

**Framework for a
New Standard Approach to Setting Capital Requirements**

Joint Committee of OSFI, AMF, and Assuris

November 2008

Table of Contents

Background	3
Minimum Continuing Capital and Surplus Requirements (MCCSR)	3
Pressure for Reform	3
International Financial Reporting Standards (IFRS)	3
New Areas.....	4
The Process	4
Overview of the Standard Approach Framework	5
Approach.....	5
Risk Categories & Solvency Buffer.....	5
Future Developments	6
Framework Details.....	7
Target Asset Requirement	7
Harmonization with the Future Modeling Approach.....	8
Comparability with Capital Standards for Banks and Insurance Companies in the USA and Europe.....	8
Target and Minimum Capital.....	8
Risk Horizon	9
Confidence Level	9
Approach to Credit Risk	10
Approach to Market Risk.....	10
Approach to Insurance Risk.....	11
Approach to Operational Risk	11
Risk Mitigation	12
Diversification and Concentration	12
Refining and Calibrating.....	13
Available Capital	13
Target Milestones in the Development and Implementation of the Framework	14
Glossary of Terms	15

Figures in this Report:

Figure 1. Four Categories of Risk.....	6
Figure 2. Factors Used to Determine the Target Asset Requirement	7
Figure 3. Factors Used to Determine Target Capital and Minimum Capital.....	9

Background

This paper proposes a new standard approach to determine how much capital a Canadian life insurance company should be required to have on hand in order to be able to meet its obligations. The proposed framework is consistent with the “Canadian Vision for Life Insurer Solvency Assessment,” endorsed by the Office of the Superintendent of Financial Institutions (OSFI) and *Autorité des marchés financiers* (AMF). It uses a *target asset requirement* approach¹, meaning that insurance companies would be required to hold assets equal to the sum of the best estimate of their insurance obligations and a *solvency buffer*.^{*} This paper was prepared by a joint committee of OSFI, AMF, and Assuris.

^{*}**Note:** For definitions of key terms, see the Glossary of Terms at the end of this paper.

Minimum Continuing Capital and Surplus Requirements (MCCSR)

Regulators currently require insurance companies to use a standard approach to calculate the Minimum Continuing Capital and Surplus Requirements (MCCSR) in order to determine how much capital they need. This system has served the industry well. Introduced in 1992, it has been continually updated and refined. However, there has been growing pressure to reform the system.

Pressure for Reform

Since the early 1990s, there have been advances in actuarial and economic capital theory that are difficult to incorporate into the existing system. The increased complexity of products and globalization of insurance products requires a modernization of the current approach for measuring capital requirements. Also, impending accounting changes will make it necessary to update the standard MCCSR approach. This update to the standard approach for setting capital standards will affect all Canadian life insurance companies.

International Financial Reporting Standards (IFRS)

January 1, 2011 is the target date for the adoption of International Financial Reporting Standards (IFRS) by all Canadian public companies. Canadian financial institutions (i.e. including all insurance companies) will adopt these international standards at this date.

An important part of IFRS for insurers relates to the accounting standards for insurance contracts and is entitled “IFRS Insurance Contracts Phase II”. An exposure draft of this proposed standard is not expected until 2009, but many of the principles of the proposed new standard are clearly laid out in a preliminary views discussion paper that was released in 2007 by the International Standards Accounting Board (IASB). This proposed new accounting method for insurance contracts will incorporate a significant change in the way insurance obligations are valued which will modify the financial resources available. It will therefore necessitate modifications to the regulatory capital requirements.

¹ Even if most calculations will be based on a target asset requirement approach, the regulators will continue to use capital and capital ratios to supervise Life insurers.

It is possible that IFRS Insurance Contracts Phase II will not be ready by 2011 and Canada will need to adopt the current insurance contract standard, IFRS 4, as an interim measure. If IFRS 4 is adopted as an interim measure effective January 1, 2011, some contracts currently accounted for as insurance may be treated as financial instruments and some insurance contracts may be unbundled. The extent of the impact on current Canadian GAAP is unclear at this time but certain contracts will be reported outside the actuarial liabilities and will be subject to the financial instrument accounting principles. IFRS 4 will require modifications to be made to the current MCCSR.

This paper has been prepared in readiness for the adoption of IFRS Insurance Contracts Phase II.

New Areas

The current MCCSR does not adequately account for risk concentration and risk diversification. Nor does it provide explicitly for operational risk. These areas will also need to be considered in the updated standard approach. However, implementation may be later than for credit, market, and insurance requirements.

