

## **IMPAIRMENT OF FINANCIAL ASSETS**

**Amendments to:**

**FINANCIAL INSTRUMENTS —  
RECOGNITION AND  
MEASUREMENT, Section 3855**



This Typescript has been posted to assist entities in understanding the amendments to Sections 3025 and 3855 before they are issued in the CICA Handbook – Accounting. The contents, style and format are expected to be used when the Sections are issued in the CICA Handbook – Accounting. Paragraphs that do not contain changes have been omitted. New text is underlined and deleted text is struck through.

## Impairment of Financial Assets

### Amendments to Section 3855, FINANCIAL INSTRUMENTS — RECOGNITION AND MEASUREMENT

#### DEFINITIONS

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- .19(f) A **financial asset or financial liability held for trading** is a financial asset or financial liability that meets either of the following conditions:
- (i) ~~it is not a loan or receivable, as defined in paragraph 3855.19(h), and is:~~
    - acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
    - part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or
    - a derivative, except for a derivative that is a designated and effective hedging instrument (see HEDGES, Section 3865); or
  - (ii) it is designated by the entity upon initial recognition as held for trading. Any financial instrument within the scope of this Section may be designated when initially recognized as held for trading (see paragraph 3855.20), except for:
    - financial instruments whose fair value cannot be reliably measured (see paragraphs 3855.A62-.A63); and
    - financial instruments transferred in a related party transaction that were not classified as held for trading before the transaction.

Paragraph 3855.80 precludes reclassification of a financial instrument into the held-for-trading category while it is held or issued.

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- .19(h) **Loans and receivables** are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market~~resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date~~

or dates, or on demand, usually with interest (see ~~IMPAIRED LOANS~~, Section 3025, for examples of loans), other than:

- (i) ~~debt securities (see paragraphs 3855.33-.34); and~~
- (ii) those that the entity intends to sell immediately or in the near term, which are classified as held for trading, and those loans and receivables that the entity, upon initial recognition, designates as held for trading; ~~or~~
- (ii) those that the entity upon initial recognition designates as available for sale; ~~or~~
- (iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

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### **Loans and receivables**

.33 Any non-derivative financial asset with fixed or determinable payments (including loan assets, trade receivables, investments in debt instruments and deposits held in banks) could potentially meet the definition of loans and receivables. However, a financial asset that is quoted in an active market (such as a quoted debt instrument, see paragraph 3855.A44) does not qualify for classification as a loan or receivable. Financial assets that do not meet the definition of loans and receivables may be classified as held-to-maturity investments if they meet the conditions for that classification (see paragraphs 3855.19(g) and 3855.22-.32). On initial recognition of a financial asset that would otherwise be classified as a loan or receivable, an entity may designate it as a financial asset held for trading, or available for sale. Loans and receivables do not include debt securities. Debt securities are normally quoted in an active market, and include investments in government debt, corporate bonds, convertible debt, commercial paper, securitized debt instruments such as collateralized mortgage obligations and real estate mortgage investment conduits, and interest only and principal only strips.

.34 ~~Investments in debt securities are classified as financial assets held for trading, held-to-maturity investments, or available-for-sale financial assets, as appropriate. In contrast, trade accounts receivable arising from sales on credit and loans receivable from consumer, commercial and real estate lending activities are debt securities only if they have been securitized.~~

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### **MEASUREMENT**

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### **Impairment and uncollectability of financial assets**

.74 *➤An entity should assess at each balance sheet date whether there is any objective evidence that a financial asset, other than those classified as held for trading, is*

*impaired. An entity should apply ACCOUNTS AND NOTES RECEIVABLE, Section 3020, to assess whether short-term accounts and notes receivable arising from the sale of goods and services are impaired and to account for any such impairment. An entity should apply IMPAIRED LOANS, Section 3025, to assess whether other ~~accounts, notes receivable and~~ loans and receivables and held-to-maturity investments are impaired and to account for any such impairment. ~~For financial assets other than loans and receivables, a~~An entity should apply paragraphs 3855.A67-.A69 to assess whether there is any objective evidence of impairment of available-for-sale financial assets. When any such evidence exists, the entity should apply ~~paragraph 3855.A70 (for financial assets, other than loans and receivables, carried at amortized cost),~~ paragraphs 3855.A71-.A72 (for financial assets carried at cost) or paragraphs 3855.A73-.A75 (for other available-for-sale financial assets) to determine the amount of any impairment loss.*

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## RECLASSIFICATIONS

.80 ➤An entity:

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(c) *may, if a financial asset is no longer held for the purpose of selling it in the near term (notwithstanding that the financial asset may have been acquired principally for the purpose of selling it in the near term), reclassify that financial asset out of the held-for-trading category if the requirements in paragraph 3855.80A or 3855.80BA are met.*

