



**FINANCIAL SERVICES AUTHORITY
SAINT VINCENT & THE GRENADINES**

GUIDANCE NOTE: NO. 11

On

FINANCIAL REPORTING AND RELATED MATTERS

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GUIDANCE NOTE ON FINANCIAL REPORTING AND RELATED MATTERS

A. BACKGROUND AND PURPOSE

1. St. Vincent and the Grenadines has adopted the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as its national accounting standards. The IASB issued the final amendments to IFRS 17, Insurance Contracts (IFRS 17) in June 2020. Implementation of IFRS 17, Insurance Contracts (IFRS 17) is effective for annual reporting periods beginning on or after January 1, 2023.
2. The Financial Services Authority (FSA) recognizes that the insurance industry in St. Vincent and the Grenadines would face significant regulatory burden if it were to take no action and make no adjustments to the current regulatory accounting, reporting, and regulatory capital/solvency frameworks. Should the FSA fail to adopt IFRS 17 for regulatory purposes in a timely manner, insurers would face the unnecessary burden of dual reporting. That is, producing their general-purpose financial statements geared to shareholders on one basis and different information in the regulatory returns. Given the vast difference between IFRS 17 and the current framework, insurers would be required to maintain dual valuation, actuarial, accounting and reporting data, and systems. This may result in insurers transferring additional costs incurred to policyholders through higher premiums.
3. Consequently, the FSA does not intend to require dual reporting. This guideline sets out the framework needed for the FSA to adjust its regulatory reporting regime to align with the audited IFRS financial statements prepared by insurers for shareholders and other users. This approach would:
 - be in keeping with the guidance of Insurance Core Principle 14.0.1 (ICP 14.0.1) of the International Association of Insurance FSAs (IAIS);
 - be a platform for modernization of the FSA’s prudential framework in keeping with international best practice and the ICPs;
 - improve the efficiency and effectiveness of supervision; and
 - reduce compliance costs.

This guideline should be read in conjunction with any other applicable guidelines setting out the FSA’s expectations in areas such as corporate governance, audit and risk.

B. DEFINITIONS

4. The terms in this paragraph are defined as follows for purposes of this prudential guideline:

“annual financial return” comprises the documents required to be submitted pursuant to Section 38(1) of the Insurance Act;

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“annual financial statement” means the financial statements covering a full financial year prepared for shareholders or policyholders, a copy of which is required to be submitted annually pursuant to Section 38(2) of the Insurance Act;

“appointed actuary” means an actuary appointed by an insurer pursuant to Section 97 of the Insurance Act;

“financial return” means an annual financial return or interim financial return or other information which may be required to be prepared in a specified form and submitted to the FSA for regulatory purposes;

“generally accepted accounting rules” are the International Financial Reporting Standards (IFRS Standards) developed and maintained by the International Accounting Standards Board (IASB) as adopted by the Institute of Chartered Accountants of the Eastern Caribbean.

“generally accepted actuarial practice” shall be the professional actuarial standards accepted by the FSA and as may be set out in guidelines issued by the FSA.

“generally accepted auditing standards” shall be the International Audit Standards of the International Auditing and Assurance Standards Board.

“Interim financial return” comprises the interim financial statement and other information which may be required to be prepared on a monthly, quarterly or semi-annual basis in a specified form and submitted to the FSA for regulatory purposes pursuant to Section 36 of the Insurance Act.

“Interim financial statement” means a financial statement for an interim period prepared for management reporting or reporting to shareholders or other general purposes.

“Interim period” is a financial reporting period shorter than a full financial year.

“insurance liabilities” means in relation to an insurance company, any debt due from or other liabilities of the company under any contract of insurance to which it is a party; “liability” includes a contingent or prospective liability and a part of a liability, but does not include a liability in respect of share capital; all contingent and prospective liabilities of the company in respect of policies including adequate provision for unexpired policies and outstanding claims.

“policy liabilities” in an insurer’s statement of financial position are the liabilities at the date of the statement of financial position on account of the insurer’s policies and other obligations to policyholders, including commitments, that are in force at that date or that were in force before that date. Policy liabilities consist of insurance contract liabilities and liabilities for policy contracts and other obligations to policyholders other than insurance contracts.

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“solvency form” means the form designed to compute whether or not a registered insurance company can be deemed to be insolvent in accordance with Section 45 of the Insurance Act and may be specified to be included in a financial return.

