



Financial Institutions
Commission

COMPLETION GUIDE
FOR
FINANCIAL RETURN
FOR
BRITISH COLUMBIA TRUST COMPANIES

December 2007

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INTRODUCTION

As part of the Government of British Columbia's initiative on regulatory reform to streamline and simplify the administration of regulations, and in order to meet the needs of British Columbia's regulatory requirements under the *Financial Institutions Act (FIA)*, the Financial Institutions Commission (FICOM) has revised and simplified the Financial Return which British Columbia trust companies are required to file.

In addition, FICOM has updated the Completion Guide and the Financial Return (Return) in response to the implementation of Canadian financial instruments accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA").

The purpose of this guide is to assist British Columbia trust companies in the completion of the Return, as well as sets out how trust companies must report financial instruments related account balances on the Return.

This guide provides a description for each Line on the Return in the same numeric sequence used on the Return. A copy of the Return is also provided at the back of this guide.

COMPLETION OF RETURN

- The Return must be based on the unconsolidated financial statements of the trust company according to Generally Accepted Accounting Principles (GAAP), reflecting book values at the date of the Return unless otherwise specified.
- All amounts must be rounded to the nearest dollar.
- All figures must be reported in Canadian dollars (i.e., US dollar accounts must be converted to the Canadian dollar equivalent at the date of the Return).

SUBMISSION OF RETURN

The completed Return must be submitted to:

Financial Institutions Division
Financial Institutions Commission
2800 – 555 West Hastings
Vancouver, B.C. V6B 4N6

Facsimile: 604 660-3555
E-mail: Filings@ficombc.ca

Submission of Financial Return must be by hard copy or by e-mail. For e-mail submissions, please use FICOM's Microsoft Excel file format.

DUE DATE:

Quarterly: Within 30 days after quarter end (unaudited).

Annually: Within 90 days after financial year end (audited).

LATE FILINGS:

Please ensure that FICOM is notified as soon as possible of any expected delays in submission of the Return.

QUERIES:

Contact FICOM

Telephone: (604) 660-3555
Facsimile: (604) 660-3365
E-mail: Filings@ficombc.ca

UNCOSOLIDATED BALANCE SHEET - (Page 1 of Return)**Assets****Line 100 Cash and Investments**

All cash and the principal amount of investments, including demand and term deposits, T-Bills, Bankers Acceptances, Commercial Paper, securities issued or guaranteed by government, and corporate debt security instruments.

Line 101 - Accrued Interest on Investments

Accrued interest on investments included on Line 100.

Line 102 Loans - Real Estate Secured

Mortgage and lines of credit secured by mortgages on real estate.

Line 103 Loans - Otherwise Secured

Loans and lines of credit that are otherwise secured. This includes all personal and commercial loans secured and registered under the Personal Property Security Act (PPSA).

Line 104 Loans - Unsecured

Unpaid balances of unsecured loans, lines of credit, and overdrafts.

Line 105 Accrued Interest on Loans

Accrued interest on loans and lines of credit included on Lines 102, 103, and 104.

Line 106 Allowance for Loan Impairment

Allowance for impairment is the excess of the recorded cost of loans over their estimated realizable amount. Include the allowance for impairment on all loans (Lines 102, 103 and 104), including both general and specific allowances. Refer to the CICA Handbook for the proper recognition and measurement of impaired loans.

Line 107 Premises & Equipment - Net

Book value of all assets held for the trust company's use, net of accumulated amortization, such as land, buildings, capitalized leases, leasehold improvements, furniture, fixtures, equipment (including computer hardware and software), and vehicles.

UNCOSOLIDATED BALANCE SHEET - (Page 1 of Return)**Line 108 Subsidiary and Other Equity Investments**

Equity Investments, using the Equity Method of Accounting, in corporations where the trust company's ownership and control is greater than or equal to 10%.

If the Equity Method of Accounting is not used to account for equity investments on the trust company's books, the trust company's booked net earnings (losses) after income taxes must be adjusted on the Return to include the trust company's pro rata share of the subsidiary or other company (ies) net earnings (losses) after income taxes, dividends and goodwill impairment loss.

Line 109 Future Income Tax Assets

Future income tax assets (or debit balance) resulting from differences between taxable and accounting income. A credit balance is to be reported on Line 201, Future Income Tax Liabilities.

Line 110 All Other Assets

All remaining assets which are not reported on Lines 100 to 109.

Line 120 TOTAL ASSETS

The sum of Lines 100 to 110.

