

## ASSURANCE AND ACCOUNTING

# ASPE - IFRS: A Comparison

## Financial Instruments

In this publication we will examine the key differences between Accounting Standards for Private Enterprises (ASPE) and International Financial Reporting Standards (IFRS) relating to financial instruments.

Other than entities whose activities are predominantly connected with insurance and that choose to temporarily defer applying IFRS 9, entities following IFRS currently apply IFRS 9. IFRS 9 was mandatorily effective for periods beginning on or after January 1, 2018, with early adoption being permitted. Entities whose activities are predominately connected with insurance may continue to apply IAS 39, until 2023. This publication compares ASPE to both IAS 39 and IFRS 9.

This publication will focus on:

- Scope;
- Classification of financial instruments;
- Recognition and measurement;
- Transaction costs;
- Derecognition of financial liabilities and financial assets; and
- Presentation: equity vs. financial liability and off-setting of financial instruments.

Note that hedge accounting is beyond the scope of this publication.

Throughout this publication, IAS 39 and the applicable suite of standards that are effective prior to IFRS 9 being adopted are collectively referred to as “IAS 39”. IFRS 9, along with the remaining suite of standards that are applicable subsequent to IFRS 9 being adopted are collectively referred to as “IFRS 9”.



ASPE-IFRS differential rating scale



## References

ASPE	IAS 39	IFRS 9
<ul style="list-style-type: none"> <li>• Section 3856 - <i>Financial Instruments</i></li> <li>• AcG-18 - <i>Investment Companies</i></li> </ul>	<ul style="list-style-type: none"> <li>• IAS 32 - <i>Financial Instruments: Presentation</i></li> <li>• IAS 39 - <i>Financial Instruments</i></li> <li>• IFRS 4 - <i>Insurance Contracts</i></li> <li>• IFRS 7 - <i>Financial Instruments: Disclosures</i></li> <li>• IFRS 13 - <i>Fair Value Measurement</i></li> <li>• IFRIC 2 - <i>Members Shares in Co-operative Entities and Similar Instruments</i></li> <li>• IFRIC 9 - <i>Reassessment of Embedded Derivatives*</i></li> </ul>	<ul style="list-style-type: none"> <li>• IAS 32 - <i>Financial Instruments: Presentation</i></li> <li>• IFRS 4 - <i>Insurance Contracts</i></li> <li>• IFRS 7 - <i>Financial Instruments: Disclosures</i></li> <li>• IFRS 9 - <i>Financial Instruments</i></li> <li>• IFRS 13 - <i>Fair Value Measurement</i></li> <li>• IFRIC 2 - <i>Members Shares in Co-operative Entities and Similar Instruments</i></li> </ul>

\*IFRIC 9 was withdrawn with the introduction of IFRS 9, though its guidance was included within IFRS 9, substantially unchanged.

## Overview of Major Differences

ASPE and both IFRSs contain significant differences concerning financial instruments. ASPE was created as a standard to simplify many aspects of financial reporting, given that entities who follow it are presumed to have more limited users (e.g. banks and major creditors) who possess the ability to obtain information from entities that they require.

Acknowledging this, ASPE contains several expedients and simplifications that are not available in IFRS, several of which are discussed in the Presentation section of this publication. Significant differences include:

Simplified measurement categories in ASPE (cost and fair value) compared to much more complex measurement categories within both versions of IFRS.

All fluctuations in fair value (other than those relating to items designated in a hedging relationship) are recognized in profit or loss under ASPE. Both versions of IFRS contain classification categories where fluctuations are recorded in “other comprehensive income”, which is a separate component of equity. ASPE does not contain the concept of other comprehensive income.

The scope and measurement of impairment of financial assets differs very significantly between ASPE, IAS 39 and IFRS 9. ASPE and IAS 39 contain numerous differences, however, both are based around the principal of “incurred” losses, being that impairment losses are recognized when loss events occur. IFRS 9 is based on “expected credit losses”.

ASPE’s requirements relating to financial instrument disclosures are significantly less than the scope of IFRS 7 within both versions of IFRS. Disclosure is primarily qualitative in nature, which limited quantitative disclosures. IFRS 7 requires extensive disclosure with related sensitivity analysis for major risk exposures.

## Scope

ASPE and both versions of IFRS contain numerous differences in scope, although IAS 39 and IFRS 9 are very similar. Differences in scope relating to derivatives include:

ASPE	IAS 39	IFRS 9
Although the definition of a derivative does not require the instrument to have a notional amount, when the notional amount is not specified or	The definition of a derivative does not require the instrument to have a notional amount, and the lack of a notional amount does not result in an exemption from treatment of the contract as a derivative.	

otherwise determinable, the contract is not accounted for as a derivative.		
<p>Derivatives settled by the delivery of non-financial items meet the definition of derivatives, however, the scope of Section 3856 excludes contracts to buy or sell non-financial items except for:</p> <ul style="list-style-type: none"> <li>• Exchange-traded future contracts; and</li> <li>• Contracts that are designated in a qualifying hedging relationship.</li> </ul>	<p>A contract to buy or sell a non-financial item is exempt from being treated as a derivative subject to the criterion that the contract was entered into and continues to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. This scope exemption does not apply to a derivative embedded in the contract that is not closely related to the contract.</p>	<p>A contract to buy or sell a non-financial item is exempt from being treated as a derivative subject to the criterion that the contract was entered into and continues to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. Despite this exemption, an entity has the irrevocable option, available only at the inception of the contract, to designate such a contract at fair value through profit or loss, if doing so eliminates or significantly reduces a recognition inconsistency ("accounting mismatch") that would otherwise arise from not recognizing that contract.</p>

ASPE also provides a scope exemption for certain guarantees (s.3856.03(g)). In contrast, there is no specific scope exemption for guarantees under IFRSs unless they are with reference to a financial guarantee contract where the issuer has previously asserted explicitly that it regards such contracts as insurance contracts.

