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Chairman Hans Hoogervorst
International Accounting Standards Board
30 Cannon Street
London
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United Kingdom

IFRS 17 - Canadian request for two-year Implementation Date Deferral

Dear Chairman Hoogervorst,

Thank you again for meeting with the Canadian delegation earlier this month. We very much appreciated the opportunity to discuss with you why the Canadian industry strongly believes that the 2021 implementation date for IFRS 17 will result in undue implementation risk and that a two-year deferral is important to ensure a successful implementation of the new standard. Ultimately, we agree that a deferral could add costs and extend a period of uncertainty, but we still feel the risks of poor implementation are much greater issues.

In follow-up to our discussion there are three areas in particular where we would like to provide you with some follow-up information. These relate to 1) why insurers need more time to implement IFRS 17 than the banks required to implement IFRS 9, 2) why a timely decision to defer the implementation date will not result in insurers slowing their implementation work efforts and 3) why a timely decision on deferring IFRS 17 by year end 2018 is important.

1) Why insurers need more time to implement IFRS 17 compared than the Banks required for IFRS 9

We appreciated the commentary around learning from the banking sector's experience with implementing IFRS 9. However, we want to reiterate that the impacts on insurers from IFRS 17 are significantly more profound than the impacts from IFRS 9 were for banks. These cumulative impacts require more lead time and make the experience of banking with IFRS 9 less relevant for the IFRS 17 implementation.

Although IFRS 9 included key improvements from IAS 39, the level of changes and improvements on all fronts (recognition, measurement, presentation and disclosure) in IFRS 17 is far more extensive. The presentation changes alone under IFRS 17 require preparers to review and have in place general ledger and other system changes, redesign financial statements and change key performance indicators. Also, the requirements of IAS 39 relating to the accounting for financial liabilities, as well as scope, recognition and de-recognition, generally remained largely unchanged under IFRS 9. This is not the case for insurers with IFRS 17.

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In addition, there are a number of key elements required for a successful implementation of IFRS 17 for insurers that did not exist for the bank's implementation of IFRS 9.

Table 1: Key elements that differ for Insurers with IFRS 17 vs Banking with IFRS 9

	IFRS 17 Implementation for Insurers	IFRS 9 Implementation for Banks
Requirement to restate prior years to provide comparable data	Yes	No
Tax legislation changes required	Yes	No
Full QISs needed to calibrate capital regime	Yes	No
Need to adjust from disparate IFRS 4 local bases	Yes	No
Need to address interdependencies of IFRS 17 and 9	Yes	No
Need to revisit decades old legacy systems	Yes	No

1. The requirement to restate prior years to provide comparative data:

Canadian insurers agree with the need for a full set of comparative data under IFRS 17. However, it is important to note that in order to provide a full year of comparable data insurers will need to restate prior periods. This was not the case for the banks when implementing IFRS 9 and necessitates significantly more work and resources as a result.

2. Tax legislation changes required:

Discussions in Canada with the federal Department of Finance (Finance) illustrate the disparity in downstream work effort on the tax legislative changes required for these two standards. The Canadian tax law already has a comprehensive framework to address changes to measurement of financial instruments, including transitional provisions and a framework for loan losses, hence there were no changes to the current tax law on adoption of IFRS 9.

In contrast, Finance is of the view the current tax framework for insurers may need a complete review to align with the many fundamental differences between IFRS 4 and IFRS 17. Given the many interpretational uncertainties, the industry was unable to respond to many of Finance's initial questions, including the measurement models by products, approximate expected change to the opening liability for insurance contracts, etc. Finance was very insistent on needing more directional decisions and entity level impact data on the opening balance sheet and profit recognition profile under the new model. They were unable to commit to providing comprehensive draft legislative changes by the fall of 2020, in time for the 2021 effective date.

3. Need for full Quantitative Impact Studies to calibrate capital regime:

OSFI introduced a new life insurance capital adequacy testing (LICAT) guideline for life insurers as of January 01, 2018. LICAT is a robust framework developed over many years, requiring seven quantitative impact studies (QIS) and three Test Runs to calibrate the appropriate level of capital for the industry. The working assumption is that select and significant adjustments are required to the LICAT guideline to

ensure the ensuing capital and capital ratios under IFRS 17 reporting remain relatively unchanged for individual insurers and the industry as a whole. The industry and OSFI will need to work together to ensure that.

This was not the experience on the recent implementation of IFRS 9 by banks. Not only were there no material changes to the relevant capital guideline, the transition impact was not considered material to warrant a phase-in adjustment as recommended by Basel Committee for Banking Supervision (BCBS). OSFI in their communication to deposit taking institutions notes; *“Based on the estimates provided by institutions, we did not see projections of widespread material impact on capital from the implementation of IFRS 9. Therefore, OSFI has determined that transitioning (or phase-in) of the impact of IFRS 9 is not warranted.”*

As articulated at the meeting, we believe that the project timeline provided by OSFI showing regulatory capital guidelines in place by early 2020 with just one QIS presents significant risks. Adequate quantitative and sensitivity testing is required so that insurers are better able to manage their capital ratio on an IFRS 17 basis, since this key measure is followed by both analysts and investors.