Liabilities**Line 200 Borrowings**

All borrowings, such as bank loans, mortgages payable, and any other loans payable. All subordinated debt must be reported on Line 311.

Line 201 Future Income Tax Liabilities

Future income tax liabilities (or credit balance) resulting from differences between taxable and accounting income. A debit balance is to be reported on Line 109, Future Income Tax Assets.

Line 202 Other Liabilities

All other liabilities that are not included on Lines 200 and 201.

UNCOSOLIDATED BALANCE SHEET - (Page 1 of Return)**Line 210 TOTAL LIABILITIES**

The sum of Lines 200 to 202.

Capital**Line 300 Common Shares**

Common shares issued and outstanding by the trust company that qualify as primary capital under the Capital Requirements Regulation. Contributed surplus is to be reported on Line 302.

Line 301 Preferred Shares – Non-redeemable and Non-cumulative

All issued and outstanding non-redeemable and non-cumulative preferred shares that qualify as Primary Capital under the Capital Requirements Regulation.

Line 302 Contributed Surplus

The outstanding balance of contributed surplus.

Line 303 Retained Earnings (Deficit): Previous Year End

Unconsolidated retained earnings (deficit) from the previous year end.

Line 304 Retained Earnings (Deficit): Net Income (Loss) Year-to-Date

Cumulative net income (loss) for the period. The amount reported on this line must be equal to Line 450, Net Income (Loss).

Line 305 Accumulated Other Comprehensive Income

Accumulated Other Comprehensive Income (Loss) comprises the accumulated balance of all components as Other Comprehensive Income (Loss), being revenues, expenses, gains and losses that, in accordance with GAAP, are recognized in comprehensive income, but excluded from Net Income (Loss) at the end of the period.

Line 306 Other

Other primary capital that is not included on Lines 300 to 305.

UNCOSOLIDATED BALANCE SHEET - (Page 1 of Return)**Line 310 Total Primary Capital**

The sum of Lines 300 to 306.

Line 311 Subordinated Debt

All subordinated debt.

Line 312 Other Equity Shares

All classes of equity shares not qualifying for primary capital on Lines 300 and 301.

Line 320 Total Secondary Capital

The sum of Lines 311 and 312.

Line 330 TOTAL CAPITAL

The sum of Lines 310 and 320.

Line 340 TOTAL LIABILITIES AND CAPITAL

The sum of Lines 210 and 330.

UNCONSOLIDATED INCOME STATEMENT - (Page 2 of Return)**Revenues****Line 400 Investments**

Income from investments included on Line 100.

Line 401 Loan Interest

Interest income from loans included on Lines 102 to 104.

Line 402 Estate, Trusts and Agencies

Report the total net fee and commission income earned during the period from the company's estate, trusts and agencies activities. Include net fees earned in the performance of services on behalf of individuals (personal trust services) such as estate planning, administration of estates, administration of trusts, and management of clients' investment portfolios on an agency basis (including mutual funds offered by the

UNCOSOLIDATED INCOME STATEMENT - (Page 2 of Return)

company). Also include net fees earned in the performance of services on behalf of corporations (corporate trust services) such as stock transfer and registrar services, corporate bond and debenture trusteeships, pension funds, and real estate services (both property management and brokerage related).

Line 403 Commissions

Fees and commissions earned during the period as a result of providing services other than those amounts included on Line 402.

Line 404 Subsidiary and Other Equity Investments - Net

Trust company's share of subsidiary company(ies) and other equity investment(s) year-to-date net earnings (losses) after income taxes using the Equity Method of Accounting. If the Equity Method of Accounting is not used to account for equity investments on the trust company's books, the trust company's booked net earnings (losses) after income taxes must be adjusted on the Return to include the trust company's pro rata share of the subsidiary or other company (ies) net earnings (losses) after income taxes, dividends and goodwill impairment loss.

Line 405 Other

All other income not included on Lines 400 to 404.

Line 410 TOTAL REVENUE

The sum of Lines 400 to 405.

Expenses**Line 411 Salaries and Benefits**

Salaries, wages, bonuses, benefits or other compensation. Also include the cost of temporary help.

Line 412 Premises & Equipment

Costs of occupying or operating the premises and equipment included on Line 107 Premises and Equipment - Net, such as property/contents insurance, property taxes, rent, utilities, repairs & maintenance, janitor services, etc.

Line 413 Amortization

Amortization of assets included on Line 107, Premises and Equipment - Net.

