



# Financial Instruments

## Responses to Exposure Draft

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October 2021

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## Table of Contents

<b>Response Number</b>	<b>Organization</b>
1	<u><a href="#">Grant Thornton LLP</a></u>
2	<u><a href="#">BDO Canada LLP</a></u>
3	<u><a href="#">Ernst and Young LLP</a></u>
4	<u><a href="#">Canadian Association of University Business Officers</a></u>
5	<u><a href="#">PricewaterhouseCoopers LLP</a></u>
6	<u><a href="#">Council of Ontario Finance Officers</a></u>
7	<u><a href="#">McMaster University</a></u>

October 13, 2021

Kelly Khalilieh, CPA, CA  
Director  
Accounting Standards Board  
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Dear Ms. Khalilieh:

**Re: Exposure Draft – Financial Instruments [September 2021]**

Grant Thornton LLP (we) would like to thank you for the opportunity to provide comments on the Accounting Standards Board's (the "Board") Exposure Draft *Financial Instruments* (the "ED"). We agree with the Board's proposed changes to Section 3856 *Financial Instruments*. Our comments on the specific questions are found in Appendix A.

If you wish to discuss our comments or concerns, please contact Melanie Joseph ([Melanie.Joseph@ca.gt.com](mailto:Melanie.Joseph@ca.gt.com), 416-607-2736).

Yours sincerely,



Melanie Joseph, CPA, CA  
Grant Thornton LLP

# Appendix A – Responses to Exposure Draft questions

## Part II – Accounting Standards for Private Enterprises

- 1. Do you agree that a practical expedient should be added to Section 3856 so that the debt modifications related to IBOR reform may be accounted for as a continuation of the existing contract and not as an extinguishment (see paragraph 3856.29A)? If not, why not?**

Yes, we agree that a practical expedient should be added; however, we believe that the Board should also consider the following:

- We believe that paragraph .29C should be modified to provide clarity as to what should happen if there are both modifications that relate to IBOR reform and those that do not. The Basis for Conclusions (“BC”) paragraphs 10 and 11 state that only modifications related to IBOR qualify for the expedient while other modifications do not. We question whether it is possible to apply the expedient first for IBOR changes and then apply the other relevant standards to deal with the other changes? Or will users try to separate the other non-IBOR modifications as not being contemporaneous? We note that paragraph IFRS 9.5.4.9 contemplates this fact pattern whereby the practical expedient is applied first and then the applicable standards next.
- We also believe that it is unclear in paragraphs .29C and A54A(b) as to the proposed accounting treatment for any cash settlement for any difference intended to compensate for the difference in reference rates, when the practical expedient is applied.
- We question whether the Exposure Draft should also contemplate a modification of cash flows related to IBOR reform with respect to assets carried at amortized cost. We acknowledge that the ASPE standard is silent on changes in cash flows (i.e., no equivalent IFRS 9.B5.4.5 or 5.4.6) and that the Board may not wish to provide additional guidance nor consider changes related to IBOR reform for financial assets to be of the same significance as for financial liabilities.

- 2. Do you agree that the proposed practical expedient in paragraph 3856.29A should be optional? If not, why not?**

Yes, we agree.

- 3. Do you agree with the proposed exception in Section 3856 to require the continuation of hedge accounting when one or more critical terms change as a direct consequence of IBOR reform (see paragraph 3856.36A)? If not, why not?**

Yes, we agree.

- 4. Do you agree with the disclosure requirement proposed (see paragraph 3856.54A)? If not, why not?**

Yes, we agree with the proposed disclosure; however, we believe that the Board should include disclosure of the notional amount since the qualifying hedging relationship remains off balance sheet with no carrying amount.

**5. Do you agree that the amendments to Section 3856 should be applied retrospectively, as defined in Section 1506 (see paragraph 3856.69)? If not, why not and in what circumstances would prospective application be preferred?**

Yes, we agree.