The Process

This paper is not intended to be a final statement of the position of OSFI, AMF or Assuris. A version of this paper was distributed to the industry for comment in February 2008. The feedback we received has been carefully considered and modifications to the approach have been made and incorporated into this version.

We will now be preparing more detailed papers on market, credit, insurance and operational risk. We will ask the industry for comments on each paper and for participation in quantitative impact studies.

The new methodology for market and credit risk is targeted to be implemented on January 1, 2012 before the implementation of Phase II.

In order to allow enough time for companies and regulators to adjust their systems, the form of the calculation will be finalized by June 2010. Final decisions on the calibration of the factors and assumptions will be completed by June 2011.

The implementation of the balance of the framework, including the new methodology for insurance and operational risk is planned to coincide with the implementation of the Phase II IFRS accounting for insurance contracts. No new date has yet been set for the implementation of this accounting change but we are planning to be ready for January 1, 2013.

A target timetable is attached as Appendix I.

Overview of the Standard Approach Framework

	Approach
Target Asset Requirement	The new standard approach is consistent with the “Canadian Vision for Life Insurer Solvency Assessment,” and will use a target asset requirement approach. This requires the company to hold assets equal to the best estimate of its insurance obligations plus a solvency buffer (described below). Although using a total asset requirements approach, capital should be set at a prudent level.
Harmonization with the Advanced Modeling Approach	The standard approach will incorporate the same target requirement, risk categories and calibration information as the future modeling approach. For credit risk, the Canadian system will use similar concepts to those used by banks under the Basel II rules. For all risk categories, account will be taken of the systems in other countries.
Comparability of Capital Standards	
Target and Minimum Capital	When <i>available capital</i> is below <i>target required capital</i> , the regulator will require the company to take corrective action. When available capital is below <i>minimum required capital</i> , the regulator may take additional actions consistent with its intervention tools.
	Risk Categories & Solvency Buffer
Risk Horizon	The solvency buffer will be calculated for all risks that could have a negative financial impact on a life insurance company. The solvency buffer will be calibrated so that a company can withstand adverse conditions over a one year time horizon with a very high degree of confidence and have enough assets to sell or run off the business after the year (the terminal provision).
Confidence Level	The degree of confidence for the one year risk horizon will be set at a level equivalent to the 99% CTE level expected to be used in the future modeling approach. Current capital levels will also be used in calibrating to the final level. The terminal provision will be based on a methodology to be determined at a later date.
	The framework identifies four categories of risk: credit, market, insurance, and operational. Figure 1 shows how the categories of risk are defined, and how the solvency buffer is expected to be calculated for each category of risk.

Figure 1. Four Categories of Risk

For expected implementation dates, please see appendix 1

	Risk Category	Solvency Buffer
Approach to Credit Risk	Credit risk is the risk of default by counterparties on loans, debt instruments, derivatives, and reinsurance.	The solvency buffer for credit risk will use factors developed from the best available information, and be similar to the method currently used in the MCCSR.
Approach to Market Risk	Market risk is the risk that changes in the financial markets will affect the value of assets and liabilities. This includes interest rate, spread, equity, and currency risks.	The solvency buffer for market risk will use <i>deterministic shock calculations</i> for interest rate, equity, real estate, and currency risks.
Approach to Insurance Risk	Insurance risk is the risk of adverse future experience in mortality, morbidity, and policyholder behaviour, including lapse rates.	The solvency buffer for insurance risk will be calculated using either a formula or an integrated combination of shocks to the mortality, morbidity and lapse assumptions used in calculating best-estimate insurance obligations.
Approach to Operational Risk	Operational risk is the risk that the company's business processes will fail, or that the company will fail to comply with laws and regulations. The financial impact of loss of reputation is also included in operational risk.	The solvency buffer for operational risk will be calculated by applying a factor. In addition, the solvency buffer will also contain a margin for future expenses that exceed those assumed in the calculation of the best-estimate insurance obligations.

Future Developments

Diversification and Concentration

The framework will consider in the future the possible recognition of concentration or diversification of risk.

Refining and Calibrating

Once the new system is in place, there will be regular review and study to refine the methodology and calibrate the factors and assumptions.

Available Capital

There will be a review of the current regulations governing available capital. However no significant changes are expected.

