated a gap analysis on due diligence processes, legislative requirements and IM/IT systems to ensure that effective licensing processes are in place.

Going forward, to deliver on this priority, FSRA will:

- Develop a common process for capturing and consolidating licensing statistics from the date of assignment to approval for all products.
- The creation of meaningful reporting and key metrics, would help ensure FSRA has the capacity to deliver on service level standards, absorb future growth and inform licensees by way of meaningful, real-time approval timelines.
- Perform a gap analysis on FSRA's current due diligence processes, legislative requirements and IM/IT systems to ensure that effective licensing processes are in place and framed around market conduct risk in order to create a meaningful outcomes-focused process for "escalated" licensing applications and renewals. This would include increasing information sharing with other regulators, where possible.
- Develop criteria to publish service expectations for license applications and implement service standards.

Dependencies:

- *Significant coordination with key stakeholders in the event that any barriers to improved licensing effectiveness are identified.*
- *Consideration of privacy legislation and the need for consumers and other regulators to be aware of non-compliant registrants.*
- *IM/IT system limitations and needs; timelines for IT renewal.*

5.4 Mortgage Brokering Sector

5.4.1 Progress to Date on 2019-20 Priorities

PRIORITY	UPDATE AT OCTOBER, 2019	NEXT STEPS (2019-20)
Provide Effective Syndicated Mortgage Investment (SMI) Oversight	1. New disclosure forms for high-risk non-qualified SMIs were posted for consultation. Reviewing comments. 2. Developing burden reduction measures for disclosures for lower-risk SMIs. 3. Working with OSC* and MOF, on transfer of regulatory responsibility to OSC.	1. Issue requirements for high-risk SMIs. 2. Burden reduction for low-risk non-qualified SMIs. 3. Pending government direction, finalize plans for timing of SMI deal oversight with the OSC
Improve Licensing Effectiveness and Efficiency	1. Licensing has been challenged with a loss of resources leading up to transition creating service level gaps. Now fully staffed, processes will be reviewed to align with priorities going forward.	***Supporting government policy direction on the MBLAA***** FSRA will support government policy direction on the MBLAA review. Recommendations in the MBLAA review report, include reducing burden by establishing new classes of licensing and raising streamlining educational and professional standards for agents and brokers.
Adopt Industry Code of Conduct	1. Researched Codes of Conduct for consultation with MBRCC*** and industry, including supervisory approach for FSRA. 2. Discussed Code at MBRCC teleconference on Sep. 5 and June in-person meeting. 3. Consulted with industry associations to confirm support for Code.	1. Present research findings at Nov. 2019 MBRCC Fall Meeting. 2. Consult with mortgage broker stakeholders and the public and finalize Code for implementation.

** OSC – Ontario Securities Commission*
*** MBLAA – Mortgage Brokerage, Lenders and Administrators Act*
****MBRCC – The Mortgage Broker Regulators' Council of Canada*

5.4.2 2020-21 Draft Mortgage Brokering Priorities

Supporting government policy direction on the MBLAA	Enhance Market Conduct Oversight to Protect Consumers

Priority 7.1 Supporting government policy direction on the MBLAA

The Report to the Minister of Finance on the Legislative Review of the MBLAA was released on September 30, 2019. FSRA will support government policy direction on the MBLAA review.

The recommendations in the report are:

- #1: Reducing Red Tape for Commercial Mortgage Transactions;
- #2: Reducing Regulatory Burden by Establishing New Classes of Licensing;
- #3: Reducing Regulatory Burden in Guidance, Bulletins and Forms;
- #4: Maintaining Current Licensing Exemptions;
- #5: Raising and Streamlining Educational and Professional Standards for Agents and Brokers;
- #6: Incentivizing Registration for Private Lenders; and
- #7: Strengthening the Administrative Monetary Penalty (AMP) Framework.

Dependencies:

- *Consultation and feedback regarding the recommendations, and direction/approval by government on the recommendations.*
- *Collaboration with MOF in the event that legislative or regulation changes need to be proposed to implement government direction.*
- *IM/IT system limitations and needs; timelines for IT renewal.*

Priority 7.2 Enhance Market Conduct Oversight to Protect Consumers

The government has not finalized the timeline of the transfer of SMIs to the Ontario Securities Commission (OSC). Specifically, government direction on FSRA's role post transfer has not been confirmed.

By the end of F2019-20, FSRA will have implemented measures that would provide a more targeted, risk-based supervisory approach, through the introduction of:

- An additional disclosure for the high-risk SMIs transacted with retail investors.
- Burden reduction for lower-risk non-qualified SMIs.

