AUTORITÉ DES MARCHÉS FINANCIERS

Notice relating to the application of the *Capital Adequacy Requirements Guideline – Life and Health Insurance 2023 (the "Guideline")*

On July 21, 2022, the Autorité des marchés financiers (the "AMF") published the final version of the Guideline, which took effect on January 1, 2023. Since its release, the AMF has noticed that some Guideline items could present difficulties in interpretation or application.

This notice sets out clarifications and adjustments to enable insurers to complete the calculations relating to the Guideline in accordance with the AMF's expectations.

Volatility adjustment (section 2.1.1 of the Guideline)

Section 2.1.1 of the Guideline states that "an insurer may, at its option and for a limited period of seven quarters, elect to partially reverse the changes in liabilities that have occurred for the cost of guarantees for all products (excluding segregated funds) since the end of the previous quarter. This is a one-time election that must be made within three months after the effective date of IFRS 17 and cannot be changed thereafter."

Given that the volatility adjustment measure applies only as of the second quarter, this election may be made within the first six months following the IFRS 17 effective date, instead of "within three months" as indicated in section 2.1.1 of the Guideline. Therefore, an insurer with an IFRS 17 effective date of January 1, 2023, for example, must make the election no later than June 30, 2023. Insurers must notify the Direction de la surveillance de la situation financière (AMF Supervision – Financial Condition) of their decision.

Owner-occupied property (sections 2.1.1 and 5.3.1 of the Guideline)

Under an amendment made to IAS 16 *Property, plant and equipment* (paragraphs 29A and 29B), an insurer may elect in certain circumstances to measure owner-occupied properties using the fair value model in accordance with IAS 40 *Investment property*.

If the insurer makes this election, the property must be treated as an investment property under the Guideline. Specifically, required capital for real estate risk must be calculated according to section 5.3.1 of the Guideline with zero value for the leases in force component and reported through the "Real Estate Risk" (*Risque lié à l'immobilier*) section of the Annual Supplement (page 50.300).

These owner-occupied properties must be excluded from the calculation of the amount to be reversed related to owner-occupied properties in the equity adjustment for the purposes of the Guideline (section 2.1.1 of the Guideline and page 20.400, cell 2040010030 of the Annual Supplement).

Capital composition and limitations (section 2.3 of the Guideline)

Section 2.3 of the Guideline lists three capital composition limits. The first limit requires the aggregate of the items specified in regard to this limit to be equal to or exceed 75% of Net Tier 1 Capital.

As part of the changes made to the Guideline for 2023, a capital item has been added to Net Tier 1 Capital items: "tax adjustments and amounts recoverable on surrender related to contract-by-contract negative liabilities ceded under unregistered reinsurance". However, the formula for calculating the first limit, provided in section 2.3 of the Guideline, has not been adjusted accordingly, which should have been done to ensure consistency.

The AMF is therefore adjusting this formula in order to include the item "tax adjustments and amounts recoverable on surrender related to contract-by-contract negative liabilities ceded under unregistered reinsurance" in the list of items under the first capital composition limit (that is, as a new capital item to be added under the first limit in section 2.3 of the Guideline).

If you have any questions, please contact:
Mr. Gabriel Bisson (gabriel.bisson@lautorite.qc.ca) and
Mr. Namir Daigneault (andre-namir.daigneault@lautorite.qc.ca).

Luc Naud
Director, Capital and Liquidity Policy

March 30, 2023