



Unclassified

October 7, 2008

To: All Federally Regulated Financial Institutions (FRFIs)

**Subject: International Financial Reporting Standards**

OSFI's letter of April 25, 2008<sup>1</sup> addressed a number of issues concerning the adoption of International Financial Reporting Standards (IFRS). This letter follows up on two of the matters discussed in that letter:

1. Canadian Securities Administrators (CSA) disclosure requirements;
2. IFRS Progress Reviews.

**1. CSA disclosure requirements**

In its letter of April 25, 2008, OSFI announced its intention to require FRFIs not subject to CSA requirements to adopt the CSA disclosure guidance relating to the changeover to IFRS for purposes of financial statement filings with OSFI. In May 2008, the CSA issued Staff Notice 52-320, *Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards*<sup>2</sup> (the "Staff Notice"). Upon review of the Staff Notice, OSFI has concluded that the semi-annual reports that will be generated from the IFRS progress reviews will provide information appropriate for our needs. Accordingly, FRFIs not subject to CSA requirements will not be expected to file the CSA specified disclosures with OSFI.

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<sup>1</sup> [http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/guidelines/accounting/advisories/ifrs\\_letter\\_to\\_industry\\_hanna\\_e.pdf](http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/guidelines/accounting/advisories/ifrs_letter_to_industry_hanna_e.pdf)

<sup>2</sup> [http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part5/csa\\_20080509\\_52-320\\_fin-rpt-standards.pdf](http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part5/csa_20080509_52-320_fin-rpt-standards.pdf)



## 2. IFRS Progress Reviews

OSFI's April 25, 2008 letter also required all FRFIs to submit semi-annual reports detailing the progress being made to the move to IFRS. To assist in the preparation of semi-annual reports, this letter provides further guidance setting out OSFI's expectations with respect to the content of such reports. OSFI expects all FRFIs to file semi-annual reports covering the information requirements outlined in attached Appendix A *IFRS Progress Review Requirements – Report Content*. In addition to monitoring the status of FRFIs' implementation plans, OSFI intends to use the information submitted under sections 3 and 4 in its policy development process and will be engaging the industry in a dialogue (including voluntary industry forums hosted by OSFI) as part of that process. Note that prior review of the report contents with a FRFI's audit committee (or, in the case of a branch, the senior officer to whom the principal officer/chief agent reports) is required prior to filing with OSFI.

The first progress report can be filed at any time after this letter but no later than 60 days following the FRFI's 2008 fiscal year end. Thereafter, reports can be filed at any point during the last 3 months of the relevant semi-annual period, but no later than 30 days from the end of such period. Appendix A contains further details regarding the submission of progress reports.

**One (1) electronic copy of the progress report must be submitted to OSFI at [RID@osfi-bsif.gc.ca](mailto:RID@osfi-bsif.gc.ca) ensuring the subject field is labeled: “IFRS progress report” along with the filing institution's name.**

If you have any questions or concerns regarding these issues, please direct any correspondence to Karen Stothers, Managing Director, Accounting Policy Division, at [Karen.Stothers@osfi-bsif.gc.ca](mailto:Karen.Stothers@osfi-bsif.gc.ca) or by phone at 416-973-0744.

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Enclosure

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  
Canadian Co-operative Association

## **Appendix A: IFRS Progress Review Requirements – Report Contents**

All FRFIs must submit to OSFI semi-annual progress reviews on their plan to adopt IFRS. The first progress report can be filed at any time after this letter but no later than 60 days following the FRFI's 2008 fiscal year end. Thereafter, reports can be filed at any point during the last 3 months of the relevant semi-annual period, but no later than 30 days from the end of such period<sup>1</sup>; e.g. no later than January 31 and July 31 of each year for FRFIs with December year-ends. FRFIs must also ensure the engagement of their audit committees in their IFRS work plan process and that all material elements of the information provided to OSFI are reviewed by the audit committee (or in the case of a branch, the senior officer of the foreign bank/insurer to whom the principal officer/chief agent of its Canadian branch reports).

The information below may be provided to OSFI by incorporating information by reference (e.g. from a pre-existing internal document) but the FRFI is expected to use its progress review to provide OSFI with a mapping to where the required information is located. To the extent that the information below is not available in any given semi-annual period, the FRFI's report to OSFI will indicate when that information will be available.

Required information that has been reported in a previous progress review report and that remains unchanged from one reporting period to the next need not be repeated. However, in such a case, FRFIs should indicate that the information in question is unchanged from the previous report.

### **1. IFRS Project Structure**

- a. Please describe the project structure, governance and timelines, including the role of the board/audit committee, project sponsor, key project team members (internal and external) and accountabilities. OSFI expectations are that an appropriate project framework will be used. A sample of such a project framework and the information OSFI expects to receive in connection with such framework is provided in Attachment 1.
- b. Please provide an assessment of whether resources are sufficient to meet project deliverables.
- c. For branches – please identify if the head office jurisdiction has implemented IFRS, or if it plans to implement IFRS within a timeframe equivalent, or sooner than Canada.

### **2. IFRS Project Status**

Please indicate where you are in your project plan. Is the project on schedule, ahead of schedule or behind schedule? If behind schedule, please indicate the steps being taken to move the project to schedule.

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<sup>1</sup> FRFIs are encouraged to submit reports ahead of the 60/30 day deadline.

