

Fair Value Hierarchy Disclosures – Understanding and applying the new Canadian GAAP requirements in 2009

Background

In 2009 the Accounting Standards Board amended CICA Handbook Section 3862, Financial Instruments – Disclosures (Section 3862), requiring enhanced disclosures about the relative reliability of the data, or “inputs”, used to measure

the fair values of its financial instruments. The new requirements are effective for annual financial statements for fiscal years ending after September 30, 2009. 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.

These amendments were in response to criticisms during the financial crisis that disclosures about fair value did not provide financial statement users with sufficient insight about the reliability of fair value measurements. For example, users were not previously able to distinguish measurements based



primarily on observable prices from those based principally on assumptions that could not be verified by reference to external sources. The new requirements mirror changes made to International Financial Reporting Standards in 2009 and are based on requirements for recurring fair value measurements under US GAAP.

The requirements

The new requirements are in paragraphs 27A and B of Section 3862. At the heart of these disclosures is a “fair value hierarchy” that requires companies to classify financial instruments measured at fair value at one of three levels according to the relative reliability of the

inputs used to estimate the fair values. Any instrument within the scope of the Section that has been measured at fair value on the balance sheet must be included within the hierarchy, including all instruments classified as “held-for-trading” or “available-for-sale”.

Questions?

Understanding and applying the requirements can be challenging. PwC recently issued a newsletter titled *The Fair Value Hierarchy Disclosures – Understanding and applying Section 3862* which you can find at www.pwc.com/ca/publications. It helps you understand the requirements so you can prepare these disclosures over the next few weeks for your 2009 financial statements. The newsletter:

- Explains the background to the amendments;
- Reviews and comments on the requirements;
- Gives an illustrative example of their application;
- Outlines steps for preparing the disclosures;
- Identifies and discusses the key drivers to the disclosures;
- Considers the classification of more common types of instruments subject to the requirements, such as quoted equity investments, investments in bonds, interest rate and cross currency swaps and forward exchange contracts; and
- Discusses the transition requirements.



For help go to www.pwc.com/ca/publications or contact:

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