Other instruments that are exempt from the scope of ASPE which are within the scope of IFRSs include:

- Investments held by an investment company that are accounted for at fair value in accordance with Accounting Guideline AcG-18 - Investment Companies. Neither version of IFRS contains guidance on measurement of investments specific to investment companies, other than provisions relating to the consolidation by certain investment-entities.
- Contracts that require a payment based on climatic, geological or other physical variables are within the scope of IAS 39/IFRS 9 if they are not within the scope of IFRS 4.
- Contracts based on revenues of a party to the contract.

As a result of these differences, an instrument that is currently exempt under ASPE may be included in the scope of IFRSs.

## Classification

Classification of financial instruments differs significantly amongst the standards. ASPE contains simplified classification guidance, whereas both versions of IFRS contain significantly more complex classification requirements based on a combination of accounting policy choice and classification based on the underlying characteristics of the instruments and the entity's business model surrounding the instrument.

### Financial Assets

ASPE	IAS 39	IFRS 9
<p>All financial assets are categorized as either <i>amortized cost</i> or <i>fair value</i>. All fluctuations in fair value are recognized in profit or loss (except for hedging transactions).</p>	<p>All financial assets must be classified into <i>loans and receivables</i>, <i>held-to-maturity</i>, <i>fair value through profit or loss</i> or <i>available-for-sale</i> categories.</p>	<p>All financial assets must be classified into <i>amortized cost</i>, <i>fair value through OCI (debt instruments)</i>, <i>fair value through OCI (equity instruments)</i>, or <i>fair value through profit or loss</i> categories.</p>

<p>Equity instruments that are quoted in an active market are required to be classified in the <i>fair value</i> category. All other financial assets are classified in the <i>amortized cost</i> category.</p>	<p><i>Loans and receivables</i> are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market (e.g. trade receivables).</p> <p><i>Held-to-maturity</i> instruments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the entity has the positive intent and ability to hold to maturity (e.g. bonds).</p> <p><i>Fair value through profit or loss</i> includes financial assets held for trading; derivatives (unless accounted for as hedges), and other financial assets designated to this category under the fair value option (see details below).</p> <p><i>Available-for-sale</i> includes all financial assets that are not classified in another category and any financial asset designated to this category on initial recognition. <i>Available-for-sale</i> is a “residual” category.</p>	<p><i>Amortized cost</i> are debt instruments for which the instruments gives rise solely to payments of principal and interest (“SPPI test”) and for which the entity has a single business model to collect contractual cash flows from the instrument.</p> <p><i>Fair value through OCI (debt instruments)</i> are debt instruments for which the instrument gives rise solely to payments of principal and interest, and for which the entity has a dual business model to hold the instrument to collect contractual cash flows and to sell the financial asset.</p> <p><i>Fair value through OCI (equity instruments)</i> are equity instruments that are not held-for-trading, for which an entity has made an irrevocable election at initial recognition to not include in the <i>fair value through profit or loss</i> category.</p> <p><i>Fair value through profit or loss</i> are debt instruments that fail the SPPI test, derivatives not in a hedging relationship, financial assets designated as such using the fair value option (see below), equities that are held-for-trading, and equities that are <b>not</b> held-for-trading, for which the entity does not make the election to classify them into <i>fair value through OCI (equity instruments)</i>. <i>Fair value through profit or loss</i> is a “residual” category.</p>
<p>ASPE allows an entity to irrevocably designate any financial asset into the <i>fair value</i> category.</p>	<p>IFRS allows an entity to designate a financial asset as at <i>fair value through profit or loss</i> (“the fair value option”), provided that doing so results in more relevant information. Such designation is irrevocable.</p> <p>There are two circumstances when the requirement for more relevant information will be met:</p> <ul style="list-style-type: none"> <li>• Designation eliminates, or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or</li> <li>• A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis. This is done in accordance with a documented risk management or investment strategy.</li> </ul>	<p>An entity may, at initial recognition, irrevocably designate a financial asset as measured at <i>fair value through profit or loss</i> if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an “accounting mismatch”) that would otherwise arise from measuring assets or recognizing the gains and losses on them on different bases.</p>

## Financial Liabilities

There are also differences in the classification of financial liabilities amongst the standards:

ASPE	IAS 39	IFRS 9
All financial liabilities are classified as <i>amortized cost</i> , unless they are irrevocably designated into the <i>fair value</i> category.	<p>Financial liabilities that are held for trading are classified as FVTPL.</p> <p>Financial liabilities may be designated at FVTPL using the fair value option, provided that doing so results in more relevant information.</p> <p>There are two circumstances when the requirement for more relevant information will be met:</p> <ul style="list-style-type: none"> <li>• Designation eliminates, or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or</li> <li>• A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis. This is done in accordance with a documented risk management or investment strategy.</li> </ul> <p>All other financial liabilities are measured at amortized cost as <i>other financial liabilities</i>.</p>	

## Derivatives

There are also differences in the classification of derivatives amongst the standards:

