



Advisory

Subject: IFRS 17 Transition and Progress Report Requirements for Federally Regulated Insurers

Category: Accounting

Date: May 2018

Background

In May 2017, the International Accounting Standards Board (IASB) issued the final version of the IFRS 17 *Insurance Contracts* Standard. IFRS 17 replaces IFRS 4 and is effective for annual periods beginning on or after January 1, 2021. The Canadian Accounting Standards Board endorsed IFRS 17, which is now incorporated into Part I of the CPA Canada Handbook - Accounting.

The *Insurance Companies Act* stipulates in the case of federally regulated insurers (FRIs)¹ 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.”^{2,3} Generally Accepted Accounting Principles for FRIs is effectively International Financial Reporting Standards as issued by the IASB. OSFI may specify additional accounting guidance or disclosure requirements, or require FRIs to use a specific option within an applicable accounting standard. OSFI makes these specifications in situations where there is a prudential need for additional accounting guidance.

To support FRIs in their transition to IFRS 17, OSFI is issuing an advisory regarding:

- A. Early adoption of IFRS 17;
- B. Accounting for financial guarantee contracts; and
- C. Semi-annual progress reporting to OSFI.

¹ FRIs refer to all federally regulated insurers, including 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*.

³ As of November 1, 2013, the Handbook of the Canadian Institute of Chartered Accountants was renamed to Chartered Professional Accountants Canada Handbook - Accounting.



A. Early Adoption of IFRS 17

I. Expectations with Respect to Early Adoption

After reviewing several factors (e.g. consistency across insurers, operational capacity, etc.), OSFI determined that FRIs should not adopt IFRS 17 before its effective date of January 1, 2021.

II. FRIs that are Subsidiaries of a Federally Regulated Deposit Taking Institution (DTI)⁴

Disallowing adoption before January 1, 2021 implies that FRIs that are subsidiaries of DTIs with an October 31 year-end will adopt IFRS 17 for annual periods beginning November 1, 2021. OSFI confirms this adoption date having considered the complexity of implementing IFRS 17 and the size of these DTI subsidiaries relative to the regulated DTI. DTI subsidiaries with a December 31 year-end will adopt IFRS 17 on January 1, 2021.

B. Accounting for Financial Guarantee Contracts

IFRS 17 provides existing insurers applying IFRS 4 the option to account for financial guarantee contracts using either IFRS 17 or IFRS 9 *Financial Instruments*. To ensure consistency and comparability across the industry, OSFI determined that existing FRIs should continue accounting for these contracts using IFRS 17.

OSFI will communicate any additional reporting requirements during the application process for new entrants after January 1, 2021. This will ensure comparability and consistency in reporting with existing FRIs.

C. Semi-Annual Progress Reporting to OSFI

OSFI is requiring FRIs to submit semi-annual reports outlining the progress made in preparation for IFRS 17. This advisory sets out OSFI's expectations with respect to the contents of such reports.

I. Timing and Frequency of Reporting

FRIs are expected to submit semi-annual progress reports to OSFI on their implementation of IFRS 17. The reports will detail the status of the project and any material decisions made.

The first progress report is due no later than September 30, 2018. FRIs should submit subsequent reports semi-annually on or before:

- March 31, 2019;
- September 30, 2019;
- March 31, 2020;

⁴ For the purposes of this Advisory, DTI refers to banks, foreign bank branches, bank holding companies, federally regulated trust companies, federally regulated loan companies, and cooperative retail associations.

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- September 30, 2020; and
 - March 31, 2021.

FRIIs that are subsidiaries of DTIs are expected to submit a final progress report no later than September 30, 2021.

II. Submission Format

1. One (1) electronic copy of the progress report detailing information under section III below to the FRI's Lead Supervisor ensuring the subject field is identified: "FRI Name - IFRS 17 Progress Report – (MMYYYY)".
2. A cover page – "IFRS 17 Self-Assessment Summary Questionnaire" (see **Appendix A**) summarizing the report's content must be completed and submitted with the FRI's IFRS 17 progress report.

III. Scope of Progress Reports

OSFI expects FRIIs to engage their senior management in the IFRS 17 work plan. Senior management should review and approve all material elements of the information provided to OSFI. Progress report information received from the FRIIs will be considered confidential and treated accordingly.

