

2016-2019 Strategic Business Plan

FCNB 2.0

Effective Consumer Protection and Education

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**FINANCIAL AND
CONSUMER SERVICES
COMMISSION**

regulation • education • protection



**COMMISSION DES SERVICES
FINANCIERS ET DES SERVICES
AUX CONSOMMATEURS**

réglementation • éducation • protection

Overview of the Commission

Our Corporate Profile

The Financial and Consumer Services Commission (FCNB) is New Brunswick's financial and consumer services regulator. We are responsible for the regulation of securities, insurance, pensions, credit unions, caisses populaires, mortgage brokers, loan and trust companies and a wide range of consumer protection legislation. We have defined rule-making authority in prescribed areas of our responsibilities.

The Acts administered by the Commission include the:

- *Auctioneers Licence Act*
- *Commissioners for Taking Affidavits Act*
- *Co-operative Associations Act*
- *Credit Unions Act*
- *Direct Sellers Act*
- *Gift Cards Act*
- *Loan and Trust Companies Act*
- *Nursing Home Pension Plans Act*
- *Pre-arranged Funeral Services Act*
- *Securities Act*
- *Collection Agencies Act*
- *Consumer Product Warranty & Liability Act*
- *Cost of Credit Disclosure and Pay Day Loans Act*
- *Franchises Act*
- *Insurance Act*
- *Mortgage Brokers Act*
- *Pension Benefits Act*
- *Real Estate Agents Act*
- *Securities Transfer Act*

The Financial and Consumer Services Tribunal is the administrative tribunal that provides adjudication services where required under the various statutes for which the Commission is responsible. Hearings take place before the Tribunal which is funded by, but otherwise independent, of the Commission.

The Commission is an arm's length, self-funded Crown Corporation under Part IV of the *Public Service Labour Relations Act*.

We have a board of directors consisting of an independent Chair with seven members. Membership includes the appropriate mix of background, skills, diversity and experience required to guide our strategy and ongoing business operations, and to establish the rules governing the regulated sectors within our defined authority. Members are also independent and have a reputation for integrity in order to generate public confidence in the Commission. They are appointed by the Lieutenant-Governor in Council for terms up to 5 years and can be reappointed.

Our Strategic Planning

The Commission members, acting collectively as the board of directors, have overall responsibility for establishing the strategic direction of the organization. Our strategic direction sets out how we will conduct our business and fulfil our role in accordance with the mandates established in the various pieces of legislation for which we are responsible. The Commission's authority is derived from legislation and articulated in its By-laws and Governance Policy.

Our strategic planning is built around meeting our strategic intent; that is, effective consumer protection and education. We are diligent in evaluating the New Brunswick landscape for matters of importance to our key audiences. Our planning approach incorporates strategic issue identification and a management process that involves staff, management and Commission members to consider and address the issues.

The vision, mandate and values as defined in our strategic direction support this intent. The Commission reviews and updates our strategic outlook annually, looking forward in a three-year rolling timeframe.

Our Strategic Direction



Our Vision

A confident, dynamic and informed financial and consumer marketplace for New Brunswick.

Our Mandate

Protect consumers and enhance public confidence in the financial and consumer marketplaces through the provision of regulatory and educational services.

Our Values

Leadership: *we adhere to best practices and high standards to ensure regulatory and organizational excellence.*

Integrity: *we are fair, ethical, transparent and accountable for our actions.*

Responsiveness: *we provide proactive, efficient and timely services; we listen to understand and address the needs of our stakeholders and staff.*

Commitment: *we invest in our staff by encouraging innovation and developing expertise and leadership.*

Being an Effective Regulatory Agency

There are a number of key elements to having an effective regulatory framework and structure. We have reviewed various studies and research on this subject from the Organization for Economic Cooperation and Development (OECD) and from Harvard University's *Strategic Management of Regulatory and Enforcement Agencies* program. There are three key requirements of an effective regulatory structure.

Elements of a Regulatory Framework

- A legislated and legitimate foundation to achieve the intended public purpose of consumer protection;
- An organization that has the sustainable, operational and financial capacity to deliver on its mandate; and
- An organization that creates and delivers value to the public.

