FYI accounting standards

ACTIVITIES OF THE CANADIAN ACCOUNTING STANDARDS BOARD AND STAFF

APRIL 2009

IN THIS ISSUE

See our website at www.acsbcanada.org for the most recent information on activities in progress.

MESSAGE FROM THE CHAIR

This is my last message as Chair. In my eight years with the Accounting Standards Board, we have achieved many important and lasting improvements in financial reporting. We have done so under some very challenging circumstances. In particular, the AcSB's current strategic planning exercise, widely admired for its vision and thoroughness, provides a solid foundation for the future.

The immediate challenge is dealing with how financial instruments should be measured and tested for impairment in current market conditions. We will do what we can, but no change in accounting standards alone can fix the underlying economic, regulatory and corporate governance problems that were the primary causes of the current malaise. A few months ago, the International Accounting Standards Board (IASB) and the AcSB abruptly changed our rules dealing with reclassifications. We were criticized, and rightly so, for moving too quickly. Now the Financial Accounting Standards Board (FASB) has decided to adopt, with only a few days advance notice, potentially significant changes in how financial instruments are measured and the recognition and measurement of impairment.

Acting hastily on narrow issues poses risks. Piecemeal measures intended to correct one problem sometimes produce unintended adverse effects in other areas. A more comprehensive solution may be needed, but could be impeded by band-aid solutions. The evaluation of costs and benefits may focus on the short term, when a longer-term view could produce a very different assessment.

Strategic planning and leadership require a careful balancing of short-term and longer-term objectives and practical considerations. In my view, it is time to decide whether the current standards on financial instruments are fundamentally flawed. If they are, let's stop tinkering and start working on a replacement standard.

Another related issue is whether we have enough resources, both financial and human, to cope with current market conditions and also gear up for the changeover to International Financial Reporting Standards (IFRSs) in 2011. The AcSB has reviewed the situation and consulted our Oversight Council. Yes, current market conditions are difficult, but looking back over the years there has been a steady stream of hot topics such as Enron, Sarbanes-Oxley and certification, to name only a few, with no let up in sight. There never is a good time for major change and we can't control the other factors that compete for our scarce resources. January 1, 2011 is the changeover date. We'll continue to seek ways to make the transition easier and provide training and education.

Paul Cherry

Accounting Standards Board
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PRIVATE ENTERPRISE GAAP — A HUGE STEP IN THE RIGHT DIRECTION!

The AcSB expects to issue an Exposure Draft of generally accepted accounting principles (GAAP) for private enterprises in April. This is a huge step toward providing accounting standards that focus on the specific circumstances of private enterprises, and certainly one that many thought might never happen. The Exposure Draft is a result of a major effort on the part of the AcSB and its Advisory Committee that was formed to provide expertise on this sector.

The following describes the approach taken in developing the proposed standards:

- The existing CICA Handbook – Accounting has been used as the starting point.
- The goal has been to develop a principles-based set of standards that encourage the use of professional judgment. Accordingly, there is less prescriptive material and detailed guidance than in the existing Handbook.
- As a consequence, Emerging Issues Committee (EIC) Abstracts of Issues Discussed, as they currently exist, are excluded. However, in certain limited cases, significant issues addressed in the EIC Abstracts have been incorporated into the proposed standards.
- A limited number of issues in the existing Handbook that have caused significant concern for private enterprises have been reconsidered based on cost/benefit considerations.
- The majority of the recognition and measurement requirements in the existing Handbook, which do not cause significant concern for private enterprises, have been retained.
- Existing standards that are largely irrelevant to this sector have been excluded.
- Disclosure requirements now focus on the needs of users. The proposed standards recognize that financial statement users in this sector generally have the ability to obtain additional information from the entity. In comparison to the existing Handbook, the proposed standards have approximately half the specific disclosure requirements.

To ensure the AcSB was on the right track in developing the proposed standards, this approach (including the recognition and measurement issues being reconsidered), was discussed at roundtable meetings held across the country throughout the summer and fall of 2008. Feedback from those meetings was positive; stakeholders expressed significant support for this effort and the direction it is heading. They urged the AcSB to proceed with developing the new standards on a timely basis.

The Exposure Draft will be available on the AcSB website at www.acsbcanada.org. The comment period will end in July 2009. We realize the comment period spans a busy time of year for stakeholders in this sector. However, we are working to meet the demand for standards for this sector in the short term. Providing input on the proposed standards is a once in a lifetime opportunity. Please take the time to voice your views on the proposed standards — it is the only way we can ensure that they will best serve the financial reporting needs of private enterprises.

