



Deloitte's digest
An overview of
standard-setting activities



April 30, 2012

At a time when it has become a difficult task to keep up to date with the recent developments in standard-setting activities, the Deloitte Digest presents a useful single source of reference for current financial reporting developments.

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Summary by standard

From time to time, standard-setters and regulators issue new rules and standards that affect your financial reporting. This document briefly describes these pronouncements and other regulatory and professional developments and indicates their effective date, transition application and entities affected.

At the time of publication, the external links included in this page were active. However, if the documents on the hosting site have been subsequently modified, moved or archived, these external links may no longer work. If you need to locate a specific document and/or external site listed on this page that is no longer active, please contact us.

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Final standards



OSFI Capital Adequacy - Insurers

OSFI Paper: Evidence for Mean Reversion in Equity Prices

Effective date: Immediately

Standard: N/A - OSFI Paper: Evidence for Mean Reversion in Equity Prices

Transitional provisions: Effective immediately

Published by: OSFI

Last updated: March 2012

Applicable to: Federally regulated insurers

Recent activities

On March 26, 2012, OSFI published a paper with respect to use of a mean reversion in equity prices assumption in internal models to calculate segregated fund guarantee reserve and capital requirements. Per the paper, such an assumption may not be used.

In summary

In simplest terms, mean reversion refers to any negative correlation between stock price movements in one period and subsequent periods. If such a correlation exists, then it will be possible to predict, with better-than-even accuracy, how stock prices will move in a given period based on how the prices moved during prior periods. Thus, if a stock showed a below-average return during one period and its price movements were mean reverting, then the price would be more likely than usual to show an above-average return during the subsequent period.

Given the large reduction in segregated fund guarantee reserve and capital requirements that would result from assuming mean reversion in equity returns, OSFI has concluded that it would not be prudent to approve equity return models that are based on the assumption of mean reversion without strong evidence that mean reversion actually occurs in the market and is likely to continue in the future.

Since the current state of research does not provide such evidence to a sufficiently high degree of certainty, OSFI will not accept such an assumption in an internal model.

Available resources and links

- [Accompanying letter](#)
- [OSFI Paper, Evidence for Mean Reversion in Equity Prices](#)

OSFI Prudential Requirements – Defined Benefit Pension Plans

Instruction Guide – Actuarial Reports ^{NEW}

Effective date: April 10, 2012

Standard: Defined Benefit Pension Plans Instruction Guide – Actuarial Reports

Transitional provisions: Effective April 10, 2012

Published by: OSFI

Last updated: April 2012

Applicable to: Federally regulated defined benefit pension plans

Recent activities

On April 10, 2012, OSFI issued an Instruction Guide to inform the pension industry of its current filing and reporting requirements for actuarial reports in respect of defined benefit plans.

In summary

The Office of the Superintendent of Financial Institutions (OSFI) has issued this Instruction Guide to inform the pension industry of its current filing and reporting requirements for actuarial reports in respect of defined benefit plans filed pursuant to subsection 12(2) of the Pension Benefits Standards Act, 1985 (PBSA).

This guide comes into force immediately and replaces the draft guide that was issued in May 2011. The Instruction Guide includes updates to reflect:

- new legislative and regulatory requirements;
- changes to Canadian Institute of Actuaries Standards of Practice – Practice-Specific Standards for Pension Plans (CIA Standards);
- OSFI policies published since March 2009; and
- other issues that have emerged during the past 3 years.

OSFI expects actuaries to follow the CIA Standards and to consider the recommendations contained in the Educational Notes when preparing actuarial reports. OSFI relies on the actuary's work, but may direct the plan administrator to have an actuarial report revised if in the Superintendent's opinion the report has not been prepared:

- on the basis of actuarial assumptions or methods that are adequate and appropriate; and
- in accordance with the standards of practice adopted by the Canadian Institute of Actuaries (CIA), except as otherwise specified by the Superintendent.

The Instruction Guide does not address the reporting of information specific to plan terminations, conversions, asset transfers or amendments reducing benefits. The Guide also does not address specific reporting requirements relative to any temporary funding relief regulations or the transitional provisions relating to the new funding rules that came into effect on July 1, 2010. Guidance detailing report content requirements for these events are available on the OSFI website. Requirements related to the distressed pension plan workout scheme are also not addressed in the Guide and can be found beginning in section 10.1 of the Pension Benefits Standards Regulations, 1985 (PBSR).

It is recommended that stakeholders consult the OSFI website for any future notices or publications which may pertain to the valuation of defined benefit pension plans.