**6. Do you agree that the discontinued hedging relationships must be reinstated if, and only if, the conditions outlined in paragraph 3856.71 are met? If not, why not?**

Yes, we agree.

**7. Do you agree with the proposed effective date of fiscal years ending on or after February 1, 2022, with earlier application permitted? If not, why not?**

Yes, we agree.



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Kelly Khalilieh, CPA, CA  
Director, Accounting Standards  
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October 15, 2021

**Re: Financial Instruments**

Dear Ms. Khalilieh,

We have read the above-mentioned Consultation Paper that was issued in September 2021 and are pleased to have the opportunity to provide responses to your specific questions as outlined below.

1. *Do you agree that a practical expedient should be added to Section 3856 so that the debt modifications related to IBOR reform may be accounted for as a continuation of the existing contract and not as an extinguishment (see paragraph 3856.29A)? If not, why not?*

We agree with that a practical expedient should be added so that the debt modifications related to IBOR reform may be accounted for as a continuation of the existing contract and not as an extinguishment.

2. *Do you agree that the proposed practical expedient in paragraph 3856.29A should be optional? If not, why not?*

We agree that the proposed practical expedient in paragraph 3856.29A should be optional.

3. *Do you agree with the proposed exception in Section 3856 to require the continuation of hedge accounting when one or more critical terms change as a direct consequence of IBOR reform (see paragraph 3856.36A)? If not, why not?*

We agree with the proposed exception in Section 3856 to require the continuation of hedge accounting when one or more critical terms change as a direct consequence of IBOR reform.

4. *Do you agree with the disclosure requirement proposed (see paragraph 3856.54A)? If not, why not?*

We agree with the disclosure requirement proposed.



5. *Do you agree that the amendments to Section 3856 should be applied retrospectively, as defined in Section 1506 (see paragraph 3856.69)? If not, why not and in what circumstances would prospective application be preferred?*

We agree that the amendments to Section 3856 should be applied retrospectively.

6. *Do you agree that the discontinued hedging relationships must be reinstated if, and only if, the conditions outlined in paragraph 3856.71 are met? If not, why not?*

We agree that the discontinued hedging relationships must be reinstated only if the conditions are met.

7. *Do you agree with the proposed effective date of fiscal years ending on or after February 1, 2022, with earlier application permitted? If not, why not?*

We agree with the proposed effective date.

Thank you for your consideration of the above-noted responses. We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me at 416-369-6047 or via email at [sruparelia@bdo.ca](mailto:sruparelia@bdo.ca).

Yours sincerely,

Sona Ruparelia, CPA, CA, MAcc  
Director National Accounting Standards  
BDO Canada LLP

Kelly Khalilieh, CPA, CA  
Director, Accounting Standards  
Accounting Standards Board  
277 Wellington Street West  
Toronto, Ontario M5V 3H2

October 18, 2021

Dear Ms. Khalilieh:

Ernst & Young LLP ("EY" or "we") welcome the opportunity to provide comments to the Accounting Standards Board ("AcSB") on the September 2021 Financial Instruments Exposure Draft (the "Exposure Draft"). Our responses to the specific questions posed in the Exposure Draft are included below.

### **Comments on Specific Questions Requested by the AcSB**

1. Do you agree that a practical expedient should be added to Section 3856 so that the debt modifications related to IBOR reform may be accounted for as a continuation of the existing contract and not as an extinguishment (see paragraph 3856.29A)? If not, why not?

*Yes, we agree that a practical expedient should be added to Section 3856 so that the debt modifications related to IBOR reform may be accounted for as a continuation of the existing contract and not as an extinguishment.*

2. Do you agree that the proposed practical expedient in paragraph 3856.29A should be optional? If not, why not?

*Yes, we agree that the proposed practical expedient in paragraph 3856.29A should be optional.*

3. Do you agree with the proposed exception in Section 3856 to require the continuation of hedge accounting when one or more critical terms change as a direct consequence of IBOR reform (see paragraph 3856.36A)? If not, why not?

