Office of the Superintendent of Financial Institutions Canada
Bureau du surintendant des institutions financières Canada

OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS

MEMORANDUM TO

THE APPOINTED ACTUARY

ON THE REPORT ON THE VALUATION

OF LIFE INSURANCE POLICY LIABILITIES

2006

Canada

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A. GENERAL REQUIREMENTS AND DIRECTIONS

A.1 Overview

This Memorandum sets out the directions of the Superintendent with respect to the Appointed Actuary's Report (AAR) specified in Section 667(2) of the *Insurance Companies Act (ICA)*.

The purpose of the AAR is to give The Office of the Superintendent of Financial Institutions (OSFI) a comprehensive report documenting the work done by the Appointed Actuary to calculate the policy liabilities. The AAR also documents the work the Appointed Actuary does for certain sections of the MCCSR and for the administration of Participating Accounts. The AAR is a key component in OSFI's review process of the Company's actuarial financial position and profile.

When this Memorandum uses the words "require" and "must", these terms have the normal English usage meaning and reflect OSFI's expectations. Instructions with these terms are mandatory. This Memorandum also uses the word "should", which means that there is an expectation that the instruction will be followed, but exceptions are allowed in the presence of valid reasons.

The AAR should not be considered to solely be a report from the company's Appointed Actuary to OSFI actuaries. It is also intended for company management and is read by non-actuaries in OSFI who are knowledgeable about insurance. It should be a generally understandable presentation that can be used as a key component in OSFI's monitoring of the company's financial results.

A.2 Definition of Actuarial Liabilities, Other Policy Liabilities and Assets

Section 365. (1) and Section 629. (1) of the ICA require the Appointed Actuary to value the actuarial and other policy liabilities of the company. Specifically, this includes the following:

- **Actuarial liabilities under insurance policies and annuity contracts**. The amounts reported in the AAR must reconcile to the following amounts in the Annual Returns:

Canadian Life Insurance Companies:	LIFE-1 Page 20.020 Line 010
Canadian Branches of Foreign Life Companies:	LIFE-2 Page 20.020 Line 010
Canadian Fraternal Benefit Societies:	OSFI 56 Page 20.020 Line 001
Canadian Branches of Foreign Fraternal:	OSFI 77 Page 83.020 Line 002 & 003

- **Other insurance policy and contract liabilities**. The amounts reported in the AAR must reconcile to the following amounts in the Annual Returns:

Canadian Life Insurance Companies:	LIFE-1 Page 20.020 Line 040

Canadian Branches of Foreign Life Companies:	LIFE-2 Page 20.020 Line 040
Canadian Fraternal Benefit Societies:	OSFI 56 Page 20.020 Line 010
Canadian Branches of Foreign Fraternal:	OSFI 77 Page 83.020 Line 014

- **Other liabilities or asset provisions** in the Annual Return that are inherently related to or linked to insurance policies or annuity contracts.
- **Total assets (vested assets for branches)**. The amounts reported in the AAR must reconcile to the following amounts in the Annual Returns:

Canadian Life Insurance Companies:	LIFE-1 Page 20.010 Line 899
Canadian Branches of Foreign Life Companies:	LIFE-2 Page 20.010 Line 899
Canadian Fraternal Benefit Societies:	OSFI 56 Page 20.010 Line 089
Canadian Branches of Foreign Fraternal:	OSFI 77 Page 83.010 Line 089

A.3.1 Accepted Actuarial Practice

Section 365(2) and section 629(2) of the ICA require that: "The actuary's valuation shall be in accordance with generally accepted actuarial practice with such changes as may be determined by the Superintendent and any additional directions that may be made by the Superintendent."

OSFI's Guideline E-15 describes all of the duties of the Appointed Actuary and the qualifications that OSFI expects the Appointed Actuary to have. Note that OSFI Guideline E-15 will be updated in the next month, principally to ensure minimal overlap with AuG-43.

The Superintendent understands generally accepted actuarial practice to be defined by the professional actuarial standards of practice promulgated by the Canadian Institute of Actuaries (CIA), together with the additional requirements and directions of this Memorandum. Any deviations from CIA standards or from the additional requirements of this Memorandum must be reported in the AAR and justified.

The CIA annually issues a letter from the Committee on Life Insurance Financial Reporting (CLIFR). This letter gives guidance on certain valuation issues not yet fully covered in the CIA's standards of practice. While the CLIFR Fall Letter is not a mandatory CIA standard, the Appointed Actuary should disclose when the Fall Letter is not followed.

The Appointed Actuary should consider any additional professional guidance, such as CIA educational notes and research papers. In addition to the existing CIA standards, the Appointed Actuary must follow the methodology outlined in the "Report of the CIA Task Force on Segregated Fund Investment Guarantees", dated March 2002, for segregated fund products with guarantees.

This Memorandum for 2006 year-end financial reporting does not contain any requirements that override or limit generally accepted actuarial practice.

A.3.2 Future Changes to Accounting Standards

The Accounting Standards Board has introduced Section 3855, Financial Instruments – Recognition and Measurement, which is effective for fiscal years beginning on or after October 1, 2006. They also approved two other new sections that are related to Section 3855; namely Section 1530,Comprehensive Income and Section 3865, Hedges.

OSFI has also introduced Guideline D-10 "Accounting for Financial Instruments Designated as Fair Value Option". Actuaries are reminded that, as a result of these changes, asset values may be affected depending upon their designation. Immediately following the year-end, a valuation under Section 3855 will be required for 1/1/2007 for 2007 financial reporting.

A.4 Opinion of the Appointed Actuary

A copy of the following opinion must be included in the AAR.

OPINION OF THE APPOINTED ACTUARY

I have valued the policy liabilities of (ABC Insurer) for its (consolidated) balance sheet as at (December 31, xxxx) and their change in the (consolidated) statement of income for the year then ended.

In my opinion:

- the amount of (consolidated) actuarial and other policy liabilities makes appropriate provision for all policyholder obligations and the (consolidated) financial statements fairly present the results of the valuation;
- the methods and procedures used in the verification of the valuation data are sufficient and reliable, and fulfil the required standard of care;
- the actuarial assumptions used in calculating the (consolidated) actuarial and other policy liabilities include all contingencies and are appropriate to the circumstances of the company and the policies in force;
- the methods used to calculate the (consolidated) actuarial and other policy liabilities are appropriate to the circumstances of the company and of the said policies and claims;
- the valuation of (consolidated) actuarial and other policy liabilities has been made in accordance with generally accepted actuarial practice with such changes as may be determined by the Superintendent and any additional directions that may be made by the Superintendent; and
- having regard for the results of the investigation performed pursuant to sections 368 or 630 of the ICA, the value of (consolidated) actuarial and other policy liabilities, when taken together with the “Total Capital Available” for purposes of the MCCSR return, makes good and sufficient provision for all unmatured obligations under the terms of the policies in force.

____
(Signature)

____
(Name in Print)
Fellow, Canadian Institute of Actuaries

____
(Date)

The bracketed language above applies to Canadian companies.

A.5 Verification of Data

In complying with generally accepted actuarial practice, the Appointed Actuary must meet a standard of care with respect to the data used in valuations. This standard of care, specified in the CIA standards, requires the Appointed Actuary to establish suitable check procedures for the verification of data.

The CIA/CICA's Joint Policy Statement (JPS) is currently being revised to reflect the CICA's new Audit Guideline 43. This revision may not be final before the 2006 year-end, however it is anticipated that the sections referred to in this note will apply. The revised JPS notes that the Appointed Actuary "… may consider the work of an auditor with respect to data integrity and controls" in the determination of actuarial liabilities contained in the Annual Return. The Superintendent assumes that the auditor's tests of accuracy and completeness comprise more exhaustive and different checking than would normally arise in the course of the Appointed Actuary's own work in complying with the CIA standards. The JPS outlines that the Appointed Actuary may consider the Auditor's work provided that the Appointed Actuary "takes reasonable care to determine that there is a basis for such consideration". This reasonable care includes the establishment of communication between the two professionals, and ensuring the Auditor is aware of the intended consideration of the work and of the Appointed Actuary's needs.

While the JPS offers the Appointed Actuary the option to consider the Auditor's work, the existence of the JPS does not override the ICA's requirement for filing reports with the Annual Return that meet the required standard of care in the CIA standards. The Appointed Actuary of a foreign company should be particularly mindful of this, given the later filing date of a foreign company's Auditor's Report. The Appointed Actuary must ensure that the required reliability and sufficiency checks have been completed prior to the submission of the company's statements to OSFI. The Appointed Actuary's professional responsibility cannot be deferred to work not yet completed by an Auditor. Qualifications in the Appointed Actuary's opinion should be limited to potential errors arising outside the natural scope of the Appointed Actuary's duties. If such errors have a material impact on an Appointed Actuary's results, the appropriateness of the valuation will have to be confirmed, and the AAR may have to be refiled.

The extent to which the Appointed Actuary considers the work of the Auditor must be discussed in the AAR. Where the Appointed Actuary uses the work of the Auditor, the details of the Auditor's work need not be addressed in the AAR.

If there are instances where the Appointed Actuary does not use the work of the Auditor because of any special circumstances, this must be disclosed in the product sections of the AAR. In such cases, the Appointed Actuary should describe the data verification that was performed.

A.6 Use of the Work of Other Actuaries or Individuals

The CIA standards (CSOP Section 1610) describe the Appointed Actuary's use of another person's work. The Appointed Actuary should disclose in the AAR if use is made of the work of other actuaries, especially non-FCIAs, or other individuals. This disclosure should include the process and

controls in place with respect to such use. This disclosure of the use of other individuals' work should be made even if the Appointed Actuary takes responsibility for such work.

Specifically, the disclosure must be made where the Appointed Actuary has used the work, without having a direct prior involvement in the setting of assumptions and methodology, or where he/she has totally relied on other actuaries or individuals, either inside or outside the company, to determine policy liabilities

The disclosure of such use of the work of others should be included in the section of the AAR where it most logically applies (e.g., at the company level, a specific product level, etc.).

A.7 Annual Return Materiality Standards

In preparing the company's Annual Return, the company management and the external auditor routinely agree on a level of materiality. The AAR must report these materiality standards.

