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# Advisory

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**Category:** Regulatory & Legislative

**NOTICE\***

**Subject:** Substantial Investments - Insurance companies and insurance holding companies

**No:** 2003 - 07

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**Introduction:** This Advisory provides an overview of how the Office of the Superintendent of Financial Institutions (OSFI) administers and interprets the substantial investment regimes for federally incorporated life insurance companies (LifeCos) and property and casualty insurance companies (P&Cs), insurance holding companies (IHCs) and provincial companies<sup>1</sup> subject to the *Insurance Companies Act* (Act) (collectively referred to as “InsCos”) set out in the Act. Since the substantial investment regimes for LifeCos and IHCs are essentially the same, the word “LifeCo” in this Advisory includes an IHC, unless otherwise stated. A table of concordance setting out the corresponding provisions for LifeCos and IHCs is included at the end of this Advisory.

In this Advisory, the acronym

- RE means “regulated entity”: an entity referred to in any of paragraphs 495(1)(a) to (j) of the Act – i.e., a federal financial institution, a bank holding company, an insurance holding company, or a provincial or foreign regulated financial institution;
- FRE means “federally-regulated entity”: an entity referred to in any of paragraphs 495(1)(a) to (f) – i.e., a federal financial institution, a bank holding company or an insurance holding company;
- PFFI means “provincial or foreign regulated financial institution”: an entity referred to in any of paragraphs 495(1)(g) to (j);
- 495(2) entity means an entity whose business is limited to one or more of the activities referred to in any of paragraphs 495(2)(a) to (f); and
- 495(4) entity means an entity whose business is limited to one or more of the activities referred to in any of paragraphs 495(4)(a) to (f).

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<sup>1</sup> As per subsection 656(1) of the Act, Part IX applies to provincial companies, as defined in subsection 2(1) of the *Insurance Companies Act*.

## Legislative References:

Part IX – Investments, sections 490 to 514 of the Act

Part XIV – Provincial Companies, section 656 of the Act

Part XVII, Division 9 – Investments (IHCs), sections 966 to 991 of the Act

*Exemption from Restrictions on Investments (Insurance Companies, Insurance Holding Companies and Societies) Regulations*

*Minority Investment (Insurance Companies) Regulations*

*Minority Investment (Insurance Holding Companies) Regulations*

*Specialized Financing (Life Companies) Regulations*

*Specialized Financing (Insurance Holding Companies) Regulations*

**Permitted Substantial Investments:** Except as permitted under the Act, an InsCo may not acquire control of, or a substantial investment in, another entity. The term “substantial investment” is defined in section 10 of the Act. In essence, an InsCo has a substantial investment in a body corporate if the aggregate of the voting rights attached to any of the voting shares of the body corporate beneficially owned by the InsCo and any of its subsidiaries exceeds 10 per cent of the voting rights attached to all of the outstanding voting shares of the body corporate, or if the aggregate of any shares (voting and non-voting) of the body corporate beneficially owned by the InsCo and any of its subsidiaries represents ownership of greater than 25 per cent of the shareholders' equity of the body corporate. An InsCo has a substantial investment in an unincorporated entity if the aggregate of any ownership interests beneficially owned by the InsCo and its subsidiaries exceed 25 per cent of all of the ownership interests into which the entity is divided. The word “control”, as defined in section 3 of the Act, includes both “de jure” and “de facto” control. For purposes of the Act, an entity is a subsidiary of another entity if it is controlled by the other entity. This means, for example, that an entity is a subsidiary of another entity if it is de jure or de facto controlled by the other entity.

Section 493 of the Act sets out the general restriction on the acquisition of control, or the holding, acquisition or increasing of substantial investments, by an InsCo in other entities and provides for the following four categories of permitted substantial investments<sup>2</sup>:

1. investments in “permitted entities”;
2. indirect investments;
3. investments for a limited period of time; and
4. investments made under the *Specialized Financing Regulations*<sup>3</sup>.

An overview of each of these categories of permitted substantial investments follows.

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<sup>2</sup> In addition to the requirements contained in section 493, InsCos must comply with section 492, which states that InsCos must adhere to investment policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments and loans to avoid undue risk of loss and obtain a reasonable return.

<sup>3</sup> Only LifeCos are permitted to make investments under these regulations: directly (subsection 493(4)) or through a specialized financing entity (paragraph 495(2)(b)). IHCs may also make such investments but only through a specialized financing entity (subsection 969(2)).

**1. Investments in Permitted Entities** (subsection 493(1) of the Act)

The term “permitted entity” means an entity in which an InsCo is permitted to acquire a substantial investment under section 495 of the Act. In essence, this section provides that an InsCo may acquire control of, or acquire or increase a substantial investment in:

- a) a FRE, provided that the InsCo meets the control requirements set out in subsection 495(6);
- b) a PFFI provided that the InsCo meets the approval and control requirements set out in subsections 495(6) to (8);
- c) a 495(2) entity (LifeCos) or 495(4) entity (P&Cs), other than an entity engaging in an activity prescribed for the purpose of paragraph 495(2)(f) or 495(4)(f), respectively, provided that:
  - (i) the entity does not engage in the business of accepting deposits or activities referred to in any of paragraphs 495(3)(a) to (e) or 495(5)(a) to (e), respectively, and
  - (ii) the InsCo meets the approval and control requirements set out in subsections 495(6) to (8); and
- d) an entity engaging in prescribed activities, under prescribed terms and conditions, if any are prescribed (paragraph 495(2)(f) (LifeCos) or 495(4)(f) (P&Cs))<sup>4</sup>, provided that the InsCo meets the Ministerial approval requirements under subsection 495(7).

A detailed description of the various classes of permitted entities and the applicable requirements are provided in Appendix A.1 for LifeCos and in Appendix A.2 for P&Cs (i.e., approval, control, and business restrictions).

**1.1 Approval requirement** (subsections 495(7) to (9) of the Act)

The prior approval of the Minister or the Superintendent may be required where an InsCo wishes to acquire control of, or a substantial investment in, a permitted entity.<sup>5</sup>

Where an InsCo wishes to acquire a significant interest (more than 10 per cent of any class of shares) in a FRE, the approval of the Minister is required under the ownership provisions of the applicable federal financial institutions statute. The Minister considers a broad range of factors in assessing transfers of ownership of a FRE, such as the impact of any integration of the businesses and operations of the applicant, and the best interests of the financial system in Canada.

<sup>4</sup> E.g.: *Ancillary Activities (Insurance Companies, Canadian Societies and Insurance Holding Companies) Regulations*.

<sup>5</sup> See Appendix A.1 for circumstances where either the Minister’s or the Superintendent’s approval would be required for LifeCos, and Appendix A.2 for P&Cs.

Generally, the prior approval of the Superintendent is required for an InsCo to acquire control of, or acquire or increase a substantial investment in, a PFFI, or in an unregulated entity that engages in financial intermediary activities<sup>6</sup> that expose the entity to material market or credit risk. In certain circumstances, the acquisition of control of such an entity would instead require the prior written approval of the Minister. The approval process permits OSFI to ensure that the proposed investment would not expose the InsCo to undue risk or hinder OSFI's ability to supervise the InsCo. In addition, the Minister's approval is required where the entity engages in information services, Internet activities or in the promotion, sale, delivery or distribution of financial products or services to the public.

