

Two issues that arose during the Office's consideration of this matter are the questions of what constitutes a transaction and whether it should be valued on a "gross" or a "net" basis. The Office is of the view that the term "transaction" should be viewed on a very broad basis, and that virtually any act or agreement in which more than one person is concerned and by which the relations between the persons is altered constitutes a transaction. Further, the Office considers that all transactions must be valued on a "gross" basis and it is inappropriate for a company to measure a transaction against the materiality criteria on the basis of the transaction's "net" impact on the company. Accordingly, for example, the sale of a \$10 million building to a related party for consideration of another building valued at \$9.9 million and cash of \$100,000 constitutes a \$10 million transaction. The Office does not subscribe to the view that this transaction has no net impact on the company and hence, is immaterial to the company.

As noted in the covering letter, companies that adopt materiality criteria at least as stringent as those set out in this bulletin will be deemed to have the Superintendent's approval in writing. Companies wishing to establish different materiality criteria must submit them to the Office and obtain the Superintendent's approval in writing. In reviewing requests for other materiality criteria, the Office will require supporting justifications, including details of anticipated transactions that would otherwise require, at a minimum, approval of the company's conduct review committee.

**Materiality Criteria for Related Party Transactions
of Life Insurance Companies**

Type of Transaction	Transaction Threshold	Aggregate Threshold
1. Sale of non-credit financial products and services in ordinary course of business.	None	None
2. Purchase of goods, products and services in ordinary course of business (this category involves non-depreciable assets).	Greater of \$50,000 or 1/50 of 1% of regulatory capital.	Greater of \$200,000 or 1/4 of 1% of regulatory capital per related party, per calendar year.
3. Sale of non-financial products and services in ordinary course of business and sale of goods (this category involves non-depreciable assets).	Greater of \$50,000 or 1/50 of 1% of regulatory capital.	Greater of \$200,000 or 1/4 of 1% of regulatory capital per related party, per calendar year.
4. Sale of products and services to natural persons on terms and conditions more favourable to the natural person than market terms and conditions.	\$50,000	\$100,000 per related party, per calendar year.
5. Purchase and sale of actively traded securities.	None	None
6. Purchase or sale of assets including real estate and capitalized leases, but excluding goods (this category involves depreciable assets).	Greater of \$100,000 or 1/25 of 1% of regulatory capital.	Greater of \$250,000 or 1/4 of 1% of regulatory capital per related party, per calendar year.
7. Reinsurance, assumed and ceded, in ordinary course of business (it is recognized that reinsurance to unregistered related parties must be approved by the Superintendent).	None	None
8. Taking security interests from unrelated third parties in securities issued by related parties and realizing on such security interests.	None	1/2 of 1% of regulatory capital per related party if held for 90 days after realization.
9. Loans to, guarantees on behalf of, and investments in non-actively traded securities of, entities.	Greater of \$100,000 or 1/10 of 1% of regulatory capital.	Greater of \$250,000 or 1/2 of 1% of regulatory capital per related party at any point in time.

Type of Transaction	Transaction Threshold	Aggregate Threshold
10. Loans to and guarantees on behalf of natural persons (limits subject to restrictions on loans to full time officers per s.529(2)).	\$10,000 for transactions related to travelling on company business; zero for all other transactions.	\$250,000 per related party at any point in time.
11. Borrowing money from or issuing debt obligations to, a related party in the ordinary course of business.	Greater of \$100,000 or 1/5 of 1% of regulatory capital.	Greater of \$250,000 or 1/2 of 1% of regulatory capital per related party, per calendar year.
12. Purchase of consulting and professional services from individuals who are related parties (excludes remuneration and benefits to officers & directors per s.519(2)(d)).	\$100,000	Lesser of \$250,000 or 1% of regulatory capital per related individual, per calendar year.
13. Transactions not referenced above.	Greater of \$50,000 or 1/50 of 1% of regulatory capital.	Greater of \$50,000 or 1/25 of 1% of regulatory capital per related party, per calendar year.

- Aggregation Rules:
1. Transactions under "transaction threshold" are nominal or immaterial and are not included in calculating the "aggregate threshold."
 2. Transactions over "transaction threshold" are included in calculating the "aggregate threshold."
 3. Transactions over "transaction threshold" are nominal or immaterial until the "aggregate threshold" is exceeded.
 4. Calculation of "aggregate threshold" does not include a transaction that has been specifically approved by the CRC.
 5. When the "aggregate threshold" is exceeded, transactions that otherwise would be immaterial require approval of the CRC.
 6. The term "none" for a threshold limit indicates that there is no "transaction threshold" or "aggregated threshold", as the case may be, and the aggregation rules do not apply except that all realized securities held over 90 days must be aggregated for category 8.

- Definition of Capital:
1. "Regulatory capital" for domestic life companies is the calendar year opening balance of "regulatory capital" as defined in the Regulatory Capital (Insurance Company) Regulations.
 2. "Regulatory capital" for foreign life branches is the calendar year opening balance of (assets in Canada - total liabilities - appropriations required).

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