

## Disclosure of Guarantees

The accounting guidelines, which are abbreviated *AcG*, constituted part of old Canadian GAAP (i.e. Part V Pre-changeover accounting standards) which included a total of nineteen of them. Some of these accounting guidelines were carried over and included in Accounting Standards for Private Enterprises (ASPE) when it was introduced. At this point only five accounting guidelines remain as part of ASPE of which *AcG-14 Disclosure of guarantees* is one. It is the most commonly applied accounting guideline at this point, as the others are very narrow in their scope and thus used infrequently (they include guidance for accounting for franchise fee revenue, oil and gas accounting, investment companies and disclosures for rate-regulated entities).

The accounting guidelines are maintained in a separate section of ASPE and because of this, it is easy to overlook *AcG-14* and attempt to disclose guarantees based on the guidance in Section 3290 *Contingencies*. In addition, many of the templates that practitioners use to prepare ASPE compliant financial statements include note disclosure for contingencies but not guarantees which, we believe, causes further confusion.

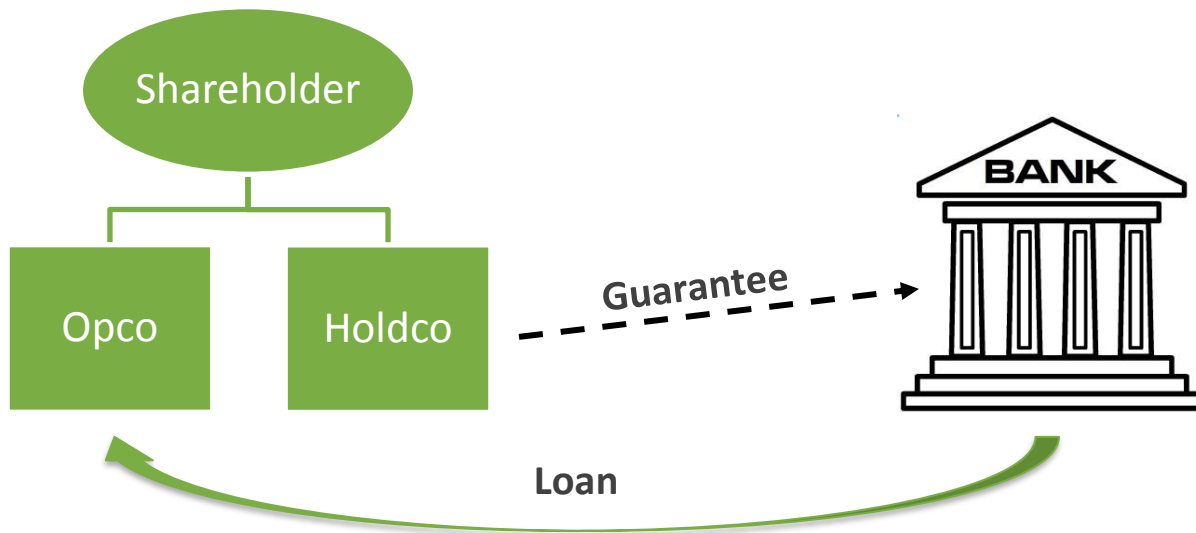
Section 3290 addresses recognition and measurement of guarantees when a loss is likely (i.e. a contingent liability). *AcG-14.9* provides guidance on disclosure of guarantees regardless of whether or not a loss is likely; however, it is important to note that a guarantor is required to disclose the maximum potential payments under the guarantee even when the likelihood of such payments is slight. This differs from Section 3290 where there is no need to disclose if the likelihood of occurrence is unlikely. Further requirements listed in *AcG-14.9*, that are absent in 3290, are the disclosure of:

- The approximate term of the guarantee;
- How the guarantee arose;
- The performance events;
- The maximum potential payment (or state that there is no limitation if that's the case);
- The reasons why the maximum potential amount cannot be estimated (if that's the case)
- The current carrying amount of the liability, whether freestanding or embedded;
- Any recourse provisions allowing for recovery of any of the amounts paid;
- Any collateral that can potentially recover some or all of the amounts paid

The differences in the required disclosures between Section 3290 and *AcG-14* can lead to significant disclosure deficiencies if the wrong standard is applied. For tips on how to account for contingencies under Section 3290, please see our [Clear-Cut on Contingencies](#).

### Guarantee of a Related Party's Debt to a Third Party

The most common scenario in which AcG-14 applies is a guarantee on the debt of a related entity. The following is an illustration of such a scenario:



In the above the operating company (Opco) needs a significant line of credit to finance its operations but it holds no significant assets as collateral. Its related company, Holdco, owns the land and building from which Opco operates and the bank has requested that it pledge these assets as collateral. This pledge represents a guarantee which requires disclosure in the financial statements of Holdco under AcG-14. Also note that because this is a related party transaction that the guidance under Section 3840 Related party transactions applies and the note would need to specify how Opco is related to Holdco (i.e. they are companies under common control).

### Guarantee of a Subsidiaries Debt to a Third Party

AcG-14.8 discusses a parent's guarantee of a subsidiary's debt to a third party. Where the parent company takes out a loan that is guaranteed by the subsidiary, the consolidated entity as a whole is effectively ensuring that the loan is going to be paid. Thus the disclosure requirements are specifically scoped out for purposes of consolidated financial reporting.