Going forward, to deliver on this priority, FSRA will:

A. Non-qualified SMIs Supervisory Approach

- Support the implementation of effective oversight of the regulation of non-qualified SMIs transactions with the OSC.
- Implement and refine a supervisory approach for high-risk non-qualified SMIs to enhance FSRA's supervisory approach; reconsider after completion of implemented plan with the OSC.
- Continue supervisory oversight of legacy non-qualified SMI transactions and any SMI activities that are not captured in work with the OSC.

Dependencies:

- *Government direction on FSRA's role, post OSC collaboration.*
- *Significant coordination and collaboration with stakeholder groups, other regulators (OSC), and MOF*
- *Legislative and regulatory amendments.*

B. Mortgage Brokering Sector Supervisory Approach

- Develop, document, consult and implement a robust supervisory approach for high-risk activities and products (non SMI) that could cause consumer harm (specific activities/products may include reviews of brokerages focused on product suitability).
- As FSRA enhances its market conduct function, it will continue to work closely with the Mortgage Broker Regulators Council of Canada (MBRCC) and MOF to support increased regulatory harmonization across Canada.

Dependencies:

- *Successful recruitment of qualified staff.*

5.5 Pensions Sector

5.5.1 Progress to Date on 2019-20 Priorities

PRIORITY	UPDATE AT OCTOBER, 2019	NEXT STEPS (2019-20)
Support Plan Flexibility	1. Relationship model for large plans / jointly sponsored pension plans implemented 2. More focused support for complex transactions and plan mergers 3. Principles to guide pension sector released (issued Oct 17)	1 Continue to build expertise 2 Continuously look to improve processes and find ways to reduce burden and improve regulatory effectiveness 3 Finalize Principles as an Approach document by Dec 31, 2019
Develop and Consult Prudential Framework	1. Ad hoc Technical Advisory Committee (TAC) work is underway to review preventative and predictive tools FSRA can use as a proactive regulator to improve outcomes for members of single employer pension plans and ways to identify potential risks to the Pension Benefits Guarantee Fund (PBGF). 2. Financial and risk assessment of the PBGF to enable its long-term financial sustainability – Request for bids posted 3. Investment risk governance review of large, complex plans has started; chairing CAPSA* leverage working group and collaborating on ESG** 4. Initiated review of multi-employer pension plans to identify and share best practices	1 Continue TAC work with a view to initiate public consultations on new guidance in early 2020 2 PBGF analysis to continue through to 2020 3 Continue to progress through to 2020 4 Continue review of through 2019-20
Focus on Burden Reduction	1 First FSRA Approach guidance coming soon. 2 Ad hoc TACs established for missing members and asset transfers, two key areas of opportunity identified by the sector	1 TAC work to begin this fall with a view to initiate public consultations on new guidance spring/summer 2020 2 Winter 2019-20 solicit nominations for "ad hoc" TAC for family law matters

** CAPSA – Canadian Association of Pension Supervisory Authorities*
*** ESG – Environmental, Social and Governance*

5.5.2 2020-21 Draft Pensions Priorities

FSRA is continuing to work with MOF to ensure appropriate oversight of the pension sector that balances protecting pension benefits and rights of pension plan beneficiaries while ensuring the viability, growth and sustainability of pension plans in Ontario. Since launch, FSRA has made progress on its identified pension sector priorities. These priorities will continue to guide FSRA in its supervision of the pension sector.

Support Plan Evolution	Develop and Consult Prudential Supervision Framework	Refocus Pension Regulation on Burden Reduction

Priority 8.1 Support Plan Evolution

FSRA will work to ensure appropriate implementation of the regulatory framework to facilitate asset transfers, consolidation, plan flexibility and other sector evolution, to support the pension sector and retirement options for current, and future, plan members.

By the end of F2019-20, FSRA will have:

- Developed principles for increased flexibility;
- Created a new organizational structure and relationship model to better support larger plans and jointly sponsored plans and complex transactions;
- Reviewed and consulted on inherited guidance and developed a plan to update, retire or merge guidance

To deliver on this priority going forward, FSRA will:

- Continue to take a principles-based and outcomes-focused approach to demonstrate the flexibility required for continued benefit security and plan innovation, within the pension sector's complex legal framework
- FSRA is continuing to build relationship management as a key skill for plan consolidation activity and complex transactions. This expertise is foundational to delivering on this priority
- Establish advisory committee to identify ways to foster a vibrant employment-based pension pillar in Ontario; FSRA will examine the reasons employers are moving from providing registered pension plans; FRSA will promote good administration of pension plans that is facilitative for employers and is cost efficient; FSRA will ensure that Ontario worker are well informed regarding their retirement benefits and that those benefits are protected.

