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STANDARDS

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ACTIVITIES OF THE CANADIAN ACCOUNTING STANDARDS BOARD AND STAFF

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MESSAGE FROM THE CHAIR



We have now had two meetings of our new IFRS Discussion Group. Ably chaired by Accounting Standards Board member Doug Cameron, the Group was formed to provide a forum for Canadians to discuss issues arising in the implementation of International Financial Reporting Standards (IFRSs).

Anyone can submit an issue for discussion. The meetings are open to the public and the conversation is audiocast live. To provide the widest access to these meetings, the audio file is archived by topic. So, you don't have to listen to the whole meeting to hear the issue you're interested in. Find more information about the Group [here](#).

The IFRS Discussion Group discusses the issues identified and then recommends to the Board whether they should be forwarded to the International Accounting Standards Board (IASB) or its IFRS Interpretations Committee (formerly known as IFRIC) for consideration. Consequently, the issues are assessed against the Interpretations Committee's own agenda criteria (available [here](#)). The most common reason the Discussion Group concludes that the issue should not be referred to the IASB is that the existing standards provide sufficient guidance.

Although the Board is very pleased that the IFRS Discussion Group is fulfilling our expectations, some seem to have expectations that the Group was never intended to meet. For example, the Discussion Group does not:

- provide authoritative interpretations of IFRSs. Only the IASB's IFRS Interpretations Committee can do that.



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- provide application guidance. Like the Interpretations Committee, if the Discussion Group concludes that the standards provide a clear objective, it will not provide guidance on how the objective should be satisfied.
- discuss or provide comments on IASB Exposure Drafts. The Board holds roundtables and conducts other outreach activities to inform its comment letters on IASB proposals. The Discussion Group was created to discuss the implementation of existing standards, not to comment on proposed changes. However, if the Group decides that there is an implementation issue that should be addressed, it may recommend that the Board ask the IASB to amend the standard.

We are working to make the IFRS Discussion Group an even more useful resource for Canadian stakeholders. Please send your ideas for improvements and issues for discussion to Karen McCardle (karen.mccardle@cica.ca).

TRICIA O'MALLEY

SERVING THE PUBLIC INTEREST IN CANADA

New Accounting Standards Board (AcSB) members

Effective April 1, 2010, the AcSB's oversight body, the **Accounting Standards Oversight Council**, appointed two new members to the AcSB for three-year terms. The new members are:

- Anthony Scilipoti
- Adam Shepanski

Anthony is a founding partner and current Executive Vice-President of Veritas Investment Research Corporation, Canada's largest independent and 100 per cent-owned equity research organization. His personal and professional goal is to bridge the gap between financial statement user and preparer by increasing the transparency of financial information. Anthony graduated from the University of Toronto with a Bachelor of Commerce degree and obtained his Chartered Accountant designation in 1997. He is a past member of both the AcSB's Emerging Issues Committee and User Advisory Council.



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Adam is Vice President, Financial Reporting and Standards, Sobey's Inc. in Stellarton, Nova Scotia, one of the largest companies in Atlantic Canada. Adam's challenging tasks and opportunities include the consolidation of Sobey's complex corporate structure. Adam graduated from Saint Francis Xavier University in 1999 with a Bachelor of Business Administration degree and then qualified as a Chartered Accountant. During this time, he obtained significant experience working with both private and publicly traded clients in the US and Canada.

Retiring AcSB member

We would like to express our appreciation to Robert Morgan, whose final term of appointment as an AcSB member ended on March 31, 2010. Robert was a long-serving and tireless member of the AcSB, who also chaired the User Advisory Council since its inception in 2004. We thank Robert for his dedicated and unstinting efforts on behalf of standard setting. He expressed the views, and protected the interests, of financial statement users. We are pleased that Robert has chosen to remain a member of the User Advisory Council so that the AcSB can continue to benefit from his wise counsel.

