CHARTERED PROFESSIONAL ACCOUNTANTS

Financial Reporting Alert

ACCOUNTING STANDARDS FOR PRIVATE ENTERPRISES (ASPE)

APRIL 2019

Accounting for Related Party Financial Instruments and Significant Risk Disclosures

In December 2018, the Accounting Standards Board (AcSB) issued amendments to Section 3856, *Financial Instruments* of Part II (Accounting Standards for Private Enterprises) of the *CPA Canada Handbook—Accounting* (*Handbook*) with respect to:

1. the accounting for financial assets originated or acquired, or financial liabilities issued or assumed in a related party transaction (related party financial instruments)
2. significant risk disclosures (*Amendments*).

This *CPA Canada Financial Reporting Alert* (Alert) highlights key changes resulting from the *Amendments* and considers some possible assurance implications. Consequentially, this Alert does not provide guidance on all aspects and requirements of accounting for related party financial instruments. Readers should refer to Section 3856 to ensure full compliance with the *Handbook* requirements related to the initial and subsequent accounting for such instruments.

The *Amendments* were issued in conjunction with, and have the same effective date as, amendments to Section 3856 relating to the Retractable or Mandatorily Redeemable Shares Issued in a Tax Planning Arrangement project. The amendments to Section 3856 as a result of this project are not the subject of this Alert. Refer to the **CPA Canada ASPE Briefing: Retractable or Mandatorily Redeemable Shares Issued in a Tax Planning Arrangement** for a discussion of the key changes as a result of the amendments to Section 3856 relating to that project.

What Are the Main Objectives of the *Amendments*?

The main objectives of the *Amendments* are to:

- have a single standard in the *Handbook* (Section 3856) that provides guidance on the accounting for financial instruments arising from transactions between both arms-length and related parties
- provide clearer guidance on accounting for related party financial instruments
- require enterprises to disclose enterprise-specific information related to significant risks arising from financial instruments.

Who Applies the *Amendments*?

The principal users of the *Amendments* will be private enterprises applying Part II of the *Handbook* as well as not-for-profit organizations (NFPOs) in the private sector applying Part III (Accounting Standards for Not-for-Profit Organizations) of the *Handbook*.[1] However, as described later in this Alert, not all of the *Amendments* apply to NFPOs, particularly those related to the forgiveness of related party financial assets and modifications to related party financial liabilities.

When Are the *Amendments* Effective?

The *Amendments* are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

What Are the Key Changes?

This Alert addresses the key changes and new guidance as a result of the *Amendments* in six main sections:

A: Scope of Section 3856

B: Initial Measurement of Financial Instruments in a Related Party Transaction

C: Subsequent Measurement of Related Party Financial Instruments

D: Related Party Financial Instruments Containing Both a Liability and an Equity Element

E: Significant Risk Disclosures

F: Transitional Considerations

Remember: For the purpose of Section 3856, parties whose sole relationship with the enterprise is in the capacity of management are deemed to be unrelated third parties. Accordingly, the accounting for financial assets originated or acquired, or financial liabilities issued or assumed in a related party transaction in which the related party's sole relationship to the enterprise is in the capacity of management, is outside the scope of this Alert.

1 NFPOs in the private sector may apply Part III or Part I (International Financial Reporting Standards) of the *Handbook*.

A: Scope of Section 3856

Prior to the *Amendments*, the initial accounting for related party financial instruments was included in the scope of Section 3840, *Related Party Transactions*. However, it was unclear whether the subsequent accounting for related party financial instruments was within the scope of Section 3840 or Section 3856.

The *Amendments* remove related party financial instruments from the scope of Section 3840. As a result, the scope of Section 3856 now includes all financial instruments regardless of whether they arise from an arms-length or related party transaction. The scope of Section 3840 continues to include non-financial items transferred in a related party transaction. In addition, when a related party transaction includes a financial instrument, any difference between the amounts recognized for the items exchanged in the transaction is accounted for in accordance with Section 3856.

Key concept

Financial statement preparers will no longer have to refer to multiple Sections of the *Handbook* when accounting for related party financial instruments. All applicable guidance related to the initial and subsequent accounting for such financial instruments will be contained in Section 3856.

B: Initial Measurement of Financial Instruments in a Related Party Transaction

Initial Measurement

The initial measurement of a related party financial instrument is based on the nature of the financial instrument and may, depending on the circumstances, be either at:

- fair value
- the cost of the related party financial instrument
- the cost of the consideration exchanged for the related party financial instrument.

