

Our File: P2050-1

December 23, 2004

To: Banks
Foreign Bank Branches
Federally Regulated Trust and Loan Companies
Federally Regulated Cooperative Credit Associations
Federally Regulated Life Insurance Companies & Fraternal Benefit Societies
Federally Regulated Property and Casualty Companies

Subject: Financial Instruments, Hedges, and Comprehensive Income Accounting Standards and Regulatory Reporting

CICA Handbook Sections 3855, *Financial Instruments – Recognition and Measurement*, Section 3865 – *Hedges*, and Section 1530, *Comprehensive Income* (“Standards”) were developed for recognition and measurement of financial instruments to harmonize with US Generally Accepted Accounting Principles. The effective date of these standards is for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted as of the beginning of a fiscal year ending on or after December 31, 2004.

OSFI is currently reviewing the regulatory implications of the Standards, which have gains/losses go to Other Comprehensive Income, and which will also allow an option to fair value assets and liabilities. The process of identifying issues related to these Standards will take a number of months to complete, including allowance for industry consultation. Consequently, OSFI does not recommend that institutions early adopt these Standards until further guidance can be developed on their application. In the meantime, institutions should continue to prepare regulatory returns without regard to the new Standards until fiscal years beginning on or after October 1, 2006, the effective date.

Questions on this matter should be directed to Ms Karen Stothers by e-mail at karen.stothers@osfi-bsif.gc.ca or facsimile at (416) 952-0664.

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Regulation Sector