

IFRS accounting standards

ACTIVITIES OF THE CANADIAN ACCOUNTING STANDARDS BOARD AND STAFF

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DECEMBER 2009

MESSAGE FROM THE CHAIR



Since September 2009, the Accounting Standards Board and staff have continued their efforts to make stakeholders aware of the Board's activities.

Much of the focus has been on outreach to ensure that all publicly accountable enterprises understand the actions they need to take to implement International Financial Reporting Standards (IFRSs) in 2011. A particularly successful venture was a webcast we presented jointly with the Canadian Public Accountability Board directed to smaller public companies.

It has been archived and is available [here](#). We've also spoken at a number of conferences, some of general interest and some directed to specific industries, such as those with rate-regulated activities, or specific audiences, such as audit committee members.

Other outreach activities focused on developing our responses to International Accounting Standards Board (IASB) proposals. On major projects, we hold roundtables so people can discuss the questions posed in the exposure drafts and identify issues and concerns that should be covered in comment letters. In November, we held a roundtable on our own proposals to revise the standards for pension plans.

But the biggest news by far this quarter is the completion of the new accounting standards for private enterprises that will become Part II of the reorganized CICA Handbook — Accounting. The Board was determined to deliver on its commitment to make these standards available for 2009 reporting. Because of the hard work of the entire team — Board, staff, advisory committee, interested stakeholders who attended roundtables and submitted comment letters, translators, editors and electronic production people — we did.

We won't be able to slow down much in 2010, however. The standards for not-for-profit organizations need to be completed and the level of activity internationally continues to be high. Several of the IASB's projects that are nearing completion are of considerable importance to many Canadian entities as they implement IFRSs. We will need to ensure they are aware of the outcomes.

Cheers!

Tricia

CLEARING THE PATH FOR THE CHANGEOVER TO IFRSS

The AcSB confirmed and communicated its decision to replace Canadian generally accepted accounting principles with International Financial Reporting Standards (IFRSs) for publicly accountable profit-oriented enterprises with January 1, 2011 as the changeover date.

The International Accounting Standards Board (IASB) recently reviewed its work plan and adjusted the timing for several active projects to amend IFRSs. As a result of those adjustments, it now seems clear that no further significant changes to IFRSs will be mandatory for 2011 calendar years. This clears the way for Canadian entities to make significant progress with their IFRS adoption plans.

Until recently, it had seemed possible that significant changes to IFRSs for consolidated financial statements; derecognition of financial assets; fair value measurement; financial instruments recognition and measurement; and provisions, contingent losses and contingent gains could have been applicable for 2011 financial reporting. Those projects have now been delayed such that their mandatory effective dates are likely to be after 2011. In the case of financial instruments recognition and measurement, while a new standard on classification and measurement was issued in November 2009, it seems quite likely that it will change again in 2010 as a result of convergence with US standards. Adoption of new IFRSs relating to accounting for financial instruments is now expected to be mandatory no earlier than 2013.

There remain some less pervasive changes to IFRSs that might be required for 2011. These include recent amendments regarding classification of rights issues, the limit on a defined benefit asset, and related party disclosures. Also, the International Financial Reporting Interpretations Committee might issue new interpretations applicable for 2011.

Even though some of the more significant projects have been delayed, Canadian entities should continue to pay attention to the changing standards. In some cases, a Canadian entity might choose to adopt the

requirements of a new IFRS early, possibly to avoid a second change in accounting policy shortly after IFRS adoption. For example, entities with activities subject to rate regulation are likely to be particularly interested in adopting a standard resulting from the IASB's project on Rate-regulated Activities. In other cases, an entity might be able to mitigate the likelihood of a second change in accounting policy by adopting an option in IFRSs that is commensurate with the likely future standard. An example might be adopting the equity method of accounting for joint arrangements.

The news is good for 2011 IFRS adoption. However, it seems clear that there will be further change to IFRSs in 2012, 2013 and beyond.

The AcSB staff regularly track the effects of changes to IFRSs in a document on the AcSB web site, "Which IFRSs Are Expected to Apply for Canadian Changeover in 2011?"

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WE DELIVER: NEW PRIVATE ENTERPRISE STANDARDS

December 2009 marked a major milestone in Canadian accounting when the AcSB released a separate set of standards specifically for private enterprises. To make this happen, the AcSB put in a lot of work on an extremely aggressive timetable.

