SPECIAL EDITION 2013

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Accounting Standards Board
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Conseil des normes comptables

ACTIVITIES OF THE CANADIAN ACCOUNTING STANDARDS BOARD AND STAFF

IN THIS ISSUE

MESSAGE FROM THE CHAIR

2013: A Year of Outreach Activity

As an Accounting Standards Board (AcSB) member for over eight years, I've always said that outreach with stakeholders and learning from them is the lifeblood of a standard setter. I believe that a prerequisite to being relevant as a standard setter is ensuring stakeholders from each part of the financial reporting process (preparers, auditors, securities and prudential regulators, users) are actively participating in the standard-setting process.

I've done a fair amount of personal outreach since retiring as the Chief Accountant at the Royal Bank of Canada and taking on the role of AcSB Chair full time on July 1, 2013. And by outreach, I mean getting out there and talking to stakeholders – those from private enterprises and not-for-profit organizations, as well as International Financial Reporting Standards (IFRSs) preparers and auditors.

When I'm out talking to stakeholders, the question I get asked most is "So, are things a lot slower for you now that you've retired and left industry?" The simple answer: no.

From outreach comes knowledge …

I should have known that things would be hectic when, in my very first week as Chair, our comment letter to the International Accounting Standards Board (IASB) on loan impairment was due (July 5, 2013).

How the AcSB should respond to the proposals was still up in the air. There was growing disappointment over signs that we wouldn't have a converged approach between the IASB and the U.S. Financial Accounting Standards Board (FASB). While the degree of the impact the proposals would have on other jurisdictions like Europe is up for debate, it was clear that some large Canadian companies were more focused on the possibility of non-convergence.

So, I went back to the tried and true technique of outreach and spoke to some preparers and auditors who were close to this proposal. I also had a conference call with the IASB's Accounting Standards Advisory Forum (ASAF), of which the AcSB is a member. Having this discussion allowed me to better understand the views of standard setters in other jurisdictions.

Absent this outreach and the support I received from the staff, it would have been very difficult to offer a comment letter to the AcSB for their review and approval that captured Canadians' views.

2013 outreach activities …

Since my first week as Chair, there's been no shortage of activity. The AcSB staff told me that this year's summer slowdown never materialized. Instead, we launched into a flurry of activities affecting accounting standards for all sectors:

- We prepared for a series of public roundtables with the IASB members on the latest insurance proposal, which included face-to-face meetings of entities offering insurance products with the IASB members Stephen Cooper, Darrel Scott and Pat Finnegan.
- We launched the first of several meetings of our Conceptual Framework Discussion Group, which has provided important feedback to the AcSB about the IASB's Discussion Paper.
- We got word that the IASB approved an interim standard for rate-regulated entities, so we decided to end the deferral on IFRSs adoption for those entities as of January 1, 2015.
- We settled the deliberations on the 2013 Improvements to Accounting Standards for Private Enterprises project, followed by immediately considering what's to come for the 2014 improvements.
- We carried out our roadshows to talk to NFPOs on the Statement of Principles jointly issued by the AcSB and PSAB that proposed improvements to their standards, with the comment period just closed on December 15.

What's to come …

I've asked the AcSB staff if they think the pace of the past several months will continue, but they seem unwilling to make many predictions for the upcoming year.

When the initial transition to our new standards for publicly accountable enterprises and private enterprises took hold, we spoke about a "period of calm". Many entities responded to the 2011 IASB agenda consultation asking for such a period. But the path to finalize key IFRSs (namely financial instruments, leases, revenue recognition and insurance contracts) hasn't always been smooth and they continue to be our focus and demand time.

Meanwhile, we continue with projects for private enterprises and NFPOs. As we've settled into our "one size doesn't fit all" strategy, we continue to keep each key project front and centre so that we can meet the commitments we've made to stakeholders in the past few years.

While the AcSB staff isn't keen on making predictions for 2014, I'll make one: even if the level of activity declines somewhat, we'll continue to do outreach and make it our priority. On top of all our projects that require input, as a member of the ASAF, I go to London four times a year to speak to 11 other standard setters from around the world in front of the IASB. In order for me to be informed enough to represent Canadians' specific views, I have to know what those views are.

