



GUIDELINE

NEW FINANCIAL INSTRUMENTS ACCOUNTING STANDARDS FOR ONTARIO CREDIT UNIONS AND CAISSES POPULAIRES

November 6, 2006

Introduction

This communication provides guidance to Ontario's credit unions, caisses populaires and leagues (hereinafter collectively called "credit unions") with respect to the new financial instruments accounting standards issued under the following three new sections in the CICA Handbook:

- Section 3855 - *Financial Instruments – Recognition and Measurement*;
- Section 3865 – *Hedges*; and
- Section 1530 – *Comprehensive Income*.

The *Credit Unions and Caisses Populaires Act 1994*, S.O. 1994, C.11 (hereinafter called the "Act") allows the Superintendent of Financial Services at the Financial Services Commission of Ontario (FSCO) to specify accounting principles. Where the new standards allow for a choice, then FSCO's guideline to making that choice would constitute allowable "GAAP" under CICA Handbook Section 1100 – *Generally Accepted Accounting Principles*. In providing this guideline, FSCO has considered the need for consistency and harmonization with other provincial and national regulatory agencies, including the Office of the Superintendent of Financial Institutions (OSFI). FSCO expects credit unions to follow GAAP and to adopt the new standards with the exception for loans and mortgages for which credit unions are to adopt the recommendations in OSFI's Guideline D-10. This will allow FSCO to continue to rely on the work of the credit unions' external auditors.

Effective Date for New Standards

Credit unions are expected to implement the new financial instruments accounting standards for all interim and audited financial statements for financial years beginning on or after October 1, 2006.

Loans and Mortgages

OSFI has issued *Guideline D-10 – Accounting for Financial Instruments Designated as Fair Value Option* (dated June 2006), which restricts the use of the fair value option for loans and mortgages given to companies with annual gross revenues below \$62.5 million. Given that OSFI has conducted research on the impact of the new standards, it would be preferable to capitalize on such research. Therefore, credit unions are not to use the fair

value option for loans and mortgages to companies with annual gross revenue below \$62.5 million. The fair value option should also not be used for loans and mortgages to individuals. Portfolios composed of either or both of these types of loans and mortgages should also not be measured using the fair value option.

Capital Adequacy

For the purposes of determining regulatory capital in accordance with section 84 of the Act, subsection 12 of Ontario Regulation 76/95 and the Capital Adequacy Guideline (March 1, 1995), the Accumulated Other Comprehensive Income is to be included in the calculation of Tier 2 capital.

Liquidity

For the purposes of determining adequate liquidity in accordance with section 84 of the Act and subsections 16, 17, 18 and 21 of Ontario Regulation 76/95, the value of an asset is the amount calculated in accordance with GAAP and as reported on the credit union's financial statements.

Restriction on Dividends and Redemption of Shares

In accordance with subsection 62(3) and section 67 of the Act, the redemption of shares or the payment of dividends or patronage returns is restricted if the payment would impair the credit union's ability to maintain adequate capital and liquidity. For the purpose of determining capital adequacy for the redemption of shares and payment of dividends including patronage returns, the Accumulated Other Comprehensive Income is not to be included as part of regulatory capital.

Other Remarks

FSCO understands that the implementation of the new standards is challenging. FSCO will monitor the implementation of the new standards and issue additional guidance as necessary. This guideline will be available on the FSCO website at: www.fSCO.gov.on.ca, under: "Credit Unions / Caisses Populaires – Guidelines for Credit Unions and Caisses Populaires."

If you have any questions about this guideline, please contact Paul Chung, Principal Examiner in the Market Conduct Branch at FSCO at: (416) 590-7530, or by e-mail at: pchung@fSCO.gov.on.ca.

Bob Christie
Chief Executive Officer and
Superintendent of Financial Services