Where no prior approval is required to acquire control of, or to acquire or increase a substantial investment in, a permitted entity, OSFI may review an InsCo's investment in the course of its ongoing supervisory process. This review is more likely to occur if the investment is material or presents a significant change in the business strategy of an InsCo. As part of the review, OSFI may require an InsCo to provide detailed information regarding the investment, including details of the consideration paid, integration plan and anticipated impact of the investment on the InsCo's risk profile and on its ability to meet capital adequacy requirements. If prudential issues were identified, OSFI would require the InsCo to take appropriate corrective measures. **Accordingly, OSFI encourages InsCos to notify their OSFI Relationship Manager promptly when such investments in permitted entities are made, particularly if the investment may raise prudential concerns.**

Note that section 496 streamlines the regulatory approval process by eliminating some approvals. This section applies where an InsCo would, through its acquisition of control of an entity (the parent entity) for which an approval of the Minister is required, acquire control of, or acquire or increase a substantial investment in, other entities (indirect investments) for which an approval of the Minister or the Superintendent would be required. It also applies where an InsCo would, through its acquisition of control of an entity (the parent entity) for which an approval of the Superintendent is required, acquire control of, or acquire or increase a substantial investment in, other entities (indirect investments) for which an approval of the Superintendent would also be required. For this streamlined regime to apply, the InsCo must, prior to obtaining the Minister's or the Superintendent's approval to acquire control of the parent entity, disclose to the Minister or the Superintendent in writing all indirect investments that it would also acquire as a result of its acquiring control of the parent entity.

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<sup>6</sup> An example of an entity that is considered to be engaged in financial intermediary activities is one which raises money through issuing securities or otherwise borrows money and uses the proceeds to make loans or enter into any other similar arrangements for advancing funds or credit. P&Cs do not have the authority to control or hold a substantial investment in such entities.

## **1.2 Control requirement** (subsections 495(6), (10) to (13) of the Act)

Typically, an InsCo may not acquire a substantial investment in a RE, a financial holding entity<sup>7</sup> or an entity that engages in financial intermediary activities that expose the entity to material market or credit risk<sup>8</sup>, unless the InsCo acquires de facto control of the entity. However, the InsCo need not control the entity if the InsCo complies with the requirements of the *Minority Investment Regulations*, which set out a minority investment cap of 50 per cent of regulatory capital for all such investments. In addition, if the entity is a foreign entity, and the laws or customary business practices of the foreign country do not permit the InsCo to control the entity, the InsCo may still acquire a substantial investment in that entity but must include the investment in calculating its minority investment cap.

A key feature of the control requirement is to address concerns over risks to reputation to which an InsCo is exposed when the InsCo has a substantial investment in an entity whose activities are closely related to the business of insurance, banking, financial intermediation or investment. It is designed to ensure that if the entity were to encounter financial difficulties, the InsCo would be in a better position to influence the entity's management on how best to correct the problems.

In addition, subsection 497(4) of the Act provides that an InsCo, in the course of acquiring control of, or within a reasonable time after acquiring control of, any permitted entity, other than a FRE, must obtain from the permitted entity an undertaking to provide the Superintendent with reasonable access to its records. This is an important element of OSFI's ability to supervise InsCos on a consolidated basis.

## **1.3 Business restrictions**

### **1.3.1 LifeCos** (subsection 495(3) of the Act)

Where the permitted entity is a RE, the Act does not impose any restrictions on the RE's business activities. However, where the permitted entity is a 495(2) entity<sup>9</sup>, its business activities must comply with the restrictions set out in subsection 495(3) of the Act in order for a LifeCo to acquire control of, or acquire a substantial investment in, that entity. In particular, a LifeCo may not acquire control of, or acquire or increase a substantial investment in, a 495(2) entity if the entity engages in the business of accepting deposit liabilities, or if the activities of the 495(2) entity include:

- a) engaging, in Canada, in fiduciary, personal property leasing or residential mortgage

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<sup>7</sup> An entity whose business includes the acquisition or holding of shares of, or ownership interests in, entities in which an InsCo is permitted to hold or acquire, including, in the case of a LifeCo and an IHC, a specialized financing entity.

<sup>8</sup> P&Cs do not have the authority to control or hold a substantial investment in such entities.

<sup>9</sup> In this subsection, the reference to a 495(2) entity should be read as an entity whose business is limited to one or more of the activities referred to in any of paragraphs 495(2)(a) to (e).

activities of a type that a LifeCo is precluded from engaging in;

- b) dealing in securities, except as may be permitted to an InsCo, mutual fund entity or mutual fund distribution entity; or
- c) acquiring control of, or acquiring or holding a substantial investment in, another entity unless:
  - (i) in the case of a 495(2) entity that is controlled by the LifeCo, the LifeCo itself would be permitted to acquire a substantial investment in the other entity; or
  - (ii) in the case of a 495(2) entity that is not controlled by the LifeCo, the LifeCo itself would be permitted to acquire a substantial investment in the other entity under subsection 495(1) or (2) – i.e., “permitted entity” without regard to the approval and control requirements in subsections 495(6) to (7)<sup>10</sup>; subsection 493(2) – i.e., indirect investment (see section 2 below); paragraph 493(3)(b) or (c) – i.e., loan workout or realization of a security interest (see section 3 below); or subsection 493(4) – i.e., specialized financing (see section 4 below); or
- d) any prescribed activity.

This is an ongoing requirement. As long as a LifeCo controls, or has a substantial investment in, the 495(2) entity, the business activities of that entity must comply with these restrictions. On the day a LifeCo becomes aware of a change that causes the business activities of the 495(2) entity to cease to be in compliance with these restrictions, the entity ceases to be a “permitted entity” and the LifeCo is deemed to have acquired a temporary investment in the entity (see section 511 of the Act).

### **1.3.2 P&Cs** (subsection 495(5) of the Act)

Where the permitted entity is a RE, the Act does not impose any restrictions on the RE’s business activities. However, where the permitted entity is a 495(4) entity<sup>11</sup>, its business activities must comply with the restrictions set out in subsection 495(5) of the Act in order for a P&C to acquire control of, or acquire a substantial investment in, the entity. In particular, a P&C may not acquire control of, or acquire or increase a substantial investment in, a 495(4) entity if the entity engages in the business of accepting deposit liabilities, or if the activities of the 495(4) entity include:

- a) engaging, in Canada, in fiduciary, financial leasing of personal property or residential mortgage activities of a type that a P&C is precluded from engaging in;
- b) dealing in securities, except as may be permitted to an InsCo, mutual fund entity or mutual

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<sup>10</sup> See *Exemption from Restrictions on Investments Regulations*.

<sup>11</sup> In this subsection, the reference to a 495(4) entity should be read as an entity whose business is limited to one or more of the activities referred to in any of paragraphs 495(4)(a) to (e).

fund distribution entity;

- c) engaging in financial intermediary activities that expose the entity to material market or credit risk;
- d) engaging in the activities of a specialized financing entity; or
- e) acquiring control of, or acquiring or holding a substantial investment in, another entity unless:
  - (i) in the case of a 495(4) entity that is controlled by the P&C, the P&C itself would be permitted to acquire a substantial investment in the other entity; or
  - (ii) in the case of a 495(4) entity that is not controlled by the P&C, the P&C itself would be permitted to acquire a substantial investment in the other entity under subsection 495(1) or 495(4) - i.e., “permitted entity” without regard to the approval and control requirements in subsections 495(6) to (7)<sup>12</sup>; subsection 493(2) – i.e., indirect investment (see section 2 below); paragraph 493(3)(b) or (c) – i.e., loan workout or realization of a security interest (see section 3 below); or subsection 493(4) – i.e., specialized financing (see section 4 below); or
- f) any prescribed activity.