With thanks …

I want express my thanks to all of you who participate in our outreach activities – both formal and informal. I also want to express my thanks to the AcSB and its staff for being willing to, yet again, adapt to a new Chair. They are always responsive to my continual string of questions, all the while maintaining those key relationships with the IASB, the FASB and their respective staffs on a day-to-day basis that open so many doors to us in terms of influence.

As I look for ways to ensure I'm spending my time – and the agenda time of the AcSB – in the most productive fashion, I can be sure that if I can hear from stakeholders in private for-profit enterprises, NFPOs and publicly accountable entities, we will all have the best opportunity to successfully put forward Canadian views.

Linda F. Mezon

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MATTERS TO BE CONSIDERED — 2013 AND 2014 FISCAL YEARS

International Financial Reporting Standards

Employee Benefits: Clarity of the Promise

IAS 19 *Employee Benefits* (Amended in 2011) in Part I of the CPA Canada Handbook – Accounting is effective for annual periods beginning on or after January 1, 2013.

As a result of the 2011 amendments, enterprises present in their statement of financial position a more faithful representation of the liability (or asset) for their promises relating to defined benefit plans. Specifically, the amendments focus on the following areas that were most in need of improvement:

- Recognition — the elimination of the option to defer the recognition of gains and losses resulting from defined benefit plans (the corridor approach).
- Presentation — the elimination of options for the presentation of gains and losses relating to those plans.
- Disclosures — the improvement of disclosure requirements concerning the characteristics of defined benefit plans and the risks arising from those plans.

The amendments also incorporate changes to the accounting for termination benefits, and clarify some areas of diversity in application, including accounting for risk-sharing features and the classification of benefits.

Corridor approach gone

As a result of eliminating the corridor approach of deferred recognition and smoothing of employee benefits costs, enterprises with unrecognized net actuarial losses face an increase in the defined benefit obligation reported in the statement of financial position. A surplus is recognized as a net defined benefit asset and a deficit as a net defined benefit liability, improving understandability and comparability between enterprises.

All changes in the net defined benefit liability (asset) are recognized in comprehensive income when those changes occur. The amendments require enterprises to disaggregate the changes into three components. The service and net interest cost components are recognized in profit or loss, and the remeasurements component is recognized in other comprehensive income with no recycling to profit or loss in subsequent periods.

For further information about IAS 19 (Amended in 2011):

- Read the IASB's Post-employment Benefits (including pensions) project page.
- Go to the Defined Benefit Plans project page for information like the Project Summary, Feedback Statement, and to view an archived webcast.

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Hedging: IASB Trims the Complexities

The International Accounting Standards Board (IASB) completed another phase of its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. In November 2013, it issued a package of amendments to the accounting requirements for financial instruments.

IFRS 9 *Financial Instruments* (Hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39):

- introduces a new hedge accounting model intended to help financial statement users better understand an entity's risks and activities to manage them;
- enhances disclosures about hedge accounting and risk management;
- makes the improvements to the reporting of changes in the fair value of an entity's own debt (when the entity has chosen to measure that debt at fair value under the fair value option) contained in IFRS 9 more readily available by allowing them to be applied in isolation of IFRS 9's other classification and measurement requirements; and

- removes the mandatory effective date from IFRS 9 until a date can more appropriately be determined closer to that standard's completion. Entities may still choose to apply IFRS 9 regardless.

The Accounting Standards Board (AcSB) is aware that some Canadian entities have awaited the new hedge accounting requirements with the intention of adopting them early. The AcSB will follow its due process to consider whether the November 2013 amendments are appropriate for application in Canada and if so, make them available in Part I of the CPA Canada Handbook – Accounting early in 2014.

Keep in the loop by visiting the AcSB's project page.

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IFRS Discussion Group Issues Database

If you face an issue in applying International Financial Reporting Standards (IFRSs), you can now quickly and easily find out if the IFRS Discussion Group has discussed your issue or a similar one.

