

OSFI Provides Update on IFRS 17 Adoption

July 27, 2018

In preparation for the introduction to Canada of International Financial Reporting Standard 17 *Insurance Contracts* (“IFRS 17”), the Office of the Superintendent of Financial Institutions (“OSFI”) will be revising its key capital tests for insurers, in order to align more closely with IFRS 17.

IFRS 17 comes into effect in Canada on January 1, 2021. In advance of this date, the Life Insurance Capital Adequacy Test (“LICAT”) and Minimum Capital Test (“MCT”), which set capital rules for insurers, will need to be revised to support IFRS 17. In the meantime, OSFI will be working with other Canadian regulators and the insurance industry on the revised rules and tests, as well as an effective transition from the current accounting state to IFRS 17.

The current applicable guidance – IFRS 4, *Insurance Contracts* (“IFRS 4”) – was an interim standard brought forth by the International Accounting Standards Board that allowed for more flexibility regarding accounting practices for insurance contracts written in different countries.

The most material change from IFRS 4 to IFRS 17 is the creation of consistent accounting treatment for insurance contracts and reducing accounting and capital variability for these contracts among companies in different countries. In particular, IFRS 17 affects insurance and reinsurance contracts issued or held by an insurer, as well as investment contracts issued by an insurer that include discretionary participation features.

It is expected that final, IFRS 17-ready, LICAT and MCT guidance will be published by mid-2020. In addition, OSFI is likely to implement after 2021 a new standard relating to the capital requirements of segregated funds. In the meantime, insurers are advised to review their capital requirements and policies with their internal and external advisors. Dentons professionals are available to work with insurers interested in contributing to OSFI’s IFRS 17 consultation process or who have questions about the IFRS process and its impact on their operations.

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