Framework Details

Target Asset Requirement

The new standard approach is consistent with the “Canadian Vision for Life Insurer Solvency Assessment,” and will use the target asset requirement. This requires the company to hold assets equal to the sum of the best estimate of its insurance obligations and a solvency buffer.

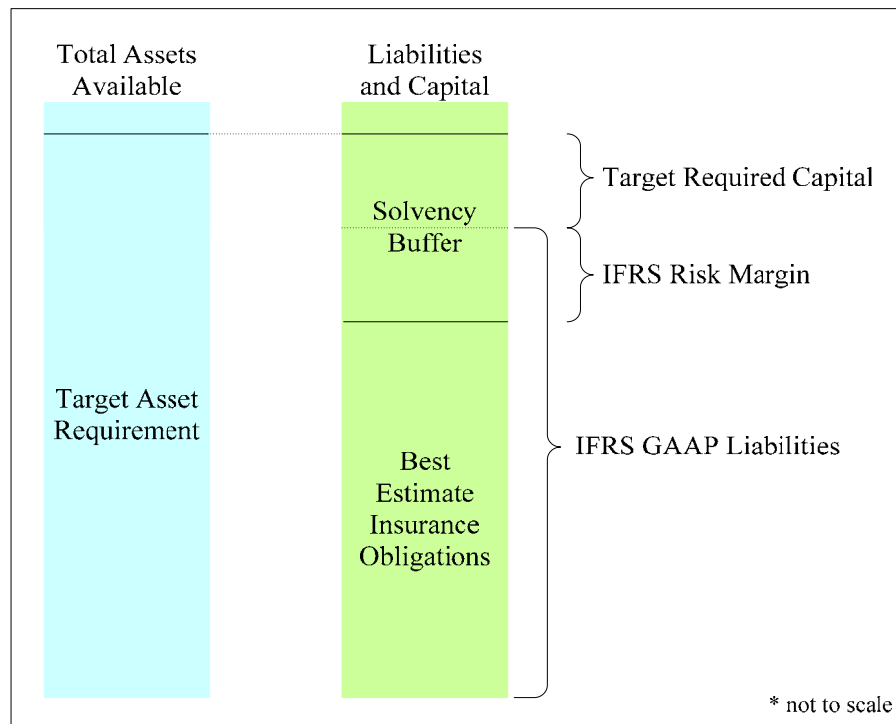
The solvency buffer is the amount of assets a life insurance company must hold in addition to those needed to cover best-estimate life insurance obligations so that the company has a very high degree of confidence that it can withstand adverse conditions over a one year time horizon and sell or run off the business after the year.

It is expected that Phase II IFRS GAAP liabilities will be calculated starting with the same best estimate of insurance obligations, but adding a risk margin.

The IFRS GAAP risk margin is the amount of assets a buyer needs, in addition to those needed to cover the best estimate of insurance obligations, to assume the risk of acquiring a block of business. This risk margin will likely be calculated using a cost-of-capital method.

Under this approach, the *target required capital* is defined as the *target asset requirement* less IFRS GAAP liabilities. We expect the resulting buffer to be independently set at a prudent level.

Figure 2. Factors Used to Determine the Target Asset Requirement



Harmonization with the Future Modeling Approach

The standard approach will incorporate similar characteristics as the future modeling approach e.g. target asset requirement approach, risk categories.

The different results obtained by the two approaches will be monitored, which may result in modifications to the future modeling approach or recalibration of the standard approach. In some cases the approaches may be different enough that a direct comparison of results will not be meaningful.

Comparability with Capital Standards for Banks and Insurance Companies in the USA and Europe

For all risk categories the Canadian system will consider the lessons learned from the systems in other countries. To minimize competitive differences within Canada, the solvency buffer for credit risk will consider the Basel II requirements for banks as well as other relevant information.

Currently, there are major differences among the capital requirements in Canada, the USA, and Europe. If this is not corrected it provides an opportunity for international regulatory arbitrage. The emergence of Solvency II standards in Europe presents us with an opportunity to reduce the discrepancies. However, the capital rules will have to establish a prudent level of capital to absorb unexpected losses.

Target and Minimum Capital

When available capital is below target required capital, the regulator will require the company to take corrective action. When available capital is below minimum required capital, the regulator will take additional action consistent with its intervention tools.

Available capital is the difference between total assets available and IFRS GAAP liabilities.

Target required capital is the difference between *the target asset requirement* and assets required for IFRS GAAP liabilities.

