Guideline

Subject: **Derivatives Disclosure**

Category: **Accounting**

No: **D-6** **Date:** **October 1995**
Revised: **July 2010**

This guideline provides all federally regulated financial institutions and bank and insurance holding companies with guidance that is consistent with that in International Financial Reporting Standard 7 *Financial Instruments: Disclosures* (IFRS 7) as issued by the International Accounting Standards Board.

This guideline takes effect for fiscal years commencing on or after January 1, 2011.

Introduction

IFRS 7 provides comprehensive disclosure requirements relating to all financial instruments.

This guideline supplements the guidance contained in IFRS 7. It includes further disclosure requirements for derivative financial instruments as well as disclosure requirements for derivative non-financial instruments such as commodities contracts. In addition, it requires banks, bank holding companies, trust and loan companies, life insurance companies and insurance holding companies to disclose certain derivatives related amounts that are reported to OSFI in accordance with the capital requirements guidelines. This guideline outlines minimum disclosure requirements and institutions are encouraged to make additional disclosures that they consider to be appropriate.

The annexes to this guideline summarize the information that should be presented in the institution's annual report, or OSFI annual return for institutions that do not produce annual reports, to conform with the requirements of this guideline.

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Notional Amounts

These disclosures should be made either in the body of the financial statements or in the accompanying notes. Institutions that do not produce annual financial statements should make these disclosures in their OSFI annual return.

The notional amounts and other information about the extent and nature of all derivative instruments should be disclosed, including those instruments that are excluded from the reports to OSFI for capital adequacy purposes. The remaining term to maturity of all derivative instruments should be disclosed, as a minimum, for the following three time bands: 1 year or less, over 1 year through 5 years, and over 5 years.

Notional amounts and other information about the extent and nature of derivative financial instruments should be disclosed by class (e.g., interest rate contract or foreign exchange contract) and by type (e.g., forwards, futures, credit default swaps, total return swaps and options). Interest rate cross currency swaps should be included under foreign exchange contracts.

The notional amounts of over-the-counter (OTC) derivative instruments should be disclosed separately from the notional amounts of those derivative instruments that are exchange traded or that are completed through a central counterparty (e.g. a clearinghouse)[1].

The notional amounts and other information about the extent and nature of derivative instruments held for trading purposes should be disclosed separately from the information relating to derivative instruments that are held for other than trading purposes.

The notional amounts of other derivative instruments held for trading purposes should be disclosed and presented with the notional amounts of derivative financial instruments held for trading purposes.

See Annex A for information on notional amount disclosures.

[1] See paragraph 6 Annex 4 of Chapter 3 in OSFI's Capital Adequacy Requirements Guideline for a description of central counterparties.

Other Derivatives Disclosure

These disclosures should be made in the notes to the financial statements. Institutions that do not prepare an annual report should make these disclosures either in the notes to the financial statements or in a supplementary management report. Institutions that do not produce annual financial statements should make these disclosures in the notes to the OSFI annual return.

In disclosing information about management's policies for controlling or mitigating risks, information should be included about management's policies on matters such as hedging risk exposures, avoidance of undue concentrations of risk and requirements for collateral to mitigate credit risks.

Positive Replacement Cost, Credit Equivalent Amount, and the Risk-weighted Equivalent

Banks, authorized foreign banks in respect of their business in Canada – foreign bank branches (FBBs), bank holding companies, trust and loan companies, life insurance companies and insurance holding companies should disclose the positive replacement cost, credit equivalent amount and the risk-weighted equivalent by class of derivative instrument. Further categorization within each class of derivative financial instrument by type of contract (e.g. credit default swap, total return swap, option) is strongly encouraged. The credit equivalent amount is the positive replacement cost plus an amount representing the potential future credit exposure as outlined in OSFI's Capital Requirements Guidelines. Institutions should provide an explanation of these disclosures and indicate how the amounts are calculated.

Banks, bank holding companies, FBBs, and trust and loan companies should calculate the positive replacement cost, the credit equivalent amount and the risk-weighted equivalent in accordance with the Capital Adequacy Requirements Guidelines.

Life insurance companies and insurance holding companies should calculate the positive replacement cost and the credit equivalent amount in accordance with the MCCSR Guideline. Life insurance companies and insurance holding companies should calculate the risk-weighted equivalent by multiplying the credit equivalent amount by a risk-weighted factor. This risk-weighted factor is determined by dividing the counterparty factor by 8%.

See Annex B for Disclosure of Positive Replacement Cost, Credit Equivalent Amount and Risk-Weighted Equivalent.

Annex A - Disclosure of Notional Amounts

Below is a summary of the information that should be disclosed relating to notional amounts for each class and type of derivative instrument and an illustration of how these disclosures could be integrated with the disclosures relating to other instruments.

A. Recognized Financial Assets - Balance Sheet Amount

Assets to be classified in accordance with industry practice.

B. Recognized Financial Instruments

Derivative Instruments - Notional Amount

Interest Rate Contracts[1,2,3]

Forward rate agreements
Futures contracts
Swap contracts
Options purchased
Options written

Foreign Exchange Contracts[1,2,3]

Foreign exchange spot and forward contracts
Futures contracts
Swaps contracts
Options purchased
Options written

Other Derivative Contracts[1,2,3]

Equities
Commodities
Credit derivatives
Other

C. Unrecognized Financial Instruments

Credit Instruments - Contract Amount

Credit instruments to be classified in accordance with industry practice.

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[1] Total of notional amounts for each type of derivative instrument should be broken down between (a) those held for trading purposes as defined in IFRSs, and (b) those held for other than trading purposes.
[2] Total of notional amounts for each type of derivative instrument should be broken down between OTC and exchange traded derivatives.
[3] Total of notional amounts for each type of derivative instrument should be broken down by remaining term to maturity.

Annex B - Disclosure of Positive Replacement Cost, Credit Equivalent Amount and Risk-Weighted Equivalent

Below is a summary of the information that should be disclosed relating to the positive replacement cost, the credit equivalent amount and the risk-weighted equivalent for derivative instruments. However, disclosure of derivative financial instruments by type is encouraged but not required.

Derivative Instruments

<u>Interest Rate Contracts</u>

Forward rate agreements
Futures contracts
Swap contracts
Options purchased

<u>Foreign Exchange Contracts</u>

Foreign exchange spot and forward contracts
Futures contracts
Swaps contracts
Options purchased

<u>Other Derivative Contracts</u>

Equities
Commodities
Credit derivatives
Other

Total