



Reference: Guideline for Life and
Foreign Life Companies

Our File: P2710-7

August 22, 2005

To: Life Companies
Foreign Life Companies
Fraternal Benefit Societies
Foreign Fraternal Benefit Societies

Subject: Rescission of the Standards of Sound Business and Financial Practices (Standards) - Guidelines F1 - F12 and the Program for Assessment of Regulatory Compliance (PARC)

The Standards, which were a joint effort among a number of regulatory and industry bodies, were released in July 1997 and reissued as OSFI guidelines in February 1998. The Standards are applicable to life and health insurers operating in Canada and are the minimum operating standards that OSFI expects federally regulated life and health insurers to maintain. PARC, which was released in September 1997, is used by companies to self-assess their compliance with the Standards.

When originally released, the Standards were intended to assist companies in advancing their business and financial practices related to areas such as risk management, internal control and governance. OSFI believes that the Standards and PARC have greatly assisted life insurers in developing and enhancing their practices and notes that many companies now operate well beyond these minimum requirements.

In addition, a number of events have occurred since the Standards were initially released, including:

- OSFI's development and implementation of the Supervisory Framework, which focuses on risk management and control functions, and addresses many of the issues covered by the Standards. OSFI has also made available to companies the assessment criteria used to rate and assess control functions;
- the issuance of new or updated guidelines dealing with corporate governance, source of earnings disclosure, outsourcing of business functions, intersegment notes, the role of the independent actuary, appointed actuary qualifications and external review, etc.;



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- professional associations such as the CIA have strengthened guidance issued to members, such as that dealing with reserving practices for interest rate risk (CALM) and scenario testing such as DCAT;
- a general desire amongst the regulatory and investment communities and, in some cases, the public for companies to demonstrate improved risk management, reserving, governance, disclosure, etc.; and
- the “embedding” of the Standards by many companies into their risk management frameworks.

Given the above events, OSFI believes it is appropriate that the formal Standards and the associated PARC self-assessment be rescinded. This initiative, which is effective immediately, is also in line with the recent removal of the Canada Deposit Insurance Corporation’s Standards of Sound Business and Financial Practices for deposit taking institutions. Circumstances similar to those noted above enabled the removal of the CDIC Standards and their self-assessment framework.

The removal of the Life Standards and PARC does not eliminate the need for companies to continue developing and enhancing their business and financial practices. OSFI expects that companies will continue incorporating the general concepts found in the Standards, or in other contemporary risk measures, into their risk management frameworks. Further, OSFI will continue to review the appropriateness of practices at companies and societies, as provided for in its Supervisory Framework.

Please note that PARC filings will not be required for the 2005 fiscal year. OSFI will also make any necessary amendments to its other guidelines where reference is made to the Standards or to PARC.

Questions regarding this initiative should be directed to Judy Cameron, Legislation and Approvals Division, at (613) 990-7337 or by e-mail at judy.cameron@osfi-bsif.gc.ca.

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