Well over one hundred issues have been discussed by the Group and are now available on our website in our searchable and sortable issues database. For each issue, the database includes a brief description as well as links to the meeting report extract and audio webcast.

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Investment Entities: Adoption Is Here at Last

Investment companies that are publicly accountable enterprises are required to adopt International Financial Reporting Standards (IFRSs) for annual periods beginning on or after January 1, 2014.

Are you ready?

As a reminder, calendar-year reporters are required to provide comparative financial information on an IFRS basis as of January 1, 2013 in their 2014 financial statements. In preparing for the changeover to IFRSs, investment companies need to consider all IFRSs in Part I of the Handbook, in addition to IFRS 10 *Consolidated Financial Statements* that addresses investment entities specifically.

IFRS 10 provides an exception to consolidation for investment entities. An entity that meets the definition of an investment entity is required to measure its subsidiaries at fair value through profit and loss in accordance with IFRS 9 Financial Instruments or IAS 39 *Financial Instruments: Recognition and Measurement*.

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For more information on investment entities, please refer to the Investment Entities project page.

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Narrow-Scope Amendments to Be Included in the Handbook in the First Half of 2014

Below is a listing of amendments that have been issued by the International Accounting Standards Board (IASB), or will be issued shortly, and will be incorporated into the CPA Canada Handbook – Accounting in the first half of 2014. For effective dates of all of these improvements, read the article on Changes to IFRSs in this edition of FYI.

Defined Benefit Plans: Employee Contributions

Defined Benefit Plans: Employee Contributions (Amendments to IAS 19), issued by the IASB in November 2013, amended the requirements in paragraph 93 for contributions from employees or third parties to defined benefit plans that are linked to service. The amendments simplify the accounting for these contributions that are independent of the number of years of service (for example, employee contributions that are a fixed percentage of salary).

Annual Improvements 2010-2012 Cycle

This cycle of annual amendments includes the following:

- IFRS 2 *Share-Based Payment* – Clarification of the definition of "vesting conditions".
- IFRS 3 *Business Combinations* – Clarification of the accounting for contingent consideration in a business combination.
- IFRS 8 *Operating Segments* – Addition of a disclosure requirement about the aggregation of operating segments and clarification of the reconciliation of the total of the reportable segments' assets to the entity's assets.
- IAS 1 *Presentation of Financial Statements* – Clarification of the classification of current/non-current liabilities.
- IAS 7 *Statement of Cash Flows* – Clarification of the classification of interest paid that is capitalized.
- IAS 12 *Income Taxes* – Clarification of the recognition of deferred tax assets for unrealized losses.
- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* – Clarification of the requirements for the revaluation model regarding the proportionate restatement of accumulated depreciation.
- IAS 24 *Related Party Disclosures* – Clarification of the identification and disclosure requirements for related party transactions when key management personnel services are proved by a management entity.
- IAS 36 *Impairment of Assets* – Harmonization of disclosures for value in use and fair value less costs of disposals.

Annual Improvements 2011-2013 Cycle

This cycle of annual amendments includes the following:

- IFRS 3 *Business Combinations* – Modification to the scope exception for joint ventures to exclude the formation of all types of joint arrangements and clarification that the scope exception applies only to the financial statements of the joint arrangement itself.
- IFRS 13 *Fair Value Measurement* – Clarification that the portfolio exception applies to all contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, regardless of whether they are financial assets or financial liabilities.
- IAS 40 *Investment Property* – Clarification that judgment is required to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3 and that this judgment is based on the guidance in IFRS 3, not IAS 40.

Acquisition of an Interest in a Joint Operation (Amend IFRS 11)

New guidance will be added to IFRS 11 Joint Arrangements on accounting for the acquisition of an interest in a joint operation when the activity of the joint operation constitutes a business. An entity that acquires an interest in a joint operation that constitutes a business will apply the relevant principles of business combination accounting and related disclosure requirements in IFRS 3 *Business Combinations* and other standards.

