Gearing up for IFRS at LAWPRO

IFRS may be a fairly new subject for most lawyers.

But for LAWPRO, it's been an important focus since the words "International Financial Reporting Standards" were first mentioned several years ago.

Why does a company such as LAWPRO – which is not publicly traded – have to move into an IFRS world from the current GAAP regime? Because we are an insurance company and, as such, are considered to be a "publicly-accountable entity." We collect premiums so members of the "public" (in our case, lawyers under the professional liability program, and purchasers and lenders under the TitlePLUS program) are viewed as having an interest in holding us accountable.

It did not take long for us to realize that this new financial reporting regime would bring changes to the way we account for and present our financial results – and would require a plan of action to ensure we were ready to work in an IFRS world when this new standard came into force.

Educating ourselves about IFRS and its implications for LAWPRO has been made easier by the many articles, backgrounders and education programs that accounting firms have been sending us non-stop for years. Since Canada is following Europe and Australia (among other jurisdictions) in adopting IFRS, we can learn from the experiences of others who have cut their teeth on IFRS elsewhere, and from the many precedents now out there.

So we have our plan of action for moving into the IFRS world: Our Finance group has produced the project structure document, resource assessments and many impact analysis documents, to ensure we stay current with what has turned out to be an evolving topic.

We have been keeping members of our Audit Committee up-to-date with IFRS and its implications for the company. As well, we have been reporting on our preparations for IFRS to our primary regulator, the Financial Services Commission of Ontario, on a semi-annual basis since February 2009. From time to time, this column in LAWPRO Magazine will bring lawyers up to speed with the changes we are making as we move into an IFRS world.

What will change?

As of today, it is hard to say, as IFRS standards evolve over time and the most important standard from our perspective (IFRS 4 - Insurance Contracts) is still being finalized.

What we do know today is that:

- Our December 31, 2011, financial statements must be IFRS-compliant, and the LAWPRO Audit Committee is supervising the transition to a new form of balance sheet, among other presentation changes.
- The notes to our financial statements will be longer under IFRS, as there is a major emphasis on disclosure. Some European insurance companies saw the length of their notes double once they adopted IFRS. So watch for the longer form of financial statements to be released in the spring of 2012; we hope you will find the additional disclosure helpful. Bear with us as we try to balance our ongoing "greening" of LAWPRO against the voluminous notes that we expect to have to produce in our annual report. We've already begun to cut back on printing that report as much as possible – and will look for other options to minimize the number of trees this conversion to IFRS requires.
- It appears that the financial impact for LAWPRO as of the 2011 transition will be minimal (in fact, many of the accounting options offered on transition to IFRS have been pre-determined for the insurance industry by the regulators).
- There will be a further transition date once IFRS 4 is finalized. The impact on insurance companies may be significant at that time. International debate is currently hot and heavy over some very important concepts, such as how insurance companies set the discount rate applicable to analyzing claims reserves. We have described in past articles and reports (see for example, "Financial results explained" in the May/June 2010 issue of LAWPRO Magazine) how the choice of the discount rate (that is, the assumed future interest rate applied by our actuaries to determine how much money we need today to pay claims in the future) can affect whether we need more or less money in our claims reserves. Major tinkering with such concepts, depending on how the debate is resolved, could mean LAWPRO has to move money from shareholder's equity to our claims reserves, for instance. This second transition is likely still a few years away.

Only time will tell if the goal of IFRS – to make companies more financially accountable to their stakeholders – is achieved. We will, however, try to make the transition as painless as possible for all involved and affected – and to continue helping the profession understand its new responsibilities (and potential risk exposure) under IFRS.