December 6, 2013

Office of the Superintendent of
Financial Institutions Canada
255 Albert Street
Ottawa, ON K1A 0H2

Attn: Chris Eccles, Legislative & Policy Initiatives Officer

Dear Mr. Eccles:

The ACPM is pleased to offer the following comments on the Draft Policy Advisory on Longevity Insurance and Longevity Swaps (the "Advisory").

Overall the ACPM finds the Advisory to be a useful document for plan administrators, and other Canadian regulators, and that the timing of its release is very opportune. Plan administrators are just now beginning to learn and have substantive discussions about both longevity insurance and longevity swaps.

We also have the following specific comments.

Counterparty Risk

You have correctly noted that in longevity swaps collateral is frequently used. Collateral is a requirement in most if not all derivative contract situations. It might be useful to emphasize that in longevity insurance transactions, the use of collateral is much less prevalent due to the existing capital and reserving regime applicable to licensed life insurance companies. This would allow plan administrators to avoid spending the time it takes to negotiate these arrangements and the cost associated with managing collateral accounts.
In addition to the clarification surrounding the use of collateral, the ACPM also recommends that the counter party risk section include greater emphasis on the need for plan administrators to select a counterparty that complies with the applicable regulatory regime. An appropriately regulated counterparty provides a convenient means of satisfying the need to assess the strength of the counterparty by making the selection from an entity properly regulated in the local jurisdiction.

Administration

The Advisory correctly lists a number of considerations for a plan administrator. The ACPM recommends that additional administrative complexity and potential cost be added to that list. As longevity risk hedging contracts involve the exchange of payments on an on-going basis, plan administrators will need to create the necessary payment and reconciliation mechanisms to support this on an on-going basis. In addition, if collateral is used to support a longevity swap contract, daily mark-to-market calculations on the value of the collateral are required together with the commensurate adjustments to the collateral position. This requires significant resources and the involvement of custodians or other parties. Plan administrators need to devote appropriate time and cost estimates to the creation of these resources.

Thank you for the opportunity to comment on the Advisory.

Sincerely,

Bryan D. Hocking
Chief Executive Officer