In addition, the Appointed Actuary must report on how the Annual Return materiality standard is applied in the valuation of actuarial liabilities. For instance, since there may be multiple valuation calculation systems, is the Annual Return materiality standard applied to each system, or are lower materiality standards applied by the Appointed Actuary? If lower materiality standards are applied in the valuation, the Appointed Actuary should disclose them. Also, the Appointed Actuary should report on how immaterial items, or pluses and negatives, are aggregated to decide overall materiality.

A.8 AAR Reporting Materiality Standards

OSFI expects Appointed Actuaries to recognize the concept of materiality standards for purposes of reporting in the AAR. In the past, there have been instances of excessively detailed reporting in some AARs. In order to avoid unnecessary volumes of data, it is not required that every small product or rider be separately addressed and disclosed in the AAR. Reports brimming with unnecessary details and numbers that obscure useful disclosure is discouraged. The inclusion of useful and relevant observations, analysis and comments is encouraged. If OSFI requires additional information, this will be requested from the Appointed Actuary at a later time.

The following minimum levels of detail must be followed in the AAR reporting:

- Company: Data must be presented separately for each life insurance company that is consolidated in the Annual Return.
- Country: If a company operates in more than one country, the data must be shown separately for each country.
- Asset Segment: Each asset segment must be reported separately.
- Product Line Reporting: Guidance on defining product lines is given below.
- Par and Non Par: Participating lines of business must be shown separately.
- New Business vs. In-Force: Guidance on defining this is given below.

The above defines a cascade of levels of reporting that must a priori be presented in the AAR. However, exceptions will be allowed depending on the particular circumstances of the company. Such deviations should be justified.

A.8.1 Product Lines: The definition of product line for the purposes of reporting in the AAR should be determined by the Appointed Actuary based on the circumstances of the company. The following is some guidance that can be applied:

(i) Product lines should be reported separately in the AAR to the same extent that they are separately reported to business unit management.

(ii) Product lines that the Appointed Actuary, or a business unit actuary, analyzes separately on at least an annual basis should be reported separately in the AAR.

(iii) Product lines that form a separate part of the basis of determining product line management bonuses should be reported separately in the AAR.

(iv) If product lines are not reported or analyzed separately in the company, they need not be reported separately in the AAR. There is no requirement to do further breakdowns of data exclusively for AAR reporting, except where this is explicitly required in this Memorandum.

(v) Products with essentially the same characteristics, but with some slightly different features, should not be shown separately. For instance, if the company has whole life policies with 3% cash values and other whole life policies with 4% cash values, the details should not be shown separately.

A.8.2 Small product lines: Detailed product reporting is not required for all small products or riders that have very little in force. The reporting of all products and riders would typically result in an excessive level of detailed reporting, which is not useful. In determining these materiality limits, the following guidance can be applied:

(i) Product lines whose liabilities are less than 0.25% of total actuarial liabilities need not be reported separately.

(ii) Product lines whose liabilities are more than $25 million should be reported separately.

(iii) The sum of the liabilities of all product lines not reported separately should not exceed 5% of the total actuarial liabilities.

(iv) There are circumstances where lower level reporting is warranted. Examples are insurance products with a material amount of face amount, but relatively small liabilities (e.g., term insurance, group life and health), products with negative reserves, large segregated fund products with relatively small general fund reserves, etc. These are examples only and are not meant to be an exhaustive list.

A.8.3 New Business: Notwithstanding the above materiality guideline, the Appointed Actuary must separately report on new business sold. This is defined as:

(i) All material products that are currently being actively sold.

(ii) New business products that are anticipated in the company's business plan to become material.

(iii) Distinct new product lines introduced for sale during the year, and which the company did not have available for sale in the past.

(iv) Old existing products with only a few new sales need not be detailed.

(v) Some additional guidance is that if the company internally reports on the sales of a product line separately, and has separate planned sales targets for that product line, then the product line should be reported separately in the AAR.

A.8.4 Actuarial Judgement in Reporting: The Appointed Actuary must use judgement in deciding on the level of detail reported in the AAR. Exceptions to the above guidelines on product line reporting may be made if, in the Appointed Actuary's opinion, they are warranted. Where the Appointed Actuary decides that an exception is justified, the reasons should be disclosed. Such disclosures should be made in the product line sections of the AAR.

A.8.5 Additional Detail: Some additional requirements for particular products are specified in the detailed instructions found later in this Memorandum.

A.9 Filing Directions

The deadline for the filing of this Appointed Actuary's Report is specified in Section 665(3) of the ICA. Failure to meet the deadline will result in a penalty fee under OSFI's Late and Erroneous Filing Penalty Framework.

Two (2) paper copies of the AAR should be submitted to OSFI's **Regulatory Information Division** in Ottawa. The mailing address is:

Office of the Superintendent of Financial Institutions Canada
Regulatory Information Division
255 Albert Street
Ottawa ON K1A 0H2

We also require that the AAR be filed in electronic form on a diskette or a CD, using either Word or pdf format, with the latter preferred. Separate diskettes or CDs should be used for separate companies. In addition, a copy of the required tables are required to be provided electronically in MS Excel format.

For security reasons, e-mail should not be used.

B. REPORT FORMAT

B.1 General Layout

The format and order of presentation specified in this Memorandum must be followed. The report is ordered so that summary total company information is presented first. This should give the reader an overview of the company's policy liabilities. The data should be ordered to be consistent with, first, the way that the company is reported externally and, second, the way that the company is managed and reported internally. This requires that data be displayed in a descending cascade by company, country, asset segment and products.

A uniform manner of presentation will allow OSFI to more easily compare methodologies and assumptions between companies.

The Appointed Actuary's Report is to have the following sections:

Table of Contents

1. Overview of the Company
2. Total Consolidated Company Data
   - 2.1 Summary of Consolidated Actuarial Liabilities
   - 2.2a Summary of Other Insurance Policy and Contract Liabilities
   - 2.2b Summary of Additional Insurance Policy Related Liabilities and Provisions
   - 2.3 Summary of Provisions for Adverse Deviations
   - 2.4 Summary of Changes in Methods and Assumptions
   - 2.5 Opinion of the Appointed Actuary
3. Details by Asset Segment and Products
4. Additional Actuarial Liability Disclosures
5. Asset Liability Management
6. Sources of Earnings
7. Report on Participating Policies
8. Additional Reporting for MCCSR
9. External Peer Review
10. Reporting on Other Requirements of the Appointed Actuary

The requirements for each of the above sections are detailed in this Memorandum.

B.2 Overview of the Company

This introductory section of the AAR should include a brief description of the company's structure, an overview of its operations, any changes in structure, any acquisitions/divestitures, any key material events affecting the policy liabilities, any changes in the philosophy towards the valuation of policy liabilities, any material new categories of business, etc.

While the above should be disclosed in the overview section of the AAR, any extensive details should not be shown in this introductory section, but should be disclosed in the appropriate detailed sub-sections of Section 3.

B.3 Summary Reporting of Consolidated Data

Section 2 of the AAR must show a set of six tables, as follows:

- Consolidated Actuarial Liabilities
- Other Insurance Policy and Contract Liabilities
- Additional Insurance Policy Related Liabilities and Provisions
- Provisions for Adverse Deviations, by Type
- Provisions for Adverse Deviations, by Year
- Method and Assumption Changes, by Year

Three years of data are required for the above tables.

B.4 Summary Reporting of Consolidated Actuarial Liabilities

The total of the actuarial liabilities in Table 2.1 must match the amounts in the Annual Return (See section A-2).

The level of detail of the data shown must be based on the guidelines shown in section A.8 of this Memorandum.

The Appointed Actuary is required to show the data separately for each company, since the assets and liabilities are in separate legal entities.

Similarly, within a company the data must be shown separately by country, since in some cases there are local restrictions on the movement of funds out of a country.

The CIA standards require that the valuation of the actuarial liabilities has to be linked to the supporting assets. Typically, the assets backing one or more products reside in a single asset segment. The sample format for Table 2.1 is set up to capture this structure.

However, there could be cases where a product line is backed by more than one asset segment, or some other combination of asset segments and product lines. In such cases, the Appointed Actuary has to decide how to modify the sample format so that the company's environment is clearly represented.

OSFI expects that this reporting structure be followed by the company in order to more easily allow for comparisons between companies. The table must show how actuarial liability data is matched to the separate asset segments that constitute the company's asset structure. Conversely, if the company has a different structure (e.g., asset segments within product lines), this structure should be used in the tables. The format of the table must be followed. OSFI requires consistent reporting by all companies in the summary tables. Only the level of detail, or order, shown in the three left columns should vary by company. The Appointed Actuary must determine the level of product detail to be shown that matches the above requirements.

The purpose of this summary table is to give the reader an overview of the company and its lines of business. The Appointed Actuary is discouraged from making this summary table too voluminous. However, if there are products grouped within an asset segment and not covered by the splits above, and which the Appointed Actuary considers to be significant, then their separation in this table is encouraged. **The Appointed Actuary should be influenced by how the company's managers look at the business for internal reporting, while still respecting the required separation of companies and countries.**

More detailed reporting is to be done at the asset segment and product line levels. These requirements are covered in sections B.9, B.10 and B.11 of this Memorandum.

Numbers reported at the total company summary level must reconcile to those reported in the detailed product sections. If a product line is shown separately in the summary tables, the same product line must be reported on separately in the detailed product sections.

The following sample summary table shows the format style that companies are expected to follow.

Summary Table 2.1

Consolidated Actuarial Liabilities ($,000)

Company/ Country	Asset Segment	Product Lines	Actuarial Liabilities 2006			Actuarial Liabilities 2005			Actuarial Liabilities 2004		
			Gross	Net	%	Gross	Net	%	Gross	Net	%
Parent Co. - Canada	Segment #1	Product #1									
		Product #2									
		Product #3									
		Segment Total									
	Segment #2	Product #4									
		Product #5									
		Segment Total									
	Segment #3	Segment Total									
	Seg Funds	Segment Total									
	Surplus	Misc. Liabs									
	Canada Total										
Parent Co. U.S.	Segment #4	Product #1									
		Product #2									
		Segment Total									
	Segment #5	Product #3									
		Product #4									
		Segment Total									
	U.S. Total										
Parent Co Total											
Subsidiary Comp. #1	Segment #6	Product #1									
		Segment Total									
	Surplus										
Total Subsid. # 1											
Consolidated Total											

The percentages required in the above table are the ratios of each of the net policy liabilities to the consolidated total.