ASPE	IAS 39	IFRS 9
Derivatives (other than those in a hedging relationship and derivatives linked to equity instruments whose fair value cannot be readily determined) are required to be classified in the <i>fair value</i> category.	Derivatives must be classified into the <i>fair value through profit or loss</i> category, unless they are part of a hedging relationship.	
ASPE does not require embedded derivatives to be separated from their respective host instruments. However, at each reporting date, the issuer of a financial liability that is indexed to a measure of an entity's financial performance or to changes in the value of the entity's equity adjusts the carrying amount of the liability to the higher of the amortized cost of the instrument and the amount that would be due at the balance sheet date if the formula determining the additional amount was applied at that date.	<p>Embedded derivatives must be separated from the host contract and accounted for separately unless:</p> <ul style="list-style-type: none"> <li>• The economic characteristics and risks of the derivative are closely related to the host contract;</li> <li>• A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and</li> </ul> <p>The hybrid instrument is not measured at FVTPL (i.e. a derivative embedded in a host instrument at FVTPL is not separated).</p>	<p>Embedded derivatives are never separated from the host contract for financial assets. The terms of the instrument as a whole are analyzed to determine which category it is classified into.</p> <p>For financial liabilities and contracts for non-financial items, embedded derivatives are separated from the host contract under the same criteria as IAS 39 (e.g. not closely related to the host contract, etc.)</p>
ASPE does not require embedded derivatives to be separated.	<p>When embedded derivatives must be separated from their host instruments, they are accounted for as a separate instrument. They are recognized at their fair value, with the residual of the instrument being allocated to the host contract at initial recognition.</p> <p>An entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at <i>fair value through profit or loss</i> unless:</p> <p>(a) The embedded derivative(s) does not significantly modify the cash</p>	The guidance for the separation of embedded derivatives is the same as IAS 39, including the fair value designation option, except that only financial liability host contracts are considered.

	flows that otherwise would be required by the contract; or (b) It is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortized cost.	
--	---	--

## Recognition and Measurement

One of the most notable differences between ASPE and IFRS, which is not limited to financial instruments, is Related Party Transactions. IFRS does not have any specific guidance with regards to the measurement and recognition of Related Party Transactions, while ASPE has very specific guidance. Since this specific guidance exists in ASPE, there is an exemption for financial instruments which results in certain Related Party Transactions from being recorded at fair value at the date of initial recognition. Effective for fiscal years beginning on or after January 1, 2021 (unless earlier application is applied), ASPE requires financial instruments in a related party transaction to be measured and recognized in accordance with Section 3856 - Financial Instruments.

Since there is no guidance in IFRSs for the measurement of Related Party Transactions, there is no relief from the requirement to record at fair value on initial recognition. This could be a challenge for entities with significant Related Party Transactions.

Additional recognition and measurement differences include:

ASPE	IAS 39	IFRS 9
<p>All financial instruments are initially measured at fair value, except for those arising in related party transactions.</p> <p>Effective for fiscal years beginning on or after January 1, 2021 (unless earlier application is applied), financial instruments in a related party transaction are measured in accordance with Section 3856 - Financial Instruments, at cost, except for equity or debt quoted in an active market, debt instruments when the inputs significant to the determination of the fair value of the instrument are observable and derivative contracts, which are initially measured at fair value.</p>	<p>All financial instruments are initially measured at fair value, except for trade receivables, which are initially recognized at their transaction price as determined by the applicable IFRSs. For entities that have adopted IFRS 15 - <i>Revenue from Contracts with Customers</i>, IFRS 15 determines the initial carrying value of trade receivables arising from sales transactions.</p>	
<p>Amortized cost financial instruments are subsequently measured at amortized cost, recognizing interest using either the effective interest rate method or a straight-line approach, with interest recognized in profit or loss.</p>	<p><i>Loans and receivables, held-to-maturity</i> and other financial assets are subsequently measured at amortized cost using the effective interest method, recognized in profit or loss.</p> <p>Fluctuations in fair value of instruments in <i>fair value through profit</i></p>	<p><i>Amortized cost</i> financial instruments are subsequently measured at amortized cost using the effective interest method, recognized in profit or loss.</p> <p>Fluctuations in fair value of instruments in <i>fair value through profit or loss</i> category are recognized in</p>

<p>Fluctuations in <i>fair value</i> of instruments in the fair value category are recognized in profit or loss.</p>	<p><i>or loss</i> category are recognized in profit or loss.</p> <p><i>Available-for-sale</i> financial assets are measured at fair value with changes therein recognized directly in other comprehensive income.</p>	<p>profit or loss, except for fluctuations in the fair value of financial liabilities relating to an entity's own credit risk designated in this category, which are recognized in other comprehensive income.</p> <p>Fluctuations in fair value relative to the amortized cost of the instruments in the <i>fair value through OCI (debt instruments)</i> category are recognized in equity, with the accumulated balance being reclassified to profit or loss on derecognition. Interest is recognized using the effective interest method, being recognized in profit or loss.</p> <p>Fluctuations in fair value of instruments in <i>fair value through OCI (equity instruments)</i> category are recognized in equity. Accumulated balances in OCI are never reclassified to profit or loss.</p>
<p>Only equities in an active market are required to be measured at fair value; other equities are recorded at cost.</p>	<p>An exception to the measurement requirements of available-for-sale financial assets exists for unlisted equity securities whose fair value cannot be reliably measured, and as such are measured at cost. As a result, if fair value can be reliably measured for an equity instrument not traded on an active market, it will be measured at fair value.</p>	<p>No exception to the measurement requirements for equity instruments exist. All equity instruments are measured at fair value through either profit or loss or OCI depending on the nature of the instrument and an accounting policy choice. However, in limited circumstances, cost may approximate fair value.</p>
<p>Foreign exchange gains and losses on financial instruments are recognized in profit or loss.</p>	<p>Foreign exchange gains and losses attributable to <i>available-for-sale</i> non-monetary financial assets (equity instruments held) are recognized directly in equity and those related to <i>available-for-sale</i> monetary financial assets (debt instruments held) are recognized in profit or loss. Therefore, if a foreign debt security is held and is classified as <i>available-for-sale</i>, the foreign exchange gain or loss will have to be segregated from the change in value of the debt security in its base currency.</p>	<p>Foreign exchange gains and losses are all measured in profit or loss except for:</p> <ul style="list-style-type: none"> <li>• Debt instruments at FVOCI: exchange differences on the amortized cost value of the instrument are recognized in profit or loss, with the remainder being recorded in OCI.</li> <li>• Equity instruments at FVOCI: exchange differences are recognized in OCI.</li> </ul>

