

June 18, 2021

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Subject: Assurance on Capital, Leverage and Liquidity Returns

The Canadian Institute of Actuaries (CIA) thanks OSFI for the opportunity to comment on the discussion paper *Assurance on Capital, Leverage and Liquidity Returns*. This letter has been prepared by the CIA's Committee on Risk Management and Capital Requirements (CRMCR).

The CIA has reviewed the paper and its associated questions. OSFI is proposing to clarify and enhance the function of external auditors, senior management and internal audit in the context of assurance standards on capital, leverage and liquidity returns. The proposed changes are in response to the increasing complexity of regulatory reporting, stemming from IFRS 17 for insurers and the Basel III reforms for deposit-taking institutions. Given the CIA's role in the insurance industry, the CIA's comments are from the perspective of insurers. We have provided over-arching commentary to help guide OSFI with their consultation rather than responding to questions directly.

While it is unclear whether the proposed changes to the assurance of capital returns are needed, the CIA's view is that the proposed changes, if incremental in nature and implemented carefully, could encourage enhanced processes and controls that may improve the quality and accuracy of capital returns. Furthermore, the proposed changes may better ensure that the needs of the various stakeholders of the capital returns are addressed. The CIA notes there is a risk that changes to assurance expectations for insurers could have unintended consequences if not scaled appropriately for the underlying insurer or if there is duplication of efforts.

Based on our review of the paper, the CIA offers the following comments to support OSFI with its consultation:

OSFI's expectations

We believe that OSFI, as a consumer of financial information, should generally express its requirements including the assurance it requires in relation to those requirements. It is also important that OSFI balance its need for assurance with the cost and effort associated with

providing that assurance. OSFI should clarify the need for enhanced assurance of capital filings for insurers and why the proposed changes offer a benefit commensurate with the associated cost, along with detailed support for why existing guidelines and requirements do not provide sufficient assurance. OSFI should also clarify its expectations, specifically with more details on the content or format of any filing requirement changes, including what is expected from internal and external auditors, and senior management. With more understanding on the specific requirements, insurers and other stakeholders could more effectively opine on the timelines (i.e., 90 days after LICAT filing), and comment on the appropriateness of the changes.

Roles and requirements

OSFI should ensure that the performance of assurance requirements by various parties (e.g., external and internal auditors, and external peer reviewers) are complementary, avoid undue duplication of effort, and are consistent with the roles and expectations of those parties. In addition, OSFI currently has guidelines and other requirements in place that support the assurance of capital filings. We recommend that OSFI ensure that any new requirements are only incremental in nature and do not significantly overlap with existing OSFI guidelines and requirements.

Materiality

Materiality is an important dimension of OSFI's assurance expectations, and auditors should understand and appreciate OSFI's expectations regarding materiality in conducting their audits. Assurance can only be effective when those providing that assurance are aware of the scope and nature of the assurance required. We recommend that OSFI provide guidance to auditors and others providing assurance in order to ensure that the assurance meets the needs of OSFI and is effective.

While it is important that all parties be aligned in their understanding of OSFI's definition of materiality, it is equally as important that OSFI establish that definition so that undue cost and effort is not required to satisfy it. The CIA encourages OSFI to give appropriate consideration to the cost and effort required to satisfy their definition of materiality.

Proportionality

The CIA encourages OSFI to be mindful of proportionality in articulating its expectations around assurance and consider the capacity of entities to satisfy those requirements as well the absolute need for assurance. To the extent that expectations are absolute then the cost incurred by smaller entities to satisfy those expectations could exceed their capacity to satisfy them or be disproportionate to the benefit. We saw no obvious evidence in OSFI's proposals of disproportionality but support and encourage OSFI to hold this as a principle in articulating assurance requirements.

Effective date

OSFI is proposing that changes for insurers become effective fiscal 2022 as the proposed changes are enhancements to existing expectations. Due to the inherent complexity of IFRS 17, insurers' systems, processes, and controls are undergoing significant changes in order to meet disclosure requirements. Furthermore, OSFI is making significant changes to capital guidelines as a result of IFRS 17. Given that IFRS 17 and revised capital guidelines will not be effective for fiscal 2022, we strongly recommend that OSFI defer the effective date of any changes so that the revised expectations related to assurance are aligned with the effective date of IFRS 17 and revised capital guidelines. This would reduce the cost and effort associated with meeting OSFI's assurance expectations and reduce the burden on insurers as they focus on IFRS 17 implementation, while emphasizing the expectations once IFRS 17 becomes effective.

The CIA appreciates the opportunity to provide feedback on these issues, and we would welcome further discussion with you throughout this process.

If you have any questions, please contact Chris Fievoli, CIA Staff Actuary, Communications and Public Affairs, at 613-656-1927 or chris.fievoli@cia-ica.ca.

Sincerely,

[Original signature on file]

Michel St-Germain, FCIA
President, Canadian Institute of Actuaries

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