



# Adjustments and clarifications

---

Title	Life Insurance Capital Adequacy Test 2024 – Adjustments and clarifications
Category	Capital Adequacy Requirements
Date	March 1, 2024
Sector	Life Insurance and Fraternal Companies

---

## Table of Contents

---

### 1. Assurance attestation (Attestation Page in the LCQ)

- [OSFI remarks](#)
- [Clarification](#)
- [Date updated](#)

### 2. Calculation of limit applied to the amounts recoverable on surrender (LICAT section 2.1.2.9)

- [OSFI remarks](#)
- [Clarification and adjustment](#)
- [Date updated](#)

This communication sets out adjustments and clarifications to the [Life Insurance Capital Adequacy Test \(LICAT\) 2024 guideline](#) and associated instructions and forms since their publication in October 2023. Items reflected on this list may be incorporated in the LCA and LCQ Filing Instructions and a future version of the LICAT guideline, as appropriate.

Any questions should be addressed to [LICAT-TSAV@osfi-bsif.gc.ca](mailto:LICAT-TSAV@osfi-bsif.gc.ca).

## 1. Assurance attestation (Attestation Page in the LCQ)



## OSFI remarks

In accordance with the [Assurance on Capital, Leverage and Liquidity Returns – Guideline](#) published in November 2022, an Attestation page is added to all Capital, Leverage and liquidity returns. This clarification relates to the attestation page added to the LCQ return.

## Clarification

In addition to the quarterly attestation of Authorized official / Chief Agent and the annual Opinion of Actuary of the Insurer required on the Cover page of the LCQ, the following attestation requirements are added on the Attestation page of the LCQ:

### 1. Senior Management attestation

The review and attestation should be performed by an individual satisfying the requirements elaborated in section 4.2 of the [Assurance on Capital, Leverage and Liquidity Returns – Guideline](#) on a quarterly basis and can be the same individual performing the quarterly attestation of Authorized official / Chief Agent on the Cover page of the LCQ.

### 2. Internal Audit Opinion

Commencing in fiscal 2023, an Internal Audit opinion is to be provided at a minimum once every three years for all federally regulated insurers. More detailed requirements can be found in section 4.3 of the [Assurance on Capital, Leverage and Liquidity Returns – Guideline](#).

## Date updated

March 2024

## 2. Calculation of limit applied to the amounts recoverable on surrender (LICAT section 2.1.2.9)



## OSFI remarks

The limit applied to the total amounts recoverable on surrender which can reduce the negative reserves deduction from Tier 1 Capital (the “negative reserves offset limit”) for Canadian insurersNo adjustments are required to the calculation for Canadian branches of foreign life insurance companies. was revised in LICAT 2023 for changes related to unregistered reinsurance. The wording needs to be modified to remove the following double counting and circular references:

- The tax adjustments (qq.v. section 10.2.5) related to policy-by-policy negative reserves ceded under unregistered reinsurance are double-counted, i.e., included in both items 1 and 6 of the limit.
- Item 1 of the negative reserves offset limit includes the amounts recoverable on surrender (qq.v. section 10.2.6) related to policy-by-policy negative reserves ceded under unregistered reinsurance. However, the calculation of the section 10.2.6 amount depends on the negative reserves offset limit, creating a circular reference.
- Item 3 of the negative reserves offset limit includes the Tier 1 Capital deduction related to deferred tax assets (DTA) arising from temporary differences (qq.v. section 2.1.2.5.2). However, the calculation of the section 2.1.2.5.2 amount depends on the negative reserves offset limit, creating a circular reference.

## Clarification and adjustment

LICAT section 2.1.2.9 calculates the maximum total amount by which the deduction from Gross Tier 1 of reduced policy-by-policy negative reserves for a Canadian insurer may be further reduced for amounts recoverable on surrender. The following adjustments should be applied to item 1 and item 3 in this calculation:

- Tax adjustments and amounts recoverable on surrender related to policy-by-policy negative reserves ceded under unregistered reinsurance (i.e., item 11, LICAT section 2.1.1) should be excluded from Gross Tier 1 (i.e., item 1 of the maximum total amount recoverable on surrender, LICAT section 2.1.2.9).
- DTA arising from temporary differences (qq.v. section 2.1.2.5.2) should be excluded from the deductions from Gross Tier 1 (i.e., item 3 of the maximum total amount recoverable on surrender, LICAT section 2.1.2.9).

## Date updated

March 2024