The AcSB's "made in Canada" financial reporting standards for private enterprises are based on the following approach:

- using the existing CICA Handbook – Accounting as a starting point;
- retaining the majority of the recognition and measurement standards in the existing Handbook, other than those that give rise to contentious issues, with few, if any, modifications;
- reconsidering issues in the existing Handbook that have caused significant concern to private enterprises, based on cost/benefit considerations; and
- re-evaluating and reducing the specific disclosure requirements.

Special recognition should be given to the efforts expended by AcSB members Brian Drayton and Tom Scott, who played major roles seeing the new standards from “cradle to grave”.

Thanks are also extended to all those who participated in the due process. They included members of the special advisory committee to the AcSB that was composed of experts from the private enterprise sector. As well, a significant number of individuals and organizations contributed either through writing a response to the Exposure Draft or providing commentary through venues such as roundtable meetings. Input from stakeholders is an essential part of standard setting and is critical to development of high-quality standards.

Of course, the word “grave” does not imply that the standards are finished and done with. The AcSB has created a set of standards to meet the current needs of private enterprises, but these standards will not stand still — they will evolve and improve so they can continue to meet the needs of this sector. The AcSB will shortly issue an invitation to those interested in participating in the evolution of accounting standards for private enterprises, to contact Greg Edwards regarding joining the AcSB’s new standing advisory committee.

More information on the standards and the project to develop them is available at: www.acsbcanada.org.

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TENTATIVE DECISION TO PROVIDE A CHOICE OF STANDARDS FOR NFPOS

In December 2008, the AcSB and the Public Sector Accounting Board (PSAB) issued a joint Invitation to Comment, “Financial Reporting by Not-for-Profit Organizations,” to solicit the views of stakeholders with respect to a strategy for setting standards for this sector.

The AcSB considered the comments received on the Invitation to Comment and, at its October 2009 meeting, approved the development of an exposure draft addressing the future direction and the timing of the changeover from existing standards.

For not-for-profit organizations (NFPOs) that are not subject to public sector accounting standards, the AcSB has tentatively decided that the exposure draft will propose a free choice of the accounting standards for private enterprises plus the 4400 series of Handbook Sections, appropriately modified to fit with those standards or IFRSs. The AcSB understands that PSAB intends to publish shortly its proposals for not-for-profit organizations in the public sector.

The AcSB also reaffirmed that the existing CICA Handbook – Accounting will be maintained for use by not-for-profit organizations at least until the new direction for setting standards for this sector has been approved.

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INPUT FROM CANADA’S INVESTMENT COMPANY EXPERTS

In Exposure Draft 10 “Consolidated Financial Statements” issued in December 2009, the IASB reconfirmed the existing IFRS approach that an entity consolidates all controlled entities.

In response to Exposure Draft 10, many Canadians and others questioned that proposal because, in some circumstances, they believe reporting the fair value of controlling interests provides more decision-useful information. IASB members and staff have challenged those holding that alternative view to develop a proposal that might permit using fair values for reporting controlling interests under certain circumstances.

On behalf of the Investment Funds Institute of Canada and the British Columbia Investment Management Corporation, a group of Canadian experts made up of financial statement preparers, their advisors and regulators developed a proposal. From June to October 2009, these volunteers spent a significant time:

- debating and identifying a core principle and application guidance;
- testing the proposal to identify who would and who would not be affected by applying the proposal;
- explaining Canada’s past experience and guidance;

- discussing the advantages and disadvantages of the proposal with IASB representatives; and
- organizing a discussion between IASB representatives and Canadian financial statement users to understand their preference for fair value information.

Other groups, such as the Canadian Securities Administrators, have also submitted letters encouraging the IASB to reconsider this issue. As a result, the proposal, including other proposals submitted by stakeholders in other jurisdictions, has formed the basis of an IASB staff paper that the IASB and the Financial Accounting Standards Board expect to deliberate jointly in January 2010.

By voicing concerns and bringing their expertise to bear, these Canadians have provided a starting point for the IASB to deliberate the type of controlling interests that could be reported at fair value. Their efforts have made a difference.