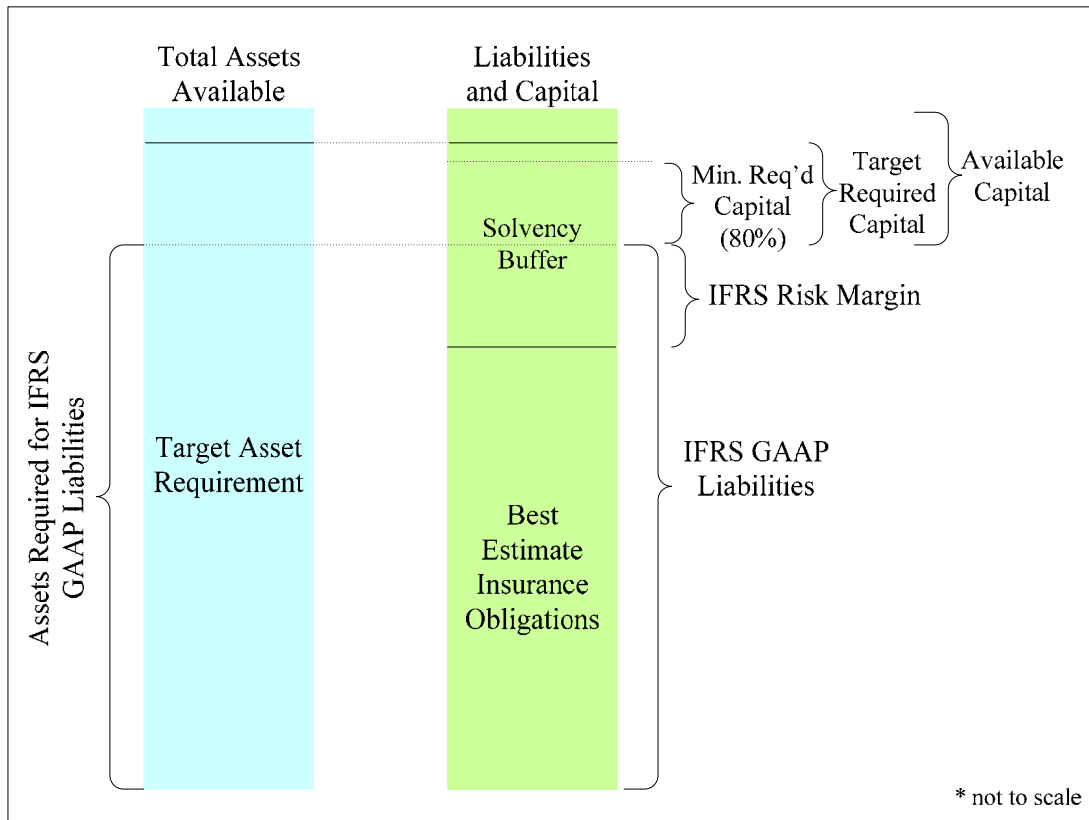
Minimum required capital will be periodically set by the regulator as a percentage of target required capital. The initial percentage may be set at 80%.

Capital is only one criterion that the regulator might use to determine if some form of intervention with a life insurance company is necessary. The regulators have various tools at their disposal and can be expected to escalate the severity of their intervention depending on the particular situation. At the limit, the regulators have the authority to take control of an insurance company which meets one or more conditions set down in the relevant insurance company legislation. These conditions include, for example, the failure to comply with a formal capital order issued by the regulator to the company.

We have, based on our expectation that the IFRS GAAP liabilities will be determined using consistent and objective criteria, chosen to define the regulatory requirements in terms of total capital required, which is the difference between total assets required for solvency and the total assets required for IFRS GAAP liabilities.

This approach has the merit of keeping the current terminology of *required capital* and *available capital*, and will ease the transition from the current capital framework.

Figure 3. Factors Used to Determine Target Capital and Minimum Capital



Risk Horizon

The solvency buffer will be calculated for all risks that could have a negative financial impact on a life insurance company. The solvency buffer will be calibrated so that a company can withstand adverse conditions over a one year time horizon with a very high degree of confidence and have enough assets to sell or run off the business after the year. This is consistent with the MAC Vision.

Confidence Level

The degree of confidence for the one year risk horizon will be set at a level equivalent to the 99% CTE level expected to be used in the future modeling approach. The terminal provision will

be based on a methodology to be determined at a later date. Additional calibration considerations will include current capital levels, the outcome of future approach impact studies and a rating of at least a BBB grade security.