This is an ongoing requirement. As long as a P&C controls, or has a substantial investment in, the 495(4) entity, the business activities of that entity must comply with these restrictions. On the day a P&C becomes aware of a change that causes the business activities of a 495(4) entity to cease to be in compliance with these restrictions, the entity ceases to be a “permitted entity” and the P&C is deemed to have acquired a temporary investment in the entity (see section 511 of the Act).

## **2. *Indirect Investments*** (subsection 493(2) of the Act)

Subsection 493(2) of the Act provides that where an InsCo controls, or acquires control of, a RE<sup>13</sup>, the InsCo may, through the RE, acquire control of, or acquire or increase a substantial investment in, an entity other than a permitted entity.<sup>14</sup> The InsCo may do so in either of two ways. The InsCo may acquire control of a RE that already has control of, or a substantial investment in, the entity. Alternatively, following the InsCo’s acquisition of control of the RE, the RE may acquire control of, or acquire a substantial investment in, the entity by way of an

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<sup>12</sup> See *Exemption from Restrictions on Investments Regulations*.

<sup>13</sup> In this section, in respect of an IHC, the reference to a RE in this section should be read as a RE or a specialized financing entity.

<sup>14</sup> Where an InsCo controls, or requires control of, a RE, subsection 493(1) permits an InsCo to acquire, through the RE, control of, or a substantial investment in, a permitted entity.

acquisition of shares or ownership interests in the entity.

As mentioned in section 1 of this Advisory, in order for an InsCo to acquire control of, or acquire or increase a substantial investment in, a RE or a 495(2) entity (LifeCos) or a 495(4) entity (P&Cs) pursuant to section 493(1), the InsCo must comply with the requirements set out in subsections 495(3), (6) to (8) (LifeCos) or 495(5), (6) to (8) (P&Cs).

However, subsection 493(2) provides the InsCo with an alternative means to acquire control of, or acquire or increase a substantial investment in a RE or a 495(2) entity or 495(4) entity, as long as the investment is made through a RE that is controlled by the InsCo.

More specifically, where the InsCo makes an investment in an entity through a RE that is a FRE, subsection 493(2) does not impose any requirements because all FREs are subject to substantially the same substantial investment regime. For example, if a LifeCo were directly to acquire control of a bank, the LifeCo would require the Minister's approval for the bank acquisition under the ownership provisions of the *Bank Act*, but would not require formal approvals for all entities controlled by the bank or entities in which the bank has a substantial investment. These downstream entities of the bank would essentially be of a type in which the LifeCo would itself be permitted to control or have a substantial investment. In addition, for the bank to acquire these downstream entities originally, the bank would itself have had to comply with requirements similar to those contained in subsections 495(6) to (8) of the Act. Similarly, in making new substantial investments or acquiring control of new entities, the bank would be required, under the *Bank Act*, to comply with approval and control requirements similar to those mentioned previously in sections 1.1 and 1.2 of this Advisory.

Similarly, where the InsCo makes an investment in an entity through a RE that is a PFFI, subsection 493(2) does not impose any requirements so as not to hinder the PFFI's ability to compete with its peers in its home jurisdiction. Given that PFFIs are regulated in their home jurisdiction, the provincial or foreign regulator has the responsibility to ensure that their proposed investments, corporate affiliation or structure would not expose the PFFI to undue risk or hinder effective supervision. As discussed in section 1.1 of this Advisory, an approval is required for an InsCo directly to acquire control of, or acquire or increase a substantial investment in, a PFFI. At that time, OSFI generally assesses the regulatory framework under which the PFFI operates. If prudential issues are identified, OSFI may, as provided in subsection 497(3), enter into an agreement with the home regulator concerning the activities of the PFFI or any other matter OSFI considers appropriate. In addition, as provided in subsection 497(2), where an InsCo acquires control of a PFFI, OSFI may require the InsCo to provide it with undertakings concerning such entity.



Although subsection 493(2) does not impose any approval, control and business restrictions where the InsCo, through a PFFI, acquires control of, or acquires or increases a substantial investment in, another entity, OSFI may review an InsCo's indirect investments in the course of its ongoing supervisory process. This review is more likely to occur if the investment is material or presents a significant change in the business strategy of an InsCo. As part of the review, OSFI may require an InsCo to provide detailed information regarding the investment, including details of the consideration paid, integration plan and anticipated impact of the investment on the InsCo's risk profile and on its ability to meet capital adequacy requirements. If prudential issues were identified, OSFI would require that the InsCo take appropriate corrective measures.

**Accordingly, OSFI encourages InsCos to notify their OSFI Relationship Manager promptly when such investments are made through a PFFI, particularly if the investment may raise prudential concerns.**

**3. *Investments for a Limited Period of Time*** (subsection 493(3) of the Act)

Sections 498 to 500 of the Act permit InsCos to acquire control of, or acquire or increase a substantial investment in, any entity whether or not it is a permitted entity, provided that the InsCo takes all steps necessary to dispose of that substantial investment within a specified period.

These substantial investments are classified in three categories:

- temporary investments;
- loan workouts; and
- realization of security interests.

Appendix B provides a description of the terms and conditions applicable to each of these categories.

Where an InsCo acquires control of, or a substantial investment in, an entity by way of a temporary investment, the InsCo must, within two years,

- a) do all things necessary to ensure that it no longer controls the entity or has a substantial investment in the entity, or
- b) obtain the permission of the Superintendent to retain control of the entity or to continue to hold a substantial investment in the entity for any further period or periods, which in some cases could be an indeterminate period.

However, where the entity is an entity for which the approval of the Minister is required under subsection 495(7)<sup>15</sup>, the InsCo must, within 90 days, apply for the Minister's approval or do all things necessary to ensure that it no longer controls the entity or has a substantial investment in

<sup>15</sup> See Appendix A.1 for circumstances where the Minister's approval would be required for LifeCos and Appendix A.2 for P&Cs.

the entity. Because of the risk of having to divest if the Minister's approval is not forthcoming, an InsCo may wish to proceed under section 495 to acquire control of, or a substantial investment in, such an entity.

Generally, where an InsCo acquires control of, or a substantial investment in, an entity by way of a loan workout or a realization of a security interest, the InsCo must, within five years,

- a) do all things necessary to ensure that it no longer controls the entity or has a substantial investment in the entity,
- b) obtain the permission of the Superintendent to retain control of the entity or to continue to hold a substantial investment in the entity for any further period or periods, or
- c) if the entity is an entity in which the InsCo would otherwise be permitted to acquire a substantial investment under section 495, obtain the approval in writing of the Minister to retain control of the entity or to continue to hold the substantial investment for an indeterminate period.

**4. *Investments made under the Specialized Financing Regulations*** (subsection 493(4) of the Act)

Subsection 493(4) provides another means by which a LifeCo may acquire control of, or hold, acquire or increase a substantial investment in, an entity other than a permitted entity. For purposes of this Advisory, acquisitions made under this authority are referred to as "specialized investments." The power to make such specialized investments enhances the ability of LifeCos to carry on their venture capital activities.

Specialized financing activities conducted by a LifeCo are subject to the constraints set out in the *Specialized Financing (Life Companies) Regulations* (Life Regs.). Although LifeCos can make specialized investments directly or through a specialized financing entity<sup>16</sup> (SFE), IHCs may make them only through a SFE in accordance with the *Specialized Financing (Insurance Holding Companies) Regulations* (IHC Regs.)<sup>17</sup>.