At a global level, it is worth noting, that while international standards on capital adequacy framework exist for banks (established by the BCBS), no such framework exist for the insurance industry. Each jurisdiction or region will need to develop its response to IFRS 17 for solvency capital.

4. Need to adjust for IFRS 4 local differences

From a global consistency perspective, multinational insurers face the added challenge of re-measuring insurance contracts from disparate local accounting measurement bases to a single globally consistent accounting basis under IFRS 17. This increases the challenge for not just preparers but also advisors and auditors alike, to reach a common global understanding and interpretation of the new standard and its impacts. In contrast, multinational entities transitioning to IFRS 9 only needed to re-measure financial instruments from a single global measurement basis under IAS 39.

5. Interdependencies between IFRS 9 & 17

Both IFRS 17 and IFRS 9 are significant and complex standards. For insurers, these standards represent major changes to both sides of their balance sheets, and these changes must be implemented along the same timeline. The complexities and interdependencies were addressed in our letter of June 8, 2018. Based on the magnitude and pervasiveness of the changes required by these two standards, implementing both IFRS 17 and 9 within the same timeline, with full set of comparative changes adds tremendous execution risk on all insurers, especially small and medium sized insurers. This was not needed for banks when they implemented IFRS 9.

6. Need to revisit decades old legacy systems:

Life insurance is, by its nature, a much longer term business than that of banking. The majority of life insurance contracts in Canada are long-term in nature, some more than 40 or 50 years. This contributes to a large number of legacy policy administration systems which are extremely difficult to update since the software and technology may date back as many years. Given the retrospective application of IFRS 17,

a large volume of these legacy contracts in force at transition will need to be reviewed and re-measured which significantly increases the complexities of building access and processing capabilities to implement IFRS 17. In contrast, the vast majority of financial instruments held by banks are of shorter duration and thus banks did not have the same challenges with the number of old legacy systems when implementing IFRS 9.

2) Timely announcement of a deferral will not result in insurers slowing their implementation efforts

There is little or no risk that a timely announcement of a delay will encourage insurers to slow their implementation efforts. A two-year deferral is only being sought to enable insurers to proceed with the required steps for a successful implementation in a sequential manner, rather than having to skip or compress critical steps or make unilateral decisions in interdependent work streams. Ultimately, as we discussed in London, a deferral will likely result in additional costs to insurers, but these are a significantly lesser risk from our perspective than a poorly executed implementation of IFRS 17.

A deferral would help reduce or eliminate the need to compress *required* timelines. It would not provide a margin beyond what is required for a successful implementation. Drawing a parallel, the IFRS 15 implementation challenges of the telecommunications industry ultimately led to a one-year deferral, and in that case, much like with IFRS 17, the additional time was critical because the requisite software was not available for implementation on the initial timeline.

We would reiterate that prudential regulators would still expect and closely monitor work to ensure that entities' implementation projects remain on track for them to adopt IFRS 17 by the effective date. For example, the Office of the Superintendent of Financial Institutions (OSFI) in Canada has a progress reporting framework that requires insurers to provide information semi-annually on their project structure and resources, project status, significant accounting impacts and operational preparedness.

Furthermore, due to the extensive impact of IFRS 17 on insurers' financial statements, analysts and other market users will require the disclosure of increasingly detailed forward-looking information in the years leading up to the effective date. Insurers will need to maintain momentum in their implementation work efforts to keep analysts informed and manage investor expectations by being able to answer questions (e.g., on expected earnings emergence). As we noted in our meeting, these inquiries have already started.

3) The importance of a decision on a deferral by year end 2018

As noted previously, it is important that an announcement of a delay be made on a timely basis. Delaying an announcement after year end 2018, may result in inefficiencies in processes and use of resources. Insurers' anticipate that 2019 (after the TRG discussions are complete and before the start of running comparative numbers) will be very busy in moving towards implementation of IFRS 17 due to a very compressed and intense work effort on multiple fronts: delivering and testing IT solutions, final policy decisions, GL architecture, impact studies for capital and tax rule changes, etc. A timely announcement of a decision to delay is crucial to allow insurers to plan the multiple interdependent work streams with internal and external stakeholders in a reasonable and efficient manner for a successful implementation.

In conclusion, we continue to strongly believe that a two-year deferral in the implementation date for IFRS 17 is required to ensure a successful implementation of the standard. The CLHIA respectfully requests the Board consider a two-year delay and announce it on a timely basis. We are available to respond to any further questions the IASB Board may have on this matter.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S. Frank', written in a cursive style.

Stephen Frank

Copy to: Linda Mezon, Chair, Accounting Standards Board (AcSB)