Our strategic direction is focused on developing our capacity and expertise in these three key areas. It is only by establishing ourselves as an effective regulatory agency that we can provide effective consumer protection and education.

Factors Affecting our Operations

We face a wide variety of external and internal factors. They influence how we operate. The external factors predominantly relate to changes in regulatory sectors and to demographics. Internal factors relate to our structure and ability to respond to a changing environment.

We are conscious of our strengths, challenges, opportunities and threats which have the potential to impact us both internally and externally. We analyse these factors to consider how we can use our strengths to take advantage of opportunities and mitigate threats and weaknesses.

Since our consolidation as a Commission in 2013, we have been involved in significant change. This is expected to continue. Transition considerations continue to be a priority as we build teams, infrastructure and harmonize our framework and tools for effective regulation and optimum service delivery.

Business (legitimate and otherwise) operates in an increasingly borderless and technologically advanced world. Regulators have to keep current in order to be effective. We operate collaboratively with other financial and consumer services regulators in Canada and North America. We need to keep abreast of global developments in these sectors, as well as related technological developments.

A number of regulated sectors under our jurisdiction are undergoing fundamental changes; either to the way they are regulated or changes within their sector that will result in changes to how they are regulated.

One of the most significant changes results from New Brunswick's decision to join British Columbia, Saskatchewan, Ontario, Prince Edward Island, Yukon Territory and Canada to establish a cooperative capital markets regulatory system for securities. The other provinces and territories have been invited to participate in this system. This decision

has a significant impact on the Commission in that it affects our revenue stream from the securities industry and, should it proceed, it will ultimately result in the transfer of staff related to regulating this industry to the new capital markets regulator, currently expected in late 2016 or early 2017.

Another sector initiative that will impact our operations is the Fédération des caisses populaires' plan to amalgamate the 15 caisses populaires in the province into one organization. This initiative also contemplates a transfer from provincial regulation to federal regulatory oversight. This will result in the dismantling of the caisse populaire system in New Brunswick. Although not as advanced, the province's 10 credit unions are contemplating evolutionary changes. These various initiatives in this financial sector, if approved, will result in significant changes to legislation and to the regulatory structure for this sector in New Brunswick.

When new governments are elected attention must be directed towards building their confidence in our organization and helping them understand our legislated mandate and the role we play in society. We need to understand their issues and ensure that our respective priorities are aligned or at least not in conflict.

The Government is undergoing a series of initiatives related to streamlining their operations, reducing taxpayer funded expenditures, focusing on strategic programs and regional cooperation. Among other areas; included are the review of the operations of its Legislative Officers, the review of various agencies, boards and commissions and harmonizing regulatory requirements in the Atlantic region.

We have advised Government of our willingness to work with them on initiatives that streamline the regulatory structure and to further protect consumers. There are opportunities both within the province and around the region.

New legislation to regulate mortgage brokers has a 1 April 2016 proclamation date. It is expected that legislation for pay day lending will follow suit following Federal Government designation under the Criminal Code. We expect its implementation in 2016. We will apply our regulatory and educational skills in order to effectively implement these new regulatory regimes.

The overall state of reading literacy and financial literacy in New Brunswick is low. This presents a challenge to the effectiveness of our educational initiatives on consumer protection and fraud prevention if not addressed. Consumers need to reach a minimum level of understanding of reading and basic financial matters before the more complex educational topics can be introduced and understood. However, improving the state of financial literacy in the province will continue to require the coordinated efforts of a number of various stakeholders. We will continue to take an active role in this initiative.

Changing demographics highlight the need for a focus on seniors' issues. For us the concern is the financial abuse of seniors. As the 'baby boomers' become seniors they are migrating their associated wealth into retirement savings. The challenges are that seniors can be more vulnerable because of aging, general trust factors, potential diminished mental capacity and less time to recover from a financial loss. Meeting these challenges will require focused and coordinated consumer protection initiatives that extend beyond our mandate. This too, is another initiative in which we are actively involved and that will require the coordinated efforts of a number of stakeholders.

Overview and Approach

This changing environment has a significant impact on our organizational structure and our operational budget, both of which must rise to meet the challenge. After barely three years of operations as a new consolidated financial and consumer services regulator we need to adapt to this changing environment but yet preserve the underlying rationale and advantages of being an effective, independent, self-funded regulator.

