



Consolidated Financial Statements January 2009

**COMMENTS TO THE IASB MUST BE RECEIVED BY
MARCH 20, 2009**

**COMMENTS TO THE AcSB MUST BE RECEIVED BY
APRIL 20, 2009**

This Exposure Draft of proposed accounting standards is issued by the Accounting Standards Board. The Board is composed of persons knowledgeable in the preparation and use of financial statements who are drawn from public practice, business and academe. All members serve as individuals and not as representatives of their employers or organizations.

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs, and, when expressing disagreement with the Exposure Draft, they clearly explain the problem, and include a suggested alternative supported by specific reasoning. All comments received will be available on the website at www.acsbcanada.org 10 days after the comment deadline, unless confidentiality is requested.

To be considered, comments to the AcSB must be received by April 20, 2009, addressed to:

**Peter Martin, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2**

For ease of handling, we prefer comments to be sent by e-mail (in Word format) to:
ed.accounting@cica.ca

“Standards need not be applied to immaterial items. While materiality is a matter of professional judgment in the particular circumstances, the Board believes that, as a general rule, materiality should be judged in relation to the significance of financial statement information to decision makers. An item of information, or an aggregate of items, is deemed to be material if it is probable that its omission or misstatement would influence or change a decision.”

(Introduction to Accounting Standards — CICA Handbook — Accounting)

Highlights

The Accounting Standards Board (AcSB) proposes, subject to comments received following exposure, that the new consolidation standard recently proposed by the International Accounting Standards Board (IASB) be incorporated into Canadian GAAP as part of the IFRSs to be adopted by publicly accountable enterprises at the changeover date in 2011. The proposed new standard is to replace the consolidation requirements in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation — Special Purpose Entities*.

Background

The AcSB's strategy is to adopt International Financial Reporting Standards (IFRSs) as Canadian GAAP for publicly accountable enterprises for financial statements related to fiscal years beginning on or after January 1, 2011.¹ The IASB has recently issued for comment its Exposure Draft ED 10, "Consolidated Financial Statements." Consistent with its strategy, the AcSB intends to replace the consolidation requirements in IFRSs that were previously exposed in the AcSB's April 2008 omnibus Exposure Draft, "Adopting IFRS in Canada."

The AcSB continues to deliberate the appropriate financial reporting models for private enterprises and not-for-profit organizations (NFPOs). The AcSB is developing a separate GAAP for private enterprises² that is expected to be completed before a final standard resulting from these consolidation proposals is issued.

For NFPOs, the AcSB is considering the implications of an organization adopting standards based on either IFRSs or the standards being developed for private enterprises together with additional standards addressing unique circumstances of NFPOs, as the basis for GAAP reporting. The AcSB has issued an [Invitation to Comment](#) on the future direction of accounting standards for NFPOs.

In light of current work under way for private enterprises and NFPOs, the AcSB concluded that it will consider, separately, whether to adopt the new consolidated financial statements standard for application by private enterprises and NFPOs that consolidate entities they control. As the proposed standard might be applicable to private enterprises and NFPOs in the future, the AcSB encourages all entities to evaluate the proposals and provide comments.

IASB Exposure Draft

The IASB's Exposure Draft ED 10, "[Consolidated Financial Statements](#)" (ED 10), is available on the IASB website.

Comparison of ED10 to Canadian GAAP

The proposed new standard is intended to improve financial reporting by:

- simplifying the accounting guidance, by providing a single definition of control for assessing whether a reporting entity controls another entity; and
- enhancing disclosures about consolidated and unconsolidated entities.

¹ The AcSB's [Strategic Plan](#) and [Implementation Plan for Incorporating International Financial Reporting Standards into Canadian GAAP](#) are available on the AcSB's website at www.acsbcanada.org.

² Additional information on the AcSB's [strategy for financial reporting by Private Enterprises](#) is available on the AcSB's website at www.acsbcanada.org.

As a consequence, the IASB expects that entities will be consolidated on a more consistent basis, making the financial statements of groups more comparable and understandable.

The proposals are in response to calls by preparers to simplify the consolidation guidance and by users of financial statements to improve disclosures about off-balance sheet entities. Given the recent global financial turmoil and the recommendations of the Financial Stability Forum, the IASB decided to accelerate the consolidation project and proceed directly to publication of ED 10. The following comprise the principal differences between the improvements proposed in ED 10 and existing Canadian GAAP:

Scope

The proposals in the Exposure Draft apply to all entities, except a parent that meets several conditions (see paragraph 2(a) of ED 10). The proposed IFRS does not require an entity to consolidate a post-employment benefit plans or other long-term employee benefit plans to which IAS 19, *Employee Benefits*, applies. Investment companies and their parents are not exempted from the requirement to consolidate subsidiaries.

