

2017-2020 Strategic Business Plan

The Path to 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, mortgage brokers, loan and trust companies and a wide range of consumer protection legislation. We have defined rule-making authority in the administration of this legislation.

The Acts administered by the Commission include the:

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

Our board of directors consists of an independent Chair with seven independent members. The Commission, acting as a board, needs to have 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 have to have a reputation for integrity in order to generate public confidence in the Commission. The Chair and members

are appointed by the Lieutenant-Governor in Council for terms up to five years and can be reappointed.

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. Tribunal members need to have an appropriate mix of background and experience in order for the Tribunal to be effective. Hearings take place before the Tribunal which is adjudicatively independent, but is administratively supported and funded by the Commission.

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

Our Strategic Planning

The Commission members, acting collectively as the board of directors, have overall responsibility for setting the strategic direction of the organization. Our strategic direction describes 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.

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 development process that involves staff, management and Commission members to consider and address the issues. Our strategic planning is built around meeting our strategic intent; that is, effective consumer protection and education.

The mandate, vision 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



Being an Effective Regulatory Agency

As a regulator, we set standards for those industries we regulate. In order to instill confidence and credibility in the regulatory environment, we must hold ourselves to high standards. We strive to be a leading-edge, innovative regulator in the province and a leader amongst regulators in the smaller jurisdictions in Canada.

There are a number of key elements required to achieve an effective regulatory framework and structure. We have reviewed various studies on this subject and done research on governance practices using several sources, such as the Organization for Economic Cooperation and Development (OECD) and from Harvard University's *Strategic Management of Regulatory and Enforcement Agencies* program. In addition, we have reviewed the regulatory models in a number of different jurisdictions. There are three key requirements of an effective regulatory structure.

3 requirements for an effective regulator:

- legislated and legitimate foundation to achieve its public purpose
- sustainable operational and financial capacity to deliver its mandate
- 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 execute on our public purpose of effective consumer protection and education.

Our Mandate (from the Legislation)

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

Our Vision (what we want to see as a result of our efforts)

For the Province - Confident, dynamic financial marketplaces and well-informed consumers.

For the Organization –A leading financial and consumer services regulator promoting excellence in consumer protection and education.

Our Values (what guides our actions)

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.*

Factors Affecting our Operations

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 and infrastructure, as well as harmonize our legislative framework and develop tools for effective regulation and optimum service delivery.

We face a wide variety of external and internal factors that influence how we operate. The external factors predominantly relate to demographics and to changes in regulatory sectors. Internal factors relate to our structure and our 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 externally and internally. We analyse these factors to consider how we can use our strengths to take advantage of opportunities and mitigate threats and weaknesses. We operate collaboratively with other financial and consumer services regulators in Canada and North America in order to be effective.

Literacy

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.

Seniors

Changing demographics highlight the concern for the financial abuse of seniors. As the 'baby boomers' age, they are migrating their associated wealth into retirement savings. As seniors, they can be more vulnerable because of 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. It will require the coordinated efforts of a number of stakeholders. We are actively involved in this initiative.

Changing Technology

Business (legitimate and otherwise) operates in an increasingly borderless and technologically advanced world. The rising predominance of cybersecurity and the Fintech industry are good examples of this. Many of these developments have the potential to fundamentally change the way we regulate. Regulators have to keep current and readily adapt in order to be effective. We keep abreast of global developments in these sectors, as well as related technological developments.

Changes in Regulated Sectors

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.

Suppliers of Credit

New legislation to regulate mortgage brokers came into effect on 1 April 2016. Industry is adjusting to this new reality and this requires effort on our part to ensure stakeholders understand and comply with the new requirements. Legislation for pay day lending is ready for proclamation once Federal Government designation under the Criminal Code is received. We expect its implementation in 2017. We will continue to apply our regulatory and educational skills in order to effectively implement these new regulatory regimes.

