

IFRS accounting standards

ACTIVITIES OF THE CANADIAN ACCOUNTING STANDARDS BOARD AND STAFF

IN THIS ISSUE

Message From the Chair

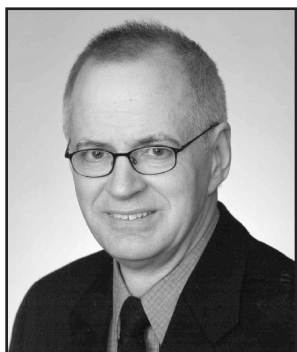
Summary of Activities of the AcSB and Staff

- Asset-backed Commercial Paper
- Business Combinations and Non-controlling Interests
- Fair Value in Inactive Markets
- Financial Instruments
 - Disclosures
 - Reclassification of Financial Assets
 - Scope Changes
- Intangible Assets
- Inventories
- Not-for-Profit Organizations
- Rate-regulated Operations
- Emerging Issues Committee

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

SPECIAL EDITION 2008

MESSAGE FROM THE CHAIR



2008 has presented some extraordinary challenges. The continued suspension of trading in non-bank-sponsored asset-backed commercial paper in Canada and, more recently, the severe global credit crunch, have resulted in fresh insights, and much-needed additional implementation guidance, in determining fair values when an active market does not exist. The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) will be under pressure to converge and simplify the financial instruments standards as soon as possible. I sense an increased commitment in the international community to robust global accounting standards and to the continued independence of the standard setting function.

Will current market conditions delay our transition to International Financial Reporting Standards (IFRSs) in 2011? In a word, “no.” We continuously monitor these events to ensure our strategy remains sound. The current market conditions demonstrate just how closely linked the global capital markets are today and thus reinforce the case for global accounting standards. The momentum for IFRSs as the global standards continues to build. The adoption of IFRSs in the United States may be delayed somewhat but I detect no wavering in their commitment to the ultimate goal of convergence. In November 2008, the US Securities and Exchange Commission (SEC) published its much-awaited “Roadmap,” for comment which sets out a time line for adoption of IFRSs by US public companies.

The AcSB’s Private Enterprise Advisory Committee and staff have put a huge effort into developing a new, simplified basis of reporting for private enterprises. We hope that this new system can easily be adapted to the needs of our not-for-profit sector as well. We plan to issue an exposure draft early next year and have the new system in place by December 2009. My sincere thanks to all those who helped organize and participated in the various discussions of this vital project.

Paul Cherry

SUMMARY OF ACTIVITIES OF THE ACSB AND STAFF

This special edition of *FYI* summarizes¹ activities of the Accounting Standards Board (AcSB) that should be considered in financial statement preparation in 2008 and 2009 fiscal years.

The topics addressed relate to standards that have been (or are expected to be) issued with an effective date commencing in 2008 or 2009, and are presented in alphabetical order. Standards expected to be effective on a monetary basis in periods beginning after 2009 are not addressed. Certain items addressed in a previous edition of *FYI* are also discussed in this edition, in order to provide a comprehensive summary of activities.

ASSET-BACKED COMMERCIAL PAPER

AcSB staff has issued three financial reporting commentaries dealing with accounting for asset-backed commercial paper. The staff is completing a fourth commentary, dealing with the restructuring of that paper, which is expected to be issued once the timing of the restructuring is established. The commentaries may be accessed on the “Responses to Financial Turmoil” web page at www.acsbcanada.org.

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BUSINESS COMBINATIONS AND NON-CONTROLLING INTERESTS

The AcSB plans to issue Sections 1582, *Business Combinations*, 1601, *Consolidations*, and 1602, *Non-controlling Interests*, in January 2009.

Section 1582 will be converged with IFRS 3, *Business Combinations*. Section 1602 will be converged with the requirements of IAS 27, *Consolidated and Separate Financial Statements*, for non-controlling interests. Section 1601 carries forward the requirements of Section 1600, *Consolidated Financial Statements*, other than those relating to non-controlling interests.