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FINANCIAL INSTRUMENTS — WHAT APPLIES TO WHOM

There have been many changes affecting the financial instruments suite of standards over the past year. Some issues have arisen from the credit crisis, and others reflected developments in implementing the AcSB's strategic plan. Many people have contacted us recently seeking clarification of the current status of the standards, in particular, as they apply to not-for-profit organizations and non-publicly accountable enterprises (private enterprises). This article summarizes the applicability of the various sections.

TIMING

All financial instrument standards are applied on the first day of a fiscal year, so all mandatory implementation dates mean the effective date of the standard is the first day of the first fiscal year beginning on or after the stated date.

GROUPS OF ENTITIES

The provisions vary for different groups of entities, with the primary distinction being between publicly accountable and non-publicly accountable enterprises. Note that the current Handbook definitions of publicly accountable enterprises and non-publicly accountable enterprises differ from those recently proposed in the Exposure Draft, "Adopting IFRSs in Canada, II."

Non-publicly accountable enterprises are entities that are eligible for differential reporting and are the only entities that can choose whether to apply the financial instrument standards. These entities have a profit motive — any reference to an "enterprise" in the Handbook always excludes not-for-profit organizations. They cannot have issued or be planning to issue debt or equity securities that are, or will be, traded in a public market. They cannot be co-operative business enterprises, regulated financial institutions or regulated financial institution holding companies, rate-regulated enterprises, government business enterprises or government business-type organizations.

Within the financial instrument standards, there are relieving alternatives that may be applied by not-for-profit organizations and other defined entities, as outlined below.

PUBLICLY ACCOUNTABLE ENTERPRISES

Publicly accountable enterprises adopted the financial instrument standards no later than as of the following dates:

Section 1530, *Comprehensive Income*	October 1, 2006
Section 1535, *Capital Disclosures*	October 1, 2007
Section 3855, *Financial Instruments — Recognition and Measurement*	October 1, 2006
Section 3862, *Financial Instruments — Disclosures*	October 1, 2007
Section 3863, *Financial Instruments — Presentation*	October 1, 2007
Section 3865, *Hedges*	October 1, 2006

Implementation also entailed adopting:

Section 1651, *Foreign Currency Translation*	October 1, 2006
Section 3051, *Investments*	October 1, 2006
Section 3251, *Equity*	October 1, 2006

which were amended to reflect the guidance in the financial instruments standards.

Sections 3862 and 3863 replaced Section 3861, *Financial Instruments — Disclosure and Presentation* as of October 1, 2006. However, the following entities can elect to continue to apply Section 3861 in place of Sections 3862 and 3863:

- co-operative business enterprises that are not regulated financial institutions (credit unions and similar entities are regulated financial institutions and must apply Sections 3862 and 3863); and
- rate-regulated enterprises that have not issued, nor are in the process of issuing, public debt or equity securities.

During 2008, Section 3855 was amended to permit reclassification of certain assets. If an entity decided to reclassify an asset prior to November 1, 2008, it could effect the change as at any date from July 1, 2008 to October 31, 2008. Reclassifications made after November 1, 2008 can only be applied prospectively.

NOT-FOR-PROFIT ORGANIZATIONS

Not-for-profit organizations were required to adopt the financial instrument standards as of the following dates:

Section 1535, *Capital Disclosures*	October 1, 2007
Section 3855, *Financial Instruments — Recognition and Measurement*	October 1, 2006
Section 3861, *Financial Instruments — Disclosure and Presentation*	October 1, 2006
Section 3865, *Hedges*	October 1, 2006

Section 1530, *Comprehensive Income*, does not apply to not-for-profit organizations.

Not-for-profit organizations may elect to replace the disclosure requirements of Section 3861 with those in Section 3862, *Financial Instruments — Disclosures*, (and concurrently adopt Section 3863, *Financial Instruments — Presentation*,), but are not required to do so.

In addition, not-for-profit organizations may elect accounting policies to ignore derivatives embedded in contracts such as leases and insurance contracts. They may also elect an accounting policy to ignore non-financial contracts or, separately, any derivatives that may be embedded therein.

NON-PUBLICLY ACCOUNTABLE ENTERPRISES

Non-publicly accountable enterprises can choose to follow the XFI version of the Handbook. If a non-publicly accountable enterprise chooses to adopt the newer financial instruments standards, all of the standards apply. However, there are a number of accounting policy choices and other relieving provisions in the financial instrument standards for non-publicly accountable enterprises to consider:

Section 3855	• Non-publicly accountable enterprises may elect an accounting policy to ignore derivatives embedded in contracts such as leases and insurance contracts. • They may also elect an accounting policy to ignore non-financial contracts including any derivatives that may be embedded therein. • Non-publicly accountable enterprises could also elect the first day of the first year in which Section 3855 is applied as the transition date for identifying embedded derivatives (other than any to which the policy options apply).
Section 3861	Non-publicly accountable enterprises may elect to continue to apply the disclosures in Section 3861.
Section 3862	Non-publicly accountable enterprises are not required to provide summary quantitative risk information or a sensitivity analysis if they choose to adopt Section 3862.

