Some Canadians to have foot in both camps

By GUNNIE JEFFREY

The Financial Accounting Standards Board has issued a new standard that requires timelier recording of credit losses on loan and financial instruments held by financial institutions and other organizations. Although this topic was part of the International Accounting Standard Board’s decade-long convergence effort, the two boards have once again decided to differ.

The new standard, set out in Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses, “addresses concerns from a wide range of our stakeholders—including financial statement preparers and users—that the existing accounting standards provide insufficient information about an organization’s expected credit losses,” FASB chair Russell Golden said in a statement released with the standard June 16. “The new guidance aligns the accounting with the economics of lending by requiring banks and other lending institutions to immediately record the full amount of credit losses that are expected in their loan portfolios, providing investors with better information about those losses on a more timely basis.”

The standard is due to go into effect Jan. 1, 2020.

“If you care about making comparisons between international reporting standards and U.S. GAAP, this is going to be a nuisance,” says Paul Cherry, a former chair of the IFRS Advisory Council and a member of Canada’s Accounting Standards Oversight Council. “Potentially, there could be different concepts under this standard and IFRS 9, Financial Instruments.”

According to Linda Mezon, chair of Canada’s Accounting Standards Board and a former banker, Canadian banks will be leading the way in the implementation for both standards due to a unique confluence of circumstances. “Under Canadian banking regulations, our banks have an Oct. 31 year end. Canadian financial institutions that are required to file financial statements for U.S. regulatory and tax purposes in U.S. GAAP already must keep two different sets of financial records and maintain internal controls to ensure that both sets comply with the relevant financial reporting framework. While there are similarities between the IFRS and U.S. GAAP expected credit loss models, there are differences. It will complicate things for these organizations, but they are used to these difficulties.”

The IFRS standard requires companies to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts of credit losses to the extent that information indicates a significant risk of default. The FASB model, Canadian banks have been aware of these developments for quite some time and have built both approaches into their project plans.

In any case, adds Gale Kelly, a KPMG Canada partner, “Canadian financial institutions that are required to file financial statements for U.S. regulatory and tax purposes in U.S. GAAP already must keep two different sets of financial records and maintain internal controls to ensure that both sets comply with the relevant financial reporting framework. While there are similarities between the IFRS and U.S. GAAP expected credit loss models, there are differences. It will complicate things for these organizations, but they are used to these difficulties.”

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