Section 1582 applies to a transaction in which the acquirer obtains control of one or more businesses. The term “business” is more broadly defined than

in the existing standard. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. A bargain purchase will result in recognition of a gain. Acquisition costs must be expensed.

Any non-controlling interest will be recognized as a separate component of shareholder’s equity. Net income is calculated without deduction for the non-controlling interest. Rather, net income is allocated between the controlling and non-controlling interests.

The new standards will become effective in 2011. Early adoption is encouraged, and is likely to be particularly beneficial for an entity planning a business combination in the year prior to adopting IFRSs.

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FAIR VALUE IN INACTIVE MARKETS

In November 2008, AcSB staff issued a financial reporting commentary on “Fair Value in Inactive Markets,” drawn in part from the previous commentaries on asset-backed commercial paper (see above), as well as recent US and IASB clarifications referred to in the following paragraphs.

On September 30, 2008, the SEC’s Office of the Chief Accountant and staff of the FASB issued “Clarifications on Fair Value Accounting.” The FASB followed up, on October 10, 2008, by issuing FASB Staff Position No. 157-3 to clarify the application of its Statement of Accounting Standards No. 157, *Fair Value Measurements* (FAS 157), in respect of several of the same matters. AcSB staff has reviewed those clarifications and determined that they are consistent with Canadian accounting standards on financial instruments, just as IASB staff considers them consistent with equivalent IFRSs.

On October 31, 2008, the IASB issued educational guidance taking the form of a summary document prepared by IASB staff and the final report of its Expert

¹ Summaries of AcSB decisions related to matters discussed at its meetings are available on the AcSB website under **Decision Summaries**. For more detailed information on AcSB projects, please refer to the **project summaries** on the AcSB website at www.acsbcanada.org. All decisions reported are tentative until included in official Handbook material, and are subject to change.

Advisory Panel on “Measuring and Disclosing the Fair Value of Financial Instruments in Markets that are No Longer Active.”

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FINANCIAL INSTRUMENTS — DISCLOSURES

In November 2008, the AcSB published an Exposure Draft proposing to amend Section 3862, *Financial Instruments — Disclosures*, to enhance information disclosed about fair value measurements of financial instruments and liquidity risk. The AcSB Exposure Draft includes amendments proposed to IFRS 7, *Financial Instruments: Disclosures*.

The proposed improvements to IFRS 7 are to provide enhanced and consistent disclosures about liquidity risk and fair value measurements. The IASB is proposing these improvements in response to market concerns about credit and liquidity risks. The fair value measurement disclosure proposals are consistent with certain of the disclosure requirements in the FASB’s FAS 157. The IASB’s project on fair value measurements is separately developing a standard for measuring fair value and requiring disclosures about those measurements that are to be converged with FAS 157. The IASB currently plans to publish final amendments to IFRS 7 in mid-2009.

The AcSB expects to incorporate the amended standard into Canadian GAAP prior to the adoption of IFRSs in Canada.

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FINANCIAL INSTRUMENTS — RECLASSIFICATION OF FINANCIAL ASSETS

On October 24, 2008, the AcSB issued a typescript of amendments to its standards dealing with reclassification of financial assets. This was in response to similar amendments made by the IASB to conform IFRSs more closely to US GAAP in the context of the current financial market turmoil.

The amendments allow reclassification of financial assets out of the held-for-trading category (measured at fair value with gains and losses recognized immediately in net income) into the available-for-sale or held-to-

maturity categories, in “rare circumstances.” The latter two categories are subject to impairment testing, but income statement charges for impairment are recognized when impairment is considered “other than temporary.” The financial assets that can be reclassified are limited in that they exclude derivatives and financial assets an entity has elected to include in the held-for-trading category. Furthermore, unlike the corresponding IASB amendments, the Canadian amendments do not provide for loans and receivables to be reclassified out of the held-for-trading category, because the Canadian standards do not require loans and receivables to be classified in that category in the first place. Thus, assets qualifying for reclassification are mainly debt and equity investments that were originally classified as held for trading because they were acquired for the purpose of near-term sale. That original purpose might now be frustrated by developments in the marketplace. The amendments are accompanied by extensive disclosure requirements to provide clear information to financial statement users.