C. AUTHORITY

5. Sections 38 (1) and 38 (3) of the Insurance Act, Cap 306 of the Laws of St. Vincent and the Grenadines, Revised Edition, 2009 (“the Insurance Act”), require registered insurance companies to prepare and submit to the FSA, annual financial returns in the form prescribed.
6. Further, pursuant to section 38 (2) and 38 (4) of the Insurance Act, a registered insurance company shall furnish the FSA with a copy of any report of the affairs of the insurer submitted to the policyholders or shareholders and for a company incorporated outside of the State, a copy of the statement of accounts submitted to the regulatory authority in its country of incorporation.
7. Additionally, pursuant to Sections 46(1) of the Insurance Act, the FSA may require a company registered under the Insurance Act to furnish, at a time and in a manner he may determine, information in connection with its insurance business, produce at a time and place as he may determine, and to produce to any person authorised in writing by the FSA, any books or papers, other documents and information, at such times, and in such form, as the FSA may specify.
8. Section 22(1) of the Financial Services Authority Act empowers the FSA to request an affiliate of a registered insurance company to provide it with all books, minutes, vouchers, invoices, contracts and other documents and records relating to the assets, liabilities, and business generally of registered insurance company.
9. These Guidelines, which take into consideration international standards and best practice and set out regulatory expectations as it relates to the reporting of financial information, are made pursuant to Section 10 of the FSA Act.

D. APPLICATION AND COMMENCEMENT

10. These Guidelines apply to all insurance companies registered under the Insurance Act and operating in the state of St. Vincent and the Grenadines. Registered insurance companies must apply this prudential guideline when preparing:
 - the returns required to be reported by registered insurance companies pursuant to Section 38(1) of the Insurance Act;
 - quarterly financial statements pursuant to Section 21 of the FSA Act; and
 - any information relating to the financial statements or the financial returns that the FSA may specify.

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11. This prudential guideline applies for reporting periods ending on or after 1 July 2023.
12. Detailed instructions will be included, and form part of the forms prescribed pursuant to Section 38(3) and other prescribed forms. This prudential guideline needs to be considered in conjunction with relevant forms and instructions.

E. ACCOUNTING STANDARDS TO BE USED

13. The annual financial statement referred to in Section 38 (1) of the Insurance Act is to be prepared in accordance with generally accepted accounting rules.
14. This prudential guideline does not contain any requirements that override or limit generally accepted accounting rules.
15. A registered insurance company's annual financial return shall be prepared in accordance with generally accepted accounting rules except as otherwise specified by the FSA. Except as otherwise specified by the FSA, all accounting policies including the contract boundaries and all other assumptions and methods used for the valuation of policy liabilities for the registered insurance company's annual financial return should be the same as those used to prepare its annual financial statements.
16. A registered insurance company's interim financial return shall be prepared in accordance with generally accepted accounting rules except as otherwise specified by the FSA. Except as otherwise specified by the FSA, all accounting policies including the contract boundaries and all other assumptions and methods used for the valuation of policy liabilities for the registered insurance company's interim financial return should be the same as those used to prepare its interim financial statements.

F. APPROVED FORMS

17. The instructions and forms to be used by a registered insurance company for completion of any financial return shall be specified by the FSA and after publication in the Gazette and posted on the FSA's official website.

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G. MATERIALITY

18. Subject to the FSA's discretion, all financial returns must be prepared based on the concept of materiality based on generally accepted accounting rules. The FSA's discretion is likely to apply, and directions made in instances where the application of materiality criteria is not suitable for prudential reporting purposes.

H. APPLICATION GUIDANCE

19. A registered insurance company shall value and ensure that the liabilities reported in its financial returns include the value of all policy liabilities in respect of every class of insurance business and any other matter as specified in prudential guidelines which may be issued by the FSA.
20. The determination of policy liabilities in the financial statements and financial returns shall consider the advice of the appointed actuary. The FSA recognises that full actuarial and other valuation procedures may not be used for valuing policy liabilities in interim reporting periods. In such cases, reasonable estimation may be applied for valuing policy liabilities and such estimation needs to be based on the detailed valuation procedures. Where such estimation processes have taken place, the approximating valuation methodology used by the life company must consider the advice of the appointed actuary.
21. In applying Section 39 of the Insurance Act, the appointed actuary shall investigate:
- the insurer's valuation of all policy liabilities regardless of the accounting basis under IFRS Standards (typically IFRS 9, IFRS 15 or IFRS 17) and on any other matter directed by the FSA. These include: (re)-insurance contracts liabilities/assets, reinsurance contracts held assets/liabilities, and investment contracts with Discretionary Participation Features (DPF) investment/service components, and investment contracts and service contracts themselves.
 - the insurer's recent and current financial position and financial condition, as revealed by financial condition testing for selected scenarios.
22. The appointed actuary's investigation pursuant to Section 39 of the Insurance Act, shall be carried out in accordance with generally accepted actuarial practice and any directions or guidelines issued by the FSA.
23. In applying Section 39 (3), a proper value of the liabilities to be adopted for the purpose of the financial condition investigation, shall be the value determined in accordance with generally accepted accounting rules and generally accepted actuarial practice as considered appropriate by the appointed actuary and as may be modified for prudential purposes by the FSA. In this regard, the average rate of interest from investments, expenses of management and

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commissions shall be taken into account to the extent permissible by generally accepted accounting rules and generally accepted actuarial practice as considered appropriate by the insurer and the appointed actuary and as may be modified for prudential purposes by the FSA.

