



Accounting
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ACTIVITIES OF THE CANADIAN ACCOUNTING STANDARDS BOARD AND STAFF

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MESSAGE FROM THE DIRECTOR

We are drawing ever closer to the end of many entities' fiscal year ends, the first one for Canadian businesses under the new sets of GAAP financial reporting standards.

The Accounting Standards Board (AcSB) is watching carefully to identify any previously unforeseen issues. So far, the transitions appear to have gone well. The AcSB is now working to maintain International Financial Reporting Standards (IFRSs) and accounting standards for private enterprises put in place this year, as well as accounting standards for not-for-profit organizations for 2012.

Having issued a number of new and amended standards in May 2011, the International Accounting Standards Board (IASB) continues to work on its priority projects — revenue, leases, financial instruments and insurance contracts. Re-exposure drafts on the first two topics are expected soon and deliberations continue on the other two. The IASB also has proposals outstanding on investment entities. More importantly for the longer term, the IASB is undertaking a three-yearly agenda consultation to obtain views on how it should tailor its activities to suit current reporting needs. The AcSB is involved with all of these activities by providing input, responding to the IASB's proposals and promoting two-way communication between Canadians and the IASB. However, it is important for interested Canadian stakeholders to also participate by providing input directly to the IASB.

In addition to high-level issues of principle, the AcSB is engaged with the more granular, but equally important, issues of IFRS implementation. Its primary working committee on implementation is the IFRS Discussion Group. The Group's mandate has recently been expanded to help Canadians become more aware of IFRS implementation issues, as well as developing potential submissions to the



IFRS Interpretations Committee. The Group welcomes submissions on technical issues involving significant and widespread diversity in practice.

The AcSB is committed to providing a period of relative calm for private enterprises following the issuance of Part II of the CICA Handbook – Accounting and has also begun developing improvements to the standards. That work is progressing well, through staff research and discussions in the Private Enterprises Advisory Committee and the AcSB. Exposure drafts on several topics will be appearing in the coming months. However, businesses and their auditors can rest assured that the effective date of new standards will be well into the future. At the request of stakeholders, several minor clarifications to the standards have just been issued.

The AcSB is also in the early stages of reviewing the standards for not-for-profit organizations in Part III of the Handbook jointly with the Public Sector Accounting Board. The Boards expect to issue a statement of principles for public comment in 2012.

Various matters being addressed by the AcSB are discussed in more detail in this edition of FYI. We welcome your comments and questions on anything related to financial reporting standards.

PETER MARTIN

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INTERNATIONAL FINANCIAL REPORTING STANDARDS

Your Views Needed: IASB Future Work Plan

In July 2011, the International Accounting Standards Board (IASB) issued a Request for Views, "[Agenda Consultation 2011](#)." This paper seeks input on the IASB's future work plan and the areas of financial reporting it proposes to give priority to over the next three years. The comment deadline is November 30, 2011.

An important part of balancing the future work plan is to understand the financial reporting needs and challenges of stakeholders. As such, the Accounting Standards Board (AcSB) encourages all Canadian stakeholders to review the Request for Views and submit comments directly to the IASB. Your views will help shape the IASB's future agenda.

The AcSB will be responding to the IASB as well and is seeking the views of Canadian stakeholders to develop an informed response. The AcSB has organized a program of public consultations between mid-October and early November 2011 to help form its response, including conference calls and roundtables in Vancouver, Calgary, Toronto and Montreal.

More information on the [IASB Agenda Consultation](#), and the related roundtables and conference calls, is available online at www.acsbcanada.org.

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IFRS Discussion Group: September Meeting Topics

Find out whether you need to learn more about any of the topics discussed by the IFRS Discussion Group on September 28, 2011. The summary below will help you decide whether any of the topics are of interest to you.

- Quarterly IFRS Financial Statements — Staff from various provincial securities regulators provided an update on the review activities for the quarterly financial statements prepared in accordance with International Financial Reporting Standards (IFRSs) and filed by public companies with a calendar year end.



- IFRS Interpretations Committee — The Accounting Standards Board (AcSB) Chair, Gord Fowler, summarized the steps taken by the AcSB following the IFRS Interpretations Committee's discussions on March 10, 2011 about whether credit risk should be included in the discount rate when applying IFRSs to provisions for asset retirement obligations. He noted that the AcSB's due process concerns were taken very seriously by the Trustees of the IFRS Foundation. The Committee's approach to agenda decisions is one of several changes expected to be implemented by the new Chairman of the IFRS Interpretations Committee, Wayne Upton. The Trustees' review of the effectiveness of the IFRS Interpretations Committee is also expected to clarify the IFRS Interpretations Committee's mandate and the role of interpretative guidance.
- IAS 28: Losses in an Associate — The Group discussed how to account for losses in an associate under the equity method when the equity investment in the associate has been reduced to zero and the investor has more than one type of investment in the associate (for example, an equity investment in shares and a long-term loan receivable).
- IAS 32: Classification of a Liability Following a Change in Functional Currency — The Group discussed whether an instrument classified as a liability upon initial recognition can be classified as equity following a change in functional currency .
- IFRIC 14: Minimum Funding Requirements — The Group revisited the issue discussed at its March 2011 meeting on whether the effect of any existing surplus should include growth in the surplus. The Group decided the issue should not be brought to the attention of the AcSB for submission to the IFRS Interpretations Committee at this time because staff's research on this issue has not identified significant diversity in practice outside of Canada.