### **3. Identify Significant Accounting Impacts**

Please provide a listing (e.g. by IFRS accounting standard) of the significant changes for your financial institution caused by the differences between IFRS accounting standards and your current financial accounting policies, processes and reporting. These changes should be only for those standards that have a significant impact on balances, presentation, measurement, recognition, disclosure or business. Please provide a brief description of the expected impact (e.g. what area will be impacted). Include references to IFRS standards and any IASB projects that have been identified as causing significant impacts to your financial institution.

At this time, OSFI has identified the following accounting standards as potentially having the greatest impact on financial institutions based on a review of the current standards and the IASB projects. Please comment on whether the differences caused by the following standards for your financial institution will be significant when you adopt IFRS (including a statement, if applicable, that they will not have an impact) in addition to identifying any additional standards that you have identified as having a significant impact on your financial institution.

- 1) *IFRS 1*
- 2) *IFRS 4 – Insurance Contracts*
- 3) *IAS 39 – Investment Contracts*
- 4) *IAS 18 - Revenue*
- 5) *Financial Instruments (including impacts of Fair Value measurement) (IAS 32 and 39)*
- 6) *Segregated Funds*
- 7) *Consolidation, including VIEs and other (IAS 27 and SIC 12)*
- 8) *Derecognition (IAS 39) (please consider structured settlements)*
- 9) *Impaired Loans (IAS 39)*
- 10) *Financial Statement Disclosures (IFRS 7)*
- 11) *Financial Statement Presentation (IAS 1)*
- 12) *Investment Property (IAS 40)*
- 13) *Employee Benefits (IAS 19)*

### **4. Evaluate Significant Accounting Changes**

For each of the accounting standards identified in item 3 above as resulting in a significant impact due to the implementation of IFRS, please provide answers to the following:

- a) Qualitative assessment of IFRS/Canadian GAAP differences;
- b) Issues identified in applying accounting standards and solutions identified where a decision has been made (and, where a decision has not been made, the major factors relevant to the decision and your timeline for completing that decision);

- c) Description of possible choices, actions, elections or policies (accounting or otherwise) being considered and criteria you have or will apply when making a decision;
- d) Where a choice, action, election or policy is required to implement IFRS,
  - Where your decision has been determined, describe your choice, action, election or policy and the reason for your choice; or
  - Where your decision is not yet determined, describe the major factors under consideration in making that choice, action, election or policy and your timeline for completing that decision; and
- e) Where a decision has been determined and it is possible to estimate its impact, provide a preliminary estimate of the range of quantitative impacts for each financial statement item affected by that choice and the potential impact to any regulatory limits or calculations relevant to your institution. If it is not yet possible to estimate its impact, describe your timeline and process for completing that estimate.

## Attachment 1 Sample Project Management Framework

| Sample Framework  | OSFI requests   |
|---|---|
| <p><b>Initiation</b> – the project is formally authorized</p> <ul style="list-style-type: none"> <li>• Project charter is approved and a project manager is assigned.</li> <li>• Project governance structure is established i.e. roles, responsibilities and accountabilities of the project sponsor, project manager, steering committee, control groups and other key stakeholders, including decision making levels.</li> </ul>   | <ul style="list-style-type: none"> <li>• The project plan has been reviewed and approved. Identify by whom</li> <li>• Whether the plan has been discussed with the Board</li> <li>• Composition of the steering committee and meeting frequency</li> <li>• Name and title of the project manager</li> </ul> |
| <p><b>Planning</b> – objectives that the project was undertaken to address are defined and refined.</p> <ul style="list-style-type: none"> <li>• The integrated project plan is created and approved.</li> <li>• The integrated project plan includes a scope statement, scope management plan, project schedule, cost estimates, resources, risk management plan, communication plan, implementation plan, procurement (if applicable). The project plan is used to guide both the project execution and control.</li> </ul> | <ul style="list-style-type: none"> <li>• Provide the overall project plan</li> <li>• Provide the project timelines including key milestones (e.g. impact assessment, policy decisions, data gathering, pro-forma statement preparation, system changes)</li> </ul>  |
| <p><b>Executing</b> – people and other resources carry out the plan</p> <ul style="list-style-type: none"> <li>• The integrated project plan is executed by performing the activities included in it.</li> <li>• Information is distributed to project stakeholders.</li> <li>• All vendor relationships are managed; contract administration (if applicable).</li> </ul>   | <ul style="list-style-type: none"> <li>• Project reporting and dashboard, if any</li> </ul>   |
| <p><b>Controlling</b> – project progress is monitored and measured regularly; variances from plan are</p>   | <ul style="list-style-type: none"> <li>• Provide updates as to missed milestones and plans for recovery</li> </ul>  |

| Sample Framework  | OSFI requests   |
|---|---|
| <p>identified and corrective actions are taken when necessary</p> <ul style="list-style-type: none"><li>• Integrated change control is exercised re: necessary scope, schedule, cost and quality changes.</li><li>• Risk is monitored and controlled.</li><li>• Performance information is collected and disseminated.</li><li>• Corrective actions are taken when necessary.</li></ul> |   |
|   |   |
| <p><b>Closing</b> – the project is formally accepted and brought to an orderly end</p> <ul style="list-style-type: none"><li>• Administrative closure</li><li>• Contract close-out (if applicable)</li></ul>  | <ul style="list-style-type: none"><li>• N/A</li></ul> |