

IFRS accounting standards

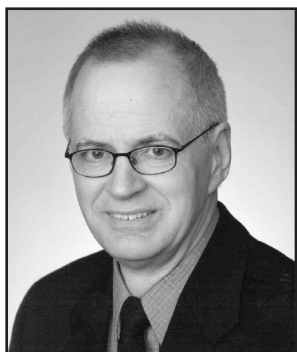
ACTIVITIES OF THE CANADIAN ACCOUNTING STANDARDS BOARD AND STAFF

APRIL 2008

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MESSAGE FROM THE CHAIR



It's official. The 2011 changeover to International Financial Reporting Standards has been confirmed. An omnibus Exposure Draft, including the full text of IFRSs as of January 1, 2007 and the AcSB's proposals for which reporting entities should be required to follow IFRSs, has been issued. Now it is time to get down to business as the focus shifts to companies and their advisors. Industry task forces are encouraged to identify and deal with key transition and implementation issues. Experience elsewhere indicates that good planning, at an early stage, is important.

If you delay, you may miss out on once-in-a-lifetime opportunities to change accounting policies, improve your financial reports, keep transition costs under control and even improve business practices.

Exciting progress is also being made in devising a new system for private companies. Based on the very extensive consultations and numerous comments received on the AcSB's Invitation to Comment and the CICA's proposed non-GAAP Framework for Owner-managed Enterprises, the two projects have been merged. The goal is a simplified GAAP system for all private companies, using the existing Handbook as a starting point. We intend to move as quickly and in as transparent a manner as possible. To keep abreast and provide your input, please keep a close watch on our website. If all goes well, the new system might be in place in 2009. Starting with the existing Handbook may reduce the need for immediate retraining and conserve scarce accounting resources more usefully deployed in the IFRS transition for public companies, but these benefits may be short-lived. It will become more and more expensive to maintain and update in an increasingly IFRS world and, as memory of our existing Handbook recedes, we want to ensure that the "business case" really does support it.

With the help of its Not-for-Profit Organizations Advisory Committee, the AcSB hopes to publish (in the latter half of 2008) an Invitation to Comment on the future direction for setting accounting standards applicable to not-for-profit organizations (NFPOs). Until the appropriate strategy has been determined for both private companies and NFPOs, the existing Handbook will remain applicable to those entities.

Paul Cherry

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

THE OMNIBUS EXPOSURE DRAFT

Earlier this month, the AcSB issued its omnibus Exposure Draft, “Adopting IFRSs in Canada.” The omnibus Exposure Draft is an important part of the AcSB’s plan for incorporating International Financial Reporting Standards (IFRSs) into Canadian GAAP so that they are available for adoption by Canadian publicly accountable enterprises in 2011 (or earlier, for those wishing, and permitted by their regulators, to adopt the standards before then).

The Exposure Draft invites comments from the public on the IFRSs contained in the International Accounting Standards Board’s (IASB) 2007 Bound Volume. It differs from past exposure drafts, in that the issues respondents are asked to comment on are more limited. Keeping in mind that the IASB has already deliberated the underlying principles and requirements of the IFRSs being exposed, and that IFRSs are written for use throughout the world, constituents are asked to inform the AcSB of any standards they think are inappropriate for application in Canada, and why.

The AcSB expects to incorporate the standards and interpretations being exposed into the Handbook early in 2009, to serve as a benchmark reference of the IFRSs to be adopted by Canadian organizations at the changeover date. Some of the IFRSs in the Exposure Draft will change before 2011. All such changes will be exposed in Canada, and may involve the issuance of one or more omnibus exposure drafts after this one. The AcSB will follow the same procedure for changes to IFRSs occurring after the changeover date. This will ensure that, at any point in time, the most current version of IFRSs is available for use in Canada.

Reviewing the 37 standards and 22 interpretations in the Exposure Draft and planning for your organization’s

adoption of IFRSs may seem a daunting task. However, this needn’t be the case. IFRSs look much the same as our Handbook Sections, are based on essentially the same conceptual framework, cover many of the same topics and arrive at similar conclusions on many issues. More importantly, Canadian GAAP is already largely converged with IFRSs in several areas. These are identified in the Appendix to the Exposure Draft Highlights. Experience with the Canadian requirements in these areas should greatly reduce the time needed to become familiar with their IFRS counterparts. The AcSB’s summary and detailed comparisons of IFRSs and Canadian GAAP (available at www.acsbcanada.org/download.cfm?ci_id=32785&la_id=1&re_id=0 and www.acsbcanada.org/download.cfm?ci_id=41263&la_id=1&re_id=0, respectively) will help you identify the IFRSs that are most important to your organization and you should therefore focus on initially. As noted, a limited number of IFRSs are expected to change before 2011, some substantially, and others only in respect of narrow aspects of their requirements (the Appendix indicates all IFRSs that are likely to change, and the extent of change expected in each case). For the most part, IFRSs that have not yet changed substantially but are expected to do so before the changeover date can be set aside for the time being.