Available resources and links

- [Accompanying Letter](#)
- [Instruction Guide](#)

OSFI Returns Instructions – Insurers

Updates to Life/P&C Returns and Instructions for 2011 and 2012

Effective date: October 2011

Standard: Annual Update to Life/P&C Returns and Related Instructions for 2011 and 2012

Transitional provisions: Effective October 2011

Published by: OSFI

Last updated: February 2012

Applicable to: Federally Regulated Insurance Companies

Recent activities

In summary

On February 10, 2012, OSFI advised that, other than by Alberta provincial insurers, certain pages (i.e. pages 95.010 and 95.020) in the Life 1 – 2012 Interim Return need not be completed during 2012. The relevant pages relate to analyses of premiums, benefits paid and dividends and experience rating refunds.

On October 3, 2011, OSFI published its annual updates to the Life/P&C returns and related instructions. The changes to the annual returns are effective for Q4/2011 and the changes to the quarterly returns are effective for Q1/2012.

Available resources and links

- [OSFI Update \(February 2012\)](#)
- [Federally Regulated Canadian Life Insurance Companies and Fraternal Benefit Societies and branches of foreign Life Insurance Companies and Fraternal Benefit Societies](#)
- [Federally Regulated Canadian and Foreign Property and Casualty Insurance Companies](#)

OSFI Prudential Requirements – Deposit-Taking Institutions

Guideline B-6 (Revised) – Liquidity Principles

Effective date: February 28, 2012

Standard: Guideline B-6 (Revised): *Liquidity Principles*

Transitional provisions: Effective on issuance

Published by: OSFI

Last updated: February 2012

Applicable to: Federally Regulated Deposit-Taking Institutions

Recent activities

On February 28, 2012, OSFI issued its revised Guideline B-6, *Liquidity Principles*.

In summary

Guideline B-6 was previously most recently issued by OSFI in December 1995 and set out prudential considerations relating to the liquidity risk management of federally regulated deposit-taking institutions (DTIs).

The 1995 Guideline does not reflect the recently updated international best practices on liquidity risk management as conveyed in the Basel Committee on Banking Supervision's (BCBS) Principles for Sound Liquidity Risk Management and Supervision, issued in late 2008. OSFI did, however, release an advisory in early 2009 that stated its expectations around DTIs' adoption of the updated BCBS principles specifically that in addition to meeting the minimum standards of the existing Guideline B-6, DTIs should also comply with the BCBS principles.

The objective of the revisions to Guideline B-6 is to incorporate the revised principles enunciated in the BCBS's document into domestic guidance on expected liquidity risk management practices for DTIs in Canada.

OSFI released a draft revised Guideline B-6 for public consultation in November 2011 for a period of six weeks. Where relevant, revisions were incorporated in the final version of the Guideline.

The revised Guideline is effective on issuance.

Available resources and links

- [Accompanying Letter](#)
- [Impact Analysis \(February 2012\)](#)
- [Revised Guideline B-6 \(February 2012\)](#)

OSFI Prudential Requirements – General

Guideline B-10: Reminder of the need to comply with this Guideline in respect of new technology-based outsourcing arrangements

Effective date: February 29, 2012

Standard: Guideline B-10, *Outsourcing of Business Activities, Functions and Processes*

Transitional provisions: Immediately

Published by: OSFI

Last updated: February 2012

Applicable to: All Federally Regulated Financial Institutions

Recent activities

On February 29, 2012, OSFI issued a reminder of the need to comply with Guideline B-10, *Outsourcing of Business Activities, Functions and Processes*, in respect of new technology-based services such as Cloud Computing.

In summary

In March 2009, OSFI issued its revised Guideline B-10, *Outsourcing of Business Activities, Functions and Processes*. This Guideline sets out OSFI's expectations for FRFIs that outsource, or contemplate outsourcing, thereby assisting FRFIs with the design of an appropriate outsourcing risk management program.

OSFI's Reminder Notice dated February 29, 2012 reminds FRFIs that Information technology plays a very important role in the financial services business and OSFI recognizes the opportunities and benefits that new technology-based services such as Cloud Computing can bring; however, FRFIs should also recognize the unique features of such services and duly consider the associated risks.

As such, and in light of the proliferation of new technology-based outsourcing services, OSFI is reminding all FRFIs that the expectations contained in Guideline B-10 remain current and continue to apply in respect of such services. In particular, FRFIs should consider their ability to meet the expectations contained in Guideline B-10 in respect of a material arrangement, with an emphasis on i) confidentiality, security and separation of property, ii) contingency planning, iii) location of records, iv) access and audit rights, v) subcontracting, and vi) monitoring the material outsourcing arrangements.

