SECTION PS 3450
financial instruments 1

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving the 2024-2025 Annual Improvements to Public Sector Accounting Standards.

AG.11 A derivative usually has a notional amount, which is an amount of currency, a number of shares, a number of units of weight or volume, or other units specified in the contract. However, a derivative instrument does not require the holder or writer to invest or receive the notional amount at the inception of the contract. Alternatively, a derivative could require a fixed payment or payment of an amount that can change (but not proportionately with a change in the underlying item) as a result of some future event that is unrelated to a notional amount. For example, a contract may require a fixed payment of $1,000 if the six-month London Interbank Offered Rate (LIBOR) increases by 100 basis points. Such a contract is a derivative even though a notional amount is not specified.

AG.40 An appropriate technique for estimating the fair value of a particular financial instrument would incorporate observable market data about the market conditions and other factors that are likely to affect the instrument's fair value. The fair value of a financial instrument will be based on one or more of the following factors (and perhaps others):

(a) The time value of money (i.e., interest at the basic or risk-free rate) — Basic interest rates can usually be derived from observable government bond prices and are often quoted in financial publications. These rates typically vary with the expected dates of the projected cash flows along a yield curve of interest rates for different time horizons. For practical reasons, a government may use a well-accepted and readily observable general rate, such as LIBOR or a swap rate, as the benchmark rate. (Because a rate such as LIBOR is not the risk-free interest rate, the credit risk adjustment appropriate to the particular financial instrument is determined on the basis of its credit risk in relation to the credit risk in this benchmark rate.)

AG.41 When calculating the effective interest rate, a government would estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but would not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), a government would use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

…

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

.003 This Section does not apply to:

…

(b) inventories or an asset held for sale according to the criteria in FINANCIAL STATEMENT PRESENTATION, paragraph PS 1201.055;

…

[Former paragraphs PS 3450.003(a), PS 3450.003(e), PS 3450.003(o) and PS 3450.003(p) retained in Archived Pronouncements.]

.004 The definition for **financial assets** given in FINANCIAL STATEMENT PRESENTATION, Section PS 1201, applies. However, as paragraph PS 3450.003 establishes, the requirements of this Section do not apply to all financial assets. Certain items, such as inventories for resale and an asset held for sale according to the criteria set out in paragraph PS 1201.055, are physical assets and are excluded from the scope of this Section.

.009 A contract establishing a financial instrument creates, at its inception, rights and obligations to receive or deliver economic benefits. The financial assets and financial liabilities portray these rights and obligations in financial statements. The assessment of those benefits is a measurement question and does not affect the timing of recognition. Recognition occurs when a government becomes a party to a financial instrument or non-financial derivative contract.

.010 From inception, derivative financial instruments give one party the contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. Derivatives create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument (see paragraph PS 3450.A17).

.011 *A government should recognize a financial asset or a financial liability on its statement of financial position when, and only when, a government becomes a party to the contractual provisions of the instrument.* [APRIL 1, 2019 *]

.022 When governments manage and report performance for groups of financial assets, financial liabilities or both on a fair value basis, they may wish to report these items on this basis in their financial statements. Also, when reporting on a contract with the features of a derivative embedded in its terms (a contract with an "embedded derivative"), a government may determine that it is practical to designate the entire contract for fair value measurement rather than separately accounting for its derivative features. In each case, measuring items at fair value is seen to enhance the decision usefulness of the information provided to those using financial statements. For these reasons, the option to measure these items at fair value is provided.

.023 *A government that defines and implements a risk management or investment strategy to manage and evaluate the performance of a group of financial assets, financial liabilities or both on a fair value basis, may include those items that are within the scope of this Section in the fair value category.* [APRIL 1, 2019 *]

.024 Classification of a group of financial assets, financial liabilities or both to the fair value category is an accounting policy decision. A government defines and discloses the characteristics of financial instruments in the class and discloses this information in accordance with DISCLOSURE OF ACCOUNTING POLICIES, Section PS 2100. The policy determines the categorization of financial assets and financial liabilities upon their initial recognition.

.029 The fair value of a financial liability with a demand feature (for example, a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Transaction costs

.030 Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or a financial liability. An incremental cost is one that would not have been incurred if a government had not acquired or issued the financial instrument.

Impairment of financial assets

.034 At each financial statement date, a government assesses financial assets or groups of financial assets to determine whether there is any objective evidence of impairment. If any such evidence exists, a government would apply:

(a) PORTFOLIO INVESTMENTS, Section PS 3041, to assess whether portfolio investments are impaired and to account for any such impairment; or

(b) LOANS RECEIVABLE, Section PS 3050, to assess whether loans receivable are impaired and to account for any such impairment.

.035 The requirement to assess financial assets for impairment includes non-derivative financial assets in the fair value category. Impairment charges are indicative of a loss in value that reflects the expectation that the underlying economic resource has diminished in a manner that is other than temporary.

Reclassification

.037 The classification of financial instruments is determined upon its initial recognition. When financial assets and financial liabilities are included in the fair value category pursuant to paragraph PS 3450.023, they are not reclassified for the duration of the period they are held and, consequently, the requirements in paragraphs PS 3450.038-.041 do not apply to these items.

DERECOGNITION OF A FINANCIAL LIABILITY

.042 *A government should remove a financial liability (or part of a financial liability) from its statement of financial position when, and only when, it is extinguished (i.e., when the obligation specified in the contract is discharged or cancelled, or expires).* [APRIL 1, 2019 *]

.043 A financial liability (or part of a financial liability) is extinguished when the debtor either:

(a) discharges the liability (or part of it) by paying the creditor, normally with cash, other financial assets, goods or services; or

(b) is legally released from primary responsibility for the liability (or part of it) either by process of law or by the creditor. (When the debtor has given a guarantee, this condition may still be met.)