## Recognition and Measurement - Impairment of Financial Assets

The scope of the impairment provisions differs significantly between the three standards as the classification categories differ. Additionally, ASPE and IAS 39 both require impairment losses to be recognized when a “loss event” has occurred (e.g. significant financial difficulty of the counterparty), whereas IFRS 9 requires impairment losses to be recognized based on “expected losses” that will occur in the future, incorporating forward looking information relating to defaults (e.g. expected rates of unemployment, interest, etc.). The impairment requirements of IFRS 9 are complex, and will require significant analysis for entities with debt instruments, loans or trade receivables.

ASPE	IAS 39	IFRS 9
<p>When there are indicators of impairment for a financial asset or group of similar financial assets, an entity shall determine whether a significant adverse change has occurred relating to the expected timing or amount of future cash flows.</p> <p>Effective for fiscal years beginning on or after January 1, 2021 (unless earlier application is applied), financial assets transferred in a related party transaction must be assessed for impairment before an entity recognizes any losses that may result from the forgiveness of the asset.</p>	<p>Losses are recognized when objective evidence indicates that a financial asset may be impaired as a result of one or more events that occurred after initial recognition (a “loss event”). Losses at the date of initial recognition (i.e. “day one losses”) are prohibited.</p>	<p>Expected credit losses (ECL) are recognized based on the expected losses that will arise in the future. Expected credit losses are expressed as the product of: probability of default occurring multiplied by the loss given that default, after considering collateral.</p> <p>ECLs are estimated over a 12 month period for most financial assets. When there is a significant increase in credit risk subsequent to the initial recognition of the instrument, ECLs are then estimated over the life of the instrument. Losses at the date of initial recognition (i.e. “day one losses”) are a requirement as ECL must be recognized for all financial assets, regardless of when they were initially recognized.</p>
<p>Impairment losses are recognized only for financial assets classified as amortized cost and are recognized in profit or loss.</p> <p>Impairment losses may be reversed up to the extent of the amount that would have been reported at the date of the reversal had the impairment not been recognized previously.</p>	<p>An impairment loss is recognized for equity instruments classified as available-for-sale if there has been a significant and prolonged decline in its fair value below cost.</p> <p>An impairment loss for <i>loans and receivables</i> and <i>held-to-maturity</i> financial assets is measured as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate.</p> <p>If an impairment loss decreases in a subsequent period, then the previously recognized impairment loss is reversed and recognized in profit or loss; other than for <i>available-for-sale</i> equity securities for which the reversal effectively is recognized directly in other comprehensive income.</p> <p>Impairment losses in respect of financial assets carried at cost can be reversed up to the extent of the amount that would have been reported at the date of the reversal had the impairment not been recognized previously.</p>	<p>Impairment is a consideration for financial assets that are measured at amortized cost (e.g. trade receivables, loans receivable, etc.), debt instruments measured at FVOCI, loan commitments, financial guarantee contracts not measured at FVTPL, lease receivables under IAS 17 <i>Leases</i> or IFRS 16 <i>Leases</i>, and contract assets under IFRS 15 <i>Revenue from Contracts with Customers</i>. Impairment does not need to be considered for any equity instruments. Equity instruments classified as FVOCI never have their accumulated balances in OCI reclassified to profit or loss, so impairment is not a consideration, as opposed to <i>available-for-sale</i> instruments in IAS 39.</p> <p>Impairment of debt instruments is recognized in profit or loss and can be reversed in subsequent periods.</p> <p>Impairment of debt instruments measured at FVOCI are also recognized in profit or loss, but the carrying value of such instruments is already fair value, therefore the off-set to the impairment loss is OCI.</p> <p>Equity instruments are never assessed for impairment.</p>
<p>Loan commitments and financial guarantee contracts are not required to be assessed for impairment.</p>		<p>Loan commitments (e.g. undrawn loan commitments such as lines of credit and credit cards) and financial guarantees (not measured at FVTPL) are within the scope of the impairment requirements of IFRS 9. Therefore, entities must recognize ECLs on instruments which entities have not</p>



