Financial Consumer Agency of Canada
Agence de la consommation en matière financière du Canada

FINANCIAL CONSUMER AGENCY OF CANADA

FUTURE-ORIENTED STATEMENT OF OPERATIONS

For the years ending March 21, 2018 and 2019

Canada

June 2018
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Ce document est aussi disponible en français sous le titre ***État des résultats prospectif.***

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR THE FUTURE-ORIENTED STATEMENT OF OPERATIONS

Responsibility for the compilation, content and presentation of the Future-Oriented Statement of Operations and the accompanying notes for the years ending March 31, 2018 and 2019 rests with the Financial Consumer Agency of Canada's (FCAC's) management, including the appropriateness of the underlying assumptions. This Future-Oriented Statement of Operations has been prepared by management based on the best information available and assumptions adopted as at March 19, 2018 in accordance with Public Sector Accounting Standards (PSAS) as issued by the Canadian Public Sector Accounting Board (PSAB).

The actual results achieved for the fiscal years covered in the accompanying Future-Oriented Statement of Operations will vary from the forecast information presented, and these variations may be material.

The Future-Oriented Statement of Operations has not been audited.

Lucie M.A. Tedesco, Commissioner Financial Consumer Agency of Canada	Brigitte Goulard, Deputy Commissioner Chief Financial Officer

Ottawa, Canada

March 19, 2018

FINANCIAL CONSUMER AGENCY OF CANADA

Future-Oriented Statement of Operations

For the years ended March 31, 2018 and March 31, 2019

(unaudited)

	Note	Forecast results 2017-18	Planned results 2018-19
Revenue			
Assessments		$ 16,911,415	$ 24,233,299
Other revenues		2,700	–
Total revenue		16,914,115	24,233,299
Expenses			
Salaries and benefits	10	14,455,300	20,373,471
Professional services		4,101,501	4,838,193
Information management/technology		1,184,541	1,294,365
Accommodation		1,058,818	1,353,967
Administrative and other		637,171	820,303
Travel		436,029	473,000
Interest	12	40,755	80,000
Total expenses		21,914,115	29,233,299
Net results of operations before government funding, revaluation gain (loss) on defined benefit plans and administrative monetary penalties		(5,000,000)	(5,000,000)
Government funding	14	5,000,000	5,000,000
Net results of operations before revaluation gain (loss) on defined benefit plans and administrative monetary penalties		–	–
Revaluation gain (loss) on defined benefit plans		–	–
Net results of operations before administrative monetary penalties		–	–
Administrative monetary penalties	11	455,000	–
Administrative monetary penalties earned on behalf of the government	11	(455,000)	–
Net results of operations		$ –	$ –

The accompanying notes form an integral part of this Future-Oriented Statement of Operations.

1. Authority and objectives:

On October 24, 2001, the Financial Consumer Agency of Canada Act (the Act) came into force, establishing the Financial Consumer Agency of Canada (FCAC or the Agency). FCAC was established to protect consumers by supervising federally regulated financial entities and by strengthening the financial literacy of Canadians. The Agency is a department of the Government of Canada and is listed in Schedule I.1 of the Financial Administration Act. The Government of Canada is FCAC's parent and is the ultimate controlling party of FCAC.

FCAC's mandate is specifically set out in the Financial Consumer Agency of Canada Act, under sections 3(2) and 3(3). It must:

3(2)

(a) supervise financial institutions and external complaints bodies to determine whether the institution or body is in compliance with

(i) the consumer provisions applicable to them, and

(ii) the terms and conditions or undertakings with respect to the protection of customers of financial institutions that the Minister imposes or requires, as the case may be, under an Act listed in Schedule 1 and the directions that the Minister imposes under this Act;

(b) promote the adoption by financial institutions and external complaints bodies of policies and procedures designed to implement the provisions, terms and conditions, undertakings or directions referred to in paragraph (a);

(b.1) promote the adoption by financial institutions of policies and procedures designed to implement

(i) voluntary codes of conduct that are designed to protect the interests of their customers, that are adopted by financial institutions and that are publicly available, and

(ii) any public commitments made by them that are designed to protect the interests of their customers;

(c) monitor the implementation of voluntary codes of conduct that are designed to protect the interests of customers of financial institutions, that have been adopted by financial institutions and that are publicly available and to monitor any public commitments made by financial institutions that are designed to protect the interests of their customers;