.048 *An exchange between an existing borrower and lender of debt instruments with substantially different terms should be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or part of it (whether or not attributable to the financial difficulty of the debtor) should be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.* [APRIL 1, 2019 *]

.049 For the purpose of paragraph PS 3450.048, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

.050 *The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, should be recognized as a revenue or expense in the statement of operations.* [APRIL 1, 2019 *]

.051 *If a government extinguishes a part of a financial liability, it should allocate the previous carrying amount of the financial liability between the part that continues to be outstanding and the extinguished amount based on the relative fair values of those parts on the date of the extinguishment. The difference between the carrying amount allocated to the part extinguished and the consideration paid, including any non-cash assets transferred or liabilities assumed, should be recognized as a revenue or expense in the statement of operations.* [APRIL 1, 2022] [Former paragraph PS 3450.051 retained in Archived Pronouncements.]

PRESENTATION

Remeasurement gains and losses

.052 A government distinguishes remeasurement gains and losses from those revenues and expenses that are not remeasurement gains and losses. This distinction is achieved as remeasurement gains and losses are recognized in the statement of remeasurement gains and losses. [Former paragraph PS 3450.052 retained in Archived Pronouncements.]

.053 *Except for the exchange gain or loss component of the change in fair value when the election in FOREIGN CURRENCY TRANSLATION, paragraph PS 2601.19A is made, a change in the fair value of a financial instrument in the fair value category should be recognized in the statement of remeasurement gains and losses as a remeasurement gain or loss until the financial instrument is derecognized.* [APRIL 1, 2022 *] [Former paragraph PS 3450.053 retained in Archived Pronouncements.]

.053A *A change in fair value of a financial asset in the fair value category that is externally restricted should be accounted for in accordance with RESTRICTED ASSETS AND REVENUES, paragraphs* PS 3100.11-.12. [APRIL 1, 2019 *]

.055 By presenting remeasurement gains and losses separately, except when the election in FOREIGN CURRENCY TRANSLATION, paragraph PS 2601.19A is made, changes in the carrying value of financial instruments arising from fair value measurement are distinguished from revenues and expenses reported in the statement of operations. The statement of operations reports the extent to which revenues raised in the period were sufficient to meet the expenses incurred. Remeasurement gains and losses attributable to financial instruments in the fair value category do not affect this assessment as they are recognized in the statement of remeasurement gains and losses. Taken together, the two statements account for changes in a government's net liabilities (or net assets) in the period. [Former paragraph PS 3450.055 retained in Archived Pronouncements.]

Offsetting of a financial asset and a financial liability

.059 *A financial asset and a financial liability should be offset and the net amount reported in the statement of financial position when, and only when, a government:*

(a) currently has a legally enforceable right to set off the recognized amounts; and

(b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. [APRIL 1, 2019 *]

.060 Financial assets and financial liabilities are presented on a net basis when doing so reflects a government's expected future cash flows from settling two or more separate financial instruments. When a government has the right to receive or pay a single net amount and intends to do so, it has, in effect, only a single financial asset or financial liability. In other circumstances, financial assets and financial liabilities are presented separately from each other consistent with their characteristics as resources or obligations of a government.

.061 Offsetting a recognized financial asset and a recognized financial liability and presenting the net amount differs from derecognition of a financial asset or a financial liability. Unlike derecognition, offsetting does not give rise to a gain or loss. When the conditions in paragraph PS 3450.059 are satisfied, a government has, in effect, a single cash flow and a single financial asset or financial liability.

.063 The existence of an enforceable right to set off a financial asset and a financial liability affects the rights and obligations associated with a financial asset and a financial liability and may affect a government's exposure to credit and **liquidity risk**. However, the existence of the right, by itself, is not a sufficient basis for offsetting. In the absence of an intention to exercise the right or to settle simultaneously, the amount and timing of a government's future cash flows are not affected. When a government intends to exercise the right or to settle simultaneously, presentation of the asset and liability on a net basis reflects more appropriately the amounts and timing of the expected future cash flows, as well as the risks to which those cash flows are exposed. An intention by one or both parties to settle on a net basis without the legal right to do so is not sufficient to justify offsetting because the rights and obligations associated with the individual financial asset and financial liability remain unaltered.

.065 Simultaneous settlement of two financial instruments may occur through, for example, the operation of a clearing house in an organized financial market or a face-to-face exchange. In these circumstances, the cash flows are, in effect, equivalent to a single net amount and there is no exposure to credit or liquidity risk. In other circumstances, a government may settle two instruments by receiving and paying separate amounts, becoming exposed to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability. Such risk exposures may be significant even though relatively brief. Accordingly, realization of a financial asset and settlement of a financial liability are treated as simultaneous only when the transactions occur at the same moment.

.066 The conditions set out in paragraph PS 3450.059 are generally not satisfied and offsetting is usually inappropriate when:

(a) several different financial instruments are used to emulate the features of a single financial instrument (a "synthetic instrument");

(b) financial assets and financial liabilities arise from financial instruments having the same primary risk exposure (for example, assets and liabilities within a portfolio of forward contracts or other derivative instruments) but involve different counterparties;

(c) financial or other assets are pledged as collateral for non-recourse financial liabilities;

(d) financial assets are set aside in trust by a debtor for the purpose of discharging an obligation without those assets having been accepted by the creditor in settlement of the obligation (for example, a sinking fund arrangement); or

(e) obligations incurred as a result of events giving rise to losses are expected to be recovered from a third party by virtue of a claim made under an insurance contract.

