

Changes to Part I for IFRS 17 *Insurance Contracts* – AcSB Due Process Endorsement Activities

FOREWORD

In March 2018, the Accounting Standards Board (AcSB) endorsed and incorporated into Part I of the CPA Canada Handbook – Accounting (Handbook) IFRS 17 *Insurance Contracts*, issued by the International Accounting Standards Board (IASB) in May 2017.

The AcSB has approved for publication this document summarizing the endorsement activities it carried out as part of its due process in support of this change made to the IFRS® Standards in Part I. The Board's process included extensive outreach activities, which are discussed in the section of this document entitled "Step 3: Evaluate whether the requirements of the new or amended IFRS Standard are appropriate for application in Canada."

The IASB® Basis for Conclusions document for IFRS 17 *Insurance Contracts* includes the IASB's rationale for developing the standard, as well as the factors and considerations that led it to conclude as it did on the technical issues relating to the standard. While the AcSB considered this information as part of its endorsement activities, this document does not replicate the information provided in the IASB's Basis for Conclusions.

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INTRODUCTION

- 1 In March 2018, the Accounting Standards Board (AcSB) approved and incorporated into Part I of the CPA Canada Handbook – Accounting (Handbook) IFRS 17 *Insurance Contracts*, issued by the International Accounting Standards Board (IASB) in May 2017. This document summarizes the endorsement activities carried out by the AcSB as part of its due process. A separate document speaks more generally to the due process the Board follows in setting financial reporting standards, including the due process specifically related to IFRS Standards. 1
- 2 Nothing in this document is to be taken as overriding the requirements of the Handbook.
- 3 As part of its due process, the IASB issues a basis for conclusions for each new or amended IFRS Standard that sets out its considerations in reaching its conclusions (including its technical decisions) on that standard. Stakeholders can refer to the IASB® Basis for Conclusions on IFRS 17 *Insurance Contracts* 2 to understand the IASB's considerations in developing this standard. The AcSB took into account these considerations as part of its endorsement activities for IFRS 17.

BACKGROUND

IFRS Standards as an element of Canadian GAAP

- 4 Part I consists of IFRS Standards 3 except for the *IFRS for SMEs*[®] 4 Standard. For purposes of this document, any reference to IFRS Standards is exclusive of the SMEs Standard. The Preface to the Handbook sets out the categories of Canadian financial reporting entities required or permitted to apply IFRS Standards.
- 5 Part I contains IFRS Standards in effect for annual periods beginning on January 1 each year. IFRS Standards issued but not yet effective on a mandatory basis are provided in a separate section. Part I is updated to incorporate new or amended IFRS Standards that the AcSB has endorsed and incorporated into Canadian GAAP after completing its due process activities. To ensure the completeness of Part I, AcSB endorsement activities are completed as soon as possible after the IASB issues a new or amended standard.

THE AcSB's DUE PROCESS – ENDORSING IFRS STANDARDS

- 6 Newly issued new or amended IFRS Standards are not part of Canadian GAAP until the AcSB has endorsed and incorporated them into Part I of the Handbook. As a national standard setter, the Board has the authority to incorporate new or amended IFRS Standards into Canadian GAAP and does so only after performing its endorsement activities.
- 7 The AcSB's endorsement activities consist of both assessing the due process activities carried out by the IASB and applying its own due process. Specifically, it performs the following three steps before reaching a conclusion on whether a new or amended IFRS Standard is appropriate for application in Canada, and whether the Board should endorse and incorporate it into the Handbook.

Step 1: Gain an understanding of the new or amended IFRS Standard

- 8 AcSB members learn about new guidance from the IASB long before a final new or amended IFRS Standard is issued. They are made aware of new IASB projects and the IASB's preliminary views on issues significant to Canada through:
- (a) periodic updates from the AcSB staff, who monitors the IASB's activities throughout the project's life; and
 - (b) reports back from the AcSB Chair and Director on their participation in international meetings with the IASB and other standard setters.