We examine our core business of regulation, education and protection in the context of our strategic direction and how we may better concentrate our energy in order to make a significant difference in New Brunswick. In our planning we evaluate not only resource implications but also:

- the impact that a key strategic issue may have on our mandate;
- the immediacy of a key strategic issue and its required response;
- our ability to take a leadership, supportive or reactionary approach to a key strategic issue; and
- the role of our strategic partners in assisting us to address a key strategic issue.

Even though there are some significant developments in the overall scope of our regulatory responsibilities, the vision and mandate to regulate, educate and protect New Brunswick consumers still apply. Our history as an independent commission and an innovative and responsive regulator stands us in good stead to adapt and meet the challenges ahead.

Our Business Plan

Overview

Our business plan addresses how we will meet the challenges that face us and support our overall strategic direction for the period 2016 to 2019, building on the initiatives started in 2013.

Since the creation of FCNB in July 2013, our focus has been on integrating the staff of the various organizations into one consolidated regulator and providing a full range of services across all regulated sectors. As we move forward in this changing environment, our challenge is to reconstruct the genesis of a consolidated financial and consumer services regulator without securities, we call this “FCNB 2.0”. This organization has to be fundamentally positioned to face future challenges and take advantage of potential opportunities presented by the creation of the national Capital Markets Regulator (CMR) for securities.

Our continued focus over the next three years is to ensure we have the infrastructure and capacity to be an effective regulator. We plan a number of multi-year initiatives for each of our identified strategic priorities. Considerable emphasis is placed on the implementation of those initiatives that will have an impact and support the fulfilment of our organizational responsibilities and mandate.

We use an annual work planning process to identify the specific undertakings, assigned responsibilities and associated timeframes. This phase of planning gets underway in January of each year for the start of the fiscal year in April.

Key Competencies

In order to be an effective regulator we need to ensure we develop and maintain solid skills and competencies in these areas:

- policy development and regulation
- licensing and registration
- compliance and enforcement
- education
- corporate governance
- administrative tribunal

Strategic Initiatives and Measures

After the launch of the CMR in late 2016 or early 2017, FCNB 2.0 needs to continue to operate as an effective, independent, self-funded regulator. While many of the initiatives commenced under our earlier plan continue to have value, many need to be revisited in light of this fundamental change. We see three strategic priorities. These are:

- **Strengthen Our Regulatory Capability** - to position ourselves as an effective, independent, self-funded regulator
- **Enhance Our Operational Effectiveness** - to implement an effective organizational structure and work processes
- **Deliver On Our Mandate** - to provide programs to regulate, educate and protect New Brunswickers

The Business Plan is presented visually as Illustration 1.0. The plan outlines our initiatives for the 2016-2019 period (see Table 1.0), and identifies the success indicators we will use to determine our performance in meeting our overall mandate.

2016-2019 Strategic Business Plan



regulation • education • protection



OUR VISION & VALUES

A confident, dynamic and informed financial and consumer marketplace for New Brunswick.

Leadership, Integrity, Responsiveness, and Commitment.



STRENGTHEN OUR REGULATORY CAPABILITY

Position ourselves as an effective, independent, self-funded regulator



ENHANCE OUR OPERATIONAL EFFECTIVENESS

Implement an effective organizational structure and work processes.



DELIVER ON OUR MANDATE

Provide programs to regulate, educate and protect.

