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# OSFI Issues Final Advisory for Early Adoption of IFRS 9 *Financial Instruments* for Domestic Systemically Important Banks

On January 9, 2015 the Office of the Superintendent of Financial Institutions ("**OSFI**") issued the final version of its advisory with respect to the early adoption of IFRS 9 for Domestic Systemically Important Banks ("**D-SIBs**") requiring that D-SIBs adopt IFRS 9 for the annual period beginning on November 1, 2017. The banks determined by OSFI to be D-SIBs are the six largest banks in Canada, namely: Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada, and Toronto-Dominion Bank of Canada. Smaller, less systemic Federally Regulated Entities ("**FREs**") with annual periods ending October 31, 2017 can choose to adopt the standard on November 1, 2017 or wait until January 1, 2018 when all FREs with annual periods beginning January 1, 2018 are required to adopt the standard.

IFRS 9 is a more forward-looking approach that replaces the previous incurred loss model, known as IAS 39. IAS 39 has been widely criticized and implicated as contributing to the global financial crisis of 2008 through the delayed recognition of credit losses on loans and other financial instruments. The final version of IFRS 9 was published by the International Accounting Standards Board ("**IASB**") in July, 2014. It aims to improve issues arising from the method of accounting for financial instruments, simplify the existing rules and enhance investor confidence in the financial system in Canada. More specifically, IFRS 9 introduces a new model of classification and measurement, new evaluation criteria of expected losses and new rules for the recognition of derivatives.

The replacement of IFRS 39 with IFRS 9 was a key project for the IASB. Its implementation, once complete, is expected to represent a milestone achievement with respect to the ability of financial institutions to react more quickly to changes in the marketplace. However, implementation of this new accounting standard is not an easy task and will require, in most cases, a complete overhaul of current accounting systems. In requiring that D-SIBs achieve implementation before FREs, OSFI is placing reliance on D-SIBs to work out any implementation hurdles before smaller FREs are put in the hot seat. Unfortunately for D-SIBs, it appears that they are being asked to do this in relative darkness. OSFI indicates that it is working with international peer regulators to obtain guidance from the Basel Committee on Banking Supervision with respect to the implementation and operation of IFRS 9. In the meantime, a discussion forum called the IFRS Transition Resource Group for Impairment of Financial Instruments ("**ITG**") has been set up to explore implementation issues and forwarding these issues to the IASB for consideration. The ITG will not itself issue any guidance.

Since financial markets are globally integrated, the full potential of IFRS 9 will not be realized unless a consistent implementation of similar regulatory changes is achieved internationally. In this regard, Canada's early implementation of IFRS 9 will make it a global leader. At present, it appears that the European Union may delay its endorsement of IFRS 9. As for the United States, the Financial Accounting Standards Board continues to deliberate on the model that will eventually be implemented.

Although critics are quick to point out that inconsistent models implemented at different times across jurisdictions will present a challenge for investors and increased costs for financial institutions who may need to prepare figures based on both or perhaps several accounting models, the implementation of IFRS 9 in Canada is the result of a lengthy and complex international effort that is expected to enhance the transparency and financial stability of our markets and protect us from another financial crisis.

by Darcy Ammerman and Pat Forgione

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## a cautionary note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.