



Reference: Advisory for Banks/FBBs
BHCs/T&Ls/Co-ops/
Life/P&C/Fraternal/IHCs

March 31, 2010

To: Federally Regulated Entities

Subject: Conversion to International Financial Reporting Standards (IFRSs) by Federally Regulated Entities (FREs) – Advisory

In October 2009, OSFI issued a draft Advisory on the *Conversion to International Financial Reporting Standards by Federally Regulated Entities* for comment by December 31, 2009. This letter issues the final Advisory.

This Advisory outlines OSFI's expectations and requirements for the implementation of International Financial Reporting Standards (IFRSs) in Canada – as well as additional requirements for the IFRS Progress Reports and the first quarter regulatory financial returns filed with OSFI using IFRSs. This Advisory applies to FREs for fiscal years beginning on or after January 1, 2011.

After reviewing comments received on the draft Advisory, OSFI has incorporated a number of amendments that should address many of the issues raised and provide additional clarity. Key amendments are noted below:

For all FREs:

- The draft Advisory indicated that early adoption of IFRSs would not be permitted. However, in order to provide greater flexibility for adoption of IFRSs, OSFI has amended the final Advisory to indicate that it will consider the decision to allow early adoption of new IFRSs on a standard by standard basis once a particular IFRS is available in final form.
- The draft Advisory permitted mortgages sold through the Canada Mortgage and Housing Corporation's (CMHC's) National Housing Act Mortgage-Backed Securities (NHA MBS) and Canada Mortgage Bond (CMB) Programs up to and including December 31, 2009 to be excluded from the Asset to Capital Multiple (ACM). The final Advisory has been amended to permit mortgages sold through NHA MBS/CMB Programs, as well as the Insured Mortgage Purchase Program (IMPP), up to and including March 31, 2010, to be excluded from the ACM.
- The draft Advisory stated that OSFI would consider an appropriate phase in of the net impact to regulatory capital from the transition to IFRSs and gave as an example a phase in period of four quarters. To facilitate an orderly transition, the final Advisory allows FREs to elect to phase in the impact and requires FREs to complete their phase in by the quarter ending on or after December 31, 2012.



- A new Part (XI) has been added to the Advisory to provide clarification on OSFI's interpretation of the *Regulatory Capital Regulations* for FREs until such time as these regulations can be amended.

For life insurers:

- The draft Advisory indicated that, for regulatory capital purposes, life insurers should continue to use CALM to value insurance liabilities that are not considered insurance contracts for IFRSs purposes. To address the concern that life insurers would have to maintain two sets of records, the final Advisory has been amended to require the use of IAS 39 – *Financial Instruments* or IAS 18 – *Service Contracts* to value non-insurance contracts for capital purposes.

Questions concerning the final Advisory can be addressed to the individuals listed below:

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Yours truly,

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Attach.

c.c.: Canadian Bankers Association
Canadian Life and Health Insurance Association
Insurance Bureau of Canada
Canadian Council of Insurance Regulators
Canadian Fraternal Association
Trust Companies Association
Credit Union Central of Canada