		drawn upon yet, since the ECL model is based on expected losses, regardless of whether an amount has been leant. Extending a binding commitment to extend credit creates the expected loss.
<p>The measurement of impairment is consistent for all financial assets. The carrying amount of the asset or group of assets is reduced to the highest of:</p> <ul style="list-style-type: none"> <li>the present value of the cash flows expected to be generated by holding the asset or group of assets discounted using the current market interest rate;</li> <li>the amount that could be realized by selling the asset or group of assets at the balance sheet date; and</li> <li>the 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.</li> </ul> <p>Effective for fiscal years beginning on or after January 1, 2021 (unless earlier application is applied), the measurement of impairment for debt and equity instruments originated or acquired in a related party transaction differs from other financial assets.</p> <p>For impaired related party debt instruments measured at cost, the measurement is similar to non-related party instruments, however if measuring based on cash flows, the cash flows are undiscounted and exclude interest and dividend payments.</p> <p>For related party equity instruments measured at cost the carrying amount of the asset or group of assets shall be reduced to the amount that could be realized by selling the asset, or group of assets at the balance sheet date.</p>	<p>For <i>loans and receivables</i> and <i>held-to-maturity</i> assets, impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the original effective interest rate.</p> <p>For <i>available-for-sale</i> assets, impairment is the cumulative amount previously recognized in other comprehensive income.</p>	<p>For trade receivables with maturities of less than 12 months and other long-term trade and lease receivables, an entity may elect to recognize lifetime ECL at all times, as opposed to assessing whether a significant increase in credit risk has occurred since initial recognition. In determining the ECLs for trade receivables, an entity may also use a "provision matrix" where receivables are segmented by their past due status, with provision rates for each vintage of receivables.</p>
<p>Interest income accrues on the gross value of the financial asset, before impairment allowances.</p>		<p>Interest income accrues on the gross value of the financial asset, before impairment allowances until an instrument is credit-impaired. Once an instrument is credit impaired, interest is accrued on the net balance, after impairment losses.</p>

## Transaction Costs

ASPE and IFRS contain similar guidance on transaction costs. Transaction costs in respect of financial instruments at *fair value* (ASPE) or *fair value through profit or loss* (IAS 39, IFRS 9) are recognized in profit or loss immediately. Transaction costs in respect of other financial instruments are included in the initial measurement of the financial instrument.

Under both ASPE and IFRS, when a modification to a debt instrument does not result in an extinguishment of debt, then the costs associated with the modification are treated as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified liability.

## Derecognition of Financial Liabilities and Financial Assets

For the derecognition of a financial liability, the guidance provided in ASPE is consistent with the guidance provided in IFRSs except for the derecognition of financial liabilities that originate in a transaction between related parties where significant differences exist.

The derecognition of financial assets is an area where significant differences exist. The derecognition guidance under ASPE focuses on control, while IFRS focuses on both risk and rewards and control.

IFRS 9 remains substantially unchanged from IAS 39 in terms of derecognition guidance.

ASPE	IAS 39	IFRS 9
A transfer is defined as the conveyance of a non-cash financial asset by and to someone other than the issuer of that financial asset.	An entity is considered to have transferred a financial asset, or a part thereof, if 1) the entity transfers its rights to receive the cash flows from the asset; or 2) if it retains the rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to one or more recipients.	
<p>The derecognition model for transfers of financial assets focuses on surrendering control over the transferred assets. The transferor has surrendered control over transferred assets only if certain conditions are met:</p> <ul style="list-style-type: none"> <li>• The transferred assets have been isolated from the transferor;</li> <li>• The transferor does not maintain effective control over the transferred assets; and</li> <li>• Each transferee (or, if the transferee is a qualifying special-purpose entity (SPE), each holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received unconditionally.</li> </ul>	Evaluating whether a transfer of a financial asset qualifies for derecognition requires consideration of whether substantive risks and rewards, and, in certain circumstances control, is transferred. The transfer of risks and rewards is evaluated by comparing the entity's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. Whether the entity has retained control of the transferred asset depends on the transferee's ability to sell the asset.	
Risks and rewards is not an explicit consideration when testing a transfer of a financial asset for derecognition; but rather, derecognition is based on whether legal, actual and effective control has been achieved. However, after a transfer of a financial asset, or a portion thereof, an entity continues to recognize the financial and servicing assets retains and derecognizes the financial assets (or portions thereof)	If an entity retains control of a financial asset for which some, but not substantially all risks and rewards have been transferred, then the entity continues to recognize the financial asset to the extent of its continuing involvement in the financial asset. The extent of the entity's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.	

for which control has been surrendered.	
Effective for fiscal years beginning on or after January 1, 2021 (unless earlier application is applied), after assessing for and recognizing any impairment, forgiveness of all or part of a related party financial asset shall be recognized in equity or net income, depending on whether the financial asset originated or was acquired in the normal course of operations. Not-for-profit organizations shall recognize the forgiveness of a related party financial asset in profit or loss.	IFRS does not have any specific guidance on the measurement for related party transactions, however, if the transaction relates to a shareholder acting in their capacity as a shareholder transactions it should be recorded through equity.

## Presentation - Equity vs. Financial Liability

ASPE and IFRS contain significant differences in the presentation of financial instruments. Both versions of IFRS contain guidance in the form of IAS 32 - *Financial Instruments: Presentation* and IFRICs, where the standards direct an entity to apply the definitions of “equity” and “financial liability”. IAS 39 and IFRS 9 are consistent in the presentation of financial instruments as either equity or financial liabilities, as IAS 32 is applicable in both versions of IFRS substantially unchanged.

While ASPE also contains broad definitions for equity and financial liabilities, the standard contains numerous operational simplifications that override these provisions.

