AcSB Accounting Standards Board

# Section 3856, Financial Instruments Amendments Webinar

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**Slide 1 – Title Page**

MOHAMED HASSANALI: Good afternoon, everyone. My name is Mohamed Hassanali, staff at the Accounting Standards Board. I'm pleased to welcome you today to today's webinar, Amendments to Section 3856, Financial Instruments. We have over 1800 registrants for today's session. The PowerPoint slides, webinar evaluation, and related CPA Canada offerings are available under the Resources tab located at the bottom of your screen.

Should you have any questions during the presentation, please submit them using the Ask a Question field at the right of your screen, and we will answer them as-- or we'll answer as many questions as we possibly can. Please note that in order to qualify for your statement of completion for CPD, you must pass the quiz. Passing the quiz requires answering all questions correctly and you may have multiple attempts if necessary.

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On behalf of CPA Canada, it is now my pleasure to introduce you to a speaker, Linda Mezon. Linda is the Accounting Standards Board chair and is served in this capacity since July of 2013. Combined with her previous board experience as a volunteer member, she now has over 13 years as a standard setter.

Linda provides leadership to the Accounting Standards Board to achieve its mission, as well as, enables and promotes a deeper stakeholder understanding of the board's strategic plan and activities. She is a frequent speaker on topics related to financial reporting, able to represent both the standard setter view and the preparer point of view. Please join me in welcoming Linda.

LINDA MEZON: Thanks Mohamed and welcome to everybody to what I hope is an interesting discussion in terms of some projects that we've been working on for quite some time.

**Slide 2 – Highlights**

So moving forward to the agenda slide, we're going to be talking about amendments to 3856 today. I want to remind you before I forget, that there are links provided throughout this presentation. So if you've downloaded the slides, you should be able to use the hyperlinks to get you to the resource materials that we hope will also help you even more than perhaps, the webinar discussion itself.

We're going to talk today about retractable of mandatory redeemable shares issued in a tax planning arrangement. As you can tell from the fact that I stumbled, that's a mouthful. Previously, we just called these redeemable preferred shares. We're going to talk about that in a bit. We're also going to talk about related party financial instruments and the new guidance we've issued on initial and subsequent measurement due recognition presentation and disclosure, and as well, a big thing that came through from the peer revisions to the guidance for significant risk disclosures.

I want to mention that the amendments for related party financial instruments and significant risk disclosures apply not only to private enterprises, but also to not for profit enterprises. Reminding all of you that part 2 sections apply to not for profits if in essence the reporting needs are the same for both for profit private enterprises and not for profits. So when we did our outreach, we included not only private enterprises but not for profits on certain of these areas.

Now all the amendments we're talking about today are already in Knotia. They went in Knotia last week on November 30. So you should have been able to access them already. And they're effective for periods beginning on or after January 1, 2020. So before we go any further, I'm going to flip it back to Mohamed, and we're going to ask our first polling question. Mohamed.

**Slide 3 – Quiz**

MOHAMED HASSANALI: Thanks Linda. So the question here, and just for us to get to know you a little bit better, what is your current role? So A, are you a public practitioner or professional advisor? B, are you a financial statement preparer, for example management, CFO, controller, or business owner? C, are you a financial statement user for example, a banker or from the private equity space? D, are you an academic? Or E, other, for example, a director?

And we'll give it a moment here to let folks answer the question. Should be able to click through it now. And wait about 5 more seconds before we flip to the results. So we have a good spread of public practitioner and a fair share of financial statement preparers here. Also a few users and a few academics and others. So we will do our best to target our comments and verbalize so that we can address the comments as best as we can to the audience.

**Slide 4 – Redeemables - Overview**

LINDA MEZON: OK, great. So let's dive right in to what I am going to call redeemables. And I'll give you an overview, and then we're going to get into a bit more detail. I will say for the rest of this webinar, this is a pretty technical intensive webinar. So we're going to pay attention to the slides. We're going to try our best to get through them and perhaps, have some time to answer questions. But if you do send in questions, we'll find a way to get back to you after the fact. So and that will also help us understand if there's more discussion we need to have with regard to guidance, et cetera.

But anyway, from an overview perspective the highlights of the amendments include three conditions, which we're going to discuss in detail to achieve equity classification of these shares. I want to remind everybody that when you make an exception, which is what we're doing in this situation, it is a tricky thing in accounting parlance to make an exception and scope the exception appropriately.

So conceptually, the shares we're talking about, because in order to qualify for tax the way you want them to qualify, you must have them redeemable upon demand. And in accounting guidance, as soon as you have something that is redeemable on demand, it's deemed to be a liability. So we have a conflict there, and we are trying to craft an exception. So I'm just reminding you about that as we get into the conditions we'll discuss them more.

