



TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER

BULLETIN NO.: F19 – 087

DATE: NOVEMBER 21, 2019

SUBJECT: IFRS 17 – Implementation Issues (FA)

A copy of this bulletin should be provided to your Chief Financial Officer and Appointed Actuary.

Key Takeaways

- several IFRS 17 issues related to member accounting for their rights and obligations arising from member participation in the Facility Association have been identified and researched, with 5 primary issues briefly outlined in this bulletin and with more detail available on the FA website

[IFRS 17 Research](#)

- one issue in particular has been a significant focus – this is listed as issue 3 (ADD-06) in this bulletin
 - under current IFRS 4, RSP transactions are treated as direct transfers, whereas under IFRS 17, at least some would not meet the requirements of this treatment (specifically, that the original issuing insurer's rights and obligations must be extinguished in order to qualify as a transfer) and so would need to be treated as reinsurance (in fact, all RSP transactions could be treated as reinsurance)
 - for several reasons, a consensus for consistent treatment among members is viewed as necessary
 - FA management and the FA Accounting Committee will offer a 1-hour member call to discuss this issue in more detail and to reach such a consensus

11:30am EST Thursday Nov 28, 2019

call in details:

Canada (Toll Free): 1-888-455-1389, Canada: +1 (647) 497-9391
Access Code: 750-655-293

GoToMeeting details:

Please join my meeting from your computer, tablet or smartphone.
<https://global.gotomeeting.com/join/750655293>

Bulletin F19-087
IFRS 17 – Implementation Issues (FA)

One of the primary roles management at the Facility Association (FA) has is to ensure that our members receive the data and information that they need, when they need it, and in the format they need, to properly account for their rights and obligations arising out of FA operations. More specifically, FA's role is to ensure that FA members receive data / information that is:

- useful (i.e. understandable, relevant),
- timely (i.e. in time such that action may be taken),
- reliable (i.e. complete, accurate, and verified),
- comparable (over time and against industry / accounting standards), and
- at the level of detail, frequency, and format to support members' needs.

In addition, FA management determines how the results of the FA operations are to be shared among the FA members (as per the FA Plan of Operation), and prepares advisory / auditable financial statements of the FA operations to allow for aggregation and reconciliation of operating results.

FA management has been working with members (particularly specific Working Groups and various Committees) to prepare for the implementation of IFRS 17 (Insurance Contracts), identifying several key issues to be addressed on behalf of, or brought before, the FA members.

We have summarized several key issues on the pages that follow, and ask that you review and provide feedback, as final resolution of these issues will directly affect your company when IFRS 17 comes into force.

One issue in particular will represent a *change in accounting treatment for the RSPs* if undertaken as indicated in our research – the change would have the RSPs accounted for as reinsurance transactions, as opposed to transfers under the current accounting treatment. In our polling, two-thirds of members strongly preferred continuing with transfer accounting, with the remaining one-third indicating indifference (none were specifically in favour of the reinsurance treatment). Given this, FA management will hold an information session for members as scheduled on the previous page to discuss the findings and conclusions. Ultimately, we believe the members need to arrive at a consensus on this issue.

Should you require any further information related to IFRS 17 as it applies to FA, please call Shawn Doherty, Senior Vice President Actuarial & CFO at (416) 644-4968.

Saskia Matheson
President & CEO

Related link: [IFRS 17 Research](#)

Based on research completed during 2018 and into 2019, 7 priority issues arose that FA management had targeted as high priority for resolution. Five of these issues are summarized below, with more detail available per the links to the FA website (of the remaining two, one is still being researched, and the other has been handed over to IBC as being an issue more broadly affecting the P&C industry).

[IFRS 17 Research](#)

Issue 1 (ADD-04 – Is FA a Joint Arrangement?)

The nature of the FA as an organization arose during IFRS 17 research, to ensure that members would have support to properly account for their share of FA operations. Through this research, it was confirmed that for accounting purposes, **FA is NOT a Joint Arrangement**, as defined by IFRS 10 (Consolidated Financial Statements) and IFRS 11 (Joint Arrangements).

(This issue relates to the general nature of how members would account for their participation in the FA, whereas issue 2 below considers whether IFRS 17 applies, and issue 3 considers whether the RSPs should be treated as direct or as reinsurance.)

Notwithstanding the above, our conclusion is that the current approach, where members account for their share of FA administered mechanisms, as if they were joint operators (and hence book their share via IFRS 17) is appropriate and preferable to a joint venturer treatment. (Under the latter, members would account for their share of the FA administered mechanisms on an equity basis, rather than sharing on a full balance sheet / full profit & loss basis.)

We do not believe any additional action is required by individual members, although members may wish to confirm these conclusions on their own.

Issue 2 (ADD-01 – Are FA Mechanisms Insurance?)

Working with member representatives, FA management considered the nature of insurance contracts in relation to the various FA administered residual market mechanisms, to ensure that there are insurance contracts identifiable in relation to IFRS 17. Otherwise, IFRS 17 would not apply, and FA members would be required to account for their rights and obligations arising from participation in the FA under different IFRS, such as IFRS 15 (Revenue from Contracts with Customers) or IFRS 9 (Financial Instruments).