(d) promote consumer awareness about the obligations of financial institutions and of external complaints bodies under consumer provisions applicable to them and about all matters connected with the protection of consumers of financial products and services; and

1. Authority and objectives (continued):

3(2) (continued)

(e) foster, in co-operation with any department, agency or agent corporation of the Government of Canada or of a province, financial institutions and consumer and other organizations, an understanding of financial services and issues relating to financial services;

(f) monitor and evaluate trends and emerging issues that may have an impact on consumers of financial products and services; and

(g) collaborate and coordinate its activities with stakeholders to contribute to and support initiatives to strengthen the financial literacy of Canadians.

3(3)

(a) supervise payment card network operators to determine whether they are in compliance with the provisions of the Payment Card Networks Act and its regulations;

(b) promote the adoption by payment card network operators of policies and procedures designed to implement the provisions of the Payment Card Networks Act and its regulations;

(c) monitor the implementation of voluntary codes of conduct that have been adopted by payment card network operators and that are publicly available, and to monitor any public commitments made by them regarding their commercial practices in relation to payment card networks; and

(d) promote public awareness about the obligations of payment card network operators under a voluntary code of conduct or under the Payment Card Networks Act.

Section 18(3) of the Act provides that the Agency's costs of operations are to be assessed to the industry. Pursuant to section 13(2) of the Act, FCAC's operations are typically funded entirely through this process. FCAC is, however, entitled to receive a statutory expenditure as authorized under section 13(3) of the Act.

FCAC's assessment revenues are charged in accordance with the Financial Consumer Agency of Canada Assessment of Financial Institutions Regulations and the financial assessment methodology of payment card network operators, which outline the methodologies used to determine each institution's assessment.

The Agency manages its working capital requirements by borrowing funds from the Government of Canada as authorized under section 13(1) of the Act.

2. Background information:

This Future-Oriented Statement of Operations was authorized for issue by FCAC on March 19, 2018. FCAC's principal activities are described in note 1. The head office is located at 427 Laurier Avenue West in Ottawa, Ontario, Canada.

3. Significant assumptions:

The Future-Oriented Statement of Operations has been prepared on the basis of the government priorities and the plans of the Agency as described in FCAC's 2018-2019 business plan. The significant assumptions are as follows:

(a) Expenses and revenues, including the determination of amounts internal and external to the government, are based on historical experience and trends, as well as known new requirements.

(b) FCAC's full-time equivalent (FTE) staffing level is forecast to increase by forty-nine FTE in the year ending March 31, 2019 to deliver its mandate as detailed in note 1.

(c) The employee benefit rate for 2017-2018 is estimated to be 24.9% of salaries and 2018-2019 is estimated to be at 24% of salaries.

(d) Salary economic adjustments for 2017-2018 and 2018-2019 represent FCAC's best estimates at the time this Future-Oriented Statement of Operations was prepared.

(e) The estimated results for the year ending March 31, 2018 are projected results based on year-to-date spending at October 23, 2017. The forecast for the year ending March 31, 2019 reflects management's most recent estimate based on the significant assumptions noted in this section and FCAC's business plan for 2018-2019. It also assumes that there will be no changes to FCAC's funding model.

4. Variations and changes to the forecast financial information:

While every attempt has been made to reasonably forecast results for the remainder of the year ending March 31, 2018 and for the year ending March 31, 2019, actual results achieved for both years are likely to vary from the forecast information presented, and this variation could be material.

4. Variations and changes to the forecast financial information (continued):

In preparing this Future-Oriented Statement of Operations, FCAC has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Factors that could lead to material differences between the Future-Oriented Statement of Operations and the historical financial statements include:

(a) the timing in filling new and vacant positions.

(b) the timing and amount of contracts put in place to support the Agency's many projects and initiatives.

(c) implementation of new terms and conditions of employment.

(d) further changes to the operating budget to respond to supervisory and regulatory reforms and additional demands related to the mandate of the Agency.

(e) fluctuations in the discount rate used to calculate actuarial gain/loss on the severance and sick leave liabilities.

(f) changes in FCAC's responsibilities, as determined by the Minister of Finance or Parliament.