Control of an entity

- Control of an entity is defined as “the power of a reporting entity to direct the activities of another entity to generate returns for the reporting entity.” Compared to existing Canadian GAAP, this widens the concept by defining control based on power to direct the activities of another entity, whether based on the power to govern the financial and operating policies of the other entity or through other ways.

Assessing control

- A single approach is used to assess whether the reporting entity controls another entity by considering power and returns together, and how the reporting entity can use its power to affect the returns.
- Control is assessed continuously based on whether the reporting entity has the power and returns, and not whether the reporting entity has a continuing ability to have that power.
- A structured entity is defined in ED 10 as “an entity whose activities are restricted to the extent that those activities are not directed as described in paragraphs 23-29.” Paragraphs 23-29 outline how a reporting entity can control another entity by having the power to direct activities with a majority of voting rights or having the power to direct activities without a majority of voting rights. Concepts of a variable interest entity or special purpose entity are not used.
- When assessing control of a structured entity, it is necessary to identify how returns from the entity’s activities are shared and how decisions, if any, are made about the activities that affect those returns. A reporting entity should consider all relevant facts and circumstances, including the purpose and design of a structured entity.

Disclosures

The reporting entity discloses information that enables users of its financial statement to evaluate:

Control assessment

- The basis of control on an aggregate basis, including significant judgments or assumptions made.

- Accounting consequences of the control assessment, such as total assets, liabilities, revenue and net income of those entities about which significant judgments or assumptions were made.

Involvement with structured entities

- Defined involvement with a structured entity as including “both contractual and non-contractual involvement that exposes the reporting entity to variability of returns of the structured entity. Involvement includes holding of equity or debt instruments, as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement, guarantees, and asset management services.”
- Nature and extent of the reporting entity’s involvement with structured entities that it does not control (see paragraphs B40-B42 of ED 10).
- Nature and extent of, and changes in, the market risk, credit risk and liquidity risk that arise from the reporting entity’s involvement with structured entities (see paragraphs B43-B45 of ED 10).
- Other information relevant to assessing the risk exposure of the reporting entity (see paragraph B46 of ED 10).
- If during the reporting period, the reporting entity, without having an obligation to do so, provided support to unconsolidated structured entities, explain the extent of and why the support was provided.
- If providing the disclosures is impracticable, the reporting entity is to disclose why it is unable to obtain the information and how it manages its risk exposure.

The consolidation procedures from IAS 27 have not been reconsidered by the IASB but are included in ED 10. With the issuance of NON-CONTROLLING INTERESTS, Section 1602, Canadian GAAP is converged with how to account for non-controlling interests and loss of control of a subsidiary. Refer to the “[Comparison of IFRSs and Canadian GAAP](#),” to review the remaining differences between consolidation procedures in IFRSs and existing Canadian GAAP.

Derecognition

In addition to the proposals in ED 10, the IASB is also reviewing, in a separate project, its requirements for the derecognition of financial instruments. The derecognition of financial instruments sometimes involves the use of structured entities. Therefore, the projects on consolidation and derecognition of financial instruments are closely related in those circumstances. The IASB expects to publish an exposure draft on the derecognition of financial instruments in the first half of 2009.

Accounting for associates and the equity method

In responses to ED 9, *Joint Arrangements*, and during deliberations in the consolidation project, issues with, and possible conflicts between, the concept of significant influence in IAS 28, *Investments in Associates*, and the proposals in ED 10, have been raised. The IASB notes that consideration of the requirements in IAS 28, together with the ED 10 proposals and the concurrent development of a replacement for IAS 31, *Interests in Joint Ventures*, would permit the development of a cohesive set of requirements for all types of investments in entities. In the Invitation to Comment in ED 10, the IASB asks whether the definition of significant influence and the use of the equity method in IAS 28 should be considered in a separate project to address these concerns.

Convergence with US GAAP

The proposed new standard may continue to result in differences compared to US GAAP. The US Financial Accounting Standards Board (FASB) is currently reviewing its consolidation requirements. That work includes removing the concept of a special purpose entity, shifting the consolidation criteria for variable interest entities from a risk and rewards-based model to a control-based model, and requiring additional disclosures about consolidated and unconsolidated variable interest entities. The IASB and FASB propose introducing similar control-based consolidation requirements and disclosures for structured entities (variable interest entities). However, in contrast to the FASB proposals, the proposed IFRS would apply to all relationships a reporting entity has with other entities. The IASB and FASB plan to investigate ways to conduct their future work on consolidation jointly.