Priority	Objective	Initiative	Timing	Measure
Strengthen our Regulatory Capability	to position ourselves as an effective, independent, self-funded regulator	Modernize our regulatory framework to include updated investigative, compliance, enforcement and rule-making authority in all regulatory sectors	Multi-year By March 2019	Consistent regulatory platform in place for all regulatory sectors
		Implement Mortgage Broker regulatory regime	By April 2016	Mortgage Broker legislation operationalized
		Implement Payday Lender regulatory regime	By March 2017	Payday lender legislation operationalized
		Prepare proposal for restructuring Credit Union regulatory framework	By March 2017	Complete proposal submitted to Government for approval
		Prepare proposal for updating <i>Cooperative Associations Act</i>	Multi-year By March 2018	Complete proposal submitted to Government for approval
		Implement revenue neutral self-funding structure	Multi-year By March 2019+	Balanced budget without use of transitional fund
Enhance our Operational Effectiveness	to implement an effective organizational structure and work processes	Implement revised organizational structure	By March 2017	New organizational structure in place
		Transition designated staff to national Capital Markets Regulator	By March 2017	Staff operating under new Capital Markets Regulator
		Implement electronic licensing system in all regulatory sectors	Multi-year By March 2019+	Fully functional electronic systems operational
		Implement staff training development and succession plan	Multi-year By March 2019	Competent, well-trained staff
		Improve internal and external work processes	Multi-year By March 2019	Operational efficiencies and standards in place
Deliver on our Mandate	to provide programs to regulate, educate and protect New Brunswickers	Implement regulatory compliance strategy	By March 2017	Compliance reviews in all sectors in accordance with plan
		Prepare proposal for multi-stakeholder initiative to address financial abuse of seniors	By March 2017	Complete proposal submitted to Government for approval
		Advance multi-stakeholder initiative to address financial literacy	Multi-year By March 2017	Increase reach of financial literacy materials
		Deliver effective public awareness programs	Multi-year By March 2019	Increase awareness of consumer protection information

Table 1.0 Strategic Initiatives

Risk Analysis

Members and staff identify and assess risk on an ongoing basis. Understanding and considering the risks associated with our operating environment helps us to manage these risks and shape our overall plan.

The risk management process includes identifying events or situations that would prevent us from achieving our mandate; evaluating the likelihood and timing of occurrence; and determining what strategic response, if any, we need to take to minimize the impact.

We assess risk in 5 key areas: Business Operations (including cybersecurity), Finances, Human Capital, Reputation and Litigation

Revenue Sources, Cost Structure and Key Resources

The Commission has a legislated mandate with respect to each regulated sector. It is expected to have the operational and financial capacity to accomplish its mandate to create and deliver value to its principal key audiences: New Brunswick's consumers, industry participants, other regulators and the provincial government.

The Financial and Consumer Services Tribunal submits its budget annually to the Commission. The Commission allocates adequate funding for the Tribunal's operations.

Revenue Sources

It is expected that the cost to regulate is recovered from the industries being regulated as opposed to the taxpayer. Our revenues are generated through regulatory fees payable and annual assessments made by financial and consumer market participants.

Potential changes in some of the regulated sectors will place significant challenges on revenues for the organization. Approximately 78% of budgeted revenues are associated with the securities sector. This has generated a surplus for the Commission of \$6 - 9 million dollars annually. This surplus is contributed to the Province's Consolidated Fund. Other independent securities commissions in the country moved away some time ago from generating a surplus from securities and making a contribution to their province's consolidated fund. This has been done to be consistent with jurisprudence in this regard.

Contributions of surplus from the Commission will cease with the transfer of responsibility for securities regulation to the Capital Markets Regulator (CMR). In recognition of this, the financial agreement on the CMR provided for a lump-sum payment of \$45.8 million by the Federal Government to the Province to compensate for this lost revenue. This amount was paid to the Province in August 2014.

The loss of securities revenue (and associated expenses) will leave us in a deficit position, mainly because securities revenue was cross-subsidizing part of the cost to regulate other industries. Fee schedules in some of those industries have not been updated in many years and are not generally comparable to fees other jurisdictions charge for similar activities. The assessment structures in some other regulated industries are not full cost-recovery models.

The Commission is moving towards a more revenue-neutral cost recovery model. This move requires changes to our fee structures and assessment models. Changes to legislation and regulations are required so that we can implement our updated fee schedules and introduce alternative assessment structures. We have initiated ongoing discussions with the Government on this issue so that they understand its significance and our desired direction.

We are also exploring a number of other options such as operational efficiencies and new revenue sources in other potential areas of regulation or service delivery. As an example, two potential areas being examined are the administration of an unclaimed property regulatory regime and the provision of translation services to the CMR.