Dependencies:

- *Continued collaboration with MOF and sector stakeholders like plans, labour representatives, sector organizations, consultants, lawyers and actuaries.*

Priority 8.2 Develop and Consult on Prudential Supervision Framework

FSRA will review, and develop a plan to enhance its oversight of prudential pension matters to ensure appropriate assessment of risks and targeting of supervision. FSRA will consult on this plan and proceed to implementation in 2020-21. This will include: consideration of appropriate governance of plans; how regulatory oversight manages and identifies potential risks to the Pension Benefit Guarantee Fund (PBGF) and improves outcomes for plan beneficiaries; and approaches to distressed plans.

FSRA will also enhance its expertise in key areas, for example: credit analysis and pension risk analysis through recruitment, training and articulating and implementing an approach, after consultation, to evidence its planned activities. Where appropriate, FSRA will use data and analytics to inform and improve its supervisory approach and rule making.

By the end of F2019-20, FSRA will have:

- Assessed expertise, risk-orientation, processes, resources, and data;
- Identified data/systems improvements;
- Strengthened the proactive supervision of single employer defined benefit pension plans where there is a risk both to benefit security and the long-term sustainability of the by working through an *ad hoc* technical advisory committee of sector stakeholders to issue new guidance on FSRA's supervisory approach;
- Undertaken a financial and risk assessment of the PBGF to enable its long-term financial sustainability;
- Reviewed investment risk governance of large, complex plans as well as collaborating with pension supervisory authorities across Canada on issues related to leverage and ESG ; chairing CAPSA leverage working group and collaborating on Environmental, Social and Governance issues; and
- Initiated a review of multi-employer pension plans to identify and share best practices.

Going forward FSRA's focus will:

- Enable the long-term financial sustainability of the PBGF and assist MOF in its legislative review of the PBGF by undertaking a financial and risk assessment of the PBGF including: stress-testing and developing and implementing a more appropriate return-seeking investment strategy that balances benefit security, return and anticipated liquidity needs
- Review FSRA's legacy prudential risk management framework and benchmarking FSRA against other regulators' supervisory framework and practices, and their data and IT infrastructure. Based on the outcomes of this review, initiate data/systems improvements where needed, develop and consult on a new prudential framework, and identify how FSRA can implement these best practices

- Work collaboratively with jointly sponsored pension plans to understand, improve and document industry-wide standards and best practices with respect to identification and monitoring of systemic and liquidity risks, use and appropriate disclosures for leverage and illiquid assets
- Implement learnings from a targeted review of multi-employer pension plans (MEPPs) by developing, documenting, consulting on, and supervising against best practices in terms of funding, governance and investments
- Support MOF with its implementation of a target benefit framework by conducting research, consultation and making recommendations through the technical advisory committee
- Begin development and documentation of risk-based supervisory approach for defined contribution plans (e.g. member behaviour and engagement, decumulation options, investments, fees, etc.) including consultation on each approach and starting to implement it in FSRA's activities

Dependencies:

- *Continued collaboration with MOF and pension sector stakeholders such as: plans, labour representatives, sector organizations, lawyers, consultants and actuaries, plan members and workers without pensions.*
- *Information Management/Information Technology limitations and needs including timelines for renewal and new tools.*
- *Rules proposed by FSRA under legislated rule-making powers require review and approval by the Minister of Finance.*
- *Collaboration with MOF on new rules, as required*

Priority 8.3 Refocus Pension Regulation on Burden Reduction

FSRA will continue to focus resources on high-value regulatory activity and on reducing unnecessary regulatory burdens and low-return regulatory activities by completing the update of its guidance framework, describing approaches, improving processes and modernizing FSRA's information management and information technology.

In doing so, 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, risk-based, and proportionate to FSRA's regulatory objectives.

Prior to launching, stakeholders identified missing members, asset transfers, and family law matters as top areas of focus for FSRA.

To continue this focus, FSRA will continue the work of *ad hoc* technical advisory committees (TACs) established in the fall of 2019 for missing members and asset transfers. The TAC for Family Law matters is expected to initiate its work in winter 2019-20.

The findings of these *ad hoc* TACs will be published and, where applicable, FSRA will initiate public consultations on new guidance (i.e. supervisory approaches), and will collaborate with MOF on regulatory improvements, as identified through the consultation work. FSRA will, in 2020-21 commence implementing such guidance and approaches and other key changes, but this work may take until F2021-22 to complete.

