CICA handbook – accounting highlight summary no. 33 April 2005

HIGHLIGHT SUMMARY

(Note: New Handbook material or changes in existing material are identified in each HANDBOOK REVISIONS RELEASE.)

This Handbook release includes new accounting standards for recognition, measurement and disclosure of financial instruments, hedges and comprehensive income. It also includes many consequential amendments arising from the introduction of the new standards. The new standards will affect virtually every entity in Canada, small and large. For many entities, even though the new standards are lengthy, their effect will be modest. However, in some cases the new standards will require an entity to make significant accounting changes.

The new requirements are all to be applied at the same time and are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004.

Comprehensive income, Section 1530

This new Section establishes standards for reporting and display of comprehensive income.

The main feature of the new Section is a requirement for an enterprise to present comprehensive income and its components, as well as net income, in its financial statements.

Equity, Section 3251

This Section, which replaces SURPLUS, Section 3250, establishes standards for the presentation of equity and changes in equity during the reporting period. The main feature of this Section is a requirement for an enterprise to present separately each of the changes in equity during the period, including comprehensive income, as well as components of equity at the end of the period.

Financial instruments — recognition and measurement, Section 3855

This new Section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

The main features of the new Section are:

- Financial assets are classified as held for trading, held to maturity, loans and receivables, or available for sale.
- Almost all derivatives, including embedded derivatives that are not closely related to the host contract, are classified as held for trading.
- Financial assets and financial liabilities held for trading are measured at fair value with gains and losses recognized in net income in the periods in which they arise, unless they are part of a hedging relationship.
- Financial assets held to maturity, loans and receivables, and financial liabilities other than those held for trading, are measured at amortized cost.
- Financial assets available for sale are measured at fair value with gains and losses recognized in other comprehensive income until the financial asset is derecognized or becomes impaired.
- Investments in equity instruments that do not have a quoted market price in an active market, other than those held for trading, are measured at cost.
- An entity may elect on initial recognition to measure any financial instrument at fair value with gains or losses recognized in net income in the periods in which they arise.

Financial instruments — disclosure and presentation, Section 3861

This Section, which replaces FINANCIAL INSTRUMENTS — DISCLOSURE AND PRESENTATION, Section 3860, establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

The main features of this Section are:

- Requirements for an entity to provide accounting policy disclosures, revised from those formerly in Section 3860.

- Requirements for an entity's presentation of financial instruments, for offsetting, and for disclosures about format, location and classes of financial instruments, terms and conditions, interest rate risk and credit risk, essentially unchanged from those formerly in Section 3860.
- New requirements for disclosures about fair value.

Hedges, Section 3865

This new Section establishes standards for when and how hedge accounting may be applied.

The main features of the new Section are:

- The existing requirements of accounting guideline AcG-13, Hedging Relationships, dealing with when hedge accounting may be applied and when hedge accounting is discontinued have been included in Section 3865.
- Hedges are designated as either fair value hedges, cash flow hedges or hedges of a net investment in a self-sustaining foreign operation.
- For a fair value hedge, the gain or loss from remeasuring a derivative hedging item at fair value or, for a non-derivative hedging item, from remeasuring the foreign currency component of its carrying amount, is recognized in net income in the period of change together with the offsetting loss or gain on the hedged item attributable to the hedged risk. The carrying amount of the hedged item is adjusted for the effect of the hedged risk.
- For a cash flow hedge, the effective portion of the hedging item's gain or loss is initially reported in other comprehensive income and subsequently reclassified to net income when the offsetting loss or gain on the hedged item affects net income.
- For a hedge of a net investment in a self-sustaining foreign operation, similar accounting is followed as for a cash flow hedge.
- New disclosures about an entity's accounting for designated hedging relationships.

Amendments to other Sections

The main features of the amendments to other Sections are:

- FOREIGN CURRENCY TRANSLATION, Section 1651, replaces FOREIGN CURRENCY TRANSLATION, Section 1650. Paragraphs dealing with hedging of foreign currency items have been deleted as a result of issuing new Section 3865.
- INVESTMENTS, Section 3051, replaces LONG-TERM INVESTMENTS, Section 3050. Section 3051 continues to establish standards for accounting for investments subject to significant influence and for measuring and disclosing certain other non-financial instrument investments. However, portfolio investments are now accounted for in accordance with new Section 3855. Section 3051 also contains new guidance on when an other-than-temporary decline in value of an investment remaining subject to the Section has occurred.
- LIFE INSURANCE ENTERPRISES — SPECIFIC ITEMS, Section 4211, replaces LIFE INSURANCE ENTERPRISES — SPECIFIC ITEMS, Section 4210. Section 4211 establishes standards for actuarial liabilities, reinsurance and retrocession, segregated accounts and income and distributions by life and health insurance enterprises. These standards are unchanged from those formerly in Section 4210. However, only "life insurance investments" (primarily real estate) will now be accounted for in accordance with Section 4211, with financial instruments now accounted for in accordance with new Section 3855.
- TEMPORARY INVESTMENTS, Section 3010, and DEFERRED CHARGES, Section 3070, have been withdrawn. Certain requirements from these Sections have been moved to Section 1510.
- FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4400, has been amended to introduce the ability for an organization to recognize certain gains and loses directly in the statement of changes in net assets.

Accounting guidelines

Amended

- Financial reporting by property and casualty insurance companies (AcG-3)
- Actuarial liabilities of life insurance enterprises — disclosure (AcG-8)
- Financial reporting by life insurance enterprises (AcG-9)
- Transfers of receivables (AcG-12)
- Disclosure of guarantees (AcG-14)
- Investment companies (AcG-18)

Withdrawn

- Hedging relationships (AcG-13)
- Equity-linked deposit contracts (AcG-17)