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# Advisory

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**Subject:** Deferral of IFRS 9 Application for Federally Regulated Life Insurers

**Category:** Accounting

**Date:** March 2017

## I. Introduction

The legislation governing federally regulated life insurers stipulates that “financial statements shall, except as otherwise specified by the Superintendent, be prepared in accordance with generally accepted accounting principles, the primary source of which is the Handbook of the Canadian Institute of Chartered Accountants”<sup>1,2</sup>. Generally accepted accounting principles (GAAP) for life insurers is effectively International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Through its authority, OSFI may specify additional accounting guidance or additional disclosure, or require that a specific accounting option within an applicable accounting standard be followed. OSFI makes these specifications in rare situations where there is a strong prudential need for additional accounting guidance.

With the publication in September 2016 of the IASB approved<sup>3</sup> amendment, [Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts](#), companies were given an option of exercising a temporary exemption from applying IFRS 9 *Financial Instruments* if their activities are predominately connected with insurance.

The IASB amendment is subject to The Canadian Accounting Standards Board’s (Canadian AcSB) defined due process to incorporate into the Chartered Professional Accountants (CPA) Canada Handbook-Accounting any new standards or amendments when issued by the IASB. As such, the amendment to IFRS 4 requires approval by the Canadian AcSB for incorporation into the CPA Canada Handbook - Accounting.

OSFI considered the costs and benefits of the temporary exemption and found a strong prudential need for additional accounting guidance for life insurers.

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<sup>1</sup> Subsections 331(4) and 887(4) of the *Insurance Companies Act* (ICA).

<sup>2</sup> As of November 1, 2013, the Handbook of the Canadian Institute of Chartered Accountants was renamed to Chartered Professional Accountants Canada Handbook - Accounting.

<sup>3</sup> [International Accounting Standards Board September 12, 2016 decision summary](#)



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## II. IFRS 9 Financial Instruments

The IASB finalised the IFRS 9 *Financial Instruments* Standard in July 2014. While OSFI supports the improved standard over the existing IAS 39 *Financial Instruments* Standard, OSFI also finds that a deferral of IFRS 9 for life insurers is needed given the 2018 introduction of OSFI's new Life Insurance Capital Adequacy Test (LICAT). Thus, OSFI expects life insurers to defer the application of IFRS 9 until the expected effective date of the IASB new *Insurance Contracts* Standard of January 1, 2021<sup>4</sup>. This allows life insurers to adopt both IFRS 9 and the new Insurance Contracts Standard simultaneously.

## III. Application of IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* for Life Insurers

OSFI expects life insurers whose activities are predominantly connected with insurance as described by the IASB's amendment *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* dated September 2016 to apply the temporary exemption from IFRS 9 in annual periods beginning before January 1, 2021. OSFI will provide an exception to this Advisory where a federally regulated life insurer itself or its federally regulated parent does not meet the predominance test as described in the amendment to IFRS 4. For example, an exception to this Advisory will be applied if the federally regulated life insurer is a subsidiary of a federally regulated deposit taking institution (DTI)<sup>5</sup> such as a bank who would not meet the predominance test. The entities that defer the application of IFRS 9 will continue to apply the existing IAS 39 *Financial Instruments* Standard.

OSFI understands that the financial reporting practices in this Advisory will not impair a federally regulated life insurer or an insurance holding company's ability to obtain an audit opinion that states that the financial statements are in accordance with Canadian GAAP, the primary source of which is the CPA Canada Handbook - Accounting.

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<sup>4</sup> OSFI will not issue any additional guidance that narrows the range of practice for P&C Companies including mortgage insurers.

<sup>5</sup> For the purposes of this Advisory, a DTI refers to banks, foreign bank branches, bank holding companies, federally regulated trust companies, federally regulated loan companies, cooperative credit associations, and cooperative retail associations.