Equity Method: Share of Other Net Asset Changes (Amend IAS 28)

Certain changes in an investor's share of the net assets of an investee accounted for by the equity method are not recognized in profit or loss or other comprehensive income of the investee, and are not distributions received. An example of this is the sale of shares by an investee to a new investor. Amendments to IAS 28 *Investments in Associates and Joint Ventures* will provide additional guidance on the application of the equity method to this situation.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amend IFRS 10 and IAS 28)

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* will address an inconsistency in the requirements within those standards dealing with the accounting for the contribution of a subsidiary to an associate or a joint venture and the resulting loss of control. Sales or contributions of assets that constitute a business will be accounted for in accordance with the requirements in IFRS 10 (i.e., full gain or loss recognition). All other sales or contributions of assets will be accounted for in accordance with the requirements in IAS 28 (i.e., gain or loss recognition to the extent of the unrelated investors' interests in the associate or joint venture).

Clarification of Acceptable Methods of Depreciation and Amortisation (Amend IAS 16 and IAS 38)

In December 2012, the IASB issued the Exposure Draft, "Clarification of Acceptable Methods of Depreciation and Amortisation," to amend IAS16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The IASB proposed an amendment to disallow the use of revenue-based methods to calculate charges for the depreciation or amortization of items of property, plant and equipment or intangible assets.

The IASB discussed the responses received on its Exposure Draft at its October 2013 meeting. The IASB members expressed mixed views on prohibiting the use of revenue data as a proxy for determining the pattern of consumption of economic benefits. Consequently, the IASB asked for revisions to be made to the proposed amendment.

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Pension Funds: Prepare to Adopt IFRSs

Are you are a pension fund that deferred the adoption of International Financial Reporting Standards (IFRSs) using the investment company deferral? If so, roll up your sleeves to prepare to adopt IFRSs because your deferral is about to expire.

Investment companies currently applying Accounting Guideline AcG-18, *Investment Companies*, in Part V of the CPA Canada Handbook – Accounting are required to adopt Part I of the Handbook for the first time for interim and annual financial statements relating to annual periods beginning on or after January 1, 2014.

Pension funds that used the investment company deferral need to consider all IFRSs in Part I of the Handbook, in addition to IFRS 10 *Consolidated Financial Statements* that addresses investment entities specifically. (Pension funds will need to consider the investment entity criteria in IFRS 10.) For further information, read the article on Investment Entities: Adoption Is Here at Last in this edition of FYI.

Calendar year reporters will need to prepare comparative financial information on an IFRS basis from January 1, 2013, the date of transition to IFRSs.

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Reminder: IFRSs Effective in 2013

The International Accounting Standards Board issued a number of International Financial Reporting Standards (IFRSs) that are effective for annual periods beginning on or after January 1, 2013.

For a full listing, read the article on Changes to IFRSs in this edition of FYI.

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Accounting Standards for Private Enterprises

2012 and 2013 Improvements

The Accounting Standards Board (AcSB) has a mechanism to address issues relevant to the accounting standards for private enterprises that are narrow and specific in nature – the annual improvements process.

Annual improvements consist of relatively limited amendments to clarify guidance or wording, or to correct for relatively minor unintended consequences, conflicts or oversights. The focus of annual improvements is to help stakeholders in applying the standards, rather than introducing significant changes.

The 2013 cycle of improvements marks the third iteration of the process. The 2013 set of amendments is not mandatorily effective until 2014; however, earlier application is permitted .

The 2012 cycle of improvements are mandatorily effective for years beginning on or after January 1, 2013.

The following provides a high-level summary of the changes set out in each of these improvements projects.

2012 Improvements

- Section 1520, *Income statement*, was amended in several areas so that Part II is internally consistent.
- Section 1582, *Business Combinations*, requires acquisition-related costs to be expensed. The only exception is the costs to issue equity securities that are recognized in accordance with Section 3610, *Capital Transactions*. The Section has been amended to extend the exception to the cost of issuing debt securities and requires those costs to be recognized in accordance with Section 3856, *Financial Instruments*.
- Section 1590, *Subsidiaries*, provides an accounting policy choice; an entity can consolidate its subsidiaries or account for them under the equity or cost methods. This Section has been amended to provide guidance on the accounting for acquisition costs or contingent consideration when a subsidiary is accounted for using the equity or cost method.