For the **Facility Association Residual Market (FARM)**, FA management concluded that the insurance contract policyholder is the underlying owner/operator/purchaser of the insurance contract. The insurance risk is **directly transferred to the FA members** through the obligations imposed on FA members through the FA Plan of Operation. That is, none of the FARM agent/brokers, FA Servicing Carriers, or FA itself are considered the contract issuer, but rather the FA membership (as a collective) is the contract issuer. This view is consistent with the current accounting practice for the FARM.

For the **Risk Sharing Pools (RSPs)**, FA management concluded that the insurance contract policyholder is the underlying owner/operator/purchaser of the insurance contract, initially transferring their insurance risk to an FA member company. A second transaction transfers this insurance risk (in whole or in part), through the Risk Sharing Pools, to the FA membership. (Issue 6 / ADD-06 addresses the nature of the RSP insurance transactions as transfers vs. reinsurance.)

For the **Uninsured Automobile Funds (UAFs)**, FA management concluded that the insurance contract policyholders are members of the public not insured under an automobile insurance contract and who have no other insurance, or who have other insurance that proves to be inadequate and who derive their rights

to compensation through the Insurance Acts of the applicable jurisdictions. Their insurance risk arises from being exposed to suffering injury or loss in an automobile accident where the at-fault party is uninsured and unable to fully compensate the claimant for their injury or loss. This insurance risk is transferred through the FA via the respective Insurance Acts **directly to the FA members** (as the collective) through the obligations the FA Plan of Operation imposes on FA members. That is, the FA membership (as a collective) is the contract issuer. Note that while there is no formal contract issued, the contractual relationship arises from law. This view is consistent with the current accounting practice for the UAFs.

No specific member action is required in relation to the above conclusions.

Issue 3 (ADD-06 – RSPs as transfers vs reinsurance)

This issue considered the question of whether the appropriate accounting treatment by members for the RSPs is “transfer” or “reinsurance” under IFRS 17?

This issue was the most contentious, with FA member representatives generally indicating a very strong preference to maintain the current treatment as a transfer (i.e. as negative direct for the member putting the insurance risk to the RSP, as positive direct to members receiving their share of the results).

All insurance involves transfer of insurance risk, and so use of the word transfer can cause some confusion. The issue here is whether the entire underlying insurance contract is transferred to the FA member collective such that the original issuing member has extinguished their obligations to that contract, or if only a portion of the insurance risk (i.e. not the entire insurance contract) is being transferred. If it is the former, then transfer accounting can be used – if not, the transaction must be treated as reinsurance.

The issue was taken to a network group of auditors who reached a consensus view that:

- all of the RSPs can be accounted for as reinsurance transactions (i.e. regardless of whether the transaction involves transferring insurance risk associated with a portion of an insurance contract or the entire contract);
- because the lowest unit of account under IFRS 17 is the insurance contract, RSPs as transfers would only be an option if a legal opinion is provided by individual members to support the position that their transactions to the applicable RSP apply to the insurance policy as a whole and that their obligations after completing the transaction are completely extinguished; and
- due to the 15% retention on all risks related to the Ontario RSP, these transactions would not be eligible as transfers (the other RSPs would require members to transact only whole policies, and not individual vehicles under a policy as well as obtaining the legal opinion as per the previous bullet).

FA management is in the process of seeking informal input from OSFI on capital issues that may arise if RSPs are treated as reinsurance, rather than transfers. Additionally, FA management will be looking into potential impacts related to premium taxes and health / other levies.

Member action now is to review the paper and the conclusions, and potentially take action. Ultimately, the FA membership will need to reach a consensus on this issue. FA management is arranging for a member call to present the research findings and provide a forum for reaching consensus.

Issue 4 (ADD-02 – Determination of Insurance Contract Issue Date)

This issue dealt with how **issue date** for insurance contracts administered by FA on behalf of its members

is to be defined for IFRS 17 application.

FA management recommends that issue date be defined as the date that the insurance contract issuer accepts the obligations associated with a transfer of insurance risk from the other party in the contract (the policyholder). With this definition, FA management believes that current data provided by Servicing Carriers (for FARM) and RSP user member companies (for RSPs) suffice for the determination of issue date associated with individual transactions in relation to insurance contracts administered by FA on behalf of its membership.

Member action now is to confirm this approach is reasonable and will meet the membership’s needs.

Issue 5 (ADD-05 – Can FA determine Fulfillment Cash Flows for Members?)

IFRS 17 introduces approaches and specificity about the level of aggregation of insurance contracts for purposes of recognition, measurement, and presentation. FA management’s research has found there to be a substantial number of accounting options and choices available related to insurance contract grouping and measurement. As a result, FA management has concluded that the Member Statement reports currently provided to members (Participation Reports and Operational Reports) cannot be adequately updated such that the majority of FA members would be able to directly use those reports without modification to account for their share of results of the FA administered residual market mechanisms. In particular, we believe that the following all provide barriers to this end:

- 1) issue date-grouping of insurance contracts;
- 2) profitability-determined grouping of insurance contracts;
- 3) the determination of the applicable discount rate; and
- 4) the determination of the applicable risk adjustment for non-financial risk.

As such, we believe the primary focus of Member Statement reporting in a post-IFRS 17 world should be on providing members with nominal values to incorporate into their insurance contract groups as appropriate, leaving IFRS 17 specific accounting to members as they account for their rights and obligations arising from their participation in the activities of FA.

Member action now is to confirm this approach is reasonable and will meet the membership’s needs.