



Reference: Banks/BHC/T&L/Co-ops
Life/P&C/Fraternal/IHC

May 11, 2007

To: Banks
Authorized Foreign Banks
Bank Holding Companies
Federally Regulated Trust and Loan Companies
Federally Regulated Cooperative Credit Associations
Federally Regulated Life Insurance Companies
Federally Regulated Property and Casualty Insurance Companies
Insurance Holding Companies
Fraternal Benefit Societies

Subject: Accounting Standards Board Exposure Draft on Employee Future Benefits and Impact on the Adequacy of Capital and Assets Requirements

The Accounting Standards Board (AcSB), with the release of its March 2007 Exposure Draft of proposed accounting standards *Employee Future Benefits (Amendments to Section 3461)*, has indicated its intent to converge Canadian GAAP *Section 3461 Employee Future Benefits* with US GAAP *Statement of Financial Accounting Standards No. 158 Employers' Accounting for Defined Benefit Pension and Other Post-Retirement Plans*.

Under the AcSB proposal, entities will be required to recognize the funded status of defined benefit plans in the balance sheet for fiscal years ending on or after December 31, 2007. OSFI is aware that this proposed accounting standard has the potential to impact the calculation and reporting of adequacy of capital and assets by federally regulated financial institutions (FRFIs).

As a result of their different fiscal year-ends, some, but not all, FRFIs will be required to reflect these accounting changes in their fiscal 2007 year-end financial statements. In order to ensure consistent regulatory treatment among FRFIs and to allow OSFI time to assess the impact of the



final accounting standards, OSFI will delay the impact of these standards to its adequacy of capital and assets requirements for fiscal 2007 and until further notice.

OSFI will assess these changes in consultation with FRFIs over the coming year and plans to issue a Capital Advisory once a decision is reached on how these accounting changes should be reflected for purposes of measuring the adequacy of capital and assets.

Regulatory capital policy questions concerning this letter should be addressed to Paul Melaschenko, Capital Division, at (613) 990-6429, by facsimile at (613) 991-6822 or by e-mail at paul.melaschenko@osfi-bsif.gc.ca. Accounting policy questions should be addressed to Lonny McPherson, Accounting Policy Division, at (613) 990-5727, by facsimile at (613) 991-6822 or by e-mail at lonny.mcpherson@osfi-bsif.gc.ca.

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Regulation Sector