The Board deliberates the topics that are the subject of the IASB's projects during its meetings, discussing the IASB's tentative and final decisions as appropriate given the topic, and the extent and significance of the proposed changes.

- 9 By maintaining a strong global presence on the international stage, the AcSB goes beyond simply understanding new or amended IFRS Standards, to actually influencing their development. The Board influences IFRS Standards development by raising awareness, providing opportunities for stakeholders to make their views known, responding to documents for comment on the IASB's proposals and leveraging round tables and other discussions.
- 10 Once the IASB issues a new or amended standard, AcSB members receive copies, as well as accompanying material helpful to understand the final standard, such as the IASB's basis for conclusions document, implementation guidance and illustrative examples. Building on knowledge gained from the activities described above, members familiarize themselves with the requirements of the new or amended standard through self-study and a review of additional information the AcSB staff provides. Depending on the nature and complexity of the new or amended standard, the AcSB's review occurs as part of its formal deliberations, or is performed offline (i.e., outside Board meetings).
- 11 The additional information provided by the staff includes a précis of the standard and summaries of:
- (a) the comments made by Canadians and the Board on the relevant IASB exposure draft;
 - (b) key changes the IASB made to the proposals in its exposure draft; 5 and
 - (c) possible challenges to Canadians in applying the new or amended standard.

Staff also informs members, in general terms, on the degree to which the new or amended standard produces common financial reporting outcomes with U.S. GAAP.

Step 2: Assess the IASB's due process in developing the new or amended IFRS Standard

- 12 The IASB issues IFRS Standards according to its own rigorous due process. To be able to rely on the IASB's due process, the AcSB has put in place procedures to fulfill its responsibilities under its Terms of Reference. On a project-by-project basis, the AcSB staff does the following:
- (a) Monitors the IASB's activities to ensure that the IASB is following its due process. For example, staff may read its meeting agenda papers, monitor its meeting discussions, review other project-related material on its website and discuss issues with IASB members and staff, highlighting for the AcSB the results of these activities.
 - (b) Reviews documentation on the IASB's and the IFRS Foundation Due Process Oversight Committee's assessment of whether the IASB has met its due process for the project. In most cases, the Due Process Oversight Committee's meeting reports include a direct statement on whether the IASB has complied with due process.
 - (c) Raises to the Board any potential areas of concern as a result of (a) and (b) above.
- 13 When asking the AcSB to vote on whether a new or amended IFRS Standard should be endorsed and incorporated into Part I, the staff provides its assessment of whether there are any indications that the IASB has not met its due process requirements.
- 14 When casting their vote, each AcSB member is required to record whether they are satisfied that the IASB has followed its due process appropriately.

Step 3: Evaluate whether the requirements of the new or amended IFRS Standard are appropriate for application in Canada