The process to make these changes is underway, but the transition to full cost-recovery is expected to take three to five years and will require ongoing discussions with Government. We have built a Transitional Reserve to carry us through this period. As such, we do not intend to seek transitional funding from the Government. Our ability to self-fund this transition to a revenue-neutral cost-recovery model going forward allowed the Federal Government's payment of \$45.8 million to be available to the Consolidated Fund. In addition, our intention is that once we achieve stable self-funding, any residual amount in our Transitional Reserve would be transferred to the Consolidated Fund.

There are a number of external developments in play and other factors with impacts that have not yet been fully determined. These present a challenge for accuracy in the preparation of our revenue budget. As these become clearer, we will make adjustments to accommodate. As such, our budget is developed with the best information available at the time.

Cost Structure

The major assumption inherent to the preparation of this budget is that the implementation of the capital markets regulator is assumed to take place on 1 April 2017. While an actual date is unknown, it is possible that it may occur earlier in winter 2016, or in fact may be later. Adjustments can be made once we have definitive information.

There are developments in other regulated sectors that may have an impact on our budget. These include the likelihood for an amalgamated caisse populaire entity to transfer to a federally regulated structure in the summer of 2016 at the earliest. We anticipate that this may result in the restructuring of the regulatory framework for credit unions; however, the specifics have not yet been determined. At this time there is insufficient information to fully assess organizational and budgetary impacts. As such, no budgetary provisions are included.

A Government decision on our proposal to assume responsibility for the mandate and staff of the Consumer Advocate for Insurance is still outstanding. As a result, no budgetary provisions are included.

Approximately 2/3 of the total expenses relate to direct staff and to Commission and Tribunal member compensation costs. Other discretionary items related to accomplishing the proposed objectives and initiatives are included. As well, our budget includes IT systems developments that will lead to efficiency improvements for both us and the sectors we regulate.

The budget projections for the year ending 31 March 2017 include revenue and expenses for the full organization. After 1 April 2017, revenue and expense figures reflect the organization without securities, based on the assumption that the capital markets regulator for securities is implemented in April 2017. While this date has been set as the target for planning purposes, the potential exists to see it change. An earlier or delayed launch in the implementation will require budget adjustments. However, the budget is developed with the best information available at this time.

The budget projections for FY 2018 and FY 2019 reflect the revised organization (FCNB 2.0) and its mandate without securities. As discussed above in the Revenue Sources section, we no longer budget for an annual contribution to the Consolidated Revenue Fund in those years. Transitional deficits will be funded from our Transitional Reserve.

The following table is a summary budget of the Commission's projected revenues and expenses for the three-fiscal periods ending 31 March 2017, 2018 and 2019. The revenue budget has been developed based upon expected market activity and recent trends while expenses have been budgeted to allow the Commission to address its business plan needs.

	FY 2016/2017	FY 2017/2018	FY 2018/2019
Revenue Sources			
Securities	\$15,284,060	-	-
Capital Markets Regulator	-	\$225,000	\$225,000
Consumer Affairs	784,075	800,000	817,000
Pensions	286,500	285,000	285,500
Insurance	3,215,902	3,672,000	3,705,200
Financial Institutions	493,634	367,000	368,000
Other Income	128,000	98,700	75,000
Total Revenue	20,192,171	5,447,700	5,475,700
Expense Sources			
Commissioner/Tribunal Expenses	730,451	730,500	730,500
Staff Salary and Benefits	7,673,586	5,012,100	5,079,600
General & Administrative	3,197,439	2,708,700	2,546,700
Total Expenses	11,601,477	8,451,300	8,356,800
Net Income/Loss	8,590,694	(3,003,600)	(2,881,100)
Contribution (to)/from Transitional Reserve		3,003,600	2,881,100
Subsequent Net Income	\$8,590,694	\$0	\$0

Key Resources

The Commission has identified its staff, brand, national and proprietary systems, audience relationships, effective processes, library resources, website and revenue sources as its key resources.