*Yes, we agree with the proposed exception in Section 3856 to require the continuation of hedge accounting when one or more critical terms change as a direct consequence of IBOR reform. Please refer to our comments to question 4 and at the bottom of our response for our comments on the topic of "direct consequences of IBOR reform".*

4. Do you agree with the disclosure requirement proposed (see paragraph 3856.54A)? If not, why not?

*While we agree that additional disclosures are necessary to provide information on the impact of applying the proposed amendment related to IBOR reform, we do not agree with the disclosure requirement as proposed. The disclosure requirement in proposed paragraph 3856.54A is too general and may lead to diversity in practice; this may result in disclosures that do not sufficiently highlight to the financial statement users the effect of IBOR reform on an enterprise, information that is not useful to financial statement users, or information that is beyond the scope of this Exposure Draft.*

*We believe that an enterprise should disclose whether they elected to apply the optional expedient for debt modifications that are related to IBOR reform and, for debts for which the optional expedient has been applied, the related financial statement impact and the carrying amount of such debts. With respect to hedging relationships, we believe that an enterprise should identify the specific hedges impacted by IBOR reform and their financial statement impact to appropriately describe the*



*consequence of IBOR reform. To achieve this objective, the AcSB should consider supplementing the current disclosure requirements in paragraphs 3856.48(d) and .51.*

*Additionally, we believe that disclosures related to IBOR reform are only required in the fiscal year in which an enterprise first applies this amendment and, in reporting periods thereafter, only when an enterprise elects to use the optional expedient for modification of debt contracts that occur during the reporting period and only when changes are made during the reporting period, due to IBOR reform, to the contractual terms of a hedging item or a hedged item for which hedge accounting was previously used. The proposed wording is ambiguous and may inadvertently result in entities disclosing the impact of IBOR reform on its financial instruments in future years when such disclosure may no longer be relevant to financial statement users.*

5. Do you agree that the amendments to Section 3856 should be applied retrospectively, as defined in Section 1506 (see paragraph 3856.69)? If not, why not and in what circumstances would prospective application be preferred?

*Yes, we agree that the amendments to Section 3856 should be applied retrospectively, as defined in Section 1506.*

6. Do you agree that the discontinued hedging relationships must be reinstated if, and only if, the conditions outlined in paragraph 3856.71 are met? If not, why not?

*Yes, we agree that the discontinued hedging relationships must be reinstated if, and only if, the conditions outlined in paragraph 3856.71 are met.*

7. Do you agree with the proposed effective date of fiscal years ending on or after February 1, 2022, with earlier application permitted? If not, why not?

*Yes, we agree with the proposed effective date of fiscal years ending on or after February 1, 2022, with earlier application permitted.*

In addition to the questions posed in the Exposure Draft, we would also like to provide the following additional comments on the Exposure Draft:

- We note that proposed paragraphs 3856.A54A-.A54B outline examples of changes to terms that are related and unrelated to the replacement of IBORs, respectively. However, these lists use the phrase “include the following” before listing certain example terms, which may lead financial statement preparers to believe that these two lists are all-encompassing. Elsewhere in Section 3856, paragraph 3856.23F uses the phrase “include, but are not restricted to”, which we believe more clearly indicates that the list of examples is not all encompassing. As such, for greater clarity to financial statement preparers, we believe similar use of the wording “includes, but are not restricted to, the following” should be used in paragraphs 3856.A54A-.A54B to indicate that the lists of example terms are not all encompassing.*
- Further, we note that the additional guidance around debt modifications found in paragraph .29C contains language explicit to the modification of terms that are related or unrelated to IBOR reform, as follows: “If other terms are contemporaneously modified in a manner that changes, or has the potential to change, the amount or timing of contractual cash flows, the optional expedient shall apply only if those modifications are related to the replacement of IBOR with an alternative benchmark rate.” However, we note that with respect to hedge accounting, new paragraphs .36A through .36E do not contain similarly explicit language to address the continued use of hedge accounting if other changes to terms are made that are not related to the replacement of IBORs. Therefore, we suggest modifying the wording in paragraph .36A to the following:*