The progress reports should include the following:

1. Project Structure and Resources

- a. Description of the project structure, governance and timeline, including the role of the board (or branch management in the case of foreign entities operating in Canada on a branch basis), project sponsor, key project team members (internal and external) and accountabilities.
- b. Assessment of whether resources are sufficient to meet project deliverables.

2. Project Status

OSFI expects FRIIs to keep their Lead Supervisor informed of any major changes or risks to the IFRS 17 project plan.

Indicate the status of key milestones of the project plan. For example, indicate if the project is on schedule, ahead of schedule or behind schedule. If behind schedule, indicate the steps being taken to bring the project back on schedule.

When evaluating project status, FRIIs should:

- i. Conduct a qualitative assessment of IFRS 17/IFRS 4 differences (e.g. impact on policyholder liability, retained earnings, regulatory capital, etc.);

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- ii. Identify issues and solutions in applying IFRS 17 where a decision has been made and, where a decision has not been made, the major factors relevant to the decision and the timeline for completing that decision;
 - iii. Describe possible choices, actions, elections or policies (accounting or actuarial) being considered and applicable criteria when making a decision;
 - iv. 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 the choice and the potential impact on capital levels. If it is not yet possible to estimate its impact, describe the timeline and process for completing that estimate.

Details should be included in the progress report based on the areas identified in section 3 below.

3. Significant Accounting Impacts

FRI's should provide a summary of the significant changes caused by the difference between IFRS 4 and IFRS 17. OSFI has identified the following accounting policy options affecting the FRI's financial statements:

- a) Level of Aggregation
- b) Estimate of Future Cash Flows
- c) Discount Rates
- d) Risk Adjustment
- e) Contractual Service Margin
- f) Embedded Guarantees
- g) Accounting for Financial Guarantee Contracts
- h) Deferred Acquisition Costs
- i) Premium Allocation Approach Measurement
- j) Contracts with Direct Participation Features
- k) Reinsurance
- l) Impact of adoption of IFRS 9 on IFRS 17 Transition Date (e.g. classification and measurement, expected credit losses, etc.)
- m) Impact on Presentation and Disclosures
- n) Transition

The progress report should comment on the above and on any other items that have a significant impact on the FRI's financial statement balances (mainly on the Statement of Financial Position), recognition, classification, measurement, presentation or disclosure. Each report should provide the status and progress towards decisions made.

4. Operational Preparedness

FRI's should update their assessment of the IFRS 17 impact on:

- i. Preparation of regulatory returns;

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- ii. Changes required to systems, if any;
 - iii. Training designed and delivered to staff; and
 - iv. Any other items impacting the project.

5. Location of Information

The information requested in sections 1 to 4 above may incorporate information by reference (e.g. from a pre-existing internal document). In such cases, FRIs are expected to map the reference to the location where the required information is available to OSFI. If information requested is not available in any given semi-annual period, the FRI's report to OSFI should indicate when that information will be available.

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

Appendix A

FRI Name:							
Reporting Date:							
IFRS 17 Self-Assessment Questionnaire		Complete	In progress - On-time	In progress - At Risk	Not Started	Not Applicable	Comments
1	Does the FRI have an approved IFRS 17 Project Plan in place? Is the project on track?						
2	Has the FRI determined its accounting policies with respect to IFRS 17 including options and actuarial methods associated with?: <i>Level of Aggregation</i> <i>Estimate of Future Cash Flows</i> <i>Discount Rates</i> <i>Risk Adjustment</i> <i>Contractual Service Margin</i> <i>Embedded Guarantees</i> <i>Accounting for Financial Guarantee Contracts</i> <i>Deferred Acquisition Costs</i> <i>Premium Allocation Approach Measurement</i> <i>Contracts with Direct Participation Features</i> <i>Transition</i>						
3	Has the FRI performed a qualitative assessment of IFRS 4/IFRS 17 differences?						
4	Has the FRI performed a quantitative assessment or proforma Financial Statements for IFRS 17? ⁵						
5	Has the FRI performed an IFRS 9 impact analysis on classification and measurement of financial instruments?						
6	Have changes to source systems been examined?						
7	Has the FRI designed and delivered training to staff?						
8	On a best effort basis, has the FRI reviewed and determined the impact of IFRS 17 on the regulatory capital ratio (LICAT or MCT)?						
9	Other items of note for discussion: a) b) c)						
10	Qualitative discussion (if necessary) of project: a) b) c)						

⁵ Instructions for quantitative data will be provided at a later date.