- Section 1651, *Foreign Currency Translation*, was amended to correct an inconsistency and provide guidance in respect of the accounting when an entity's interest in a subsidiary is reduced, but the entity still has control of the subsidiary.
- Section 3051, *Investments*, was amended to provide guidance regarding dilution gains and losses. The standard now requires recognition of gains and losses resulting from the dilution of an entity's interest in an investee accounted for using the equity method.

For further information, refer to the Background Information and Basis for Conclusions document issued in November 2012.

2013 Improvements

- Section 1540, *Cash Flow Statement*, was amended to remove the reference to non-controlling interests.
- Section 1582, *Business Combinations*, was amended to require that contingent consideration be remeasured only on settlement, and only certain disclosures be provided when a subsidiary is consolidated and not when it is accounted for under the cost or equity method.
- Section 1590, *Subsidiaries*, was amended to clarify that the accounting for a change in ownership interest is based on the accounting policy used to account for the subsidiary.
- Section 1602, *Non-controlling Interests*, was amended to clarify that non-controlling interests are not a deduction in arriving at net income, and to indicate how exchange gains and losses arising from the translation of a self-sustaining foreign operation that are attributable to a non-controlling interest should be allocated.
- Section 3856, *Financial Instruments*, was amended to modify the guidance for an anticipated transaction hedged by a foreign exchange forward contract that settles by an exchange of currencies before the hedged transaction is recognized, and clarify that a financial instrument that would be redeemed as a result of economic compulsion rather than by contractual requirement would not be classified as a financial liability.

For further information, refer to the Background Information and Basis for Conclusions document issued in October 2013.

Help us to help you

The AcSB relies on stakeholders to inform it of the issues that need attention, as stakeholders are the ones using the standards.

Due process is critical to setting high-quality standards, but it can take some time to enact change. Given the overall goal of having the annual improvements process address issues in the short term, as well as the time it takes to deliberate and expose changes to the standards, it is critical that any issues be identified early in the cycle. The 2014 annual improvements process is already underway. Issues that you would like the AcSB to consider should be submitted as soon as possible.

How do you do this? Criteria are used to assess whether an issue should be addressed under the annual improvements process. Ensuring that an issue meets these criteria will promote efficient discussions of the issue, and also help stakeholders in framing issues submitted for consideration.

Read the criteria to ensure your issue meets requirements and for details on how to submit your issue.

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Discontinued Operations: Fewer Is Better

The definition of a discontinued operation in Section 3475, *Disposal of Long-lived Assets and Discontinued Operations*, has been changed. This affects what is classified as a discontinued operation.

Who's affected?

Any entity that applies Part II of the CPA Canada Handbook – Accounting and has asset disposals that may qualify as discontinued operations.

What has changed?

The new definition of a discontinued operation will generally result in the presentation of fewer disposals. This addresses the Accounting Standards Board's (AcSB) concern that private enterprises applying Part II of the Handbook were required to incur more cost and effort in reporting discontinued operations than enterprises subject to Part I.

Financial statement users on the AcSB's Private Enterprise Advisory Committee informed the AcSB that the information provided by presenting discontinued operations separately in the financial statements, including data for comparative years, is useful for large disposals that represent a shift in strategy or tactics. However, reporting many less significant disposals, often made for ongoing operational reasons, did not provide significant additional value to users.

What resources are available?

For further information, refer to the Background Information and Basis for Conclusions document.

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Employee Future Benefits: Transparent Reporting

It's time to adopt — the Accounting Standards Board (AcSB) issued Section 3462, *Employee Future Benefits*, in Part II of the CPA Canada Handbook – Accounting earlier this year.

Section 3462 is effective for annual financial statements relating to fiscal years beginning on or after January 1, 2014. Earlier application is permitted, but only for all of an entity's benefit plans. This new Section takes into account feedback received on the January 2012 Exposure Draft, "Employee Future Benefits," and replaced Section 3461, *Employee Future Benefits*.

Who's affected?