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<sup>16</sup> LifeCos may acquire control of, or a substantial investment in, SFEs pursuant to paragraph 495(2)(b) and such investments are subject to the approval and control requirements in subsections 495(6) to (8).

<sup>17</sup> IHCs may acquire control of, or a substantial investment in, SFEs pursuant to paragraph 971(2)(b) and such investments are subject to the approval and control requirements in subsections 971(4) to (6).

In essence, the Specialized Financing Regulations impose the following constraints:

- ***Non-permitted investments:*** A LifeCo may make specialized investments in any entity other than:
  - a) a RE;
  - b) an entity that is engaged primarily in the leasing of motor vehicles to customers in Canada for the purpose of extending credit to a customer or financing a customer's acquisition of a motor vehicle;
  - c) an entity that is engaged primarily in providing temporary possession of personal property, including motor vehicles, to customers in Canada for a purpose other than to finance the customer's acquisition of the property; or
  - d) an entity acting as an insurance broker or agent in Canada.  
[s. 3 and para. 8(2)(b) Life Regs.]
- ***Holding period:*** The length of time that a LifeCo or a SFE may hold control of, or a substantial investment in, an entity by way of a specialized investment is limited to 13 consecutive years.  
[s. 4 and ss. 8(3) to (5) Life Regs.]
- ***Equity cap:*** The total book value of all shares or ownership interests that a LifeCo and any of its subsidiaries (including SFEs) may hold in an entity by way of a specialized investment shall not exceed \$250 million.  
[s. 5 and para. 8(2)(c) Life Regs.]
- ***Exposure limit to all SFEs and in-house specialized financing activities:***  
With respect to a LifeCo, the sum of the following shall not exceed 10 per cent of the LifeCo's regulatory capital:
  - the aggregate book value of the shares or ownership interests held by the LifeCo and its subsidiaries in entities in which the LifeCo has itself made a specialized investment;
  - the aggregate book value of the shares or ownership interests held by the LifeCo and its subsidiaries in SFEs; and
  - the aggregate value of outstanding loans made by the LifeCo and its subsidiaries to SFEs.[s. 6 and para. 8(2)(d) Life Regs.]

With respect to an IHC, the sum of the aggregate book value of the shares or ownership interests held by the IHC and its subsidiaries in SFEs, and of the aggregate value of outstanding loans made by the IHC and its subsidiaries to SFEs shall not exceed 10 per cent of the IHC's regulatory capital.  
[para. 3(2)(d) IHC Regs.]

- **Exposure limit to each SFE and its downstream entities<sup>18</sup>:** The sum of the aggregate book value of the shares or ownership interests held by the LifeCo and its subsidiaries in a SFE and its downstream entities and of the aggregate value of outstanding loans made by the LifeCo and its subsidiaries to the SFE and its downstream entities shall not exceed 25 per cent of the LifeCo’s regulatory capital.  
[ss. 7(1) and para. 8(2)(e) Life Regs.]
- **Exposure limit to in-house specialized financing activities:** The sum of the aggregate book value of all shares or ownership interests held by the LifeCo and its subsidiaries in entities in which the LifeCo has itself made a specialized investment and of the aggregate value of all outstanding loans made by the LifeCo and its subsidiaries to these entities shall not exceed 25 per cent of the LifeCo’s regulatory capital.  
[ss. 7(2) and para. 8(2)(e) Life Regs.]
- **Leverage limit:** A SFE that is controlled by a LifeCo, or in which a LifeCo has a substantial investment, shall not have outstanding debts to persons, other than the LifeCo and its subsidiaries, that exceed two times its equity.  
[para. 8(2)(a) Life Regs.]

Appendix C provides an example of the manner in which the equity cap and the exposure limits are applied, and Appendix D provides an example of the manner in which the leverage limit is applied.

**Table of Concordance:**

	LifeCos	IHCs
<i>Insurance Companies Act (Investment Provisions)</i>		
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Loan workouts	499	975
Realizations	500	976
<i>Specialized Financing Regulations</i>	8	3

\* Advisories describe how OSFI administers and interprets provisions of existing legislation, regulations or guidelines, or provide OSFI’s position regarding certain policy issues. Advisories are not law; readers should refer to the relevant provisions of the legislation, regulation or guideline, including any amendments that came into effect subsequent to the Advisory’s publication, when considering the relevancy of the Advisory.

<sup>18</sup> Downstream entities means all entities controlled by the SFE as well as all entities in which the SFE has a substantial investment.

## Appendix A.1 (Life Companies and IHCs) – Permitted Entities

This document has been prepared for convenience of reference only and has no official sanction.

For all purposes of interpreting and applying the law, users should consult the *Insurance Companies Act* and relevant Regulations

Classes of Entities		Control Requirement	Approval/Notice Requirement	Business Restrictions
<b>1. Regulated entities</b> i.e., regulated entities engage in the business of <ul style="list-style-type: none"> <li>• insurance,</li> <li>• banking,</li> <li>• providing fiduciary services,</li> <li>• a cooperative credit society, or</li> <li>• dealing in securities</li> </ul>	(a) FRFI <sup>1</sup> IHC <sup>1</sup> or BHC <sup>1</sup> [495(1)(a) to (f); 971(1)(a) to (f)]	De facto control except if in compliance with <i>MIR</i> <sup>1</sup> [495(6)(a), 971(4)(a)]	Minister's approval under ownership provisions of the relevant federal statute	
	(b) Provincially regulated financial institutions [495(1)(g), (h), (i); 971(1)(g), (h), (i)]	Same as above	Superintendent's approval in all cases <b>except</b> where Minister's approval is required (i.e., where the LifeCo or IHC acquires control of, or a substantial investment in, the entity from <u>a person</u> who is not a member of the LifeCo's or IHC's group, as defined in subsections 490(2) and 966(2) of the Act) [495(7)(a) and (8); 971(5)(a) and (6)]	
	(c) Foreign regulated financial institutions [495(1)(j), 971(1)(j)]	<ul style="list-style-type: none"> <li>• De facto control except if in compliance with <i>MIR</i> [495(6)(a), 971(4)(a)]</li> <li>• No control requirement in cases where the foreign law does not permit control, but need to add investment in calculating minority investment cap for <i>MIR</i> [495(10), 971(8)]</li> </ul>	Superintendent's approval in all cases <b>except</b> where Minister's approval is required (i.e., where the life LifeCo or IHC acquires control of, or a substantial investment in, the entity from <u>a FRE</u> <sup>1</sup> that is not a member of the LifeCo's or IHC's group, as defined in subsections 490(2) and 966(2) of the Act) [495(7)(b) and (8); 971(5)(b) and (6)]	

<sup>1</sup> The following acronyms are used in this appendix: **BHC:** bank holding company as defined in section 2 of the *Insurance Companies Act* (Act)  
**FRE:** FRFI, BHC and IHC  
**FRFI:** federally regulated financial institution referred to in any of paragraphs 495(1)(a), (c) and (e) to (f) of the Act  
**IHC:** insurance holding company as defined in section 2 of the Act  
**MIR:** *Minority Investment Regulations*

## Appendix A.1 (Life Companies and IHCs) – Permitted Entities

This document has been prepared for convenience of reference only and has no official sanction.