Once the business plan is presented and approved, FCAC will not be updating the forecasts for any changes in financial resources. Variances will be explained in the Annual Report. Updates will be undertaken when a new business plan is developed.

5. Basis of preparation:

The Future-Oriented Statement of Operations has been prepared on an historical cost basis and is presented in Canadian dollars because that is the currency of the primary economic environment in which FCAC operates.

(a) Statement of compliance:

The Future-Oriented Statement of Operations of FCAC has been prepared in accordance with Public Sector Accounting Standards (PSAS) as issued by the Canadian Public Sector Accounting Board (PSAB). The accounting policies used in the financial statements are based on the PSAS applicable as at December 31, 2017. The policies set out below are consistently applied to all periods presented.

6. Significant accounting policies:

The principal accounting policies of FCAC are set out below.

(a) Impairment of financial assets:

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

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

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the Statement of Operations.

(b) Tangible capital assets:

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

6. Significant accounting policies (continued):

(b) Tangible capital assets (continued):

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

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

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

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

(c) Impairment of non-financial assets:

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

(d) Employee benefits:

Short-term benefits

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

6. Significant accounting policies (continued):

(d) Employee benefits (continued):

Pension benefits

Substantially all of the employees of FCAC are covered by the public service pension plan (the Plan), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and FCAC to cover current service costs. Pursuant to legislation currently in place, FCAC has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of FCAC.

Severance

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

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

Other benefits

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

Sick leave

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

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

6. Significant accounting policies (continued):

(e) Leases:

Leases in which a significant portion of the risks and rewards of ownership related to the leased property are substantially retained by the lessor shall be accounted for as operating leases. Payments under operating leases (net of any incentives received from the lessor) are charged to the Statement of Operations on a straight-line basis over the period of the lease.

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

FCAC records the costs associated with operating leases in the Statement of Operations in the period in which they are incurred.

(f) Government funding:

Government funding, including statutory expenditures, is recognized in the period that the statutory expenditure was authorized, and any eligibility criteria met. Statutory expenditures for operating purposes and for the purchase of tangible capital assets are considered to be without stipulations restricting their use and are recognized as revenue when the statutory expenditures are authorized.

(g) Revenue recognition:

FCAC recognizes revenue so as to recover its expenses. Any amounts that have been billed for which costs have not been incurred are classified as unearned assessments on the Statement of Financial Position. Revenue is recorded in the accounting period in which it is earned (service provided) whether or not it has been billed or collected. At March 31 of each year, amounts may have been collected in advance of the incurrence of costs or provision of services or, alternatively, amounts may not have been collected and are owed to FCAC.

Assessments:

Revenue from assessments is recognized based on actual costs incurred. The assessments are charged to recover costs, and all costs are considered recoverable. Assessments are billed annually based on an estimate of the current fiscal year’s costs of operations together with an adjustment for any differences between the previous year’s assessed costs and actual costs. The assessment process is undertaken before December 31 in each year, in accordance with section 18(1) of the Act. As a result, at March 31 of each year, amounts may have been collected in advance of the incurrence of costs or, alternatively, funds may be owed to the Agency to fund its costs of operations.

6. Significant accounting policies (continued):

(g) Revenue recognition (continued):

Administrative monetary penalties:

The Commissioner may issue administrative monetary penalties when violations to consumer provisions occur. These penalties are imposed in cases where the Commissioner believes that there has been either a violation of the consumer provisions or non-compliance with any Compliance Agreement entered into pursuant to an act listed in Schedule 1 of the Financial Consumer Agency of Canada Act. The penalty amount may be as high as $50,000 for an individual and $500,000 for an institution. Penalties levied by FCAC are non-respendable and are to be remitted to the Consolidated Revenue Fund (CRF). The funds are not available to FCAC and, as a result, the penalties do not reduce the amount that FCAC assesses the industry in respect of its operating costs.

7. Significant accounting judgments, estimates and assumptions:

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

In the process of applying its accounting policies, management has made the following judgments that have the most significant effect on the amounts recognized in the Future-Oriented Statement of Operations:

- Lease classification;
- Administrative monetary penalties revenue – FCAC as principal;
- Estimated useful lives of tangible capital assets; and,
- Actuarial assumptions used to value sick leave and severance obligations.