Approach to Credit Risk

The solvency buffer for credit risk will use factors developed from the best available information, and be similar to the method currently used in the MCCR.

With the introduction of IFRS GAAP there will no longer be a provision for asset defaults in the liabilities. This would suggest that the solvency buffer for credit risk should be the current capital requirements plus the current asset default provisions in the liabilities. However, it is also anticipated that the new IFRS best estimate liability will discount the liability cash flows using risk-free rates. By itself, this latter change will increase the amount of the insurance liabilities. Together, these two changes work in opposite directions and more work will be required to determine the net change required to the current MCCR factors.

The new factors should also be similar to the credit requirements in Basel II. The new factors should give broadly similar results for the same asset classes for banks and insurance companies. More work is needed to obtain this result.

Research should also be undertaken to assess the default history of each asset class. The results of this work could then be used to help calibrate the factors.

The current MCCR factors were developed for application to the historic cost value of assets. When the new factors are applied to the market value of assets under the new accounting standards, we need to ensure the credit and market capital standards do not double count or miss risk.

Approach to Market Risk

The solvency buffer for market risk will use deterministic shock calculations for interest rate, interest rate spread, equity, real estate, and currency risks.

Each company will develop a system for projecting future cash flows of both assets and liabilities. The sensitivity of the present value of the cash flows to interest rate changes will then be tested using different interest assumptions. The solvency buffer for the market risk of equities and real estate will be calculated using simple *deterministic shocks* to the market value.

Consistent with developments in Europe and internationally, equity risk will be considered within market risk in the new framework (i.e. rather than within credit risk in the current MCCR).

Separate techniques for setting solvency buffer for currency risk need to be developed.

Liquidity risk is expected to be addressed through the process of supervisory review.

The solvency buffer will need to consider product features that provide market-related guarantees to policyholders. The most significant of these are the guarantees on segregated funds, equity indexed annuities, and minimum interest rate guarantees in universal life contracts. The existing methodology will be reviewed, and consideration will be given to setting the factors based on a one year time horizon and terminal provision.

Approach to Insurance Risk

The solvency buffer for insurance risk will be calculated using a one year risk horizon and terminal provision. The one year risk horizon calculation may use either a formula or an integrated combination of shocks to the mortality, morbidity and lapse assumptions that are used in calculating best-estimate insurance obligations. Where applicable, other assumptions would be modified to be consistent with the new assumptions.

We anticipate that mortality and morbidity improvements will be allowed in the calculation of best-estimate insurance obligations under IFRS GAAP. Calculating future mortality improvement introduces a risk of misestimating the trend. Consideration will be given to how to set an appropriate solvency buffer for this trend uncertainty.

It would be preferable if the new integrated shock calculation could make use of valuation systems currently in use by companies. However, considerable work needs to be done to establish the appropriate assumptions to be used in calculating the solvency buffer. These assumptions will need to take into account catastrophe risk, as well as level and trend uncertainty.

To assist executive management, boards of directors and regulators in assessing the reasonableness of the resulting solvency buffer and to allow comparisons between companies, companies will be required to disclose information in a standard form.

Approach to Operational Risk

The solvency buffer for operational risk will be calculated by applying a factor to a measure of exposure such as gross revenue. In addition, the solvency buffer will also contain a margin for future expenses that exceed those assumed in the calculation of best-estimate insurance obligations.

There are currently no explicit capital requirements for operational risk. However, they are implicitly accounted for by requiring companies to hold more than 100% of the capital required by the MCCR calculation. In the future, operational risk should be explicitly provided for e.g. by applying a factor to gross revenue.

Operational risk can be further divided into the sub-categories of process risk, legal and regulatory risk, and fraud and mismanagement risk.

Process risk is the risk of loss due to the accumulation of small process errors. This occurs most often in processing high-volume, low-dollar-value transactions. The risk is best measured by using volume of transactions, but using gross revenue can give reasonable results.

Legal and regulatory risk is the risk of loss due to non-compliance with laws or regulations. This risk increases with the size of a company. Gross revenue is a reasonable measure of company size.

Fraud and mismanagement risk is the risk of loss due to significant fraudulent or negligent action by people in the organization. A classic example would be the unauthorized derivative trading that caused the failure of Barings bank. This type of risk has many of the same characteristics as catastrophic risk and it is difficult to find a suitable measure. The amount of such risks does tend to increase with company size, and gross revenue is a reasonable measure of size.

