

Financial instruments for private enterprises—update

Adviser alert: private enterprises
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Application of financial instruments standards to private enterprises

At the meetings of September 23 and 24 of 2008, the Accounting Standards Board (AcSB) decided that a private enterprise **will not be required to apply the current financial instruments standards**, including Sections 1530, Comprehensive Income, 1651, Foreign Currency Translation, 3051, Investments, 3251, Equity, 3855, Financial Instruments — Recognition and Measurement, 3862, Financial Instruments — Disclosures, 3863, Financial Instruments — Presentation, and 3865, Hedges.

Private enterprises that have already adopted these sections are not required to revise their reporting.

Private enterprises may choose to apply the requirements of the XFI version of the Handbook. New financial instruments standards will be included in the proposed set of GAAP standards for private enterprises expected to be exposed early in 2009.

The future financial instrument standards for private enterprises

The AcSB has considered the Private Enterprises Advisory Committee's recommendations in respect of a number of key issues in developing a separate GAAP for private enterprises. The following tentative decisions were made for purposes of developing an exposure draft of the financial instrument standards for private enterprises. Specific disclosure requirements of the standards were not discussed.

A new financial instruments standard will be developed for exposure and is expected to incorporate the following features:

- Existing differential options will be required rather than being optional
- Fewer measurement categories of financial instruments and no measurement choices for individual instruments
- Investments in equity securities with readily determinable fair values and free-standing derivatives outside a hedging relationship will be measured at fair value
- All other financial instruments will be measured at cost or amortized cost, with no option to measure them at fair value
- Impairment of financial assets will be recognized and measured in accordance with the requirements of various standards currently in the XFI version of the Handbook
- A simplified hedge accounting model
- Derivative instruments in a qualifying hedging relationship to be accounted for on an accrual basis or when settled on sale or maturity.
- All contracts to buy or sell non-financial items, and derivatives embedded therein, will be scoped out of the standard
- A simplified model for dealing with equity derivatives embedded in liabilities, such as convertible debt, will also be explored

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