The move to IFRSs, and the omnibus Exposure Draft, are certainly no cause for panic. But, as the AcSB Chair notes in his message, it is time to get down to business. Efforts expended today in getting to know IFRSs will pay dividends in the global accounting world of the future. Comments on the omnibus Exposure Draft are due by July 31, 2008.

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RECENT IASB DOCUMENTS ISSUED FOR COMMENT

- Discussion Paper on “Financial Instruments with Characteristics of Equity.” Comments are requested by September 5, 2008.
- Discussion Paper on “Reducing Complexity in Reporting Financial Instruments.” Comments are requested by September 19, 2008.
- Discussion Paper on “Preliminary Views on Amendments to IAS 19, *Employee Benefits*.” Comments are requested by September 26, 2008.

AN INTERVIEW WITH RETIRED AcSB MEMBER — JEAN PARÉ



What did you find most rewarding about your experience serving as a volunteer on the AcSB?

I enjoyed very much my interaction with highly qualified, knowledgeable standard setters.

It was very challenging and rewarding to debate conceptual issues with the Board members as well as with the staff of the AcSB. Another element that I found rewarding was the exposure to international activities in the field of standard setting, which arose from the decision of the AcSB to adopt IFRSs to replace the current Canadian GAAP.

Which project did you enjoy working on the most?

The most enjoyable project for me was the establishment of the process to migrate/convert from Canadian GAAP to IFRSs. This migration represents perhaps the single most important change that ever happened to Canadian GAAP, and I believe the way the AcSB decided to adopt international standards was very well thought through. My participation in this decision-making process was also a great experience.

What are the most effective ways for Canadians to influence global standard setting?

I believe the AcSB should retain its prime responsibility of establishing accounting standards in Canada. This could be achieved in the following ways: by having the AcSB play a role in the development of IFRSs, including coordinating Canadian participation in the international standard-setting process; by encouraging Canadian participants to comment on exposure drafts; and by the Board's own direct involvement in the IASB's program.

If the AcSB were to be entirely stripped of its primary mandate to establish accounting standards in Canada, it is doubtful that individuals or large organizations could have the same influence on IASB activities.

I believe it is important for the AcSB to retain a role in standard setting, as the Board is likely to have greater influence on the IASB program than any other organization, given that this organization is highly regarded on the international scene.

What are your top tips for Canadians preparing their first set of IFRS financial statements?

At Bombardier, we are about halfway through the IFRS implementation, and based on the experience to

date, there are a few points that I would like to raise as key issues for enterprises planning for the adoption of IFRSs.

My first point, which has been mentioned by many individuals but I have to repeat it, is to start early and plan well in advance. I believe that most people underestimate the effort required to convert to IFRSs.

Another recommendation is to make sure that the project goes beyond that of merely identifying the minimum required changes for compliance with IFRSs. In other words, most entities should use this project as a catalyst to select or revise their accounting policies to better reflect the economic reality of their transactions, ensure uniform applications of accounting policies to similar situations and/or simplify accounting processes.

Often corporations have inconsistent legacy processes/policies from business acquisitions that have been around for years. In practice, it could be difficult to modify these processes/policies in the absence of a project like this one, which can be widely scoped to address issues not strictly related to the adoption of IFRSs.

Finally, it is very important to make the entire organization focus on the effort. Senior management should be informed of the project and should understand the benefits that could arise from the project, so that when additional resources are sought to perform the tasks, proper support will be there.

How close are we now to achieving a single set of high-quality international accounting standards?

The use of IFRSs is expanding very rapidly around the world, and many countries are already permitting or requiring the use of IFRSs. Many more are planning to adopt IFRSs in the near future.

The FASB and the IASB have expressed their desire to have a single set of high-quality accounting standards and these two most prominent standard-setting bodies are working together to achieve this goal. However, I also believe that it will take many years to get a single set of standards, because a lot of work remains to be done before the two GAAPs are aligned. Both standard setters will face difficult choices if they want to achieve a common set of international accounting standards. However, I do think we will get there — in a few years' time, but not in the short term.

AN INTERVIEW WITH RETIRED AcSB MEMBER — ROB GEREMIA



What did you find most rewarding about your experience serving as a volunteer on the AcSB?

