



## **Adopting IFRSs in Canada, III**

### **October 2009**

**COMMENTS MUST BE RECEIVED BY  
NOVEMBER 15, 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.acsbcanda.org](http://www.acsbcanda.org) 10 days after the comment deadline, unless confidentiality is requested.

**To be considered, comments to the AcSB must be received by November 15, 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](mailto: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)

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## Highlights

The Accounting Standards Board (AcSB) proposes, subject to comments received following exposure, to incorporate the changes to IFRSs set out in this Exposure Draft into the IFRSs to be adopted by publicly accountable enterprises.

### Background

To date, the AcSB has issued two omnibus Exposure Drafts of IFRSs. The first Exposure Draft, “Adopting IFRSs in Canada,” issued in April 2008, exposed for public comment in Canada the IFRSs included in the International Accounting Standards Board’s (IASB) 2007 Bound Volume of International Financial Reporting Standards.<sup>1</sup> “Adopting IFRSs in Canada, II,” issued in March 2009, exposed changes made to IFRSs since the 2007 Bound Volume and included in the 2008 Bound Volume. It also addressed a number of items carried forward from the April 2008 Exposure Draft, including the definition of a “publicly accountable enterprise,” and presented a preliminary draft of new introductory material to be included in the CICA Handbook – Accounting (Handbook) once it contains IFRSs.

Respondents have presented no compelling arguments for why one or more of the IFRSs exposed in the first two Exposure Drafts should not be applied in Canada. Accordingly, the AcSB is continuing with its plans to incorporate the IFRSs now in force into the Handbook by the end of 2009. The Handbook will be updated as necessary thereafter so that it includes all IFRSs in force at any point in time.

With respect to the definition of a publicly accountable enterprise and the new introductory material for the Handbook, the AcSB has decided to:

- (a) amend the definition slightly to add another example of an entity that may hold assets for others for reasons incidental to one of its primary businesses and therefore is not considered to be publicly accountable;<sup>2</sup> and
- (b) finalize the new introductory material after incorporating some drafting suggestions made by respondents.

This is the third and final omnibus Exposure Draft of IFRSs. This Exposure Draft exposes changes made to IFRSs since the 2008 Bound Volume. It completes the process of exposing existing IFRSs for incorporation into Canadian GAAP. This Exposure Draft also includes two IASB Exposure Drafts not previously issued in Canada.

Adopting the changes set out in this Exposure Draft will allow the AcSB to begin operating in real-time as far as adopting new IFRSs is concerned. In the future, as the IASB issues exposure drafts, the AcSB will expose them in Canada individually, rather than grouping some in an omnibus exposure draft. The AcSB has already issued separate Exposure Drafts of some recent IASB Exposure Drafts because of the nature or importance of their subject matter.

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<sup>1</sup> The Bound Volume of a particular year includes all IFRSs in effect at the beginning of that year.

<sup>2</sup> This amendment is described in greater detail in the AcSB’s July 16, 2009 Decision Summary, available at [www.acsbcanada.org/decision-summaries/2009/pf\\_item28946.aspx](http://www.acsbcanada.org/decision-summaries/2009/pf_item28946.aspx). The Decision Summary also describes AcSB decisions taken on other issues addressed in the second omnibus Exposure Draft.

## Proposals

This Exposure Draft exposes for public comment in Canada the following:

- (a) Amendments to standards, and new interpretations, issued by the IASB since the 2008 Bound Volume and included in the 2009 Bound Volume. Following is a list of these changes, with the issue date indicated in parentheses:
- Puttable Financial Instruments and Obligations Arising on Liquidation: Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* (February 2008).
  - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate: Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements* (May 2008).
  - Improvements to IFRSs (May 2008).
  - Eligible Hedged Items: Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* (July 2008).
  - IFRIC 15 *Agreements for the Construction of Real Estate* (July 2008).
  - IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (July 2008).
  - Reclassification of Financial Assets: Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* (October 2008). (See the next item, which clarifies the effective date of these amendments.)
  - Reclassification of Financial Assets — Effective Date and Transition: Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* (November 2008).
  - IFRS 1 *First-time Adoption of International Financial Reporting Standards* (November 2008).
  - IFRIC 17 *Distributions of Non-cash Assets to Owners* (November 2008).
- (b) Amendments to standards and new interpretations issued by the IASB since the 2009 Bound Volume. Following is a list of these changes, with the issue date indicated in parentheses:<sup>3</sup>
- IFRIC 18 *Transfers of Assets from Customers* (January 2009).
  - Embedded Derivatives: Amendments to IFRIC 9 and IAS 39 (March 2009).
  - Improvements to IFRSs (April 2009).
  - Group Cash-settled Share-based Payment Transactions: Amendments to IFRS 2 (June 2009).
  - Additional Exemptions for First-time Adopters: Amendments to IFRS 1 (July 2009).
- (c) IASB Exposure Drafts not previously published in Canada. There are two such Exposure Drafts, as follows:
- “Relationships with the State: Proposed amendments to IAS 24 *Related Party Disclosures*” (December 2008)
  - “Prepayments of a Minimum Funding Requirement: Proposed amendments to IFRIC 14 *IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*” (May 2009)

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<sup>3</sup> This list does not include amendments made by the IASB in March 2009 to IFRS 7 *Financial Instruments: Disclosures* to improve disclosures about fair value and liquidity risk. These amendments were previously exposed in Canada. The AcSB subsequently amended Section 3862, *Financial Instruments — Disclosures*, to incorporate these improvements into Canadian GAAP before the transition date to IFRSs. The AcSB approved the inclusion of those same amendments in the IFRSs to be adopted in Canada.