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.80BA A financial asset to which paragraph 3855.80(c) applies that would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition) may be reclassified out of the held for trading category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

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.80D If an entity reclassifies a financial asset out of the available-for-sale category in accordance with paragraph 3855.80C, it should reclassify the financial asset at its fair value on the date of reclassification. ~~For~~ When a financial asset is reclassified out of the available-for-sale category in accordance with paragraph 3855.80C, any previous foreign exchange gain or loss on that asset recognized previously in other comprehensive income in accordance with paragraph 3855.76(b) is recognized in net income. Any other gain or loss on that asset that has been recognized previously in other comprehensive income in accordance with paragraph 3855.76(b) should be accounted for in accordance with paragraph 3855.85.

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.84 *➤When a quoted market price in an active market becomes available for a financial asset for which such a price previously was not available, and the asset is required to be measured at fair value when a quoted market price in an active market is available (see paragraphs 3855.66(c) and (d)), the asset should be remeasured at fair value, and the difference between its carrying amount and fair value should be accounted for in accordance with paragraph 3855.76.*

.85 *➤When, as a result of a change in intention or ability, or when a quoted market price in an active market is no longer available (see paragraph 3855.66(c)) or because the "two preceding financial years" referred to in paragraph 3855.26 have passed, it becomes appropriate to carry a financial asset at cost or amortized cost rather than at fair value, the fair value carrying amount of the financial asset on that date becomes its new cost or amortized cost, as applicable. Any previous gain or loss on that asset that has been recognized directly in other comprehensive income in accordance with paragraph 3855.76(b) should be accounted for as follows:*

(a) *In the case of a financial asset with a fixed maturity, the gain or loss, except for any foreign exchange gain or loss on that asset recognized previously in other comprehensive income in accordance with paragraph 3855.76(b), should be amortized to net income over the remaining life of the financial asset using the effective interest method. Any foreign exchange gain or loss on that asset recognized previously in other comprehensive income in accordance with paragraph 3855.76(b) should be recognized in net income. Any difference between the new amortized cost and maturity amount should also be amortized over the remaining life of the financial asset using the effective interest method, similar to amortization of premium and discount. When the financial asset is subsequently impaired, any previous gain or loss that has been recognized directly in other comprehensive income is recognized in net income in accordance with paragraphs 3855.A73-.A75.*

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## **TRANSITIONAL PROVISIONS**

.87 Except as specified in paragraphs 3855.87A-~~87HE~~, this Section applies to ...

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.87G Amendments to paragraphs 3855.19(f), 3855.19(h), 3855.33-.34, 3855.74, 3855.80(c), 3855.80BA, 3855.80D, 3855.84-.85(a), 3855.A66, 3855.A70, 3855.A73, and 3855.A75-.A76 apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008. An entity is permitted, but not required, to apply these amendments to interim financial statements relating to periods within the fiscal year of adoption only if those interim financial statements are issued on or after August 20, 2009. An entity applies the amendments to these paragraphs as of the beginning of the fiscal year in which the paragraphs are adopted. However, an entity need not apply the amendments to

these paragraphs to financial assets derecognized before the beginning of the interim period in which the paragraphs are adopted.

.87H The following transitional provisions apply when an entity adopts the amendments referred to in paragraph 3855.87G. Paragraphs 3855.87H(a) and (b) address adjustments to reflect impairment or reversals of impairment. Paragraph 3855.87H(c) addresses reclassifications permitted and required on transition, including disclosures about reclassifications.