Initial Measurement at Fair Value

The following related party financial instruments are initially measured at fair value without any adjustments:

- investments in equity instruments quoted in an active market
- debt instruments quoted in an active market
- debt instruments when inputs significant to the determination of the fair value of the debt instrument are observable[2] either directly or indirectly
- derivative contracts.

2 Observable inputs are developed using market data, such as publicly available information about actual events or transactions, and reflect the assumptions that knowledgeable, willing parties who are under no compulsion to act, would use when valuing the asset or liability.

All other related party financial instruments are initially measured at cost. All transaction costs incurred on the initial measurement of a financial instrument in a related party transaction are recognized in net income in the period incurred.

Initial Measurement at Cost When the Related Party Financial Instrument Has Repayment Terms

The cost of a related party financial instrument depends on whether the financial instrument has repayment terms. When the financial instrument has repayment terms, the cost of the financial instrument is determined using the undiscounted cash flow(s) (excluding interest and dividend payments) of the financial instrument less any impairment losses previously recognized by the transferor.

Examples

Common examples of financial instruments having repayment terms include:

- trade accounts receivable and payable
- notes receivable and payable
- loans receivable and payable
- bonds receivable and payable
- debt instruments with no stated repayment terms deemed to be payable on demand
- retractable or mandatorily redeemable shares.[3]

Initial Measurement at Cost When the Related Party Financial Instrument Has No Repayment Terms

When the related party financial instrument has no repayment terms, the cost of the financial instrument is determined using the consideration transferred by the enterprise in the transaction.

Examples

Common examples of financial instruments that have no repayment terms include:

- common shares
- warrants
- preferred shares without a stated redemption amount
- options.

If the consideration transferred by the enterprise is a financial instrument with repayment terms, the cost of the related party financial instrument is determined using the undiscounted cash flow(s) (excluding interest and dividend payments) of the financial instrument transferred as consideration less any impairment losses previously recognized by the transferor.

3 Section 3856 includes specific guidance on accounting for such financial instruments. Refer to the *CPA Canada ASPE Briefing: Retractable or Mandatorily Redeemable Shares Issued in a Tax Planning Arrangement* for further details.

If, however, the consideration transferred by the enterprise is an asset or liability that has no repayment terms, the cost of the related party financial instrument is the carrying or exchange amount of the consideration transferred. Such consideration may be financial or a non-financial in nature.

The cost of the related party financial instrument is the exchange amount of the consideration transferred when the transaction is either:

- in the normal course of operations
- is not in the normal course of operations and meets all the following criteria:
  - a monetary or non-monetary transaction with commercial substance
  - the change in the ownership interests in the items transferred is substantive
  - the amount of consideration paid or received is established and agreed to by the related parties and supported by independent evidence.

Otherwise, the cost of the related party financial instrument is the carrying amount of the consideration transferred.

Key concept

With certain exceptions, a related party financial instrument is initially measured at cost. Determination of the cost of the financial instrument depends on whether it has repayment terms, whether the consideration exchanged for the related party financial instrument has repayment terms and whether the transaction meets the criteria for recognition at the exchange amount. Appendix I to this Alert contains a chart summarizing the initial measurement for the various types of financial assets that could be originated or acquired, or financial liabilities that could be issued or assumed, in a related party transaction.

Gains, Losses or Measurement Differences Arising in a Related Party Transaction

When a related party transaction includes a financial instrument and is either:

- in the normal course of operations
- is not in the normal course of operations and meets all of the following criteria:
  - the transaction is a monetary or non-monetary transaction with commercial substance
  - the change in the ownership interests in the items transferred is substantive
  - the amounts for each element in the transaction are supported by independent evidence

any gain or loss resulting from initial recognition is included in net income, unless another Section of the *Handbook* requires alternative treatment. If the above conditions are not met, any difference resulting from the transaction is included in equity.

Variable or Contingent Portion of a Financial Instrument in a Related Party Transaction

In general, an enterprise does not initially measure the variable or contingent portion of a related party financial instrument.[4] Instead, the enterprise remeasures the financial asset or financial liability at fair value when the contingency or variability is resolved, with any gain or loss recognized in net income.

The only exception to this is on the initial measurement of a financial liability issued in a related party transaction indexed to a measure of the enterprise's financial performance or to changes in the value of the enterprise's equity.

