

public sector accounting handbook

highlight summary no. 49

April 2020

Financial instruments, Section PS 3450

This Section has been amended to improve specific areas. The main features of the amendments include:

- Changes to the accounting treatment for bond repurchase transactions;
- Clarification on aspects of the Section's application; and
- Addition of new guidance to the transitional provisions.

The amendments are effective for fiscal years beginning on or after April 1, 2022, with earlier application permitted.

Bond repurchase transactions

The most substantive issue addressed relates to the accounting treatment for bond repurchase transactions. Specifically, the amendments no longer require bond repurchase transactions to be treated as extinguishments, unless they meet the criteria set out in paragraph PS 3450.043 (legally discharged) or paragraph PS 3450.048 (exchange of debt).

Section application

The following amendments have been made:

- Clarification that Section PS 3450 does not apply unless a contractual right or a contractual obligation underlies a receivable or payable;
- Clarification on how a transfer of collateral pursuant to a credit risk management mechanism in a derivative contract is accounted for; and
- Addition of application guidance confirming that derecognition of a financial asset does not occur if the transferor retains substantially all the risks and benefits of ownership.

Transitional provisions

The following clarifications have been made:

- Controlling governments should use the carrying values of the financial assets and liabilities in the records of its government organizations when consolidating a government organization;
- Any unamortized discount, premium, or transaction costs associated with a financial asset or financial liability in the cost or amortized cost category should be included in the item's opening carrying value; and
- In cases where derivatives were not recognized or were not measured at fair value prior to adopting Section PS 3450, any difference between the previous carrying value and fair value should be recognized in the opening balance of accumulated remeasurement gains and losses.

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