UNCOSOLIDATED INCOME STATEMENT - (Page 2 of Return)**Line 414 Accounting and Legal Fees**

Audit, accounting, and legal services.

Line 415 Loan Impairment

All charges for loan impairment as a result of deterioration in credit quality, net of recoveries on loans previously written off.

Line 416 Other

All other expenses not included on Lines 411 to 415.

Line 420 TOTAL EXPENSES

The sum of Lines 411 to 416.

Line 430 NET OPERATING INCOME (LOSS)

Line 410 minus Line 420.

Line 431 Equity Share Dividends

Year-to-date accrual of equity share dividends expense estimated to be paid at year end.

Line 432 Income Taxes

Year-to-date accrual of income tax estimated to be paid or recovered at year end.

Line 433 Extraordinary Items / Capital Gain or Loss

Any extraordinary items and capital gain or loss, net of any income tax effect, must be included on this Line.

Line 440 TOTAL EQUITY SHARES DIVIDENDS, INCOME TAXES AND EXTRAORDINARY ITEMS / CAPITAL GAIN OR LOSS

The sum of Lines 431 to 433.

Line 450 NET INCOME (LOSS)

Line 430 plus or minus Line 440.

UNCOSOLIDATED INCOME STATEMENT - (Page 2 of Return)**Other Comprehensive Income (Loss)**

Report as per CICA Handbook Section 1530, Comprehensive Income.

Line 451 Unrealized Gains and (Losses)

Include unrealized gains and (losses) on derivatives designated as cash flow hedges as per CICA section 3865, Hedges, unrealized gains and (losses) on available-for-sale financial assets as per CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, and unrealized foreign currency translation gains and losses from self-sustaining foreign entities (if applicable) as per CICA Handbook Section 1651.

Line 452 Realized (Gains) and Losses

Report the realization of (gains) and losses previously reported in Line 451.

Line 453 Income Taxes

Report income tax expense or benefits allocated to each components of other comprehensive income reported in Lines 451 and 452.

Line 460 TOTAL OTHER COMPREHENSIVE INCOME

The sum of Lines 451 to 453.

Comprehensive Income (Loss)

Comprehensive income is the change in the company's net assets that result from transactions, events and circumstances from sources other than the company shareholders. It includes items that would not normally be included in Net Income (Loss).

Line 470 COMPREHENSIVE INCOME (LOSS)

Line 450 plus or minus Line 460.

LOANS IN ARREARS AND CAPITAL - (Page 3 of Return)

Loans in Arrears

Lines 501 to 506

Delinquent loans, both principal and accrued interest, are to be reported on the appropriate Lines.

Capital Base

Line 600 Primary Capital

Primary capital includes the following, subject to requirements established by the Superintendent:

- Common Shares
- Preferred Shares – Non-redeemable and non-cumulative
- Contributed Surplus
- Retained Earnings (Deficit)
- Future Income Taxes (Liabilities minus Assets)
- Other Primary Capital

Line 310 plus Line 201 or minus Line 109.

Line 601 Discount on Primary Capital

Items included on Lines 600 and 611 must be discounted prior to inclusion in the capital base if there is a fixed date for redemption or repayment. Include in the amount to be discounted any accrued interest, unpaid cumulative dividends and any declared dividends. Please attach a schedule showing the discounting calculation.

<u>Years to date of repayment, redemption, purchase or other acquisition</u>	<u>Discount</u>	<u>Proportion to be included in Capital Base</u>
5 years or more, or no specified date of redemption, purchase or other acquisition	Nil	100%
4 or more but less than 5	20%	80%
3 or more but less than 4	40%	60%
2 or more but less than 3	60%	40%
1 or more but less than 2	80%	20%
less than 1	100%	0%

LOANS IN ARREARS AND CAPITAL - (Page 3 of Return)**Line 602 Accumulated Other Comprehensive Income**

Amount from Line 305.

Currently, the *Capital Requirements Regulation* does not include Accumulated Other Comprehensive Income (Loss) in the calculation of the capital base of a trust company. As such, the balance of the Accumulated Other Comprehensive Income will be excluded from the capital adequacy calculation.

Line 610 Total Primary Capital

Line 600 minus Lines 601 and 602.

Line 611 Secondary Capital

Secondary capital includes the following, subject to requirements established by the Superintendent:

- Subordinated Debt
- Other Equity Shares not included in primary capital

Amount from Line 320.

Line 612 Discount on Secondary Capital

See Line 601.

Line 620 Total Secondary Capital

Line 611 less Line 612.

