Letter

Title Final IFRS 17 Regulatory Forms and Instructions for FRIs

Date April 30, 2021

Table of Contents

To: All Federally Regulated Insurers (FRIs) [1]

OSFI is issuing the final IFRS 17 Regulatory Forms and Instructions ("the Returns") for FRIs. The final Returns represent a major deliverable under OSFI's IFRS 17 Project.

The *Insurance Companies Act* (ICA) stipulates in the case of FRIs that "financial statements shall, except as otherwise specified by the Superintendent, be prepared in accordance with generally accepted accounting principles (GAAP), the primary source of which is the Handbook of the Chartered Professional Accountants of Canada." [2] The changes made to the OSFI Returns will ensure FRIs will continue to report their financial statements in accordance with GAAP. GAAP for FRIs is effectively International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

OSFI would like to thank all respondents who provided feedback on the Returns during the public consultation. OSFI received over 700 comments from various stakeholders. All comments received including those arising from the IFRS 17 Amendments were taken into consideration in finalizing the Returns. The Annex provides a summary of the material comments received and OSFI's response.

Please address any questions regarding this letter by email to David Correia, Director, Accounting Policy Division at david.correia@osfi-bsif.gc.ca and Carole Gagnon, Business Analyst, Risk & Data Analytics at carole.gagnon@osfi-bsif.gc.ca.

Sincerely,

Ben Gully

Assistant Superintendent,

Regulation Sector

ANNEX: Summary of November 2019 Consultation Comments and OSFI Responses

IFRS 17 Regulatory Forms and Instructions for FRIs (the Returns)

RESPONDENTS COMMENTS	OSFI RESPONSE
Frequency of Reporting	
Some respondents wanted to clarify whether the core financial statement return and quarterly supervisory schedules would be filed for every reporting period in the year (i.e. quarterly) and at year-end.	OSFI requires the Core Financial Statement Return and the Supervisory Quarterly Returns to be filed for all 4 quarters, and the Supervisory Annual Return to be filed as part of the 4 th quarter filing to OSFI.
Enhancement of Return Reporting Instructions	
Some respondents requested that OSFI enhance return reporting instructions and guidance for some of technical pages like the liability roll forward statements and explanation of terminology such as Premium Allocation Approach, General Measurement Method and Variable Fee Approach.	OSFI Regulatory Returns presentation and disclosure are aligned with IFRS ® Standards. Some instructions will be provided to improve comparability and consistency, however for the most part please refer to the IFRS Standards for clarification on IFRS 17 concepts and terminology.
Granularity of Requested information	
Some respondents were concerned that the information requested by line of business (classes of insurance) was too granular and would be difficult and costly to implement. In addition, some respondents pointed out that reporting by some classes of insurance (such as automobile) is not in line with IFRS 17 level of aggregation.	OSFI requires the detailed information in order to supervise the financial institutions' compliance with the ICA which defines classes of insurance and it determines how insurers are licensed. The provision of sufficiently detailed information by line of business (class of insurance) to stakeholders is necessary to facilitate OSFI's supervision of an insurer's business, governance, risk measurement and risk management. OSFI also promotes transparency around financial reporting. Therefore, no changes were made to the line of business (class of insurance) pages in the Returns.

Some respondents wanted OSFI to clarify on the expectations for completing the summary of historical financial data for the 5 prior years.	OSFI expects current and prior year comparative data to be reported on January 1, 2023 when IFRS 17 becomes effective, and the rest of the prior year data should be left blank. In the subsequent years, the 5 year summary of financial data should be presented as it becomes available under IFRS 17.
Risk Sharing Pools (RSP)	
Some respondents were concerned that the treatment of business transferred to Risk Sharing Pool (RSP) – Facility Association is treated as negative direct for P&C regulatory reporting purposes instead of a reinsurance arrangement, which is the IFRS 17 accounting treatment for recognition, measurement, presentation and disclosure. In addition, some respondents urged OSFI to update the definitions section of the Return Reporting Instructions relating to RSP to align with IFRS 17 accounting terminology.	OSFI expects FRIs to comply with IFRS 17 when accounting for RSP whenever it is applicable. Facility Association has provided instructions for P&C reporting purposes to address the issue on premium tax calculation. These have been included in the OSFI Regulatory Return instructions. The definitions section of the Manual of Reporting Forms and Instructions have been updated to reflect IFRS 17 compliance for the RSP accounting.
CSM Amortization Schedule	
Some respondents requested that OSFI disclose time bands of less than 1 year, 1 to 5 years and greater than 5 years without further breakdown. In addition, some respondents proposed that OSFI combine the Proportionate and Non-Proportionate Reinsurance Contracts Held line items into a single line.	OSFI reviewed the issue in detail and concluded that the data gathered with respect to the profit attribution from the CSM amortization was necessary to assess the volatility of earnings from the underlying book of business from the FRI. Even though the first 5 years' CSM amortizations are key, the amortization data after the 5th year are also important and sizeable. OSFI has decided to maintain the originally proposed time-band disclosure requirement. With respect to the Industry proposal on proportionate and non-proportionate reinsurance contracts held. OSFI has combined the proportionate and non-proportionate reinsurance contracts held into a single line on the CSM Amortization schedule.
Discount Rates Tables	

