

To: Senior Financial Officers

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From: Carl Fischer, A/Director
Financial Reporting and Advisory Services

155602

Subject: **New Financial Instruments Accounting Standards**

Recently, the Canadian Institute of Chartered Accountants (CICA) issued new guidance on how financial instruments must be valued for accounting purposes. This guidance applies to all entities that use the CICA Accounting Handbook. The guidance is effective for fiscal years that commence October 1, 2006. Early adoption is allowed. The new handbook sections are: Section 3855, *Financial Instruments—Recognition and Measurement*; Section 3865, *Hedges*; and Section 1530, *Comprehensive Income*.

The new standards address when a financial instrument should be recognized on the balance sheet and how it should be measured. Those entities that have no financial instruments other than cash, accounts receivable, inventory, accounts payable and arm's length debt that is held to maturity will see little difference in accounting for these instruments. Those entities that actively use the capital markets for financing or investing, use derivative instruments or practice hedging activities will see a significant difference in the reporting of unrealized gains of financial instruments.

Details of the new standards can be found on the CICA website:

http://www.cica.ca/index.cfm?la_id=1&ci_id=1580&highlight_keywords=Financial%20Instruments. The link to the brochure *Financial Instrument: Navigating new waters* can be found on the above web page under the heading **Related Information**. This brochure provides an overview and introduction to these new standards.

The new guidance is not applicable to the provincial government. Therefore, the effects of the new guidance must be conformed to existing Public Sector Accounting Board (PSAB) recommendations when the financial statements of non-modified equity Crown corporations, government agencies and SUCH sector entities are consolidated into the Public Accounts and quarterly financial statements. The Supplemental Financial Report (Appendix C) has been updated to capture the required information. The Public Accounts will also include information related to the adoption of the new handbook sections in Note 20—Risk Management and Derivative Financial Instruments.

PSAB has issued specific procedures with respect to the self-supporting Crowns. These procedures allow OCG to consolidate the financial statements and self-supporting Crowns without additional information being provided by the modified equity Crowns to OCG.

Ministries with responsibility for the SUCH sector should contact each entity and ensure they have adopted procedures to implement the new standards. A suggested template is attached. OCG has contacted the taxpayer-supported Crown corporations directly to notify them of this new requirement.

Thank you for your ongoing assistance with financial reporting changes and improvements. If you have any questions, please contact Catherine Hoefler at 387-8558 or by e-mail at Catherine.Hoefler@gov.bc.ca.

(Original signed by:)

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Attachment

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Catherine Hoefler
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