



Canadian Life
and Health Insurance
Association Inc.

Association canadienne
des compagnies d'assurances
de personnes inc.

February 13, 2009

Mr. John Stevenson
Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario M5H 3S8

Me Anne-Marie Beaudoin
Secrétaire de l'Autorité
Autorité des marchés financiers
Tour de la Bourse
800, square Victoria, 22 étage
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Dear Sir/Madame:

CSA Consultation Paper 11-405

We are writing at this time to provide the comments of the Canadian Life and Health Insurance Association (CLHIA) with respect to CSA Consultation Paper 11-405, Securities Regulatory Proposals Stemming from the 2007-08 Credit Market Turmoil and its Effect on the ABCP Market in Canada.

Established in 1894, CLHIA is a voluntary trade association that represents the collective interests of its member life and health insurers. These members account for over 99 per cent of the life and health insurance in force in Canada and contribute to the financial well-being of millions of Canadians by providing a wide range of financial security products. Life and health insurers are very active investors in the Canadian securities market, holding substantial positions in Canadian securities. The Annex to this letter provides a brief overview of the industry's role in Canada's economy.

The CLHIA is supportive of the work of the Canadian Securities Administrators in proposing solutions which will help to strengthen the regulatory environment as it relates to the ABCP market in Canada. The CLHIA agrees that problems in Canada stemming from the sub-prime mortgage crisis in the U.S. largely arose due to limited transparency regarding the underlying

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assets associated with securities in the exempt market, such as mortgage-backed securities, ABCP and collateralized debt obligations. A more robust regulatory structure and greater transparency would go a long way to help avoid similar problems in the future. The CLHIA's comments in response to the specific questions raised in the consultation paper are set out below.

CSA Proposal # 1 – Establishing a Regulatory Framework for Approved Credit Rating Organizations

The IOSCO Code of Conduct establishes a comprehensive standard for a credit rating agency (“CRA”) to follow related to governance and standards as well as ensuring transparency and avoidance of conflicts of interest. The “comply or explain” provision included in section 4.1 of the Code establishes a reasonable measure where a CRA deviates from the requirements of the Code in some aspect.

The CLHIA agrees that it is appropriate to require compliance with the Code by “approved credit rating organizations”. The CLHIA agrees that securities regulators should be given authority to require changes to a CRA's practices and procedures in appropriate circumstances. That being said, measures to strengthen the regulatory framework related to CRAs should be balanced to avoid unnecessary additional compliance costs and should focus on creating a “principles based” regulatory regime, which will allow flexibility and for adapting to changing circumstances.

Disclosure of information provided by an issuer and used by a CRA in determining and monitoring a credit rating is an appropriate way to address the lack of transparency of asset-backed securities. Flexibility must be maintained to ensure that useful information to support a given rating is provided while keeping the process as efficient as possible.

CSA Proposal # 2 – Proposed Amendments to the Short-Term Debt Exemption

The CLHIA agrees that the short-term debt exemption should not be available for the distribution of ABCP. Requiring prospectus exempt distributions of ABCP and similar short-term debt to be made in reliance on other existing exemptions, such as the accredited investor exemption or the \$150,000 exemption, is more appropriate in consideration of the degree of risk which is being assumed by the purchaser.

CSA Proposal # 3 – Review to Consider the Appropriateness of the Income and Net Financial Asset Thresholds in the Accredited Investor Definition and the \$150,000 Exemption

The CLHIA agrees that it is appropriate to review the income and net financial asset thresholds set under the accredited investor definition and the \$150,000 exemption. While the CLHIA has reached no conclusion about what the appropriate thresholds should be, CLHIA agrees that in the context of ABCP the thresholds should be substantially higher in order to meet the goal of adequate consumer protection against the risk of loss.



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CSA Proposal # 7 – Concentration Restriction for Money Market Funds

Money market funds are generally understood by the public to be low risk investment vehicles. Consequently, clear disclosure of what type of assets are being included in a money market fund is needed so that a consumer can evaluate the type of risk being assumed. Moving away from strict reliance on approved credit ratings and towards a style of management which focuses on meeting the goal of “minimal credit risk” would be a positive regulatory direction. CLHIA agrees that the current 10% concentration limit is generally appropriate.