- Private enterprises applying Part II of the Handbook that have defined benefit plans (including individual pension plans providing defined benefits).
- Not-for-profit organizations applying Part III of the Handbook that have defined benefit plans apply Section 3462 in Part II except as otherwise provided in Section 3463 in Part III. (Read the article on Employee Future Benefits: A Difference for Not-for-Profit Organizations in this edition of FYI).
- Pension plans applying accounting standards for pension plans in Part IV of the Handbook that have a defined benefit plan for their employees and choose to apply the standards in Part II for issues not addressed in Part IV may be affected.

There are also small changes to the requirements for defined contribution plans.

What's changed?

Section 3462 requires immediate recognition of all gains and losses arising from defined benefit plans as they are incurred. The elimination of deferral and amortization accounting provides more transparent reporting of plan liabilities/assets in an entity's financial statements, providing the information that users need. It may also result in more volatility in the income statement.

The main changes for defined benefit plans are as follows:

- The full amount of a defined benefit obligation, net of plan assets, is recognized in the balance sheet (subject to a ceiling test for a net asset).
- For plans that have an appropriate funding valuation, the obligation is measured using either that valuation or one prepared for accounting purposes, with the same choice applied to all such plans. For other plans, the obligation is measured using an accounting valuation.
- Changes in the fair value of plan assets and in the measurement of the plan obligation and asset ceiling, including past service costs and gains and losses arising from settlements and curtailments, are recognized immediately in income.

- "Remeasurements and other items" are disclosed in the notes to the financial statements, unless separately presented on the face of the income statement.
- Plan obligations and plan assets are measured as of the balance sheet date.
- Some disclosure requirements are clarified as a result of these changes.

A change was also made to defined contribution plan accounting to recognize past service costs in the current period. The standard carried forward much of the text from Section 3461 that was not within the scope of the above changes.

Are there transitional provisions?

Yes. Section 3462 applies retrospectively, except that:

- benefit costs capitalized as part of the cost of assets in prior years need not be restated; and
- specific provisions provide simplified transitional guidance for a change in the measurement date for plan assets and the defined benefit obligation.

What resources are available?

For further information, refer to the Background Information and Basis for Conclusions document issued in October 2013.

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Accounting Standards for Not-for-Profit Organizations

Employee Future Benefits: A Difference for Not-for-Profit Organizations

Just issued — in December 2013, the Accounting Standards Board (AcSB) issued Section 3463, *Reporting Employee Future Benefits by Not-for-Profit Organizations*, in Part III of the CPA Canada Handbook – Accounting. This new Section provides guidance for defined benefit plans on the recognition and presentation of remeasurements and other items that differs from the guidance in Section 3462, *Employee Future Benefits*, in Part II of the Handbook (see "Employee Future Benefits: Transparent Reporting" in this edition of FYI). The requirements in Section 3462 apply in all other respects.

What are the main features?

The main features of Section 3463 are as follows:

- Remeasurements and other items are:
  - recognized directly in net assets in the statement of financial position rather than in the statement of operations; and

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- presented as a separately identified line item in the statement of changes in net assets.
- Remeasurements and other items are not reclassified to the statement of operations in a subsequent period.

Why issue a separate Section in Part III?

The AcSB developed Section 3463 from the June 2013 Exposure Draft, "Reporting Employee Future Benefits by Not-for-Profit Organizations," in response to significant concerns raised in the January 2012 Exposure Draft, "Employee Future Benefits," that resulted in Section 3462.

Respondents to the 2012 Exposure Draft were concerned about including remeasurements and other items for defined benefit plans in a not-for-profit organization's (NFPO) statement of operations, given the potential volatility and size of that number. Remeasurement gains and losses may be significant and, if included in the statement of operations, may result in operating surpluses or deficits and these might also vary significantly from year to year. However, many donors and other funders, who are important users of NFPO financial statements, may misunderstand such surpluses and deficits. These misunderstandings could affect the willingness of donors and other funders to provide financial support to the organization.

Consequently, Section 3463 provides guidance for defined benefit plans on the recognition and presentation of remeasurements and other items that differs from the guidance in Section 3462 to respond to these concerns.