In the near future, FSRA will identify opportunities to reduce regulatory burden and improve regulatory effectiveness for DC plans. A new TAC will be established by the end of calendar 2020 to initiate this work. FSRA will also collaborate with MOF on regulatory improvements, as identified through the consultation work.

FSRA will also continue to develop and implement improved principles-based regulatory processes, and supervisory approaches to use discretion and, after consultation, will issue guidance in F2020-21 to provide clarity/simplicity and where possible minimize unnecessary rules and processes.

Dependencies:

- *Continued collaboration with MOF and sector stakeholders.*
- *Pending findings from TACs, potential change enablers (Information Management/Information Technology), and collaboration with MOF on regulatory improvements, as identified through the consultation work.*

5.6 Financial Planners/Financial Advisors Sector

5.6.1 Progress to Date on 2019-20 Priorities

In the 2019 Ontario Budget, the government announced that it would introduce legislation to limit the use of the titles “financial planner” and “financial advisor” (FP/FA) to individuals who have obtained a credential from a credentialing body approved by FSRA. Currently, there is no title protection for financial planners and financial advisors in Ontario, meaning there is a risk that investors are receiving financial planning and advisory services from individuals without understanding their qualifications.

The *Financial Professionals Title Protection Act, 2019* (FPTPA) was passed in May 2019, but has not yet been proclaimed. FSRA has been working with MOF to design the title protection framework for individuals who wish to use the FP/FA titles in Ontario.

By the end of F2019-20, FSRA will have:

- Consulted with stakeholders on the title protection framework
- Drafted rules regarding the title protection framework

Under the framework, FSRA will establish criteria for the credential issuing bodies that grant credentials, which FP/FA title users must hold. We will implement a process to approve credentialing bodies so that such bodies can set criteria for issuing credentials which permit title use. The goal is that individuals using the FP/FA titles are appropriately qualified, promoting confidence and professionalism in the sector, and avoiding confusion for investors/consumers that see the title use without assurance of qualifications.

Organizations seeking approval as credentialing bodies under the FPTPA will need to meet certain standards, including education requirements, monitoring of FP/FA title users, and effective compliance and enforcement.

FSRA will oversee the title protection framework, and will have the authority to conduct examinations and issue compliance orders against credentialing bodies as required for breaches of the FPTPA, as well as take action against non-credentialed FA/FP title users.

5.6.2 2020-21 Draft Financial Planner/Financial Advisor Priorities

Priority 8.1 Implement the title protection framework for FP/FA

In F2020-21, FSRA will focus its efforts on the implementation of the title protection framework. To deliver on this priority, FSRA will:

- Post rules for public consultation on proposed FSRA rules governing the title protection framework.
- Establish processes and criteria for approving credentialing bodies.

- Develop and document a supervisory approach for credentialing bodies for the title protection framework.
- Develop and document a supervising approach for action against non-credentialed FP/FA title users.

Dependencies

FSRA’s implementation of the title protection framework will depend on a number of internal and external factors, including:

- *Government direction regarding details and timing of implementation, including the scope of FSRA’s rule-making authority.*
- *Approval of proposed FSRA rules by the Minister of Finance.*

6. FSRA Budget

6.1 FSRA Budget

The draft F2020-21 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 second year of operations.

The draft budget below presents the forecasted financial activities for the period April 1, 2020 to March 31, 2021. It will, subject to revisions after stakeholder feedback, form the basis of FSRA's proposed F2020-23 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 draft F2020-21 FSRA budget is $98.9 million; for comparative purposes F2019-20 budget is showing below.