We appreciate the opportunity to provide the CSA with these comments and look forward to further improvements in the regulatory environment to address the issues associated with ABCP. Please feel free to contact me at 416-359-2025 or via e-mail at jwood@clhia.ca should you have any questions or wish to discuss these comments further.

Yours very truly,

James Wood
Counsel

Life and Health Insurance in Canada

About the Life and Health Insurance Industry in Canada

The life and health insurance industry contributes to the financial well-being of about 26 million Canadians by providing a wide range of financial security products such as individual and group life insurance, annuities, pensions, RRSPs, RRIFs, disability insurance and supplementary health insurance. The industry is a major investor in Canada's economy with total assets of \$432 billion. This pool of capital is one of the country's most important sources of long-term investment capital. The industry employs 126,000 Canadians across the country.

Standard and Poor's has described the competition within the Canadian life and health insurance industry as "tooth and nail", with 105 companies competing aggressively. Canadian-controlled firms have 85% of the Canadian market and are highly successful internationally, with 3 companies in the top 10 life insurers in the world, based on market capitalization.

Key Industry Statistics – 2007

	Canada
Head offices	105
Employees & agents	126,000
Benefit payments	\$57.7 billion
Taxes	\$2.7 billion *
Retail Sales Tax on Group Life & Health Premiums	\$1.5 billion
Assets	\$432 billion
Life Insurance ownership	\$3.1 trillion
Canadians with coverage for:	
Financial protection (any product)	26 million
Supplementary health benefits	22 million
Disability income protection	11 million
Life insurance	20 million
Individual Annuities (RRSPs, RRIFs, etc.)	3.7 million
Group RRSPs	1.8 million
Pensions	1.0 million

* Total taxes include provincial of \$1.7 billion and federal of \$1 billion

Contributions of the Industry

Life and health insurers make significant contributions to the country's economic and social well-being. The industry:

- **provides a wide range of financial security products to about 26 million Canadians**
- **makes benefit payments of almost \$58 billion annually** to Canadians. Over 90% goes to living policyholders as annuity, disability or health benefits. The remainder goes to beneficiaries as death claims.

- **is a major investor in Canada's economy** with assets of \$432 billion in the country.
- **plays an important role in meeting the financing needs of all levels of government** in Canada with government securities accounting for 18% of total assets.
- **is a significant contributor to public finances in Canada.** The industry paid \$2.7 billion in taxes, with \$1.7 billion paid to provincial governments. In addition, the industry collects and remits retail sales tax payable by policyholders on group insurance premiums which amounted to \$1.5 billion in Ontario and Quebec.
- **is a major employer** with 126,000 Canadians earning some or all of their livings from the industry.
- **contributes to small business.** The products of life and health insurers and the consultative role of life insurance agents help small and medium-sized businesses attract and retain a skilled workforce.
- **is internationally successful.** In more than 20 countries around the world, Canadian life and health insurers have an outstanding track record of competing in foreign markets, with \$78 billion or 52% of their worldwide premiums generated abroad.
- **develops products to reflect and to anticipate changing consumer needs and expectations** such as "index-linked" life insurance policies; innovative approaches to group insurance ("cafeteria" and "spending account" options); flexible retirement options; and innovative and expanded health insurance (critical illness and long term care).
- **takes industry-wide initiatives to protect consumers** by developing guidelines, voluntarily and proactively, to respond to emerging issues.
- **has an independent OmbudService for consumers** of life and health insurance products called the Canadian Life and Health Insurance OmbudService (CLHIO). The CLHIO as part of the Financial Services OmbudsNetwork provides impartial recourse to consumers with concerns or complaints about life and health insurance services and also operates the Consumer Assistance Centre (CAC). The CAC provides assistance to Canadians across the country in both English and French, primarily through toll-free telephone lines and through the internet.

About the CLHIA

The Canadian Life and Health Insurance Association Inc. (CLHIA), established in 1894, is a voluntary trade association that represents the collective interests of its member life and health insurers. Our members account for 99% of the life and health insurance in force in Canada and administer about two-thirds of Canada's pension plans. For more information about the CLHIA and the life and health insurance industry visit www.clhia.ca



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