

# IFRS accounting standards

ACTIVITIES OF THE CANADIAN ACCOUNTING STANDARDS BOARD AND STAFF

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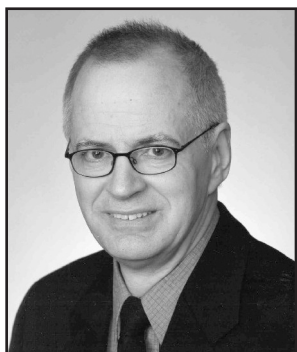
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See our website at [www.acsbcanada.org](http://www.acsbcanada.org) for the most recent information on activities in progress.



FEBRUARY 2008

## MESSAGE FROM THE CHAIR



2008 promises to be a crucial period in financial reporting in Canada. The changeover to International Financial Reporting Standards (IFRSs) for public companies will be a priority. The Accounting Standards Board (AcSB) will confirm or vary the changeover date (in the first quarter of 2008) and issue an “omnibus” exposure draft of the IFRSs we propose to adopt as a starting point (in the first or second quarter of 2008). Another urgent task is to identify significant IFRS implementation issues and begin to help develop cost-effective solutions. The responsibility rests primarily with preparers and their professional advisors to develop common sense, cost-effective implementation of the principles set out in IFRSs, although the AcSB will do what it can to assist. This does not mean that individual companies and practitioners must fend for themselves. We are encouraging the formation of broad-based industry task forces to identify significant implementation issues and develop appropriate implementation methodologies. This process will also identify any changes we wish the International Accounting Standards Board (IASB) to make to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, to facilitate the initial adoption of IFRSs (in the first quarter of 2008). We must be highly selective in requests made to the IASB and the International Financial Reporting Interpretations Committee (IFRIC). The IASB is determined to minimize detailed rules and industry-specific or country-specific standards, and has a very limited capacity to undertake such projects.

Why the urgency? Companies and practitioners alike tell us they need as much certainty as possible in order to develop their transition plans, allocate the necessary resources, carry out training, and so on. If we want the IASB to amend the standards or issue interpretations, those projects must be activated by the IASB or the IFRIC within the next few months to allow them to complete their due process by the end of 2009.

2008 will also see the achievement of important milestones in the other two sectors for which the AcSB sets standards. We will decide on the most appropriate approach to standard setting for private companies that require general purpose financial statements prepared in accordance with generally accepted accounting principles, and then take the initial steps to implement the new approach. The AcSB also intends to publish an Invitation to Comment setting out its preliminary views on the strategy for not-for-profit organizations.

*Paul Cherry*

## PUBLICLY ACCOUNTABLE ENTERPRISES — THE ROAD TO IFRSs

It is never too early to start planning for the changeover to IFRSs, which is expected to be implemented by the AcSB for years beginning on or after January 1, 2011.<sup>1</sup> However, when doing so, it is important to keep in mind that both Canadian GAAP and IFRSs will continue to change between now and the anticipated changeover date. This document summarizes the changes to accounting standards that are expected to occur during that time period. It concludes that a large number of IFRSs are not expected to change and that enterprises can safely begin their planning for the changeover by focusing on those IFRSs.

### CHANGES TO CANADIAN GAAP

The following table anticipates when new accounting pronouncements will be incorporated into Canadian GAAP for publicly accountable enterprises. It also illustrates current best estimates of document

publication dates. It is based on current plans of the IASB, as communicated in its current work programme. As such, it is subject to change as the IASB adjusts its plans.

### IFRSs TO BE ADOPTED AT CHANGEOVER

Publicly accountable enterprises in Canada will be required to adopt the full body of IFRSs in existence at the changeover date. The AcSB expects to issue an “omnibus” exposure draft in the first or second quarter of 2008 comprising IFRSs as of January 1, 2007. This will serve as a benchmark version of IFRSs to be adopted at the changeover date to IFRSs. The AcSB will subsequently expose additional changes to IFRSs between January 1, 2007 and the changeover date.

### CHANGES TO IFRSs

AcSB staff expects that the vast majority of IFRSs, as of January 1, 2007, will continue to be in place in their current form at the date of changeover to IFRSs. In addition to the new standards included

Standards expected to be incorporated into Canadian GAAP <u>before</u> changeover to IFRSs <sup>2</sup>					
	2007	2008	2009	2010	2011
Business Combinations*		HB <sup>†</sup>			Effective
Earnings per Share*		ED	HB	Effective	
Income Taxes*		ED	HB		Effective
Intangible Assets		HB	Effective		
Joint Arrangements*	ED	HB			Effective
Rate-Regulated Operations	HB		Effective		

*	Joint project between IASB and FASB.
†	An exposure draft on Non-controlling Interests is expected to be issued in the first quarter of 2008.
Effective	Expected mandatory effective date for an enterprise with a calendar year end. Earlier application permitted.
ED	Exposure Draft issued.
HB	Final Handbook release issued.

<sup>1</sup> The date will be confirmed, or otherwise varied, no later than March 31, 2008, as a result of the AcSB’s progress review.

