

October 10, 2013

Financial Stability Board
At fsb@bis.org

Re: Assuris' comments on the paper
Application of the Key Attributes of Effective Resolution Regimes to Non-Bank Financial Institutions - (12 August 2013)

Assuris is the Insurance Guarantee Scheme for life insurance policyholders in Canada. We have read the paper on Application of the Key Attributes of Effective Resolution Regimes to Non-Bank Financial Institutions Consultative Document (12 August 2013) (The Paper) and find that is a comprehensive and useful guide to how the earlier paper Key Attributes of Effective Resolution Regimes for Financial Institutions (The KA Paper) should apply to insurance companies. We have one substantive recommended addition to the paper.

Recommendation

The Paper should explicitly state that the resolution authority should have the power to stay the early termination rights of counterparties to derivative contracts and have the right to assign those contracts.

Section 10.3 iii of The Paper states that a key component of Recovery and Resolution plans is:

“the identification of essential hedging activities that are necessary to the continuation of the insurance business (for example hedging for variable annuities with complex embedded options and guarantees, or hedging to closely match annuity cash flows)”

These hedging activities need to be identified because they must be kept in place during the resolution process. Without these risk mitigators in place the institution could suffer significant losses in a short period. However The Paper is silent on what power the resolution authority has to ensure that these essential hedging activities remain in force during resolution.



In the KA Paper Key Attribute 3.2 (x) states that resolution powers should include the power to:

“Temporarily stay the exercise of early termination rights that may otherwise be triggered upon entry of a firm into resolution or in connection with the use of resolution powers”

This stay prevents the counterparty from acting unilaterally to cancel these contracts that are essential to the successful resolution of the institution. Annex IV of that paper further describes the characteristics of the temporary stay on early termination rights.

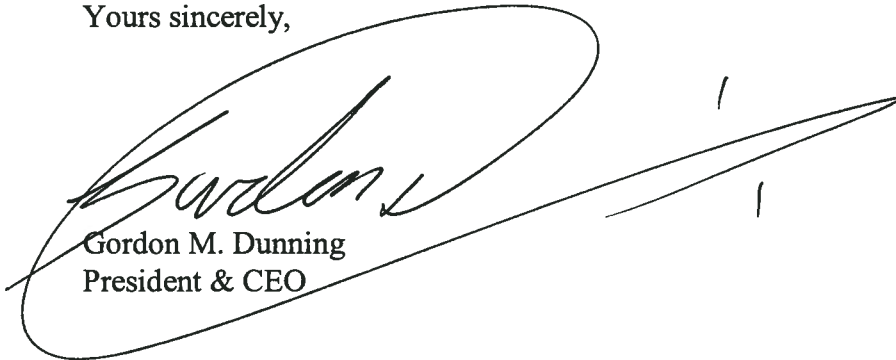
And Key Attribute 3.2 iii in the KA Paper states that resolution powers should include power to:

“operate and resolve the firm including powers toassign contracts...”

Taken together these suggested powers would give the resolution authority the power to place a temporary stay on the derivative contracts used to hedge the insurance companies’ risks and assign the contracts so that the hedging would stay in place.

However, it would be helpful if The Paper made an explicit recommendation that the resolution authority should have the power to stay the early termination rights of counterparties to derivative contracts and have the right to assign those contracts.

Yours sincerely,



Gordon M. Dunning
President & CEO