Timing of adoption in Canada

In order to help enterprises focus their efforts on adopting IFRSs, the AcSB generally intends not to require adoption of new standards in Canada prior to the full adoption of IFRSs in 2011. Therefore, the AcSB intends that the proposed new consolidation standard will become mandatorily effective for publicly accountable enterprises upon changeover to IFRSs. The mandatory effective date in Canada may differ from that required by the IASB in order to avoid two changes in accounting in quick succession that would distract Canadians from the full adoption of IFRSs. However, early adoption of IFRSs, including the proposed new consolidation standard, will be permitted.

The IASB plans to issue its final standard in the second half of 2009 and the AcSB intends to incorporate the new standard into Canadian GAAP, as part of the IFRSs to be adopted by publicly accountable enterprises, at the same time.

Other material

Within ED 10, the IASB has also published proposed amendments to other IFRSs, a Basis for Conclusions and Illustrative Examples for the proposed new consolidation standard. While these are not part of the AcSB's Exposure Draft, constituents may wish to refer to them.

Comments requested

The AcSB encourages Canadian stakeholders to respond to the IASB on ED 10 since the new IFRS will become part of Canadian GAAP for publicly accountable enterprises, and might, in the future, be applicable to private enterprises and NFPOs. Specific questions on which the IASB would like input are provided in the Invitation to Comment in ED 10. The AcSB requests that comment letters be sent directly to the IASB with a copy to the AcSB.

The AcSB has identified additional questions regarding the proposed new standard on which it would like input from Canadian respondents. In April 2008, the AcSB issued an Exposure Draft, "Adopting IFRSs in Canada." That Exposure Draft requested comments on existing IFRSs, including IAS 27 and SIC-12. The following questions apply to the proposed improvements to IFRSs and not to the existing accounting requirements that are to be carried forward from IAS 27.

1. The proposed new standard has been developed by the IASB for application by entities around the world. Assuming that the ED 10 proposals are approved by the IASB, do you believe that there are aspects of the proposed new standard that make some or all of it inappropriate for Canadian entities, even though it is appropriate for entities in the rest of the world? If so, please specify which aspects and what circumstances make the accounting requirements proposed in ED 10 inappropriate for Canadian entities.
2. The AcSB has determined that it will generally not issue application or interpretative guidance on IASB standards. An exception might be when an aspect of a standard needs interpreting in light of specific Canadian legal, tax, regulatory or other circumstances that do not apply in other countries and that therefore will not be addressed by the IASB. Do the amendments proposed in ED 10 require such application or interpretative guidance? If so, please specify the issue giving rise to the need for additional material, and the nature of the material needed.
3. The AcSB expects to have developed a separate set of GAAP standards for private enterprises before the proposed new consolidation standard is issued, but concluded that it will consider, separately, whether to adopt the ED 10 proposals. Therefore, it will be important for the AcSB to know stakeholders' views on the matter. Are the proposals in ED 10 appropriate for Canadian private enterprises? If not, please specify why not.
4. At this time, the AcSB has not determined how to implement its strategy for NFPOs. However, it will be important for the AcSB to know stakeholders' views on the applicability of the ED 10 proposals to these entities. Are the proposals in ED 10 appropriate for NFPOs? If not, please specify why not.
5. The AcSB intends that the proposed new standard in ED 10 be adopted in Canada by publicly accountable enterprises upon changeover to IFRSs — for financial statements related to fiscal years beginning on or after January 1, 2011. Early adoption of IFRSs, including the proposed new standard, will be permitted. Do you agree with the proposed effective date provisions? If not, please specify why not.
6. The AcSB does not intend that the proposed new standard in ED 10 be adopted into Canadian GAAP by replacing SUBSIDIARIES, Section 1590, CONSOLIDATED FINANCIAL STATEMENTS, Section 1601, and NON-CONTROLLING INTERESTS, Section 1602. Publicly accountable enterprises will not be able to early adopt the proposed new standard before changeover to IFRS. Do you agree that the proposed new standard should not be adopted before the changeover to IFRS? If not, please specify why not.

Responses to these additional questions should be sent directly to the AcSB.

The deadline for commenting to the IASB on ED 10 is March 20, 2009, and the deadline for responding to the AcSB on the additional questions set out above is April 20, 2009.