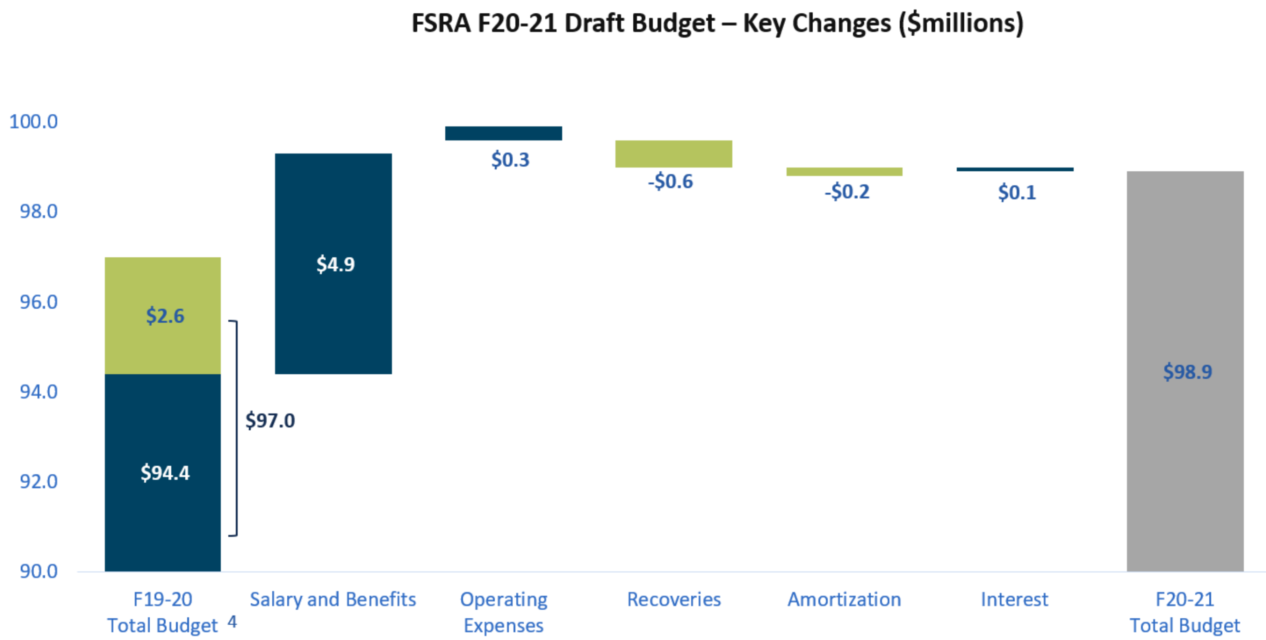
($000's)	*FSRA 2020-2021 Budget*	*FSRA 2019-2020 Budget*	*Variance*	*Variance (%)*
Revenue:				
Activity Fees	6,201	6,272	(71)	-1.1%
Fee Assessment	78,442	75,507	2,934	3.7%
Licensing Fees	14,297	15,221	(923)	-6.5%
Total Revenue	98,940	97,000	1,940	2.0%
Direct Costs	71,118	69,424	1,694	2.4%
Common Costs	27,822	27,576	246	0.9%
Total Costs	98,940	97,000	1,940	2.0%

Additional information upon which the budget is based is contained in the appendices:

- Appendix 5: Financial Assumptions
- Appendix 6: Sector Allocation Methodology Highlights

6.2 Budget Analysis

The $1.9 million net increase of FSRA total draft budgeted costs, compared to F2019-20 budget is analyzed in the table below.[4]



The $1.9 million expense increase is due to a number of key investments primarily in human capital and technology, as described below.

To deliver on its priorities FSRA will modestly increase its human capital resources to improve on capabilities by investing in sectoral and functional expertise. Executive leadership have identified specific regulation/supervisory gaps that require resourcing. Overall payroll costs will increase by $4.9 million specifically to address life insurance agent conduct regulation, CUCPA modernization and pension relationship management/supervision. At the request of MOF, FSRA will also be preparing to regulate the financial planners and financial advisors sector, but these costs will be incurred and charged to that sector when it launches. In addition the budget includes the final stages of completing the back office information technology (IT) infrastructure investments.

Partially offsetting the payroll increases is the non-GAAP deferral of technology expenses incurred in the current year but charged to sectors over 5 years to match the costs and benefits of these investments for sector recovery purposes. The deferral decreases operating expenses by $2.7 million. These expenditures are to achieve targeted investments in core regulatory and back office technology. The core systems digital transformation expenditure of $3.7 million is the commencement of several years of significant IT system investment that is focussed on sector burden reduction and

[4] F2019-20 budget has been reclassified by*$2.6 million of prior year operating investment technology expenses are restated to reflect the current year presentation.*

efficiencies in future years. The back office technology investment of $0.9 million will also generate internal efficiencies and enables FSRA to operate independently of Government.

Third party cost recoveries have also increased due to ancillary regulation activities that are fully recoverable from those who are not currently in regulated sectors. The recoveries from these activities has increased by $0.6 million primarily due to FSRA regulating and recovering of $0.3 million for Co-operative Offerings and other third parties.

Other operating expenses will only increase by $0.3 million due to efficiencies generated by the build out of internal capabilities. Efficiencies in professional services, consulting and administration are achieved to maintain a relatively flat non-payroll cost. The non-payroll increase is primarily due to contractor costs to maintain legacy systems until the benefits of digital transformation are achieved.

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 will borrow approximately $7 million less than anticipated for core regulatory systems and premises re-location resulting in $0.1 million lower interest costs.

