

May 30, 2022

Regulation Sector
Office of the Superintendent of Financial Institutions
assurance@osfi-bsif.gc.ca

Subject: *Assurance on Capital, Leverage and Liquidity Returns*

The Canadian Institute of Actuaries (CIA) thanks the Office of the Superintendent of Financial Institutions (OSFI) for the opportunity to comment on the draft guideline *Assurance on Capital, Leverage and Liquidity Returns*, issued by OSFI on March 31, 2022. The issuance of the draft guideline follows a 2021 consultation 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. The scope of the CIA's comments here concern assurance for regulatory capital returns filed by insurers.

The CIA has reviewed the draft guideline and associated materials issued by OSFI on March 31, 2022. The CIA is pleased that OSFI has thoughtfully considered the feedback provided by the CIA and other stakeholders as part of the 2021 consultation on the *Assurance on Capital, Leverage and Liquidity Returns* discussion paper.

The CIA agrees with the guiding principles outlined in the draft guideline for the assurance expectations of capital returns for all federally regulated insurers. Of note, significant assurance on regulatory capital ratios is currently provided through the annual Appointed Actuary certification, external and internal audit, senior management attestation, and triennial external peer review as required by OSFI Guideline E-15. While OSFI will provide further clarification on its expectations through the guideline, there are certain areas of the draft guideline where the CIA questions the extent of assurance requirements, or where additional clarification on the requirements would be helpful.

The CIA offers the comments below to support OSFI with the finalization of the guideline.

External Audit Opinion

The CIA agrees that the external audit opinion should include the reasonableness and accuracy of insurers key regulatory ratios; however, we question the need for the opinion to separately cover the numerator and denominator of regulatory ratios. Our expectation is that external auditors will review the various components of the regulatory ratios in the LICAT/LIMAT/MCT/MICAT schedule to opine that the regulatory ratios are appropriate.

Senior Management Attestation

We support the continued requirement of a senior management attestation for regulatory filing purposes, and agree that internal review of key regulatory returns is a critical aspect in support of such attestation. However, the requirement that key regulatory returns be reviewed by “an internal function independent of the business line responsible for the preparation of the returns, and with the appropriate knowledge and expertise to interpret applicable regulatory guidance” is overly prescriptive and onerous.

The senior management attestation should be provided under an expectation that an insurer has established suitable internal controls, as validated through their internal audit process, which would include the suitable internal review of regulatory capital returns. Importantly, expert knowledge is required to interpret and prepare regulatory capital returns; therefore, it is not practical for insurers to ensure that an independent internal function possesses this expert knowledge. This would be particularly burdensome for smaller insurers. It would be more appropriate for an internal review of regulatory capital returns to be performed by an individual (or individuals) not directly involved in the preparation of the regulatory capital returns who possesses the appropriate knowledge and expertise to perform the review competently.

Internal Audit Opinion

While we support the requirements of the internal audit opinion, we do not understand the reference to OSFI Guideline E-19 as it relates to internal audit of regulatory returns. We suggest that OSFI review the applicability of this reference, and, if maintained, clarify its relevance.

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

If you have any questions, please contact Chris Fievoli, FCIA, Actuary, Communications and Public Affairs, at 613-236-8196, ext. 119, or at chris.fievoli@cia-ica.ca.

Sincerely,

[original signature on file]

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

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