8. Related party transactions:

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

8. Related party transactions (continued):

For the year ending March 31, 2018, FCAC forecasts the purchases of goods and services of $5,735,676 (2019 - $6,511,437) from transactions with other government departments. Although most transactions are not individually significant, FCAC forecasts the following individually significant transactions:

Entity	Nature	Forecast expenses 2017-18	Planned expenses 2018-19
Treasury Board Secretariat	Pension contributions, other employee benefits, and financial services	$ 2,947,927	$ 3,992,765
Public Services and Procurement Canada	Accommodation, translation services and other services	1,016,015	1,173,775
Department of Justice	Legal services	393,864	766,946
Office of the Superintendent of Financial Institutions	Financial services	349,922	62,997
Canadian Human Rights Commission	Human resources services	281,229	61,000

The FCAC receives $5 million annually of government funding for its financial literacy program to support initiatives to strengthen the financial literacy of Canadians. This statutory expenditure has been recognized into net results and shown on the Future-Oriented Statement of Operations. There are no unfulfilled conditions or contingencies attached to this statutory expenditure.

9. Employee benefits – pension benefits:

Substantially all of the employees of FCAC are covered by the public service pension plan (the Plan), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and FCAC. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate forecasted for the end of the year is 10.692% (2019 – 10.692%). Total contributions of $1,206,113 (2019 - $1,715,566) are expected to be recognized as an expense during the year.

9. Employee benefits – pension benefits (continued):

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

10. Human resources expense:

	Forecast results 2017-18	Planned results 2018-19
Wages and salaries	$11,404,890	$16,231,542
Other benefits	1,790,956	2,285,858
Post-employment benefits other than severance	1,206,113	1,715,566
Other personnel costs	34,588	118,725
Severance benefits	18,753	21,780
Total	$14,455,300	$20,373,471

11. Administrative monetary penalties:

Administrative monetary penalties (AMPs) levied by FCAC are remitted to the CRF. The funds are not available for use by FCAC and are not included in the balance of the Cash Entitlement. As a result, the penalties do not reduce the amount that FCAC assesses the industry in respect of its operating costs. Refer to note 6 (g) for further information on FCAC's accounting policy as it relates to administrative monetary penalty revenue.

For the year ending March 31, 2018, FCAC is forecasted to levy $455,000 (2019 - $Nil) in AMPs. This forecast only includes the AMPs for which a Notice of Decision has been rendered at the time of the preparation of the Future-Oriented Statement of Operations. The purpose of issuing AMPs is to encourage federally regulated financial entities (FRFEs) to comply with the consumer provisions that are applicable to them. As such, FCAC does not plan on issuing a specific number or value of AMPs per year and is unable to forecast the level of future non-respendable revenue derived from the issuance of AMPs.

12. Non-budgetary expenditures:

FCAC is funded mainly through assessments on the financial entities it regulates and supervises. By December 31 of each year, the Commissioner must determine the total expenses incurred by the Agency during the preceding fiscal year for, or in connection with, the administration of the Financial Consumer Agency of Canada Act and the consumer provisions, as well as the Codes it supervises. The Commissioner then assesses each federally regulated financial entity a portion of these expenses, as determined by regulation or the financial assessment method for payment card network operators. Interim assessments are also possible. An assessment is considered to be a debt due to Her Majesty and is payable immediately, with interest on any unpaid amount.

To temporarily fund expenses until institutions are assessed, before March 31 of each year, the Agency must seek ministerial authority to borrow from the CRF for the next fiscal year, up to a predetermined limit; it is expected that $11 million will be sufficient for fiscal year 2017-18 and $25.1 million for 2018-19. The authority to borrow from the CRF is granted under section 13 of the Financial Consumer Agency of Canada Act. The Agency pays interest on the funds borrowed.

13. Operating lease arrangements:

FCAC enters into operating lease agreements for its head office located in Ottawa. The forecast minimum aggregate annual payments for future fiscal years can be reasonably estimated as follows:

	2017-18
March 31, 2018	$ 830,811
March 31, 2019	835,106

14. Government funding:

FCAC receives an annual statutory expenditure of $5 million for financial literacy. This statutory expenditure is recognized into net results and shown on the Future-Oriented Statement of Operations. There are no unfulfilled conditions or contingencies attached to this statutory expenditure.