The differences that exist are noted in the chart below:

ASPE	IAS 39	IFRS 9
<p>Presentation of an instrument as equity or liability is based on the substance of the contractual terms of the instrument, not its legal form.</p> <p>A liability is characterized by a contractual obligation of the issuer to either deliver cash or another financial asset to the holder or to exchange another financial instrument with the holder under conditions that are potentially unfavourable. Note that exceptions to this definition exist for certain instruments in ASPE (see below).</p> <p>If an entity must, or can, settle the obligation by delivery of its own equity instruments (the number of which depends on the amount of the obligation). Such an obligation is a financial liability of the entity.</p> <p>If an issued financial instrument does not meet the definition of a liability above, it is equity.</p>	<p>The definition of a liability is similar to ASPE in that they generally are characterized by contractual obligations to either deliver cash or other financial instruments, except that it includes contracts that will or may be settled in the entity’s own equity instruments and would include instruments such as:</p> <ul style="list-style-type: none"> <li>• A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity’s own equity instruments; or</li> <li>• A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity’s own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This is commonly known as the “fixed-for-fixed” criteria.</li> </ul> <p>An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. See Appendix C for a flow chart illustrating the requirements of IFRS.</p>	

<p><b>Contingent Settlement:</b> ASPE does not contain specific guidance relating to financial instruments with contingent settlement provisions.</p>	<p><b>Contingent Settlement:</b> A financial instrument may require the entity to deliver cash or another financial asset, or otherwise to settle it in such a way that it would be a financial liability, in the event of the occurrence or non-occurrence of uncertain future events (or on the outcome of uncertain circumstances) that are beyond the control of both the issuer and the holder of the instrument, such as a change in a stock market index, consumer price index, interest rate or taxation requirements, or the issuer's future revenues, net income or debt-to-equity ratio. The issuer of such an instrument does not have the unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability). Therefore, it is a financial liability of the issuer unless:</p> <p>(a) The part of the contingent settlement provision that could require settlement in cash or another financial asset (or otherwise in such a way that it would be a financial liability) is not genuine; or</p> <p>(b) The issuer can be required to settle the obligation in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) only in the event of liquidation of the issuer.</p>
<p><b>Puttable Instruments:</b> ASPE contains guidance on when an instrument may meet the definition of a liability generally, but be allowed to be classified as equity if certain conditions are met:</p> <p>(a) The instruments are the most subordinated of all equity instruments issued and they participate on a pro-rata basis in the residual equity;</p> <p>(b) The redemption feature is extended to 100% of the common shares and the basis for determination of the redemption price is the same for all shares;</p> <p>(c) The shares have no preferential rights relative to other classes of shares of the enterprise that have the same degree of subordination; and</p> <p>(d) The redemption event is the same for all the shares subject to the redemption feature.</p> <p>See Appendix A<sup>1</sup> to this publication for a flowchart outlining the requirements.</p>	<p><b>Puttable Instruments:</b> there is an exception such that, although certain instruments meet the definition of a financial liability, they are classified as equity the following criteria from IAS 32.16A to 16D are met:</p> <p>(a) The instrument entitles the holder to a pro-rata share of the entity's net assets in the event of liquidation;</p> <p>(b) The instrument is in the class of instruments that is subordinate to all other classes;</p> <p>(c) All financial instruments in the class of instruments that is subordinate to all other classes have identical features;</p> <p>(d) Apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not contain any other contractual obligations similar to a liability;</p> <p>(e) The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the net assets of the entity over the life of the instrument;</p> <p>(f) The issuer has no other financial instruments or contract that has total cash flows based substantially the criteria in (e).</p> <p>(g) The issuer has no other financial instruments or contract that has the effect of substantially restricting or fixing the residual return to the puttable instrument holders.</p> <p>If the instrument is only puttable on liquidation, only criteria (a) to (c), (f) and (g) apply.</p>
<p>Until fiscal years beginning on or after January 1, 2021 (unless amendments to section 3856 are applied early), preferred shares issued under certain sections of the Canadian Income Tax Act <b>must</b> be presented at their par, stated or assigned value and classified as equity, despite the fact that they do</p>	<p>IFRS contains no specific comparable guidance.</p>

<sup>1</sup> Refer to Appendix B effective for fiscal years beginning on or after January 1, 2021 (unless earlier application is applied).

<p>not meet the definition of equity instruments.</p> <p>For fiscal years beginning on or after January 1, 2021 (unless early application is applied), retractable or mandatorily redeemable shares issued in a tax planning arrangement can be presented as a financial liability or in a separate line in the equity section of the balance sheet only if all of the conditions in paragraph 23 of Section 3856 are met. For further guidance on paragraph 23 of Section 3856 see our <i>Retractable or Mandatorily Redeemable Shares Issued in a Tax Planning Arrangement (RoMRs)</i> at a Glance publication.</p> <p>For fiscal years beginning on or after January 1, 2020 (unless early application is applied), if an entity issues retractable or mandatorily redeemable shares in a tax planning arrangement to two or more related parties, an assessment of which related party, if any, controls the entity is needed.</p>	
<p>A mandatorily redeemable preference share with dividends paid at the issuer's discretion, other than a share to which the exemptions apply above relating to the Canadian Income Tax Act, is classified as a liability unless a number of criteria are met. As such instruments are classified as liabilities, dividends declared on them are presented as interest expense in the statement of operations.</p> <p>For fiscal years beginning on or after January 1, 2021 (unless early application is applied), retractable or mandatorily redeemable shares with dividends paid at the issuer's discretion, is classified as a liability unless all of the conditions in paragraph 23 of Section 3856 are met. As such instruments are classified as liabilities, dividends declared on them are presented as interest expense in the statement of operations.</p>	<p>A mandatorily redeemable preference share with dividends paid at the issuer's discretion is be accounted for as a compound instrument consisting of a financial liability (the issuer's obligation to redeem shares in cash) and an equity instrument (the holder's right to receive dividends declared).</p>
<p>The measurement approaches permitted for the separation of compound financial instruments include:</p> <ul style="list-style-type: none"> <li>• The equity component is measured as zero. The entire proceeds are</li> </ul>	<p>Equity instruments are instruments that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Therefore, when the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole, the amount separately determined for the liability component.</p>