Decision tree and examples

Paragraph 3856.A8K in Appendix A of Section 3856 includes a decision tree illustrating how to determine the appropriate initial measurement of a financial instrument in a related party transaction. This decision tree has been included in Appendix II of this Alert. In addition, four illustrative examples have been included at the end of Appendix A of Section 3856 to illustrate how the accounting treatment for related party financial instruments might be applied in particular situations.

C: Subsequent Measurement of Related Party Financial Instruments

General

Except for related party financial liabilities indexed to a measure of the enterprise's financial performance or to changes in the value of the enterprise's equity, the subsequent measurement of a related party financial instrument is based on how the financial instrument was initially measured. If the enterprise initially measured the financial instrument at cost, it is subsequently measured using the cost method.[5]

If, however, the enterprise initially measured the financial instrument at fair value, it is subsequently measured as follows:

- Investments in equity instruments quoted in an active market and derivative contracts[6] are subsequently measured at fair value without any adjustment for transaction costs that may be incurred on sale or other disposal.

4 For a related party financial instrument with variable or contingent payments as described in this paragraph, an enterprise discloses information that enables users of the financial statements to understand the nature, terms and effects of the variable or contingent payments, the conditions under which a payment will be made and the expected timing of any payment.

5 The cost method is a basis of accounting for financial instruments whereby the financial instrument is initially recorded at cost and subsequently adjusted for any impairment losses, reversals of impairment losses, or forgiveness.

6 Other than derivative contracts that are: (i) designated in a qualifying hedging relationship or (ii) linked to, and must be settled by, delivery of equity instruments of another enterprise whose fair value cannot be readily determined.

- Debt instruments quoted in an active market and debt instruments for which inputs significant to the determination of their fair value are observable, either directly or indirectly, at fair value, if the enterprise designates that fair value measurement will apply when the debt instrument is first recognized.
- All other financial assets are measured at amortized cost.
- Financial liabilities are measured at amortized cost.

Key concept

The subsequent measurement of a related party financial instrument is based on how the financial instrument was initially measured. Appendix I to this Alert contains a chart summarizing the subsequent measurement for the various types of financial assets that could be originated or acquired, or financial liabilities that could be issued or assumed in a related party transaction.

Discontinuance of Subsequent Fair Value Measurement

An enterprise discontinues measuring an investment in an equity instrument of a related party at fair value when the equity instrument ceases to be quoted in an active market. At each subsequent reporting date, the enterprise measures the equity instrument using the cost method. The fair value of the equity instrument immediately before it ceases to be quoted in an active market is the cost at which the equity instrument is recognized.

An enterprise discontinues measuring a debt instrument at fair value if it was either:

- originated or acquired in a related party transaction at fair value but ceases to be quoted in an active market or when inputs significant to the determination of the fair value are no longer observable
- issued or assumed in a related party transaction at fair value but inputs significant to the determination of the fair value are no longer observable.

At each subsequent reporting date, the enterprise measures the debt instrument at amortized cost. The fair value of the debt instrument immediately before it ceases to be quoted in an active market or ceases to have observable inputs is the amount at which the debt instrument is recognized.

Indexed Related Party Financial Liabilities

The issuer of a related party financial liability indexed to a measure of the enterprise's financial performance or to changes in the value of the enterprise's equity accounts for the financial instrument as follows:

- The liability is initially measured in accordance with the guidance in B: Initial Measurement of Financial Instruments in a Related Party Transaction above in this Alert.
- Interest expense is calculated using the stated interest rate plus or minus the amortization of any initial premium or discount.

- At each reporting date, the enterprise adjusts the carrying amount of the liability[7] to the higher of the:
  - cost of the debt
  - amount that would be due at the balance sheet date if the formula determining the additional amount were applied at that date.

Impairment of Related Party Financial Assets

If an enterprise determines there are indications a financial asset or group of similar financial assets originated or acquired in a related party transaction measured at amortized cost or using the cost method may be impaired, and the enterprise identifies a significant adverse change in the expected timing or amount of future cash flows from the financial asset or group of similar financial assets, the enterprise reduces the carrying amount of the asset or group of assets. The amount to which such an asset or group of assets is reduced depends on the type of financial asset. The amount of the reduction, if any, is recognized as an impairment loss in net income.

If the financial asset is a debt instrument originated or acquired in a related party transaction and initially measured at cost, the enterprise reduces the carrying amount of the asset, or group of similar assets, to the highest of the:

- undiscounted cash flows to be generated by holding the asset, or group of similar assets, excluding the interest and dividend payments of the financial instrument
- amount that could be realized by selling the asset, or group of assets, at the balance sheet date
- amount the enterprise expects to realize by exercising its right to any collateral held to secure repayment of the asset or group of assets, net of all costs necessary to exercise those rights.