We also renamed the types of instruments, because when we did our field testing and talk to people, we learned that the shares issued in these circumstances are not always preferred shares. So we changed the description, so we wouldn't limit the applicability of the exception.

And we did also for those who don't care if they are classified as a liability. It doesn't matter to either them or their users. In order to avoid going through the analysis, we said OK, if you want to opt immediately to go for liability treatment, we're going to give you that option. So we did that based on the feedback we got during exposure. And we've also given them some guidance on how you reassess, how you initially measure at redemption, and also some revised disclosure guidance.

And then we're going to talk to you a little bit about what does qualify, what doesn't qualify, and I know everybody will get excited when they see us at rollovers don't qualify, but estate freezes may. But stay tuned for the transition relief. We did take all of this into consideration in terms of providing what we think is pretty generous and suitable transition relief. So that's what we're going to cover as we move forward. So let's get into the meat of the discussion.

**Slide 5 – Condition #1: Control Retained**

Condition number 1, it talks about retaining control. Now, when we were doing our outreach on this project, which covered a fair amount of time, and we talked to an awful lot of people, what we kept hearing from people is we're trying to do a tax planning event and nothing of substance has changed. I'm still running the company for the person who was originally running the company, I'm simply trying to freeze my tax basis, and have the next level of appreciation go on to the next generation in essence, OK.

So we thought about that a lot, and we worked hard on crafting a condition that would say, OK, nothing of substance has changed. And we came back to the notion of who controlled the enterprise prior to the transaction, and who controls the enterprise after the transaction? So with that set up and a reminder, we had a lot of conversations about, well, yeah, but it's a family based transaction, and people talk around the dinner table and make decisions around the dinner table.

And we kept reminding people, yes, but these are financial statements that are done for the entity. And it's the entity that is controlled, and it's from the perspective of those general purpose financial statements. So please keep this in mind at all. So Mohamed, let's go through the details now around the retention of control.

MOHAMED HASSANALI: Thanks Linda. Now the first condition that we're talking about here is control of the enterprise issuing the shares is retained by the shareholder receiving the shares. Now, control is a concept that's not new in the handbook, it's something that's there in section 1591, subsidiaries. And this condition really highlights when an enterprise is transferred from the original shareholder, something we heard from users as is if control is not retained and there is a change of control, then something of substance has changed and the risk profile of the enterprise has changed at that point.

Now when this was put out in the exposure draft, many of the respondents to the exposure draft were questioning how to determine the unit of account for transactions. For example, if you have spouses that are related under Section 3840, related party transactions? Or what if you have adult siblings or other groups of shareholders that have a unanimous shareholder's agreement? So the board discussed some of these comments that came back on the exposure draft and decided to clarify that control can only be held by one individual or enterprise.

The board also decided that guidance related to substantive rights to assess the control condition should be added to Section 1591 subsidiaries and this came out from the field testing that was performed. And this is to provide sufficient guidance to address the characteristics of redeemables. The board learned through its field testing, that this would be helpful guidance and therefore, decided to put it into the standard.

Now, one thing I will point out quickly is on assessing the unit of account, the guidance that the board has included is applicable specifically for determining whether the control condition is met for redeemables. So I'll turn it over for condition number 2.

**Slide 6 – Condition #2: No consideration other than shares**

LINDA MEZON: Great, so condition number 1, the same person or entity controls before and after the arrangement, the tax planning arrangement, OK? So that's condition number 1. Condition number 2, no consideration other than shares. Now this one we had some wording at first that people told us was problematic, so we listened to people, we've changed the wording slightly, so hopefully not to exclude transactions that we don't want excluded. The notion was is that as soon as you do something other than shares, you are then changing the future cash flows.

And again, going back to the users, they said as soon as you change the future cash flows in their opinion, something of substance has changed, and therefore, it's not the same entity as before the tax transaction. So we focused on that, we reworded it, and then we field tested it. So let's talk about that Mohamed. Tell us more about the details behind no consideration other than shares.

MOHAMED HASSANALI: So as Linda said, when consideration other than shares is introduced into the transaction, a lot of users says something of substance has changed. And when future cash flows are changing and something of substance has changed, the board deems those shares to be a liability. Now when, excuse me, this condition was exposed there was a couple of questions that came from respondents, and to clarify, the board made some changes from what was originally exposed.

One of those was to remove the requirement that shares have to be exchanged in the transaction. So let's say for example you have a stock dividend, which is considered a subset of an estate freeze transaction, in that type of transaction, you are not going to have a shares exchange, rather the shares are going in one direction.

Now there is no consideration other than shares in that type of transaction, and therefore, the board determined that those types of shares should qualify. Another clarification that was made was the original wording that had one class of shares for another class of shares. Some of the questions that came from respondents were, does it have to be one common share for one preferred share? Or what if you're exchanging multiple classes of common shares for your redeemable shares? So the board clarified that as long as it's just shares that are being exchanged in the transaction, you still qualify for equity classification.

