

**CAC (MPI) 1-15**

<b>Part and Chapter:</b>	<b>Part VI, RSR.7.2</b>	<b>Page No.:</b>	<b>9, 15</b>
<b>PUB Approved Issue No:</b>	<b>7. Capital management plan and update of Dynamic Capital Adequacy Testing</b>		
<b>Topic:</b>	<b>DCAT Key Assumptions: Risk tolerance</b>		
<b>Sub Topic:</b>			

**Preamble To IR:**

“Going forward, the Chief Actuary will select assumptions that more closely align with the risk appetite of the MPI BoD.

DCAT Key Assumptions:

- Over a four-year time horizon
- At a 1-in-100 year (99th percentile) outcome level”

**Question:**

- In past Board Orders, risk tolerance has been set at a 1-in-40 (97.5 percentile). Please confirm that this is a change in the risk tolerance stance of MPI.
- Please explain what evidence has prompted MPI’s risk tolerance standard to change.
- Please replicate the tables on page 9 using the 1-in-40 probability level without any capital transfers from MPI’s Extension line of business
- Please provide any DCAT analysis undertaken for the test year assuming a 1-in-40 risk tolerance.

**Rationale For Question:**

The DCAT depends on a number of key assumptions, including the risk tolerance standard(s). It is importance to understand the magnitude of risk faced by the Corporation if judged against a risk tolerance standard established by the independent regulator.

**RESPONSE:**

- a) The change from 1-in-40 year to 1-in-100 year is to more closely align with the mandated capital target of 100% Minimum Capital Test (MCT). Under the 2019 MCT Guideline, Office of the Superintendent of Financial Institutions (OSFI) has selected a conditional tail expectation of 99% which corresponds to a 1-in-100 year.
- b) See part a).
- c) Please see *Part VI Dynamic Capital Adequacy Testing Figure DCAT-63* and *Figure DCAT-64*.
- d) MPI has not undertaken a DCAT analysis for the test year assuming a 1-in-40 risk tolerance.