If the financial asset is an equity instrument originated or acquired in a related party transaction and initially measured at cost, the enterprise reduces the carrying amount of the asset or group of similar assets to the amount that could be realized by selling them at the balance sheet date.

Key concept

The criteria for determining whether a financial asset needs to be assessed for impairment are the same for all financial assets. In addition, the criteria for determining when and how much of an impairment loss should be reversed on a financial asset are the same for all financial assets. However, the measurement of the impairment, if any, is different for a financial asset originated or acquired in a related party transaction as compared to a financial asset originated or acquired in an arm's length transaction.

7 The amount of the adjustment is recognized in net income and presented as a separate component of interest expense.

Forgiveness of Related Party Financial Assets

After assessing for and recognizing any impairment in accordance with the guidance in Impairment of Related Party Financial Assets above in this Alert, forgiveness[8] of all or part of a related party financial asset is recognized in:

- equity, when the transaction that resulted in the origination or acquisition of the financial asset was not in the normal course of operations
- net income when either of the following conditions are met:
  - the transaction that resulted in the origination or acquisition of the financial asset was in the normal course of operations
  - it is impracticable to determine whether the forgiven related party financial asset was originated or was acquired in the normal course of operations or not in the normal course of operations.[9]

The forgiveness of a related party financial asset by an NFPO, however, is always recognized in the statement of operations.

When an enterprise forgives a related party financial asset or part thereof due from a counterparty acting solely in the capacity of management, the amount forgiven is considered compensation and is recognized as an expense by the enterprise in net income.

Key concept

The impairment of a related party financial asset is recognized in net income while the forgiveness of all or part of a related party financial asset is recognized either in equity or net income, depending on the circumstances.

Derecognition of Related Party Financial Liabilities

A transaction between related parties to replace all or part of a debt instrument with another financial instrument or to modify the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial instrument.

In a transaction between related parties, when an option to convert a financial liability to equity is exercised and the issuer settles the obligation in cash, the enterprise accounts for the settlement as the extinguishment of the financial instrument; any difference on extinguishment of the liability element is measured and recognized in accordance with the guidance in Gains, Losses or Measurement Differences Arising on the Derecognition of a Related Party Financial Liability below in this Alert. The settlement of the equity element is recognized as a capital transaction; any gain is credited to contributed surplus and any loss applied first against contributed surplus to the extent of prior gains and then against retained earnings.

8 A related party financial asset or part thereof is forgiven when the enterprise terminates all or part of a liability for payment to settle the financial asset. Cancellation, set-off and release are examples of possible means of termination.

9 If an enterprise recognizes the forgiveness of a financial asset in net income as a result of applying the criteria in this paragraph, it must disclose that fact and the nature of the transaction that gave rise to the financial asset.

On extinguishment of a convertible debt instrument issued in a related party transaction, the issuer allocates the consideration paid to the liability and equity elements as follows:

- The consideration is allocated first to the liability up to the carrying amount of the debt, including accrued interest; the excess, if any, is accounted for in accordance with the guidance in Gains, Losses or Measurement Differences Arising on the Derecognition of a Related Party Financial Liability below in this Alert.
- If the consideration paid to extinguish the convertible debt instrument is less than the carrying amount of the liability, any shortfall is accounted for in accordance with the guidance in Gains, Losses or Measurement Differences Arising on the Derecognition of a Related Party Financial Liability below in this Alert.

When the issuer of a convertible debt instrument issued in a related party transaction offers a more favourable conversion ratio than the original ratio specified in the debt agreement, or offers additional shares if the holder converts the debt security by a specified time (i.e., in an induced early conversion), the number of shares converted under the terms of the original convertible debt instrument is measured at the original contract price (i.e., based on the original conversion ratio). Any additional shares issued to induce the conversion are measured at fair value. Any resulting gain or loss is treated as follows:

- The difference relating to the liability element is recognized in accordance with the guidance in Gains, Losses or Measurement Differences Arising on the Derecognition of a Related Party Financial Liability below in this Alert.
- The difference between the carrying amount and the amount considered to be settled relating to the holder option element is treated as a capital transaction.

An enterprise initially measures equity instruments issued to a creditor to extinguish all or part of a financial liability issued in a related party transaction at the carrying amount of the liability extinguished.