Appendix 1 provides a high-level summary of the items listed above. It also describes significant amendments made to other IFRSs as a result of these items.

This Exposure Draft provides a link to the items being exposed. The link is to the material in each item that is an integral part of the related standard(s). This excludes bases for conclusions and other non-authoritative material such as introductory paragraphs and illustrative examples that accompany, but are not part of, a standard. Such material will not be included in the Handbook and, hence, is not being exposed by the AcSB for comment. To view the items, [click here](#).

### **Plans for finalizing the proposals**

The AcSB expects to incorporate IFRSs into the Handbook by the end of 2009. The AcSB will redeliberate its proposal to adopt the changes listed above to take into account comments received on this Exposure Draft. The AcSB will provide updates about its redeliberations on its website at [www.acsbcanada.org](http://www.acsbcanada.org).

### **Comments requested**

The AcSB welcomes comments on the following questions:

1. The new IFRSs and changes to existing IFRSs included in this Exposure Draft have been developed by the IASB for application by entities around the world. Do you think that, regardless of this fact, one or more of these items contain requirements that would lead to inappropriate results if they were applied in Canada? If so, please specify each such requirement and the aspects or circumstances that make it inappropriate for Canadian entities, together with a proposed alternative requirement with supporting rationale.
2. In general, the AcSB will not issue application or interpretative guidance on IASB standards. Do you think that such guidance is necessary for any of the items being exposed, even though it appears unnecessary elsewhere in the world? If so, please specify the item, the specific issue giving rise to the need for application or interpretative guidance, and the nature of the guidance needed.
3. Are amendments to IFRS 1, “First-time Adoption of International Financial Reporting Standards,” needed to provide special transitional provisions for the adoption by Canadian entities of any of the items being exposed? If so, please specify each such item, the transitional provision required and why you think it is necessary.

## APPENDIX 1

### SUMMARY OF ITEMS BEING EXPOSED

This Appendix provides a high-level description of the items included in this Exposure Draft. Also, it describes significant amendments made to existing IFRSs as a result of a particular item.

#### **Puttable Financial Instruments and Obligations Arising on Liquidation: Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements***

These amendments clarify the accounting for financial instruments that would usually be considered equity but have been classified as financial liabilities. The amendments require entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions:

- puttable financial instruments (for example, some shares issued by co-operative entities); and
- instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (for example, some partnership interests and some shares issued by limited life entities).

Additional disclosures are required about the instruments affected by the amendments.

These amendments resulted in changes to other IFRSs including the following:

- A scope exception was added to IFRS 7 *Financial Instruments: Disclosures* for instruments now required to be classified as equity as a result of these amendments. A similar scope exception was added to IAS 39 *Financial Instruments: Recognition and Measurement*. However, holders of such equity instruments are required to apply that standard to those instruments unless they meet another of the standard's scope exceptions.
- IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments* now specifies that its consensus also applies to members' shares that meet the criteria for classification as equity in accordance with these amendments. Also, paragraph 9 in IFRIC 2 has been amended to note that such members' shares are excluded from the shares required to be classified as liabilities because they are in excess of a prohibition against redemption.

#### **Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate: Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements***

These amendments deal with the determination of the cost of an investment in the separate financial statements. The amendments address concerns that retrospectively determining cost and applying the cost method in accordance with IAS 27 on first-time adoption of IFRSs cannot always be achieved without undue cost or effort. First-time adopters are now permitted to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The definition of the cost method has been removed

from IAS 27 and replaced with a requirement to present dividends as income in the separate financial statements of the investor.

In addition, the amendments address the initial measurement of cost in the separate financial statements of a new parent formed as the result of a specific type of reorganization. The new parent is required to measure the cost of its investment in the previous parent at the carrying amount of its share of the equity items of the previous parent at the date of the reorganization.

These amendments resulted in changes to other IFRSs including the following:

- Paragraph 32 of IAS 18 *Revenue* was amended to remove a previous requirement to reduce the cost of equity securities by the amount of dividends declared from pre-acquisition profits.
- Paragraph 49 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* was amended to no longer refer to the payment of a dividend being part of a disposal of an entity's interest in a foreign operation.
- In IAS 36 *Impairment of Assets*, a new paragraph was added describing the circumstances in which dividends from a subsidiary, jointly controlled entity or associate might indicate the impairment of an asset.