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AcSB REDELIBERATES COMMENTS ON PENSION PLANS

What GAAP will pension plans follow on or after the changeover to IFRSs in 2011? On July 30, 2009, the AcSB issued an Exposure Draft, “Pension Plans,” with a comment period that ended on October 31, 2009. The Exposure Draft reflects the AcSB’s decision that, upon adoption of IFRSs by publicly accountable enterprises, pension plans would continue to prepare their financial statements in accordance with Canadian GAAP, rather than IAS 26 *Accounting and Reporting by Retirement Benefit Plans*. The AcSB considered the extent to which changes are necessary to Section 4100, *Pension Plans*, as well as whether guidance in addition to that found in Section 4100 is needed after 2011, and if so, the appropriate source of such guidance.

The proposals include a requirement to measure all investment assets and investment liabilities at fair value in accordance with the proposed IFRS on fair value measurement, a requirement to present pension obligations on the face of the statement of financial position, and increased disclosures to provide information about the pension plan’s investment portfolio. The proposals also provide a requirement to prepare financial

statements on a basis consistent with specific general standards in IFRSs such as IAS 1 *Presentation of Financial Statements* because the proposed new standards will stand alone as Part IV of the Handbook.

Currently, the AcSB is redeliberating the proposals based on comments received from stakeholders, including input from roundtable discussions and close to 30 written submissions. Significant issues raised by respondents include recognition of an actuarial asset value adjustment, recognition and derecognition of financial assets and liabilities, consolidation of investment assets and liabilities, reference to a single source of GAAP when an issue is not dealt with, consequences of any delay in finalizing the IASB’s proposed standard on fair value measurement, and clarification of the scope for non-pension plans.

The AcSB plans to issue final standards in the first quarter of 2010, with a proposed effective date for annual financial statements for fiscal years beginning on or after January 1, 2011. Earlier adoption would be permitted.

For further information, visit the Pension Plans project page at: www.acsbcanda.org

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AcSB ESTABLISHES IFRS DISCUSSION GROUP

On November 25, 2009, the inaugural meeting of the AcSB’s IFRS Discussion Group (IDG) took place. Chaired by AcSB member, Doug Cameron, the IDG provides a regular public forum at which issues relating to the application of IFRSs in Canada can be discussed. The IDG makes recommendations to the AcSB on whether particular issues should be referred to the IASB or International Financial Reporting Interpretations Committee (IFRIC).

At this first meeting, a range of issues was discussed, including capitalized actuarial gains and losses on transition to IFRSs, flow-through shares, related party transactions, substantively enacted tax rates, unguaranteed residual values in determining the interest rate implicit in a lease, and vacation pay entitlements. Each of these issues resulted from consultation with stakeholders about challenges they face with determining the appropriate accounting in accordance with IFRSs.

The IDG plays an important role in the inter-relationship between the IASB and Canadian stakeholders. It provides an opportunity for Canadians to discuss their issues with a group of individuals from a wide range of backgrounds who are knowledgeable in IFRSs. It also allows evaluation as to whether issues are sufficiently significant to be referred to the IASB or IFRIC for interpretation or other standard-setting action.

So that Canadians have ready access to IDG discussions, the meetings are held in public and broadcast on the internet. An archive of the broadcast is also maintained, together with summary notes of the matters discussed. The IDG expects to meet quarterly, with its next meetings scheduled for March 4, 2010 in Toronto and June 1, 2010 in Calgary.

You are invited to submit issues for consideration by the IDG to florita.dinglasan@cica.ca. Further information about how to submit issues, as well as about the IDG in general, is available at www.acsbcanada.org.

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FINANCIAL INSTRUMENTS — NEW DIRECTIONS

In response to the recent crisis in financial markets, the IASB has published the first of three planned revisions to its Financial Instruments standards. IFRS 9 revises the classification and measurement requirements of IAS 39 and will be mandatory for years beginning on or after January 1, 2013. All financial assets will be classified either as measured at fair value through profit and loss or as measured at amortized cost on the basis of the business model under which they are managed and their characteristics. Early adoption is permitted and, if chosen, could change the requirements an entity would apply on transition to IFRSs. An Exposure Draft proposing a new impairment model for financial assets measured at amortized cost was published in November 2009 with comments due June 30, 2010. A further exposure draft proposing changes to hedge accounting is expected early in 2010.

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FYI

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