*“.36A For the hedging relationships specified in paragraphs 3856.32(c)-(d) only, an enterprise shall*



*continue applying hedge accounting to existing hedging relationships **only** if **all** changes made to the contractual terms of a hedging item or a hedged item are directly related to the replacement of IBORs (paragraphs 3856.A54A-.A54B provide related application guidance). To qualify for this exception, the critical terms of the hedging item and the hedged item shall continue to match after the enterprise makes such changes.”*

We would be pleased to discuss our comments with members of the AcSB or its staff. If you wish to do so, please contact Adam Rybinski, Associate Partner, Professional Practice, at 416-943-2711 (Adam.C.Rybinski@ca.ey.com) or Laney Doyle, Professional Practice Director, at 416-943-3583 (Laney.Doyle@ca.ey.com).

Yours sincerely,  
ERNST & YOUNG LLP

A handwritten signature in black ink that reads 'Ernst &amp; Young LLP' in a cursive, script font.

Chartered Professional Accountants  
Licensed Public Accountants

October 18, 2021

Kelly Khalilieh, CPA, CA  
Director, Accounting Standards  
Accounting Standards Board  
277 Welling Street West  
Toronto, Ontario, M5V 3H2

Dear Ms. Khalilieh,

CAUBO is pleased to provide you with feedback the Accounting Standards Board **Exposure Draft: Proposed Accounting Standards for Private Enterprises – Financial Instruments** dated September 2021

The Canadian Association of University Business Officers (CAUBO) is a non-profit professional organization representing the chief administrative and financial officers at over 100 universities and affiliated colleges in Canada. CAUBO promotes professional management and provides support to member institutions in a broad range of administrative functions.

CAUBO has a broad membership, comprised of universities located in all regions of the country and of varying sizes and specialties. As such, CAUBO university members follow different accounting standards. Across Canada four provincial jurisdictions apply Public Sector Accounting Standards (PSAS) and the remaining six provincial jurisdictions are not government controlled and therefore apply Accounting Standards Board (AcSB), part III using either the restricted fund method or deferral method.

The Accounting Standards Board (AcSB) **Exposure Draft: Proposed Accounting Standards for Private Enterprises - Financial Instruments, Section 3856** in Part II of the CPA Canada Handbook – Accounting, would apply to a number of CAUBO member universities. We would like to thank you for the opportunity to provide comments on behalf of these member universities. The following comments reflect CAUBO's national membership who apply either AcSB or the PSAB frameworks.

Sincerely,



Nathalie Laporte  
Executive Director,  
Canadian Association of University Business Officers

## COMMENTS REQUESTED

1. **Do you agree that a practical expedient should be added to Section 3856 so that the debt modifications related to IBOR reform may be accounted for as a continuation of the existing contract and not as an extinguishment (see paragraph 3856.29A)? If not, why not?**

*CAUBO Members agree with the addition to Section 3856 in order for IBOR reform to be accounted for as a continuation of the existing contract and not as an extinguishment. This approach best reflects the substance and form of the underlying instrument; a rate change itself for long term contracts should not trigger an extinguishment.*

2. **Do you agree that the proposed practical expedient in paragraph 3856.29A should be optional? If not, why not?**

*CAUBO Members agree that the practical expedient outlined in paragraph 3856.29A should be optional.*

3. **Do you agree with the proposed exception in Section 3856 to require the continuation of hedge accounting when one or more critical terms change as a direct consequence of IBOR reform (see paragraph 3856.36A)? If not, why not?**