<p>allocated to the liability component; or</p> <ul style="list-style-type: none"> <li>• The less easily measurable component is allocated the residual amount after deducting from the entire proceeds of the issue the amount separately determined for the component that is more easily measurable.</li> </ul> <p>For fiscal years beginning on or after January 1, 2021 (unless early application is applied), acceptable methods for initial measurement of the separate liability and equity elements of an instrument issued in a related party transaction include:</p> <ul style="list-style-type: none"> <li>• The equity component is measured as zero. The entire proceeds are allocated to the liability component; or</li> <li>• The equity component is allocated the residual amount after deducting from the entire proceeds of the issue the amount separately determined for the liability component.</li> </ul>	
<p>A financial asset and a financial liability shall be offset, and the net amount reported, only when an entity:</p> <ul style="list-style-type: none"> <li>• Currently has a legally enforceable right to set off the recognized amounts; and</li> </ul> <p>Intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.</p>	<p>The fundamental requirements for offsetting are identical under IFRS, but significantly more guidance is provided on:</p> <ul style="list-style-type: none"> <li>• The meaning of “currently has a legally enforceable right to offset”;</li> <li>• The application of simultaneous realization and settlement;</li> <li>• The offsetting of collateral amounts; and</li> <li>• The unit of account for applying the offsetting requirements.</li> </ul> <p>Therefore, offsetting is generally more difficult to achieve under IFRS than ASPE.</p>

## Conclusion

Significant differences exist between ASPE and IFRS, particularly IFRS 9, which is effective for years beginning on or after January 1, 2018. Entities that only have simple financial instruments such as cash, accounts receivable and payable and straightforward bank loans may not encounter significant differences, however, some differences can be subtle and require careful analysis. If you require further guidance on accounting for financial instruments under ASPE or IFRS please contact your local BDO Canada LLP office. If you are considering the adoption of a new standard, learn how our BDO [Accounting Advisory Services Team](#) can help you with the transition.

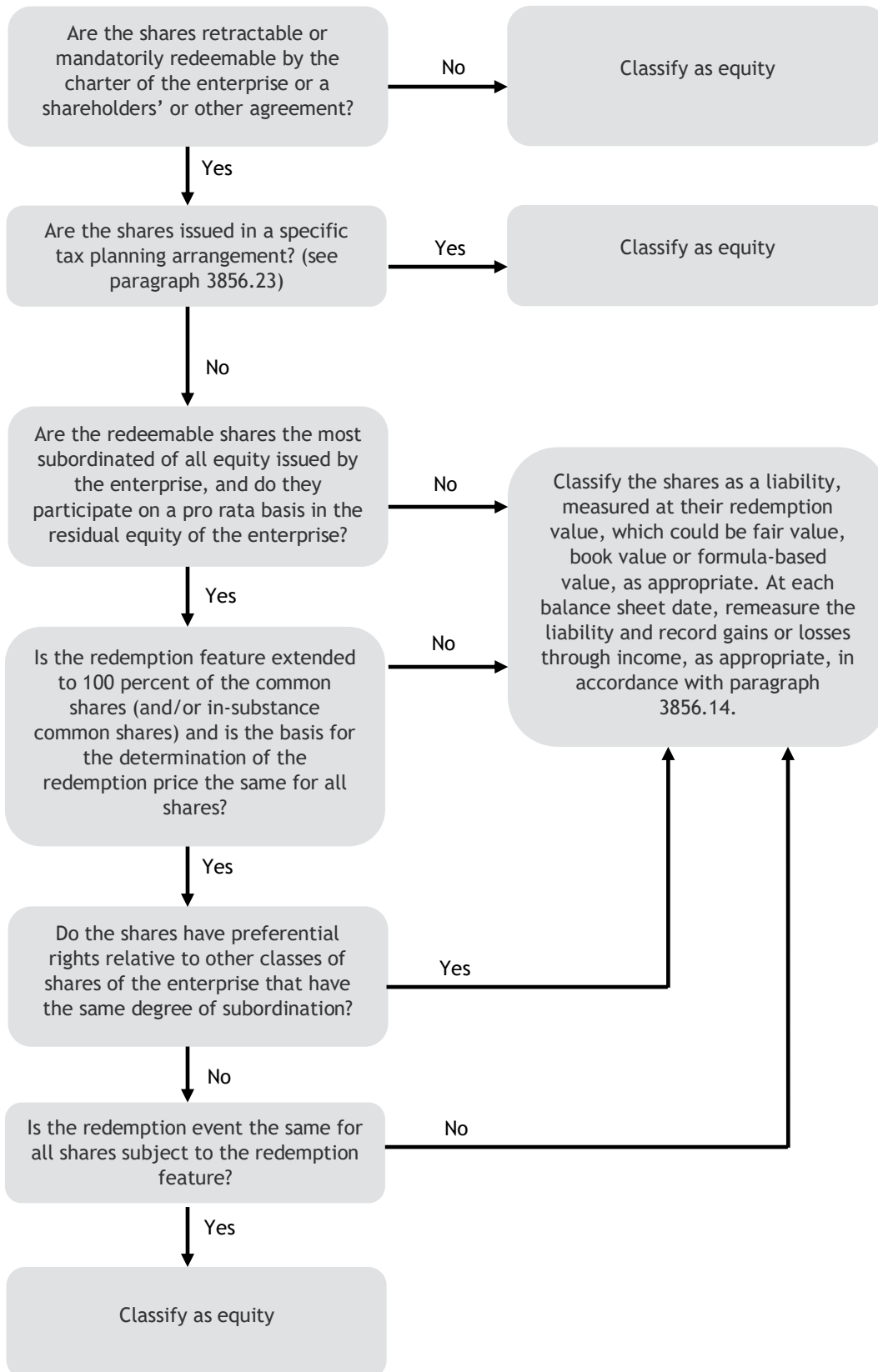
To learn more about the differences between standards, view our [ASPE-IFRS: A Comparison Series](#).