Long-serving AcSB staff member

With mixed feelings we announce that, after over 15 years in standard setting, one of our senior Principals, Ian Hague, is moving on. Ian has received a well-deserved promotion and now heads up the CICA's Guidance & Support Group (Practitioner Support, Knowledge Development, Research Studies and Risk Management & Governance). Although we are sad to lose Ian, this is a great opportunity for him. We would like to acknowledge Ian's contribution in assisting the AcSB to adopt International Financial Reporting Standards (IFRSs) for publicly accountable enterprises in Canada. Our accounting standard-setting function is well respected internationally and this is in no small measure due to Ian's efforts. In particular, Ian is also currently serving as the President-Elect of the International Accounting Section of the American Accounting Association. We wish him all the best in his new endeavours.



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S T A N D A R D S**

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New AcSB staff member

We are pleased to advise that Kathryn Ingram, CA, has joined the AcSB staff. For the past three years, Kathryn has been the Director of Professional Standards at MSCM LLP (formerly Moore Stephens Cooper Molyneaux), Chartered Accountants. Kathryn has had previous experience in practice with Big 4 firms, and also served as the Associate Director of Education of the Institute of Chartered Accountants of Ontario (ICAO) for several years. Kathryn has practical experience applying IFRSs and helping MSCM and its public company clients through the transition. She is a past member of the ICAO's Practice Inspection Committee and served as an exam marker at the ICAO School of Accountancy.

Thanks to Emerging Issues Committee members

With the concurrence of the Accounting Standards Oversight Council, the AcSB decided to wind up the Emerging Issues Committee as of March 31, 2010. The decision flows from the AcSB's adoption of IFRSs for publicly accountable enterprises. The AcSB decided some time ago that, in the absence of unique Canadian circumstances, it would adopt IFRSs, without any modifications, and that it would not provide any implementation guidance beyond that provided by the IASB. Therefore, there is no longer a role for this Committee.

The Chair and members of the AcSB are most grateful for the outstanding contributions made by present and past members of the Committee to advancing stakeholders' understanding of complex accounting matters in Canada. We would like to thank the following retiring members of the Committee:

Mark Walsh, FCA

5: 3;D
AcSB, Toronto

Sophie Bureau, CA

Raymond Chabot Grant
Thornton S.E.N.C.R.L.,
Montréal

Richard Burton, CA

McCain Foods Limited,
Toronto

Cally Hunt, LL.B., CA

BMO Financial Group,
Toronto

Doug Isaac, CA

PricewaterhouseCoopers LLP,
Vancouver

Boris Pavlin, CA

Ernst & Young LLP,
Toronto



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Garry Cook, FCA

MacKay LLP,
Calgary

Frank D'Andrea, CA

Hydro One Inc.,
Toronto

Reinhard Dotzlaw, FCA

KPMG LLP,
Toronto

Karen Higgins, FCA

Deloitte & Touche LLP,
Toronto

Observer

Cameron McInnis, CA

Ontario Securities Commission, Toronto

Anthony Scilipoti, CA, CPA

Veritas Investment Research,
Toronto

Alay Shah, M.B.A., CGA, CPA

KCP Holdings Inc.,
Concord

David Spence, CA

Corus Entertainment Inc.,
Toronto

Janet Stockton, CA

BDO Dunwoody LLP,
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INTERNATIONAL FINANCIAL REPORTING STANDARDS

Conceptual Framework — The Reporting Entity

Who should prepare general purpose financial statements?

A reporting entity that has “a circumscribed area of economic activities whose financial information has the potential” to provide decision-useful information to existing and potential investors and creditors should prepare general purpose financial statements. This is the answer the IASB and the US Financial Accounting Standards Board (FASB) proposed in the March 2010 Exposure Draft “**Conceptual Framework for Financial Reporting: The Reporting Entity.**”

The Boards also propose that a reporting entity need not be a legal entity. A reporting entity can be a portion of an entity or it can include more than one entity.



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When an entity controls another entity, the Boards recommend that a reporting entity should present consolidated financial statements. Although consolidated financial statements are most likely to provide useful information to the greatest number of users, the Boards also propose to permit reporting “parent-only” financial statements or combined financial statements about controlled entities as a group.

Do you agree? Provide your comments to the IASB and the FASB by July 16, 2010.