Gains, Losses or Measurement Differences Arising on the Derecognition of a Related Party Financial Liability

The difference between the carrying amount of a related party financial liability (or part of a financial liability) extinguished or transferred to another party and the amount of the consideration paid, including any non-cash assets transferred, liabilities assumed or equity instruments issued, is recognized in:

- equity, when the original transaction that resulted in the issuance or assumption of the financial liability was not in the normal course of operations
- net income when either of the following conditions are met:
  - the original transaction that resulted in the issuance or assumption of the financial liability was in the normal course of operations

— it is impracticable to determine whether the amount extinguished was issued or assumed in the normal course of operations or not in the normal course of operations.[10]

The extinguishment of financial liabilities exchanged in a related party non-reciprocal transaction by an NFPO, however, is accounted for in accordance with Section 4410, *Contributions—Revenue Recognition* of Part III of the *Handbook*.

Key concept

Entities will no longer have to determine the present value of future cash flows to determine whether the terms of a renegotiated related party financial liability differ substantially from the terms of the original financial liability since all modifications to the terms of a related party financial liability are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

D: Related Party Financial Instruments Containing Both a Liability and an Equity Element

Presentation

There are two acceptable methods for the initial measurement of the separate liability and equity elements of a financial instrument that contains both a liability and an equity element issued in a related party transaction:

- The equity component is measured as zero, and the entire proceeds of the issue are allocated to the liability component.
- The equity component is allocated the residual amount after deducting from the entire proceeds of the issue the amount separately determined to be the cost of the liability component as determined using the undiscounted cash flow(s) (excluding interest and dividend payments) of the liability.

The sum of the amounts assigned to the liability and equity components on initial recognition is always equal to the amount that would be ascribed to the financial instrument as a whole. No gain or loss arises from recognizing and presenting the components of the financial instrument separately.

E: Significant Risk Disclosures

The *Amendments* clarify that an enterprise is required to disclose relevant enterprise-specific information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments at the end of the reporting period. Such financial instruments include financial assets originated or acquired, or financial liabilities issued or assumed in an arm's length or related party transaction.

10 If an enterprise recognizes the extinguishment of a financial liability in a related party transaction in net income as a result of applying the criteria in this paragraph, it must disclose that fact and the nature of the transaction that gave rise to the financial liability.

Information is relevant and enterprise-specific when it is considered significant based on the enterprise's current exposure. In addition, the *Amendments* remove the requirement to disclose significant risks arising from derivative financial instruments separately from significant risks arising from other financial instruments. Instead, the exposures to risks, how they arise and any change in risk exposure from the previous period are disclosed separately for each significant risk arising from financial instruments, including derivative financial instruments.

F: Transitional Considerations

The *Amendments* are to be applied retrospectively, with the following transitional provisions:

- For financial instruments originated or exchanged in a related party transaction that exist at the date the *Amendments* are applied for the first time:
  - The cost of a financial instrument with repayment terms is determined using the undiscounted cash flow(s) (excluding interest and dividend payments) of the financial instrument less any impairment as at the beginning of the earliest comparative period for the period to which the *Amendments* are applied for the first time.
  - The cost of a financial instrument without repayment terms is deemed to be the carrying amount of the financial instrument in the financial statements of the enterprise less any impairment at the beginning of the earliest comparative period for the period to which the *Amendments* are applied for the first time.
  - The fair value of a financial instrument that is an investment in debt or equity instruments quoted in an active market, a debt instrument where inputs significant to the determination of the fair value of the debt instrument are observable, or a derivative contract is determined at the beginning of the earliest comparative period for the period to which the *Amendments* are applied for the first time.
- For financial instruments exchanged in a related party transaction that do not exist at the date the *Amendments* are applied for the first time and were impaired or modified in the immediately preceding fiscal year, an enterprise does not need to restate the financial instrument as at the beginning of the earliest comparative period.

Are There Any Consequential *Amendments*?

As a result of the *Amendments*, consequential amendments were made to various Sections in Part II and Part III of the *Handbook*. The more significant consequential amendments and the Section of the *Handbook* in which they were made include:

- Section 1500, *First-Time Adoption* of Part II of the *Handbook*:
  - An exemption was added to permit an enterprise at the date of transition to Part II of the *Handbook* to designate debt instruments originated or acquired, or issued or assumed in a related party transaction to be measured at fair value when either:
    - the debt instrument is quoted in an active market
    - inputs significant to the determination of the fair value of the debt instrument are observable, either directly or indirectly.