This sample chart shows separate asset segments for surplus. However, each company can have its asset segments organized in a different way. Some companies may have surplus inside the other asset segments. Some companies may have corporate asset segments. The sample chart also shows actuarial liabilities inside a surplus segment. Again, this may be true for some companies and not for all. The company's actual structure should be used in determining the contents of the three left columns.

Not all companies do the income tax calculations at the product level. The effect on actuarial liabilities of income taxes should be shown in this table at the applicable level for the company. Allocations are not required just for purposes of reporting in this table.

B.5 Summary Reporting of Other Insurance Policy and Contract Liabilities

Section 2 of the AAR must show a Table 2.2a of consolidated other insurance policy and contract liabilities. The total of this table must match the amounts in the Annual Return (See section A-2).

The liabilities in Table 2.2a must be shown separately for each company, country and par/nonpar detail, corresponding to Table 2.1 above. These liabilities are not required to be reported in detail by product line. However, if there is a material amount which the Appointed Actuary judges to be significant, more details are expected to be provided in the Product Line Reporting (Section B.11).

The table should show the other liabilities by type. The following sample table shows the format style that the company is expected to follow.

Summary Table 2.2a

Consolidated Other Insurance Policy and Contract Liabilities ($,000)

Company/Country	Liability Type	2006	2005	2004
Parent Co. - Canada	Claims reported but not admitted			
	Claims incurred but not reported			
	Provision for exp. rating refunds			
	Dividends on deposit			
	Proceeds on deposit			
	Premiums paid in advance			
	Premiums on deposit			
	Other			
	Subtotal			
Parent Co. – U.S.	Claims reported but not admitted			
	Claims incurred but not reported			
	Provision for exp. rating refunds			
	Dividends on deposit			
	Proceeds on deposit			
	Premiums paid in advance			
	Premiums on deposit			
	Other			
	Subtotal			
	Total			

In addition to the liabilities in Table 2.2a, the Appointed Actuary must disclose any other liabilities in the Annual Return that are inherently related to insurance policies and annuity contracts. Included in this are liabilities that were determined by the Appointed Actuary or where the size of the liabilities depends on the Appointed Actuary's judgement. The Appointed Actuary must disclose in which line of the Annual Return each of these liabilities reside.

Similarly, the Appointed Actuary must disclose any assets whose amount depends on the Appointed Actuary's judgement. Examples of such assets include, but are not limited to, some reinsurance receivables, reverse mortgages (whose value depends on assumptions such as real estate appreciation, mortality, etc.), value of warranties on acquired blocks, etc. The Appointed Actuary must disclose in which line of the Annual Return each of these liabilities reside.

The liabilities in Table 2.2b must be shown separately for each company, country and par/nonpar detail, corresponding to Table 2.1 above. The following sample table shows the format style that the company is expected to follow for reporting such liabilities and assets.

Summary Table 2.2b

Consolidated Additional Insurance Policy Related

Liabilities and Provisions ($,000)

Company/Country	**Liability or Provision Type and Annual Return Line**	**2006**	**2005**	**2004**
Parent Co. - Canada				
	Subtotal			
Parent Co. – U.S.				
	Subtotal			
	Total			

B.6 Summary Reporting of Provisions for Adverse Deviations by Type

Section 2 of the AAR must show a table of the provisions for adverse deviations (PFADs), by type of provision, included in the actuarial liabilities. The company/country/asset segment/product combinations must be the same as shown in Table 2.1 described above.

The following is a sample of the table showing the provisions for adverse deviations. This table shows the provisions for the current year by type of provision.

Summary Table 2.3

Provisions for Adverse Deviations by Type ($,000)

(Net of Reinsurance Ceded)

Company/ Country	Asset Segment	Product Lines	Actuarial Liabilities	Provisions for Adverse Deviations 2006								
				Asset Default	**Mort./ Morb.**	**Expense**	**Lapse**	**Interest Rate C3**	**Other**	**General/ Bulk**	**Total PfADs**	**% of Act'l Liabs.**
Parent Co. - Canada	Seg. #1	Product #1										
		Product #2										
		Product #3										
		Seg. Total										
	Seg. #2	Product #4										
		Product #5										
		Seg. Total										
	Seg. #3	Seg. Total										
	S.F.	Seg. Total										
	Surplus	Misc. Liabs										
	Canada Total											
Parent Co. U.S.	Seg. #4	Product #1										
		Product #2										
		Seg. Total										
	Seg. #5	Product #3										
		Product #4										
		Seg. Total										
	U.S. Total											
Parent Co Total												
Subsidiary Comp. #1	Seg. #6	Product #1										
		Seg. Total										
	Surplus											
Total Subsid. # 1												
Consol. Total												

If the valuation methodology used does not produce separate PFADs for each of the product lines in the table (e.g., if the CALM method aggregates some products), the disclosure in the above table should be at the level at which it is available. Allocations are not required just for purposes of reporting in this table.

It is recognized that appointed actuaries calculate the amounts of the PFADs using different methodologies. The following are some examples of differences:

- The amount value of each of the PFADs is calculated one at a time, while keeping the others unchanged. This will result in a balancing "other" component.
- The PFADs are calculated in a cumulative manner.
- The order of calculation can vary, and the resulting size of the individual PFADs can be different as a result.
- The calculations can be pre or post income tax.

All such methods are acceptable for purposes of reporting in the AAR. OSFI expects there to be comparability in the calculation method by year.

The Appointed Actuary should disclose the manner in which the PFADs were calculated. If this varies by product line, this should be noted in the summary section of the AAR, and the details of the calculation method disclosed in the detailed sections of this report.

B.7 Summary Reporting of Provisions for Adverse Deviations by Year

Section 2 of the AAR must show a table of the provisions for adverse deviations included in the actuarial liabilities for the last three years. The company/country/asset segment/product line combinations must be the same as in Table 2.1 described above. The following is a sample of the table showing the provisions for adverse deviations for the last three years.

Summary Table 2.4

Provisions for Adverse Deviations by Year ($,000)

(Net of Reinsurance Ceded)

Company/ Country	Asset Seg.	Product	2006			2005			2004		
			Act'l Liabs.	Amount of PFAD	% of Act'l Liabs.	Act'l Liabs.	Amount of PFAD	% of Act'l Liabs.	Act'l Liabs.	Amount of PFAD	% of Act'l Liabs.
Parent Co. - Canada	Seg. #1	Product #1									
		Product #2									
		Product #3									
		Seg. Total									
	Seg. #2	Product #4									
		Product #5									
		Seg. Total									
	Seg. #3	Seg. Total									
	S.F.	Seg. Total									
	Surplus	Misc. Liabs									
	Canada Total										
Parent Co. - U.S.	Seg. #4	Product #1									
		Product #2									
		Seg. Total									
	Seg. #5	Product #3									
		Product #4									
		Segment Total									
	U.S. Total										
Parent Co Total											
Subsidiary Comp. #1	Seg. #6	Product #1									
		Seg. Total									
	Surplus										
Total Subsid. #1											
Consol. Total											

If the valuation methodology used does not produce separate PFADs for each of the product lines in the table (e.g., if the CALM method aggregates some products), the disclosure in the above table should be at the level at which it is available. Allocations are not required just for purposes of reporting in this table.

B.8 Summary Reporting of Changes in Methods and Assumptions

Section 2 of the AAR must include a table summarizing the effects on actuarial liabilities of changes in methods and assumptions. The company/country/asset segment/product line combinations must be the same as in Table 2.1 described above.

The following is a sample of the table showing the changes in methods and assumptions for the last three years.

Summary Table 2.5

Actuarial Liabilities

Method and Assumption Changes by Year ($,000)

(Net of Reinsurance Ceded)

Company/ Country	**Asset Segment**	**Product Lines**	**2006**		**2005**		**2004**	
			Impact on Act'l Liabs.	**Description of Change**	**Impact on Act'l Liabs.**	**Description of Change**	**Impact on Act'l Liabs.**	**Description of Change**
Parent Co. - Canada	Seg. #1	Product #1						
		Product #2						
		Product #3						
		Seg. Total						
	Seg. #2	Product #4						
		Product #5						
		Seg. Total						
	Seg. #3	Seg. Total						
	S.F.	Segment Total						
	Surplus	Misc. Liabs						
	Canada Total							
Parent Co. - U.S.	Seg. #4	Product #1						
		Product #2						
		Seg. Total						
	Seg. #5	Product #3						
		Product #4						
		Seg. Total						
	U.S. Total							
Parent Co Total								
Subsidiary Comp. #1	Seg. #6	Product #1						
		Seg. Total						
	Surplus							
Total Subsid. # 1								
Consolidated Total								

A method or assumption change is defined as one that affects the actuarial liabilities of policies that were in-force in the prior reporting period.

The description of the changes shown in the table must be brief and succinct. For example: "Mortality Table Change". Details describing the changes must be shown in the detailed product sections in Section 3 of the AAR.

Each of the changes in methods or assumptions must be disclosed separately. If more than one change is made to any of the products shown, the effects of each change must be shown separately and not netted.

The effect of each change is required to be separately split into the following:

- Changes to expected experience;
- Changes to MFADs;
- Changes resulting from special, particular or one-time circumstances (e.g., new standards, change in methodology, etc.);
- Changes due to a large non-usual transaction (e.g., reinsurance, acquisition, etc.); and
- Changes due to any administrative and corporate changes (e.g., new systems, change in investment policy, etc.).

Any changes in bulk actuarial liabilities (see Section B.11.10) or in CTE levels (when stochastic modeling is employed) must be disclosed as a basis change.

The Appointed Actuary must disclose in which quarter each change was made.

A similar table must be disclosed for method and assumption changes in other insurance policy and contract liabilities. The following is a sample of the table showing such changes in methods and assumptions for the last three years.

Summary Table 2.5.a

Other Insurance Policy and Contract Liabilities

Method and Assumption Changes by Year ($,000)

Company/ Country	Liability Type	2006		2005		2004	
		Impact on Liabilities	Description of Change	Impact on Liabilities	Description of Change	Impact on Liabilities	Description of Change

B.9 Details by Asset Segments and Product Lines

Section 3 of the AAR is expected to document the asset segment and product line details on the valuation of the actuarial liabilities. This section of the AAR must follow the same order, and show the same combination of asset segments and product lines, as is shown in Summary Table 2.1. Thus, this section must follow the same cascade of company/country/asset segment/product.

