



Two issues that arose during OSFI'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. OSFI 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. OSFI does not subscribe to the view that this transaction has no net impact on the company and hence, is immaterial to the company.

Companies that adopt materiality criteria at least as stringent as those set out in this bulletin are deemed to have the Superintendent's approval in writing. Companies wishing to establish different materiality criteria must submit them to OSFI 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**

1. The value of a personal-lines insurance policy issued to a related party is immaterial to the company.
2. The value of a non-personal-lines insurance policy issued to a related party is immaterial to the company if the net per-risk retention on the policy, plus the net per-risk retention on other policies issued to the same related party, in total, is less than 1 per cent of the company's capital.
3. The value of a reinsurance-assumed or a reinsurance-ceded arrangement with a related party is immaterial to the company, with the exception of reinsurance assumed or ceded to which the provisions of section 254 of the Act apply. It is recognized that reinsurance ceded to a related party that is not a company or a foreign company must be approved by the Superintendent pursuant to subsection 523(2) of the Act.
4. The value of any other transaction with a related party is immaterial to the company if:
  - a) in the case of a loan to a related party, the loan plus the outstanding balance of all other loans made to the same related party, in total, is less than 1/10 of 1 per cent of the company's capital; or

- b) in the case of any other transaction, the value of the transaction plus the value of all other immaterial transactions made with the same related party during the fiscal year, in total, is less than 1/10 of 1 per cent of the company's capital.

For the purposes of determining the dollar amount of the criteria applicable to a particular company:

- a) for a domestic property and casualty company, "capital" equals the fiscal year opening balance of total assets less total liabilities less reserves required; and
- b) for a foreign property and casualty branch, "capital" equals the fiscal year opening balance of assets in Canada less total liabilities less reserves required.

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