- 15 The AcSB's due process requires that it obtain stakeholders' views on proposed changes to Canadian GAAP. For Part I, the Board meets this requirement, in part, by publishing its own "wraparound" exposure draft of the IASB's exposure draft of the proposed IFRS Standard. In its exposure draft, the AcSB notes that the IASB has followed due process in developing the proposals and asks stakeholders for input on whether the proposed new or amended standard is appropriate for application in Canada.
- 16 The AcSB considers the need for additional outreach depending on the topic, and the extent and significance of the proposed changes. Additional outreach may include the following:
- (a) Seeking input from its advisory committees.
 - (b) Holding public roundtables on the IASB's proposals.
 - (c) Performing other outreach activities, including meetings with affected stakeholder groups or individuals.
 - (d) Leveraging the Board's international network to provide opportunities for Canadian stakeholders to meet face-to-face with IASB members and staff to discuss key issues.
- The Board may decide such additional activities are necessary when, for example, it judges the proposals to be particularly complex or controversial based on stakeholder input received to date.
- 17 Given the complexity of IFRS 17 and the change it represents for Canadians, the AcSB performed extensive additional outreach on the proposed changes. For example, it sought the advice of its Insurance Accounting Task Force on numerous occasions, held multiple public roundtables to hear from Canadians, arranged meetings between Canadian stakeholders and IASB members to ensure the Canadian perspective was communicated and understood, and facilitated Canada's participation in the field testing conducted by the IASB on certain aspects of its proposals. The Appendix to this document provides a more complete listing of the additional outreach performed for IFRS 17, all of which was influential in the development of the final standard.
- 18 The extent to which the AcSB itself considered the proposed changes in its formal deliberations is also indicative of the attention given this project. Following the release of the IASB's 2010 Exposure Draft on this topic, the IASB's Insurance Contracts project figured prominently at AcSB meetings from October 2010 to December 2017. During its meetings, the Board received updates on, and discussed, the development of the insurance contracts standard, including the IASB's tentative decisions. The Board was also actively involved in the IASB's 2007 Discussion Paper, to which the Board's Insurance Accounting Task Force submitted a formal response.
- 19 The AcSB reviews all stakeholder input, including responses to its wraparound exposure draft, to identify any unique Canadian circumstances that could affect its conclusion on whether a new or amended IFRS Standard is appropriate for application in Canada, and should be endorsed and incorporated into the Handbook. Any concerns raised by stakeholders are considered based on what is in the Canadian public interest.
- 20 The AcSB considers the information obtained through these three steps to decide whether there is any compelling reason why a standard that the IASB developed and adopted in accordance with its due process would not be suitable for application in Canada. The Board endorses the standard for incorporation into Part I where, in its judgment, no such reason exists.
- 21 The AcSB monitors new or amended standards after they are incorporated into Part I to ensure that no issues arise, calling into question their suitability in Canada. It does this through consultations with stakeholders and its IFRS Discussion Group, 6 or, in the case of IFRS 17 *Insurance Contracts*, its Insurance Transition Resource Group, 7 as well as participation in IASB post-implementation reviews of new standards.

DOCUMENTING ENDORSEMENT ACTIVITIES

- 22 The AcSB issues a due process summary to communicate the actions taken and the considerations that Board members deemed significant in reaching their decisions to endorse and incorporate into Canadian GAAP new and amended IFRS Standards. The Board may decide to issue a single (omnibus) document for all changes to Part I resulting from the endorsement and incorporation of new and amended IFRS Standards during a year. Due to the significance of IFRS 17, the Board decided to issue a standalone due process summary for this standard.
- 23 Due process summaries the AcSB issues do not reproduce the various summaries and other documentation used by the AcSB to gain an understanding of each new or amended IFRS Standard incorporated into Part I. IASB material used by staff to facilitate that understanding (e.g., IASB Updates, documents for comment, project summaries and feedback statements) is available on the IASB's website, as are some of the sources of the information contained in the AcSB staff summaries listed in paragraph 11 (e.g., comment letters from Canadians and the AcSB). Instead, the Board's due process summaries focus on Steps 2 and 3 of its due process and the activities it has performed in coming to a conclusion to endorse and incorporate each new or amended IFRS Standard into Canadian GAAP.

CHANGE TO PART I FOR IFRS 17 INSURANCE CONTRACTS

- 24 In March 2018, the AcSB changed Part I to incorporate IFRS 17 *Insurance Contracts*, issued by the IASB. The Appendix summarizes the Board's endorsement activities for this change. Responses to its wraparound exposure drafts that simply reproduce the respondent's comment letter to the IASB are not reflected in the Appendix because the IASB considered the points raised as part of its due process.

