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Insurance

Financial regulator back in action with new reporting standard for insurance contracts

By **Darcy Ammerman and Ricki-Lee Williams**

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(September 10, 2020, 3:22 PM EDT) -- On Aug. 7, the Office of the Superintendent of Financial Institutions (OSFI) published a letter to Federally Regulated Insurers describing OSFI's updated plans for implementing International Financial Reporting Standard 17 — *Insurance Contracts* (IFRS 17). The letter follows OSFI's announcement on July 13 that its policy development work has resumed. The implementation of IFRS 17 will result in the first uniform accounting standard for insurance contracts, affecting practices within the insurance industry internationally.

The development of IFRS 17, which is to replace International Financial Reporting Standard 4 (IFRS 4), was one of the many items sidelined by COVID-19. However, updated timelines for IFRS 17 initiatives have now been released. The Consultation on Draft IFRS 17 Regulatory Forms and Instructions, which was previously set to close on March 21, was extended to Aug. 31. In addition, the IFRS 17 semi-annual progress reports will resume on Sept. 30, and directed consultations on capital tests, including conducting Quantitative Impact Study (QIS) exercises, will resume in the fall of 2020.

The implementation of IFRS 17 in Canada has also been affected by the International Accounting Standards Board's (IASB) decision to postpone the IFRS 17 effective date by two years (and to make other amendments to IFRS 17). As such, IFRS 17 is now required to be implemented for annual periods beginning on or after Jan. 1, 2023.

For life insurers who are eligible for the temporary exemption from implementing International Financial Reporting Standard 9 — *Financial Instruments* (IFRS 9), such exemption will be extended to Jan. 1, 2023, for consistency.

To align with the new implementation dates, OSFI has undertaken to finalize amendments to Guideline A — *Life Insurance Capital Adequacy Test* (LICAT) for life insurers and Guideline A — *Minimum Capital Test* (MCT) for property and casualty (P&C) insurers sometime in 2022. OSFI will also revise its Accounting Advisories on both IFRS 17 and the deferral of IFRS 9 after the IASB incorporates its IFRS 17 amendments into the *CPA Canada Handbook*.

Once IFRS 17 is implemented, all insurers will be required to use a consistent accounting model for insurance contracts. In contrast, IFRS 4 allowed for flexibility in the application of accounting policies and practices, resulting in inconsistencies across jurisdictions and industries. A consistent accounting standard will facilitate ease of comparison between different companies, contracts and industries. It will also aid in comparing past and future contracts and in measuring change in performance over time. Overall, IFRS 17 aims to increase transparency regarding the value of insurance obligations and profitability, so parties can appropriately assess risk.

Insurers will be required to apply IFRS 17 to insurance and reinsurance contracts they issue. In addition, they will be required to apply the standard to reinsurance contracts they hold and to investment contracts with discretionary participation features (DPF) issued, provided they also issue insurance contracts.

IFRS 17 does not generally apply to items that are excluded under IFRS 4, except that IFRS 17 additionally excludes residual value guarantees provided by a manufacturer, dealer or retailer.

The transition to IFRS 17 will have a significant impact on insurers' accounting practices internationally. The comprehensive and lengthy development process, paired with unexpected delays such as responding to the COVID-19 crisis, has made the implementation of IFRS 17 long awaited. With Jan. 1, 2023, as the new effective date, insurers should continue to evaluate how IFRS 17 will affect their current practices and begin to facilitate the transition to the new standard.

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