<sup>2</sup> The AcSB might issue additional minor improvements to maintain conformity with changes to corresponding IFRSs with which Canadian GAAP is already converged.

in the table above, AcSB staff expects the following changes to IFRSs, which will be incorporated into Canadian GAAP on changeover to IFRSs:<sup>3</sup>

- A replacement for IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.
- Amendments to IFRS 1, *First-time Adoption of IFRSs*, regarding determination of the cost of investment in a subsidiary on adoption of IFRSs.
- Amendments to IFRS 2, *Share-based Payment*, regarding vesting conditions and cancellations.
- Amendments to IAS 24, *Related Party Disclosures*, regarding state-controlled entities and the definition of a related party.
- Amendments to IAS 32, *Financial Instruments: Presentation*, regarding classification of financial instruments puttable at fair value and obligations arising on liquidation.
- Amendments to IAS 39, *Financial Instruments: Recognition and Measurement*, regarding what can be designated as a hedged item in a hedge accounting relationship.

This means that 26 of the existing 37 IFRSs are expected to remain essentially unchanged from their current form as of January 1, 2007. Moreover, of the 11 IFRSs expected to change, five are expected to be amended only in respect of narrow aspects of the requirements. As such, there is no reason, based on the expected changes to standards, that enterprises cannot immediately start to study and plan for adoption of many of these IFRSs.

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## **SOUTH OF THE BORDER — ARE THEY JOINING THE IFRS CLUB??**

The US accounting world has been busy surprising us all. The US Securities and Exchange Commission (SEC) has announced that it will no longer require

reconciliations to US GAAP by foreign issuers that submit statements prepared in accordance with IFRSs as published by the IASB. This is good news if you are a Canadian company that is cross listed in the United States or thinking of tapping into the US market in the near future. The AcSB's strategy to adopt IFRSs for publicly accountable enterprises will bring an end to the practice of reconciling Canadian GAAP information to US GAAP equivalents. So if your new year's resolution was to get familiar with IFRSs, and it should have been, this is just a little more incentive.

If you are also listed in Canada, you just have to wait and see whether the Canadian Securities Administrators will allow early adoption of IFRSs (before the AcSB's anticipated changeover date of January 1, 2011).

Even more good news included in that recent SEC ruling is an exception allowing a first-time adopter of IFRSs to prepare a statement of income, changes in shareholders' equity, and cash flows for two years and not three years, as is normally required. In other words, your organization will only be required to prepare one year of comparatives in accordance with IFRSs when it changes over, if it is filing in the United States as well as in Canada.

When the AcSB started on its strategy of adopting IFRSs, people often asked, "What about the United States — they are our biggest trading partner?" Well, they are making some significant strides and have recently commenced discussion of the implications of allowing US-domiciled companies to prepare their financial statements in accordance with IFRSs. In December 2007, the SEC held two days of panel discussions to obtain the views of various stakeholders on the effect of US companies filing in accordance with IFRSs. The panels involved all agreed that the United States needed to adopt IFRSs. The variance in opinion was in relation to when and how. Paul Cherry, Chair of the AcSB, participated on one of the panels and offered advice on when: "Pick

<sup>3</sup> Information about these changes to IFRSs is available on the IASB website at [www.iasb.org](http://www.iasb.org). This summary does not include consequential amendments as a result of the issue of new IFRSs, amendments as a result of the IASB's annual improvements project or editorial corrections. However, such amendments are not expected to significantly alter the IFRSs in existence at January 1, 2007.

a date and don't blink." The Financial Accounting Standards Board (FASB) followed with a panel discussion on January 8, 2008, probing a little deeper on some of the implications of a move to IFRSs by the United States. The US discussions highlighted many of the issues that Canada's AcSB has already debated, including how long the transition period should be, how training in IFRSs will be provided, whether organizations should be allowed to early adopt, and whether any of the options available in IFRSs should be limited. The AcSB staff has been consulted on the issues. It is comforting that, to date, no one in the United States has identified issues that the AcSB has not itself taken into account in Canada's transition to IFRSs.

Many informed opinion leaders in the United States now believe that one set of globally-accepted, high-quality standards should be the objective in that country as much as it is elsewhere in the world.

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### **EIC ABSTRACTS — GOING, GOING, GONE!**

The AcSB's IFRS convergence strategy for Canadian publicly accountable enterprises implies that the Emerging Issues Committee (EIC) Abstracts will no longer apply after the changeover date. (This change does not affect non-publicly accountable enterprises or not-for-profit organizations pending determination by the AcSB of the strategies for those entities.)

But won't guidance on these issues still be required? A Task Force of accountants with expertise in both Canadian GAAP (including EIC Abstracts) and IFRSs has been formed to assist the AcSB staff in a review of all EIC Abstracts. The review will result in recommendations to the AcSB concerning whether any issues addressed in the EIC Abstracts should either be:

- (a) referred to the IASB or the IFRIC; or
- (b) the subject of guidance issued by the AcSB because the issue is affected by specific Canadian

legal, tax, regulatory or other circumstances that do not apply in other countries and therefore, will not be addressed by the IASB. For example, the issue of when changes in tax legislation are considered substantively enacted in Canada may fall into this category.