Different factors may be required for different lines of business. More study and thought is required in this area.

IFRS best estimates may not include actual expenses, but may instead include standard expenses derived from a reference entity. Where the present value of actual future expenses is expected to be higher than the present value used in the valuation, the excess should be provided for in the solvency buffer.

Risk Mitigation

Appropriate assumptions will also need to be developed to account for situations where risk is shared with consumers in participating contracts or through other contractual provisions. It is anticipated that a reduction in solvency buffer for participating contracts will be calculated as the present value of the potential future reduction in dividends after an adverse event. Where contracts, such as universal life, effectively pass risk on to the consumer, no solvency buffer will be required for the risks that are passed on.

Fixed hedging contracts will continue to be recognized as risk mitigators and appropriate reductions in the solvency buffer will be applied.

Qualified reinsurance contracts will reduce the solvency buffer for insurance risk in a similar manner to the existing relief under the current MCCR. There will be an appropriate solvency buffer calculated for reinsurance counterparty risk.

Credit for a risk mitigation technique should consider the effect of legal and reputation risks related to that technique.

Diversification and Concentration

The “Canadian Vision for Life Insurer Solvency Assessment” stated that it was not anticipated that there would be diversification allowances between the categories of risk. We need to do

more study on the behavior of risks in extreme circumstances before we consider introducing explicit allowances for diversification or inclusions for concentration.

There will be some diversification allowance within the risk categories. For example the integrated approach to insurance risk that is recommended here will include a method of taking into consideration the reduction of risk that occurs when risks are aggregated into larger pools.

Diversification and concentration will be considered under Pillar II supervision. Here the regulator may impose conditions on companies that are subject to risk concentrations. These may include the requirement to increase the solvency buffer.

Refining and Calibrating

Once the new framework is in place, there will be a regular schedule for updating both the methods and the calibration of the methods. This will be done based on experience with both the future modeling and the standard approaches, and on special experience studies.

Available Capital

There will be a review of the current regulations governing available capital. However no significant changes are expected.

The review should consider if the different treatment of deductions for MCCR and Basel II are appropriate. It should also consider if the current treatment of negative reserves and cash surrender values remain appropriate.

Target Milestones in the Development and Implementation of the Framework

Framework paper finalized and issued by OSFI and AMF	October 2008
Market and credit risk	
Discussion paper issued on capital requirements for market risk	October 2008
Industry consultation on market risk	Until December 2008
Market risk paper finalized and issued by OSFI and AMF	February 2009
Discussion paper issued on capital requirements for credit risk	March 2009
Industry consultation on credit risk	Until May 2009
Credit risk paper finalized and issued by OSFI and AMF	June 2009
Quantitative impact studies market and credit risk	October 2009
OSFI and AMF issue the form of calculation for credit and market risk	June 2010
OSFI and AMF issue preliminary factors and assumptions to be used for 2010 parallel run	June 2010
Parallel run of old and new standards for market and credit requirements	January 1, 2011
OSFI and AMF issue final form, factors and assumptions to be used for 2011	June 2011
Expected implementation of the new market and credit requirements	January 1, 2012
Insurance and operational risk	
Discussion paper issued on capital requirements for insurance risk	January 2010
Discussion paper issued on capital requirements for operational risk	March 2010
Insurance risk paper finalized and issued by OSFI and AMF	June 2010
Operational risk paper finalized and issued by OSFI and AMF	June 2010
Quantitative impact studies insurance and operational risk	October 2010
OSFI and AMF issue the form of calculation for insurance and operational risk	June 2011
OSFI and AMF issue preliminary factors and assumptions to be used for 2012 parallel run	June 2011
Parallel run of old and new standards for insurance and operational requirements	January 1, 2012
OSFI and AMF issue final form, factors and assumptions to be used	June 2012
Expected implementation of the new insurance and operational risks requirements	January 1, 2013