I think the most rewarding thing was to be able to collaborate with a group of people (staff and Board members) for whom

I have the highest and utmost of respect — working together as a team for a variety of outcomes regarding either the move to IFRSs, or a particular Section of the Handbook. The “meeting of the minds” was probably the most valuable thing that I got out of my experience.

Which project did you enjoy working on the most?

The IFRS conversion exercise, by far. While my background and expertise is not specifically in technical detail, I felt I was able to bring to the table a business look in terms of how things are treated from a market perspective and a preparer’s point of view.

What are the most effective ways for Canadians to influence global standard setting?

Sticking by “the book.” What I mean by that is we need to keep influencing where we can. Canada has a lot more credibility than we think we do on the world-wide stage. We as Canadians (individuals and the AcSB) need to continue to provide high-quality feedback to the IASB. Canadians have a huge level of expertise to bring to the table, especially in certain areas

(for instance, oil and gas). Hopefully, we can promote that expertise to the IASB.

What are your top tips for Canadians preparing their first set of IFRS financial statements?

The biggest challenge will be managing change. It is always difficult to manage change, and on the surface people may think this is not a substantial change, but the devil will be in the detail. You have to “get down to get dirty” to figure out how IFRSs really affect your company. Entities have to start their planning, get on top of this and stick to their deadlines. We’ve talked about early adoption, but without understanding the implications. There is some misunderstanding about what early adoption really means, and about the need to also have comparative financial statements prepared on an IFRS basis. Teams should already be in place to deal with this issue. If entities wait until 2010, it will be too late. This type of change needs to have “buy-in” from the top. The person leading the charge has to be a very senior person within the company.

How close are we now to achieving a single set of high-quality international standards?

Tough question! I think we are well on our way. I also think the recent move by the SEC to not require a reconciliation to IFRSs for certain entities is a huge step forward. Will it come to a day when the US decides to move towards international standards? I’m not sure, but we are well over halfway there to achieving a single set of high-quality international accounting standards.

BUSINESS COMBINATIONS AND NON-CONTROLLING INTERESTS

A new Exposure Draft, “Non-controlling Interests,” has been issued for comment by May 30, 2008. It proposes replacing Section 1600, *Consolidated Financial Statements*, with two new standards to be issued and implemented concurrently with new Section 1582, *Business Combinations*, which replicates IFRS 3, *Business Combinations*, and replaces Section 1581. Section 1602, *Non-controlling Interests*, replicates the provisions of recently revised IAS 27, *Consolidated and Separate Financial Statements*, applicable to non-controlling interests (NCIs). It is consistent with the treatment of NCIs at the date of an acquisition in Section 1582. Section 1601, *Consolidated Financial Statements*, carries forward the guidance in Section 1600 other than that applicable to NCIs (replaced by Section 1602) and

the preparation of consolidated financial statements at the date of a business combination (replaced by Section 1582). The examples in Section 1600 will not be included in Section 1601.

Sections 1582, 1601 and 1602 will be effective for fiscal years beginning on or after January 1, 2011 with early adoption permitted. Sections 1582 and 1602 are converged with IFRSs and substantively converged with US GAAP. Early adoption of the new standards will reduce the impact of the transition to IFRSs for an entity completing a business combination in the fiscal year prior to the adoption of IFRSs as these balances would otherwise be restated to conform with IFRS 3, *Business Combinations*, on conversion. Early adoption might also be chosen by entities wishing to minimize IFRS or US GAAP differences.

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When a parent acquires control of a subsidiary with an NCI, it chooses whether to measure the NCI at fair value or at the NCI's proportionate share of the identifiable net assets acquired. This choice will impact the calculation of goodwill. When the parent previously held an NCI, that interest is remeasured at fair value at the date control is acquired. Under the new standards, an NCI is presented as a separate component of equity. Changes in ownership interests that do not result in the parent losing control are recorded as equity transactions. The NCI's share of income is not deducted in arriving at consolidated net income. Rather, consolidated net income and other comprehensive income are attributed to the parent and the NCI according to their relative ownership interests.

The AcSB plans to issue the new standards later in 2008 following review of comments received.

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PRIVATE ENTERPRISE STRATEGY — AN UPDATE

As you may recall, the CICA released a draft version of a simplified non-GAAP financial reporting framework aimed at owner-managed enterprises (FOME) last November. To support understanding of the initiative, the national and provincial CA institutes conducted wide-ranging consultations and presentations in December and January. The events were extremely well attended and generated a tremendous response, including approximately 260 letters of comment. Comment letters can be viewed at: www.cica.ca/4/3/7/9/0/index1.shtml.