*CAUBO Members agree with the proposed exception in Section 3856 to require the continuation of hedge accounting when one or more critical terms change as a direct consequence of IBOR reform. This approach best reflects the substance and form of the underlying instrument, terms affected due to rate change itself should not trigger discontinuance of hedge accounting. If the hedge arrangement remains to be effective, then the rate change itself should be an exception due to the uncontrollable rate transitional.*

4. **Do you agree with the disclosure requirement proposed (see paragraph 3856.54A)? If not, why not?**

*CAUBO Members agree with the proposed disclosure requirement.*

5. **Do you agree that the amendments to Section 3856 should be applied retrospectively, as defined in Section 1506 (see paragraph 3856.69)? If not, why not and in what circumstances would prospective application be preferred?**

*CAUBO Members agree, subject to the response to question 6 below.*

6. **Do you agree that the discontinued hedging relationships must be reinstated if, and only if, the conditions outlined in paragraph 3856.71 are met? If not, why not?**

*CAUBO Members do not agree that the discontinued hedging relationship must be reinstated. The retroactive application to financial instruments should not be forced to apply to already discontinued hedging relationships due to the effort involved and potential value to the financial statement users. An assessment might be considered related to the materiality of these arrangements and where no material a note disclosure as to whether discontinued hedges have been reinstated would be a more simplified approach if justifiably not material.*

7. **Do you agree with the proposed effective date of fiscal years ending on or after February 1, 2022, with earlier application permitted? If not, why not?**

*CAUBO Members agree with the proposed effective date of February 1, 2022. These changes are driven by a rate elimination used by many organizations, the retroactive new rate application will require additional work that should be limited and simplified where possible. The required application date should be as soon as possible following December 2021. Since universities have year-ends March 31st (PSAS) or April 30 (AcSB) an earlier date of January 1, 2022 would not affect this sector but would otherwise be recommended.*



October 18, 2021

Ms. Kelly Khalilieh, CPA, CA  
Director, Accounting Standards Board  
277 Wellington Street West  
Toronto, ON M5V 3H2

Dear Ms. Khalilieh:

**Re: Financial Instruments (“Exposure Draft” or “proposal”)**

We welcome the opportunity to comment on the Accounting Standards Board’s (“AcSB” or the “Board”) Exposure Draft, *Financial Instruments*. We believe that the options proposed by the Board are useful and will help provide relief to impacted private enterprises.

Our responses to the specific questions in the Exposure Draft are included below.

**1. Do you agree that a practical expedient should be added to Section 3856 so that the debt modifications related to IBOR reform may be accounted for as a continuation of the existing contract and not as an extinguishment (see paragraph 3856.29A)? If not, why not?**

Yes, we agree. We note, however, that the proposed wording in paragraph 3856.29C is unclear with respect to accounting for modifications to a contract that include both changes in scope of the optional practical expedient (those described in 3856.A54A) and those that go beyond those “related to the replacement of IBOR with an alternative benchmark rate”. Specifically, it is unclear whether the expedient can be applied to account for the in-scope changes as not substantial, with the guidance in paragraphs 3856.A51 - .A57 applied to the other changes, or whether the entity is precluded from applying the optional expedient entirely to that contract.

We believe entities should be able to apply the practical expedient to changes relating to IBOR reform, even when there are other contemporaneous modifications to the contract. If the Board agrees, we believe the following change would make this clearer.

If other terms are contemporaneously modified in a manner that changes, or has the potential to change, the amount or timing of contractual cash flows, the optional expedient shall apply only ~~if~~ to those modifications that are related to the replacement of IBOR with an alternative benchmark rate.

We also note that the third sentence of paragraph .29C is duplicative with the existing material in paragraphs .29A and .29B, and as such we question its usefulness.