.067 A government that undertakes a number of financial instrument transactions with a single counterparty may enter into a "master netting arrangement" with that counterparty. Such an agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract. These arrangements are commonly used by financial institutions to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. A master netting arrangement commonly creates a right of set-off that becomes enforceable and affects the realization or settlement of individual financial assets and financial liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of operations. A master netting arrangement does not provide a basis for offsetting, unless both of the criteria in paragraph PS 3450.059 are satisfied. When financial assets and financial liabilities subject to a master netting arrangement are not offset, the effect of the arrangement on a government's exposure to credit risk is disclosed in accordance with paragraph PS 3450.090.

Repurchased debt instruments

.067A When a government repurchases its own debt instrument in accordance with paragraph PS 3450.044, the repurchased instrument and the original financial liability should be offset in the statement of financial position of the government reporting entity. Similarly, any interest revenue and interest expense associated with this repurchased debt instrument should be offset in the statement of operations. Disclosures of the amounts that have been offset should be included in the notes to the financial statements in accordance with LONG-TERM DEBT, paragraph PS 3230.22.

Statement of financial position

.070 The carrying amounts of financial assets of each of the following categories are disclosed either in the statement of financial position or in the notes:

(a) cost or amortized cost;

(b) fair value, showing separately:

  (i) derivatives;

  (ii) portfolio investments in equity instruments that are quoted in an active market; and

  (iii) financial assets designated to the fair value category.

.071 The carrying amounts of financial liabilities of each of the following categories are disclosed either in the statement of financial position or in the notes:

(a) cost or amortized cost;

(b) fair value, showing separately:

  (i) derivatives; and

  (ii) financial liabilities designated to the fair value category.

.071A If applicable, a government discloses in the notes the carrying amounts of financial assets and financial liabilities in which exchange gains and losses, including the exchange gain or loss component of changes in fair value, are recognized directly in the statement of operations. Carrying amounts of each of the following categories are disclosed:

(a) cost or amortized cost;

(b) fair value, showing separately:

  (i) derivatives;

  (ii) portfolio investments in equity instruments that are quoted in an active market; and

  (iii) financial assets or financial liabilities designated to the fair value category.

Collateral

.073 A government discloses:

(a) the carrying value of financial assets it has pledged as collateral for liabilities or contingent liabilities; and

(b) the terms and conditions relating to its pledge.

Statement of remeasurement gains and losses

.080 A government holding derivatives or items it has designated to the fair value category at the financial statement date discloses the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, a government discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique, a government discloses that change and the reasons for making it.

.082 For fair value measurements recognized in the statement of financial position, a government discloses the following for each class of financial instruments.

(a) The level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in paragraph PS 3450.081.

(b) Any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level are disclosed and discussed separately from transfers out of each level. For this purpose, significance is judged with respect to remeasurement gains and losses and total financial assets or total liabilities.

(c) For fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:

(i) total gains or losses for the period recognized in the statement of remeasurement gains and losses and/or the statement of operations; [Former paragraph PS 3450.082(c)(i) retained in Archived Pronouncements.]

(ii) purchases, sales, issues and settlements (each type of movement disclosed separately); and

(iii) transfers in or out of Level 3 (for example, transfers attributable to changes in the observability of market data) and the reasons for those transfers; and

(d) for fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, a government states that fact and discloses the effect of those changes.

In the case of significant transfers in or out of Level 3, transfers into Level 3 are disclosed and discussed separately from transfers out of Level 3. A government discloses how the effect of a change to a reasonably possible alternative assumption was calculated. In these cases, significance is judged with respect to remeasurement gains and losses and total financial assets or total liabilities.

.084 Disclosure of fair values for financial assets and financial liabilities in the cost or amortized cost measurement category is not required except when a government discloses the quoted market value as well as the carrying value of portfolio investments.

Credit risk

.090 A government discloses, by class of financial instrument:

(a) the amount that best represents its maximum exposure to credit risk at the financial statement date without taking account of any collateral held or other credit enhancements (for example, netting agreements that do not qualify for offset in accordance with paragraph PS 3450.059);

(b) a description of collateral held as security, and other credit enhancements and their financial effect (for example, a quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument); and

(c) information about the credit quality of financial assets that are neither past due nor impaired.

The disclosure relating to the amount that best represents its maximum exposure to credit risk is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.

Financial assets that are either past due or impaired

.091 A government discloses, by class of financial asset:

(a) an analysis of the age of financial assets that are past due as at the financial statement date but not impaired; and

(b) an analysis of financial assets that are individually determined to be impaired as at the financial statement date, including the factors the government considered in determining that they are impaired.

Liquidity risk

.093 A government discloses:

(a) a maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities;

(b) a maturity analysis for derivative financial liabilities; and

(c) a description of how it manages the liquidity risk inherent in (a) and (b).

The maturity analysis in (b) includes the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of cash flows.

TRANSITIONAL PROVISIONS

.099 The transition to this Section is as follows:

(a) Recognition, derecognition and measurement policies followed in financial statements for periods prior to the effective date of this Section are not reversed and, therefore, those financial statements are not restated. When transitioning to this Section, it is disclosed that the financial statements of prior periods, including comparative information, have not been restated.

(b) At the beginning of the fiscal year in which this Section is initially applied:

(i) A government or government organization recognizes all financial assets and financial liabilities on its statement of financial position and classifies items in accordance with paragraph PS 3450.015.

(ii) A government or government organization applies the criteria in paragraphs PS 3450.020 and PS 3450.023 in identifying those financial assets and financial liabilities to be measured at fair value. The entity applies the measurement provisions of this Section prospectively. The difference between a financial instrument's fair value and its previous carrying amount is recognized as an adjustment to the accumulated remeasurement gains and losses at the beginning of the fiscal year in which this Section is initially applied. If a government has made the election in FOREIGN CURRENCY TRANSLATION, paragraph PS 2601.19A on transition for a financial asset or financial liability, the exchange gain or loss component of the difference between fair value and its previous carrying amount is recognized as an adjustment to the accumulated surplus or deficit. [Former paragraph PS 3450.099(b)(ii) retained in Archived Pronouncements.]