6.3 Sector Fee Assessments

The application of the fee rule methodology results in the following sector fee assessments/revenues and cost variances:

Sector (000's)	Insurance							Pensions (Fixed and Variable)	Credit Unions (Variable)	Mortgage Brokers (Fixed)	Loans & Trusts (Variable)	Financial Advisor & Financial Planner	Total
Subsector	**Auto Products**	**Health Service Providers (Fixed)**	**P&C Conduct**	**P&C Prudential Regulation**	**Life Conduct & Life Health (Variable)**	**Life Conduct & Life Health (Fixed)**	**Total Insurance**						
2020-2021 Revenue													
Activity Fees	16	148	187	1		5,679	**6,031**	56	113		2		6,201
Fee Assessment	19,767	4,136	11,296	210	2,351		**37,760**	27,040	13,343		55	245	78,442
Licensing Fees										13,415			13,415
HSP Shortfall Recovery	882						**882**						882
Total Revenue	**20,665**	**4,284**	**11,483**	**211**	**2,351**	**5,679**	**44,673**	**27,096**	**13,456**	**13,415**	**56**	**245**	**98,940**
2020-2021 Cost													
Direct Cost	14,456	3,775	8,391	154	1,718	4,150	32,644	19,800	9,832	8,556	41	245	71,118
Common Cost	5,675	1,482	3,294	60	674	1,629	12,815	7,773	3,860	3,359	16	-	27,822
Total Cost	**20,131**	**5,257**	**11,685**	**215**	**2,392**	**5,779**	**45,458**	**27,573**	**13,692**	**11,914**	**57**	**245**	**98,940**
Recovery Over/(Under)	**534**	**(973)**	**(202)**	**(4)**	**(41)**	**(100)**	**(786)**	**(477)**	**(237)**	**1,500**	**(1)**	-	**0**
2019-2020 Revenue	**12,860**	**3,679**	**19,901**	**486**	**1,885**	**5,679**	**44,490**	**27,450**	**13,510**	**11,304**	**247**	-	**97,000**
Revenue Variance ($) F20-21 over F19-21 Over/(Under)	**7,805**	**605**	**(8,418)**	**(275)**	**466**	**-**	**183**	**(353)**	**(54)**	**2,111**	**(191)**	**245**	**1,940**
Revenue Variance (%) F20-21 over F19-21 Over/(Under)							**0.4%**	**-1.3%**	**-0.4%**	**18.7%**	**-77.2%**		**2.0%**
2019-2020 Cost	**12,476**	**4,063**	**19,901**	**486**	**1,885**	**5,679**	**44,490**	**27,450**	**13,510**	**11,304**	**247**	-	**97,000**
Cost Variance F20-21 over F19-21 Over/(Under)	**7,655**	**1,194**	**(8,216)**	**(271)**	**507**	**100**	**968**	**123**	**182**	**610**	**(189)**	**245**	**1,940**

Under FSRA principles and practices articulated under its Fee Rule and set forth in Appendix 6, the objective is for sector/sub-sector budgeted costs to be charged to those sectors through fee assessments. For fixed fee sectors/sub-sectors, the fee will be adjusted when the fee rule is re-made. For variable fee sectors, each year fees are set based on the budgeted costs for that sector, and taking into account cost/revenue overage/shortfall in other sub-sectors. Overages/shortfalls that are related to that sub-sector or in sector or sub-sector (unrelated to another sub-sector) which affect the indirect costs or fees assessed to other sectors/sub-sectors are applied. Given the draft F2020-21 cost budget for the sectors, the above table describes the fee assessments/revenues FSRA currently estimated for each sector, and how it has changed year over year.

Mortgage Brokers is a fixed fee assessment that will, due to a 2 year billing completed by FSCO in F2018-19, be transitioning into the new Fee Rule in F2020-21. The transition results in an estimated (depending on number of businesses) additional $3.6 million of revenue to FSRA year over year. In the prior year FSRA experienced an assessment shortfall from this sector of an equivalent amount. The cost of regulation of this sector increased by $0.6 million primarily due to expanded dedicated resources in market conduct. The sector overage of revenues to expenses is allocated to reduce indirect costs resulting in an assessment reduction for the other sectors of $1.5 million. Note that in F2019-20 the fixed fees charged to the Mortgage Brokers generated $9.8 million of revenue to FSRA while the budgeted cost of FSRA for sector Mortgage Broker regulator was $11.3 million, leaving a deficit of $1.5 million which was funded by other sectors.

The Insurance sector will experience $1.0 million of additional expenses. This is primarily due to an additional 6 FTE resources dedicated to regulating life insurance agents, higher back office cost allocation offset by efficiencies in in non-payroll costs. The Insurance sub-sectors are experiencing a re-distribution of resources from P&C Conduct to Auto Products to reflect FSRA's actual experience.

