# MEDIA RELEASE *Communiqué*

**Attention Business / Assignment Editors**

## Canada's accounting standard-setter 'closes the gap in GAAP' with new standards for financial instruments

**TORONTO, January 27, 2005 –** Canada's Accounting Standards Board (AcSB) today issued new standards intended to dramatically improve how financial instruments are reported in financial statements. These standards will impact virtually every entity in Canada, small and large, to varying degrees.

"The new standards on financial instruments are not unique, nor have they been developed from scratch. The Board has proceeded cautiously, consulted many parties, and drawn on the implementation experience of international counterparts. The resulting standards are in effect, a hybrid of US GAAP and international standards, adapted for Canadian needs," said Paul Cherry, Chair of the Accounting Standards Board. "The new standards close a lot of the gaps in Canadian GAAP and bring Canadian standards for financial instruments in line with best international practice."

The AcSB presently has in place standards for disclosures about an entity's use of financial instruments and how financial instruments should be presented when included on the balance sheet. However, until now it has not had standards that comprehensively address when an entity should recognize a financial instrument on its balance sheet, nor how it should measure the financial instrument once recognized.

"One of the key impacts of the new standards is that all derivatives and most equity investments, such as common shares, will need to be recognized and measured at fair value," said Cherry. "Fair value measurement is the only way that many financial instruments become visible to financial statement users. When financial instruments are not measured at fair value, they don't show the gains and losses - sometimes disproportionate gains and losses due to changes in market conditions. Currently, a user can not see the potential exposures these instruments create until it's too late. Financial statement users have a right to know the risks and obligations inherent in derivatives and other financial instruments."

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“Providing transparent and reliable financial statements for users is the prime aim of the AcSB and it is with measures such as these standards that the Board meets that goal,” continued Cherry.

The new standards are based on the U.S. Financial Accounting Standards Board’s (FASB) Statement 133, Accounting for Derivative Instruments and Hedging Activities, and also the International Accounting Standards Board’s improved new standard, IAS 39, Financial Instruments – Recognition and Measurement.

These are the highlights of the new standards:
(please see backgrounders providing an overview of the new standards accompanying this news release.)

- All financial instruments, including derivatives, are to be included on a company’s balance sheet and measured, either at their fair values or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost. The standards also specify when gains and losses as a result of changes in fair values are to be recognized in the income statement. These requirements will probably affect all entities to some degree.

- Existing requirements for hedge accounting are extended. To date the AcSB has requirements in place that specify the circumstances under which hedge accounting is permissible, but do not comprehensively specify how hedge accounting should be performed – i.e. what are the debits and credits that should be recorded, and where.

- A new location for recognizing certain gains and losses - other comprehensive income - has been introduced. This provides an ability for certain gains and losses arising from changes in fair value to be temporarily recorded outside the income statement, but in a transparent manner.

The new standards are lengthy and may seem somewhat daunting to some. But Cherry pointed out that for many entities, the new standards will have a modest impact. For example, existing accounting for cash, accounts receivable, accounts payable, long-term debt, loans and deposits will largely remain unchanged. However, for entities that use large numbers of complex financial instruments, including derivatives (such as forwards, swaps and options), or with significant investment portfolios, the change may be significant. “Because of the increasing complexity of the capital markets, the international accounting standard-setting community, including Canada, is being compelled to develop comprehensive accounting solutions that can provide transparent and reliable information about complicated financial instruments transactions,” said Cherry.

The AcSB has also established a Financial Instruments Working Group, which is charged with assisting in the development of implementation guidance to help apply the standards.

The mandatory effective date for the standards to be adopted is for annual and interim periods beginning on or after October 1, 2006. (In many cases this will mean application to calendar years beginning on January 1, 2007.) However, early adoption is permitted.

The new standards can be viewed in their entirety at www.acsbcanada.org.

**The Accounting Standards Board** establishes financial accounting and reporting standards for use by Canadian companies and not-for-profit organizations. It also participates in the development of internationally accepted accounting standards. The Board sets its financial accounting and reporting standards after an extensive process of consultation with organizations and individuals that are interested in or affected by the standards. The standards contribute to enhanced decision making by continuously improving the quality of financial and other information about organizational performance reported by Canadian entities.

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