FYI accounting standards

ACTIVITIES OF THE CANADIAN ACCOUNTING STANDARDS BOARD AND STAFF

MAY 2009

IN THIS ISSUE

MESSAGE FROM THE ACCOUNTING STANDARDS DIRECTOR

What does it take to produce and maintain high-quality financial reporting standards for Canadian businesses and not-for-profit organizations? This is the time of year when the AcSB's annual reports to the Accounting Standards Oversight Council and the public are prepared. It's a time to reflect on the AcSB's performance for its operating year ended March 31, 2009, and also on what resources are needed to achieve results, both for the year just ended and in the future.

Our system rests on volunteers. Eight of the AcSB's nine members are volunteers, who spend over 100 hours of their time each year attending Board meetings. After factoring in preparation time for meetings, travel time for some members, reviewing documents for publication, attendance in meetings of other AcSB committees, and participation in various communication and liaison activities, the total time commitment for AcSB members can easily exceed 300 hours per year.

The AcSB has a number of committees that support its work, populated by over 120 volunteers who also give substantial amounts of their time. Overseeing the AcSB's activities to ensure that it is acting in the public interest are the 25 volunteer members of the Accounting Standards Oversight Council. In addition, the AcSB relies on input from well over a thousand users, preparers and auditors of financial statements, regulators, academics and others who respond to invitations to comment on exposure drafts and attend meetings to discuss issues.

Supporting this substantial effort is a dedicated team of 12 full-time staff, two part-time consultants and two administrative support staff.

It's been a busy year for all, but a productive one. Thanks to everyone who has contributed.

Peter Martin

IN MEMORIAM

The members and staff of the Accounting Standards Board extend condolences to the family and colleagues of R. E. G. (Bob) Cole, FCA, who passed away on April 30, 2009. Bob was a partner of Smythe Ratcliffe, Chartered Accountants in Vancouver. A founding member and Chair of the AcSB's Differential Reporting Advisory Committee, he was more recently a valued member of the Private Enterprises Advisory Committee.

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**.

Accounting Standards Board AcSB CNC Conseil des normes comptables

A BREAKTHROUGH — GAAP FOR PRIVATE ENTERPRISES

The AcSB has released an Exposure Draft proposing a separate set of standards for private enterprises — something which many thought would never happen. The proposed standards will make reporting simpler for private enterprises while at the same time better serving the needs of this sector. This is a principles-based set of standards designed to encourage the use of professional judgment.

The proposed standards have been built from the existing CICA Handbook – Accounting, so that everyone will be familiar with most of them and the education and training barriers are minimized. They limit the amount of change on recognition and measurement issues to those areas that are of the most concern to stakeholders, most notably with respect to financial instruments.

Other major changes include elimination of EIC Abstracts as they currently exist, deletion of Sections and Guidelines thought to be generally irrelevant to this sector, and a total refocus of the disclosure requirements. The approach to disclosures is to focus on the needs of users of private enterprise financial statements and takes into account the fact that a financial statement user in this sector has the ability to ask for and generally receive additional information beyond the financial statements. In comparison to the existing Handbook, the number of disclosures has been reduced by approximately one half.

One of the guiding forces in developing the proposed standards is that there is widespread agreement that a solution is needed in the short term. The AcSB has worked as quickly as possible to develop the proposed standards, and expects to finalize the standards in time for use by 2009 calendar year-end reporters. This aggressive timeline will mean that there is limited scope to modify the proposals when finalizing them.

Comments must be received on or before July 31, 2009. This Exposure Draft affects a huge number of entities and we encourage as many stakeholders as possible to provide their input on the proposed standards.

The Exposure Draft can be found on the AcSB website at www.acsbcanada.org.

Staff contact: greg.edwards@cica.ca 416-204-3462

DERECOGNITION — IASB PROPOSES A NEW IFRS TO ADDRESS OFF-BALANCE SHEET RISKS

On March 31, 2009, the IASB issued an Exposure Draft, "Derecognition," proposing amendments to IAS 39, *Financial Instruments: Recognition and Measurements* and IFRS 7, *Financial Instruments: Disclosures*. The Exposure Draft provides guidance on when a financial asset or financial liability should be removed from an entity's statement of financial position (derecognized).

