

# Observations on the OSFI Draft Advisory on conversion to IFRS

On October 21, 2009 OSFI released its much anticipated Draft Advisory for conversion to IFRS. This included proposed impacts of adopting IFRS on accounting and capital, as well as providing additional guidance for semi-annual progress reports.

## Accounting impacts

One of the most significant accounting impacts is that OSFI intends to prohibit early adoption – IFRS standards with effective dates after 2011 cannot be early adopted in 2011. Such standards might otherwise be available for early adoption by other non-OSFI regulated entities in 2011. This is likely to include the new financial instruments standards, as well as new IFRS standards for leases and employee benefits.

The objective of this is to improve comparability of OSFI regulated entities upon first time adoption. The impact will be that insurers may initially adopt a standard in 2011 for one year and then have to adopt a revised standard for use on an ongoing in 2012, even where the new standard is available in 2011.

Other accounting impacts are that OSFI plans to retain certain of its existing guidelines upon transition, including its additional documentation requirements

for entities electing to use the fair value option for financial instruments contained in its D-10 guideline and for the derecognition requirements for structured settlements contained within its D-5 guidance. In addition, the first IFRS reporting OSFI forms will coincide with Property and Casualty (P&C) forms being prepared on a consolidated basis for the first time.

## Capital impacts

The draft OSFI advisory proposes that the use of existing CGAAP insurance methods to calculate minimum capital requirements is retained upon transition to IFRS. Any IFRS differences relating to the treatment of insurance contracts will need to be adjusted for in calculating regulatory capital. Such differences could arise where a contract issued by a Canadian insurer does not meet the definition of an insurance contract under IFRS and is measured differently; either as a financial instrument or a revenue product. These products will

continue to be measured under the previous CGAAP methods for capital purposes, thereby minimizing the impact on capital requirements from adopting IFRS. Potentially, this results in one set of books for financial reporting and a second set of books for regulatory capital calculations, in addition to any other GAAP or group reporting required for subsidiaries or branches of foreign insurers.

OSFI also proposes in the advisory that all IFRS 1 transition adjustments to retained earnings will impact available capital, with an exception for revaluation gains/losses for own-use property which are to be excluded. OSFI is considering a possible phase-in of the transition adjustments over the first 4 quarters to soften the impact on capital in Q1 2011.

## Semi-annual IFRS progress reports

Also included in the draft advisory was an additional requirement for OSFI regulated entities to provide in the July 30, 2010 progress reports (assuming calendar year end):

- An opening equity reconciliation from CGAAP to IFRS; as well as



- Accompanying explanations for the transition adjustments.

Insurers will need to be confident in their proposed IFRS accounting policy choices and transition adjustments to be able to do this.

While this is not required to be audited at this time, it is recommended to work with your auditor to ensure they are comfortable with the reported amounts to help avoid potential rework.

### Feedback required to OSFI

OSFI is seeking feedback from the insurance industry on the draft advisory by December 31, 2009. This is your chance to engage with OSFI in the guidance-setting process, so we encourage you to provide feedback.

**For help with your transition to IFRS, go to [www.pwcifrs.ca/insurance](http://www.pwcifrs.ca/insurance) or contact:**

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