

OSFI PUBLISHES DRAFT OF REVISED GUIDELINE FOR MINIMUM CAPITAL TEST FOR FEDERALLY REGULATED PROPERTY AND CASUALTY INSURANCE COMPANIES

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As discussed in our previous bulletin found [here](#), in 2015, the Office of the Superintendent of Financial Institutions Canada ("OSFI") substantially revised the Minimum Capital Test Guideline to implement a more robust risk-based capital test that aligns capital requirements to the level of risk experienced by the property and casualty insurance industry (the "**2015 MCT Guideline**").

OSFI has recently proposed several revisions to the 2015 MCT Guideline that will take effect in 2016 (the "**2016 MCT Guideline**"). The objective of the 2016 MCT Guideline update is to improve regulatory risk-based capital guidance. The most significant proposed change to the 2015 MCT Guideline is the addition of further provisions for equity risk exposures. These provisions include capital requirements for equity derivatives (such as equity total return swaps, futures and forwards) and equity instruments held short, and the recognition of equity hedging strategies used by property and casualty insurers. The other revisions amend the wording of the 2015 MCT Guideline to incorporate clarifications, to make accounting terminology consistent with international accounting standards, and to enhance consistency in capital requirements across the financial services sector.

OSFI has issued a draft 2016 MCT Guideline that contains these proposed revisions. OSFI will receive comments on its draft until September 4, 2015. On January 1, 2016, the revisions will take effect. The draft 2016 MCT Guideline can be found [here](#).

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A Cautionary Note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

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