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Consolidation Exemption for Investment Companies

Relief from consolidation is on its way. The International Accounting Standards Board (IASB) is steps away from approving an exposure draft proposing to exempt investment companies from consolidating controlling interests held in other entities and, instead, measure those interests at fair value. The IASB and the US Financial Accounting Standards Board (FASB) first need to decide what additional information investment companies should disclose. The Boards are expected to complete their discussions within weeks and issue exposure drafts in June or July 2010.

In the April 2010 discussions, IASB members expressed solid support for the proposed exemption. With such support, the question is when, not whether, the IASB will issue an exposure draft. To review the proposed principles for the exemption, read the [IASB Update](#) for April 2010.

Various Canadian stakeholders have raised concerns about the implications of the IASB’s project plan for Canada’s transition to IFRSs. To provide for the contingency that IFRSs are not revised in time, the Accounting Standards Board (AcSB) has decided to take action. At its May 5, 2010 meeting, the AcSB decided to propose that entities currently applying Accounting Guideline AcG-18, Investment Companies, can continue to apply existing Canadian standards in Part V of the CICA Handbook – Accounting until fiscal years beginning on or after January 1, 2012. Earlier application would be permitted.



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An investment company unaffected by the consolidation of controlled investees can adopt IFRSs in Part I of CICA Handbook – Accounting for 2011 as originally planned. Other investment companies would also be able to adopt IFRSs for 2011 if the new IFRS on consolidated financial statements is issued in time. The AcSB will expose the proposed amendment shortly.

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Employee Benefits — Promises Revealed

Financial statement users often stress the need for information that is more useful and understandable on financial reporting for employee benefits. Wait no longer! New proposals issued by the International Accounting Standards Board (IASB) in April 2010 on accounting for employee benefits under defined benefit plans expect to meet that need by:

- requiring the full amount of the defined benefit obligation, net of plan assets, to be reported on the balance sheet;
- reporting changes in the carrying amounts of defined benefit obligations and plan assets in the income statement in a more understandable way;
- clarifying requirements that have resulted in diverse practices; and
- improving information about an entity's defined benefit plans, including the risks to the entity arising from these plans.

The IASB's Exposure Draft, "**Defined Benefit Plans (Proposed amendments to IAS 19 Employee Benefits)**," has significant implications for both financial position and income reporting. Deferred recognition and smoothing of gains and losses would be eliminated — the full amount of defined benefit obligations, net of plan assets, would be reported in the statement of financial position. All changes in defined benefit obligations and in the fair value of plan assets would be recognized when those changes occur. The Exposure Draft also proposes a new presentation approach — entities will split changes in the defined benefit obligation and the fair value of plan assets into service cost, finance cost and remeasurement components, and present:



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- the service cost component in profit or loss;
- the finance cost component (i.e., interest on the net defined benefit liability or asset, as part of finance costs in profit or loss); and
- the remeasurement component in other comprehensive income.

Thus, this new presentation approach makes it easier for financial statement users to understand how defined benefit plans affect an entity's financial position and financial performance, and how they may affect its future cash flows.

But that's not all! The Exposure Draft also proposes improved disclosures focused on the characteristics of an entity's defined benefit plans, the amounts in the financial statements resulting from those plans, and the risks arising from defined benefit plans (including sensitivity analyses of changes in significant actuarial assumptions). Additional disclosures about participation in multi-employer plans are also proposed.

The Exposure Draft contains some additional proposals that address issues arising in practice. These include how expected future salary increases affect the attribution of benefits to different periods and questions received by the former IFRIC (now known as the IFRS Interpretations Committee). As well, it proposes to incorporate the requirements of IFRIC 14 IAS 19 — *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* directly into IAS 19.

The Accounting Standards Board (AcSB) will adopt the amendments to IAS 19 into Part I of the CICA Handbook – Accounting when they are finalized, which is expected to be in mid-2011. As part of this adoption process, the AcSB plans to expose the IASB proposals for public comment in Canada shortly.

Users and preparers of financial statements are encouraged to take note of the IASB's proposals. Make your voice count by reviewing the Exposure Draft and responding to the IASB (with a copy to the AcSB) by September 6, 2010. Also respond directly to the AcSB on the additional questions asked in the forthcoming AcSB Exposure Draft.