LINDA MEZON: Thanks Mohamed. So as you can see so far, what you've heard us talk about is we had an initial concept, but during the comment period, people gave us good information, good feedback, and we field tested. We field tested this particular change extensively. So again, control hasn't changed and there's no consideration other than shares to hopefully, scope in the right transactions to the exception.

**Slide 7 – Condition #3: Redemption Schedule**

The third condition is the fact that there is no redemption schedule. So in other words, no repayment arrangement exists in writing. And we had a lot of feedback on that with regard to the notion again, that as soon as you have a redemption schedule where you're going to have fixed or determinable payments, then that in essence changes the characterization of the transaction to be one of a liability. It is liability like when you have a redemption schedule that is fixed as well. So Mohamed, tell us a little bit more about how we change that one and the wording to hopefully make it more useful to people.

MOHAMED HASSANALI: Thanks, Linda. And when this condition was exposed in the exposure draft, the board got a lot of questions around what does implicit or explicit arrangements mean? So the condition was articulated where there were no implicit or explicit arrangements such as a redemption schedule. And the word implicit in particular was quite challenging to assess. So say, for example, you have-- you're doing an estate planning, and as part of that, you talk about when would be a good time for cash to come out of the business. Is that an implicit arrangement for a redemption schedule?

So to clarify some of that, the board replaced that wording with written or oral arrangements, and thereby removing that ambiguity that comes with the word implicit.

LINDA MEZON: OK, so let's summarize where we are. So we've made this so that you have to meet three conditions to obtain an exemption from liability classification. We've removed the references to the Tax Act. So you don't see in paragraph 23 any more references to sections in the Tax Act, those are no longer there.

And we also renamed the instruments, because in taking away the reference to the Tax Act, we realized through our outreach that we needed to be more encompassing of the types of shares that could be issued. So therefore, we made all of these accommodations based on the feedback we received during the comment, the second comment period, OK? So that's where we are. That's what you do to qualify for the equity treatment as an exception. So let's move on to the next slide. And yes, I'm driving the slide. So that means I should move the slide. There we go.

**Slide 8 – Measurement of Redeemables and Assessing a Series of Transactions**

So talking about initial and subsequent measurement for a second. So we still require that the shares need to be valued at redemption value. Now this is interesting conversation because ideally redemption value is the same as or close to the fair value at the time of the transaction.

We did stop short of saying you have to do this at fair value. So one of the reasons was a simple accommodation from a cost perspective. We were told that often the estimate of the fair value, which would serve for tax purposes as the redemption amount, might not be of the kind of rigor or quality needed to also pass audit to be asserted as fair value. So we stuck with the notion of redemption amount to give the preparer and their assurance advisor room to work through the requirements to substantiate a good estimate for redemption amount, but we stopped short of fair value.

And as well, there were other issues with regard to whether the shares were subordinated to other debt or there was a redemption schedule, and with the cash flows and et cetera, or if there were shares due on demand for a fixed amount. We didn't want to put any of those caveats or risk in play by referring to fair value. And this was all very practical advice we got through the comment period also through the field testing. So we stuck with the notion of the initial measurement being at redemption at the redemption amount.

Another practical issue we had to deal with was people ask us, well, what if I do this in a series of transactions? Well, if you're doing the series of transactions in contemplation of each other, they are in effect in substance one transaction. So you can't do part of this to try to qualify for something and then add on a little bit later Oh, OK, now I've done the initial accounting, so now I'm going to add my redemption schedule. We would see that as failing the exception.

So if you do a series of transactions and contemplation of each other under this guidance, they're viewed as one transaction, you need to take that into consideration. They are one tax planning arrangement and therefore, they either qualify the three conditions or they don't. And again, this is a view in terms of how you conceptually achieve the requirements for the exception to have equity treatment. So then as we move on past the initial transaction, and we have to decide on how to reassess, then I'm going to turn that one back to Mohamed.

**Slide 9 – Reassessing whether the shares are still equity**

MOHAMED HASSANALI: Thanks, Linda. So now we're into that, that day 2 so to speak. And after initial clarification, again, if something of substance has changed and any of the three conditions are no longer met, then the board did think that reassessment and potentially reclassification is required. So when you reassess, it doesn't necessarily mean that you are going to reclassify, but in certain circumstances when you are reassessing, that may lead to reclassification.

Now reassessment is only required if an event or transaction occurs. So there is no need for that continuous reassessment. If nothing's really changed in your business, then there is no need to incur the cost of performing that reassessment. Now the occurrence of a reassessment indicators, which are similar to the indicators for impairment in 3051 investments, that there are in the standard and you can go ahead and have a look to assess whether or not you need to consider reclassification.