Non-publicly accountable enterprises are required to make the reduced disclosures in Section 1535, *Capital Disclosures*, if applicable, effective August 1, 2008. This standard, which is included in both versions of the Handbook, only applies if a non-publicly accountable enterprise has externally imposed capital requirements.

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FINANCIAL INSTRUMENTS — IMPROVING DISCLOSURES

In March 2009, the International Accounting Standards Board (IASB) published the final amendments to improve International Financial Reporting Standard IFRS 7, *Financial Instruments: Disclosures*. The amendments are in response to the urgent need for enhanced disclosures about fair value measurements and the liquidity risk of financial instruments. An entity will be required to disclose:

- A fair value hierarchy that classifies fair value measurements into three levels that are consistent with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*.
- A reconciliation of level 3 fair value measurements.
- Separate maturity analyses for non-derivative and derivative financial liabilities based on contractual maturities, except for some derivative financial liabilities.
- For derivative financial liabilities where the contractual maturity is not essential for understanding the timing of cash flows, the maturity analyses are provided on the basis of the information provided internally to key management personnel.

The AcSB agreed to adopt the IASB's final amendments into Canadian GAAP. The amendments will be adopted into Section 3862, *Financial Instruments — Disclosures,* and to the version of IFRS 7that is to be incorporated into the Handbook later this year as part of the AcSB's IFRS strategy.

The amendments will be applicable to publicly accountable enterprises and those private enterprises, co-operative business enterprises, rate-regulated enterprises, and not-for-profit organizations that choose to apply Section 3862. The amendments will be effective for annual financial statements relating to fiscal years ending after September 30, 2009. To provide relief for preparers, an entity need not provide comparative information for the disclosures required by the amendments in the first fiscal year of application.

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PUBLIC COMPANY GAAP — ONE STEP CLOSER TO IFRSs

In March 2009, the AcSB published a second omnibus Exposure Draft (ED) of International Financial Reporting Standards (IFRSs) entitled "Adopting IFRSs in Canada, II." Comments on the ED are due by May 15, 2009.

The AcSB's first omnibus ED was issued in April 2008, and exposed for public comment all of the standards included in the International Accounting Standards Board's (IASB) 2007 Bound Volume of IFRSs. The March 2009 ED exposes IFRSs issued by the IASB since the 2007 Bound Volume and included in the 2008

Bound Volume. It also:

- clarifies the definition of a publicly accountable enterprise;
- confirms that, effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, IFRSs will replace the standards and interpretations currently applicable to publicly accountable enterprises;
- notes the extent to which pension plans, private enterprises and not-for-profit organizations are affected by the AcSB's IFRS strategy; and
- presents a preliminary draft of new introductory material to be included in the Handbook once it contains IFRSs. At that time, the Handbook will be made up of a number of parts, each one setting out the standards applicable to a particular category of financial reporting entity.

The AcSB plans to publish a third and final omnibus ED of IFRSs later this year in order to expose changes made to IFRSs after the 2008 Bound Volume. Subject to comments received, IFRSs will be incorporated into the Handbook by the end of 2009. This will ensure that IFRSs are available when required by Canadian first-time adopters, including those wishing to adopt IFRSs before the mandatory changeover date of January 1, 2011.

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REPRESENTING CANADA ON THE INTERNATIONAL STAGE

As Canadian publicly accountable enterprises move toward the adoption of International Financial Reporting Standards (IFRSs), a key part of the AcSB's activities continues to be playing an active role in the international standard-setting process. This role includes working with Canadian stakeholders to assist their participation in that process. Many readers of *FYI* will be aware of the AcSB's efforts to bring to the attention of the International Accounting Standards Board (IASB) issues relating to first-time adoption of IFRSs. AcSB staff developed proposals for the IASB that would provide significant assistance for entities using full cost oil and gas accounting and those with rate-regulated operations as they adopt IFRSs. AcSB staff is presently preparing the comment letter analysis and final recommendations on those proposals for submission to the IASB in the second quarter of 2009. But that is not the only international standard-setting activity that the AcSB and its staff have been undertaking in the last few months. Amongst other activities:

- AcSB staff have consulted actively with stakeholders in developing a response to the IASB's proposals on Consolidated Financial Statements (see below for more information).
- AcSB staff are consulting with the Accounting Standards Oversight Council and developing a response to the IASB's International Accounting Standards Committee Foundation (IASCF) regarding its consultation on possible changes to its Constitution.
- AcSB staff are consulting with advisory groups and developing responses to the IASB proposals on Financial Statement Presentation and Revenue Recognition.
- AcSB staff have responded to requests for comment from the IASB on proposed changes to standards dealing with financial instruments and related party transactions.
- AcSB staff have been in close consultation with IASB staff as they have developed the recently issued IASB exposure draft on Income Tax, including discussing Canadian circumstances, such as accounting for flow-through shares.
- AcSB staff have been in close consultation with Canada's rate-regulated industries and IASB staff regarding accounting for rate-regulated operations, with the recent addition to the IASB agenda of a project on that topic (see below for more information).
- AcSB staff have referred issues to the IASB related to the application of IFRSs to interim financial reports in the first year of adoption.
- The CICA's Language Services Department has been very busy translating new IASB documents into French and recommending clarifications on particular aspects of the translated versions of existing IASB documents. The expertise of the CICA's Language Services Department is being recognized increasingly as a key resource for the IASB.
- AcSB representatives will participate in a two-day meeting of national standards setters from around the world in April. The agenda includes an AcSB-led discussion of flow-through shares, the IASB concep-

tual framework project and the IASCF Constitution review. Other agenda items include accounting by retirement benefit plans, financial statement presentation, implementation of IFRS 2, *Share-based Payment*, income tax accounting, intangible assets, real estate accounting, the global financial crisis, the IASB work plan and a model for undertaking accounting standards effects analyses.

There has perhaps never been a busier time for the Canadian accounting standards function on the world stage. These kinds of AcSB activities will continue to be vital in representing Canada's interests.

Concurrent with these activities, outgoing AcSB Chair and recently appointed Chair of the IASB's Standards Advisory Council (SAC), Paul Cherry, chaired his first SAC meeting in February 2009, and Canadians Paul Tellier and Tricia O'Malley continue with key roles as an IASCF Trustee, and IASB Director of Implementation Activities, respectively. Jean Paré has been appointed as a member of the International Financial Reporting Interpretations Committee. Phil Arthur, Frank D'Andrea, Dany Girard, Iain Robertson and Blair Carey, also ably represent Canada on IASB Advisory Groups and Karyn Brooks was recently appointed a member of the Standards Advisory Council. With these individuals, Canada has a strong voice at the IASB.

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IASB'S CONSOLIDATION PROPOSALS — CONSULTING WITH CANADIANS

The International Accounting Standard Board (IASB) has a consolidation project underway to develop a control model that can be applied to all entities, and also improve disclosures about consolidated and off-balance sheet entities. The project has been accelerated in response to the global financial crisis. In December 2008, the IASB published an Exposure Draft, "Consolidated Financial Statements," with a 3-month comment period. A final consolidation standard is expected before the end of 2009 and will replace IAS 27, *Consolidated and Separate Financial Statements* and SIC-12, "Consolidation — Special Purpose Entities."

Given the project timeline, Canadian entities adopting International Financial Reporting Standards (IFRSs) for 2011, will be applying this new standard upon their transition to IFRSs. For this reason, contributing to its quality is a priority for the AcSB and its staff.

To ensure that the IASB received useful feedback from Canada on its proposals, AcSB staff solicited the views of a wide range of constituents. The consultations included:

- Discussing the proposals with the AcSB, as well as its User Advisory Council and IFRS Advisory Committee. Together, these latter groups comprise forty volunteers including preparers, auditors, investors, lenders, analysts and regulators.
- Consulting with a panel of experts, including preparers, securities lawyers and advisors from accounting firms, regarding complex reporting structures used in Canada.
- Organizing two public roundtables, attended by an IASB project manager, to hear from over forty-five Canadian stakeholders. One meeting focused on how the proposed control model might be applied. The other roundtable provided an opportunity for preparers of investment company financial statements and their advisors to discuss the implications of the proposals for this particular sector.
- Working with a subset of investment company participants to develop a response on behalf of this Canadian industry.
- Meeting separately with individuals in the financial services sector, and with a franchisor to further develop AcSB staff recommendations.

These activities led to the development of three comment letters to the IASB (over and above letters submitted separately by Canadian organizations and individuals) as outlined below.

- The User Advisory Council's letter recommends the addition of a requirement for entities to disclose a table summarizing non-consolidated information by legal structure, as well as cash flow information about a reporting entity's involvement with off-balance sheet entities. Such information would greatly assist lenders and investors in understanding and predicting a reporting entity's cash inflows and outflows.
- The Investment Funds Institutes of Canada's letter explains that industry's concerns about mandating the consolidation of a controlling interest in an investee in all circumstances, even when accounting for the

investee at fair value, provides the most useful information to users.