Pension costs will increase by $0.1 million year over year. Investments in relationship management and prudential supervision resulted in an additional 2 FTE, driving this cost increase but partially offset by other cost savings.

Credit union expenses have increased by $0.2 million primarily due to expenses relating to required personnel to support CUCPA modernization and the sector transitioning to the FSRA IT environment from the former DICO. Efficiencies were also generated through substantially lower legal and professional services for Credit Union supervision and administration as these costs are now provided internally by FSRA resources.

The Financial Advisors and Financial Planners sector will incur $0.2 million of costs to invest as FSRA prepares to implement regulation activities. These costs will be ultimately recovered from the sector once regulation commences.

7. Appendices

Appendix 1: FSRA Vision, Mission, Values

Appendix 2: 2019-20 Priorities

FSRA PRIORITIES 2019-20	
OVERALL PRIORITIES	
Burden Reduction	**Regulatory Effectiveness**
1.1 Review inherited guidance **1.2** Review data collection and filing requirements **1.3** Establish meaningful service standards	**2.1** Protect the public interest **2.2** Increase sectoral expertise **2.3** Enable innovation **2.4** Enhance stakeholder collaboration **2.5** Modernize systems and processes

SECTOR-SPECIFIC: TARGETED HIGH-IMPACT PRIORITIES				
Auto Insurance	**Credit Unions**	**Insurance Conduct**	**Mortgage Brokering**	**Pensions**
3.1 Streamline Rate Regulation Process Support Auto Reform Strategy **3.2** Review Health Service Provider (HSP) Regulation **3.3** Develop Fraud and Abuse Reduction Strategy	**4.1** Integrate Conduct and Prudential Supervision **4.2** Support Modernization of Regulatory Framework **4.3** Adopt Industry Code of Conduct **4.4** Ensure Appropriate Resolution Framework and Deposit Insurance Reserve Fund (DIRF) Oversight	**5.1** Adopt Effective Conduct Standards **5.2** Improve Licensing Effectiveness and Efficiency **5.3** Harmonize Treating Consumers Fairly Guidance	**6.1** Provide Effective Syndicated Mortgage Investment (SMI) Oversight **6.2** Improve Licensing Effectiveness and Efficiency **6.3** Adopt Industry Code of Conduct	**7.1** Support Plan Flexibility **7.2** Review Prudential Framework **7.3** Focus on Burden Reduction

Appendix 3: Retired/Completed Priorities and Recast/Subsumed Priorities

2019-20 Retired/Completed Priorities	
1.2 Data and filing review	4.1 Integrate credit union prudential and conduct supervision (CU)
2.2 Sectoral expertise	5.3 FTC harmonization (Insurance)
2.4 Enhanced stakeholder collaboration	6.3 Mortgage broker code of conduct
3.1 Streamline rate regulation process (Auto)	

Recast/Subsumed Priorities		
F2019-20 Priority		F2020-21 Priority
3.3 Review HSP regulation (Auto)	➤	3.5 Empower and protect consumers (Auto)
3.2 Support auto reform	➤	3.6 Leadership in auto reform
3.4 Fraud and abuse reduction strategy (Auto)	➤	3.7 Auto insurance and data analytics strategy
4.3 Adopt industry code of conduct (CU)	➤	4.5 Enhance credit union market supervision (CU)
5.1 Adopt effective conduct standards (Conduct)	➤	5.4 Market conduct oversight to protect consumers (L&H)
6.1 Provide effective SMI oversight (MB)	➤	6.4 Market conduct oversight to protect consumers (MB)

Appendix 4: 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
1.1 Burden Reduction: Review inherited guidance	*1, 2, 4, 9, 10, 11, 12, 13*
1.2 Burden Reduction: Establish meaningful service standards	*1, 2*
2.1 Regulatory Effectiveness: Protect the public interest	*2, 4, 5, 9, 10, 12, 13*
2.2 Regulatory Effectiveness: Enable innovation	*10, 11, 12, 13, 15*

