May 4, 2005

**To:** Federally Regulated Property and Casualty Insurance Companies (Canadian & Foreign)

**Subject:** **Suncor Energy Inc: date of loss January 4, 2005**

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The purpose of this letter is to highlight OSFI's requirements for reporting and funding of the Suncor loss.

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**Background**

The January 2005 insured loss at the Suncor oil sands facility is now estimated to exceed $1 billion. A significant portion of the exposure has been reinsured by Canadian federally registered reinsurers. Retrocessions of this exposure have also been reported as significant.

It has come to OSFI's attention that the provision of notice of loss to many insurers may have been delayed for a variety of reasons, including

- delays encountered by intermediaries/direct markets
- difficulties in assessing the expected business interruption losses
- routing of the notice of loss to international head offices or central underwriting offices

Notice of loss may not have been received by the company, or the Canadian chief agency of the company until April 2005.

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**Reporting requirements**

While the ultimate cost of this loss is yet to be finalized, the significance of the loss was well known to the industry in early 2005.

OSFI expects this loss will be recognized and reported in the financial statements in accordance with Generally Accepted Accounting Principles.

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**MCT/BAAT impact**

The insured Suncor loss is of a magnitude that it may severely stress individual companies' capital adequacy positions.

OSFI recognizes that reporting the Suncor loss as a first quarter event may result in adverse impact to companies' MCT/BAAT ratios due to

- delay in obtaining capital/head office contributions
- delay in obtaining security funding from reinsurers/retocessionaires.

Should companies determine that reporting of this loss causes their capital adequacy ratios to fall below capital ratio targets, they should take immediate action to correct the shortfall and inform their Relationship Manager at OSFI.

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**Capital Advisory**

OSFI has committed to exercise some flexibility with respect to the supervisory target level to allow institutions to absorb unexpected losses, as well as to allow some limited flexibility for other temporary declines below the supervisory target level. Accordingly, where institutions have demonstrated good capital management, a short-term breach of capital targets from this event will not result in an automatic staging action. We would expect however, that any resulting capital shortfalls, upon discovery, will have been corrected without delay.

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Supervision Sector