



Financial Instruments — Transitional Provisions

January 2012

**COMMENTS MUST BE RECEIVED BY
FEBRUARY 24, 2012**

This Exposure Draft is issued by the Public Sector Accounting Board. The members of the Board are drawn from government, legislative auditors, public accounting, business and academe. All members serve as individuals and not as representatives of their governments, employers or organizations.

Individuals, governments and organizations are invited to send written comments to the Board on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

All comments received will be available on the website at www.psab-ccsp.ca shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

To be considered, comments must be received by February 24, 2012, addressed to:

**Tim Beauchamp, Director
Public Sector Accounting
277 Wellington Street West
Toronto, Ontario M5V 3H2**

A PDF [response form](#) has been posted with this document to assist you in submitting your comments. Alternatively, you may send comments by e-mail (in Word format), to: ed.psector@cica.ca

Public Sector Accounting Standards, Guidelines and Recommended Practices need not be applied to immaterial items. Materiality is a matter of professional judgment in the particular circumstances. Materiality may be judged in relation to the reasonable prospect of its significance in the making of assessments and judgments by the users of financial statements. A material item would be expected to affect assessments of and judgments on government financial operations and management.

Highlights

The Public Sector Accounting Board (PSAB) proposes, subject to comments received following exposure, to amend FOREIGN CURRENCY TRANSLATION, Section PS 2601, and FINANCIAL INSTRUMENTS, Section PS 3450, in the CICA Public Sector (PSA) Accounting Handbook to specify the accounting for certain gains and losses that have been recognized by a government organization but have yet to be realized in its pre-transition operating results. Responses are requested by February 24, 2012.

Main features of the Exposure Draft

The following summarizes the amendments being proposed:

Section PS 2601

Proposed amendments to paragraph PS 2601.25 address issues specific to government organizations transitioning to the PSA Handbook from pre-changeover accounting standards in Part V of the CICA Handbook – Accounting. The proposals:

- (a) amend paragraph PS 2601.25(a) to address the accounting for accumulated gains or losses yet to be recognized in net income or operations associated with a hedging item designated to a cash flow hedge or to hedge a net investment in a self-sustaining foreign operation; and
- (b) add paragraph PS 2601.25(d) to account for accumulated other comprehensive income or, in the case of a not-for-profit organization, the equivalent accumulated gain or loss recognized in the statement of changes in net assets, attributable to the translation of the financial statements of a self-sustaining foreign operation.

The proposed amendments would require recognition, at the date of transition, in opening accumulated remeasurement gains and losses, of gains or losses attributable to the circumstances as described above in (a) or (b).

Section PS 3450

Amendments are proposed to clarify the application of paragraph PS 3450.099 by government organizations. As well, the proposed changes address the accounting for accumulated other comprehensive income, or in the case of a not-for-profit organization the equivalent accumulated gain or loss recognized in the statement of changes in net assets, associated with items classified as available for sale. These amounts are recognized at the date of transition in opening accumulated remeasurement gains and losses.

Comments requested

PSAB welcomes comments from individuals, governments and organizations on all aspects of the Exposure Draft.

When comments have been prepared as a result of a consultative process within an organization, it is helpful to identify, generically, the sources of the comment in the response. This will promote understanding of how the proposals are affecting various aspects of an organization.

Comments are most helpful if they relate to a specific paragraph or group of paragraphs, and, when expressing disagreement, they clearly explain the problem and indicate a suggestion, supported by specific reasoning for alternative wording.

Please respond to the following questions:

1. Do you agree with amending the CICA PSA Handbook in the manner outlined in this Exposure Draft? If not, identify the amendment(s) you disagree with and the basis for disagreement, and suggest an alternate approach.
2. Are there any additional matters that need to be considered?

For your convenience, a PDF response form has been posted with this document that can be downloaded [here](#). You can save the form both during and after completion for future reference. You are not restricted by the size of the interactive comment fields in the response form and there is also a general comments section.

Alternatively, you may send written comments by e-mail in Word format to: ed.psector@cica.ca

Financial Instruments — Transitional Provisions

PROPOSAL

The following Handbook Sections would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough.

FOREIGN CURRENCY TRANSLATION, Section PS 2601

- .25 The following provisions are applied at the beginning of the fiscal year (the transition date) in which this Section is initially adopted.
- (a) Hedge accounting policies followed in financial statements for periods prior to the fiscal year ~~a government adopts~~ this Section is adopted are not reversed and, therefore, those financial statements are not restated. Any gain or loss arising prior to the transition date on a derivative hedging instrument, and any foreign exchange gain or loss arising prior to the transition date on a non-derivative hedging instrument, is accounted for as an adjustment in the balance of the accumulated remeasurement gains and losses at the transition date to the extent those gains or losses have not been recognized in net income or operations prior to the transition date. The carrying value of the hedged item is adjusted based on the foreign exchange rate on the transition date and is accounted for as an adjustment in the balance of the accumulated remeasurement gains and losses at the transition date.
 - (b) Any unamortized exchange gain or loss relating to a long-term foreign currency denominated monetary item deferred on the statement of financial position is accounted for as an adjustment in the balance of the accumulated remeasurement gains and losses at the transition date.
 - (c) If no unamortized exchange gain or loss is associated with an item in the cost or amortized cost category that is a monetary asset or a monetary liability as at the date of transition, the exchange rate at the date of transition (instead of the exchange rate at the date of the item's initial recognition) is used in measuring the exchange gain or loss recognized in the statement of operations in the period settlement occurs.
 - (d) A government organization transitioning from the standards in the CICA 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 income¹ attributable to the translation of the financial statements of a self-sustaining foreign operation.

FINANCIAL INSTRUMENTS, Section PS 3450

- .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, ~~a government discloses~~ it is disclosed that the financial statements of prior periods, including comparative information, have not been restated.

¹ In the case of a not-for-profit organization, as recognized in net assets.

- (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) remeasures assets and liabilities as appropriate. 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 CICA 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 income² attributable to items classified as available-for-sale.
- (de) 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.
- (ed) 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. ~~A government discloses~~ 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.

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