

Changes affecting the accounting for investments in debt securities and loans and receivables – Canadian GAAP changes in 2009



Background

In August 2009, the Accounting Standards Board amended the requirements in Section 3855, Financial Instruments – Recognition and Measurement (Section 3855) on accounting for investments in debt securities, such as government debt, corporate bonds, convertible debt, commercial paper, certain in-substance debt instruments such as term preferred shares, and securitized debt instruments. There have been consequential amendments to other aspects of Section 3855 that can affect the accounting for certain types of loans and receivables.

The new requirements are effective for annual financial statements for fiscal years beginning on, or after November 1, 2008. For an entity with a calendar year-end this means that the disclosures will be required in its upcoming December 31, 2009 annual financial statements.

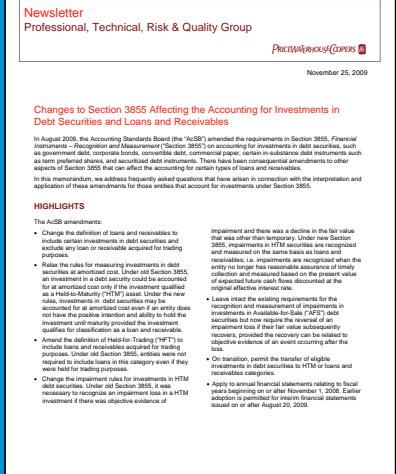
The amendments

- Change the definition of loans and receivables to include certain investments in debt securities and exclude any loan or receivable acquired for trading purposes.
- Relax the rules for measuring investments in debt securities at amortized cost. Under old Section 3855, an investment in a debt security could be accounted for at amortized cost only if the investment qualified as a Held-to-Maturity (HTM) asset. Under the new rules, investments in debt securities may be accounted for at amortized cost even if an entity does not have the positive intention and ability to hold the investment until maturity provided the investment qualifies for classification as a loan and receivable.
- Amend the definition of Held-for-Trading (HFT) to include loans and receivables acquired for trading purposes. Under old Section 3855, entities were not required to include loans in this category even if they were held for trading purposes.

- Change the impairment rules for investments in HTM debt securities. Under old Section 3855, it was necessary to recognize an impairment loss in a HTM investment if there was objective evidence of impairment and there was a decline in the fair value that was other than temporary. Under new Section 3855, impairments in HTM securities are recognized and measured on the same basis as loans and receivables; i.e. impairments are recognized when the entity no longer has reasonable assurance of timely collection and measured based on the present value of expected future cash flows discounted at the original effective interest rate.
- Leave intact the existing requirements for the recognition and measurement of impairments in investments in Available-for-Sale (AFS) debt securities but now require the reversal of an impairment loss if their fair value subsequently recovers, provided the recovery can be related to objective evidence of an event occurring after the loss. On transition, permit the transfer of eligible investments in debt securities to HTM or loans and receivables categories.

Questions?

PwC recently issued a newsletter titled *Changes to Section 3855 Affecting the Accounting for Investments in Debt Securities and Loans and Receivables* which you can find at www.pwc.com/ca/publications. It answers 25 Frequently Asked Questions, and includes a comparison between the new Canadian rules for impairment of debt securities with IFRS and US GAAP.



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