The amounts disclosed in this section (each asset segment and the related products) must correspond to those shown in Summary Table 2.1.

The Appointed Actuary should refer to sections A.8.1, A.8.2, A.8.3 and A.8.4 for guidance on choosing the level of detail to show.

The CIA standards require that the valuation of the actuarial liabilities be linked to the supporting assets. Typically, the assets backing one or more products reside in a single asset segment. The sample format for Table 3.1 is set up this way. However, there could be cases where a product line is backed by more than one asset segment, or some other combination of asset segments and product lines. In such cases, the Appointed Actuary has to decide how to modify the sample format so that the company's environment is clearly represented while still being consistent with the spirit of the sample table. The table must show how actuarial liability data is matched to the separate asset segments that constitute the company's asset structure.

It is recognized that not all of the elements that are requested to be disclosed are calculated at the same level of detail. Some examples of this are:

- The deferred taxes may be calculated at a higher level than the product line level of detail required by table 3.1.
- The actual to expected studies may be at a summarized product level.

Similarly, some of the descriptions of methodology or some assumptions may be the same for more than one product or asset segment. This need only be disclosed once in the AAR at the appropriate summary level, and the detailed product sections can make reference to it. Some examples of this are:

- Asset/Liability management (ALM) is the same for all the asset segments in one country.
- The same mortality table is used for several product lines.

However, it is required that each product section be self-contained. It must either have the data within the section, or there must be an explicit reference to a specific page at a different summarized level. The reader of the AAR should not have to search through non-cross-referenced sections of the AAR. For instance, if the reader is examining a Universal Life product, all the methods, assumptions and other disclosures must either be directly in that product section, or there must be an explicit reference to where the disclosure can be found if it is presented in a more summarized manner. The references must be in each of the product line sections that are affected.

B.10 Asset Segment Reporting

The composition of each asset segment must be documented separately in the AAR in a table with the following balance sheet format. The major asset and liability categories must be shown for the last three years. The actuarial liabilities, and other policy liabilities, supported by the asset segment must be included in the table. This requirement is subject to the transition period reporting.

TABLE 3.1

Asset Segment – Assets and Liabilities ($,000)

(Statement Carrying Values at December 31)

Company/ Country/Asset Segment	2006			2005			2004		
	Asset Value	Invest. Income	Yield Rate	Asset Value	Invest. Income	Yield Rate	Asset Value	Invest. Income	Yield Rate
Bonds									
Mortgages									
Stocks									
Real Estate									
Policy Loans									
Cash and S.T.									
Inter-Seg. Notes									
Inter-Company									
Derivatives									
Other Invest.									
Def. Tax Asset									
Other Assets									
Total									

	2006	2005	2004
Actuarial Liabilities			
Product #1			
Product #2			
Etc.			
Net Deferred Gains/Losses			
Bonds			
Stocks			
Mort.			
R.E.			
Inter-Company			
Def. Tax Liab.			
Other Liabilities			
Total Liabilities			
Surplus			

All the lines in the table above are expected to be shown. Do not blank out lines that do not apply, but explicitly show them to be zero. Three years of data are required.

The asset values should be the same as is used in the Annual Return. The total of all assets for all the segments reported must equal the total assets (after inter-segment notes and inter-company loans are eliminated) on the balance sheet in the Annual Return (See Section A.2).

The inter-segment notes should be shown as positive and negative amounts in the chart above.

If there are any material "other assets", the Appointed Actuary is expected to provide more detail.

The investment income must include the amortization of the net deferred gains/losses. The investment income must be the same definition as used in the Annual Return.

The yield rates by asset type should use the standard 2I/(A+B-I) formula. The calculation must include the amortization of the net deferred gains. It is accepted that the use of this formula may cause some anomalous yield rates in some cases, such as for cash.

Significant changes in yield rates between years for bonds, mortgages and real estate should be explained by the Appointed Actuary.

If the asset mix, including bond quality, has changed materially between years, the reason for this should be discussed.

If the investment policy has changed, the effect on the actuarial liabilities should be discussed.

The use of assets other than bonds, mortgages, equities, real estate, policy loans and cash to back actuarial liabilities must be disclosed. Such assets include, but are not limited to, inter-segment notes, deferred tax asset, derivatives, goodwill, loans to subs or parents, etc.

As required by ICA Section 611.1 (1), only vested assets may be used by foreign companies to determine their policy liabilities.

The Appointed Actuary should disclose the company's policy with respect to the level of assets in each segment, transfers in and out of segments, frequency of transfers, new inter-segment or inter-company notes and policies with respect to surplus held within asset segments that back liabilities.

For interest sensitive asset segments, the AAR must have a discussion of the asset liability management applied. The requirements for this reporting are shown in Section D of this Memorandum.

B.11 Product Line Reporting

Within each asset segment, the Appointed Actuary must separately discuss the valuation of the products that have been shown in Table 3.1.

The reporting of each product should include the following:

1. A table showing the following:

Table 3.1.X

Product Data ($,000)

(At December 31)

Company & Country		2006	2005	2004
Asset Segment				
Product #1	Actuarial Liabs.: Gross			
	Net			
	Face Amount: Gross			
	Net			
	Account Values: Gross			
	Net			
	Premiums: First Year			
	Single			
	Renewal			
	Less, Ceded			
	PfAD as a % of Net Reserves: Asset Default			
	Mortality			
	Expenses			
	Lapses			
	Interest			
	Other			
	General/bulk			
	Total PFAD			
	Change in Actuarial Liabs. From Method and Assumption Changes:			
	Expected Exp. Act'l Liabs.			
	MFADs			

The above data must be shown for each of the products. The amount of liabilities must reconcile to the amounts shown in Summary Table 2.1.

The purpose of showing face amounts, account values and premiums is to give an overview of the size of the product, which may not always be understood just from the size of the actuarial liabilities. Face amount should be shown for life insurance products. Account values should be

shown for universal life, segregated fund and deferred annuity contracts. The AAR should note the basis for the premiums shown (e.g., on the same basis as shown in the income statement of the Annual Return, annualized basis from valuation system, etc.).

2. **Description of Product**: A description of the product and its key features must be disclosed. This should disclose details on the features of the product, the guarantees, benefits, contract durations, etc. The level of detail in this description should be sufficient to justify the methodology and assumptions used.

3. **New Business**: Section A.8.3 above gives guidance on the new business products that should be shown separately. The AAR should disclose details on the features of the product, the guarantees, benefits, contract durations, etc. This description should be sufficient to justify the assumptions and methodology used. Where the product is novel or experimental, and relevant experience data is not available, the Appointed Actuary should describe the work performed to measure the risk associated with these new contingencies.

4. **Reinsurance:** Where reinsurance is material, a description of the reinsurance structure with respect to risks and allowances should be included. Any new reinsurance arrangement, assumed or ceded, should be disclosed. Disclosure should include the effective and expected termination dates, the type of reinsurance, a description of the products covered, recapture provisions, and any significant reserve and capital impact.

5. **Expected Experience Assumptions**: The Appointed Actuary must document all expected experience assumptions used in the valuation. This includes mortality, morbidity, interest, asset defaults, lapses, expenses, inflation, renewal/conversion, disability/recovery, income taxes and any other contingencies that are applicable. OSFI requires the Appointed Actuary to document the rationale, justification and validation of all expected experience assumptions used.

   Any use of implicit assumptions or approximations requires disclosure and discussion.

   For participating and adjustable products, the Appointed Actuary should describe how the dividends and non-guaranteed elements are reflected in the calculation of the actuarial liabilities.

   The Appointed Actuary must use judgement in deciding on the amount of detail included in the AAR with respect to assumptions. For instance, multi-page listings of qx tables or lapse tables are discouraged. Such detailed data must be kept available at the company if needed. This level of detail will be examined as part of the External Review process, and thus does not need to be included in the AAR.

   Similarly, listing complete lapse rate tables is discouraged. - sample rates are sufficient. For example, rates for issue ages 25, 40 and 55 could be shown and rates for durations 1 to 5, 10, 20 and the ultimate rates could be shown.

   The Appointed Actuary should describe the source of the expected experience assumptions. If industry experience is used, this should be stated. If industry tables are available, but not used, the Appointed Actuary should show how the assumptions compare with the industry tables. For

assumptions where limited experience exists, the Appointed Actuary should disclose the basis and rationale for determining the assumptions.

The Appointed Actuary should disclose when the expected experience assumptions were last updated or reviewed.

The AAR should report the key future reinvestment rates and reinvestment strategies assumed.

The AAR should disclose and discuss the results of the seven scenarios required by CALM. Additional scenario testing, or the exclusion of any scenario, should be disclosed.

For the scenario used in the valuation, it is required that the resulting portfolio interest rates and reinvestment rates for each duration be disclosed.

Any use of derivatives must be disclosed.

If the future cash flows from more than one asset segment are aggregated under the CALM methodology, this must be discussed in detail.

For par accounts, the AAR should provide a description of the policyholder dividend scale assumed in the valuation, including any prospective changes in the dividend scale relative to the current dividend scale

The Appointed Actuary must disclose whether any ancillary sources of earnings margins are assumed to offset any assumptions in the valuation, whether implicitly or explicitly. For example, are earnings margins from riders or amounts on deposit used to subsidize the valuation of the parent policy?

For fraternal companies, the Appointed Actuary should disclose any special fees, subsidies from the fraternal organization and any special income.

6. **Key Risks**: The Appointed Actuary should discuss the key risks in each of the products. For instance, the Appointed Actuary should disclose the assumptions for which a misestimation would have the largest effect on the actuarial liabilities, which assumptions are the most volatile, and the results of any testing done for sensitivity analysis.

7. **Provisions for Adverse Deviation**: The Appointed Actuary must confirm that a margin for adverse deviations (positive or negative) was added to each expected experience assumption, in compliance with CIA standards.

   For each assumption, the Appointed Actuary should disclose and justify the level of margin for adverse deviations used. If a margin is outside the range recommended in the CIA standards, the Appointed Actuary must highlight this.

   For the lapse PFADs, the method used to determine the crossover points should be disclosed.

For the interest rate PFADs, a summary of the results of the scenarios tested should be presented. If a stochastic interest rate model is used, the Appointed Actuary should justify the appropriateness of the model being used and that the range of stochastic scenarios adequately reflects the C-3 risk characteristics of the asset and liability cash flows of the segments. Discussion should include, but not be limited to, the description of the interest rate model, calibration process, and types of tests performed to ensure that the number of scenarios used were appropriate.