We also note that proposed paragraph A54A(d) refers to “fallback terms developed by a regulator or by a private-sector working group convened by a regulator”. We suggest that “central banks or similar

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Ms. Kelly Khalilieh, CPA, CA  
Director, Accounting Standards Board  
October 18, 2021

governmental organizations” be added to the sources of the fallback terms in addition to the regulator or regulator convened working group.

**2. Do you agree that the proposed practical expedient in paragraph 3856.29A should be optional? If not, why not?**

Yes, we agree.

**3. Do you agree with the proposed exception in Section 3856 to require the continuation of hedge accounting when one or more critical terms change as a direct consequence of IBOR reform (see paragraph 3856.36A)? If not, why not?**

Yes, we agree.

We note that the amendments do not contemplate what was referred to as “Phase I” in the IFRS amendments for the IBOR reform whereby hedging relationships were able to continue to be accounted for as hedges during the *uncertainty period*. We note that paragraph 3856.31(b) includes the requirement that “throughout its term, the enterprise has reasonable assurance that the critical terms of the hedging item and the hedged item are the same” (our emphasis). As such, given the current scheduled discontinuance of what will then be the last remaining tenors of US dollar LIBOR on June 30, 2023, entities would need relief similar to the relief provided by the IASB’s Phase I amendments. Furthermore, such relief may become useful if and when discontinuance dates are established for additional benchmark rates in *dual rate* regimes, such as CDOR.

**4. Do you agree with the disclosure requirement proposed (see paragraph 3856.54A)? If not, why not?**

Yes, we agree. However, we recommend also requiring disclosure of the notional amount of derivatives subject to IBOR reform. Interest rate swaps that are in hedging relationships are subject to have a nil carrying amount and thus may be considered to be excluded from the scope of the disclosures as proposed. However, we believe that communicating the extent of IBOR reform exposure on both hedging and non-hedging derivatives would be useful. We recommend the following amendments to paragraph 3856.54A:

An enterprise shall disclose the nature and the carrying amount of the financial instruments, and the notional amount of any derivatives, that are subject to IBOR reform.

**5. Do you agree that the amendments to Section 3856 should be applied retrospectively, as defined in Section 1506 (see paragraph 3856.69)? If not, why not and in what circumstances would prospective application be preferred?**

Yes, we agree.



Ms. Kelly Khalilieh, CPA, CA  
Director, Accounting Standards Board  
October 18, 2021

**6. Do you agree that the discontinued hedging relationships must be reinstated if, and only if, the conditions outlined in paragraph 3856.71 are met? If not, why not?**

Yes, we agree.

**7. Do you agree with the proposed effective date of fiscal years ending on or after February 1, 2022, with earlier application permitted? If not, why not?**

Yes, we agree.

We would be pleased to respond to any questions you might have. Questions can be addressed to Celeste Murphy (celeste.k.murphy@pwc.com) or Michael Walke (michael.walke@pwc.com).

Yours very truly,

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants

October 18, 2021

Kelly Khalilieh, CPA, CA  
Director, Accounting Standards  
Accounting Standards Board  
277 Wellington Street West  
Toronto, ON M5V 3H2

Dear Kelly,

The Council of Ontario Finance Officers (“COFO”) is pleased to provide you with feedback on the Accounting Standards Board **Exposure Draft: Proposed Accounting Standards for Private Enterprises – Financial Instruments** dated September 2021. COFO is an affiliate of the council of Ontario Universities, comprised of the senior financial officers from Ontario’s twenty universities that promotes communication, information exchange, and cooperation among its members. Ontario universities are autonomous not-for-profit organizations (“NFPOs”) that are financially assisted by the Province of Ontario through an operating grant and a domestic tuition setting framework. However, Ontario universities have other sources of diversified revenues not governed by the province. Further, Ontario universities operate under the formation of independent and individual university legislations. Accordingly, Ontario universities follow Part III of the CPA Canada Handbook, which falls within the Accounting Standards Board (“AcSB”) oversight.

