



Advisory

Title	Deferral of IFRS 9 Application for Federally Regulated Life Insurers
Category	Accounting and Disclosure
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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 Chartered Professional Accountants of Canada”. ¹ 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 ² 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.



In June 2020, the IASB issued *Amendments to IFRS 17*, which included deferring the effective date of the Standard until annual periods beginning on or after January 1, 2023. In addition, the IASB also issued *Extension of the Temporary Exemption from Applying IFRS 9* (Amendments to IFRS 4) to extend the temporary exemption from applying IFRS 9 by two years to align with the revised effective date of IFRS 17. The Canadian Accounting Standards Board is expected to complete its endorsement process for the amendments, incorporating them into Part I of the CPA Canada Handbook – Accounting no later than November 2020.

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

II. Life Insurers Expected to Adopt IFRS 9 Financial Instruments in 2023

The IASB finalised the IFRS 9 *Financial Instruments* Standard in July 2014. While OSFI supports the improved standard over IAS 39 *Financial Instruments*, OSFI agrees with IASB's rationale to align IFRS 17 and IFRS 9 implementation dates. The same effective date could reduce implementation costs and accounting mismatches for life insurers. Therefore, OSFI expects life insurers to defer the application of IFRS 9 until the expected effective date of the IFRS 17 standard on January 1, 2023. [3](#) This allows life insurers to adopt both IFRS 9 and IFRS 17 simultaneously.

III. Exception for Life Insurance Subsidiaries of Deposit-Taking Institutions

OSFI expects life insurers whose activities are predominantly connected with insurance as described by the IASB's amendment dated September 2016, *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*, and subsequent amendment dated June 2020, *Extension of the Temporary Exemption from Applying IFRS 9*, to apply the temporary exemption from IFRS 9 in annual periods beginning before January 1, 2023. 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) [4](#) 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.

Footnotes

- 1 Subsections 331(4) and 887(4) of the *Insurance Companies Act* (ICA).
- 2 International Accounting Standards Board September 12, 2016 decision summary
- 3 OSFI will not issue any additional guidance that narrows the range of practice for P&C Companies including mortgage insurers.
- 4 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.