Now the board did consider whether a reassessment should go both ways, or reclassification should go both ways. So should it go from equity liability and liability to equity? On the liability to equity front, the board determined that it added an extra level of complexity in the proposals for which the costs really outweighed the benefits and that would lead to more confusion in practice. Therefore, from a reclassification perspective, it can only go one way where you can go from equity to a liability.

LINDA MEZON: So to sum it up, you do the tax planning transaction, you determine whether you qualify for the exemption. As long as nothing changes, you're good. But if something changes, then you have to reassess. And therefore, if you reassess and you now have to reclassify to liability, you would have to do another sort of transaction to actually get back to equity treatment through a new tax planning event. This is very consistent with what we've heard that actually happens in real life and that's why the board landed on these decisions.

**Slide 10 – Separate Component of Equity**

So if we move forward, then we talk a little bit about what happens from a presentation perspective and the concept of the separate component of equity. So when you do end up with liability treatment, you have either the option to do a separate component of equity or to retained earnings. And basically, it was the feedback from users of financial statements that we relied on to help us with this notion.

If you choose the option to include the difference in retained earnings, we did that, we gave that option. If there was a concern that the separate component of equity would somehow have any adverse tax consequences in certain jurisdictions, so we have given you that option. But it highlights for users the relationship between the redeemable liability and equity. When the redeemables are called for redemption, the amount of the separate category of equity if you've chosen that, would be reclassified to retained earnings.

And so we did look at the guidance in 3840 under related party transactions, which requires any adjustments to equity as a result of a related party transaction to be recognized as either retained earnings or contributed surplus, but we clarified in this situation that the adjustment would be to retained earnings. Now we're going to talk a little bit about disclosures next. And I think Mohamed, you were up to cover that one

**Slide 11 – Disclosure**

MOHAMED HASSANALI: Thanks, Linda. So the board included specific disclosure requirements and try to simplify what disclosures are required if you're an equity classified shares or what disclosure requirements if you are liability classified shares. So for equity, not much has really changed. You're still disclosing on the face of the balance sheet, the redemption amount of the redeemables, and you're disclosing the arrangement that gave rise to the shares.

If you are classifying the shares as a liability, you would, again, describe the nature of the arrangement that gives rise to the shares, and that's something we heard a lot from users that they want to know what happened, what kind of transaction was undertaken that gave rise to the redeemables. And then it depends on whether or not the other side is in retained earnings or a separate component. So if you're in retained earnings, then you disclose on the face of the balance sheet the amount included in retained earnings. So that it's clear to the reader what happened there.

Alternatively, if you are in the separate component, then you're disclosing the amount of the separate component of equity that is to be reclassified to retained earnings as the redeemables are call for redemption. Again, this came from a lot of feedback that we got from users on how they view the financial statements and how they would view a separate component of equity to understand the transaction in a fulsome way. Onto transition.

**Slide 12 – Transition and Effective Date**

LINDA MEZON: Transition, my favorite part. So we spent a lot of time discussing different options on what should happen at transition, and we decided to give some transitional relief to help people adjust to the change. So on transition, there's two conditions that you need to consider to determine whether your previous transaction classified as equity will stay as equity. The first condition is the control, so the control is still the owner of the shares. It's still held. And then the other one is there's no redemption arrangements.

So what does this mean? It means that some shares from asset rollovers will remain in equity on transition. And in many respects, this seemed logical to the board and fair to the board because in the old differential reporting solution, which is where it came from was back in the days of differential reporting, those sections that were cited from the Tax Act dealt with in part, asset rollovers. And so they were kind of the target of that old differential reporting solution. So we felt that it was fair to give transition relief to allow those types of transactions to remain in equity.

We also gave an option to not restate comparative information because we were told when we talked to people about this, is that if you had covenants, you didn't want to renegotiate covenants for the comparative period in case you did have a change from equity to liability treatment. So we gave the notion, we gave the relief, and as an option to not restate your comparatives. And then we also said, if you have redeem shares prior to the effective date, the date the amendments are first applied, you don't need to assess for classification on that and those types of shares.

And so with all of that, our goal is to try to make the transition as easy and seamless as possible without mandating any costs where there was no benefit from the costs, and the effective date is the January 1, 2020. So we worked very hard to get these amendments in the handbook as of the end of November this year, so you would have time to look at them before the end of this calendar year, but also then a year before the required effective date.

And so I think that then concludes what we wanted to talk about, Mohamed, on the so-called redeemable shares project. And I think now we're going to move on to discuss the rest of the project with regard to related party financial instruments. So I'm going to move into that in terms of the next section and talk a little bit about that.

