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MCCSR Interpretation Bulletin

Subject: Other Than Temporary Decline in Real Estate Values

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Section 2-1-6 of the MCCSR guideline defines the expression "other than temporary decline in value" as situations where the market value of the real estate remains below its book value for a period of three years or more. This Bulletin illustrates how to determine the minimum amount of other than temporary decline.

In calculating its MCCSR, a company must deduct from its total of tier 1 and tier 2 capital unrealized unamortized other than temporary declines in value (impairment) of real estate investments on a property by property basis. When a property value remains below its book value at the end of four consecutive reporting years, the amount to be deducted from total tier 1 and tier 2 should at least equal the lowest deficiency reported during that period. The lowest deficiency is chosen because it indicates the portion of the decline in value that appears to be other than temporary. The following table provides an illustration.

Reporting year	**Property A**					
	B.V. Before write down[1] (1)	**B.V. After write down (2)**	**M.V. (3)**	**Market Value Deficiency/ (excess) (4=(3)-(1))**	**GAAP Write Down (5)=(1)-(2)**	**MCCSR Other than temporary decline (Low (4))**
One (acquisition year)	1,000.00		1,000.00	0.00	0.00	0.00
Two	997.50		975.00	22.50	0.00	0.00
Three	995.25		975.00	20.25	0.00	0.00
Four*	985.73		900.00	85.73	0.00	0.00
Five	977.15		900.00	77.15	0.00	20.25
Six	964.44		850.00	114.44	0.00	20.25
Seven*	952.99		850.00	102.99	0.00	77.15
Eight **	940.19	825.00	825.00	0.00	115.19	0.00
Nine	822.50		800.00	22.50	0.00	0.00
Ten*	820.25		800.00	20.25	0.00	0.00

* Appraisal year: 3 year cycle ** Book value reflects company's decision to write-down.

[1] Book value (per GAAP): Previous year Book value+((Market Value - Previous Year Book value)x10%)

Although the Investment Valuation Regulations require appraisals to be conducted every three years, it should be noted that, in accordance with generally accepted accounting principles, insurers are required to ensure that the market value of real estate reflected in the moving average market adjustment is an approximation to market values in the years that an appraisal is not conducted.

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