



June 29, 2010

To: Federally Regulated Life Insurance Companies & Fraternal Benefit Societies

Subject: MCCSR Standardized Approach QIS – Market Risk and Credit Risk

The Standardized Approach Working Group (SAWG), with representatives from OSFI, Assuris and the AMF, is developing the future MCCSR standardized approach that is expected to be implemented in stages. The SAWG undertook a first quantitative impact study (QIS) in the fall of 2009 of the proposed market and credit risk components and would like to thank the industry for its support on this project. OSFI has thoroughly analysed and discussed the results and comments submitted by respondents, within the SAWG as well as with the CLHIA and CIA.

The SAWG is now undertaking a second QIS covering the market risk component of the new approach, based on companies' positions at year-end 2009. The second QIS is intended to test changes to the methods being proposed and to estimate the potential impact of adopting these new components. The proposed market risk component is similar to the approach used in the first QIS, which applies shocks to interest rates, equities, and other market variables that affect the valuation of a company's assets and liabilities, and measures the change in the company's financial position under these shocks. As no changes are being considered at this time to the proposed credit risk component, it is not being tested within this QIS but we may test it a second time if another QIS is carried out.

The improvements made to the market risk component include:

- Participating products: More information, justification and calculations are requested.
- Discount rates: Base discount rates and scenario rates have been modified to include spreads added to the risk-free rates and the number of scenarios has been reduced as well as their determination modified.
- The component for UL policies may now be calculated based on CALM cash flows.
- The treatment of various types of assets and cash flows has been clarified.
- The shocks for equities and real estate have been modified.
- The segregated funds and currency risks have been kept the same as under the current MCCSR for this QIS.



The QIS worksheets for completion by companies are attached, along with their related instructions. The scenarios rates are provided to be used by all the companies, even if they are not the exact rates at year-end 2009.

The requirements calculated according to the factors and scenarios in the QIS should, for the moment, be viewed as indicative of the approaches being explored and not as final. Your feedback on these approaches is requested. The actual requirements at the time of introduction will depend on calibration performed after this QIS is completed, as well as the treatment of market risk and credit risk under financial reporting standards. These requirements may be modified further once other components of the standardized approach (e.g. insurance risk, operational risk) have been developed.

Please complete the attached worksheets and return them by email to Mr. Jean-Guy Lapointe, Capital Division. Questions concerning the completion of the QIS should also be addressed to Mr. Jean-Guy Lapointe. He may be reached by email at jean-guy.lapointe@osfi-bsif.gc.ca .

Alternatively, companies may mail their submissions on diskette or CD to:

OSFI Capital Division
15th floor
255 Albert Street
Ottawa, Ontario
K1A 0H2

The worksheets should be completed and returned by September 24, 2010. Note that all submissions received will be shared with Assuris and the AMF on a confidential basis.

Thank you again for your support.

Bernard Dupont
Managing Director
Capital and Accounting Division