We recognize that our biggest and most valuable resource is our highly-specialized staff. The organizational structure for FY 2017 is a consolidated one, including staff responsible for securities up to 31 March 2017. This includes a complement of 82 permanent staff organized into eight divisions that align with our core business. These are:

- General Counsel and Secretary
- Corporate Services
- Education & Communications
- Enforcement
- Consumer Affairs
- Pensions and Insurance
- Financial Institutions
- Securities

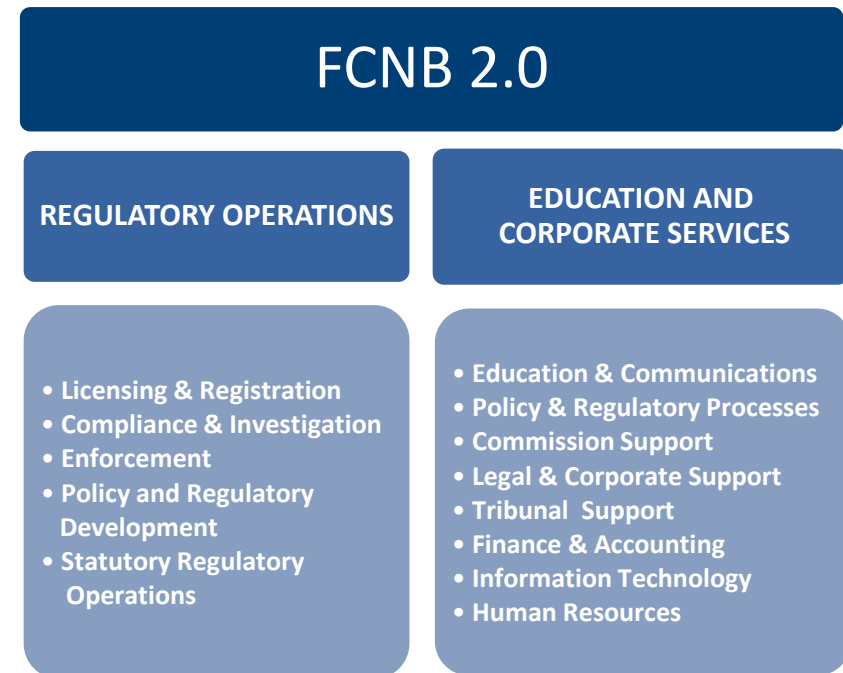
It is expected that we will transfer 37 positions related to the regulation of securities to the national capital markets regulator. This will create a full-service capability for that organization with its office in Saint John. The capital markets regulator will assume full responsibility for the costs associated with this group.

Commission staff will be located in two offices, one in Fredericton and one in Saint John. Should the Commission assume responsibility for the Consumer Advocate's responsibilities and staff, then we will supplement our regional presence with an office in Bathurst.

The revised Financial and Consumer Services Commission (FCNB 2.0) is expected to have a staff of 56 organized into two streamlined divisions. These are:

- Regulatory Operations
- Education and Corporate Services

The Commission will be a smaller organization. However, it is expected that with the two organizations (FCNB and CMR) operating in the province there will be a net add of 11 positions to the work force.



Annual Deliverables

The Chair and CEO have the responsibility to see that specific deliverables are developed on an annual basis for the members' consideration and approval, and to ensure that they are submitted to the Minister and Board of Management within the legislated timeframes.

Business Plan - The Business Plan is updated each fiscal year and integrates with our strategic direction which covers a period of three fiscal years. It outlines our broad objectives and priorities in all functional areas. The Chair, on behalf of the Commission, submits the approved Business Plan to the Minister for approval by 31 December of each year.

Budget - The budget is derived from the Business Plan and covers a period of one year. It outlines the amounts required for our proposed operations for the next fiscal year. The Chair, on behalf of the Commission, submits the budget to the Board of Management for its information by 31 December each year.

Annual Audit - The accounts and financial statements are required to be audited at least once a year by the Auditor General, or an Auditor approved by the Auditor General.

Annual Report and Financial Statements - The Annual Report describes our progress against our strategic plan and highlights our performance against our mandate. Our Annual Report also serves the dual purpose of being a stakeholder report. The Annual Report and audited Financial Statements are required to be delivered to the Minister by 30 September each year.

Crown Corporations Review - The Commission is typically called before the Legislative Standing Committee on Crown Corporations to respond to questions on the activities reported in its Annual Report. The Chair and CEO appear at the review as scheduled by the Committee, after the Annual Report has been submitted.