Actuaries are reminded that they should pay special attention to the current low interest rate environment in setting valuation assumptions. Section 2330.28 of CSOP refers to running scenarios other than the prescribed scenarios. For the 2006 year-end, the actuary is expected to disclose in the AAR the effect of a scenario using a 4.00% interest rate for all future reinvestment assumptions.

The Appointed Actuary should discuss the testing done to ensure that the addition of each of the MFADs served to increase actuarial liabilities.

Death-supported policies should be separately discussed and clearly disclose the mortality MfADs used. The actuary should ensure that the application of a margin for adverse deviations results in an increase to the value of the liability and that the resulting provision is sufficient and adequate in the aggregate.

If any provisions are re-allocated, the Appointed Actuary should describe the methodology used, justify the re-allocation, and justify that the aggregate provisions are sufficient.

8. **Actual vs. Expected**: A comparison of actual experience versus expected experience assumptions should be shown separately for each product and for the last three years if the data is available. Where such studies are done at a more aggregate level, this is acceptable and should be shown. This comparison should be shown separately for the key risk (see #5 above) assumptions. The results for lapse should be shown separately for lapse-supported products and non-lapse supported products. This analysis does not require a full formal experience study. It could consist of expected experience per the valuation system versus actual experience taken from the accounting data. Consistent differences in one direction and large swings should be explained. If such actual to expected comparisons are done for only a portion of the product lines, the AAR should show the proportion that is measured. If the studies are not done, reporting for the AAR is not forcing them to be started. If such studies are not available, this should be disclosed.

9. **Method and Assumption Changes**: Each of the changes in methods or assumptions must be disclosed separately in the product tables 3.1.X. Multiple changes should not be netted.

   The changes should also be described and justified. As well as the new assumptions/methods, it is expected that the previous assumptions/methods are to be explicitly documented. This will allow for easier comparisions.

The changes should be split between:

- Those resulting from a change in expected experience, including any resulting change in PFAD;
- A change in MFAD levels;
- Those resulting from special, particular or one time circumstances, such as the introduction of new standards or change in methodology;
- Any unusual transactions (reinsurance, acquisitions, etc.);
- Any changes in bulk liabilities;
- Any administration, systems, operational or corporate changes;
- A change in CTE levels when a stochastic model is used for valuation.

The table must show in which quarter the change was made.

10. **Bulk Actuarial Liabilities**: The amounts of any bulk actuarial liabilities must be disclosed, with each disclosed separately for the last three years. Examples of liabilities that fall into this category are (i) manual adjustments that are the result of inadequacies of a valuation system, (ii) bulk liabilities to cover potential data problems, (iii) liabilities held to cover cyclical fluctuations, etc. These are examples only and should not be considered an exhaustive list. The disclosure should include the reasons for holding these actuarial liabilities, the methods and assumptions used to determine the actuarial liabilities, and policies for releasing these liabilities in the future. Any changes in these liabilities must be disclosed as a basis change and reported by quarter in Table 2.5 and Table 3.1.X.

11. **Guarantees**: The Appointed Actuary should disclose the difference between the interest rates required by the guarantees in the products and the current year's actual earned interest rates, after any deductions. This comparison should be done for the last three years. This comparison can be based on either actual investment income or on interest rates. For participating business, the interest component of current dividends must be included in the required interest.

12. **Type of Valuation Approach or System**: The type of valuation approach or system used should be disclosed. For instance, was the valuation done using (i) a CALM aggregated methodology, (ii) an approximation to CALM, for instance using modelling, (iii) a seriatim calculation or grouped valuation, (iv) an adjustment from another value, such as fund value or NAIC reserves, (v) a bulk approximation, etc. The disclosure should include whether the valuation system is an in-house system or a commercially purchased system. Any changes in valuation systems should be disclosed and the effects quantified.

13. **Internal Control Analysis of Actuarial Liabilities**: The Appointed Actuary typically makes use of some method(s) of internal analysis to verify or validate the actuarial liabilities. This can take a variety of forms. Examples are (i) ratios of face amount to actuarial liabilities, (ii) trend analysis, (iii) a reserve build (e.g., start of year liability plus liability for new business plus natural aging less claims equals liability at end of year), (iv) ratios to fund values, (v) sources of earnings analysis, etc. The Appointed Actuary should discuss the internal analysis currently used to validate the

actuarial liabilities and disclose the numbers from this process in the AAR. The numbers for the last three years should be shown.

14. **Comparison With Other Reporting**: The Appointed Actuary should compare the expected experience assumptions used in the valuation of actuarial liabilities with the comparable expected experience assumptions used in other reporting requirements. These comparisons include (i) the cash flow assumptions underlying the base scenario for the DCAT projections, (ii) the current pricing assumptions for new business compared to the valuation assumptions for the same blocks of new business, (iii) any comparable assumptions underlying the current business plan for the company, if applicable. It is accepted that there could be valid reasons for any differences in expected experience assumptions, but if there are such differences, the Appointed Actuary must comment on the reasons.

15. **Verification of Data:** If the Appointed Actuary relies on the external auditor for the verification of data, this should be disclosed. Details describing the methods used by the auditor are not required. If the Appointed Actuary does not rely on the auditor for any products, the AAR should describe the data verification methodology used. The Appointed Actuary should refer back to section A.5 of this memorandum.

16. **Reliance on Other Actuaries or Individuals**: The Appointed Actuary must disclose when he/she has relied on other actuaries or individuals to determine the valuation of policy liabilities. Refer back to section A.6 of this Memorandum. This disclosure should be included in the AAR where it most logically applies. In many cases this is at the product line level, but it may be at a higher level. The scope of this reliance must be disclosed in the detailed product sections of the AAR and a justification for such reliance must be presented. The Appointed Actuary should disclose the process and controls in place with respect to such reliance. The disclosure should include whether the other actuaries or individuals are internal employees or external consultants.

C. ADDITIONAL ACTUARIAL LIABILITY DISCLOSURES

C.1 Asset Default Risk

The Appointed Actuary should describe the process used to determine both normal asset default costs and any asset default costs in excess of normal levels.

The following three tables are expected to be completed. If asset default factors are set at a different level than shown in the tables, the tables should be modified to show the extra detail. If the factors differ by company/country/asset segment, this detail should be shown.

TABLE 4.1

Asset Default Assumptions

	2006 Default Factors in Actuarial Liabilities, As Basis Points				2006 Default Factors in Actuarial Liabilities, As Annual Dollar Amounts (,000)			
	Expected	MFAD	Bulk	Total	Expected	MFAD	Bulk	Total
Federal Gov.								
Provincial								
Municipal								
Corporate Bonds AAA								
AA								
A								
BBB								
BB								
B								
Lower than B								
Unrated								
Commercial Mort.								
Residential Mort.								
Real Estate								
Other								
Total								

The term "annual dollar amounts" in the table above refers to the annual amount of default in the expected experience assumptions. For instance, if the expected default assumption is x basis points, then the annual dollar amount is the x basis points applied to the corresponding asset value. The intention is to have Table 4.1 be consistent with the data in Table 4.2 below.

TABLE 4.2

Actual Default Experience

	Actual Credit Losses, As Basis Points			Actual Credit Losses, As Dollar Amounts (,000)		
	2006	2005	2004	2006	2005	2004
Bonds						
Commercial Mortgages						
Residential Mortgages						
Real Estate						
Other						
Total						

As actual experience unfolds, the credit losses for past events change. The data in table 4.2 should be classified by year to be consistent with how losses and recoveries are classified in the company's financial statements.

TABLE 4.3

Actual Default Provisions in Assets, As Included in the Balance Sheet

	Asset Provisions, As Basis Points			Asset Provisions, As Dollar Amounts (,000)		
	2006	2005	2004	2006	2005	2004
Bonds						
Commercial Mortgages						
Residential Mortgages						
Real Estate						
Other						
Total						

With respect to setting the expected experience assumptions and margins for adverse deviations for asset defaults, the Appointed Actuary should discuss any accounting provisions made for this contingency. The Appointed Actuary must ensure, and be able to demonstrate, that all default costs and risks have been covered, either through separate provision in the actuarial liabilities, or in conjunction with any accounting provisions.

C.2 Expenses

The Appointed Actuary should disclose how total company expenses are allocated between acquisition, maintenance and other.

There should be a comparison of the total maintenance expenses to the expected experience assumptions included in the actuarial liabilities. If there is a maintenance expense gap (i.e. actual maintenance expenses versus valuation maintenance expenses), the Appointed Actuary should disclose the size of the gap for the last three years, and discuss plans for the future.

If there are expenses that are not classified as acquisition or maintenance, the make-up of these expenses should be disclosed.

Where expense-sharing agreements exist between a parent/subsidiary, often times a fixed or variable percentage of costs are shared. The AAR should disclose the existence of such arrangements, and detail any specific valuation considerations arising from them.

Branches are required to allocate the expenses covered by the head office on behalf of the branch operations. The Appointed Actuary should confirm that all of these direct and indirect expenses are included in the actuarial valuation.

For fraternals, the Appointed Actuary should disclose how all types of expenses are treated, including those not directly related to insurance. There should be a demonstration that any expenses not included in the valuation as maintenance expenses, or not classified as acquisition expenses, are or will be covered by well defined revenues.

C.3 Future Income Taxes in Actuarial Liabilities

The Appointed Actuary must clearly and explicitly disclose the assumptions made for future income taxes in the calculation of actuarial liabilities. The AAR must disclose the amount included in the actuarial liabilities and the amount included on the balance sheet by the accountants.

A description of the recoverability testing analysis performed should be included in the AAR detailing the assumptions, methods and sources used. The description should discuss how the Appointed Actuary confirmed that he/she and the company's accountant were not double counting the same recovery source.

This disclosure should be done at the lowest level at which it is done in the company (e.g., company, country, product line, etc.).

C.4 Index-Linked UL and Annuity Products

It is expected that the AAR include a discussion of the different products in force and their features. Included must be the face amounts and actuarial liabilities of the various products, the accumulated values of annuity products, the fund values of UL products, the amount of new business, the crediting mechanisms, the assets used to back the products, any guarantees, the risks of tracking errors or mismatches, the actuarial liabilities, the level of the MFADs and the amounts of the PFADs.

