



Advisory

Subject: Early adoption of IFRS 9 *Financial Instruments* for Domestic Systemically Important Banks

Category: Accounting

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I. Introduction

When Federally Regulated Entities¹ (FREs) transitioned to International Financial Reporting Standards (IFRSs) in 2011, many projects on the International Accounting Standards Board's (IASB) agenda were expected to have potential material effects on financial reporting, prudential regulatory reporting and/or regulatory capital. Given the potential for significant impact on FREs, OSFI determined that those institutions should not early adopt IFRSs unless otherwise communicated by OSFI. OSFI considers allowing early adoption by FREs on a standard by standard basis after a particular IFRS has been issued in final form.

II. IFRS 9: Financial Instruments

The IASB issued the final version of International Financial Reporting Standard 9 *Financial Instruments* (IFRS 9) in July 2014. The standard will be mandatorily effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Canadian Accounting Standards Board has also decided to incorporate IFRS 9 into the CPA Handbook by Q1, 2015.² With the publication of the final IFRS 9, OSFI has considered the costs and benefits and determined that Domestic Systemically Important Banks (D-SIBs)³ should adopt IFRS 9 for their annual period beginning on November 1, 2017. All other FREs using an October 31 year-end are also permitted to adopt IFRS 9 on November 1, 2017 if they wish, but are not expected to do so. The expectation for D-SIBs to early adopt IFRS 9 applies to the standard as a whole. It does not preclude them from any choices or options that are available in the standard.

¹ For the purposes of this advisory, a FRE refers to banks, foreign bank branches, bank holding companies, federally regulated trust and loan companies, cooperative credit associations, cooperative retail associations, life insurance companies, foreign insurance companies, fraternal benefit societies, property and casualty insurance companies and insurance holding companies

² [Canadian Accounting Standards Board November 5-6, 2014 meeting decision summary.](#)

³ Annex 1 of the Capital Adequacy Requirements contains additional details around OSFI's process for designating Canadian institutions as D-SIBs.



Notwithstanding this expectation for D-SIBs to adopt IFRS 9 on November 1, 2017, all FREs are also permitted to early adopt, in isolation, the accounting and transition requirements for the fair value of an entity's own credit risk as noted in the IASB's November 2013 addition to IFRS 9. This permission was communicated by OSFI to FREs in a February 2014 letter⁴ and does not change with the decision for D-SIBS to early adopt IFRS 9.

The legislation governing FREs⁵ requires that the financial statements be prepared in accordance with generally accepted accounting principles (GAAP), the primary source of which is the Handbook of the Canadian Institute of Chartered Accountants⁶, except as otherwise specified by OSFI. Through its authority, OSFI may specify additional accounting guidance or additional disclosure, or require that a specific accounting option within an applicable accounting standard be followed. OSFI makes these specifications in rare situations where there is a strong prudential need for additional accounting guidance for FREs.

As addressed in *International Standard on Auditing 210* (ISA 210) and the equivalent *Canadian Auditing Standard 210* (CAS 210), OSFI understands that the financial reporting practices in this Advisory will not impair an FRE's ability to obtain an unqualified audit opinion that states that the financial statements are in accordance with IFRSs as issued by the IASB, which is Canadian GAAP.

a. November 1, 2017 effective date for Domestic Systemically Important Banks

OSFI's assessment included, but was not limited to, consideration of factors such as industry consistency, OSFI policy positions on accounting and capital, operational capacity and resource constraints of FREs, the ability to benefit from improved standards arising from the financial crisis and the notion of a level playing field with other Canadian and international financial institutions.

The replacement of IAS 39 with IFRS 9 is a key IASB project in response to the global financial crisis. IFRS 9 is a significant standard for FREs and OSFI believes it is important for FREs to adopt this standard as soon as possible. The mandatory effective date of 2018 is ten years after the financial crisis.

D-SIBs adopting IFRS 9 for annual periods beginning November 1, 2017 will result in a closer alignment of their IFRS 9 adoption date with that of FREs having a December year-end and with many foreign banks reporting in IFRS such as many Global Systemically Important Banks based in Europe. D-SIBs adopting IFRS 9 for annual periods beginning November 1, 2017 will also help ensure that many implementation details in Canada are sorted out before smaller less systemic FREs with annual periods beginning January 1, 2018 have to adopt the standard. In

⁴ OSFI letter *Early Adoption of Amendments to IFRS 9 – General Hedging and Own Credit Risk*, February 25, 2014.

⁵ Sections 308(4) and 840(4) of the [Bank Act](#) (BA), sections 331(4) and 887(4) of the [Insurance Companies Act](#) (ICA), section 313(4) of the [Trust and Loan Companies Act](#) (TLCA), and subsection 292(4) of the [Cooperative Credit Associations Act](#) (CCAA).

⁶ As of November 1, 2013, the Handbook of the Canadian Institute of Chartered Accountants was renamed to CPA Canada Handbook.

addition, many banks around the world had asked the IASB to allow at least three years to implement IFRS 9. For the D-SIBs, November 1, 2017 is more than three years after the publication of the final standard.

b. Endorsement by other jurisdictions

OSFI will monitor the endorsement process of other jurisdictions, including the European Union, during the implementation period. FREs are encouraged to take full advantage of the time available for its implementation. OSFI does not believe FREs should delay their implementation plans for adopting IFRS 9 due to any uncertainty regarding the endorsement timetables in other jurisdictions.