The information in this publication is current as July 31, 2020.

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO Canada LLP to discuss these matters in the context of your particular circumstances. BDO Canada LLP, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

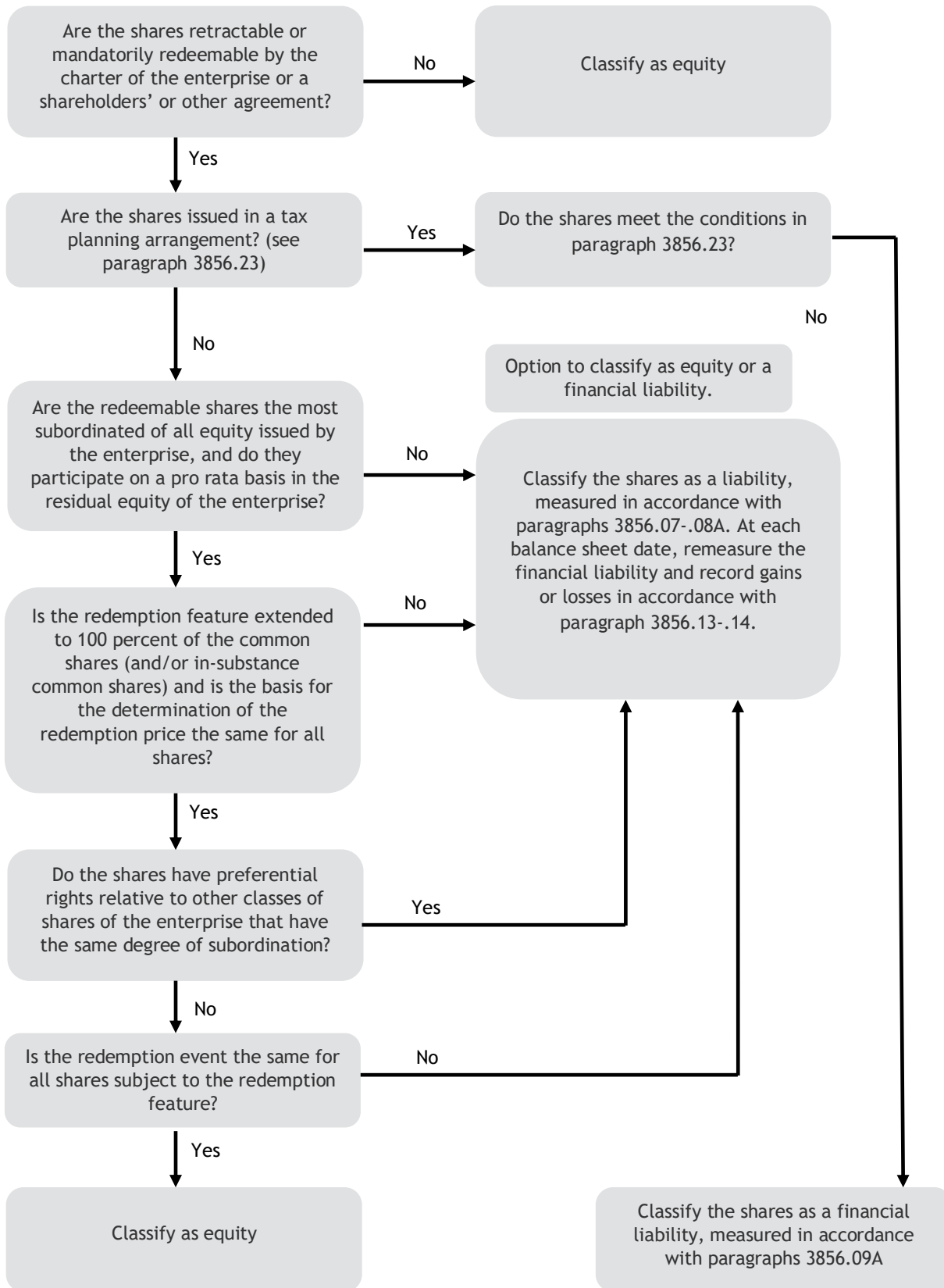
BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Appendix A: Decision Tree on Redeemable Share Classification per ASPE Guidance<sup>2</sup>



<sup>2</sup> Effective until fiscal years beginning on or after January 1, 2021 (unless earlier application of RoMRS is applied).

**Appendix B: Decision Tree on Retractable or Mandatorily Redeemable Share (RoMRS) Classification per ASPE Guidance<sup>3</sup>**



<sup>3</sup> Effective for fiscal years beginning on or after January 1, 2021. Earlier application is permitted.



### Appendix C: Decision Tree on Classification of Instruments per IFRS Guidance