The review of the issues addressed by each EIC Abstract will consider whether:

- (a) IFRSs provide adequate guidance on the issues. In some cases, IFRSs may explicitly address the issues. Alternatively, there may be sufficient guidance provided in IFRSs to permit financial statement preparers and auditors to deal with the issues even though they are not specifically addressed.
- (b) the issues would meet the criteria of the IFRIC to issue an interpretation, or of the IASB to amend a standard (for instance, through its annual improvements process). IFRIC has rejected issues proposed to it on the grounds that they represent implementation or application guidance rather than an interpretation of IFRSs.
- (c) the issues currently remain significant, given that some EIC Abstracts were issued as much as 19 years ago.

To facilitate transparency of the process, tentative decisions from the review will be provided on an ongoing basis at [www.acsbcanada.org](http://www.acsbcanada.org). The review is expected to be completed in the second quarter of 2008. The AcSB will review the results and determine the next steps at that time.

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### **FINANCIAL INSTRUMENTS — PROPOSED AMENDMENTS TO SECTIONS 1535, 3855 AND 3862**

In response to requests from the Differential Reporting Advisory Committee for a number of amendments to Section 1535, *Capital Disclosures*, Section 3855, *Financial Instruments — Recognition*

and Measurement, and Section 3862, *Financial Instruments — Disclosures*, two new Exposure Drafts have been issued for comment by February 29, 2008. The AcSB expects to finalize the proposals in the second quarter of 2008.

***Financial Instruments — Embedded Prepayment Options*** proposes an amendment to the criteria used in Section 3855 to determine whether such an option is closely related to its host. This amendment would be applied by all entities. An option that compensates the lender for lost interest on reinvestment will be considered closely related to a debt host instrument. The proposed change would be applicable in fiscal years beginning on or after October 1, 2008, with early adoption permitted.

***Financial Instruments — Non-publicly Accountable Enterprises*** proposes changes to Sections 1535, 3855 and 3862 that would be applicable by non-publicly accountable enterprises.

#### *Capital Disclosures*

Most non-publicly accountable enterprises do not have complex capital structures requiring active management. The AcSB concluded that the value of the information required by Section 1535 to the users of non-publicly accountable enterprises' financial statements is not justified by the costs of preparing it. However, a non-publicly accountable enterprise with externally-imposed capital requirements will be required to disclose:

- the nature of the requirements and how the entity manages its capital to meet them;
- whether it has complied with the requirements during the period; and
- if it hasn't complied, the consequences of such non-compliance.

#### *Financial Instruments — Recognition and Measurement*

Many common contracts contain features that would generally require separate measurement at fair value. The AcSB decided that there would be little or no benefit to the users of non-publicly accountable enterprises' financial statements in complying with those requirements for contracts that meet the entity's expected purchase, sale or usage requirements. The Exposure Draft relieves non-publicly accountable enterprises from the requirement to consider whether non-financial contracts are, or contain, embedded derivatives, provided the risks they contain are limited to a change in the price of the underlying item, a change in an exchange rate and the possibility of a counterparty default.

The AcSB also decided that the cost of reviewing pre-existing contracts for the presence of embedded derivatives would be excessive relative to any benefit to financial statement users. Non-publicly accountable enterprises will not be required to review contracts negotiated prior to the first day of a fiscal year ending no later than December 31, 2008.

#### *Financial Instruments — Disclosures*

Non-publicly accountable enterprises will not be required to prepare and disclose an analysis of the sensitivity to each type of market risk. The AcSB decided to provide the relief to all non-publicly accountable enterprises on the basis that the disclosures are not helpful to the users of their financial statements.

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#### **CLARIFICATION**

A clarification to the Highlights and Background Information and Basis for Conclusions document, accompanying the proposed amendments to Sections 1535, 3855 and 3862 was issued on January 28, 2008.

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**IASB EXPOSURE DRAFT ON JOINT ARRANGEMENTS**

Several Canadian organizations, in addition to the AcSB staff, responded to the IASB's Exposure Draft on Joint Arrangements. Providing comments to the IASB is important since the proposals in the Exposure Draft, if approved, will become Canadian GAAP when IFRSs are adopted in Canada. For that reason the AcSB encourages Canadian constituents to provide their input directly to the IASB on all documents that it issues for comment.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS  
CONFERENCE — NORTH AMERICA**

This Conference is a significant international event being held in Toronto, bringing Sir David Tweedie and other members of the IASB to North America. It is a joint presentation by:

- The International Accounting Standards Committee Foundation, and
- The Canadian Institute of Chartered Accountants (CICA)

IFRSs are sweeping across the globe. Global capital markets demand comparability of financial information.

North American corporations are seeing the tide of change. Canada is poised to adopt IFRS by 2011, and the US SEC has recently eliminated the reconciliation requirement for foreign registrants, paving the way for US filings under IFRS.

To begin your transition to IFRS, attend this important event to gain critical insight from:

- The International Accounting Standards Board
- The Canadian Accounting Standards Board
- The U.S. Financial Accounting Standards Board
- U.S. and Canadian securities regulators, and
- Experienced international financial reporting experts

For further information on conference registration, please contact:

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