- The AcSB staff's comment letter, while acknowledging the improvement over existing IFRS guidance in this area, expresses concerns about the clarity of the proposals, the sufficiency of the guidance and the interaction of the consolidation and derecognition proposals. The letter makes recommendations in these areas intended to improve the consistency with which the new consolidation standard is applied.

To read these comment letters, numbered 47, 96 and 93 respectively, visit the Consolidation project page at www.iasb.org.

The input provided by Canadians will no doubt contribute to the development of an improved consolidation standard for future application around the globe.

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RATE-REGULATED OPERATIONS — ANSWERS ON THE HORIZON

The International Accounting Standards Board (IASB) has two projects underway relating directly to the adoption of International Financial Reporting Standards (IFRSs) by entities with operations subject to rate regulation.

In December 2008, the IASB added a project on rate-regulated activities to its agenda. The objective of the project is to develop a standard that clarifies whether rate-regulated entities could or should recognize an asset or a liability as a result of rate regulation. The IASB plans to issue an exposure draft by the end of June 2009. The AcSB, along with other national standard setters, rate-regulated industries in Canada, and interested groups around the globe, had encouraged the IASB to provide guidance in this area and welcomes this new project.

The IASB is also considering an amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, to provide relief for first-time adopters with operations subject to rate regulation. After consulting with Canadian rate-regulated entities and seeking input internationally on the issues likely to impede first-time adoption of IFRSs, AcSB staff recommended to the IASB the exemption proposed in the latter's September 2008 Exposure Draft, "Additional Exemptions for First-time Adopters: Proposed amendments to IFRS 1." Should the exemption receive final approval, rate-regulated entities would be permitted to elect to use the carrying amount of certain items of property, plant and equipment as their deemed cost at the date of transition to IFRSs, when stated conditions are met (details are provided in the September 2008 ED, available on the project page for Additional Exemptions for First-time Adoption: Amendments to IFRS 1 at www.iasb.org).

Those interested in the progress being made on these two projects should check the IASB's website periodically for updates.

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COMMENT DEADLINES

- The AcSB and the Public Sector Accounting Board (PSAB) are requesting comments on their joint Invitation to Comment, "Financial Reporting by Not-for-Profit Organization." The comment deadline is **June 30**, **2009**. The Invitation to Comment is available on both the AcSB and PSAB websites at www.acsbcanada.org and www.psab-ccsp.ca.

- The AcSB's second omnibus Exposure Draft, "Adopting IFRSs in Canada, II" has been issued for comment by **May 15, 2009**. The Exposure Draft is available on the AcSB website at www.acsbcanada.org.

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AcSB CHAIR APPOINTMENT

Tricia O'Malley

Doug Hyndman, Chair, Accounting Standards Oversight Council, is pleased to announce that Tricia O'Malley has been appointed Chair of the Accounting Standards Board (AcSB) to succeed Paul Cherry in mid-June.

Tricia is currently the Director of Implementation Activities at the International Accounting Standards Board (IASB) with responsibility for supporting the International Financial Reporting Interpretations Committee's development of official interpretations of International Financial Reporting Standards (IFRS). She is also responsible for the Annual Improvements project and the standard covering first-time adoption of IFRS. Previously, Tricia was a founding member of the IASB and served on that Board from April 1, 2001 to June 2007.

Tricia was also the first full-time Chair of the AcSB in Canada from 1999 to 2001, when under her leadership, the AcSB approved the issue of differential reporting standards for non-publicly accountable enterprises.

Mr. Hyndman is also pleased to announce that Paul Cherry, whose term was due to expire on March 31, has agreed to continue as Chair of the AcSB until Ms. O'Malley's term begins. "I am delighted with Tricia's appointment at this momentous time for financial reporting in Canada", said Mr. Hyndman. "No one in Canada has a better knowledge of, or experience of working with and interpreting, IFRS than Tricia O'Malley." He continued, "I am also very grateful to Paul Cherry, not only for agreeing to extend his term, but more importantly, for his inspired leadership over the last eight years which has left a significant legacy in the field of financial reporting in Canada. Paul has been the driving force in transitioning Canada to IFRS. His appointment as Chair of the IASB's Standards Advisory Council illustrates the worldwide esteem in which he is held."

To keep up to date on AcSB activities, including the issue of all exposure drafts, subscribe to our e-mail notification service on the AcSB website at www.acsbcanada.org, under **Subscribe**.