Reference: Guideline for Federally Regulated Branches of Foreign Property and Casualty Insurance Companies

Our File: P2225-3

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To: Federally Regulated Branches of Foreign Property and Casualty Insurance Companies

Subject: Revisions to Branch Adequacy of Assets Test Guideline for 2007

When the Branch Adequacy of Assets Test (BAAT) was implemented in 2003, it was agreed that no changes would be made to the test for a period of two years. The moratorium was subsequently extended to January 1, 2007.

OSFI has now revised the BAAT guideline with changes to take effect January 1, 2007. Revisions have been made to remedy certain inconsistencies noted in the test, and to formalize supervisory practice. These include changes to:

- Reserves ceded to unregistered reinsurers: deduct from capital available to the extent that they are not covered by deposits held from assuming reinsurers, making this consistent with the treatment of other assets subject to a capital factor of 100%. Divide by 1.5 deposits and letters of credit used to offset the margin requirements.
- Premium deficiencies: apply a margin on premium deficiencies to provide protection for policyholders.
- Unmatched foreign currency assets: apply a margin of 8% to the amount by which vested foreign currency assets exceed the amount of liabilities denominated in that currency.

The guideline has also been revised to reflect the capital treatment of unrealized gains and losses on financial instruments resulting from the implementation of the new financial instruments accounting standards.

Questions concerning BAAT should be addressed to your Relationship Manager at OSFI or, alternatively, to Aina Liepins, Capital, Accounting & Research Division, by facsimile at 613-991-6822 or by e-mail at aina.liepins@osfi-bsif.gc.ca.

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