**Slide 13 – Related Party FI - Overview**

I'll remind everybody that we did a post implementation review on section 3856 financial instruments some time ago. And we said, as part of our first wave of improvements, that we would make amendments to related party financial instruments requirements and the significant risk disclosures. I will just give a little highlight that the board is in early discussions on the next project that would come up as a result of the PIR, which is on hedging. So we're early days on that. We haven't approved the scope of a project yet, but we're having discussions about it. But more will come on that, so let's focus on the current one.

So from the time we did the PIR, the board became aware that there was diversity in accounting for related party financial instruments. And this was included-- this included initial and subsequent measurement, the measurement of compound financial instruments, the modification and extinguishment of financial instruments, and the impairment forgiveness of some financial instruments.

And also I got a lot of push-back on whether or not the risk disclosures were actually useful in terms of what users were looking for. And the stakeholders in the PIR process asked the board to clarify the scope of related party financial instruments, and to amend the financial instrument risk disclosure requirements. And so what you'll see in this project is that we have done some revisions, we changed the scope of 3856 to apply to all related party financial instruments. And part of that had to do with the notion of there being confusion of whether a stakeholder should go to 3856 or 3840, and how you should bounce back and forth.

And I'll also remind you that as I said earlier, not for profits would utilize these same standards, but not for profits are specifically excluded from looking at 3840. So when 3856 bounced you to 3840, the poor not for profits didn't have any place to go. And so there was diversity in practice as a result of that.

So we fixed that. We provided some guidance on initial and subsequent measurement. We've talked about where you present the impairment and forgiveness of related party assets. We've looked at the risk disclosures. We didn't take them away the way you wanted us to, but we did actually do some work on that. We looked at modification and extinguishment. We did a bunch of things. So without further ado, let's just move on to the next section and talk about what we did do.

**Slide 14 – Initial Measurement of Related Party FIs**

So initial measurement. So the guidance that we've given helps you understand that related party financial instruments are cost based on whether there's contractual terms requiring repayment, and so they stay at cost if you have the contractual terms and repayment. But if they're quoted in an active market or their debt with observable inputs or derivatives measured at fair value, their fair value. So it's a pretty simplistic way to describe it.

If they should be a fair value because they're quoted or they have observable inputs or their derivatives measured at fair value, then they stay at fair value. Otherwise, they're measured at cost based on whether or not there's contractual terms. So that's kind of your first hurdle. So if the instrument has repayment terms-- so now you're going to go into the cost category. If the instrument has repayment terms, then the cost is measured at the end discounted cash flows excluding interest or dividends.

And we gave you examples in the proposed guidance like trade receivables and payables, and our famous retractable or mandatorily redeemable shares. However if there's no repayment terms, then cost is based on the amount of consideration transferred. So again, we gave you some examples, and the proposed guidance, common shares, preferred shares with no specified redemption amount, et cetera. So again, we kind of gave you a hierarchy to walk through and we gave you some examples.

And while during the comment period, some private enterprise use-- preparers and practitioners said we'd like you to put all of this guidance in 3840. Just reminding you that 3840 isn't available for not for profits. So in essence, what you do is all the guidance that's necessary is in 3856. But to determine whether or not you're in a related party transaction, you do look to 3840 for that guidance. And you do look to 4460 if you're not for profit to determine you're dealing with a related party transaction. But then all of the guidance that you need is in one section, it's in 3856 and you don't bounce back and forth.

**Slide 15 – Initial and Subsequent Measurement of Related Party Financial Instruments**

So still an initial and subsequent measurement, where you have financial instruments with no terms of repayment, they're measured at the consideration transferred in the transaction. I mentioned that in the previous slide. So what is the consideration that's transferred in a transaction? So let's talk through that for a second.

If the consideration transferred for the financial instrument has repayment terms, then the financial instrument is measured at the discounted cash flows of the financial instrument transferred. Or if the consideration transfer does not have contractual terms requiring repayment, then we opt for the financial instrument, it measures at either the caring or the exchange amount depending on the circumstances. So let's talk through a couple of examples.

So let's say we have common shares exchanged for a loan, well, common shares have no repayment terms right, Mohamed? He's nodding at me just so you know.

MOHAMED HASSANALI: Yes, ma'am.

LINDA MEZON: So, yes ma'am, OK. So the consideration therefore is the loan because you're exchanging the common shares for the loan, the loan has repayment terms. So therefore, you would value them at the undiscounted cash flows for the loan. So that's example number 1.

Let's say that you've done an exchange of common shares for PPNE, well, again, the common shares have no repayment terms but the consideration is the PPNE, which has a determinable carrying amount or exchange amount. And therefore depending on the circumstances, you would opt for that as the consideration as you're in terms of the transfer.

