



**Reference: Advisory for
Banks/T&L/Life**

Our File: P2212-13

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TO: Banks
Federally Regulated Trust and Loan Companies
Federally Regulated Life Insurance Companies

Subject: Section 3860 of the CICA Handbook and the Regulatory Capital Treatment of Preferred Shares and Innovative Tier 1 Instruments

In accordance with the final revisions to CICA Handbook Section 3860, *Financial Instruments – Disclosure and Presentation*, certain outstanding Tier 1-qualifying preferred shares having features that provide for their potential conversion into common shares will be accounted for as liabilities under Canadian Generally Accepted Accounting Principles. The revisions to Section 3860 will also affect the accounting treatment of outstanding capital instruments having similar conversion features and currently qualifying for innovative Tier 1 capital recognition. These revisions are effective for fiscal periods beginning on or after November 1, 2004.

OSFI has determined that these revisions will affect the ability to continue recognizing such preferred shares in a FRFI's Tier 1 capital and may affect the ability to continue recognizing in a FRFI's innovative Tier 1 capital any instruments having similar conversion features. Accordingly, OSFI is issuing an Advisory to provide clarity regarding its regulatory treatment of these capital instruments going forward.

The Advisory is available in English and French on OSFI's Internet Web site (<http://www.osfi-bsif.gc.ca>) under the [Publications](#) section. It may also be obtained by contacting Mr. Stéphane Dupel, General Services Division, by e-mail at pub@osfi-bsif.gc.ca or by facsimile at (613) 952-8219.

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