The discussion should include where the assets are held (e.g., in the general fund, in the company's segregated funds, in external mutual funds). If there is not a direct link between the asset yields and the return guaranteed to the policyholder, the Appointed Actuary should discuss in detail the investment strategy used. For example, if a product guarantees a TSE index but the actual assets are in the general fund and are a combination of bonds, futures, swaps, etc., this requires a description. The basis for actuarial liabilities held to cover tracking errors and guarantees should be explained.

The discussion should also cover the accounting treatment used to ensure consistency between the liabilities and assets in the financial statements.

C.5 Segregated Fund Products: Liability and Capital Provision

Standards covering the use of deterministic and stochastic scenarios are included in sections 2320.50 and 2320.51 of the CSOP. The Superintendent requires that for companies with material exposures to segregated fund guarantees, the Appointed Actuary must follow the methodology outlined in the "Report of the CIA Task Force on Segregated Fund Investment Guarantees" (March 2002). Section 4.3 of that report provides guidance on establishing the level of the actuarial liabilities for the guarantees. The Appointed Actuary should ensure that the actuarial liabilities established takes into account the considerations discussed in this section.

The high degree of skewness in the cost distribution associated with these products lends itself to the use of stochastic techniques, particularly in respect of the determination of future investment paths. It is OSFI's expectation that insurers with material guarantees employ stochastic methods in the determination of guarantee costs. Other insurers with blocks of segregated fund products should endeavour to adopt stochastic methods as well.

The actuary should disclose the following:

(1) Description of material products for which liabilities are held

(2) Methodology employed. If stochastic techniques are not used, the reasons should be disclosed along with any plans to adopt such methods

(3) Description of investment return model and calibration process

(4) Description of fund mapping process used to develop valuation cost distributions

(5) Liability assumptions detailing expected experience and margins for adverse deviations separately [including, if applicable, reset utilization, fund transfers, consideration of future deposits or other features]

(6) Rationale for choice of assumptions

(7) Whether hedging is employed to manage the risks and whether the liabilities reflect the hedged cash flows. In such situations, the additional capital provision should be determined assuming no hedging unless explicit written approval (subject to strict criteria) is obtained from OSFI. See Table 4.4 below.

(8) Level of liabilities held in respect of guarantee costs [i.e. CTE (60) to CTE (80) or other]. Any movement in CTE level should be based accordingly upon specific criteria similar to changes in other valuation assumptions. The Appointed Actuary should disclose the impact on reserves and include an explicit statement with respect to the nature, rationale and effect of such changes.

(9) Total liability and required capital

(10) Whether OSFI has approved an internal model for determination of capital requirements and if approved, a confirmation that it is being used to determine capital

(11) For each material product, total MER, charge for guarantees, and charges available in adverse scenarios and assumed in valuation to fund costs after recovery of deferred acquisition costs (DAC)

(12) Any reclassification of the total equivalent account charge ("MER") between amounts used to provide for guarantee and those used to provide for DAC

(13) Brief description of controls on model use and the associated development of costs distributions and liability values

(14) Description of any hedging strategies or reinsurance arrangements and how they are reflected in the valuation.
(15) Description of the lapse assumptions.

The following table should be filled in:

Table 4.4

Liability and Additional Capital Provisions Currently Held For Segregated Funds

Product	**Segregated Fund Liability**	**Liabilities Held in General Fund for Segregated Fund Guarantees**	**Negative Reserve for Def. Acq. Costs**	**Other General Fund Liabilities**	**Credit for Reinsurance Ceded**	**Additional Capital Provision***
Total						

Segregated fund products with guarantees should be shown separately from segregated fund products without guarantees.

Using a common lapse assumption for policies in payout mode (such as RRIF's) with non-payout segregated fund products can result in inappropriately high lapse rates for the non-payout products. Policies that are materially in the money are usually lapse supported and the setting of the lapse assumptions is critical to the level of guarantee costs.

OSFI expects the lapse assumption will vary, at a minimum, by payout versus non-payout mode. The assumption should also take into account the degree to which the policies are in the money. If the Appointed Actuary chooses a single assumption for both payout and non-payout policies, then the assumption must not result in inappropriately high lapse rates being applied to non-payout policies which are in the money.

OSFI encourages the development and use of a dynamic lapse assumption to more accurately reflect policyholder behaviour. For example, a base lapse assumption may apply when the contract is at or out of the money. The assumed lapses for a given contract would reflect a number of variables including product type, term to maturity, surrender charge period and degree of in-the-moneyness. The formula should produce relatively low or zero lapses in situations where the contract is deep in-the-money and close to maturity.

An example of a dynamic lapse formula can be found in Table 1 of the revised Chapter (MCCSR).

* In cases where hedging is utilized, the additional capital provision should be determined assuming no hedging program is in place unless explicit written approval was received from OSFI. These approvals are subject to stringent terms and conditions and are specific to the specific hedging program contemplated.

C.6 Deferred Acquisition Cost for Segregated Funds

The Appointed Actuary should describe the methodology used to set the amount of the deferred acquisition expenses at policy issue, justify its recoverability and write the initial balance of acquisition expense down to zero over a term established at policy inception. In addition, the Appointed Actuary should describe the DAC recoverability testing employed, the assumptions used, the term of the liabilities, and the criteria used to determine whether the DAC needs to be written down.

The Appointed Actuary should disclose the margin (in basis points) allocated to offset the cost of the guarantees and the margin allocated to fund the deferred acquisition cost requirements for the last three years.

Table 4.5

Margin Allocated to Fund Guarantees and Deferred Acquisition Costs (Basis Points)

	2006	2005	2004
Guarantees			
Acquisition Costs			

In any case, if a draw-down of the DAC is deemed appropriate, the Appointed Actuary should disclose the rationale, the amount of the draw-down and its impact on income.

C.7 Guarantees

The Appointed Actuary should disclose any product related guarantees that are not part of the policy contract. This disclosure is required whether or not the Appointed Actuary is holding any liabilities for such guarantees.

C.8 Surplus

The Appointed Actuary should comment on the quality and composition of the assets allocated to surplus. Table 3.1 must be disclosed for each surplus asset segment.

C.9 Bulk Liabilities

The Appointed Actuary must disclose separately and comment on the need for holding any bulk actuarial liabilities. Examples of such liabilities that fall into this category are (i) manual adjustment reserves that are the result of inadequacies of a valuation system, (ii) a bulk reserve to cover potential data problems, (iii) liabilities held to cover cyclical fluctuations, etc. These are examples only and should not be considered an exhaustive list. Any changes in how these liabilities are calculated must be disclosed as a basis change.

The Appointed Actuary must provide a table summarizing all the bulk liabilities held in the company.

Table 4.6

Summary of Bulk Reserves and Provisions ($,000)

Company/Country/ Product Line	**2006**	**2005**	**2004**
Total			

The Appointed Actuary is expected to show the type and amounts of any bulk provisions for the last three years. It is OSFI's expectation that approved policies exist describing the purpose and criteria for building and releasing such provisions. The Appointed Actuary should disclose the purpose, the criteria for building and releasing the provisions and by whom the policies are approved.

C.10 Reinsurance

The Appointed Actuary must document the company's reinsurance ceded policy. This includes retention limits, and any changes in such limits in the last three years. The disclosure should also include any company policies with respect to the maximum exposure allowed to a single reinsurer.

The Appointed Actuary should give a list of all material reinsurance agreements, both assumed and ceded. Detail should include the effective and expected termination dates, the type of reinsurance, a description of the products covered, and the impact on reserves and capital.

Disclosure should include retention limits, any unregistered reinsurance, and any reinsurance with associated companies.

Stop loss and catastrophe arrangements should also be clearly described.

The method of computing gross and net actuarial liabilities for significant blocks of business subject to coinsurance, and treatment of expense sharing between the reinsurer and the direct writer should be detailed.

OSFI is concerned about the use of back-to-back reinsurance contracts. Any reinsurance arrangements where a company cedes a block of business to a reinsurer and then accepts the same block of business back on a different basis requires full disclosure in the AAR. No credit can be taken for these arrangements in the capital requirements.

The Appointed Actuary must disclose information of any material financial reinsurance agreements where there is not significant insurance risk transfer between the ceding company and the reinsurer, or where there are other reinsurance agreements or side letters that could offset the financial effect of the first reinsurance agreement. If no such agreements exist the Appointed Actuary must state that there are no material financial reinsurance agreements. The

Appointed Actuary should also describe the process used to reach the above conclusion. Transactions that are in substance a form of financing, or principally involve the transfer of financial risks, should not use CICA section 4211 accounting.

The Appointed Actuary should disclose any bulk reinsurance agreements, how the actuarial liabilities were determined, and the impact on capital.

The Appointed Actuary should disclose whether there are any material risks from possible recapture of existing reinsurance agreements.

The Appointed Actuary should discuss any risk mitigation techniques in place, including but not limited to trust accounts, letters of credit, etc. A list of the reinsurance agreements that incorporate trust accounts or letters of credit should be shown in the AAR.

It should also be noted that for any reinsurance financing arrangement that significantly alters the pattern of actuarial liabilities the Appointed Actuary should discuss whether this arrangement involves a true transfer of risk to the reinsurer. The Appointed Actuary may also be asked to calculate and disclose capital requirements as if the particular arrangement had not been in place.

The Appointed Actuary should disclose any investigation of a reinsurer's credit risk. Any provisions held for this contingency should be disclosed.

The amounts of reinsurance ceded credit taken across all lines of business must be aggregated by reinsurance company. **The resulting ten largest reinsurers, based on credit taken in ceded actuarial liabilities, ceded outstanding claims and other amounts owed, must be disclosed in the form of a table.** The amounts owed should include amounts held as assets.

This disclosure should be done by product type. This top-ten list must be assembled by company groups, and not by individual subsidiaries of a reinsurance conglomerate.

The following is a sample of a table showing this disclosure.

Table 4.7

Ceded Actuarial Liabilities and Other Liabilities

Company	Product	Type of Reinsurance	Type of Credit Taken	2006	2005	2004
Reinsurer XX	Individual UL		Actuarial Liabs.			
			Assets owed			
	Group Ins.		Actuarial Liabs.			
Subtotal						
Reinsurer YY						
Total of Top 10						

The AAR should give a list of all assumption reinsurance ceded deals entered into in the last 3 years. This should list the date of the transaction, the line of business involved, the size of the liabilities at the time of the transaction and the name of the company.