And again, I'll emphasize that instruments that are quoted in an act of market, debt with observable inputs and derivatives are measured at fair value. And there is no option in the standard to value a related party financial instrument at fair value, because we presume that related parties don't transact at fair value, and therefore, the board dispensed of that option.

And in the field testing, helped us understand that these options could be consistently applied and the users told us that this type of information provided decision useful information. And by not requiring fair value, we didn't have to deal with things like the determination of a market rate within a related party financial transaction.

In subsequent measure, it's aligned with the initial measurement of the instrument. So if an instrument is initially recorded at fair value, then a subsequent measurement is at cost, amortized cost or fair value. All other instruments measure the costs are subsequently measured using the cost method. And so again in our field testing and discussions upon comment after comment, people told us that this was a good way forward that would reduce the diversity in practice.

**Slide 16 – Impairment of Related Party Financial Assets (Presentation)**

Now the other thing we needed to deal with is potential impairment of related party financial assets and what do you do? How do you present those in the results of the financial statement? And the board discussed this, and we also got feedback from our private enterprise advisory committee.

And they did tell us that this was an unclear matter. So the board debated this and decided that the enterprise should first assess and recognize and impairment before dealing with forgiveness. So first, you have to go to the guidance in 3856, you have to look to see whether or not you have the indicators of impairment, and you recognize the impairment in net income.

And then we made sure that once we saw the feedback from the exposure draft, that we scoped this properly to include all financial assets originated or acquired in a related party transaction. And this is consistent with the initial and subsequent measurement principles. So for related party debt instruments that are measured at cost, you assess the impairment by reducing the carrying amount to the highest of the undiscovered cash flows, the amount that could be recognized by selling the asset, the amount that could be realized by exercising collateral.

So first, you have to do impairment testing. OK, and in essence, that impairment testing really hasn't changed.

**Slide 17 – Forgiveness of Related Party Financial Assets**

Then once you've done the impairment testing and you've written anything down, you then think about forgiveness. If you're a for profit private enterprise, you would recognize forgiveness in equity when the original transaction was not in the normal course or in net income when the original transaction was in the normal course.

So if you're in the business of selling something, a widget, the famous widget, and this forgiveness is related to something around that normal course of business, when you do the forgiveness, the hit is to net income. However, if there was some other transaction that doesn't have anything to do with your normal business of selling widgets, it was some other transaction between related parties and there's a forgiveness that goes direct to equity. For not for profits because you don't have equity, they would recognize forgiveness directly in their statement of operations.

**Slide 18 – Significant Risk and Other Financial Instrument Disclosures**

Now let's move on to the significant risk disclosures. So there was a lot of frustration around the risk disclosures. And I don't know how many times when I was out talking to people about this they said, well, all I see in the financial statements are basically the words from the standard, it's boilerplate. And the user said, well, not useful to us, and we were a bit puzzled by this.

So we did a little experiment. I love telling people about this experiment. So we actually took the requirements and we took a hypothetical entity, and we said, well, this is the type of entity it is, this is the type of business it's in. So we think these are the risks that are unique to this entity, I mean that are relevant, not unique, relevant to this entity. And so we drafted sample disclosures that use the guidance in 3856. And we showed those to users of financial statements and said, which of these disclosures are useful to you?

And to be honest, the answer we got back was the vast majority of the disclosures were useful because they were entity specific, that's the clue. These were not taking the words out of the standard and plugging them into some mindless note that nobody would ever find value in. They were specifically saying something like, this is an entity that ships product overseas and denominate transactions in foreign currency, therefore, they have foreign currency risk, OK?

And so when we showed entity specific disclosures to the users, and in most cases it was bank lenders, they came back and said, that's really good disclosure, I like that disclosure. So what we focused on is not taking away the significant risk disclosures, but rather saying they must be entity specific. So we're trying to deal with getting rid of boilerplate, and we're trying to focus people on the significant risks.

So there does not need to be a laundry list of everything that's listed in the standard. If the risk does not apply to your entity, then it shouldn't appear in your disclosure. So that's why our focus and the changes here to entity specific. We tried to give some examples and some guidance in terms of our communications activities, and we are encouraging everybody to use judgment in making these disclosures useful and entity specific. So with that, Mohamed, I think we have another polling question related to this topic.

**Slide #19 – Polling Question #2**

MOHAMED HASSANALI: Thanks, Linda. And we'll give you a little break there. So polling question number 2, do you anticipate a change in the significant risk disclosures of your enterprise or that of your clients due to the clarification that the disclosure must be enterprise specific?

So A, being yes. B, no. The disclosures were already tailored to my enterprise or that of my clients. C, no. The current disclosures remain relevant for my enterprise or that of my clients. And D, I'm not sure. I need to review the guidance. And we put that in there because it's been just the weekend since the guidance has been out. So we'll give it a couple of seconds for folks to select an answer.