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Financial Instruments

The International Accounting Standards Board (IASB) has devoted considerable time and effort dealing with criticisms that complex accounting standards for financial instruments contributed to the financial crisis. The second and third in a series of Exposure Drafts intended to address specific aspects are available for comment with more to follow:

The IASB Exposure Draft, "Financial Instruments: Amortised Cost and Impairment," would require identification of credit losses inherent in a financial asset that will be measured at amortized cost when the asset is initially recognized. Interest income would be accrued at an effective interest rate that is calculated net of initial credit loss expectations. Over the life of the asset, the difference between this calculated rate and the interest rate specified on the asset would build an allowance for credit losses. If actual credit losses are equal to the initial estimate, no loss will be recognized in net income. Bad debt expense (sometimes called the provision for credit losses) would only reflect changes in estimates about future credit losses. As drafted, the proposal would be difficult to apply to assets with maturities greater than a year. The IASB has formed an Expert Advisory Panel to develop methods that would simplify application of the proposed model. Comments to the IASB on these proposals are due by June 30, 2010.

The IASB has also published the Exposure Draft "Fair Value Option for Financial Liabilities" to address concerns about reporting the effect of changes in the reporting entity's own credit rating on financial liabilities measured at fair value using the fair value option. Gains or losses on these financial liabilities attributed to changes in credit standing would be presented in other comprehensive income. Comments are due July 16, 2010.

The IASB continues to discuss hedge accounting with a view to addressing issues raised by respondents to the 2008 Discussion Paper, "Reducing Complexity in Reporting Financial Instruments." Several aspects have not been decided including the determination and ongoing assessment of effectiveness.

The US Financial Accounting Standards Board (FASB) published an exposure draft proposing new requirements for financial instruments in May 2010. These proposals differ significantly from IFRS 9 *Financial Instruments* and the IASB Exposure Drafts under development. The FASB favours measuring most financial instruments at fair value and



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would permit presenting fair value gains and losses in other comprehensive income for certain debt assets and liabilities. The impairment requirements for financial assets classified as at fair value through other comprehensive income would not differ significantly from current practice.

The Accounting Standards Board (AcSB) is concerned that the IASB and the FASB are pursuing models that are significantly different. Both Boards are focusing on financial reporting by financial institutions, but financial statements prepared using the IASB model would not be comparable with those prepared using the FASB model. Areas of difference include, but are not limited to, measurement of financial instruments, presentation of gains and losses and timing of income recognition. The IASB proposals for recognizing interest income and impairment would not achieve the objective of reduced complexity. Ultimately, achieving convergence and clarity in accounting for financial instruments would require several rounds of change if the Boards continue to pursue quick fixes. These changes will not improve financial reporting and will challenge the resources of reporting entities.

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Other Comprehensive Income

In May 2010, the International Accounting Standards Board (IASB) published an Exposure Draft, "Presentation of Items of Other Comprehensive Income ." The Exposure Draft proposes a limited amendment to IAS 1 *Presentation of Financial Statements* regarding the presentation of other comprehensive income and the classification of items within it. The Exposure Draft does not address the question of which items are to be presented in other comprehensive income or whether they should be recycled through profit or loss.

An entity would be required to display profit or loss and other comprehensive income as two sections of a single financial statement. Items of other comprehensive income would be grouped according to whether or not they are recycled through profit or loss. The IASB proposes to retain existing requirements for the allocation of income taxes



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to items of other comprehensive income. Presently, an entity is required to report income tax expense or benefit for each item of other comprehensive income. However, the entity is permitted the option of presenting items of other comprehensive income either net of related income tax effects, or before income tax effects with disclosure of the income taxes allocated to each item. The Exposure Draft requires an entity choosing to present items of other comprehensive income before tax to split income tax between items recycled through profit or loss and those that are not recycled.

This is a joint project with the US Financial Accounting Standards Board (FASB). The FASB has issued an Exposure Draft with the same proposals (except that US GAAP currently requires all items of other comprehensive income to be recycled). As a result of the two Boards making these changes together, an entity will present total reported income on a similar basis whether it applies International Financial Reporting Standards (IFRSs) or US GAAP.