To learn more about any of the above topics, read the Group's [Report on Meeting](#) and listen to the [audio recording](#) for those topics.

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IASB Exposure Draft “Investment Entities”: Global Support Needed

The International Accounting Standards Board (IASB) is proposing to exempt investment entities, as defined in the Exposure Draft, from consolidating their investments in controlled entities. Instead, investment entities would report all of their investments at fair value. The proposals are controversial in certain parts of the world and require support. Interested stakeholders in Canada and elsewhere are encouraged to send comments to the IASB on its Exposure Draft, “**Investment Entities**,” issued in August 2011.

The proposals in the Exposure Draft respond to views the IASB received on its 2009 Exposure Draft proposals on the general approach to consolidation. Respondents told the IASB that consolidated financial statements of an investment entity would impede users’ ability to assess the entity’s financial results. Those users said that the most useful information is the fair value of an investment entity’s investments.

When considering these views, the IASB questioned:

- the need for creating an exemption to the general consolidation principle; and
- how to define the appropriate group of entities that would be permitted to use the exemption.

It is important to consider the IASB’s views on these two points when responding to the Exposure Draft.

Although the current proposals received majority support from the IASB, the Exposure Draft includes the dissenting views of three IASB members. Those members believe that the proposals would result in the presentation of financial statements by investment entities that are less relevant and less representationally faithful than would be the case if controlled investees were consolidated. While these three IASB members retired from the IASB on June 30, 2011, other IASB members and some stakeholders support the dissenting views.

To define the appropriate group of entities that can qualify for the exemption from consolidation, the IASB has proposed criteria similar to the qualifying factors to be an investment company under Accounting Guideline AcG-18 *Investment Companies* in Part V of the CICA Handbook – Accounting. Unlike AcG-18, the Exposure Draft requires the parent of an investment entity to consolidate the assets and liabilities of an investment entity unless the parent itself qualifies as an investment entity.



The IASB decided to limit the entities that can apply the exemption as they are concerned about potential inconsistencies and possibilities for abuse when accounting for an investment entity in the consolidated financial statements of a group. However, the IASB expects that, in most cases, investment entities will have investment entity parents.

The qualifying criteria for investment entity treatment in the IASB's Exposure Draft differ in some significant respects from those in AcG-18. Stakeholders should read the Exposure Draft carefully to assess whether they would qualify as investment entities and whether they agree fully with the criteria.

After a preliminary review, the Accounting Standards Board (AcSB) strongly supports the approach proposed in the Exposure Draft as it responds to an issue that is important to a significant number of Canadian entities. The AcSB will encourage the IASB and the US Financial Accounting Standards Board (FASB) to work together to develop converged requirements for investment entities. The FASB exposure draft, which is expected to be issued shortly, will be broadly aligned with the IASB's except that the FASB's will permit a parent of an investment entity to retain the subsidiary's consolidation exemption in some circumstances.

Help ensure that the IASB hears views from all parts of the globe by submitting your views and encouraging your contacts in other jurisdictions to respond to the IASB by January 5, 2012.

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PRIVATE ENTERPRISES

Transition to Financial Instruments Standards

Staff has received several inquiries about remeasuring financial instruments at fair value on transition to accounting standards for private enterprises in Part II of the CICA Handbook – Accounting. Section 3856, *Financial Instruments*, was designed to be as easy to apply as possible. On initial application, no adjustments to carrying amounts under previously applied standards should be necessary for accounts receivable, accounts payable and most loans.

It is important to remember that a loan to or from a shareholder is measured as a related party transaction under Section 3840, *Related Party Transactions*. Any loan to or from an employee who is not a shareholder may need to be remeasured using a market rate of interest that was applicable at the date the loan was made, with an adjustment to retained earnings in the opening balance sheet.

Derivatives that are not designated as qualifying hedges and investments in traded equity securities must be measured at fair value on the transition date and at every balance sheet date thereafter. You may elect to measure any other financial instrument at fair value on transition or when acquired subsequently. However, you must continue to use fair value measurement for that item for as long as it remains on your balance sheet.

A broker or dealer should be able to provide assistance in determining fair values for financial instruments, if necessary.

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NEW STAFF MEMBERS

The Accounting Standards Board is pleased to welcome two new Principals to its technical support staff.

Katharine Christopoulos, CA, CPA, BBA, comes to us from Bell Media (formerly CTVglobemedia), where she was Manager, Accounting Policy and Complex Transactions. Prior to this, she was part of the Loblaw IFRS implementation team, dealing with IFRS transition issues in the retail, financial services and real estate sectors. Katharine brings experience in public practice and industry, specifically in complex transactions and IFRS implementation. Outside of work, Katharine is an avid runner, completing numerous half marathons each year. She is also very passionate about giving back and makes volunteering for many different organizations a priority.

Nicky Lahner, CA, BCom, comes to us from Canadian Tire, where she was Manager, IFRS Implementation. Nicky played a key role in managing Canadian Tire's transition to IFRSs. Nicky brings extensive experience from her involvement in the transportation and banking industries in her native South Africa, including experience in the application of IFRSs. Outside of work, Nicky enjoys cycling, horseback riding, reading and spending time with her family.

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