And most folks have picked, I'm not sure, they want to go back and have a look at the guidance to see what's changed maybe with how you look at enterprise specific or entity specific. A few folks did select, yes, but the majority of folks seem to be in either no or I'm not sure.

LINDA MEZON: Although I want to commend the 20% who said that the disclosures are already tailored to my enterprise or that of my clients, good on you. Because you were the ones we kind of looked at for our experiment, so thank you. And for those who say yes, good for you too. If the guidance will be helpful in giving you more relevant disclosures, we're happy for that. And if you were already great, that's perfect too. But for those of you who need to look at them, we encourage you to keep that notion of entity specific in mind. The disclosures are not meant to be a checklist or a laundry list, it's only for those that are relevant to the entity.

**Slide 20 – Transition and Effective Date**

So moving on to the next slide. There we go. We did also think about transitional relief with regard to these requirements. So the amendments are effective for periods ending on or after January 1, 2020. So remember that it's the same effective date as the earlier amendments to 3856. They're required to be applied retrospectively but with the transitional relief, OK?

And the transitional relief has a few aspects to it. So first of all, the transition guidance says you don't have to re-measure any financial instrument that does not exist at the date the amendments are first applied. So if you've extinguished something before the required effective date, you don't have to do anything with it. You're done, OK? Because it just doesn't make sense from a cost perspective, or the users wouldn't be missing out on any information. There was no benefit that we could see that you would derive from doing that. So we were very clear that you have-- that you don't have to do that.

And also there's no requirement to re-measure a financial instrument that's measured using the consideration transferred by the enterprise. So again, we made that accommodation to reduce any unnecessary work and not introduce anything that would cost more than the benefit. And again, it's the same effective date as the mandatory redeemable shares. So too big-- what we think are relatively big projects, which we hope will be helpful to people. And I would say that in both cases, there was a fair amount of field testing done to make sure that the provisions as worded would be able to be applied in a consistent manner.

And that's one of the newest things that we've been really focused on in the last few things we've been doing in parts 2 and 3 is the concept of field testing. So we get a standard pretty nearly final and then we get preparers and practitioners to read the words and say how would they be applied and that helps us fine tune the wording before we issue the final standard. And we're going to continue to do that. We found it extremely helpful to do field testing. So there we go. Moving on.

**Slide 21 – Talk to Us**

Let me stop for a second. Mohamed, do we have any questions? We have just a few minutes.

MOHAMED HASSANALI: So we do have a few questions. I want to say more of them are targeted towards the redeemable share--

LINDA MEZON: Oh, shocking.

MOHAMED HASSANALI: Amendment. So one of the questions comes in on the transition provisions in particular.

LINDA MEZON: OK.

MOHAMED HASSANALI: So the transition provisions are written in a way where they say, if the shares are issued prior to January 1, 2018, then you apply the transitional relief. However, if they're issued after

January 1, 2018, then you go back to the conditions that are in paragraph 23. Now, Linda, can you tell our listeners why the board decided to do that.

LINDA MEZON: So here's how this happens. I'm the chair of the board, and I get-- and I have the pleasure of having the main staff person on this project with me. So he's laughing at me right now just so you all know. But we actually debated this a fair bit, didn't we, Mohamed?

MOHAMED HASSANALI: Many, many meetings.

LINDA MEZON: Yes. And Mohamed knows extremely well why we decided this. So I'm going to turn the tables to Mohamed and say, you are the best person to answer that question. You will articulate it better than I can ever. So Mohamed, what's the answer?

MOHAMED HASSANALI: Thanks, Linda. So when we do look at the arrangements that were before January 1, 2018, one of the points of feedback that did come back from a lot of respondents on the exposure draft was that a lot of these transactions have occurred many, many years ago, and the board was sympathetic to that point. So in writing the transition or the transition guidance, one of the things the board looked at was that you assess the transition provisions as if the transaction occurred when you apply the amendments for the first time.

Now when it comes to specifically for January 1, 2018, the board picked that date so that there is no benefit of hindsight for whoever is involved in the process. So for those who are writing the amendments, people involved in terms of advisory committees and the board themselves, everyone, it's a fair playing field so to speak for how January 1, 2018 came out, which is roughly the cutoff of when the exposure draft was-- comment period close, and that's how the board drew the line.

Something else when it comes to and January 1, 2018 is two years before the amendments are effective, there should be sufficient time that no information related to an arrangement may have been sort of lost in translation so to speak. So when it comes to the old arrangements and there may be some information that isn't available, you get all of that transition relief. For more of the more recent transactions, you don't get all of that transition relief. So I want to say in a nutshell that that's how we look at it.

LINDA MEZON: Well done. Well, extremely well done. Could not have done it better myself. So what's the next question?