Credit Unions

The amalgamation of the 15 caisses populaires and transfer from provincial regulation to federal regulatory oversight resulted in the complete dismantling of that system in New Brunswick. Not only does this affect our operations, it has a significant impact on the province's 10 credit unions. Our proposal for significant changes to legislation and to streamline the regulatory structure for this sector in New Brunswick can be implemented once a decision is received from Government.

Cooperative Capital Markets Regulatory System

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 this cooperative system proceed, it will ultimately result in the transfer of staff related to regulating this industry to the new capital markets regulator. Significant developments are occurring with this initiative, currently expected to launch in late 2018.

We have dedicated significant effort contributing to the design and development of this new regulatory regime for securities. Our reason for participating is to ensure that the new structure adequately represents the needs of smaller jurisdictions and their capital markets. Our ultimate objective is to ensure that under this new model a competent, capable presence exists in the province for the regulation of securities.

Transition to FCNB 2.0

The foundational impact to FCNB of this move to a new regulatory structure for securities cannot be under-estimated. Our planning for the transition continues and we have designated significant resources to this undertaking. Our ultimate objective is to ensure that a competent capable, independent, self-funded regulator exists to protect consumers in New Brunswick. We had identified a number of key initiatives to be implemented in order for this to happen. Some of the more critical components require the cooperation of Government.

Government Relations

Historically, the Commission has reported through the Department of Justice. This past year, responsibility was transferred to a newly-constituted Department of Finance. As with any reporting relationship, including new governments, 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 undertaking 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.

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 just four years of operations as a consolidated financial and consumer services regulator we have been re-adapting to this changing environment yet working to preserve the underlying rationale and advantage 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 2017 to 2020, 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 founding organizations into one consolidated regulator and providing a full range of services across all regulated sectors. As we move forward 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 cooperative Capital Markets Regulator (CMR) for securities. After the launch of the CMR, FCNB 2.0 needs to continue to operate as an effective, independent, self-funded regulator.

Our continued focus over the next three years is to ensure we have the infrastructure and capacity to be an effective regulator. Our research has helped us focus on key elements required for a modern and responsive regulatory model thus building a critical mass of regulatory expertise. Our transition plan identifies the key initiatives needed. These are:

- building an effective organizational structure;
- ensuring revenue stability, including ability to set our own fees;
- updating the legislative framework, including the ability to make rules affecting operational issues so as to be responsive to changes in regulated sectors; and
- expanding our core competencies to other areas requiring regulation.

Key Competencies

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

- regulating
- policy development and rule-making
- licensing and registration
- compliance and enforcement
- education
- corporate governance
- administrative tribunal

The foundation that we have established in these key competencies lends itself to assuming other regulatory responsibilities related to financial and consumer protection either in the province or in the region.

Strategic Initiatives and Measures

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 effective organizational structures and work processes.
- **Deliver On Our Mandate** - to provide programs to regulate, educate and protect New Brunswickers.

We have planned a number of multi-year initiatives for each of our identified strategic priorities. Considerable emphasis is placed on the implementation of those critical 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.

The Business Plan is presented visually as Illustration 1.0. The plan outlines our initiatives for the 2017-2020 period (see table 1.0), and identifies the success indicators we will use to determine our performance in meeting our overall mandate.

Strategic Business Plan



regulation • education • protection

Illustration 1.0 Strategic Priorities



OUR VISION & VALUES

For the Province - Confident, dynamic financial marketplaces and well-informed consumers.

For the Organization – A leading financial and consumer services regulator promoting excellence in consumer protection and education.