Line 630 Eligible Secondary Capital

Eligible secondary capital is limited to an amount equal to or less than total primary capital. Therefore, if total secondary capital on Line 620 exceeds total primary capital on Line 610, then report the same figure from Line 610 here, otherwise, report the same figure from Line 620.

Line 640 Total Capital

The sum of Lines 610 and 630.

LOANS IN ARREARS AND CAPITAL - (Page 3 of Return)**Deductions from Capital**

The Capital Requirements Regulation sets out the required deductions from capital for goodwill and other intangible assets.

Line 641 Deductions from Capital - Goodwill and Other Intangible Assets

Goodwill is the excess of the amount paid to acquire an enterprise over the book value assigned to assets acquired and liabilities assumed. Other intangibles are capital assets that lack physical substance and include brand names, copyrights, franchises, licences, patents, software, subscription lists, and trademarks.

The determination of any required deduction from capital is based on comparing the current book value of goodwill and other intangibles versus the maximum unamortized balance permitted by the Capital Requirements Regulation as outlined below:

Goodwill and other intangible assets included in the carrying value of an investment in another entity (using the equity method of accounting) are to be deducted on a straight-line basis as follows:

- ***Acquired on or before January 1, 1997 - the lesser of the current remaining amortization period and 10 years.***
- ***Acquired after January 1, 1997 - a maximum of 5 years***

These types of goodwill and other intangible assets would commonly apply to a trust company's subsidiary companies, e.g. insurance agencies.

Goodwill and other intangible assets that are not included in the carrying value of an investment in another entity are to be deducted immediately to the full extent.

Goodwill of this type (or goodwill on the books of the trust company as opposed to goodwill on the books of its subsidiary) does not exist in any trust company at this time, although it may occur at some future date.

Intangible assets of this type (or intangible assets on the books of the trust company as opposed to intangible assets on the books of its subsidiary) are not common in trust companies, but nevertheless do exist (i.e. software) and must be deducted from capital to the full extent.

Please note that the maximum amortization periods as set out in the Capital Requirements Regulation to determine the amount of any deductions from capital are for capital calculation purposes only, and an accounting change is not required to be made on the books of the trust company.

The following four examples have been provided to assist in the calculation of deductions from capital with respect to any investment in goodwill or other intangibles.

LOANS IN ARREARS AND CAPITAL - (Page 3 of Return)

EXAMPLE 1

The following example outlines a deduction from capital calculation for a trust company that has an equity investment (valued under the equity method of accounting) in a wholly owned insurance agency subsidiary and goodwill (acquired before January 1, 1997) is included in the carrying value of the investment:

Value of Equity Investment - December 31, 2004	\$520,000
PLUS: Net Income (Loss) - 2005	120,000
LESS: Dividends Received from Subsidiary - 2005	25,000
LESS: Goodwill Impairment Loss - 2005	<u>37,500</u>
VALUE OF EQUITY INVESTMENT - December 31, 2005	<u>\$577,500</u>

Deduction from Capital - Goodwill

Per Regulations:

Unamortized Goodwill - Jan. 1, 1997	\$450,000
divided by	<u>10 years</u>
Minimum Amortization per year	\$ 45,000

As at December 31, 2005:

Minimum Goodwill Amort. (\$45,000 x 9 years)	\$ 405,000
Maximum Unamortized Goodwill (\$450,000 - \$405,000).....	\$ 45,000

Per Trust Company Books:

Fair Value of Goodwill – December 31, 2005:	
Fair Value of Goodwill – January 1, 2005	\$150,000
Less: Goodwill Impairment Loss – 2005	<u>37,500</u> <u>\$112,500</u>

DEDUCTION FROM CAPITAL – 2005 **\$ 67,500**

EXAMPLE 2

The next example uses the same assumptions as the previous example except the goodwill was acquired on January 2, 1997.

Deduction from Capital - Goodwill

Per Regulations:

Unamortized Goodwill - Jan. 2, 1997	\$450,000
divided by	<u>5 years</u>
Minimum Amortization per year	\$ 90,000

As at December 31, 2005:

LOANS IN ARREARS AND CAPITAL - (Page 3 of Return)

Minimum Goodwill Amort. (\$90,000 x 5 years) \$450,000
Maximum Unamortized Goodwill (\$450,000 - \$450,000).....\$ 0

Per Trust Company Books:

Fair Value of Goodwill – December 31, 2005:
Fair Value of Goodwill – January 1, 2005\$150,000
Less: Goodwill Impairment Loss – 2005 37,500.....\$112,500

DEDUCTION FROM CAPITAL – 2005 \$112,500

EXAMPLE 3

The third example outlines a deduction from capital calculation for a trust company which has goodwill and other intangible assets that are not included in the carrying value of an investment in another entity and the investment is to be deducted immediately to the full extent.