- (a) As of the beginning of the fiscal year in which the amendments are adopted, an entity adjusts the carrying amount of financial assets classified or reclassified as held to maturity investments to reflect any impairment measured in accordance with IMPAIRED LOANS, Section 3025. Any difference from the amount of impairment measured previously in accordance with this Section is accounted for as an adjustment to opening retained earnings. An adjustment to the carrying amount of held-to-maturity financial assets that remain in this classification might also be required because these amendments change the impairment model for held-to-maturity financial assets.
- (b) As of the beginning of the fiscal year in which the amendments are adopted, an entity adjusts the opening balances of retained earnings and accumulated other comprehensive income to reflect the effects of any reversal of an impairment loss recognized in previous fiscal years relating to a debt instrument classified as available for sale, when the reversal results from increases in value for periods before the end of the previous fiscal year that can be objectively related to an event occurring after the impairment loss had been recognized in net income.
- (c) Notwithstanding the requirements in paragraphs 3855.80-85:
  - (i) as of the beginning of the fiscal year in which the amendments are adopted, an entity reclassifies to the held-for-trading category any loans and receivables that, as of the beginning of the fiscal year in which the amendments are adopted, it intended to sell immediately or in the near term. Any difference between their carrying amount and their fair value is accounted for as an adjustment to opening retained earnings.
  - (ii) as of the beginning of the fiscal year in which the amendments are adopted, an entity is permitted to reclassify a financial asset previously required to be included in the held-for-trading category in accordance with paragraph 3855.19(f)(i) out of the held-for-trading category to the held-to-maturity or loans and receivables categories, as applicable. Reclassification of a financial asset designated as held for trading in accordance with paragraph 3855.19(f)(ii) is not permitted. A financial asset that is reclassified is measured at amortized cost adjusted for impairment measured in accordance with IMPAIRED LOANS, Section 3025, with amortized cost being as defined in paragraph 3855.19(k), notwithstanding paragraph 3855.85. The amortized cost less impairment of the financial asset, as of the beginning of the fiscal year, becomes its new amortized cost. The difference between the new carrying amount and the fair value of the financial asset, as of the beginning of the fiscal year in which the amendments are adopted,

is accounted for as an adjustment to opening retained earnings. For a reclassification to loans and receivables, an entity assesses whether a financial asset meets the definition of loans and receivables as of the beginning of the fiscal year in which the amendments are adopted.

(iii) as of the beginning of the fiscal year in which the amendments are adopted, an entity is permitted to reclassify a financial asset from the available-for-sale category to the held-to-maturity or loans and receivables categories, as applicable. The financial asset is reclassified at amortized cost adjusted for impairment measured in accordance with IMPAIRED LOANS, Section 3025, with amortized cost being as defined in paragraph 3855.19(k), notwithstanding paragraph 3855.85. A foreign currency denominated financial asset is translated at the exchange rate in effect at the beginning of the fiscal year in which the amendments are adopted. Any difference between the new carrying amount and the fair value of the financial asset as of the beginning of the fiscal year in which the amendments are adopted is accounted for as an adjustment allocated between opening accumulated other comprehensive income and opening retained earnings, depending on the nature of the adjustment. Only the foreign currency gains and losses that would have arisen in accordance with FOREIGN CURRENCY TRANSLATION, paragraph 1651.20, had the asset always been classified as a loan or receivable or held-to-maturity financial asset, result in an adjustment to retained earnings. Exchange gains and losses in other comprehensive income, that arose from the translation of financial statements of a self-sustaining foreign operation, in accordance with paragraph 1651.29, are not reclassified. For a reclassification to loans and receivables, an entity assesses whether a financial asset meets the definition of loans and receivables as of the beginning of the fiscal year in which the amendments are adopted.

(iv) as of the beginning of the fiscal year in which the amendments are adopted, an entity may be required to reclassify a debt instrument with fixed or determinable payments that is not quoted in an active market from the held-to-maturity category to the loans and receivables category. In such circumstances, the entity also makes any necessary adjustments to the asset's carrying amount as described in paragraph 3855.87H(a). Paragraph 3855.26 does not apply to that reclassification. An entity evaluates whether a debt instrument is quoted in an active market as of the beginning of the fiscal year in which the amendments are adopted.

(v) if an entity reclassifies a financial asset in accordance with parts (i)-(iv) of this paragraph, it discloses:

- (i) the amount reclassified into and out of each category and the reason for that reclassification; and
- (ii) the cumulative effect on opening retained earnings and accumulated other comprehensive income of applying the transition adjustments required by this paragraph.

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**APPENDIX A**

**APPLICATION SUPPLEMENT**

**CLASSIFICATION OF FINANCIAL INSTRUMENTS**

A28 The following table summarizes the potential classifications for various types of financial assets.

Category/type of instrument	Held for trading	Designated on initial recognition as held for trading	Held to maturity recognition as held for trading	Loans and receivables	Available for sale
Derivatives	✓(a)	N/A	x	x	x
<del>Debt securities</del> <u>Loans and receivables quoted in an active market</u>	✓	✓	✓	x	✓
Non-derivative debt instruments (other than <del>debt securities</del> <u>loans and receivables quoted in an active market</u> )					
With fixed maturity	✓	✓	<del>x</del> ✓	✓	✓
Without fixed maturity	✓	✓	x	✓	✓
Non-derivative equity instruments					
With a reliably measurable fair value	✓	✓	x	x	✓(b)
With no reliably measurable fair value	✓(c)	x	x	x	✓(b)
Legend:	✓ — category is a possible classification for this type of instrument				

Category/type of instrument	Held for trading	Designated on initial <u>recognition as held for trading</u>	Held to maturity <u>recognition as held for trading</u>	Loans and receivables	Available for sale
X — category is not a possible classification for this type of instrument					
N/A — category is not applicable					
(a) — A derivative that is linked to and must be settled by delivery of an equity instrument of another entity whose fair value cannot be reliably measured is classified as held for trading, but measured at cost.					
(b) — Non-derivative equity instruments with no quoted market price in an active market are measured at cost.					
(c) — Only those instruments acquired or incurred principally for the purpose of selling or repurchasing in the near term or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.					