Priority	Legislative Objects
2.3 Regulatory Effectiveness: Modernize systems and processes	*1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15*
3.1 Transition to principles based-regulation	*1, 2*
3.2 Improve Information Sharing with Regulators	*1, 3, 4, 7*
4.1 P&C (Auto) Insurance: Empower and protect auto insurance consumers	*1, 2, 5, 6, 7, 9, 10*
4.2 P&C (Auto) Insurance: Support and implement transformative auto insurance reforms	*2, 3, 4, 5, 9, 10, 11*
4.3 P&C (Auto) Insurance: Develop a comprehensive auto insurance and data analytics strategy	*1, 2, 3, 4, 6, 7*
5.1 Credit Union: Support modernization of credit union regulatory framework	*1, 2, 3, 4, 11, 15, 16*
5.2 Credit Union: Ensure appropriate resolution and Deposit Insurance Reserve Fund (DIRF) oversight framework	*2, 6, 10, 14, 16*
5.3 Credit Union: Enhance credit union market conduct supervision	*1, 10, 15, 16*
5.4 Credit Union: Update supervisory and risk assessment approach	*1, 2, 3, 4, 6, 7, 9, 10, 15*
6.1 Life & Health Insurance: Enhanced market conduct oversight to protect consumers	*1, 2, 4, 6, 7, 9, 10*
6.2 Life & Health Insurance: Improve Licensing effectiveness and efficiency	*1, 2, 3, 4, 6, 7, 9, 11*
7.1 Mortgage Brokering: Support government policy direction on the Mortgage Brokering Lenders and Administrators Act (MBLAA)	*1, 2, 3, 4, 6, 7, 9, 10,11*
7.2 Mortgage Brokering: Enhance market conduct oversight to protect consumers	*1, 2, 4, 6, 9, 10*
8.1 Pension: Support Plan Flexibility	*1, 2, 3, 12, 13*
8.2 Pension: Review prudential framework	*1, 2, 3, 12, 13*
8.3 Pension: Focus on burden reduction	*1, 2, 3, 12, 13*
9.1 Financial Planner/Advisor: Develop processes for the future approval and supervision of credentialing bodies	*1, 2, 9, 10*

Appendix 5: Financial Assumptions

- All FSRA financial information assumes 12 months of activity.
- Comparable figures are based on the April 1, 2019 – March 31 2020 budget approved by the FSRA Board.
- No allocation methodology changes from prior year except for IT and legal charges to Credit Union. Both expenses will be allocated to Credit Union in the budget. In F2019-20 Credit Union had its own dedicated IT resources and used external legal resources.
- In year technology operating investments are recovered over 5 years from the sectors rather than expensed in year paid to better match the cost and benefit. Prior year operating investment technology expenses are restated to reflect the current year presentation (refer to Budget Analysis in section 6.2)
- Co-operative regulation costs will be recovered up to $0.3 million.
- The Financial Advisors and Financial Planners sector costs will be ultimately recovered from the sector once regulation commences.
- Credit Union and Mortgage Broker fees and assessments are covered by FSRA's fee rule commencing F2020-21. Mortgage Broker had paid 2 year fees to FSCO under its fee rule and FSRA's fee rule provided for a F2019-20 transition. Also, in accordance with the fee rule, the DICO bundled DIRF assessments and operating cost charges, charged based on deposits, were used at FSRA launch to fund a one-time DIRF transfer to cover FSRA F2019-20 Credit Union sector costs.
- Since FSRA regulates Health Service Provider as part of its Auto Insurance regulation activities, Health Service Providers sub-sector, as a fixed fee payer under the FSRA fee rule, is merged into the Auto Insurance sub-sector.
- Life Conduct for L&H agent is a fixed fee sub-sector and any cost overage/underage will be charged to life insurers as a variable sub-sector.

Appendix 6: Sector Allocation Methodology Highlights

Current Budget

Allocations are segmented into Direct and Indirect categories

Direct Cost Allocation: Includes Insurance, Pension, Credit Union, Market Conduct, Legal, Policy, Lease and IT expenses

- Pension, Credit Union and Insurance Division costs: allocated 100% to their respective Sectors *(with minor exceptions)*
- Market Conduct and Policy Division: based on dedicated FTEs to specific sectors. FTEs that are not dedicated to specific sectors are allocated based on Market Conduct and Policy direct allocation rates
- Legal Division: high level allocation based on anticipated use of service
- Lease costs are allocated based on FTE
- IT Credit Union: transitional year for F2020-21; 5 IT FTEs dedicated to Credit Union as well as a share of IT non payroll expenses. In F2020-21, Credit Union will bear its full share of IT costs as its systems environment will be fully co-mingled with FSRA
- IT all Other Sectors: Remainder of IT costs are allocated to all other sectors proportionately based on their direct costs

Indirect Cost Allocation: Includes CEO Office, Corp Services, Public Affairs, Interest, Amortization

- Based on the overall direct costs allocation rates

Prior Budget

Allocation methodology is similar to above with a few exceptions:

- No IT allocation to Credit Union due to its stand-alone IT team from DICO
- No Legal allocation to Credit Union due to reliance on external resources