(iii) To the extent that the government organization had previously applied an accounting policy where financial instruments are measured at fair value with changes in fair value being recognized through operating surplus or deficit, no adjustment shall be made on transition. The financial instrument's carrying value is its fair value at the beginning of the fiscal year in which this Section is initially applied.

(iv) Where the government reporting entity consolidates government organizations that are applying this Section, the controlling government adopts this Section consistent with BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500.07. This results in an adjustment to the opening accumulated surplus or deficit where the government organization has already recognized it in its surplus / deficit. Otherwise, an adjustment is made to the opening accumulated remeasurement gains and losses.

(c) A government organization transitioning from the standards in the CPA Canada Handbook – Accounting recognizes an amount in accumulated remeasurement gains and losses at the beginning of the fiscal year in which this Section is initially applied equal to the closing accumulated other comprehensive income 2 attributable to items classified as available for sale (or an equivalent fair value category).

(d) In transitioning to this Section, no adjustment to an item's carrying value is made to retroactively expense transaction costs applicable to items in the fair value category.

(e) Any unamortized discount, premium, or transaction costs associated with a financial asset or financial liability measured at amortized cost is included in the item's opening carrying value.

(f) A government or government organization establishes an accounting policy that applies to the identification of embedded derivatives in contracts entered into by it. The policy, and its application, recognizes as separate assets and liabilities those embedded derivatives required to be reported in accordance with provisions of this Section on either a retroactive or prospective basis. Disclosure is made of the accounting policy and any adjustment to the accumulated remeasurement gains and losses at the beginning of the fiscal period in which this Section is initially applied.

[Former paragraphs PS 3450.099(b)(i)-(iii), PS 3450.099(c) and PS 3450.099(e) retained in Archived Pronouncements.]

.099A Paragraphs PS 3450.053A and PS 3450.057A apply to fiscal years beginning on or after March 1, 2013. Earlier adoption is permitted as of the beginning of the fiscal year in which this Section is first applied. As well, the following transitional provisions apply:

(a) A government or government organization applying paragraph PS 3450.099(b)(ii) recognizes any adjustment to the previous carrying amount of a financial asset that is externally restricted as a liability.

(b) A government organization applying paragraph PS 3450.099(c) recognizes any accumulated other comprehensive income associated with items categorized as available for sale and generating externally restricted income as a liability.

[Former paragraph PS 3450.099A(a) retained in Archived Pronouncements.]

GLOSSARY

Amortized cost is the amount at which a financial asset or a financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

[Former definition of "derecognition", amended by the Conceptual Framework, retained in Archived Pronouncements.]

The **effective interest method** is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability (see paragraphs PS 3450.A41-.A45).

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations.

Financial instruments are any contracts that give rise to financial assets of one entity and financial liabilities or equity instruments of another entity.

Financial liabilities are any liabilities that are contractual obligations:

(a) to deliver cash or another financial asset to another entity; or

(b) to exchange financial instruments with another entity under conditions that are potentially unfavourable to a government.

Financial risks involve credit risk, currency risk, interest rate risk, liquidity risk, market risk and other price risk, defined as follows:

…

Liquidity risk is the risk that a government will encounter difficulty in meeting obligations associated with financial liabilities.

Remeasurement gains and losses are revenues and expenses recognized in the statement of remeasurement gains and losses arising:

(a) when, prior to an item's settlement, an exchange gain or loss is recognized in accordance with the provisions of FOREIGN CURRENCY TRANSLATION, Section PS 2601; and

(b) when financial instruments in the fair value category are remeasured in accordance with the requirements of this Section.

Remeasurement gains and losses do not include exchange gains and losses, including the exchange gain or loss component of changes in fair value, which have been recognized directly in the statement of operations. [Former definition retained in Archived Pronouncements.]

APPENDIX A

APPLYING THE REQUIREMENTS

This Appendix is an integral part of this Section.

Definitions

Financial instrument

A4 Currency (cash) is a financial asset because it represents the medium of exchange and, therefore, is the basis on which all transactions are measured and recognized in financial statements. A deposit of cash with a bank or similar financial institution is a financial asset because it represents the contractual right of the depositor to obtain cash from the institution or to draw a cheque or similar instrument against the balance in favour of a creditor in payment of a financial liability.

A5 Common examples of financial assets representing a contractual right to receive cash in the future and corresponding financial liabilities representing a contractual obligation to deliver cash in the future are:

(a) accounts receivable and payable;

(b) notes receivable and payable;

(c) loans receivable and payable; and

(d) bonds receivable and payable.

In each case, one party's contractual right to receive (or obligation to pay) cash is matched by the other party's corresponding obligation to pay (or right to receive).

A7 The ability to exercise a contractual right or the requirement to satisfy a contractual obligation may be absolute, or it may be contingent on the occurrence of a future event. For example, a financial guarantee is a contractual right of the lender to receive cash from the guarantor, and a corresponding contractual obligation of the guarantor to pay the lender, if the borrower defaults. The contractual right and obligation exist because of a past transaction or event (assumption of the guarantee), even though the lender's ability to exercise its right and the requirement for the guarantor to perform under its obligation are both contingent on a future act of default by the borrower. A contingent right and obligation meet the definition of a financial asset and a financial liability, even though such assets and liabilities are not always recognized in the financial statements. Some of these contingent rights and obligations may be insurance contracts.

A8 Physical assets (such as inventories of supplies, tangible capital assets), and leased assets are not financial assets. Control of such assets creates an opportunity to produce or supply goods and services, rent to others, use for administrative purposes or for the development, construction or repair of other tangible capital assets. Control of such assets does not give rise to a present right to receive cash or another financial asset.