The amendments apply to reclassifications made on or after July 1, 2008. An entity is precluded from reclassifying a financial asset in accordance with the amendments before July 1, 2008. Any reclassification made on or after November 1, 2008 takes effect from the date of reclassification. However, any reclassification before November 1, 2008 can take effect from July 1, 2008 or a subsequent date. Any reclassification of a financial asset in accordance with the amendments must not be applied retrospectively to reporting periods ended before July 1, 2008. An entity does not reclassify financial assets retrospectively in periods reported on in previously issued financial statements.

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FINANCIAL INSTRUMENTS — SCOPE CHANGES

In September 2008, the AcSB decided that non-publicly accountable enterprises need not apply the financial instruments suite of standards. Those that choose to apply the new standards implement Sections 1530, *Comprehensive Income*, 3855, *Financial Instruments — Recognition and Measurement*, and 3865, *Hedges*, concurrently with Sections 1651, *Foreign Currency*

Translation, 3051, *Investments*, and 3251, *Equity*, and amendments to Section 3025, *Impaired Loans*. These companies would also apply Sections 3862, *Financial Instruments — Disclosures*, and 3863, *Financial Instruments — Presentation*. Alternatively, non-publicly accountable enterprises may continue to apply the requirements of the XFI version of the Handbook. A revised version of the financial instrument standards for non-publicly accountable enterprises will be exposed for comment in 2009.

The AcSB also approved an amendment that would allow co-operative business enterprises and rate-regulated entities that are not public enterprises, as defined in Section 1300, *Differential Reporting*, as well as not-for-profit organizations, to apply Section 3861, *Financial Instruments — Disclosure and Presentation*, in place of Sections 3862 and 3863.

Earlier in the year, the AcSB issued modifications to Section 3855 providing the ability for non-publicly accountable enterprises and not-for-profit organizations to choose accounting policies that would eliminate the requirement to consider whether contracts such as leases, insurance contracts and non-financial contracts contain embedded derivatives that must be separately measured.

The AcSB also simplified the capital disclosure requirements in Section 1535, *Capital Disclosures*, for non-publicly accountable enterprises and the risk disclosure requirements in Section 3862 for those that choose to apply the financial instrument standards.

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INTANGIBLE ASSETS

In February 2008, the AcSB issued new Section 3064, *Goodwill and Intangible Assets*, replacing Sections 3062, *Goodwill and Other Intangible Assets*, and 3450, *Research and Development Costs*. The AcSB also amended Section 1000, *Financial Statement Concepts*, and Accounting Guideline AcG 11, *Enterprises in the Development Stage*. The new and amended Handbook material clarifies that costs may only be deferred when they relate to an

item that meets the definition of an asset. The practice of matching revenues and expenses remains appropriate only for allocating the cost of an asset that is consumed in generating revenue over multiple reporting periods. New Section 3064 provides extensive guidance on when expenditures qualify for recognition as intangible assets.

The new standard is effective for fiscal years beginning on or after October 1, 2008.

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INVENTORIES

In June 2007, the AcSB issued Section 3031, *Inventories*, replacing the former Section 3030, *Inventories*. The new standard:

- establishes standards for the measurement and disclosure of inventories;
- provides more extensive guidance on the determination of cost (including allocation of overheads);
- narrows the permitted cost formulas (the use of the last-in, first-out (LIFO) cost formula is not permitted); and
- requires impairment testing each period and it expands the disclosure requirements.

By applying Section 3031, Canadian entities will be in compliance with IAS 2, *Inventories*.

Section 3031 is effective for fiscal years beginning on or after January 1, 2008.