For all purposes of interpreting and applying the law, users should consult the *Insurance Companies Act* and relevant Regulations

Classes of Entities		Control Requirement	Approval/Notice Requirement	Business Restrictions
<p><b>2. Other financial intermediaries</b> [495(2)(a), 971(2)(a)]</p> <p>i.e., <u>unregulated</u> entities engage in financial intermediary activities that entail material credit or market risks.</p>	<p>(a) Factoring entity (Defined in <i>Factoring Entity Regs</i>)</p>	<ul style="list-style-type: none"> <li>De facto control except if in compliance with <i>MIR</i> [495(6)(b); 971(4)(b)]</li> <li>No control requirement in cases where the foreign law does not permit control, but need to add investment in calculating minority investment cap for <i>MIR</i> [495(10), 971(8)]</li> </ul>	<p>Superintendent’s approval only if the LifeCo or IHC is acquiring a non-controlling interest [495(8) and (9)(b); 971(6) and (7)(b)]</p>	<ul style="list-style-type: none"> <li>The entity is precluded from accepting deposit liabilities</li> <li>In addition, its substantial investments are subject to the same constraints that apply to a LifeCo or IHC [495(3), 971(3)]</li> </ul>
	<p>(b) Financial leasing entity (Defined in 490(1))</p>	<p>Same as 2(a) above</p>	<p>Same as 2(a) above</p>	<p>Same as 2(a) above</p>
	<p>(c) Canadian finance entity (“finance entity” is defined in <i>Finance Entity Regs</i> as an entity, other than a financial institution<sup>2</sup>, that engages in a business that includes:</p> <ul style="list-style-type: none"> <li>issuing credit, charge or payment cards,</li> <li>operating a credit, charge or payment cards plan, or</li> <li>making or refinancing loans, or entering in similar arrangements for advancing funds or credit)</li> </ul>	<p>De facto control except if in compliance with <i>MIR</i> [495(6)(b), 971(4)(b)]</p>	<p>Superintendent’s approval in all cases <b>except</b> where Minister’s approval is required (i.e., the LifeCo or IHC acquires control of, or a substantial investment in, the entity from a <u>FRE</u> that is not a member of the LifeCo’s or IHC’s group, as defined in subsections 490(2) and 966(2) of the Act) [495(7)(b) and (8); 971(5)(b) and (6)]</p>	<ul style="list-style-type: none"> <li>Same as 2(a) above</li> <li>In addition, its residential mortgage lending activities are subject to the same constraints that apply to a LifeCo or IHC [495(3)(a); 971(3)(a)]</li> <li>In addition, the entity is not permitted to engage in activities in which a LifeCo or IHC is not permitted to engage under regulations made in respect of customer information [495(3)(c); 971(3)(c)]</li> </ul>
	<p>(d) Other financial intermediary, including a foreign finance entity</p>	<p>Same as 2(a) above</p>	<p>Same as 2(c) above</p>	<p>Same as 2(c) above</p>

<sup>2</sup> Financial institution is defined in section 2 of the Act. In particular, it includes a foreign institution, which is also defined in section 2 of the Act.

## Appendix A.1 (Life Companies and IHCs) – Permitted Entities

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For all purposes of interpreting and applying the law, users should consult the *Insurance Companies Act* and relevant Regulations

Classes of Entities		Control Requirement	Approval/Notice Requirement	Business Restrictions
<p><b>3. Financial agents</b></p>	<p>This class includes entities whose business consists of:</p> <ul style="list-style-type: none"> <li>• acting as financial agent, receiver, liquidator or sequestrator (including insurance broker)</li> <li>• providing investment counselling services,</li> <li>• providing portfolio management services,</li> <li>• networking financial services</li> </ul> <p>[495(2)(a), 971(2)(a)]</p> <p>As well as a</p> <ul style="list-style-type: none"> <li>• mutual fund entity (The mutual fund entity must provide investment diversification and professional investment management to the holders of its shares or trust units.)</li> <li>• mutual fund distribution entity</li> </ul> <p>[495(2)(e), 971(2)(e)]</p>	<p>No control requirement</p>	<p>No approval or notice</p>	<ul style="list-style-type: none"> <li>• All of these permitted entities are precluded from accepting deposit liabilities</li> <li>• In addition, their securities dealing, and substantial investments activities are subject to the same constraints that apply to a LifeCo or IHC [495(3), 971(3)]</li> </ul>

## Appendix A.1 (Life Companies and IHCs) – Permitted Entities

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For all purposes of interpreting and applying the law, users should consult the *Insurance Companies Act* and relevant Regulations

Classes of Entities	Control Requirement	Approval/Notice Requirement	Business Restrictions
<p><b>4. Investment holding entities</b> [495(2)(b), 971(2)(b)]</p>	<p>(a) Specialized financing entity (defined in <i>Specialized Financing Regs</i> as an entity that acquires or holds shares of, or ownership interests in, entities that a LifeCo may acquire control of, or hold, acquire or increase a substantial investment in, under 493(2))</p>	<ul style="list-style-type: none"> <li>• De facto control if in compliance with <i>MIR</i> [495(6)(c), 971(4)(c)]</li> <li>• No control requirement in cases where the foreign law does not permit control, but need to add investment in calculating minority investment cap for <i>MIR</i> [495(10), 971(8)]</li> </ul>	<p>Superintendent’s approval in all cases [495(8), 971(6)]</p> <ul style="list-style-type: none"> <li>• The permitted entity is precluded from accepting deposit liabilities</li> <li>• In addition, its substantial investments are subject to the same constraints that apply to a LifeCo or IHC [495(3), 971(3) and <i>Specialized Financing Regs.</i></li> </ul>
	<p>(b) Other investment holding entity i.e., an entity acquiring and holding investments that a LifeCo or IHC is permitted to hold under:</p> <ul style="list-style-type: none"> <li>• 440 – less than substantial investments (portfolio investments)</li> <li>• 495, 971 – permitted entities</li> <li>• 493(2), 969(2) - indirect investments</li> <li>• 498, 974 – temporary investments (only if the investment holding entity is controlled by the LifeCo or IHC)</li> <li>• 499, 975 - loan workouts</li> <li>• 500, 976 - realization</li> </ul>	<ul style="list-style-type: none"> <li>• No control if the entity does not control or hold any share of, or ownership interest in, <ul style="list-style-type: none"> <li>– a regulated financial institution (class 1 entity)</li> <li>– a financial intermediary (class 2 entity)</li> <li>– a specialized financing entity (class 4(a) entity), or</li> <li>– an entity that is not a permitted entity [495(6)(c)(iii), 971(4)(c)(iii)]</li> </ul> </li> <li>• De facto control, except if in compliance with <i>MIR</i> [495(6)(c), 971(4)(c)]</li> <li>• No control requirement in cases where the foreign law does not permit control, but need to add investment in calculating minority investment cap for <i>MIR</i> [495(10), 971(8)]</li> </ul>	<p>Superintendent’s approval only if the LifeCo or IHC is acquiring a non-controlling interest [495(8) and (9)(a); 971(6) and (7)(a)]</p> <ul style="list-style-type: none"> <li>• The permitted entity is precluded from accepting deposit liabilities</li> <li>• In addition, its substantial investments are subject to the same constraints that apply to a LifeCo or IHC [495(3), 971(3)]</li> </ul>



## Appendix A.1 (Life Companies and IHCs) – Permitted Entities

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For all purposes of interpreting and applying the law, users should consult the *Insurance Companies Act* and relevant Regulations