Let’s assume a trust company purchased computer software on January 1, 2005 for \$500,000 and the software has a definite useful life of 5 years. The software will be amortized on the trust company books over 5 years.

Deduction from Capital – Software

Per Regulations:

Unamortized Software - January 1, 2005 \$500,000

As at December 31, 2005:
Minimum Software Amort. (\$500,000 x 100%) \$500,000
Maximum Unamortized Software (\$500,000 - \$500,000).....\$ 0

Per Trust Company Books:

Unamortized Software - January 1, 2005 \$500,000
divided by remaining amortization 5 Years
Amortization per year \$100,000

As at December 31, 2005:
Software Amort. (\$100,000 x 1 year) \$100,000
Unamortized Software (\$500,000 - \$100,000).....\$400,000

DEDUCTION FROM CAPITAL - 2005 \$400,000

EXAMPLE 4

The final example uses the same assumptions as the previous example except the software is determined to have an indefinite useful life. The software will not be amortized until its life is determined to be no longer indefinite.

LOANS IN ARREARS AND CAPITAL - (Page 3 of Return)

Deduction from Capital – Software

Per Regulations:

Maximum Unamortized Software (\$500,000 - \$500,000)\$ 0

Per Trust Company Books:

No Impairment Loss was recognized during the period.

Fair Value of Software – December 31, 2005 \$500,000

DEDUCTION FROM CAPITAL - 2005

\$500,000

Line 642 Deductions from Capital – Subsidiary and Other Equity Investments

If the trust company has an investment representing 10% or more of the shares in a corporation which carries on *banking, trust, or deposit business*, a portion of the investment must be deducted. The amount to be deducted is the proportion of the investment that is required for the corporation to achieve an adequate capital base according to the Capital Requirements Regulation. Similarly, a portion of an investment in the debt of such a corporation which would qualify as a capital item must be deducted.

If the trust company has an investment representing 10% or more of the shares of an *insurance company, venture capital corporation, or a company in the business of a broker or underwriter of a dealer in securities* then the total investment must be deducted. Similarly, investment in the debt of such a corporation which would qualify as a capital item must be deducted to the full extent.

Insurance business does not include an insurance agency. Venture capital corporations are defined in Section 141 of the *FIA* and include corporations whose activities are limited to providing corporate debt and equity financing and financial and management consulting services to other corporations in which the venture capital corporation has a financial interest or contemplates acquiring a financial interest.

Line 643 Deductions from Capital - Excess Investment in Prescribed Businesses

If the value of the trust company's total investment in debt (which would qualify as a capital item) and 10% or more of the shares of corporations carrying on business activities detailed in Sections 6.2(1)(e) and (f) of the *Investment and Lending Regulation* and Section 141(2)(c) of the *FIA* exceeds 2% of total assets, then the excess must be deducted. The value of the investment in shares is to be based on the equity method of accounting. Sections 6.2(1)(e) and (f) of the *Investment and Lending Regulation* includes: mutual fund investment; investment counseling; portfolio management; issuing and operation of credit cards and related services; real property acquisition, holding, development, selling or management; factoring; financial leasing; data processing or information services/systems; business management and advisory services; business of a financial agent; sale of tickets (lottery, transit or other); and acting as agent. Section 141(2)(c) of the *FIA* refers to an investment in any corporation that carries on a

LOANS IN ARREARS AND CAPITAL - (Page 3 of Return)

business reasonably ancillary to the business of a financial institution, which has received prior written consent of the Commission.

Line 650 Total Deductions from Capital

The sum of Lines 641 to 643.

Line 660 Capital Base

Line 640 less Line 650.

Capital Adequacy**Line 670 Capital Base**

Amount from Line 660.

Line 671 Assets Held in Trust

Assets held in trust are assets managed by the trust company which are beneficially owned by clients and are therefore not reported on the balance sheet of the trust company. Trust assets may consist of cash, stocks, bonds, mortgages, land, buildings, jewellery, art, etc.

Line 680 Capital Required

Total capital required is the amount determined by multiplying Line 670, Assets Held in Trust, by 0.5%.

Line 690 Excess (Shortfall)

Enter the total of Line 670 less Line 680.