Guidance note

Title	Financial Statements Requirements – Canadian Mutual Company Demutualizations
Date	June 30, 1999
Sector	Life Insurance and Fraternal Companies

The note provides guidance on OSFI's expectations regarding financial statements to be included in the notice of the special meeting describing the conversion proposal, pursuant to the *Mutual Company (Life Insurance) Conversion Regulations* (the Regulations).

Pursuant to paragraph 5(1)(f) of the Regulations, where notice of a special meeting describing a conversion proposal is sent to eligible policyholders more than 120 days after the end of the most recently completed financial year of the converting company, the converting company must submit to the Superintendent financial statements for the portion of the current financial year ending prior to a day that is no more than 120 days before the day on which the notice is sent, together with an auditor's comfort letter in respect thereto.

Pursuant to paragraph 7(1)(h) of the Regulations, the financial statements referred to in paragraph 5(1)(f) must be included in the notice of the special meeting describing the conversion proposal.

Pursuant to Section 11 of the Regulations, the Superintendent may exempt a converting company from the requirements, in respect to financial statements referred to above.

OSFI would generally expect a converting company to plan its administrative process in such a way that the notice of the special meeting and all material to be included therewith would be sent to policyholders no later than 120 days after completion of the most recent financial statements.

In the event that a converting company is unable to meet OSFI expectations, we would consider a request for exemption pursuant to Section 11 of the Regulations if one or more of the following conditions are applicable to the request:

- the applicant normally prepares statements on a quarterly basis only, and the quarterly statements would not normally be available in final form within a timeframe sufficient to allow for inclusion in the policyholder information document without causing a significant delay in providing the information to policyholders;
- in determining what constitutes normal availability of quarterly statements, OSFI would consider the nature of the applicant's business and operations, including the jurisdictions where it conducts business, whether it transacts any reinsurance business, the need to comply with financial statement completion requirements in other jurisdictions, and whether it transacts business only directly or through subsidiaries. OSFI would also take into consideration its time requirements for filing quarterly financial statements, which currently is 45 days after the end of a quarter;
- a significant negative impact on the applicant, caused by a delay in the mailing to policyholders;
- up to the date of the Superintendent's exemption, there is no recent material event that would have significant impact on the operations of the company.

In any event, we would not likely consider a request for exemption beyond the end of the month in which the quarterly financial statements become available.

Any exemption granted would contain the following conditions:

- the policyholder information package is mailed no later than the date specified in the exemption granted by the Superintendent;
- the policyholder information package will include any material fact or change to the financial statements that is known to have occurred and not reflected in the financial statements included in the policyholder information package up to the date of the mailing;
- the applicant will provide an additional mailing to policyholders if the quarterly financial statement results are materially different from the information contained in the policyholder information package, and not already disclosed therein;
- the pro forma financial statements required by paragraph 5(1)(g) of the Regulations, which would otherwise have been based on the financial statements in respect of which an exemption is requested, would show the effect of any material event that has occurred since the most recent completed financial year.