A9 Assets, such as prepaid expenses, for which the future economic benefit is the receipt of goods or services rather than the right to receive cash or another financial asset, are not financial assets. Similarly, certain deferred liabilities are not financial liabilities when the outflow of economic benefits associated with them is in the nature of goods or services rather than a contractual obligation to pay cash or another financial asset.

Derivative financial instruments

A10 Derivative financial instruments create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, derivative financial instruments give one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. 1a Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instrument, as prices in financial markets change those terms may become either favourable or unfavourable.

Contracts to buy or sell non-financial items

A13 Contracts to buy or sell non-financial items do not meet the definition of a financial instrument because the contractual right of one party to receive a non-financial asset or service and the corresponding obligation of the other party do not establish a present right or obligation of either party to receive, deliver or exchange a financial asset. For example, contracts that provide for settlement only by the receipt or delivery of a non-financial item (such as an option, futures or forward contract on oil) are not financial instruments. Many commodity contracts are of this type. Some are standardized in form and traded on organized markets in much the same fashion as some derivative financial instruments. For example, a commodity futures contract may be bought and sold readily for cash because it is listed for trading on an exchange and may change hands many times. However, the parties buying and selling the contract are, in effect, trading the underlying commodity. The ability to buy or sell a commodity contract for cash, the ease with which it may be bought or sold and the possibility of negotiating a cash settlement of the obligation to receive or deliver the commodity do not alter the fundamental character of the contract in a way that creates a financial instrument. Nevertheless, some contracts to buy or sell non-financial items that can be settled net or by exchanging financial instruments, or in which the non-financial item is readily convertible to cash, are within the scope of this Section as if they were financial instruments (see paragraph PS 3450.005).

A14 A contract that involves the receipt or delivery of physical assets does not give rise to a financial asset of one party and a financial liability of the other party, unless any corresponding payment is deferred past the date on which the physical assets are transferred. Such is the case with the purchase or sale of goods on trade credit.

Recognition

Traded securities — use of "trade-date" accounting

A15 The purchase or sale of financial assets traded on a recognized exchange (a regular-way purchase or sale) gives rise to a fixed-price commitment between the trade date and settlement date that meets the definition of a derivative. However, because of the short duration of the commitment, it is not recognized as a derivative financial instrument.

Measurement

Fair value measurement considerations

A27 For financial instruments in the fair value category, the provisions in paragraphs PS 3450.A28-.A40 explain the application of fair value measurement including the use of valuation techniques. Valuation techniques may be required to measure some derivatives and when a quoted market price is not available for financial assets or financial liabilities that are designated by a government to the fair value category.

Active market — quoted price

A30 A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Fair value is defined in terms of a price agreed by a willing buyer and a willing seller in an arm's length transaction. The objective of determining fair value for a financial instrument that is traded in an active market is to arrive at the price at which a transaction would occur at the end of the period in that instrument (i.e., without modifying or repackaging the instrument) in the most advantageous active market to which a government has immediate access. However, a government adjusts the price in the more advantageous market to reflect any differences in counterparty credit risk between instruments traded in that market and the one being valued. The existence of published price quotations in an active market is the best evidence of fair value and when they exist they are used to measure the financial asset or financial liability.

No active market – valuation technique

A36 The application of paragraph PS 3450.A35 may result in no gain or loss being recognized on the initial recognition of a financial asset or a financial liability. In such a case, the financial asset or financial liability is subsequently measured, and gains and losses are subsequently recognized, in accordance with this Section. Accordingly, a gain or loss is recognized after initial recognition only to the extent that it arises from a change in a factor that market participants would consider in setting a price.

A37 The initial acquisition or origination of a financial asset or incurrence of a financial liability is a market transaction that provides a foundation for estimating the fair value of the financial instrument. In particular, if the financial instrument is a debt instrument (such as a loan), its fair value can be determined by reference to the market conditions that existed at its acquisition or origination date and current market conditions or interest rates currently charged by a government or by others for similar debt instruments (for example, similar remaining maturity, cash flow pattern, currency, credit risk, collateral and interest basis). Alternatively, provided there is no change in the credit risk of the debtor and applicable credit spreads after the origination of the debt instrument, an estimate of the current market interest rate may be derived by using a benchmark interest rate reflecting a better credit quality than the underlying debt instrument, holding the credit spread constant, and adjusting for the change in the benchmark interest rate from the origination date. When conditions have changed since the most recent market transaction, the corresponding change in the fair value of the financial instrument being valued is determined by reference to current prices or rates for similar financial instruments, adjusted as appropriate, for any differences from the instrument being valued.

Inputs to valuation techniques

A40 An appropriate technique for estimating the fair value of a particular financial instrument would incorporate observable market data about the market conditions and other factors that are likely to affect the instrument's fair value. The fair value of a financial instrument will be based on one or more of the following factors (and perhaps others).

(a) The time value of money (i.e., interest at the basic or risk-free rate) — Basic interest rates can usually be derived from observable government bond prices and are often quoted in financial publications. These rates typically vary with the expected dates of the projected cash flows along a yield curve of interest rates for different time horizons. For practical reasons, a government may use a well-accepted and readily observable general rate, such as LIBOR or a swap rate, as the benchmark rate. (Because a rate such as LIBOR is not the risk-free interest rate, the credit risk adjustment appropriate to the particular financial instrument is determined on the basis of its credit risk in relation to the credit risk in this benchmark rate.)

(b) Credit risk — The effect on fair value of credit risk (i.e., the premium over the basic interest rate for credit risk) may be derived from observable market prices for traded instruments of different credit quality or from observable interest rates charged by lenders for loans of various credit ratings.

(c) Foreign currency exchange prices — Active currency exchange markets exist for most major currencies, and prices are quoted daily in financial publications.

