



Reference: Guideline for Banks/FBBs  
BHCs/T&Ls/Co-ops/  
Life/P&C/Fraternal/IHCs

Our File: P2050-20

February 13, 2007

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

**Subject: Amended Guideline D-10 – Accounting for Financial Instruments Designated as Fair Value Option**

In June 2006, OSFI issued Guideline D-10 in response to the introduction of the Fair Value Option in CICA Handbook section 3855, Financial Instruments - Recognition and Measurement. Guideline D-10 provides additional guidance on assessing whether fair values are reliable and consistent, and whether those values are based on sound internal management practices.

Subsequent to the issuance of Guideline D-10, financial institutions raised some issues in respect of the accounting for loans with the intent of reselling for profit. Under the previous Canadian accounting standards, and consistent with current international standards, these types of loans would simply be designated as held for trading, without use of the Fair Value Option. A similar practice is also generally followed when applying US standards. Under Canada's new financial instruments standard, these loans can only be designated as held for trading if the Fair Value Option is used. However, under the June 2006 version of Guideline D-10, these loans would not qualify to use the Fair Value Option and would essentially create a different accounting treatment compared to that of previous Canadian and current US and international GAAP.

OSFI undertook consultations with a number of financial institutions to address the situations in which those loans with intent of reselling for profit could be allowed to use the Fair Value Option. This work has led to the identification of four situations where Guideline D-10 should be amended to allow the Fair Value Option to be applied to loans with intent for reselling for profit. Please refer to the section entitled: Using the Fair Value Option for Loans and Receivables for the amended guidance. This guidance is effective for the same period that the new accounting standard is adopted.



Questions concerning the Guideline should be addressed to Ms. Karen Stothers, Director, Accounting Policy Division at (416) 973-0744.

Robert Hanna  
Acting Assistant Superintendent  
Regulation Sector

Attach.