

TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER

BULLETIN NO: F2022-086

DATE: November 11, 2022

SUBJECT: IFRS 17 FARM TRANSITIONAL ADJUSTMENTS

Facility Associational Residual Market (FARM) (Consolidated) Impact of transition to IFRS 17 on Opening Balance Sheet as at November 1, 2021.

Background

As FA progresses towards adoption of IFRS 17, we would like to provide an update on the estimated IFRS 17 amounts on the financial statements of FARM at the transition date in 2021. The intent of this is so that members can understand the overall impact that the adoption of the standard has on FARM. Member statements that contain IFRS 17 amounts by individual companies are available on the FA Portal together with the normal operating results.

The following document provides a detailed outline of the impact of the transition as of November 1, 2021 compared to the audited amounts as of October 31, 2021. (Important to note the expected impact is on an unaudited basis);

- Balance Sheet – compares the Member Reporting as of October 31, 2021 and impact of IFRS 17 adjustments on each line item.
- Liability for Remaining Coverage (LRC) – details of the components of the LRC, a new account and term introduced by the standard.
- Liability for Incurred Claims (LIC) – details of the LIC, (concept is similar to the Provision for Claims Liabilities under IFRS 4).
- Funds Held by Members – As the FARM is a legal structure and has no retained earnings, the net impact of IFRS 17 adjustments is passed on to Members.

Appendix A provides the expected impact in amounts.

SUMMARY OF IMPACT OF ADOPTION:

Liability for remaining coverage (LRC)

Defined by IFRS 17 (Standard reference - Appendix A – Defined Terms) and a new term introduced by the standard;

*“An entity's obligation to investigate and pay valid claims under existing insurance contracts for insured events that have **not yet occurred** (ie the obligation that relates to the unexpired portion of the coverage period)”.*

The FARMS's LRC balance comprises of two major components

LRC (excluding loss components)

- Unearned premium received – IFRS 17 requires that only premium received be recorded, which is a change from the current practice of recording premium when written. FARM collects premium from members each month, with some policy holders paying full at the time of the policy date and some policy members on a monthly pay plan. Premium received in each month is estimated as being equal to the premium written in the current month for all provinces except Ontario and Newfoundland where private passenger vehicle policies also have monthly pay plans. For monthly pay plans, premium received is recognised as cash is collected each month.
- Insurance acquisition cashflows. Unamortised insurance acquisition cash flows (comprising of agent commissions and driver record abstract costs) are amortised and expensed monthly.

Loss Component (Onerous Contracts)

As required by IFRS 17, the pools are required to review future operations. No onerous contracts have been set up as FARM does not expect them based on forecasts over the next 2 years.

LIABILITY FOR INCURRED CLAIMS (LIC)

Defined by IFRS 17 (Standard reference - Appendix A – Defined Terms) as

*“An entity's obligation to investigate and pay valid claims for insured events that have **already occurred**, including events that have occurred but for which claims have not yet been reported, and other incurred insurance expenses”.*

FARM's LIC balance has changed for two assumptions which are different to IFRS 4.

DISCOUNTING

While the concept of discounting has not changed, the discount rate has. FARM applied a Risk-Free rate under IFRS 4 and has determined that the discount rate under IFRS 17 is the Risk-Free rate plus an Illiquidity premium. This has resulted in a higher discount rate applied to the claims liabilities. This is outlined on the FA website: [Policy Paper on Discount Rate](#)

RISK ADJUSTMENT

The risk adjustment replaces the Provision for Adverse Deviation under IFRS 4. IFRS 17 calculation of the risk adjustment have resulted in a lower rate applied to claims liabilities.

FUNDS HELD BY MEMBERS

Since FARM is a legal structure, not a legal entity, all transition adjustments are made against Funds Held by Members.

Please note that the numbers in this report are unaudited and subject to change. Members are advised to review the impact on their own records and reach out to their auditors for any clarification on treatment of the FARM mechanism and adjustments.

If you require additional information or have any questions on this report, please send your inquiry to ifrs17@facilityassociation.com.