C.11 Currency Exchange Rates

If applicable, the Appointed Actuary should show in tabular form the material currency exchange rates for the last three years.

C.12 Inter-Segment Notes

In 2004 OSFI released an update to Guideline E-12 on Inter-Segment Notes. When an Inter-Segment Note program is used, OSFI expects that the notes will be formally incorporated into the investment policy framework. The Appointed Actuary should describe the structure of the Note program, the procedures that are used to manage the Notes, and controls in place with respect to such use.

D. ASSET/LIABILITY MANAGEMENT (ALM)

In the reporting for each interest sensitive asset segment, the AAR must include an overview of the asset/liability risk management practice for that segment. This should include the specific operating guidelines and processes in place by asset segment to manage interest rate risk. The Appointed Actuary should discuss how the ALM environment is reflected in the setting of the assumptions for actuarial liabilities.

The Appointed Actuary should detail all considerations regarding guarantees in the various products and the resultant interest sensitivity of the liability cash flows. The Appointed Actuary should report on the interest rate sensitivity of the liabilities using the appropriate durations.

The AAR must include a discussion on the operating process used to manage, monitor and measure interest rate risk, including:

a. The asset/liability matching objectives for each business segment;

b. The level of immunization (of either surplus or accounting income) desired;

c. The immunization strategy and exposure limits used to manage interest rate risk. Strategies could include (but are not limited to) cash flow matching, duration gap, horizon matching. Limits could include (but are not limited to) asset concentration limits, limits on duration mismatches or limits on the number of scenarios that are allowed to reveal losses.

d. The investment strategy used to achieve the ALM objectives.

e. Whether or not the company actively trades assets and should detail how these practices impact the valuation.

f. The breakdown of assets used to back each business segment and surplus. Details on the characteristics of the assets that impact the interest sensitivity of the asset cash flows should be described.

g. The frequency of rebalancing to meet the ALM objective.

h. The use of any derivative instruments, stock or real estate in the matching process.

i. The assumptions used in developing asset cash flows and the allowance for expenses.

j. The provision made for the asset/liability mismatch (C3 risk).

k. The risk metrics chosen to measure and monitor the exposure to interest rate risk and performance of the immunization strategy, such as: Macaulay duration, modified duration and convexity, option-adjusted duration/effective duration, key rate durations, VaR. The AAR should comment on:

   - The appropriateness of the duration measures used for the assets and liabilities given the interest sensitivity of the asset and liability cash flows. If different duration measures for the assets and liabilities are being used, provide justification.
   - Weights used (market value and/or book value) for calculation of surplus duration and convexity
   - Frequency of measurement and reporting of the duration of the assets and liabilities and other risk metrics.

l. Processes used to validate the immunization strategy (e.g., simulation, stress testing, cash flow projections).

m. Where the C3 risk provision is determined across asset segments (e.g., natural offsets across asset segments are reflected), the methodology and assumptions used should be described.

E. SOURCES OF EARNINGS

Appointed Actuaries of **Canadian** life insurance companies[1] are required to include in their annual reports to OSFI an analysis of the company's earnings by source in the format described by the table below. Appointed Actuaries should refer to the CIA (Draft) Educational Note: "Sources of Earnings: Determination and Disclosure" for consistent interpretation of terminology.

An analysis (or copy of the table) should be provided for the total company and for each of its principal divisions. The definition of divisions is left to the company in accordance with the principle that the organization of financial reporting should follow the manner in which the company is managed and reports itself. This reporting should be consistent with the presentation of segmented data under CICA requirements.

Table 6.1

Sources of Earnings Analysis

(C$ millions)

	2006	2005
Expected Profit on Inforce Business		
Impact of New Business		
Experience Gains & Losses:		
Management Actions and Changes in Assumptions		
Other		
Earnings on Operations (pre-tax)		
Earnings on Surplus		
Net Income before Tax		
Taxes		
Net Income after Tax		

[1] The Sources of Earnings disclosure does not apply to Canadian incorporated fraternal benefit societies or property and casualty companies, or to Canadian branches of foreign life insurance companies, fraternal benefit societies, or property and casualty companies. However, OSFI may request these companies to disclose the sources of earnings information on a case-by-case basis.

F. REPORT ON PARTICIPATING POLICIES

Sections 456 to 464 of the ICA cover the operations of the participating account. This includes the allocation of investment income and expenses, transfers to shareholders from the par account, and dividend policy.

F.1 Participating Account and Sub-Account Disclosure

While companies typically disclose only one participating account, in some cases a company may also have participating sub-accounts. A sub-account may arise for the following reasons:

1. Sub-accounts required by a demutualization. The closed fund, open fund and ancillary fund are such sub-accounts;
2. Sub-accounts required as part of a past agreement to take over / acquire / merge a block of business from another company;
3. Any sub-account that the company is internally tracking in its accounting for use in setting dividends.

The following details are to be disclosed in the AAR for the total participating account and for each sub-account that may exist:

Table 7

Participating Sub-Accounts ($,000)

	Sub-Account Name	Total Par Account	Sub-Account 1	Sub-Account 2
i.	Sub-account surplus, start of year			
ii.	Currency adjustment			
iii.	Sub-account net income			
iv.	Transfers from sub-account surplus to shareholder account per Section 462(a) of the ICA(*)			
v.	Other transfers to/from sub-account surplus(**)			
vi.	Sub-account surplus, end of year			
vii.	Total sub-account (Liabilities and Surplus), start of year			
viii.	Total sub-account (Liabilities and Surplus), end of year			
ix.	Policyholder dividends (excluding experience rating refunds) - Gross - Assumed - Ceded - Net			

	Sub-Account Name	Total Par Account	Sub-Account 1	Sub-Account 2
x.	Transfers from sub-account surplus to shareholder account per Section 462(a) of the ICA, if included in Net Income(*)			
xi.	Calculation of Section 462(a) transfers to demonstrate compliance with Section 461 of the ICA.			

(*) Some companies include the Section 462(a) transfer in Net Income while other companies show them as a transfer from par account surplus.
(**) The cause of any such other transfers is to be disclosed in detail.

In addition, the Appointed Actuary should provide a brief description of the nature of the business in each sub-account, and the method used to allocate investment income, expenses and taxes to each of the sub-account(s).

The Appointed Actuary is expected to include in the AAR the dividend policy that is publicly disclosed to participating policyholders. The Appointed Actuary is to disclose where this public disclosure is made.

F.2 Participating Closed Blocks

This section of the Memorandum applies only to former Canadian mutual companies that have demutualized.

F.2.i Reporting

When a company has established participating closed blocks per the OSFI document entitled "Par Account Restructuring of Canadian Demutualizations", an annual report is required from the Appointed Actuary listing the following:

1. A financial analysis of the experience in each of the participating accounts over the past twelve months;
2. A projection of the surplus in the closed component on its own and the Par Accounts in total;
3. A projection of the gain/loss position of the closed component;
4. The identification of accumulated gains or losses in experience fluctuation accounts (if applicable);
5. The dividend recommendation (or most recent dividend recommendation);
6. A description of other factors influencing the dividend recommendation, e.g., competitors' actions; and
7. Disclosure of par PfAD, and Closed-Block PfAD. If any changes occur in the reserve basis for the PfAD, a justification for those changes should be included.

F.2.ii Ongoing Opinions

The Appointed Actuary will be required to give opinions on an annual basis in response to the following questions:

1. Are the participating accounts being maintained in accordance with any commitments made at the time of demutualization, including the Conversion Proposal, the Operating Rules and any related reports?
2. Are the assets in the Closed Block sufficient to provide for the contractual benefits, plus reasonable policyholder expectations of non-guaranteed elements? Are dividends being managed in a way that neither a material surplus (tontine) nor deficit situation develops?
3. Is the dividend recommendation in compliance with the dividend policy (or policies) of the company?
4. Are allocations of investment income, expenses, etc. between the account fair and equitable? Are the allocations being determined on the basis outlined in the Operating Rules?
5. Is the asset mix consistent with the prior period and with the Closed Block investment policy?

F.2.iii AAR Reporting

It is recognized that all of the data required to be reported in section F.2.i above may be difficult to obtain within the deadlines required for reporting the AAR. **However, the AAR must include at a minimum the reporting disclosure items (1), (4) and (7).**

The other reporting disclosure items and the ongoing opinions must be filed with OSFI no later than six months after the end of the fiscal year.

G. ADDITIONAL REPORTING FOR MCCSR and TAAM

In recent years, the MCCSR Guideline has been refined, so that in some cases actuarial judgment is required. The MCCSR and TAAM returns require the Appointed Actuary's confirmation that the instructions pertaining both to the MCCSR and the TAAM Guidelines and to the annual return have been followed. OSFI also expects an opinion signed by the Appointed Actuary and a memorandum, covering the areas where the calculation required discretion or significant technical calculations, methodologies and judgements were applied.

The following disclosures are required in the AAR.

G.1 Negative Reserves and Excess Cash Values

CALM is by definition, an aggregate valuation method. For determining negative policy liabilities, provisions for adverse deviation by products, future tax cash flows, and current tax liabilities, it may be desirable to allocate liabilities on a seriatim or product level basis. For MCCSR calculations, such allocation is necessary. The actuary is advised to develop and document a reasonable methodology for allocating policy liabilities to individual policies, or to groups of policies, consistent with the overall valuation method.

A good allocation method has the following characteristics:

- It reflects the basic characteristics and risks of the policies, or blocks of policies, valued. (For example, some policies may have adjustable premiums, or minimum guarantees, such as the minimum interest credited to some Universal Life policies. Other policies may pass results back to policyholders through dividends, or similar mechanisms.)
- It reflects the characteristics of the assets currently being held (or to be held) to back such policies, or blocks.
- It allows for a reasonable projection of policy liabilities (e.g., Future Tax Liabilities, DCAT, and Embedded Value).
- It can be used for the different purposes of allocation, and over successive reporting periods.