The Accounting Standards Board (AcSB) has issued its corresponding Exposure Draft, "Presentation of Items of Other Comprehensive Income," to adopt into Part I of the CICA Handbook – Accounting the final amendments to IAS 1 resulting from the IASB's Exposure Draft. The IASB expects to issue the final amendment in the final quarter of 2010. Accordingly, the mandatory effective date will likely be after the changeover date to IFRSs for Canadian entities. If earlier application is permitted, a Canadian entity will be able to choose between adopting the changes upon changeover or waiting until their mandatory effective date.

Comments to the IASB and AcSB on their respective Exposure Drafts are due by September 30, 2010.

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Progress on Rate-Regulated Activities

The International Accounting Standards Board (IASB) continues to redeliberate the proposals in its July 2009 Exposure Draft, "**Rate-regulated Activities**," based on comments received from the public. At its meeting of February 17, 2010, the IASB directed the staff to continue its research and analysis on the project, focusing on the key issue of whether regulatory assets and regulatory



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liabilities exist in accordance with the current *Framework for the Preparation and Presentation of Financial Statements* and are consistent with other current International Financial Reporting Standards (IFRSs). The staff will report back to the Board at its earliest opportunity, which could be early this summer.

The IASB's conclusion on this key issue will determine whether the project continues. If it doesn't, the IASB is expected to make clear through amendments to existing standards that IFRSs do not permit the recognition of regulatory assets and regulatory liabilities. If the project continues, the IASB's current work plan indicates the issuance of a final standard in the second quarter or second half of 2011. This is after the mandatory date for adoption of IFRSs by Canadian publicly accountable enterprises. Under this scenario, the IASB is likely to issue interim guidance for first-time adopters with rate-regulated activities. Such guidance is necessary to assist entities in determining the extent to which their current accounting practices must change, and to avoid the diversity in practice that would otherwise result in the absence of a final standard.

In the meantime, IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been amended to provide transition relief for entities with rate-regulated activities. When an item of property, plant and equipment or intangible assets includes amounts that were determined in accordance with previous GAAP but do not comply with IFRSs, such an entity may elect to use the carrying value of the item at the date of transition as deemed cost.

Visit the IASB's Rate-regulated Activities [project page](#) for progress updates on this topic.

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PENSION PLANS

GET READY TO APPLY THE NEW STANDARDS

Roll up your sleeves — pension plans should get ready to apply the new accounting standards just issued. In April 2010, after a process of consultation and debate, including re-deliberations based on feedback received from the July 2009 Exposure Draft, “Pension Plans,” the Accounting Standards Board (AcSB) issued Section 4600, *Pension Plans*, as Part IV of the CICA Handbook – Accounting. Section 4600 is effective for annual financial statements relating to fiscal years beginning on or after January 1, 2011, with earlier application permitted. This effective date coincides with the changeover date to International Financial Reporting Standards (IFRSs) for other publicly accountable enterprises.

The new standards reflect the AcSB’s decision not to adopt IAS 26 *Accounting and Reporting by Retirement Benefit Plans* in Canada but, instead, develop a modified version of pre-changeover Section 4100, *Pension Plans*, with some short-term improvements and other changes necessary to make the new standards stand alone. The AcSB decided on this approach because Section 4100 was generally meeting the needs of users of pension plan financial statements.

To help plans get ready to apply the new standards, here’s a summary of the most noteworthy features of Section 4600:

- The standards apply to all pension plans. They also apply to benefit plans that have characteristics similar to pension plans and provide benefits other than pensions (for example, retiree health care and life insurance benefits, and long-term disability plans), with necessary adaptations.
- The statement of financial position includes the pension obligation, together with the net assets available for benefits, and the resulting surplus or deficit.
- All investments are measured at fair value. Investment assets are not measured on an actuarial asset value basis. The difference between fair value and actuarial asset value does not represent an asset or a liability that can be included in a pension plan’s financial statements.
- Investments in entities over which the pension plan has control or can exercise significant influence are presented on the same basis as all other investments, (i.e., at the fair value of the investment).