Classes of Entities	Control Requirement	Approval/Notice Requirement	Business Restrictions
<b>5. “Non-financial services” entities</b>	(a) Entities that engage in – information services – Internet activities [495(2)(a), 971(2)(a)]	No control requirement	Minister’s approval [495(7)(d); 971(5)(d)]
	(b) Entities that engage in the promotion, sale, delivery or distribution of financial services or products to the public [495(2)(d), 971(2)(d)]	No control requirement	Minister’s approval [495(7)(c), 971(5)(c)]
	(c) Entities that engage in other activities, such as: – real estate agent services – managing, holding or dealing with real property – information processing services in Canada – specialized business management or advisory services – promoting merchandises or services to card holders – selling lottery, urban transit – acting as custodian of property [495(2)(a), 971(2)(a)]	No control requirement	No approval or notice
	(d) Service entities that provide any services to the LifeCo or IHC, members of the LifeCo or IHC’s group and other financial services entity [495(2)(c), 971(2)(c)]	No control requirement	No approval or notice

- All of these permitted entities are precluded from accepting deposit liabilities
- In addition, their substantial investments are subject to the same constraints that apply to a LifeCo or IHC [495(3), 971(3)]

## Appendix A.1 (Life Companies and IHCs) – Permitted Entities

This document has been prepared for convenience of reference only and has no official sanction.

For all purposes of interpreting and applying the law, users should consult the *Insurance Companies Act* and relevant Regulations

Classes of Entities		Control Requirement	Approval/Notice Requirement	Business Restrictions
<b>6. Prescribed entities</b>	There is a regulation making authority to authorize a LifeCo or IHC to acquire control of, or acquire or increase a substantial investment in an entity whose business would consist of prescribed activities [495(2)(f); 971(2)(f)]	No control requirement unless prescribed by Regulations	Minister's approval unless exempted by Regulations [495(7)(e), 971(5)(e)]	No restriction unless prescribed by Regulations

## Appendix A.2 (Property and Casualty Companies) – Permitted Entities

This document has been prepared for convenience of reference only and has no official sanction.

For all purposes of interpreting and applying the law, users should consult the *Insurance Companies Act* and relevant Regulations

Classes of Entities		Control Requirement	Approval/Notice Requirement	Business Restrictions
<b>1. Regulated financial institutions</b>  i.e., regulated entities engage in the business of <ul style="list-style-type: none"> <li>• insurance,</li> <li>• banking,</li> <li>• providing fiduciary services,</li> <li>• a cooperative credit society, or</li> <li>• dealing in securities</li> </ul>	(a) FRFI <sup>1</sup> IHC <sup>1</sup> or BHC <sup>1</sup> [495(1)(a) to (f)]	De facto control except if in compliance with <i>MIR</i> <sup>1</sup> [495(6)(a)]	Minister's approval under ownership provisions of the relevant federal statute	
	(b) Provincially regulated financial institutions [495(1)(g), (h), (i)]	Same as above	Superintendent's approval in all cases <b>except</b> where Minister's approval is required (i.e., where the P&C acquires control of, or a substantial investment in, the entity from <u>a person</u> who is not a member of the P&C's group, as defined in subsection 490(2) of the Act) [495(7)(a) and (8)]	
	(c) Foreign regulated financial institutions [495(1)(j)]	<ul style="list-style-type: none"> <li>• De facto control except if in compliance with <i>MIR</i> [495(6)(a)]</li> <li>• No control requirement in cases where the foreign law does not permit control, but need to add investment in calculating minority investment cap for <i>MIR</i> [495(10)]</li> </ul>	Superintendent's approval in all cases <b>except</b> where Minister's approval is required (i.e., where the P&C acquires control of, or a substantial investment in, the entity from <u>a FRE</u> <sup>1</sup> that is not a member of the P&C's group, as defined in subsection 490(2) of the Act) [495(7)(b) and (8)]	

<sup>1</sup> The following acronyms are used in this appendix: **BHC:** bank holding company as defined in section 2 of the *Insurance Companies Act* (Act)  
**FRE:** FRFI, BHC and IHC  
**FRFI:** federally regulated financial institution referred to in any of paragraphs 495(1)(a), (c) and (e) to (f) of the Act  
**IHC:** insurance holding company as defined in section 2 of the Act  
**MIR:** *Minority Investment Regulations*

## Appendix A.2 (Property and Casualty Companies) – Permitted Entities

This document has been prepared for convenience of reference only and has no official sanction.

For all purposes of interpreting and applying the law, users should consult the *Insurance Companies Act* and relevant Regulations

Classes of Entities		Control Requirement	Approval/Notice Requirement	Business Restrictions
<p><b>2. Financial agents</b></p>	<p>This class includes entities whose business consists of:</p> <ul style="list-style-type: none"> <li>• acting as financial agent, receiver, liquidator or sequestrator (including insurance broker)</li> <li>• providing investment counselling services,</li> <li>• providing portfolio management services,</li> <li>• networking financial services [495(4)(a)]</li> </ul> <p>As well as a</p> <ul style="list-style-type: none"> <li>• mutual fund entity (The mutual fund entity must provide investment diversification and professional investment management to the holders of its shares or trust units.)</li> <li>• mutual fund distribution entity [495(4)(e)]</li> </ul>	<p>No control requirement</p>	<p>No approval or notice</p>	<ul style="list-style-type: none"> <li>• All of these permitted entities are precluded from accepting deposit liabilities</li> <li>• In addition, their securities dealing and substantial investments activities are subject to the same constraints that apply to a P&amp;C</li> </ul>

## Appendix A.2 (Property and Casualty Companies) – Permitted Entities

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For all purposes of interpreting and applying the law, users should consult the *Insurance Companies Act* and relevant Regulations

Classes of Entities		Control Requirement	Approval/Notice Requirement	Business Restrictions
<p><b>3. Investment holding entities</b> [495(4)(b)]</p>	<p>Entity acquiring and holding investments that a P&amp;C is permitted to hold under:</p> <ul style="list-style-type: none"> <li>• 440 — less than substantial investments (portfolio investments)</li> <li>• 495 — permitted entities</li> <li>• 493(2) — indirect investments</li> <li>• 498 — temporary investments (only if the investment holding entity is controlled by the society)</li> <li>• 499 — loan workouts</li> <li>• 500 — realization</li> </ul>	<ul style="list-style-type: none"> <li>• No control if the entity does not control or hold any share of, or ownership interest in, <ul style="list-style-type: none"> <li>– a regulated financial institution (class 1 entity) or</li> <li>– an entity that is not a permitted entity [495(6)(c)(iii)]</li> </ul> </li> <li>• De facto control, except if in compliance with <i>MIR</i> [495(6)(c)]</li> <li>• No control requirement in cases where the foreign law does not permit control, but need to add investment in calculating minority investment cap for <i>MIR</i> [495(10)]</li> </ul>	<p>Superintendent’s approval only if the P&amp;C is acquiring a non-controlling interest [495(8) and (9)(a)]</p>	<ul style="list-style-type: none"> <li>• The permitted entity is precluded from accepting deposit liabilities</li> <li>• In addition, its substantial investments are subject to the same constraints that apply to a P&amp;C [495(5)]</li> </ul>

## Appendix A.2 (Property and Casualty Companies) – Permitted Entities

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For all purposes of interpreting and applying the law, users should consult the *Insurance Companies Act* and relevant Regulations