The calculation of negative policy liabilities is a specific example of an allocation of liabilities under CALM. The method of allocation selected would be determined in accordance with the guidelines for a good allocation method. It is OSFI's expectation that the determination of negative policy liabilities will be on a policy-by-policy basis if CALM is applied using a PPM approximation. In other circumstances, such as the direct application of CALM, the negative policy liabilities need not be determined using a policy-by-policy allocation but would at least be determined at the product/cohort level. Such a calculation would take into account the assets backing the various cohorts (i.e. consistent with the company's ALM). For a grouping to be acceptable, the Appointed Actuary should be reasonably certain that, if the reserves for policies in the group were calculated individually, nearly all of them would be positive or nearly all of them would be negative. A cohort should be defined by product issue periods and age at issue but would not encompass more than one year of issues. A product should be defined as a set of premium rates priced simultaneously and having homogeneous risk characteristics.

Considering the amount of work required to allocate policy liabilities by product/cohort groupings, actuaries could perform that task off the valuation cycle but no more than three months prior to a valuation date and project the allocation results (negative policy liabilities or in other type of allocation) to the valuation date.

The actuary should consult the CIA Educational Note "Aggregation and allocation of policy Liabilities" for further discussion on allocation approaches.

G.2 Qualifying Participating Contracts

The following wording in the MCCSR Guideline sets out the criteria that must be met in order to qualify to use the preferential par factors for all MCCSR par related components:

> In light of the risk pass-through nature of participating policies, some of the risk factors applied to the components associated with participating policy liabilities and assets backing participating policies may be reduced if certain conditions are met. Risk factors may only be reduced in respect of a block of policies if experience with respect to the risk component is explicitly incorporated in the annual dividend adjustment process in a consistent manner from year to year for these policies. Specifically, participating policies and assets backing participating policies are considered *qualifying participating policies* and qualify for the reduced risk factors on the respective component only if the following four criteria are met[2]:
>
> 1. The policies must pay meaningful dividends.
> 2. The company's participating dividend policy must be publicly disclosed and must make it clear that policyholder dividends will be adjusted to reflect actual experience. The company must publicly disclose the elements of actual experience that are incorporated in the annual dividend adjustment process. Such elements may include investment income, asset defaults, mortality, lapses and expenses. (This requirement is effective beginning with year-end 2004.)
> 3. The company must regularly (at least once a year) review the policyholder dividend scale in relation to the actual experience of the participating account. It must be able to demonstrate to OSFI, for example, which individual elements of actual experience, to the extent that they are not anticipated in the current dividend scale, have been passed through in the annual dividend adjustment. Furthermore, it must be able to demonstrate that shortfalls in actual overall experience with regard to the risk component[3] are substantially recovered within a period not exceeding five years.
> 4. The company must be able to demonstrate to OSFI that it follows the dividend policy and practices referred to above.

[2] The treatment also applies if the participating policy contains adjustable factors other than dividends that meet the criteria above (i.e., they are meaningful, the criteria for their review is disclosed, they are reviewed and adjusted regularly and the company can demonstrate that it is following the policy).

[3] The substantial recovery of shortfalls must be demonstrated based on actual reductions in dividend payments during the five-year period from what would have been paid during that period taking into account of all of those elements, and only those elements, that are passed through to policyholders.

If the company is using the reduced MCCSR requirements for any blocks of business that are deemed to be “qualifying participating” blocks, the AAR must document how the above conditions have been met.

G.3 Index-Linked Policies

A mismatch test is required for index-linked policies. The AAR should disclose the results of the correlation testing for each asset sub-group.

H. REVIEW PROCEDURES

H.1 OSFI's Review Procedures

The Superintendent recognizes the confidential nature of the contents of the AAR.

Reviews of the filed Annual Returns may disclose that an Appointed Actuary's valuation warrants further assessment and questioning. The Superintendent may reject methods and assumptions where it appears that the actuarial liabilities produced are inappropriate.

The review of an AAR may take place over an extended period after filing, and OSFI may notify the Appointed Actuary that supplemental detail is required to sufficiently assess the methods and assumptions. The Appointed Actuary is expected to respond promptly to all supplemental requests.

Working papers required to support the computation of the actuarial and other policy liability amounts reported in the Annual Return and the AAR must be available with the Appointed Actuary at all times and must be made available to OSFI upon request.

Should the questioning of particular methods or assumptions not sufficiently demonstrate the appropriateness of the policy liabilities produced, the Superintendent will require the Appointed Actuary to choose other acceptable methods or assumptions, and to re-compute the policy liabilities. In such a situation, the Appointed Actuary will have to refile the AAR. The Superintendent may cause the company to amend the Annual Return. Alternatively, the Superintendent may ask the company to reflect the changes in the Annual Return for the following year. The Superintendent may request an Independent Actuary's Report, if deemed necessary.

H.2 External Review of the Work of the Appointed Actuary

OSFI requires the work of the Appointed Actuary to be externally reviewed. The criteria and requirements are set out in OSFI's Guideline E-15 *"Appointed Actuary: Legal Requirements, Qualifications and External Review"*.

At the current time, the CIA has not finalized a standard on Appointed Actuary Certificates. (The last Exposure Draft was dated April 18, 2006.) OSFI expects the Appointed Actuaries to comply with the requirements in OSFI Guideline E-15, and the draft CIA Appointed Actuary Certificates with respect to qualifications as if they were effective at the end of 2006. Any deviations from these qualifications must be explicitly disclosed in the AAR, including future steps to be taken to meet the qualification requirements.

Each item of the Appointed Actuary's work described in Guideline E-15 subsection 3 (c) should be reviewed at least once every three years, either all at once or in phases over a three-year cycle. A material change in an item should be reviewed in the year in which it occurred.

A cycle is considered a three-year period starting from the inception of E-15 (August 2003). The new 3-year cycle begins after the completion of the last external review. For example if a review is completed in 2005 based upon the 2004 year-end, the next review must occur no later than 2008 based upon 2007 year-end financial information. The Appointed Actuary should disclose if no external

reviews were completed in the last three years and the reasons why. Note that such circumstances would be rare and require pre-OSFI approval.

One paper copy of the External Review should be submitted to OSFI's **Regulatory Information Division** in Ottawa. The mailing address is:

Office of the Superintendent of Financial Institutions Canada
Regulatory Information Division
255 Albert Street
Ottawa ON K1A 0H2

We also require that the External Reviews be filed in electronic form on a diskette or a CD, using either Word or pdf format, with the latter preferred. Separate diskettes or CDs should be used for separate companies.

For each External Review report filed in the last three years, the AAR must provide the following information in the order shown:

(a) Work Reviewed (See list below)*
(b) Accounting period for work reviewed:
(c) External Review Date:
(d) Date submitted to OSFI:
(e) Date submitted to Audit Committee or Chief Agent:
(f) Pre or Post release report:
(g) Key findings or recommendations:
(h) Status of findings and recommendations:
(i) Year of next review for items identified in (a):

*Work to be reviewed:

1. Appointed Actuary's report (AAR);
2. Dynamic Capital Testing (DCAT);
3. for life insurance companies, MCCSR/TAAM returns;
4. for Canadian life insurance companies, participating accounts;

I. OTHER DISCLOSURE REQUIREMENTS FOR THE AAR

I.1 Dynamic Capital Adequacy Testing (DCAT)

The AAR should not include the DCAT report, since the full report must be filed with OSFI after it is prepared. The AAR must disclose the following information with respect to the DCAT reporting in the last three years:

- Date on which the DCAT reports were signed by the Appointed Actuary.
- Date on which the DCAT reports were presented.
- To whom the DCAT reports were presented (e.g., full board, audit committee, chief agent).
- Did the Appointed Actuary present the reports in person or only in written form.
- Date used as the start of the projection period in the DCAT report.

One paper copy of the DCAT report should be submitted to OSFI's **Regulatory Information Division** in Ottawa. The mailing address is:

Office of the Superintendent of Financial Institutions Canada
Regulatory Information Division
255 Albert Street
Ottawa ON K1A 0H2

We also require that the DCAT be filed in electronic form on a diskette or a CD, using either Word or pdf format, with the latter preferred. Separate diskettes or CDs should be used for separate companies.

I.2 New Appointment

If the Appointed Actuary was appointed to the role during the last year, the following disclosures must be made in the AAR:

- Date of appointment by the board.
- Date of resignation of previous Appointed Actuary.
- Date on which OSFI was notified of the appointment.
- Confirm communication with previous Appointed Actuary, as required by the ICA section 364(1).
- List of the Appointed Actuary's qualifications, keeping in mind, but not limited to, the CIA's Rules of Professional Conduct. The qualifications listed in Section 2 of OSFI's Guideline E-15 should be referenced.

I.3 Annual Required Reporting to the Board or Audit Committee

For a Canadian company, the AAR must disclose the date on which the Appointed Actuary met with the board or the audit committee of the board as required by the ICA, section 203(3)(f).

For a foreign company, the AAR must disclose the date on which the Appointed Actuary met with the chief agent, as required by the ICA, section 630.

For participating account management, the Appointed Actuary must disclose the following in the AAR:

- The written opinion of the Appointed Actuary on the allocations of investment income, capital gains and expenses and whether they are fair and equitable, as required by the ICA sections 457 and 458.
- Date on which the Appointed Actuary reported on this to the directors, as required by the ICA section 460.
- The opinion of the Appointed Actuary that any transfers from the participating funds to the shareholders does not materially affect the company's ability to continue to comply with its dividend or bonus policy or to maintain the levels or rates of dividends or bonuses paid to the company's participating policyholders, as required by the ICA section 461(c).
- The report of the Appointed Actuary to the board opining on whether the dividends declared are in accordance with the company's dividend policy, as required by the ICA section 464(2).

I.4 Continuing Professional Development Requirements

The Appointed Actuary must disclose in the AAR that he/she is in compliance with the Continuing Professional Development requirements of the CIA.

I.5 Disclosure of Compensation

The Appointed Actuary should make a disclosure of compensation in the AAR. The form of the opinion should be as follows:

Disclosure of Compensation

I attest that all my direct and indirect compensation is derived using the following methodology:

____
____
____
____

I confirm that I have performed my duties without regard to any personal considerations or to any influence, interest or relationship in respect of the affairs of my client or employer that might impair my professional judgment or objectivity.

I confirm that my ability to act fairly is unimpaired, that there has been full disclosure of the methodology used to derive my compensation to all known direct users of my services.

If the Appointed Actuary is a participant in a bonus plan or a stock option plan that is based on company performance and which is in addition to a base salary, **the value, as a percentage, of the bonus plan or stock option plan to the base salary must be disclosed**. The basis used to determine the amount of the bonus or stock options granted must be disclosed.