Stakeholders provided thoughtful feedback and substantive input on the approach and content. Most commentators also expressed common views on a number of issues, including:

- considerable support for a GAAP available to all private enterprises, initially based on FOME or a Handbook derivative, that would be both simplified and self-contained; and
- a general desire to avoid multiple GAAP solutions for the various sectors of private enterprises and, more specifically, little or no support for different standards for private companies with significant external users and those without significant external users of their financial statements.

The AcSB issued an Invitation to Comment last spring setting out three possible GAAP options for private enterprises. The FOME project was developed by the CICA separately from the AcSB's strategy to develop a GAAP for private enterprises; however, the FOME

proposals complemented the AcSB's project, as the latter asked for views on the need for non-GAAP guidance.

The AcSB discussed responses to the FOME at its February 27th meeting, where it decided not to pursue development of non-GAAP standards. The AcSB did agree to include comments on the FOME in developing a simplified GAAP based on the existing Handbook, which will be available to all private enterprises. It must be recognized that while any private enterprise could use this GAAP, many, perhaps most, may choose not to do so. Undoubtedly, there will be some private entities that wish to be comparable to public companies and, accordingly, will choose to follow IFRSs. At the same time, there will be others that will continue to produce non-GAAP statements, presumably because doing so is the most cost-efficient way of meeting their financial reporting needs.

The AcSB will be considering development of the key aspects of the new private enterprise GAAP in the coming months. We are aiming to develop a solution in a fairly quick time frame with a view to having standards available in 2009. Please check our website periodically for updates on our progress.

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EIC ABSTRACTS REVIEW — RECOMMENDATIONS

As reported in the February 2008 *FYI* article "EIC Abstracts — Going, Going, Gone!" the AcSB's IFRSs convergence strategy for Canadian publicly accountable enterprises implies that all Emerging Issues Committee (EIC) Abstracts will no longer apply after the changeover date. (This change does not affect private enterprises or not-for-profit organizations pending determination by the AcSB of the strategy for those entities.)

The 115 Abstracts currently in Canadian GAAP address a range of issues and each issue had been viewed as sufficiently significant to warrant development of an Abstract. As a result, there was a concern that the issues in some of the Abstracts might not be adequately addressed under IFRSs and that this lack of guidance might create difficulties for Canadian constituents. In November 2007, the AcSB decided that a review of all existing EIC Abstracts should be undertaken. A Task Force of individuals knowledgeable in IFRSs was formed to help in this review. For details about the process, see www.acsbcanada.org/4/2/6/6/1/index1.shtml.

FYI

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The review of EIC Abstracts is now complete. It found that IFRSs provide adequate guidance for most of the issues addressed in the EIC Abstracts, although in a number of cases the specific issue is not explicitly addressed and it will be necessary to apply more general guidance than that provided in IFRSs. This is consistent with the more “principles-based” nature of IFRSs. Consequently, the review has resulted in a limited number of recommendations to the AcSB with respect to individual Abstracts.

The Task Force’s recommendations are as follows:

- The issues addressed by EIC-160, “Stripping Costs Incurred in the Production Phase of a Mining Operation” should be referred to the International Financial Reporting Interpretations Committee (IFRIC).
- The issues addressed by EIC-111, “Determination of Substantively Enacted Tax Rates under CICA 3465,” and EIC-146, “Flow-Through Shares,” should be the subject of guidance issued by the AcSB. These issues are affected by specific Canadian legal or tax circumstances that do not apply in other countries and, therefore, will not be addressed by the IASB.
- EIC-116, “Pension Plans — Disclosure Requirements for Income from Investments in Segregated Funds,” and EIC-168, “Accounting by Pension Plans for Transaction Costs,” should be retained. The AcSB has decided that on adoption of IFRSs for publicly accountable enterprises, GAAP financial statements for pension plans should continue to be prepared in accordance with Section 4100, *Pension Plans*. A review of Section 4100 is planned to determine if any modifications will be required as a result of adopting IFRSs and these two Abstracts should be included in the review.

It is also recommended that AcSB staff raise certain issues addressed in the EIC Abstracts with IASB staff working on related IASB standards projects. For example, the Task Force recommends that AcSB staff monitoring the IASB’s Earnings Per Share project should raise the issue in EIC-155, “The Effect of Contingently Convertible Instruments on the Computation of Diluted Earnings Per Share,” when responding to its planned exposure draft on amendments to IAS 33, *Earnings Per Share*.

In addition to these recommendations, the Task Force also identified certain issues for the AcSB’s consideration, including the need to review the impact of changes to IFRSs between now and 2011 on the recommendations as well as the need to consider new EIC Abstracts issued after completion of the review.

The AcSB plans to discuss the report on the review of EIC Abstracts at its May 2008 meeting.

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