



Advisory

Subject: Section 1100 of the CICA Handbook and Regulatory Reporting

Category: Accounting

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CICA Handbook Section 1100, *Generally Accepted Accounting Principles* (GAAP), establishes standards for financial reporting in accordance with GAAP and describes what constitutes Canadian GAAP and its sources. The section is effective for fiscal years beginning on or after October 1, 2003.

As a result of the adoption of Section 1100, certain industry accounting practices are no longer permitted. Some significant areas affected include the accounting treatment of the currency translation account (CTA), mortgage prepayment fees, software development costs, securities transactions (trade-date vs. settlement-date), transit balances, and trading of own shares.

OSFI's requirements for regulatory reporting follow GAAP except where otherwise stated in reporting instructions, guidelines or advisories. For mortgage prepayment fees, software development costs, and trade-date vs. settlement-date accounting OSFI expects regulatory financial statements to follow GAAP. OSFI has also amended its regulatory reporting forms to reflect Section 1100 changes that now require CTA to be disclosed as a separate component of shareholders equity and will continue to include CTA in the definition of Tier 1 capital.

OSFI plans to amend regulatory reporting in the future to be consistent with GAAP for transit items due to the Bank of Canada's reporting needs. However, for the time being, these items should continue to be temporarily recorded in accordance with existing regulatory reporting requirements.

For trading in long and short positions of own shares, OSFI expects regulatory financial statements to follow GAAP. However, for capital adequacy reporting purposes OSFI expects that gross short positions of own shares recorded in accounting equity be deducted from regulatory capital where the accounting treatment under Section 1100 results in an *increase* to accounting equity. Where trades in short positions of own shares are not recorded in accounting equity, OSFI does not require any regulatory capital adjustment to be made. (Please see examples, attached.)

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S.1100 *Generally Accepted Accounting Principles*
Trading in Own Shares – Examples

Trading in Long Positions in Own Shares

For trading in long positions of own shares, OSFI expects regulatory capital treatment to follow GAAP. Where a financial institution trades in its own shares and adjusts its accounting equity for long positions held, no further adjustment is required for regulatory capital.

- Example:

\$ 1,000	Pre-Section 1100 Equity
- <u>200</u>	Gross Long Position
= \$ 800	Equity for GAAP Purposes and Regulatory Capital

Trading in Short Positions in Own Shares

For trading in short positions of own shares, where accounting standards result in a direct increase to equity, OSFI expects that gross short positions recorded in accounting equity will be deducted from regulatory capital as required by the current definition of capital.

- Example:

\$ 1,000	Pre-Section 1100 Equity
- 200	Gross Long Position
+ <u>150</u>	Gross short Position
= \$ 950	Equity for GAAP Purposes
\$ 950	Accounting Equity
- <u>150</u>	Gross Short Position
= \$ 800	Regulatory Capital