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- The standards include references to other Parts of the CICA Handbook – Accounting for issues not directly addressed in Section 4600; for example, the disclosures required by IFRS 7 *Financial Instruments: Disclosures* in Part I of the Handbook for a pension plan’s investment assets/liabilities that are financial instruments, and the capital disclosures required by paragraphs 135-136 of IAS 1 *Presentation of Financial Instruments* in Part I of the Handbook.
- Disclosures have been revised and enhanced, including disclosure of information that enables financial statement users to evaluate:
 - the nature and extent of risks arising from financial instruments, and
 - the pension plan’s objectives, policies and processes for managing capital.
- Disclosures previously described as desirable are now required.

However, keep watch for a possible amendment to the scope of Section 4600. During its redeliberations preceding issuance of the final standards, the AcSB considered whether an entity that is separate from a pension plan and whose sole purpose is to hold and invest assets received from one or more pension plans, but does not itself have a pension obligation should be required to adopt Section 4600. A master trust (as defined in Section 4600) is an example of such an entity. Accounting in accordance with the standards for pension plans will provide the most relevant information to the pension plans that are the main users of the financial statements of such entities. Rather than hold up the finalization of the new standards, the AcSB issued the Exposure Draft, “Pension Plans (Proposed amendment to the Scope of Section 4600),” at the same time as it released Section 4600. The AcSB plans to discuss the responses to the Exposure Draft at its meeting in June 2010. Stay tuned for updates on this proposal by visiting the accounting project page, [Pension Plans](#), on the AcSB website at www.acsbcanada.org.

Also, watch for a Background Information and Basis for Conclusions document on the AcSB’s website currently under development that will set out the AcSB’s rationale for the new standards.

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DOCUMENT FOR COMMENT DEADLINES

You are encouraged to access the following documents and provide your comments:

International Financial Reporting Standards

Conceptual Framework for Financial Reporting: The Reporting Entity

- comment deadline to the IASB Exposure Draft and to the AcSB on the additional question is July 16, 2010

Financial Instruments: Amortized Cost and Impairment

- comment deadline to the IASB is June 30, 2010
- comment deadline to the AcSB is June 15, 2010

Accounting Standards for Not-for-Profit Organizations

- comment deadline to the AcSB is July 15, 2010

UPCOMING AcSB ROUNDTABLE ON EXTRACTIVE ACTIVITIES

- Montréal – June 23 (10:00 – 12:00 EDT)

Watch for announcements on the AcSB website at www.acsbcanada.org for future roundtables on other proposals



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International Financial Reporting Standards

- Conceptual Framework —
The Reporting Entity
- Consolidation Exemption for
Investment Companies
- Employee Benefits —
Promises Revealed
- Financial Instruments
- Other Comprehensive
Income
- Progress on Rate-regulated
Activities

Pension Plans

- Get Ready to Apply the New
Standards

Document for Comment Deadlines

Upcoming AcSB Roundtable on Extractive Activities

Archived Webinars

ARCHIVED WEBINARS

Listen to the AcSB's webinars, which are free and allow you to earn CPD credits.

Accounting Standards for Private Enterprises

With new standards for Canadian private enterprises coming into effect on January 1, 2011, it is time for practitioners to get familiar with these standards. Private enterprises adopting the standards will benefit from better understanding the similarities and differences between the existing and new standards. For anyone considering early adoption, find out more about the one-time transitional provisions in Section 1500, *First-time Adoption*. "Getting Familiar with New Canadian Accounting Standards for Private Enterprises" features Brian Drayton, Accounting Standards Board member and Greg Edwards, Principal, Accounting Standards Board staff. This archived webinar can be accessed [here](#).

Development of Canadian GAAP

The unprecedented scope of changes in Canadian accounting standards is part of the ongoing development of Canadian GAAP. This webinar highlights current activities in each financial reporting framework in Canadian GAAP: International Financial Reporting Standards, and accounting standards for private enterprises, not-for-profit organizations and pension plans. Senior leadership of the Accounting Standard Board (AcSB) provides an overview of the changing financial reporting landscape. "AcSB Update: Stay Informed about Developments in Canadian GAAP" features Tricia O'Malley, AcSB Chair, Gordon Fowler, AcSB Vice-Chair and Peter Martin, AcSB Director. This archived webinar can be accessed [here](#).