COFO members review both AcSB and Public Sector Accounting Standards (“PSAS”) exposure drafts and consultation papers with an objective of providing a provincial sectoral opinion or advice on practice evolution. The comments enclosed reflect consideration of six jurisdictions across Canada where universities apply the AcSB framework, part III using either the restricted fund method or deferral method.

Sent on behalf of Josh Tonnos, COFO Chair,

Sincerely COFO’s Accounting Standards Respondent,



Deidre (“Dee”) Henne, CPA, MBA, CA, Hons. B. Comm  
AVP (Administration) & Chief Financial Officer  
McMaster University

Cc: Council of Ontario Financial Officers from: Algoma University, Brock University, Carleton University, University of Guelph, Lakehead University, Laurentian University, Nipissing University, OCADU, Ontario Tech University, University of Ottawa, Queen’s University, Ryerson University, University of Toronto, Trent University, University of Waterloo, Western University, Wilfred Laurier University, University of Windsor, and York University



1. **Do you agree that a practical expedient should be added to Section 3856 so that the debt modifications related to IBOR reform may be accounted for as a continuation of the existing contract and not as an extinguishment (see paragraph 3856.29A)? If not, why not?**

Yes. This approach best reflects the substance and form of the underlying instrument, a rate change itself for long term contracts should not trigger an extinguishment.

2. **Do you agree that the proposed practical expedient in paragraph 3856.29A should be optional? If not, why not?**

Yes.

3. **Do you agree with the proposed exception in Section 3856 to require the continuation of hedge accounting when one or more critical terms change as a direct consequence of IBOR reform (see paragraph 3856.36A)? If not, why not?**

Yes. This approach best reflects the substance and form of the underlying instrument, terms affected due to rate change itself should not trigger discontinuance of hedge accounting. If the hedge arrangement remains to be effective, then the rate change itself should be an exception due to the uncontrollable rate transitional event.

4. **Do you agree with the disclosure requirement proposed (see paragraph 3856.54A)? If not, why not?**

Yes.

5. **Do you agree that the amendments to Section 3856 should be applied retrospectively, as defined in Section 1506 (see paragraph 3856.69)? If not, why not and in what circumstances would prospective application be preferred?**

Yes. Subject to response 6. Below.

6. **Do you agree that the discontinued hedging relationships must be reinstated if, and only if, the conditions outlined in paragraph 3856.71 are met? If not, why not?**

No. The retroactive application to financial instruments should not be forced to apply to already discontinued hedging relationships due to the effort involved and potential value to the financial statement users. An assessment might be considered related to the materiality of these arrangements and where no material a note disclosure as to whether discontinued hedges have been reinstated would be a more simplified approach if justifiably not material.

7. **Do you agree with the proposed effective date of fiscal years ending on or after February 1, 2022, with earlier application permitted? If not, why not?**

Yes. These changes are driven by a rate elimination used by many organizations, the retroactive new rate application will require additional work that should be limited and simplified where possible. The required application date should be as soon as possible following December 2021. Since universities have year-ends March 31<sup>st</sup> (PSAS) or April 30 (AcSB) an earlier date of January 1, 2022, would not affect this sector but would otherwise be recommended.

October 18, 2021

Kelly Khalilieh, CPA, CA  
Director, Accounting Standards  
Accounting Standards Board  
277 Wellington Street West  
Toronto, ON M5V 3H2

Dear Kelly,

McMaster University is pleased to provide you with feedback on the Accounting Standards Board **Exposure Draft: Proposed Accounting Standards for Private Enterprises – Financial Instruments** dated September 2021. McMaster is a not-for-profit organization operating in Hamilton, Ontario under the McMaster University Act. McMaster follows Part III of the CPA Canada Handbook, which falls within the Accounting Standards Board (“AcSB”) oversight. McMaster reviews Accounting Standards Board (“AcSB”) exposure drafts and consultation papers with an objective of providing a provincial sectoral opinion or advice on practice evolution. McMaster also supports the Council of Ontario Financial Officers and the Canadian Association of University Business Officers in soliciting broader constituency comments and drafting its responses for representative voice across the Ontario and Canadian university sector.