OSFI considers the management of outsourcing risks important to ensuring that FRFIs continue to be managed prudently and OSFI will be monitoring this issue as part of its ongoing supervisory work.

Available resources and links

- [OSFI Reminder \(February 2012\)](#)
- [OSFI Guideline B:10](#)

Proposed standards



OSFI Prudential Requirements – General

Draft Guideline B-20 – Guideline for Residential Mortgage Underwriting Practices and Procedures

Comment period ended on May 1, 2012

Proposed standard: Guideline B-20 – *Guideline for Residential Mortgage Underwriting Practices and Procedures*

Proposed effective date: Not specified

Published by: OSFI

Last updated: March 2012

Applicable to: All FRFIs

Recent activities

On March 19, 2012, OSFI has issued for comment draft Guideline B-20, *Guideline for Residential Mortgage Underwriting Practices and Procedures*.

In summary

Draft Guideline B-20, *Guideline for Residential Mortgage Underwriting Practices and Procedures*, sets out OSFI's expectations with respect to prudent residential mortgage underwriting practices and procedures.

For the purpose of this Guideline, a "residential mortgage" includes any loan to an individual that is secured by residential property (i.e., one to four unit dwellings). Home equity lines of credit (HELOCs), equity loans and other such products that use residential property as security are also covered by this Guideline.

The Guideline articulates five fundamental principles for sound residential mortgage underwriting. The first principle relates to FRFI governance and the development of overarching business objectives, strategy and oversight mechanisms in respect of residential mortgage underwriting, purchasing and/or insurance, as follows:

Principle 1: FRFIs that are engaged in residential mortgage lending, purchasing and/or insurance should have a comprehensive, Board-approved Residential Mortgage Underwriting Policy (RMUP). Residential mortgage practices and procedures of FRFIs should comply with their established RMUP.

The next three principles focus on the residential mortgage credit decision and the underwriting process, specifically, the assessment of: The borrower's identity, background and demonstrated willingness to service their debt obligations on a timely basis (Principle 2); The borrower's capacity to service their debt obligations on a timely basis (Principle 3); and, The underlying property value/collateral and management process (Principle 4), as follows:

Principle 2: FRFIs should perform reasonable due diligence to record and assess the borrower's identity, background and demonstrated willingness to service his/her debt obligations on a timely basis.

Principle 3: FRFIs should adequately assess the borrower's capacity to service his/her debt obligations on a timely basis without causing him/her undue hardship and/or over indebtedness.

Principle 4: FRFIs should have sound collateral management and appraisal processes for the underlying

mortgage properties.

These three principles should be evaluated by lenders in a holistic manner. The borrower's demonstrated willingness and capacity to service their debt obligations on a timely basis should, fundamentally, be the primary basis of a lender's credit decision. Undue reliance on collateral can pose challenges, as the process to obtain title to the underlying property security can be traumatic for the borrower and costly to the lender.

The fifth principle addresses the need for mortgage underwriting and purchasing to be supported by effective credit and counterparty risk management, including, where appropriate, mortgage insurance.

Principle 5: FRFIs should have effective credit and counterparty risk management practices and procedures that support residential mortgage underwriting and asset portfolio management, including, as appropriate, mortgage insurance.

The final section of the Guideline summarizes disclosure and supervisory requirements.

Available resources and links

- [Accompanying Letter](#)
- [Draft Guideline B-20](#)

OSFI Prudential Requirements – Insurers

Amendments to Guideline E-15 - Appointed Actuary: Legal Requirements, Qualifications and Peer Review

Comment period ends on March 31, 2012

Proposed standard: Amendments to Guideline E-15 - *Appointed Actuary: Legal Requirements, Qualifications and Peer Review*

Proposed effective date: Not specified

Published by: OSFI

Last updated: February 2012

Applicable to: All federally regulated insurers

Recent activities

On February 16, 2012, OSFI has issued a draft revised version of Guideline E-15 - *Appointed Actuary: Legal Requirements, Qualifications and Peer Review*.

In summary

Guideline E-15, was originally issued in 2003 and introduced the concept of external peer review of the work of the Appointed Actuary. While this concept has become generally accepted over the last eight years by insurance companies, Appointed Actuaries and the actuarial profession, OSFI is of the view that the full value is not being realized from the process in assisting OSFI with its review of insurance companies.

In addition, OSFI recently amended its Supervisory Framework. Key among the changes was a revision to how OSFI makes use of the work performed by the Appointed Actuary. These changes led to a determination that the work of the external peer reviewer should be enhanced.