Saskia Matheson
President & CEO

FACILITY ASSOCIATION

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APPENDIX A

Statement of Financial Position on transition to IFRS 17

As at November 1, 2021

(in thousands of Canadian dollars)

As at November 1, 2021		
IFRS 4		IFRS 17
2021 Audited \$ 000	IFRS 17 adjustments	2021 Restated (UNAUDITED) \$ 000s

Comments

Assets

Cash and cash equivalents	200,634	-	200,634
Premium receivables	105,743	(105,743)	-
Other receivables	29,228	-	29,228
Accounts receivable from other pools	1,364	-	1,364
Accrued investment income	63	-	63
Deferred policy acquisition costs	18,898	(18,898)	-
Funds held by members	646,524	25,857	672,381
Total assets	1,002,454	(98,784)	903,670

Remains the same - no impact from IFRS 17
IFRS 17 no longer requires this - part of LRC.
Remains the same - no impact from IFRS 17
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Remains the same - no impact from IFRS 17
IFRS 17 no longer requires this - part of LRC
See separate sheet for working.

Liabilities

Insurance contract liabilities			
<i>Unearned premium liabilities</i>	249,860	(249,860)	-
<i>Liability for remaining coverage (LRC)</i>		192,903	192,903
<i>Provision for claims liabilities</i>	597,832	(597,832)	-
<i>Liability for incurred claims (LIC)</i>		556,005	556,005
<i>Accounts payable and other liabilities</i>	135,810	-	135,810
<i>Servicing Carrier Operating Fees Payable</i>	18,952	-	18,952
Amounts due to members	-	-	-
Funds provided by members	-	-	-
Total liabilities	1,002,454	(98,784)	903,670

Terminology no longer exists - now called LRC
See separate sheet for working

Terminology no longer exists - now called LIC
See separate sheet for working

Remains the same - no impact from IFRS 17
Remains the same - no impact from IFRS 17
Now netted against Funds held by members
Now netted against Funds held by members

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(in thousands of Canadian dollars)

As at November 1, 2021

		IFRS 4	IFRS 17 Adjustments				IFRS 17	
		2021 (Member Reports)	Removal of premium receivables	Premium received	DPAC	Unamortized insurance acquisition cashflows	2021 Restated (UNAUDITED)	Total change on adoption
Liability for Remaining Coverage (LRC)								
Removal of concepts no longer required under IFRS 17								
	Premium Receivables	(105,743)	105,743				-	
	Deferred Policy Acquisiton Costs (DPAC)	(18,898)			18,898		-	
		-					-	
Changes from adoption of IFRS 17								
LRC (excl Loss Component)							-	
	Unearned Premium	249,412		(37,209)			212,203	
	Unamortized insurance acquisition cashflows					(19,300)	(19,300)	
TOTAL							192,903	
Loss Component (Onerous contracts)								
	Onerous contracts (discounted)						-	
Total	LRC	124,771	105,743	(37,209)	18,898	(19,300)	192,903	67,684

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(in thousands of Canadian dollars)

As at November 1, 2021					
IFRS 4	IFRS 17 Adjustments			IFRS 17	
2021 (Member Reports)	Discounting	Change in Risk Adjustment rate	Discounting on Risk Adjustment	2021 Restated (UNAUDITED)	Total change on adoption
Liability for Incurred Claims (LIC)					
PV FCF				-	
Case Reserves	292,497			293,391	
IBNR (Undiscounted)	205,169			206,301	
Retro Claim Expense (Undiscounted)	34,229			34,229	
Future Cash Flows (FCF)	531,895			533,921	
Discounting adjustments					
Discounting - IBNR & Retro Claims		(28,727)		(28,727)	
Discounting adjustment on FCF	-			(28,727)	
TOTAL - PVFCF	531,895			505,194	
Risk adjustment					
Risk Adjustment (PFAD in IFRS 4) (undiscounted)	63,911	(10,848)		53,063	
Discounting - Risk Adjustments	2,030		(4,282)	(2,252)	
TOTAL	65,941			50,811	
	597,836	(28,727)	(10,848)	(4,282)	556,005
					(43,857)

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(in thousands of Canadian dollars)

Funds held by Members*All adjustments for IFRS 17 are made against**Funds held by Members****Changes from adoption of IFRS 17***

Liability for Remaining Coverage

Liability for Incurred Claims

Total

As at November 1, 2021					
IFRS 4	<i>IFRS 17 Adjustments</i>			IFRS 17	
Balance	<i>Set up of discounting and risk adjustment</i>	<i>Liability for Remaining Coverage</i>	<i>Liability for incurred claims</i>	Balance	<i>Total change on adoption</i>
646,524				646,524	
		67,684		67,684	
	2,030		(43,857)	(41,827)	
646,524	2,030	67,684	(43,857)	672,381	25,857

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