

Appendix

Clarification of Requirements for the Prudent Person Approach

This appendix clarifies FICOM's requirements for references made in the OSFI guidelines issued under the prudent person approach.

No.	OSFI References	FICOM's Requirements
B-1	<ul style="list-style-type: none"> • <i>Prudent person legislation</i> • <i>Providing Information to OSFI</i> • <i>Appendix – Summary of Statutory Limits</i> 	<p>FICOM's "prudent standards" requirement is set out in s.136(1) & (2) of the <i>Financial Institutions Act</i> (FIA).</p> <p>Insurers should note that s.136(1) of the FIA imposes an additional fiduciary duty to "make investments without undue risk of loss and with a reasonable expectation of a fair return on the investments."</p> <p>Non-federal extra-provincial insurers operating in BC are also required to follow s.136(1) & (2) by way of s.158(3)(b).</p> <p>Under the FIA, BC-incorporated financial institutions are required to file investment and lending policies with FICOM.</p> <p>The statutory limits set out in the Appendix to B-1 do not apply to provincially regulated institutions.</p>
B-2 (Life)	<ul style="list-style-type: none"> • <i>Minimum Continuing Capital and Surplus Requirements (MCCSR)</i> • <i>III(vi) Definition of "entity"</i> 	<p>Section 8.1 of the capital requirements regulation requires BC life insurers to adhere to the MCCSR guideline.</p> <p>For the definition of "entity", refer to the FIA s.1(1).</p>
B-2 (P&C)	<ul style="list-style-type: none"> • <i>Definition of "entity"</i> • <i>5% limit on exposures to any entity or group of entities</i> 	<p>For the definition of "entity", refer to the FIA s.1(1).</p> <p>The 5% investment concentration limit on exposures to any entity or group of entities is expected to apply to securities.</p>
B-4 (Life)	<ul style="list-style-type: none"> • <i>Use of an Agent</i> 	<p>If a company chooses to employ an agent for the administration of its securities lending program, it is governed under s.3(j) of the investment and lending regulation (BC Reg 330/90).</p>

No.	OSFI References	FICOM's Requirements
B-4 (P&C)	<ul style="list-style-type: none"> • <i>Use of an Agent</i> 	<p>Companies are not required to employ an agent for the administration of a securities lending program. If a company does choose to employ an agent, it is governed under s.3(j) of the investment and lending regulation (BC Reg 330/90).</p>
B-5	<ul style="list-style-type: none"> • <i>MCT and MCCSR</i> • <i>5.1 Setting up, or causing to be set up, an SPE [Special-Purpose Entity]</i> 	<p>Sections 8 and 8.1 of the capital requirements regulation require BC-incorporated insurers adhere to the MCT and MCCSR guidelines.</p> <p>In order to set up an SPE, a company must have prior approval from FICOM under s.138(1)(d) of the FIA. An SPE is not an exempt entity.</p>
B-7	N/A	N/A
B-11	<ul style="list-style-type: none"> • <i>Legislative requirement</i> • <i>Establishing pledging policies</i> 	<p>BC legislation does not require BC-regulated financial institutions to set out policies regarding the pledging of securities. However, FICOM considers this to form part of sound practices.</p> <p>Policies regarding the use of security for loans and leases must be set out in the Investment and Lending Policy as per s.3(c) of the investment and lending regulation (BC Reg 330/90).</p>
B-20	<ul style="list-style-type: none"> • <i>Maximum 80% loan-to-value (LTV) ratio for uninsured residential mortgages</i> • <i>Maximum 65% LTV ratio for non-conforming residential mortgages</i> • <i>Maximum 65% LTV ratio for non-amortizing component of home equity lines of credit (HELOCs)</i> • <i>Disclosure requirements</i> 	<p>BC legislation does not set out maximum LTV ratios for uninsured residential mortgages, non-conforming residential mortgages, or the non-amortizing component of HELOCs.</p> <p>However, FICOM expects BC insurers to establish appropriate limits for residential mortgage LTV ratios and to look to B-20 for guidance.</p> <p>FICOM is particularly seeking comment on the public disclosure requirements described in section III of this guideline.</p>

No.	OSFI References	FICOM's Requirements
E-2	<ul style="list-style-type: none"> <li data-bbox="310 216 704 258">• <i>Commercial lending powers</i> <li data-bbox="310 426 764 468">• <i>Definition of "commercial loan"</i> 	<p data-bbox="878 216 1435 363">Commercial lending powers are established in s.65 of the FIA and s.2(g) of the prescribed types of business regulation (BC Reg 575/2004).</p> <p data-bbox="878 426 1414 537">For the purpose of this guidance, FICOM will follow the same definition of "commercial loan" articulated in E-2.</p>