24. Any adjustment to the value of policy liabilities due to the requirement in section 39 (3) that no policy is to be treated as an asset, shall be made as a prudential adjustment in the solvency form or as specified by the FSA and not in the core financial statements.
25. The results of the financial condition investigation should be reported by the appointed actuary to the Board of Directors in writing at least one month prior to the annual meeting of shareholders. The report should identify possible actions, and reasons for those actions, for dealing with any threats to satisfactory financial condition that the investigation reveals. If the appointed actuary considers that the report contains matters of significant concern which need to be addressed by the insurer, he or she should present the report in person to the Board of Directors or those who exert significant influence on the decisions of the insurer. The report and opinion shall be in accordance with generally accepted actuarial practice and in such form and include such content as may be prescribed by the FSA. The appointed actuary's report shall include inter alia:
 - a certification of the appropriateness of the valuation in the context of IFRS 17 in the form specified by the FSA; and
 - an opinion on the expected future financial condition of the registered insurance company in the form specified by the FSA.
26. In any case, the appointed actuary shall meet either with the Board of Directors of the registered insurance company or, where the directors so choose, with the audit committee of the company at least once during each financial year to discuss his/her opinion of the financial condition of the registered insurance company.
27. The appointed actuary should immediately report in writing to the Chief Executive Officer and Chief Financial Officer of the company any matters that have come to the actuary's attention in the course of carrying out the actuary's duties and that in the actuary's opinion have material adverse effects on the financial condition or future financial condition of the company and require rectification. After discussion, whether or not a course of rectification has been agreed, a copy of the report should be forwarded to the Board of Directors.
28. In applying Section 41 of the Insurance Act a registered insurance company shall in its financial statements and returns treat any asset as having appreciated or depreciated in value in accordance with generally accepted accounting rules.

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29. In applying Sections 165 and 166 of the Insurance Act, the industry standards accepted by the FSA are generally accepted accounting rules and generally accepted actuarial principles. The reserve for unexpired policies shall include the loss component computed in accordance with generally accepted accounting rules and generally accepted actuarial principles.
30. Reserves for catastrophic losses referenced in Section 166 (b), to the extent incompatible with IFRS Standards, shall not be included in the statement of financial position but instead shall be reported as an item of appropriated surplus in the solvency form.
31. A registered insurance company shall file with its annual return, the appointed actuary's report on the investigation into its financial condition, including on the valuation of policy liabilities, in respect of every class of insurance business on and any other matter referred to in paragraph 20 above.
32. Annual Financial statements and financial returns must be subjected to audit review, testing and certification using generally accepted auditing standards. Audits must also be carried out in compliance with this guideline and any other applicable prudential guidelines dealing with audit and related matters.
33. The audit report prepared pursuant to section 42 shall accompany the annual financial return required to be submitted pursuant to Section 38(1). The audit report shall comply with the International Audit Standards of the International Auditing and Assurance Standards Board, the Insurance Act and any applicable prudential guidelines. The report addressed to the FSA should state whether in the opinion of the auditors:
 - (a) the financial returns have been prepared in accordance with the accounting principles referred to in any applicable prudential guideline and meets the requirements of this Act and any applicable regulations and prudential guidelines;
 - (b) the annual return presents fairly, in accordance with the generally accepted accounting rules, the financial position of the registered insurance company as at the end of the financial year to which it relates and the results of the operations and changes in the financial position of the company for that financial year.
 - (c) adequate records of account have been maintained by the registered insurance company, and are reasonably up to date;
 - (d) the policy liabilities with respect to general insurance business have been determined in accordance with generally accepted accounting rules and generally accepted actuarial practice and applicable prudential guidelines;

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(e) the registered insurance company has implemented suitable measures, procedures and policies, to counter money laundering, and to combat the financing of terrorism, consistent with applicable laws in St. Vincent and the Grenadines; and

(f) long term insurance policy liabilities have been determined in accordance with generally accepted accounting rules and generally accepted actuarial practice and applicable prudential guidelines.

34. The audited group financial statements required to be submitted pursuant to section 40 shall include an audit report including a statement whether in the auditor's opinion, the group financial statements present fairly, in accordance with the accounting principles referred to in subsection 38(1), the financial position of the group as at the end of the financial year to which it relates and the results of the operations and changes in the financial position of the company for that financial year.

COMMENCEMENT

This Guidance Note shall come into effect this 13th day of October, 2023.

Issued by:

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