Draft revised Guideline E-15, which applies to Canadian Insurance Companies, including Fraternal Benefit Societies, and Canadian Branches of Foreign Insurance Companies, including Fraternal Benefit Societies, sets out OSFI's revised expectations for peer review. The prime areas for improvement were identified as follows:

- While the general objectives of the existing guideline remain valid, the focus of actuarial review should be on the complementary nature of its objectives to: (a) aid OSFI in assessing the actuarial function in the insurer; (b) act as a consultation aid to AA's; and (c) provide significant professional education to AAs.
- The reporting to OSFI needs to be enhanced to better facilitate understanding of the value added by the external review process;
- The review work should concentrate on the elements of the Appointed Actuary's work that affect the financial statements and the assessment of the company's future financial condition;
- Review of other work by the Appointed Actuary need no longer be reviewed;
- The rules defining reviewer objectivity should be revised to enable additional knowledgeable and experienced individuals to qualify to perform the work;
- While the basic 3-year cycle should be continued, there should be annual reporting on material changes in methodology and assumptions;
- Financial condition reporting (e.g., DCAT/stress testing/ORSA) should be reviewed annually;

-
- Reviews should be pre-release for life companies, and pre-release should be encouraged for P&C companies; and
 - The process should be changed and referred to as “peer review”.

The revised draft Guideline E-15 addresses the above issues by amending the requirements of the review processes.

Available resources and links

- [Accompanying letter](#)
- [Draft of Revised Guideline E-15](#)
- [Impact analysis](#)

Abbreviations, a list of most commonly used acronyms

AASB	Auditing and Assurance Standards Board
AASOC	Auditing and Assurance Standards Oversight Council
AcSB	Accounting Standards Board
ASC	Alberta Securities Commission
AMF	Autorité des marchés financiers
BCSC	British Columbia Securities Commission
CAS	Canadian Auditing Standard
CPRB	Canadian Performance Reporting Board
CSA	Canadian Securities Administrators
DP	Discussion Paper
ED	Exposure Draft
EIC	Emerging Issues Committee
FAQ	Frequently Asked Questions
FRE	Federally Regulated Entities
OSC	Ontario Securities Commission
OSFI	Office of the Superintendent of Financial Institutions Canada
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IAASB	International Auditing and Assurance Standards Board
IASC	International Accounting Standards Committee
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
IIROC	Investment Industry Regulatory Organization of Canada
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standard on Auditing
ITC	Invitation to Comment
PSAB	Public Sector Accounting Board
SOP	Statement of Principles

Additional resources

The following Deloitte resources will assist you in maintaining your financial literacy throughout the year. To obtain more information about any of these resources, please communicate with your Deloitte partner or one of our contacts listed at the end of the publication.

Thought Leadership

Centre for Corporate Governance

This Web site is specifically designed to help board members with their responsibilities. It provides the latest information on regulatory and legislative developments, accounting and financial reporting, board roles and responsibilities, and best practices.

(www.CorpGov.Deloitte.ca)

Deloitte IFRS e-Learning Program for Directors™

This learning program provides the flexibility of individual self-study, with the option of group sessions facilitated by a Deloitte IFRS professional.

(http://www.corpgov.deloitte.com/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/CanEng/Page%20Copy/Financial%20Reporting/IFRS/IFRS_eLearningForDirectors.pdf)

Financial Reporting Assessment Tools

Comprehensive assessment tools to help management and Directors determine whether or not their organizations' financial statements and other financial filings meet all of the continuous disclosure obligations.

(<http://www.corpgov.deloitte.com/site/CanEng/self-assessments-tools-and-other-resources/financial-reporting-tools/>)

Periodicals

IFRS in Focus

We publish *IFRS in Focus* newsletters at the time of release of new and revised Standards and Interpretations, Exposure Drafts and discussion documents, including summaries of the documents and consideration of the principal amendments/proposals.

(<http://www.iasplus.com/en/tag-types/global-publications/ifrs-in-focus-newsletters>)

DeloitteLINK

A weekly e-newsletter that helps you stay on top of standard-setting initiatives.

(<http://www.corpgov.deloitte.com/site/CanEng/deloitte-periodicals/deloittelink/>)

Deloitte Update

Our new live webcast series featuring our professionals discussing critical issues that affect your business.

(<http://www.corpgov.deloitte.com/site/CanEng/financial-reporting/deloitte-update/>)

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This document serves merely as a summary; for more detailed information, readers should consult the original document. No measures should be taken without prior consultation with your professional advisor.

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