(d) Commodity prices — There are observable market prices for many commodities.

(e) Equity prices — Prices (and indexes of prices) of traded equity instruments are readily observable.

(f) Volatility (i.e., magnitude of future changes in price of the financial instrument or other item) — Measures of the volatility of actively traded items can normally be reasonably estimated on the basis of historical market data or by using volatilities implied in current market prices.

(g) Prepayment risk and surrender risk — Expected prepayment patterns for financial assets and expected surrender patterns for financial liabilities can be estimated on the basis of historical data. (The fair value of a financial liability that can be surrendered by the counterparty cannot be less than the present value of the surrender amount — see paragraph PS 3450.029.)

(h) Servicing costs for a financial asset or a financial liability — Costs of servicing can be estimated using comparisons with current fees charged by other market participants. If the costs of servicing a financial asset or a financial liability are significant and other market participants would face comparable costs, the issuer would consider them in determining the fair value of that financial asset or financial liability. It is likely that the fair value at inception of a contractual right to future fees equals the origination costs paid for them, unless future fees and related costs are out of line with market comparables.

Effective interest method

A43 In some cases, financial assets are acquired at a deep discount that reflects incurred credit losses. Governments include such incurred credit losses in the estimated cash flows when computing the effective interest rate.

A44 For floating rate financial assets and floating rate financial liabilities, periodic re-estimation of cash flows to reflect movements in market rates of interest alters the effective interest rate. If a floating rate financial asset or floating rate financial liability is recognized initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability.

A45 If a financial asset or a group of similar interest-bearing financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Transfers that do not qualify for derecognition

A45A The transfer of a financial asset does not result in derecognition of the transferred financial asset if the government retains substantially all the risks and benefits of ownership. Examples of when a government has retained all the risks and benefits of ownership are:

(a) a sale and repurchase transaction where the repurchase price is a fixed price or the sale price plus a lender's return;

(b) a securities lending agreement; and

(c) a sale of a financial asset together with a total return swap that transfers the market risk exposure back to the government.

Presentation of remeasurement gains and losses

A46 In the period a government derecognizes financial instruments in the fair value category upon which remeasurement gains and losses were reported in preceding periods, it reports an adjustment to reverse the cumulative remeasurement gain or loss within the statement of remeasurement gains and losses.

A47 For example, a government has a fiscal period end of December 31. On April 15, 20X1, it makes a portfolio investment in the stock of a publicly traded company listed on a major stock exchange. The purchase price, excluding the commissions it expensed, is $100,000. The closing quoted market price for the investment at December 31, 20X1 is $125,000. On October 31, 20X2 it sells the stock for proceeds of $115,000. The amounts included in the statement of operations and statement of remeasurement gains and losses are set out below.

Statement of Operations

For the year ended December 31 ($ thousands)	20X2 Budget	20X2 Actual	20X1 Actual
Revenues			
Gain on portfolio investment	5	15	—
Expenses	—	—	—
Operating surplus	5	15	—
Accumulated operating surplus, beginning of year		—	—
Accumulated operating surplus, end of year		15	—
		=====	=====

Statement of Remeasurement Gains and Losses

For the year ended December 31 ($ thousands)	20X2	20X1
Accumulated remeasurement gains and losses, beginning of year	25	—
Unrealized gain / (loss) on portfolio investment	(10)	—
Realized gain on portfolio investment, reclassified to operations	(15)	25
Accumulated remeasurement gains and losses, end of year	—	25
	=====	====

Disclosures that apply to items designated to the fair value category

A52 If a government has designated a loan or receivable (or a group of loans or receivables) to the fair value category, it discloses:

(a) the maximum exposure to credit risk of the loan or receivable (or group of loans or receivables) at the financial statement date;

(b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk;

(c) the amount of change, during the period and cumulatively, in the fair value of the loan or receivable (or group of loans or receivables) that is attributable to changes in the credit risk of the financial asset determined either:

(i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or

(ii) using an alternative method a government believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset; and

(d) the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the loan or receivable was designated.

Changes in market conditions that give rise to market risk include changes in an observed (benchmark) interest rate, commodity price, foreign exchange rate or index of prices or rates.

A53 If a government has designated a financial liability (or a group of financial liabilities) to the fair value category, it discloses:

(a) the amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability determined either:

(i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or

(ii) using an alternative method a government believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the liability; and

(b) the difference between the financial liability's carrying amount and the amount a government would be contractually required to pay at maturity to the holder of the obligation.

Changes in market conditions that give rise to market risk include changes in a benchmark interest rate, the price of another entity's financial instrument, a commodity price, a foreign exchange rate or an index of prices or rates. For contracts that include a unit-linking feature (i.e., the return on the contract is linked to the return on an identified asset or pool of assets), changes in market conditions include changes in the performance of the related asset(s).

A54 A government discloses:

(a) the methods used to comply with the requirements in paragraphs PS 3450.A52(c) and PS 3450.A53(a); and

(b) if a government believes that the disclosure it has given to comply with the requirements in paragraphs PS 3450.A52(c) and PS 3450.A53(a) does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.

Maximum credit risk exposure

A57 Paragraph PS 3450.090 requires disclosure of the amount that best represents a government's maximum exposure to credit risk. For a financial asset, this is typically the gross carrying amount, net of:

(a) any amounts offset in accordance with paragraph PS 3450.059; and

(b) any impairment losses or changes in valuation allowances recognized in accordance with FINANCIAL STATEMENT PRESENTATION, paragraph PS 1201.053, PORTFOLIO INVESTMENTS, Section PS 3041, and LOANS RECEIVABLE, Section PS 3050.

A58 Activities conducted with entities outside of a government's reporting entity that give rise to credit risk and the associated maximum exposure to credit risk include, but are not limited to, the following.