## **Improvements to IFRSs**

The IASB has adopted an annual process to deal with necessary, but not urgent, amendments to IFRSs that will not be included as part of another major project (the “annual improvements process”). Rather than dealing with such amendments on a piecemeal basis, the IASB issues an omnibus exposure draft of proposed amendments each year. After considering comments received from the public, it issues the amendments in final form. To date, the IASB has issued two sets of annual improvements — one in May 2008 and another in April 2009. This Exposure Draft includes both sets.

### **Eligible Hedged Items: Amendment to IAS 39 *Financial Instruments: Recognition and Measurement***

This amendment provides additional guidance on what can be designated as a hedged item. The amendment addresses the designation of a one-sided risk in a hedged item, and inflation in a financial hedged item.

### **IFRIC 15 *Agreements for the Construction of Real Estate***

IFRIC 15 is a new interpretation providing guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue* and when revenue from the construction of real estate should be recognized.

### **IFRIC 16 *Hedges of a Net Investment in a Foreign Operation***

IFRIC 16 is a new interpretation addressing the accounting for the hedge of a net investment in a foreign operation in an entity's consolidated financial statements. Specifically, it addresses the following issues:

- Whether risk arises from the foreign currency exposure to the functional currencies of the foreign operation and the parent entity, or from the foreign currency exposure to the functional currency of the foreign operation and the presentation currency of the parent entity's consolidated financial statements.

- Which entity within a group can hold a hedging instrument in a hedge of a net investment in a foreign operation and, in particular, whether the parent entity holding the net investment in a foreign operation must also hold the hedging instrument.
- How an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item when the entity disposes of the investment.

**Reclassification of Financial Assets: Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* and Reclassification of Financial Assets — Effective Date and Transition: Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures***

The amendments issued in October 2008 permit an entity to:

- reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances; and
- transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future.

In November 2008, the IASB issued an updated version of the amendments clarifying their effective date.

**IFRS 1 *First-time Adoption of International Financial Reporting Standards* and Additional Exemptions for First-time Adopters: Amendments to IFRS 1**

In November 2008, the IASB issued a revised version of IFRS 1. The revisions improved the structure of the standard but did not introduce any technical changes. In July 2009, the IASB amended IFRS 1 to:

- exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets; and
- exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4 *Determining whether an Arrangement contains a Lease* when the application of their national accounting requirements produced the same result.

Other amendments to IFRS 1 were made in May 2008 in conjunction with revisions to IAS 27 *Consolidated and Separate Financial Statements* (see “Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate: Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements*” above).

**IFRIC 17 *Distributions of Non-cash Assets to Owners***

IFRIC 17 is a new interpretation addressing how an entity should measure distributions of assets other than cash when it pays dividends to its owners.

## **IFRIC 18 *Transfers of Assets from Customers***

IFRIC 18 is a new interpretation that is particularly relevant for the utility sector. It clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment (or cash to acquire such an item) that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water).

## **Embedded Derivatives: Amendments to IFRIC 9 and IAS 39**

The amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement* clarify the accounting treatment of embedded derivatives for entities making use of the reclassification amendment issued by the IASB in October 2008 (see “Reclassification of Financial Assets: Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* and Reclassification of Financial Assets — Effective Date and Transition: Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*” above). On reclassification of a financial asset out of the fair value through profit or loss category, all embedded derivatives must be assessed and, if necessary, separately accounted for in the financial statements.

## **Group Cash-settled Share-based Payment Transactions: Amendments to IFRS 2**

The amendments to IFRS 2 *Share-based Payment* address the accounting for group cash-settled share-based payment transactions. The amendments clarify the following:

- The scope of IFRS 2: An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.
- The interaction of IFRS 2 and other standards: In IFRS 2 a “group” has the same meaning as in IAS 27 *Consolidated and Separate Financial Statements*, that is, it includes only a parent and its subsidiaries.

The amendments to IFRS 2 incorporate guidance previously included in IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2 — Group and Treasury Share Transactions*. As a result, IFRIC 8 and IFRIC 11 have been withdrawn.

## **Exposure Draft “Relationships with the State: Proposed amendments to IAS 24 *Related Party Disclosures*”**

This is a Re-exposure Draft. The IASB’s 2007 Exposure Draft on this topic proposed to exempt state-controlled entities from providing disclosures about transactions with other state-controlled entities if specified conditions were met. The Re-exposure Draft modifies the exemption originally proposed to address concerns about its complexity. The IASB expects to publish the final amendments to IAS 24 before the end of 2009.

## **Exposure Draft “Prepayments of a Minimum Funding Requirement:**

**Proposed amendments to IFRIC 14 IAS 19 — *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction***

The proposals in this Exposure Draft would remove an unintended consequence of IFRIC 14 arising from the treatment of prepayments in some circumstances when there is a minimum funding requirement (MFR). IFRIC 14 would be amended to require an entity to recognize an asset for a prepayment that will reduce future MFR contributions by the entity.