APPENDIX

Summary of AcSB due process – endorsement activities for IFRS 17 *Insurance Contracts*

Step 2: Assess the IASB's due process in developing the new or amended IFRS Standard	Step 3: Evaluate whether the requirements of the new or amended IFRS Standard are appropriate for application in Canada	
AcSB review of IASB due process compliance	AcSB Exposure Draft corresponding to IASB Exposure Draft	Additional outreach activities
<p>IFRS 17 <i>Insurance Contracts</i> issued by the IASB in May 2017; issued in Part I in March 2018</p> <p>At its May 2016 meeting, the Due Process Oversight Committee received a report setting out a lifecycle review of the due process steps completed in the IASB's Insurance Contracts project, together with a copy of the agenda paper presented to the IASB at its February 2016 meeting on due process requirements. The Committee noted the long history of this project and the extensive due process carried out. It also noted the extensive outreach activities carried out, including public roundtable meetings, consultations with IFRS Foundation bodies, the setting up of an advisory Insurance Working Group, and extensive fieldwork. The Committee noted that at its February 2016 meeting, the IASB considered whether further re-exposure was necessary and concluded it was not. The Committee's May 2016 meeting report noted that the Committee was satisfied with the decision not to re-expose, and confirmed that all necessary due process steps had been followed and its review of due process on this project was complete.</p>		
	<p>AcSB Exposure Draft issued September 2010 – 1 response.</p> <p>AcSB Exposure Draft issued September 2013 – 11 responses.</p> <p>Response summary and other information demonstrating the completion of Step 3 reviewed by the AcSB as part of the January 2018 balloting material.</p>	<p>Following the IASB's 2010 Exposure Draft, the AcSB:</p> <ul style="list-style-type: none"> • sought the advice of its User Advisory Council 4 times, and its Insurance Accounting Task Force 14 times; • held 6 public roundtables; • arranged 15 meetings between Canadian stakeholders and the IASB; • was represented by one of its members at a public roundtable held by the FASB on its insurance contracts proposals; • arranged a meeting between Canadian stakeholders and FASB members; • met 5 times with groups of insurance-industry stakeholders; • met 5 times with industry associations; • met 7 times with prudential regulators; • facilitated the participation of a Canadian insurer in the field testing conducted by the IASB on certain aspects of its proposals and reviewed the results with the IASB; and • performed 5 additional outreach activities, including meeting with a national standard setter to discuss the IASB's proposals, meeting with banking-industry subgroups to raise awareness of the proposals, and promoting an IASB webinar aimed at the Canadian investor community.

Footnotes

1 The AcSB Due Process Manual describes the AcSB's process for endorsing IFRS Standards.

2. The AcSB has undertaken to add to Part I certain basis for conclusions documents and other non-authoritative material issued by the IASB to accompany a particular IFRS Standard. The Board is doing so in phases, beginning with non-authoritative material relating to complex standards that have taken or will take effect soon. As of July 2018, all non-authoritative material the IASB issued to accompany IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases* and IFRS 17 *Insurance Contracts* has been added.

3. The term "IFRS Standards" includes IFRS Standards as issued by the IASB, International Accounting Standards (IAS® Standards) as issued by the IASB's predecessor, the Board of the International Accounting Standards Committee, and adopted by the IASB upon its inception, and Interpretations developed by the IFRS® Interpretations Committee (previously named the International Financial Reporting Interpretations Committee (IFRIC) or its predecessor, the Standing Interpretations Committee (SIC)).

4 *The IFRS for SMEs* Standard is a self-contained standard designed by the IASB to meet the needs and capabilities of small and medium-sized entities. The AcSB decided against endorsing the SMEs Standard for application by private enterprises. Instead, the Board developed the accounting standards for private enterprises set out in Part II of the Handbook.

5 The IASB redeliberates its proposals in accordance with its due process after considering comments received from the public, including those from Canadians. As part of its redeliberation process, the IASB considers whether changes to its proposals are necessary, and where changes are made, whether re-exposure is necessary. As a result of the summaries described in paragraphs 11(a)-(b), the AcSB knows about the key issues Canadians raised and the results of IASB redeliberations pertaining to those issues.

6 The IFRS Discussion Group is chaired by an AcSB member, who provides feedback directly to the AcSB.

7 The AcSB Insurance Transition Resource Group is chaired by an AcSB member, who provides feedback directly to the AcSB.

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