

Press release

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FSB completes peer review of Canada

The Financial Stability Board (FSB) published today the [report on its peer review of Canada](#). This forms part of a regular programme of peer reviews of FSB member countries that began in 2010. The main purpose of the report is to assess Canada's progress in addressing regulatory and supervisory issues raised by the International Monetary Fund (IMF) under the Financial Sector Assessment Program (FSAP) in 2007-08. The report also provides an overview of market and regulatory developments since the FSAP was published.

The response of the Canadian authorities to the global financial crisis was swift and effective. The strength of the economy and of the financial system at the onset of the crisis meant that no Canadian financial institution failed or required government support in the form of a capital injection or debt guarantees.

This resilience, which was achieved in spite of Canada's relatively complex regulatory structure, provides valuable lessons for other FSB members. The lessons include the importance of having pro-active and targeted macroeconomic policies supported by adequate fiscal space and a flexible exchange rate to help absorb external shocks; prudent bank risk management, particularly a stable and well-diversified funding profile as well as conservative loan underwriting standards; and a comprehensive regulatory and supervisory framework that effectively addresses domestic prudential concerns, including (when necessary) by adopting regulatory policies that go beyond international minimum standards.

The Canadian financial system has continued to perform well but, against an uncertain global outlook, the authorities will need to remain vigilant. Two areas for particular attention are the exposure of the economy and financial system to continued adverse global economic developments, and the increasing indebtedness of Canadian households. To address these risks, the authorities should continue to strengthen macroprudential surveillance and consider expanding the range of tools at their disposal.

The peer review examined the steps taken by the Canadian authorities to address FSAP recommendations on regulatory and supervisory issues in the following areas: banking supervision, stress testing and the early intervention regime; the functioning of asset backed commercial paper (ABCP) and structured finance markets; securities regulation; and securities settlement systems. The Canadian authorities have made good progress in addressing the FSAP recommendations across all of these areas.

In the banking sector, the Office of the Superintendent of Financial Institutions (OSFI) has increased its supervisory resources and enhanced its on-site inspections; recent revisions and clarifications to the intervention and resolution regimes for banks have reduced the room

for discretion and forbearance and have increased accountability; and the Bank of Canada conducts regular stress tests in collaboration with OSFI.

In order to address problems arising in the non-bank sponsored ABCP market during the financial crisis, existing vehicles have been restructured and are in run-off mode, thereby avoiding potential spillovers to the banking system; the level of disclosure and transparency has improved; and reforms are underway to ensure the reliability of the credit ratings process. The priority now is to enact the proposed regulations for structured finance products and credit rating agencies so that they can produce the intended results.

In the securities sector, provincial regulators have continued to improve coordination; a registration regime for operators of collective investment schemes is now effective and on-site inspections are taking place; all provinces have enacted statutory civil liability provisions for misrepresentation in the secondary market; Ontario and Québec have put in place a legislative framework for over-the-counter derivatives; the regulatory framework for pension funds focuses increasingly on risk management practices; and new legislation broadly harmonises the regulation of market intermediaries. A number of these initiatives, however, are ongoing and require monitoring to ensure full and effective implementation.

The most important challenge in the securities sector concerns the coordination among provincial regulators. Coordination currently takes place via the Canadian Securities Administrators – a voluntary umbrella organisation of provincial securities regulators – supplemented by a passport system. Going further and establishing a single national securities regulator would bring clear economic benefits – a simpler regulatory infrastructure, easier coordination and information sharing in the event of market distress, and improved cross-border cooperation. The federal government published draft legislation to this end in May 2010. However, the Supreme Court of Canada recently determined that “the Canadian *Securities Act* as presently drafted is not valid”. The federal government has stated that it will review the decision carefully and act in accordance with it.

Finally, Canada has further strengthened its securities settlement systems in response to FSAP recommendations. A number of provincial securities regulators have signed a Memorandum of Understanding with the U.S. Securities and Exchange Commission to strengthen the regulation and oversight framework for cross-border activities.

Notes to editors

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

The peer review of Canada is the sixth country peer review conducted under the FSB's *Framework for Strengthening Adherence to International Standards*.¹ The objective of such reviews is to examine the steps taken or planned by national authorities to address IMF-World Bank FSAP recommendations concerning financial regulation and supervision as well as institutional and market infrastructure. FSB member jurisdictions have committed to

¹ A note describing the framework is available at http://www.financialstabilityboard.org/publications/r_100109a.pdf.

undergo an FSAP assessment every five years and, to complement that cycle, an FSB peer review two to three years following an FSAP. As part of this commitment, Canada volunteered to undergo a peer review in 2011, which follows up on the recommendations of the FSAP undertaken by the IMF in 2007-08. Switzerland also underwent a peer review recently and its report has been published. South Africa will undergo a peer review in 2012.

A country peer review evaluates the progress made by the jurisdiction in implementing FSAP recommendations against the background of subsequent developments that may have influenced the policy reform agenda. It provides an opportunity for FSB members to engage in dialogue with their peers and to share lessons and experiences. Unlike the FSAP, a peer review does not comprehensively analyse a jurisdiction's financial system structure or policies, nor does it provide an assessment of its conjunctural vulnerabilities or its compliance with international financial standards.

The report published today describes the findings and conclusions of the Canada peer review. The draft report for discussion was prepared by a team of experts drawn from FSB member institutions and led by Tom Scholar, Second Permanent Secretary, HM Treasury, United Kingdom. The review benefited from dialogue with the Canadian authorities and from discussion in the FSB Standing Committee on Standards Implementation.

The FSB is chaired by Mark Carney, Governor of the Bank of Canada. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.financialstabilityboard.org.