MOHAMED HASSANALI: So a few people have asked and I'll try and rephrase this based on the different folks that have asked the question. In many of these rollover transactions or in some of the estate freezes, you might have consideration, you could have let's say nominal consideration, or you may have debt or a note of some kind in those transactions. How should those types of transactions or those types of instruments be assessed?

LINDA MEZON: So we've tried to give you room for judgment. All along the way, I remember that I used to in the old days be a preparer of financial statements, and there was never a transaction that crossed my desk that was perfectly written to apply the standard. There are always things that were slightly different. And at the end of the day, you have to look at where the weight of evidence falls. That's one of my favorite phrases, the weight of evidence.

So does the weight of evidence tell you that substantially this is a shared transaction? Then I would expect you to arrive at a conclusion based on the fact that in essence it's a share for share transaction. Whereas, if there was a large amount of consideration other than shares, I would presume that you would say, well, I don't meet that criteria. So again, we're trying to write a standard that's fairly principles based that gives you some room for judgment and room for discussion between the preparer and the practitioner.

I'm not going to give you a bright line because that typically doesn't work in practice. But at the end of the day, what we've tried to do is give you something that works in substance and we would look to you to apply judgment just as we would expect you to apply judgment everywhere else from an AcSB perspective.

MOHAMED HASSANALI: Thanks, Linda. So there is a few more fact specific questions here, and we'll try and get to the questions that we can. But from a board perspective, how does the board approach implementation of a standard of amendments such as these?

LINDA MEZON: It's a tricky thing because as a board, in essence, we're not in the best position to actually opine on specific transactions. So in our outreach, we certainly test with typical transactions and ask people who can opine on those transactions, do you think this language works?

But as a board, we do not give you the answer. That's not our role as a standard setter, nor is it the role of our staff. We're writing the words hopefully, in a conceptual and principled way. The preparer is in the best position to take a first pass to say, I think this is the accounting for this transaction. They work with their assurance provider to work through that they've properly applied it and ultimately, then they agree with their assurance provider that this is the way you apply the principles.

We cannot and won't opine on specific facts situations. We'd encourage you immediately if you're prepared to talk to your practitioner about that. If we see similar types of questions arising, and we then realize that perhaps, the words weren't as clear as they could be despite our extensive field testing, then we'll move that back to the board for potential revisions, annual improvement, communication activities. But again, if you give us a fact specific transaction, we really just can't opine on that as a standard setter.

MOHAMED HASSANALI: So that's to summarize a real quick. If you do have a implementation related question or concern even, the board does want to hear about that and the contact information of the staff is provided on the slide. So you can reach out to myself if it's redeemable specific.

You can reach out to Andrew White, who is I'll call the subject matter expert when it comes to the other financial instruments amendments. You can reach out to Kelly, who oversees our parts 2 and part 3 standard setting activities as the senior principal. And we'll be happy to type your questions and give you a call if there is something that you did want to talk about.

LINDA MEZON: Yeah. And I'll just add to that. Is the way the process works is if Mohamed or Andrew or Kelly start hearing a repeating theme, that would then get funneled into a discussion we'd have at the board and with our advisory committee, and we come back to that in terms of future improvements. That's just the way the process works. So moving on, Mohamed, do you want to cover these slides?

**Slides 22-23 – Stay Up-to-Date**

MOHAMED HASSANALI: Absolutely, Linda. So we do encourage everyone to sign up for the standard, which is our newsletter that goes out. In addition to the standard, you could always be visiting the website. Now the one little factoid when it comes to the website is that we are launching a new, I want to call more user friendly website. You should be able to access the same information but laid out in a better way. The website's coming your way mid December. I want to say it's December 10, when it officially launches. And if there are any broken links and things like that, we'll be fixing those up real quick.

**Slide 24 – Standards Update**

So our last slide here did open up to questions. We're coming to the end of the webinar, so we'll try and get back to some of the folks if your contact information is there that did ask questions and we weren't able to get to them. I wanted to thank Linda for a very informative and insightful presentation. Again, to our audience, please check the resources section for access to the PowerPoint slides, our webinar evaluation and the related CPA Canada offerings.

Please note that in order to qualify for your statement of completion for CPD, you must pass the quiz. Passing the quiz requires answering all questions correctly. And again, you may have multiple attempts if necessary. Access to the quiz before the session closes by selecting the quiz icon at the bottom of your screen. Once you have passed the quiz, select the certification icon where you will be able to download your statement of completion for CPD.

Now, if you don't get to the quiz right away, you will be able to access and complete the quiz within the archived version of this event. Once the webcast closes, the archive is posted usually within 24 hours--Mark is nodding his head at me, at which time you may complete the quiz and download your statement of completion for CPD. Thank you all very much for participating in today's webinar and have a great afternoon.