VALUES

- Leadership
- Integrity
- Responsiveness
- Commitment

STRATEGIC PRIORITIES



STRENGTHEN OUR REGULATORY CAPABILITY

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



ENHANCE OUR OPERATIONAL EFFECTIVENESS

Implement effective organizational structures 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, including rule-making
		Implement Mortgage Broker regulatory regime	By April 2016	Mortgage Broker legislation operationalized
		Implement Pay Day Lender regulatory regime	By March 2018	Payday lender legislation operationalized
		Restructuring Credit Union regulatory framework	By December 2017	Proposal submitted to Government for approval
		Prepare proposal for updating <i>Cooperative Associations Act</i>	Multi-year By March 2017	Complete proposal submitted to Government for approval
		Implement new fee rules and revenue neutral self-funding structure	Multi-year By March 2019+	Balanced budget without use of transitional fund
		Work with Department of Finance to implement an unclaimed property regulatory regime	By March 2018	Legislated proposal submitted to Government for approval
Enhance our Operational Effectiveness	to implement effective organizational structures and work processes	Implement revised organizational structure to meet challenges of FCNB 2.0	By January 2019	New organizational structure in place
		Transition designated staff to cooperative Capital Markets Regulator	By January 2019	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 2020	Competent, well-trained staff
		Improve internal and external work processes	Multi-year By March 2020	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 2018	Compliance reviews in all sectors in accordance with plan
		Prepare proposal for multi-stakeholder initiative to address financial abuse of seniors	By March 2019	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 consumer fraud awareness and prevention education programs	Multi-year By March 2020	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. A key element of an

independent regulator is the ability to set its own fees. Under the *Financial and Consumer Services Commission Act* the Commission has the ability to make rules relating to fees.

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.

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 and need to be revisited.

The Commission is planning to move 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 submitted requests to Government to repeal outdated fee regulations so that we can implement these updated fees rules. We have initiated ongoing discussions with the Government on this issue so that they understand its significance to our operations.

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. These are critical to our future financial viability. As an example, an area being examined in conjunction with the Department of Finance is the administration of an unclaimed property regulatory regime.

The process to make these changes is underway, but the transition to full cost-recovery is expected to take up 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 has 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 cooperative capital markets regulator is assumed to take place on 1 January 2019. While an actual date is unknown, it is possible that it may occur earlier in winter 2018, 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 restructuring of the regulatory framework for credit unions resulting from the transfer of the amalgamated caisse populaire entity to the federally regulated system in the summer of 2016. A proposal to reduce the regulatory burden on the credit unions has been submitted to Government. However, at this time there is insufficient information to fully assess organizational and budgetary impacts. As such, no budgetary provisions are included.

Our proposal to assume responsibility for the mandate and staff of the Consumer Advocate for Insurance was not accepted by Government. 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 2018 include revenue and expenses for the full organization. After 1 January 2019, revenue and expense figures reflect the organization without securities, based on the assumption that the cooperative capital markets regulator for securities is implemented. 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 2019 and FY 2020 reflect the impact of 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 2018, 2019 and 2020. 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 2017/2018	FY 2018/2019	FY 2019/2020
Revenue Sources			
Securities	15,987,862	11,757,300	0
Consumer Affairs	428,529	657,118	1,001,843
Pensions	286,500	286,500	286,500
Insurance	3,336,474	3,456,919	3,822,031
Financial Institutions	250,800	250,800	250,800
Other Income	203,415	215,000	201,000
Total Revenue	20,493,580	16,623,637	5,562,174
Expense Sources			
Commissioner/Tribunal Expenses	799,048	799,028	799,028
Staff Salary and Benefits	8,672,539	8,451,124	6,069,653
General & Administrative	3,789,249	3,673,582	2,935,266
Total Expenses	13,260,836	12,923,735	9,803,948
Net Income/Loss	7,232,743	3,699,902	(4,241,774)
Contribution (to)/from Transitional Reserve	0	0	4,241,774
Subsequent Net Income	7,232,743	3,699,902	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 2018 is a consolidated one, including staff responsible for securities up to 1 January 2019. 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

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

Commission staff are located in two offices, one in Fredericton and one in Saint John. The original plan for the Commission to assume the responsibility for the staff and functions of the Consumer Advocate for

Insurance has not been implemented by Government. As a result we will not supplement our regional presence with an office in Bathurst.

The revised Financial and Consumer Services Commission (FCNB 2.0) is expected to have a smaller staff 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 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 Treasury Board 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 Treasury Board 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.