- Guidance was added allowing a first-time adopter to apply the transitional provisions described in F: Transitional Considerations above in this Alert to related party financial instruments.
- The exemption from restating *Related Party Transactions* that occurred prior to the date of transition to Part II of the *Handbook* was clarified to only apply to non-financial assets and liabilities.

- Section 3840, *Related Party Transactions* of Part II of the *Handbook*:
  - The scope of Section 3840 was amended to exclude the measurement, recognition or derecognition of related party financial instruments.
  - The guidance previously contained in Section 3840 pertaining to related party financial instruments was removed and replaced with references to the guidance in Section 3856.
  - Some of the illustrative examples that pertained to related party financial instruments were removed from Section 3840.
- Section 1501, *First-Time Adoption by Not-for-Profit Organizations* of Part III of the *Handbook*:
  - An exemption was added to permit an organization at the date of transition to Part III of the *Handbook* to designate debt instruments originated or acquired, or issued or assumed in a related party transaction to be measured at fair value when either:
    - the debt instrument is quoted in an active market
    - inputs significant to the determination of the fair value of the debt instrument are observable either directly or indirectly.
  - Guidance was added allowing a first-time adopter to apply the transitional provisions described in F: Transitional Considerations above in this Alert to related party financial instruments.

What Are the Possible Assurance Implications?

The changes discussed in this Alert as a result of the *Amendments* may require the practitioner and management to discuss:

- the nature of all related party financial instruments outstanding as at the beginning of the earliest comparative period for the period in which the *Amendments* are first applied, and that arose subsequent to that date, in order to determine:
  - whether the financial instruments have repayment terms, variable or contingent payments, etc.
  - what inputs are significant for the determination of the fair value of any related party financial instruments that are debt instruments, and whether those inputs are observable or not
  - whether management will elect subsequently to measure at fair value any debt instruments quoted in an active market or for which inputs to the determination of the fair value are observable directly or indirectly

- — when practicable, the nature of the transactions that created the financial instruments to determine whether they were in the normal course of operations or not
- the significant financial instrument risks to which the enterprise is exposed at the end of the reporting period
- transitional considerations upon adoption of the *Amendments.*

In addition, the following considerations may be relevant in assurance engagements:

- updating the documentation of the understanding of *Related Party Transactions* to include details of any related party financial instrument contracts[11] (e.g., repayment terms, variable or contingent portions, etc.) as well as the nature of the transactions that created such related party financial instruments, to the extent practicable
- updating the assessment of the risks of material misstatement (audit engagements) or areas in the financial statements where material misstatements are likely to arise (e.g., review engagements) for potential material misstatements in the:
  - — initial measurement of related party financial instruments
  - — subsequent accounting for related party financial instruments, including impairment and forgiveness of related party financial assets and modifications and extinguishments of related party financial liabilities
  - — recognition of the forgiveness of a related party financial asset or the difference between the carrying amount of a related party financial liability (or part of a financial liability) extinguished or transferred to another party and the amount of the consideration paid in equity versus net income
- evaluation of whether significant risk disclosures are relevant and entity-specific.

11 A contract may be written or oral.

What Resources Are Available to Help Me?

AcSB

- Basis for Conclusions — Accounting for Related Party Financial Instruments and Significant Risk Disclosures
- Webinar — Amendments to Section 3856, Financial Instruments

CPA Canada

- ASPE Briefing: Retractable or Mandatorily Redeemable Shares Issued in a Tax Planning Arrangement

Comments

Comments on this Alert, and suggestions for future Alerts should be sent to:

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Appendix I — Summary Chart

The following chart summarizes the guidance described above in this Alert on the initial and subsequent measurement of a related party financial instrument:

Financial instrument	Initial measurement	Subsequent measurement
investments in equity instruments that are quoted in an active market	fair value	fair value
investments in equity instruments that are not quoted in an active market	cost	cost method[12]
derivative contracts	fair value	fair value
debt instruments that are quoted in an active market	fair value	amortized cost or fair value (if elected)
debt instruments for which the inputs significant to the determination of the fair value of the debt instrument are observable, either directly or indirectly	fair value	amortized cost or fair value (if elected)
debt instruments that are not quoted in an active market and for which the inputs significant to the determination of the fair value of the debt instrument are not observable, either directly or indirectly	cost	cost method

12 The cost method is a basis of accounting for financial instruments whereby the instrument is initially recorded at cost and subsequently adjusted for any impairment losses, reversals of impairment losses, or forgiveness.

Appendix II — Decision Tree