The Exposure Draft addresses concerns with the existing guidance in IAS 39, which is considered to be complex, primarily because it includes various derecognition concepts (such as risks and rewards, control and continuing involvement). The proposal attempts to remove that complexity and includes a fundamental premise (i.e., an entity should derecognize an item from its books when it no longer qualifies as an asset or liability of the entity in accordance with the IASB's "Framework for the Preparation and Presentation of Financial Statements"). For both assets and liabilities, the proposal moves away from requiring assessments based on strict legal definitions, to an assessment that focuses on the economics of the underlying arrangements. The proposal differs from existing requirements in both IAS 39 and Canadian standards.

The final text of the amended standards is expected in the first half of 2010. Both existing IFRS users and first-time IFRS adopters will be required to apply the proposals prospectively. An item derecognized or still recognized as a result of applying existing IAS 39 or a previous basis of accounting to a past transaction would remain derecognized or still recognized. However, an entity will be required to provide certain disclosures in accordance with IFRS 7. Earlier adoption of the amended standards will also be permitted. If an entity chooses to apply the standards prior to the mandatory effective date, they must be applied to all transfers occurring on that earlier date selected and thereafter. Because this standard will probably become mandatorily effective shortly after the Canadian changeover to IFRSs for publicly accountable enterprises, Canadian enterprises will need to evaluate carefully whether to adopt the new requirements early, or to make two changes — one to existing IAS 39, followed by a second change to the new requirements. Either way, Canadian entities derecognizing financial assets or financial liabilities should pay close attention to these proposals, as well as related proposals to change the circumstances in which consolidation is required in accordance with IFRSs.

To provide input to the IASB and the AcSB on the derecognition proposal, stakeholders are encouraged to respond by July 31 and August 31, 2009, respectively. For further information, visit the Derecognition project page at: www.acsbcanada.org or www.iasb.org.

Staff contact: karlene.mulraine@cica.ca (416) 204-3466

INCOME TAX — IASB PROPOSES A NEW IFRS ON ACCOUNTING FOR INCOME TAX

On March 31, 2009, the IASB issued an Exposure Draft, "Income Tax," to replace the requirements in IAS 12, *Income Taxes*, SIC-21, "Income Taxes – Recovery of Revalued Non-Depreciable Assets," and SIC-25, "Income Taxes — Changes in the Tax Status of an Enterprise of its Shareholders." The proposed new IFRS retains the temporary difference approach in existing IFRSs (also common to US and Canadian income tax standards). It is expected to improve financial reporting by clarifying various aspects of the requirements in IAS 12. It also eliminates a number of differences in the accounting for income tax between IFRSs and US GAAP.

Changes from existing Canadian GAAP include a requirement to factor in uncertainty over tax amounts in measuring both current and deferred tax balances. An entity would be required to measure uncertainty using a probability-weighted average of all possible outcomes, assuming tax authorities will examine amounts reported to them and have full knowledge of all relevant information. The Exposure Draft also includes a requirement to measure deferred tax assets in full, which should be reduced by a valuation allowance if necessary, such that the net amount recorded is the highest amount that is more likely than not to be realizable.

If the proposal is adopted, a number of exceptions from the temporary difference approach included in existing Canadian GAAP will not exist in the revised IFRS. As such, entities will need to recognize deferred tax assets and liabilities pertaining to a number of items that are exceptions from the temporary difference approach under existing Canadian GAAP.

The final standard is expected in the first half of 2010. Existing users of IFRSs will be required to apply the standard to assets and liabilities in the opening statement of financial position for the first annual period starting after a date to be determined, which will likely be approximately 12 months after the standard is published. The Exposure Draft also proposes amendments to IFRS 1, *First-time Adoption of IFRSs*, for transition dates before and after the final standard is published.

In most instances a first-time IFRS adopter with a date of transition after the final standard is issued would have no issues applying the standard retrospectively. However, the Exposure Draft proposes certain amendments for a first-time IFRS adopter with a date of transition before the new standard is issued. Assuming the final standard is issued in 2010, a Canadian enterprise with a calendar year end adopting IFRS in 2011, would have the choice, when preparing its 2011 financial statements, of applying:

- existing IAS 12 for any period that starts before the new IFRS is published and the new IFRS thereafter; or
- the new IFRS for all periods presented.