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NOT-FOR-PROFIT ORGANIZATIONS

In September 2008, a number of standards applicable to not-for-profit organizations (NFPOs) were amended and new Section 4470, *Disclosures of Allocated Expenses by Not-for-Profit Organizations*, was issued.

New Section 4470 requires NFPOs that make allocations of general support and fundraising costs to other functions to disclose the policies adopted for the allocation of expenses among functions, the nature of the expenses being allocated, the basis on which such

allocations have been made, and the functions to which they have been allocated.

Amendments have been made to Section 4400, *Financial Statement Presentation by Not-for-Profit Organizations*, and EIC-123, “Reporting Revenue Gross as a Principal Versus Net as an Agent,” to clarify that revenues and expenses must be recognized on a gross basis when an NFPO is acting as a principal in the subject transactions and may only be reported on a net basis when acting as an agent.

Section 4400 has been amended to clarify the different treatment accorded internal and external restrictions on net assets. In addition, NFPOs are no longer required to report net assets invested in capital assets as a separate component of net assets. The AcSB concluded that an amount shown as net assets invested in capital assets is consistent with, and should be treated in the same manner as other net asset amounts internally restricted by NFPOs and reserves of profit-oriented enterprises.

Other changes add improved guidance related to the application of the GAAP hierarchy and capital assets standards, and require NFPOs to apply the same standards as profit-oriented enterprises with respect to interim financial statements and statements of cash flows.

The changes are intended to improve financial reporting by NFPOs and make NFPO standards consistent with those of profit-oriented enterprises when they address the same issues.

The amendments are effective for fiscal years beginning on or after January 1, 2009.

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RATE-REGULATED OPERATIONS

In December 2007, the AcSB issued Handbook amendments relating to rate-regulated operations.

Section 1100, *Generally Accepted Accounting Principles*, was amended to remove the temporary exemption pertaining to the application of that Section to the recognition and measurement of assets and liabilities arising from rate regulation. The GAAP hierarchy set

out in Section 1100 now applies equally to rate-regulated enterprises and all other entities.

Section 3465, *Income Taxes*, was amended to require rate-regulated enterprises to recognize future income tax liabilities and assets, as well as a regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or returned to future customers, and to present these amounts on a gross basis in the financial statements. Entities in this sector were previously exempted from the requirement to recognize future income taxes pending completion of the AcSB’s project on rate-regulated operations. Consequential amendments were made to Accounting Guideline AcG-19, *Disclosures by Entities Subject to Rate Regulation*, as a result of these changes.

The amendments are effective for fiscal years beginning on or after January 1, 2009.

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EMERGING ISSUES COMMITTEE

Committee Status

Following the adoption of IFRSs, the AcSB intends that interpretation issues raised by Canadian entities reporting under IFRSs would be referred to the International Financial Reporting Interpretations Committee (IFRIC). The AcSB has also tentatively decided that the financial reporting standards being developed for private enterprises will not include EIC Abstracts.

Abstracts Issued in 2008

The EIC has issued the following Abstracts affecting financial reporting for 2008:

- EIC-169, “Determining Whether a Contract is Routinely Denominated in a Single Currency”
- EIC-170, “Conversion of an Unincorporated Entity into an Incorporated Entity”
- EIC-171, “Future Income Tax Consequences of Exchangeable Interests in an Income Trust or Specified Investment Flow-through”
- EIC-172, “Income Statement Presentation of a Tax Loss Carryforward Recognized Following an Unrealized Gain Recorded in Other Comprehensive Income”

FYI

Accounting Standards

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The EIC has amended the following Abstracts:

- EIC-27, “Revenues and Expenditures During the Pre-operating Period”
- EIC-94, “Accounting for Corporate Transaction Costs”
- EIC-104, “Impact of Refundable Taxes on Future Income Tax Calculations”
- EIC-123 “Reporting Revenue Gross as a Principal Versus Net as an Agent”

As well, a number of Abstracts were amended as a consequence of the release of Section 3064, *Goodwill and Intangible Assets*.

At the time of writing, there were no items on the EIC agenda.

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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**.

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