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## MEASUREMENT

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### **Impairment and uncollectability of financial assets**

#### **Loans and receivables and held-to-maturity investments**

A66 ~~IMPAIRED LOANS, Section 3025, establishes standards for the recognition, measurement, presentation and disclosure of impaired loans, restructured loans, and foreclosed assets, and held-to-maturity investments. ACCOUNTS AND NOTES RECEIVABLE, Section 3020, applies to short-term accounts and notes receivable arising from the sale of goods and services. These Sections apply to loans and receivables classified as available for sale financial assets as well as those classified as loans and receivables.~~

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#### ~~**Financial assets other than loans and receivables carried at amortized cost**~~

A70 ~~When there is objective evidence that a financial asset other than a loan or receivable carried at amortized cost is impaired, and there is a decline in fair value below amortized cost that is other than temporary, the amount of the impairment loss is the difference between the asset's carrying amount and its fair value. The carrying amount of the asset is reduced to its estimated fair value either directly or through use of an allowance account.~~

~~The amount of the loss is recognized in net income for the period. Such impairment losses are not reversed as long as the financial asset is recognized.~~

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**Available-for-sale financial assets**

- A73 ~~When a decline in the fair value of an available-for-sale financial asset, other than a loan or receivable designated as an available-for-sale financial asset (see paragraph 3855.A66), has been recognized directly in other comprehensive income (see paragraph 3855.76(b)) and there is objective evidence that the asset is impaired (see paragraphs 3855.A67-.A69), and the decline in fair value is other than temporary, the cumulative loss that had been recognized directly in other comprehensive income is removed from accumulated other comprehensive income and recognized in net income even though the financial asset has not been derecognized.~~
- A74 The amount of the cumulative loss that is removed from accumulated other comprehensive income and recognized in net income in accordance with paragraph 3855.A73 is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in net income.
- A75 ~~Impairment losses recognized in net income for a financial instrument classified as available for sale are not reversed.~~ Impairment losses recognized in net income for an investment in an equity instrument classified as available for sale are not reversed through net income.
- A76 If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net income, the impairment loss is reversed, with the amount of the reversal recognized in net income.

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## CONSEQUENTIAL AMENDMENTS

### IMPAIRED LOANS, Section 3025

A conforming amendment will be required to IMPAIRED LOANS, Section 3025.

### PURPOSE AND SCOPE

- .01 This Section establishes standards for the recognition, measurement, presentation and disclosure of impaired loans, restructured loans, ~~and~~ foreclosed assets, ~~and~~ held-to-maturity investments (see FINANCIAL INSTRUMENTS — RECOGNITION AND MEASUREMENT, Section 3855). It does not apply to short-term amounts receivable arising from the sale of goods and services (see ACCOUNTS AND NOTES RECEIVABLE, Section 3020).

### DEFINITIONS

- .02 The following terms are used in this Section with the meanings specified:

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- (e) A loan is a non-derivative financial asset with fixed or determinable payments that is not quoted in an active market~~resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand, usually with interest,~~ other than:
- (i) those that the entity intends to sell immediately or in the near term, which are classified as held for trading, and those that the entity, upon initial recognition, designates as held for trading;
  - (ii) those that the entity upon initial recognition designates as available for sale; or
  - (iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

Loans include:~~(i)~~— consumer instalment and credit card loans; ~~(ii)~~— residential mortgages; ~~(iii)~~— non-personal loans, such as commercial mortgages and loans to businesses, financial institutions, governments and their agencies; ~~(iv)~~— loan substitutes, such as term preferred shares, income debentures, small business bonds and small business development bonds; and ~~(v)~~— direct financing leases and other financing arrangements that are, in substance, loans.

- .02A For purposes of this Section only, the term “loan” includes held-to-maturity investments as defined in FINANCIAL INSTRUMENTS — RECOGNITION AND MEASUREMENT, Section 3855.

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## TRANSITIONAL PROVISIONS

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.60 Amendments to paragraphs 3025.01, 3025.02(e) and 3025.02A apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008. An entity applies these paragraphs at the same time, and on the same basis, as FINANCIAL INSTRUMENTS — RECOGNITION AND MEASUREMENT, paragraphs 3855.87G-.87H.