Canadian enterprises will need to carefully evaluate the options available on transition for first-time adopters of IFRS. To provide input to the AcSB and or IASB on the income tax proposal, stakeholders are encouraged to respond to the IASB by July 31, 2009. For further information visit the income tax project page at www.acsbcanada.org or www.iasb.org.

Staff contact: karlene.mulraine@cica.ca (416) 204-3466

LEASES — IASB PUTS FORTH PRELIMINARY VIEWS

Financial statement users complain that financial statements do not depict clearly the effects of operating leases and, as a result, they routinely adjust financial statements to include assets and liabilities for these leases. Furthermore, investors complain that similar lease transactions can be accounted for quite differently as a result of bright lines and subjective judgments. Improvements to address these criticisms are now under way.

In March 2009, the IASB published, jointly with the US Financial Accounting Standards Board, a Discussion Paper, "Leases — Preliminary Views." This Discussion Paper proposes that accounting by a lessee be based on the principle that all leases give rise to liabilities for future payments and assets in the form of the right to use the leased asset that should be recognized in the statement of financial position. This approach is intended to result in

Edited by
Karlene Mulraine, CA, CPA

Copies of *FYI* can be obtained from the AcSB website at www.acsbcanada.org, or by contacting Florita Dinglasan

Accounting Standards Board

277 Wellington Street West
Toronto, Ontario, M5V 3H2

Disponible en français

leases being accounted for consistently and transparently. It represents a significant change to existing accounting as operating leases will no longer be "off-balance sheet".

The proposals also discuss the accounting for more complex leases that include features such as renewal or purchase options, residual value guarantees, or contingent rentals. The lessee would recognize a single right-of-use asset and obligation that takes those items into account, rather than recognizing separate assets and liabilities for options or other features.

The Discussion Paper, including further information (such as a one-hour web presentation and a "snapshot" providing a high-level overview) can be found on the IASB website at: www.iasb.org.

Any entity that leases items is likely to be affected by these proposals. To provide input to the future IFRS on leases, stakeholders are encouraged to respond directly to the IASB. Responses are due by July 17, 2009.

The IASB currently plans to publish an exposure draft in Q2 2010 with a final standard in Q2 2011. The final standard is expected to be effective in 2013 (after the Canadian adoption of IFRSs in 2011). At this time, it is unclear whether Canadian entities would be able to adopt the new standard as part of the overall adoption of IFRSs in 2011.

Staff contact: grace.lang@cica.ca (416) 204-3478

WHEN 2011 EQUALS 2010 — THE JOURNEY TO THE IFRS WORLD

The changeover to International Financial Reporting Standards (IFRSs) as of January 1, 2011 for publicly accountable enterprises is definitely happening! So, your organization needs to get ready to prepare annual and interim financial statements relating to fiscal years beginning on or after January 1, 2011 in accordance with IFRSs.

How does 2010 equal 2011? It is not new math. January 1, 2010 is the first time data will be collected in accordance with IFRSs for those organizations with a fiscal year ending December 31, 2009. That is less than eight months away! For 2010, information must be gathered in accordance with both existing Canadian GAAP and IFRSs. Financial reports prepared using IFRSs will be required for the first quarter of 2011 and will include 2010 comparative IFRS information.

Many publicly accountable enterprises are public companies and, therefore, have considered and prepared the first disclosures about their IFRS transition plans in their Management and Discussion Analysis, as called for in the Canadian Securities Administrators' Staff Notice 52-320. Has your organization developed and started implementing its plan to transition to IFRSs? Those plans should include designating a person to monitor the IASB's proposed amendments to standards affecting the organization that could be changing by the end of 2011. For help see "Which IFRSs are Expected to Apply for Canadian Changeover in 2011?" available at: www.acsbcanada.org

Not only should you be thinking about what data needs to be collected to satisfy the recognition and measurement criteria of the applicable IFRSs for your organization, but you should also be thinking of the data needed to meet the disclosure requirements of those IFRSs. To their detriment, some European enterprises left disclosures to the last minute when they converted to IFRSs. Many recommend preparing a mock-up of the required IFRS disclosures prior to 2010.

Staff contact: karen.mccardle@cica.ca (416) 204-3465