(a) Making loans and advances to borrowers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets.

(b) Entering into derivative contracts (for example, foreign exchange contracts, interest rate swaps and credit derivatives). When the resulting asset is measured at fair value, the maximum exposure to credit risk at the financial statement date will equal the carrying amount.

(c) Granting loan guarantees. In this case, the maximum exposure to credit risk is the maximum amount a government could have to pay if the guarantee is called on, which may be significantly greater than the provision for loss on the loan guarantee.

(d) Making a loan commitment that is irrevocable over the life of the facility or is revocable only in response to a material adverse change. If a government cannot settle the loan commitment net in cash or another financial instrument, the maximum credit exposure is the full amount of the commitment. This is because it is uncertain whether the amount of any undrawn portion may be drawn upon in the future. This may be significantly greater than the amount recognized as a liability.

A59 In accordance with paragraph PS 3450.093, a government discloses summary quantitative data about its exposure to liquidity risk on the basis of the information provided internally to key management personnel. A government explains how such data is determined. If the outflows of cash (or another financial asset) included in the data could either:

(a) occur significantly earlier than indicated in the data; or

(b) be for significantly different amounts from those indicated in the data (i.e., for a derivative that is included in the data on a net settlement basis but for which the counterparty has the option to require gross settlement);

a government states that fact and provides quantitative information that enables users of its financial statements to evaluate the extent of this risk, unless that information is included in the contractual maturity analyses required by paragraph PS 3450.093(a) or (b).

Liquidity risk

A62 Paragraph PS 3450.093(b) requires a government to disclose a quantitative maturity analysis for derivative financial liabilities that shows remaining contractual maturities if the contractual maturities are essential for an understanding of the timing of cash flows. For example, this would be the case for an interest swap with a remaining maturity of five years in a cash flow hedge of a variable rate financial asset or liability.

A63 Paragraph PS 3450.093(a)-(b) requires a government to disclose maturity analyses for financial liabilities that show the remaining contractual maturities for some financial liabilities. A government considers the following in preparing its disclosures:

(a) When a counterparty has a choice of when an amount is paid, the liability is allocated to the earliest period in which a government can be required to pay. For example, financial liabilities that a government can be required to pay on demand (for example, demand deposits) are included in the earliest time band.

(b) When a government is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which a government can be required to pay. For example, when a bond is redeemable at the holder's option, repayment of the bond is allocated to the earliest period in which the bond could be redeemed.

A64 The contractual amounts disclosed in the maturity analyses as required by paragraph PS 3450.093(a)-(b) are the contractual undiscounted cash flows, for example:

(a) gross finance lease obligations (before deducting finance charges);

(b) prices specified in forward agreements to purchase financial assets for cash;

(c) net amounts for pay-floating / receive-fixed interest rate swaps for which net cash flows are exchanged; and

(d) contractual amounts to be exchanged in a derivative financial instrument (for example, a currency swap) for which gross cash flows are exchanged.

Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the financial statement date. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

A65 Paragraph PS 3450.093(c) requires a government to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative disclosures required in paragraph PS 3450.093(a)-(b). A government discloses a maturity analysis of financial assets it holds for managing liquidity risk (for example, financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

Market risk

A69 In determining what a reasonably possible change in the relevant risk variable requires that consideration be given to the factors listed below:

(a) A government considers the economic environments in which it operates. A reasonably possible change does not involve remote or "worst case" scenarios or "stress tests". Moreover, if the rate of change in the underlying risk variable is stable, a government need not alter the chosen reasonably possible change in the risk variable. For example, assume that interest rates are five percent and a government determines that a fluctuation in interest rates of ±50 basis points is reasonably possible. It would disclose the effect on operating surplus or deficit for the period and net debt if interest rates were to change to 4.5 percent or 5.5 percent. In the next period, interest rates have increased to 5.5 percent. It continues to believe that interest rates may fluctuate by ±50 basis points (i.e., that the rate of change in interest rates is stable). A government would disclose the effect on operating surplus or deficit for the period and net debt if interest rates were to change to five percent or six percent. A government would not be required to revise its assessment that interest rates might reasonably fluctuate by ±50 basis points, unless there is evidence that interest rates have become significantly more volatile.

(b) The time frame over which it is making the assessment. The sensitivity analysis would show the effects of changes that are considered to be reasonably possible over the period until a government will next present these disclosures, which is usually its next accounting period.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving the new CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING.

.018 As equity instruments represent a residual ownership interest, information about their cost is of limited usefulness, particularly when they are held over an extended period. When equity instruments that are quoted in an active market are portfolio investments, their market value provides a readily available and reliable measure of value at the financial statement date.

.028 The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, a government establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, a government uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on inputs specific to that government. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, a government calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on any available observable market data.

.092 When a government obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (for example, guarantees), and such assets meet the recognition criteria (see FINANCIAL STATEMENT CONCEPTS, Section PS 1000), a government discloses for such assets held at the financial statement date:

(a) the nature and carrying amount of the assets; and

(b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Glossary

Derecognition is the removal of previously recognized financial assets or financial liabilities from a government's statement of financial position.

Recognition is the process of including an item in the financial statements. It means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements.

A33 If the market for a financial instrument is not active, a government establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, a government uses that technique.

A55 Paragraph PS 3450.088(a) requires disclosures of summary quantitative data about a government's exposure to risks based on the information provided internally to a government's key management personnel. When a government uses several methods to manage a risk exposure, it would disclose information using the method or methods that provide the most relevant and reliable information. FINANCIAL STATEMENT CONCEPTS, Section PS 1000, addresses relevance and reliability.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving narrow-scope amendments to FINANCIAL INSTRUMENTS, Section PS 3450 (April 2021).