Glossary of Terms

Future modeling approach	A method of determining the <i>target asset requirement</i> using <i>stochastic or probabilistic modeling</i> techniques.
AMF	<i>Autorité des marchés financiers</i> . A regulatory authority for Quebec's financial sector. It protects consumers by enforcing the laws and regulations governing insurance, securities, deposit institutions (other than federally chartered banks), and the distribution of financial products and services.
Available capital	The difference between <i>total assets available</i> and assets required for <i>IFRS GAAP</i> liabilities.
Basel II	A set of international banking agreements ("the Basel Accords") that helps financial markets run smoothly. These accords coordinate the regulation of global banks. They were created to guard against financial shocks to the economy.
Best-estimate policyholder obligations	The best estimate of the cash needed in the present to meet future obligations to policyholders, without the addition of margins.
CALM model / CALM valuation	Canadian Asset and Liability Method. An actuarial valuation method, using the projected cash flows of the actual assets and liabilities of the company.
Canadian Vision for Life Insurer Solvency Assessment	A paper prepared by the Minimum Continuing Capital and Surplus Requirements (MCCSR) Advisory Committee (or MAC) to outline a vision for new principles-based solvency financial requirements for Canadian life insurers.
Capital	The remaining assets of a business after all liabilities have been deducted. Also see <i>available capital</i> , <i>target required capital</i> , and <i>minimum capital</i> .
CLHIA	Canadian Life and Health Insurance Association.
Confidence level	A level of confidence in financial predictions.
Conditional Tail Expectation (CTE)	The mean of the present value of the highest or lowest results, expressed as a percentile, of a simulation model. For example, 95% CTE is the present value of the mean of the highest 5% of results.
Credit risk	The risk of financial loss, despite realization of collateral security or property, resulting from the failure of a debtor to honour its obligations to the company.
DCAT system	Dynamic Capital Adequacy Test. A formal approach to test the financial strength of a company by projecting its future financial condition under various possible sets of consistent scenarios. DCAT is a systematic way to quantify the major business risks faced by an insurance company.

Deterministic shock calculations	A method of determining the change in value of an asset or liability in response to a specific change in a market variable, such as an interest rate.
GAAP	Generally Accepted Accounting Principles. "Canadian GAAP" means generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants. "IFRS GAAP" means generally accepted accounting principles as set out in the International Financial Reporting Standards.
IFRS	International Financial Reporting Standards.
Insurance risk	The risk of adverse changes in mortality, morbidity, and lapse rates.
Lapse rate	The rate at which policyholders stop paying premiums and allow the protection offered by their policies to stop.
Liquidity risk	The risk of a company having insufficient cash to meet current demands for cash.
MAC	MCCSR Advisory Committee.
Market risk	The risk that changes in the financial markets will affect the value of assets and liabilities. This includes interest rate, spread, equity, and currency risks.
MCCSR	Minimum Continuing Capital and Surplus Requirement. The current system for determining required capital. The AMF capital formula name is Capital Adequacy Requirements (CAR).
Minimum assets required	The level of assets below which the regulator will take corrective action that may include taking control of the company.
Minimum capital	The level of capital below which the regulator will take corrective action that may include taking control of the company.
Morbidity rate	The number of policyholders claims for illness or disability, within a certain period of time, divided by the total number of policy holders.
Mortality rate	The number of policyholders who die, within a certain period of time, divided by the total number of policyholders.
Operational risk	The risk that a business will lose money because of the way it operates, or because of its failure to comply with laws and regulations. This includes the financial impact of loss of reputation.
OSFI	Office of the Superintendent of Financial Institutions. A regulatory body that was created to contribute to public confidence in the Canadian financial system.
PfAD	Provisions for Adverse Deviations. An amount set aside or identified in case things go worse than you expect.
Pillar II rules	The rules set by the regulator to cover risks not explicitly dealt with under Capital rules (Pillar I). It includes the regulators response to monitoring and assessing the company's Internal Capital Adequacy Process.

Regulatory arbitrage	“Shopping” for favourable regulations – for example, to find the regulatory regime with the lowest capital requirements.
Risk horizon	The future period of extreme experience.
Solvency II standards	European standard approach for the calculation of the available capital of life, non-life and health insurance companies.
Solvency buffer	An estimate of the amount of capital in excess of the best estimate policyholder obligations that a business needs to have on hand to withstand financial problems and have enough assets to sell or run off the business.
Stochastic modeling	A modeling technique that consists of running multiple scenarios from randomly generated variations in the assumptions.
Target asset requirement	Target level of assets required determined as an expected asset requirement plus a solvency buffer.
Target required capital	The difference between the target assets requirement and assets required for <i>IFRS GAAP</i> liabilities.
Terminal provision	A calculation of the assets that would be required to close a business at the end of the <i>risk horizon</i> , either by selling off the business or by putting it into run-off.
Valuation	The process of determining the current worth of an asset or company.