

## **Saskatchewan Financial Services Commission**

### **Who we are**

*The Saskatchewan Financial Services Commission Act* received Royal Assent on July 10, 2002, and came into force on February 1, 2003.

The legislation reorganizes the financial services regulators in Saskatchewan by merging the operations of the Saskatchewan Securities Commission, the Financial Institution Section of the Consumer Protection Branch and the Pension Benefits Branch.

Financial services regulators enhance consumer protection through licensing, registration, audit, complaint handling and enforcement activities pursuant to various acts including:

- *The Securities Act, 1988*
- *The Credit Union Act, 1998*
- *The Saskatchewan Insurance Act*
- *The Trust and Loan Corporations Act, 1997*
- *The Pension Benefits Act, 1992*
- *The Mortgage Brokers Act*
- *The Municipal Hail Insurance Act*
- *The Real Estate Act*

Our mandate includes prudential regulation, market conduct regulation and corporate conduct regulation. Prudential regulation seeks to ensure that the financial system is not unduly exposed to destabilizing risks and that the financial institutions are generally sound. Market conduct regulation seeks to protect consumers from inappropriate market behavior and to provide consumers with adequate and timely information, and opportunities for redress when they are not dealt with properly. Corporate conduct regulation ensures that financial services providers operate under the principles of good corporate conduct and ethical business practices.

Other Canadian jurisdictions are also considering, or have recently implemented, changes to their financial services regulatory structures. However, to date, consolidation on this scale has not occurred elsewhere.

### **Why this change occurred**

The financial marketplace has transformed. The four pillars that dominate the financial services industry - banking, insurance, trusts and securities - have integrated at a corporate and product level. Regulatory structures and policy development have not kept pace with the changes in the industry or consumer needs and expectations.

Financial services regulators are faced with the following issues:

- Convergence has increased the incidence of overlaps and gaps in regulatory responsibilities. Similar products and services with similar features are being regulated under different regimes often in an inconsistent manner.
- Consumers have difficulty in understanding how they are protected and by whom. As well, the financial services industry must deal with complex, disharmonious rules and more than one regulator.
- For Canada to be competitive it must maintain its standing as having one of the soundest financial systems in the world. Future regulatory developments will principally be conducted in the areas of harmonization and coordination nationally and internationally.

There are numerous examples of financial services activities that cross the traditional regulatory boundaries or do not fit neatly within any one category, including:

- derivatives
- investment funds (pension funds, segregated funds, mutual funds)
- securitization of assets
- private placement of corporate debt
- hybrid products such as “guaranteed” mutual and segregated funds, index-linked deposit notes and equity/debt warrants
- financial planning
- corporate finance and merger and acquisition advisory services

The Canadian financial services industry has undergone substantial changes in the past decade. In a report to the Government of Saskatchewan in 1995, the Conference Board of Canada identified the following developments:

- financial markets have become globalized due to the relaxation of capital controls, the move to floating exchange rates and the easing of restrictions on the activities of foreign financial institutions in domestic markets.
- financial markets have become more volatile, spawning the growth of new financial products and markets (such as derivatives) that help financial managers limit their exposure to risk.
- securitization, the process of transforming illiquid assets (like accounts receivable) into marketable securities, has also created new trading markets and enabled specialized financial companies to compete with traditional financial institutions.
- financial institutions have been under pressure from disintermediation as larger customers have by-passed traditional financial intermediaries to secure or invest capital directly.

- advances in technology and telecommunications have allowed new products and services to be created, new distribution channels to be employed, and “back office” functions to be automated.
- the Canadian financial sector is in the midst of a major consolidation phase. Consolidation has advanced most significantly in deposit-taking institutions, with the collapse of the trust and loan sector, but a number of significant mergers and acquisitions have occurred in the insurance sector and between the banking and securities sectors.

The present structure of regulation in Canada is usually described as “institutional” regulation, i.e., the nature of the financial service provider determines who regulates the institution. The category that the institution fell into was traditionally determined by the core business undertaken by the financial service provider.

The Federal Government is responsible for the regulation of banks, federally-incorporated insurance companies and federally-incorporated trust and loan companies. Provincial jurisdiction extends to credit unions, insurance brokers and agents, insurance companies operating provincially, trust and loan companies operating provincially and securities dealers and advisors.

Securities, insurance and pension regulators from across Canada formed the Joint Forum of Financial Market Regulators in 1999 to co-ordinate and streamline the regulation of financial products and services on a cross-sectoral basis. The national policy development work conducted by the regulators and their associations has led to more harmonious and effective regulation within and across financial sectors and jurisdictions.

The establishment of a National Financial Services OmbudService (NFSO) is a good example of the role played by the Joint Forum. The project was launched in response to a growing concern on the part of provincial regulators that financial services consumers must deal with uneven and inconsistent services for the resolution of disputes with financial services providers. A further catalyst was the federal government’s proposal to create a Canadian Financial Services Ombudsman (CSFO) as a quasi-governmental agency focussed primarily on dispute resolution for bank groups.

Representatives from various financial services sectors worked together with the Joint Forum to develop the model for the NFSO. In December 2001, five major financial services sectors - banks, life and health insurers, property and casualty insurers, investment dealers and mutual fund dealers - announced the creation of the NFSO effective July 1, 2002. At the same time, the Federal Government endorsed the NFSO and suspended its CSFO initiative.

The advantages of taking a further step within Saskatchewan by integrating the financial services regulators are clear and persuasive. Integration will:

- give Saskatchewan consumers and the financial services industry a single point of access to the financial market regulator;
- provide a stronger voice for Saskatchewan in discussions of national financial services policies;
- allow better decision making and responsiveness with respect to regulatory initiatives in areas of regulation that are new or cross sectors;
- contribute to an environment more conducive to economic development;
- provide the financial services regulator with a pool of resources that has a variety of knowledge, experience and expertise;
- improve employee recruitment, development and retention.

Notwithstanding convergence, significant differences among financial services sectors will continue. The major challenges of integrating the regulators are to maintain sector-specific expertise and to be seen to have a balanced consideration of stakeholder interests.

### **The Organization**

*The Saskatchewan Financial Services Commission Act* provides for the following:

- the new organization takes the form of a commission called the Saskatchewan Financial Services Commission (SFSC);
- the SFSC is governed by a commission composed of no more than seven members, appointed by the Lieutenant Governor in Council on Cabinet's recommendation;
- the commission is responsible for coordinating the regulators and providing for policy development;
- the commission will undertake any responsibilities, and may exercise any powers, of a financial services regulator assigned to the commission by regulations;
- the Minister may appoint a Ministerial Advisory Committee as a forum for the consideration of financial services issues;

The government has taken the position that the role of the existing financial services regulators (other than the Saskatchewan Securities Commission) and the industry-based self-regulatory organizations will not change as a result of the creation of the SFSC, but rather as needs emerge. The responsibilities and powers of the Saskatchewan Securities Commission have been assigned to the SFSC.