Classes of Entities	Control Requirement	Approval/Notice Requirement	Business Restrictions
<b>4. “Non-financial services” entities</b>	(a) Entities that engage in – information services – Internet activities [495(4)(a)]	No control requirement	Minister’s approval [495(7)(d)]
	(b) Entities that engage in the promotion, sale, delivery or distribution of financial services or products to the public [495(4)(d)]	No control requirement	Minister’s approval [495(7)(c)]
	(c) Entities that engage in other activities, such as: – real estate agent services – managing, holding or dealing with real property – information processing services in Canada – promoting merchandise or services to card holders – selling lottery, urban transit – acting as custodian of property [495(4)(a)]	No control requirement	No approval or notice
	(d) Service entities that provide any services to the P&C, members of the P&C’s group and other financial services entities [495(4)(c)]	No control requirement	No approval or notice

- All of these permitted entities are precluded from accepting deposit liabilities
- In addition, their substantial investments are subject to the same constraints that apply to a P&C [495(5)]

## Appendix A.2 (Property and Casualty Companies) – Permitted Entities

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For all purposes of interpreting and applying the law, users should consult the *Insurance Companies Act* and relevant Regulations

Classes of Entities		Control Requirement	Approval/Notice Requirement	Business Restrictions
<b>5. Prescribed entities</b>	There is a regulation-making authority to authorize a P&C to acquire control of, or acquire or increase a substantial investment in an entity whose business would consist of prescribed activities [495(4)(f)]	No control requirement unless prescribed by Regulations	Minister's approval unless exempted by Regulations [495(7)(e)]	No restriction unless prescribed by Regulations

## Appendix B (InsCos)– Investments for a Limited Period

This document has been prepared for convenience of reference only and has no official sanction.

For all purposes of interpreting and applying the law, users should consult the *Insurance Companies Act* and relevant Regulations

### Statutory Terms and Conditions

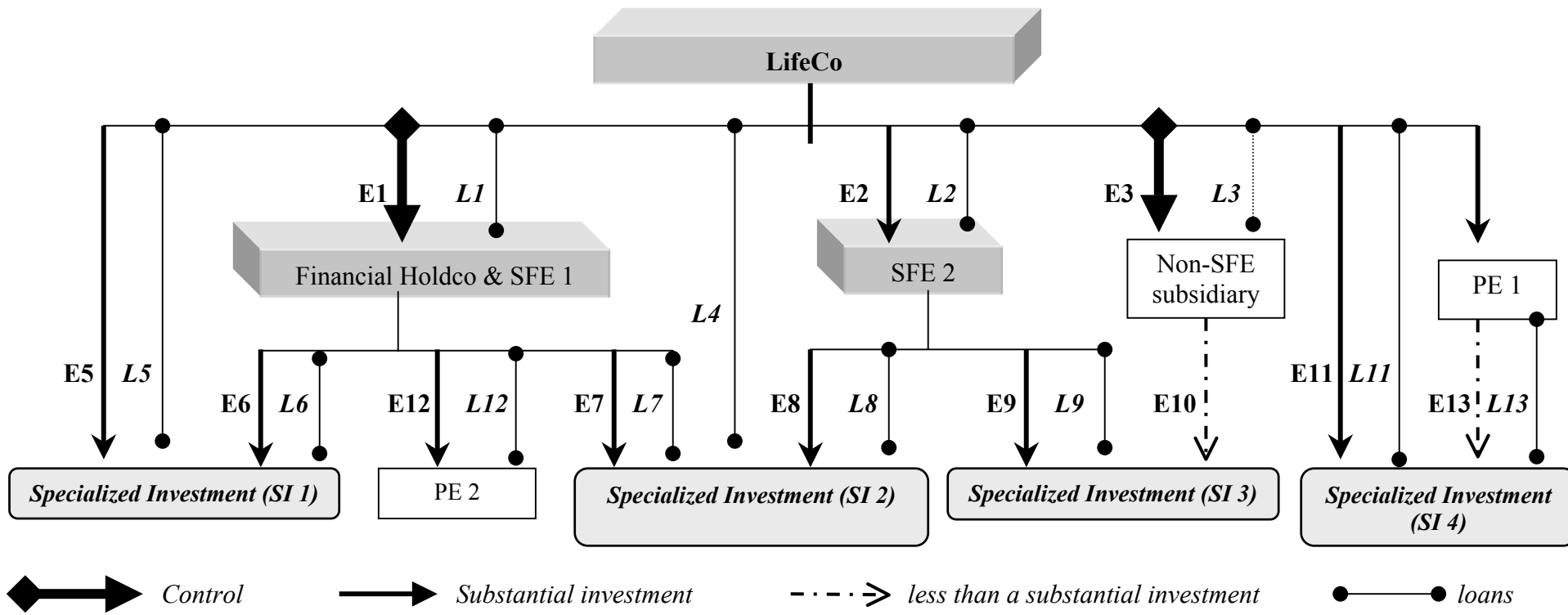
<p><b>Temporary investments</b> [493(3)(a) &amp; 498; 969(3)(a) &amp; 974]</p>	<p>These provisions provide that an InsCo may acquire control of, or substantial investment in, <b>any</b> entity whether or not the entity would qualify as a “permitted entity”<sup>1</sup>.</p> <p><u>Holding period:</u></p> <ul style="list-style-type: none"> <li>initially <b>2</b> years or any other period (less or more) specified by Superintendent [498(1) or (2); 974(1)]; period may be extended by Superintendent [498(3); 974(2)];</li> <li>where the entity is a non-permitted entity only because the InsCo did not obtain the prior approval of the Minister, the InsCo may only hold the investment for 90 days; period may be extended by Minister, including for indeterminate period [498(4); 974(3)];</li> <li>where the entity is a non-permitted entity only because the InsCo did not obtain the prior approval of the Superintendent, period may be extended by Superintendent, including for an indeterminate period [498(5); 974(4)].</li> </ul>
<p><b>Loan workouts</b> [493(3)(b) &amp; 499; 969(3)(b) &amp; 975]</p>	<p>Where an entity is in default with respect to a loan that an InsCo or any of its subsidiaries had made to the entity, the InsCo may acquire all or any of the shares of, or ownership interests in, (a) the entity (b) any affiliates of the entity or (c) a body corporate that is primarily engaged in the holding of shares of, ownership interests, or assets acquired from the entity to which the loan was made or any affiliates of that entity, whether or not the entity, the affiliate or the body corporate would qualify as a “permitted entity”<sup>1</sup>.</p> <p>Where an entity is in default with respect to a loan that an IHC’s subsidiary had made to the entity, the IHC may, through its subsidiary, acquire a substantial investment in (a) the entity (b) any affiliates of the entity or (c) a body corporate that is primarily engaged in the holding of shares of, ownership interests, or assets acquired from the entity to which the loan was made or any affiliates of that entity, whether or not the entity, the affiliate or the body corporate would qualify as a “permitted entity”<sup>1</sup>.</p> <p><u>Holding period:</u></p> <ul style="list-style-type: none"> <li>initially <b>5</b> years [499(2) or (3); 975(2)]; period may be extended by Superintendent [499(4); 975(3)];</li> <li>an indeterminate period, with the approval of the Superintendent, where the loan was made to a foreign government or an entity controlled by a foreign government [499(6); 975(5)];</li> <li>an indeterminate period, with the approval of the Minister, where the entity is a “permitted entity”<sup>1</sup> [499(7); 975(6)].</li> </ul>
<p><b>Realization of a security interest</b> [493(3)(c) &amp; 500; 969(3)(c) &amp; 976]</p>	<p>An InsCo or an IHC may, through the realization of a security interest held by the InsCo or any of its subsidiaries, or the IHC’s subsidiaries, acquire control of, or a substantial investment in, <b>any</b> entity whether or not the entity would qualify as a “permitted entity”<sup>1</sup>.</p> <p><u>Holding period:</u></p> <ul style="list-style-type: none"> <li>initially <b>5</b> years [500(2) or (3); 976(2)]; period may be extended by Superintendent [500(4); 976(3)];</li> <li>an indeterminate period, with the approval of the Minister, where the entity is a “permitted entity”<sup>1</sup> [500(5); 976(4)].</li> </ul>

<sup>1</sup> Where the entity could qualify as a “permitted entity”, the InsCo or IHC may instead acquire control of, or a substantial investment in, the entity for an indeterminate period of time in accordance with subsections 453(1) and (2) or 971(1) or (2), or through an RE in accordance with subsection 451(2) or 969(2) of the Act.