.052 A government distinguishes remeasurement gains and losses from those revenues and expenses that are not remeasurement gains and losses. This distinction is achieved by recognizing remeasurement gains and losses in the statement of remeasurement gains and losses.

.053 *A change in the fair value of a financial instrument in the fair value category should be recognized in the statement of remeasurement gains and losses as a remeasurement gain or loss until the financial instrument is derecognized.* [APRIL 1, 2019 *]

.055 By presenting remeasurement gains and losses separately, changes in the carrying value of financial instruments arising from fair value measurement are distinguished from revenues and expenses reported in the statement of operations. The statement of operations reports the extent to which revenues raised in the period were sufficient to meet the expenses incurred. Remeasurement gains and losses attributable to financial instruments in the fair value category do not affect this assessment as they are recognized in the statement of remeasurement gains and losses. Taken together, the two statements account for changes in a government's net liabilities (or net assets) in the period.

.082 For fair value measurements recognized in the statement of financial position, a government discloses the following for each class of financial instruments.

…

(c) For fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:

(i) total gains or losses for the period recognized in the statement of remeasurement gains and losses;

…

.099 The transition to this Section is as follows:

…

(b) At the beginning of the fiscal year in which this Section is initially applied:

…

(ii) A government or government organization applies the criteria in paragraphs PS 3450.020 and PS 3450.023 in identifying those financial assets and financial liabilities to be measured at fair value. The entity applies the measurement provisions of this Section prospectively. The difference between a financial instrument's fair value and its previous carrying amount is recognized as an adjustment to the accumulated remeasurement gains and losses at the beginning of the fiscal year in which this Section is initially applied.

GLOSSARY

…

Remeasurement gains and losses are revenues and expenses arising:

(a) when, prior to an item's settlement, an exchange gain or loss is recognized in accordance with the provisions of FOREIGN CURRENCY TRANSLATION, Section PS 2601; and

(b) when financial instruments in the fair value category are remeasured in accordance with the requirements of this Section.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving narrow-scope amendments to FINANCIAL INSTRUMENTS, Section PS 3450.

.003 This Section does not apply to:

(a) tax receivables and payables relating to taxes including payments-in-lieu of taxes;

…

(e) rights and obligations under leases to which PUBLIC SECTOR GUIDELINE PSG-2, Leased Tangible Capital Assets, applies; however, the scope of this exception does not extend to:

(i) requirements to evaluate impairment for the lessor's receivable from the lessee under a direct financing or sales-type lease;

(ii) **derecognition** provisions applicable to the lessee's liability to the lessor under a capital lease; and

(iii) derivatives embedded in leases;

...

(o) loan commitments other than those outlined in paragraph PS 3450.008; and

(p) contracts to buy or sell non-financial items when quantities are in accordance with a government's expected purchase, sale or usage requirements.

…

.044 If an issuer of a debt instrument repurchases that instrument, the debt is extinguished even if the issuer is a market maker in that instrument or intends to resell it in the near term. A market maker facilitates market operations by standing ready to buy and sell a particular instrument. However, irrespective of the role or intent of a government, repurchases of its own securities are accounted for as an extinguishment.

.051 *If a government repurchases a part of a financial liability, it should allocate the previous carrying amount of the financial liability between the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the repurchase. The difference between the carrying amount allocated to the part derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, for the part derecognized should be recognized as a revenue or expense in the statement of operations.* [APRIL 1, 2019 *]

.099 The transition to this Section is as follows:

…

(b) At the beginning of the fiscal year in which this Section is initially applied, a government or government organization:

(i) recognizes all financial assets and financial liabilities on its statement of financial position and classifies items in accordance with paragraph PS 3450.059;

(ii) applies the criteria in paragraphs PS 3450.020 and PS 3450.023 in identifying those financial assets and financial liabilities to be measured at fair value; and

(iii) applies the measurement provisions of this Section prospectively. Any adjustment of the previous carrying amount is recognized as an adjustment to the accumulated remeasurement gains and losses at the beginning of the fiscal year in which this Section is initially applied.

(c) A government organization transitioning from the standards in the CPA Canada Handbook – Accounting recognizes an amount in accumulated remeasurement gains and losses at the beginning of the fiscal year in which this Section is initially applied equal to the closing accumulated other comprehensive income 2 attributable to items classified as available for sale.

…

(e) A government or government organization establishes an accounting policy that applies to the identification of embedded derivatives in contracts entered into by it. The policy, and its application, recognizes as separate assets and liabilities those embedded derivatives required to be reported in accordance with provisions of this Section on either a retroactive or prospective basis. Disclosure is made of the accounting policy and any adjustment to the accumulated remeasurement gains and losses at the beginning of the fiscal period in which this Section is initially applied.

.099A Paragraphs PS 3450.053A and PS 3450.057A apply to fiscal years beginning on or after March 1, 2013. Earlier adoption is permitted as of the beginning of the fiscal year in which this Section is first applied. As well, the following transitional provisions apply:

(a) A government or government organization applying paragraph PS 3450.099(b)(iii) recognizes any adjustment to the previous carrying amount of a financial asset that is externally restricted as a liability.

Footnotes

1. References in this Section to a government apply as well to other public sector entities.

* See explanation of effective date in paragraph PS 3450.097.

* See explanation of effective date in paragraph PS 3450.097.

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* See explanation of effective date in paragraph PS 3450.097.

2. In the case of a not-for-profit organization, as recognized in net assets.

1a. This is true of most, but not all, derivatives. For example, in some cross-currency interest rate swaps, principal is exchanged on inception (and re-exchanged on maturity).

* See explanation of effective date in paragraph PS 3450.097.
* See explanation of effective date in paragraph PS 3450.097.

2. In the case of a not-for-profit organization, as recognized in net assets.