The comments enclosed reflect consideration of universities who apply AcSB frameworks on basis of facts addressing whether a university is in a jurisdiction of government control or one of institutional autonomy. Across Canada four provincial jurisdictions apply Public Sector Accounting Standards (“PSAS”). The universities applying PSAS fit the definition of Government Not-for-Profit Organizations (“GNFPOs”). The remaining six provincial jurisdictions are Not-for-Profit Organizations (“NFPO”) that have autonomy from government control and therefore apply AcSB, part III using either the restricted fund method or deferral method.

The proposed changes are for private enterprises with future implications to NFPOs under AcSB. For universities this exposure draft if equally applied will affect those AcSB organizations across six jurisdictions with financial instruments that have contracts and/or measurements relying on interbank offered rates (“IBORs”) and where the rate used will no longer be available. Jurisdictions, such as London, will discontinue its issue of the LIBOR after December 2021, which will require a reasonable rate replacement for pre-existing arrangements. The elimination of rates currently used to measure financial instruments, mainly institutional debentures (but other arrangements exist as well), creates added effort across an already resource constrained NFPO sector to re-assess existing debt contracts and hedging arrangements. The exposure draft response comments that follow have been reviewed with a lens of efficiency and simplified application to address the impending rate changes.

Sincerely,



Deidre (“Dee”) Henne, CPA, MBA, CA, Hons. B. Comm  
AVP (Administration) & Chief Financial Officer  
McMaster University

Cc: Planning and Resources Committee, McMaster University

1. **Do you agree that a practical expedient should be added to Section 3856 so that the debt modifications related to IBOR reform may be accounted for as a continuation of the existing contract and not as an extinguishment (see paragraph 3856.29A)? If not, why not?**

Yes. This approach best reflects the substance and form of the underlying instrument, a rate change itself for long term contracts should not trigger an extinguishment.

2. **Do you agree that the proposed practical expedient in paragraph 3856.29A should be optional? If not, why not?**

Yes.

3. **Do you agree with the proposed exception in Section 3856 to require the continuation of hedge accounting when one or more critical terms change as a direct consequence of IBOR reform (see paragraph 3856.36A)? If not, why not?**

Yes. This approach best reflects the substance and form of the underlying instrument, terms affected due to rate change itself should not trigger discontinuance of hedge accounting. If the hedge arrangement remains to be effective, then the rate change itself should be an exception due to the uncontrollable rate transitional event.

4. **Do you agree with the disclosure requirement proposed (see paragraph 3856.54A)? If not, why not?**

Yes.

5. **Do you agree that the amendments to Section 3856 should be applied retrospectively, as defined in Section 1506 (see paragraph 3856.69)? If not, why not and in what circumstances would prospective application be preferred?**

Yes. Subject to response 6. Below.

6. **Do you agree that the discontinued hedging relationships must be reinstated if, and only if, the conditions outlined in paragraph 3856.71 are met? If not, why not?**

No. The retroactive application to financial instruments should not be forced to apply to already discontinued hedging relationships due to the effort involved and potential value to the financial statement users. An assessment might be considered related to the materiality of these arrangements and where no material a note disclosure as to whether discontinued hedges have been reinstated would be a more simplified approach if justifiably not material.

7. **Do you agree with the proposed effective date of fiscal years ending on or after February 1, 2022, with earlier application permitted? If not, why not?**

Yes. These changes are driven by a rate elimination used by many organizations, the retroactive new rate application will require additional work that should be limited and simplified where possible. The required application date should be as soon as possible following December 2021. Since universities have year-ends March 31<sup>st</sup> (PSAS) or April 30 (AcSB) an earlier date of January 1, 2022 would not affect this sector but would otherwise be recommended.