# Appendix C – Exposure Limits to Specialized Financing Activities

This document has been prepared for convenience of reference only and has no official sanction. For all purposes of interpreting and applying these limits, users should consult the *Specialized Financing (Life Companies) Regulations* or the *Specialized Financing (Insurance Holding Companies) Regulations*.



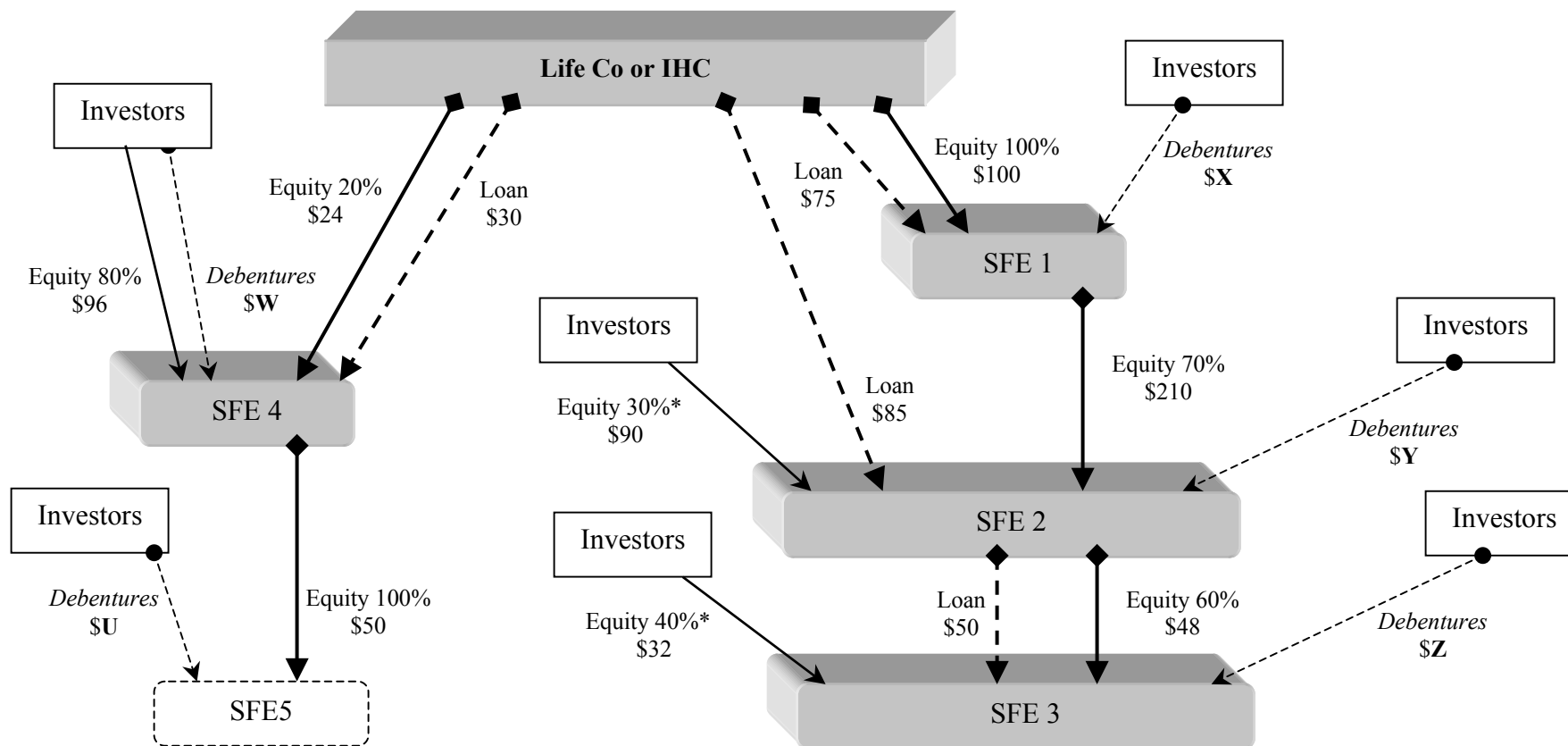
“SFE”: *specialized financing entity*      “PE”: *permitted entity*      “E”: *equity interest*      “L”: *loan*

<b>\$250 m. Equity Cap – per entity</b>	SI 1: E5 + E6	PE 2: E12	SI 2: E7 + E8	SI 3: E9 + E10	SI 4: E11
<b>10% Regulatory Capital Limit</b>	E1 + L1 + E2 + L2 + E5 + E11				
<b>25% Regulatory Capital Limit</b>	SFE 1: E1 + L1 + E5 + L5 + L4	SFE 2: E2 + L2 + L4 + E10	In-house: E11 + L11		

*Per SFE and In-house – excluding exposure held through another SFE*

## Appendix D – Leverage Limits of Specialized Financing Entities

This document has been prepared for convenience of reference only and has no official sanction. For all purposes of interpreting and applying these limits, users should consult the *Specialized Financing (Life Companies) Regulations* or the *Specialized Financing (Insurance Holding Companies) Regulations*.



SFE: means specialized financing entity

\* Non-controlling interest in the SFE

## Appendix D – Leverage Limits of Specialized Financing Entities

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**Mathematical Formula of the leverage limit:  $A - B < 2(C + D)$**

Where

- A** is the value of all outstanding debts of both the SFE and all its subsidiaries that are also SFE as reported on their respective balance sheets on an unconsolidated basis,
- B** is the value of all outstanding debts of both the SFE and all its subsidiaries that are also SFE that are payable to the LifeCo or IHC and their respective subsidiaries,
- C** is the value of the excess of assets over liabilities (i.e. equity) of the SFE as reported on its balance sheet on an unconsolidated basis, and
- D** is the value of the non-controlling interest as reported on the SFE's balance sheet on a consolidated basis.

	<i>A</i>	-	<i>B</i>	$< 2x$	<i>(C</i>	+	<i>D)</i>
<b>SFE 1</b>	$X + Y + Z + 75 + 85 + 50$		$75 + 85 + 50$		$100$		$90 + 32$
	$X+Y+Z < 444$						
<b>SFE 2</b>	$Y + Z + 85 + 50$		$85 + 50$		$210 + 90$		$32$
	$Y+Z < 664 \text{ but } Y+Z < 444 - X$						
<b>SFE 3</b>	$Z + 50$		$50$		$48 + 32$		$0$
	$Z < 160 \text{ but } Z < 444 - X - Y$						
<b>SFE 4</b>	$W + 30$		$30$		$24 + 96$		$0$
	$W < 240$						
<b>SFE 5</b>	Leverage limit does not apply – SFE 5 is not controlled by the LifeCo and the LifeCo does not have a substantial investment in SFE 5						