Life Some respondents from the life industry suggested either removing the discount rates pages from the Returns or changing the pages to be free format. They stated that the discount rate disclosures would vary significantly between FRIs. **P&C** Some respondents wanted clarification as to why OSFI was collecting discount rate data by class of business and splitting between insurance contracts vs. reinsurance contracts held.	The discount rate assumption is a key component of the IFRS 17 fulfillment cash flows for each reporting period. It is important for OSFI to collect structured data in order to compare this component across industry and conduct supervisory monitoring in a timely manner. As a consequence no requirement changes were made to the OSFI Regulatory Returns, more specifically: **Life** OSFI understands that the discount rates would be determined based on each entity's accounting policy and each entity could have multiple discount rates. As a result, OSFI's Life Returns will collect the discount rate curve with the highest liquidity premium by line of business. The annual Appointed Actuary Report with unstructured data will provide additional details, so OSFI can conduct a fulsome assessment. **P&C** The discount rate pages are required for OSFI's supervision monitoring purposes. Collection of data by class of business and split between insurance contracts and reinsurance contracts held is consistent with the other supervisory pages in the Returns.
Compliance with IAS 34	
Some respondents pointed out that the IFRS 17 Quarterly Regulatory Returns do not comply with IAS 34 *Interim Financial Reporting* since they do not require inclusion of a Statement of Cash flows and Notes to the Returns.	An assessment was made to determine whether all FRIs needed to comply with IAS 34, *Interim Reporting* for quarterly reporting to OSFI by reviewing their nature, size and complexity. OSFI concluded that for quarterly reporting not all FRIs would need to provide IAS 34 Interim Financial Reporting compliant financial statements including a statement of cash flows and notes to the Returns.
Insurance Contracts Liability Roll Forward Statements and change in estimates during the year.	

IFRS 17 provides an accounting policy choice as to changing the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements or in the annual reporting period. Some respondents noted that there might be differences between FRIs that select the accounting policy of changing subsequent interim financial statements and those making the change in the annual reporting leading to comparability and consistency concerns.	OSFI assessed and concluded that it was not necessary to restrict the accounting policy choice of FRIs with respect to the timing of recognition associated with changes in accounting estimates. FRIs could select either annual or interim reporting without creating consistency and comparability concerns since there is no impact on the capital ratio if one policy is selected over the other. As a consequence, no changes were made to the OSFI Regulatory Returns.
Some respondents were concerned about the frequency of the liability roll forward statements being quarterly instead of annually. They felt that due to the complexity of the roll forward statement templates, FRIs should only be required to disclose these statements annually.	OSFI reviewed the frequency requirement of the IFRS 17 liability roll forward statements, and concluded the frequency should be consistent with the IFRS 17 requirement of preparing these statements every reporting period. For Canada, the frequency of reporting period to OSFI is quarterly. Therefore, no changes were made to the OSFI Regulatory Returns.
Residual Interest	
IFRS 17 provides presentation options for Mutual entities as having either Residual Interest liabilities or Residual Interest equity in the financial statements. Some respondents noted that they would continue to have policyholders' equity under IFRS 17 similar to the treatment under IFRS 4 as such would not report any Residual Interest liability.	OSFI reviewed this issue in quite some detail with industry, and concluded that FRIs should choose the option most suited for their situation in accordance with IFRS 17. OSFI will attempt to clarify in the instructions, however if a line within the Return does not apply to a FRI, then it should be left blank.
Segregated Funds Disclosures	
Some respondents noted that Segregated Fund and Residual Interest line items on the core financial statements are applicable to Life Insurance Companies only as such be removed from the P&C Returns.	The transition to IFRS 17 provided OSFI with the opportunity to align the core Regulatory Return pages across the insurance industry. OSFI does recognize there are differences in products, and as a consequence where there is a non-applicable line in the financial statements, the line should be left blank. No changes were made to the Returns.

Segregated Fund Guarantees –Some respondents requested that that liability roll forward statements for segregated funds with guarantee insurance contracts and reinsurance contracts not be separately presented, but rather embedded within the general fund liability roll forward statement, as some companies do not track the components separately.	OSFI has reviewed the issue and determined that segregated funds with guarantees (classified as insurance contracts) are specific material products that are sensitive to market movement, and should be disclosed separately, which will enhance accounting presentation and will be beneficial to the users of the financial statements.
Reinsurance Contract Held Disclosures	
Some respondents noted that at the December 2019 meeting, the IASB agreed to expand the scope for the proposed amendment for reinsurance contracts held – recovery of losses from reinsurance contracts providing proportionate coverage to all reinsurance contracts. Therefore, the Reinsurance Contracts Held disclosures needed to be updated to reflect the above amendment.	OSFI agrees with the respondents. OSFI Regulatory Returns were issued for public comment in November 2019, however the IASB IFRS 17 Amendments (as finalized in June 2020) simplified the disclosures relating to Reinsurance Contracts Held. As a result, the OSFI Returns have been updated to reflect the IFRS 17 Amendments.
Provincial and Territorial Exhibits	
Some of the respondents were concerned that the some of the schedules blended IFRS 4 and IFRS 17 concepts and this would lead to an increase in implementation costs, as companies would be required to keep two sets of books.	OSFI understands the concerns of the industry, however the IFRS 4 concepts will be kept for the provincial schedule Premiums Written (P&C/Mortgage Insurance page 93.30 and Life page 95.010) on an annual basis until such time when the provincial governments incorporate IFRS 17 reporting into their premium tax and assessment regimes.
Other Comments	
Respondents provided comments requesting wording, inconsistency and instruction changes.	Where applicable, OSFI has updated instructions and made other wording changes where necessary to remove inconsistencies.

Footnotes

1 Federally Regulated Insurers include Canadian branches of foreign life and property and casualty companies, fraternal benefit societies, regulated insurance holding companies and non-operating insurance companies.

2 Subsections 331(4) and 887(4) of the *Insurance Companies Act* (ICA).