What's the effective date?

Section 3463 is effective for annual financial statements relating to fiscal years beginning on or after January 1, 2014 — consistent with Section 3462 in Part II of the Handbook. Earlier application is permitted, but only for all of an NFPO's benefit plans.

Are there transitional provisions?

Yes. Section 3463 applies retrospectively in a similar manner to Section 3462 and includes similar transitional relief.

What resources are available?

For further information, including the Background Information and Basis for Conclusions document soon to be posted, refer to the Employee Future Benefits project page.

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Accounting Standards for Pension Plans

Pension Plans: Enhancements for Fair Value

Don't forget to follow IFRS 13 *Fair Value Measurement* in Part I of the CPA Canada Handbook – Accounting for guidance in 2013 when applying Section 4600, Pension Plans, in Part IV of the Handbook!

IFRS 13 *Fair Value Measurement* replaced the guidance on fair value measurement in IAS 39 *Financial Instruments: Recognition and Measurement* in Part I of the Handbook. The Accounting Standards Board amended Section 4600 in November 2011 so that a pension plan applies the fair value measurement guidance in Part I, rather than referring to a specific IFRS. For 2012, a pension plan could use the guidance in IAS 39 or that in IFRS 13. However, effective for 2013, the guidance in IFRS 13 must be used.

Resources

To find out more about this amendment and for a quick future reference of resources about accounting standards for pension plans, refer to the Pension Plans project page, including the Background Information and Basis for Conclusions document, "Fair Value Measurement by Pension Plans — Amendments to Section 4600," issued in November 2011.

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CURRENT ACTIVITIES

International Financial Reporting Standards

Business Combinations: Room for Improvement?

The International Accounting Standards Board (IASB) has begun its Post-implementation Review of IFRS 3 *Business Combinations*. The Business Combinations standard sets out how an entity should account for the acquisition of a business. The review is an opportunity for the IASB to assess the effect of the new requirements of IFRS 3 including:

- issues that were important or contentious during the development of the standard; and
- unexpected implementation problems encountered.

Keep watch for the IASB's request for information, which is expected to be issued during the first quarter of 2014.

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IFRS Discussion Group

Toronto – December 2, 2013

Learn more about the topics discussed by the IFRS Discussion Group, including:

- determining the types of levies in Canada that may be in the scope of IFRIC 21 Levies;
- considering issues relating to early adoption of the recently issued hedge accounting requirements;
- assessing the effect of a prolonged decline in market capitalization on impairment of exploration and evaluation assets;
- measuring a unit comprised of warrants and debt;
- accounting for the effect of rising interest rates; and
- considering some of the transition concerns of investment entities that will be applying International Financial Reporting Standards for the first time.

For further details, listen to the Audio Webcasts and read the Observers' Summary.

The Group's Report on the Meeting will be available soon. The topics will be added to the Group's searchable and sortable issues database once the report is available.

Future Meetings

Mark your 2014 calendar for the following meeting dates:

- June 12, 2014
- September 11, 2014
- December 4, 2014

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Rate-regulated Activities: Interim Guidance Arriving Soon in Canada

At its October 2013 meeting, the International Accounting Standards Board (IASB) tentatively decided to proceed with the publication of an interim International Financial Reporting Standard (IFRS) based largely on the proposals in its April 2013 Exposure Draft, "Regulatory Deferral Accounts."

The interim IFRS would allow first-time adopters of IFRSs to continue their existing policies for the recognition and measurement of regulatory balances, with enhanced presentation and disclosure requirements. The IASB intends such a standard as an interim solution pending the completion of its comprehensive Rate-regulated Activities project. Subject to balloting, the IASB expects to issue the interim IFRS in the first quarter of 2014. Current indications are that it will have a mandatory effective date of January 1, 2016, with earlier application permitted.

The AcSB thinks the proposed interim standard removes a longstanding barrier to the first-time adoption of IFRSs by Canadian rate-regulated entities. As result, in November 2013, the AcSB decided against further extending its IFRS deferral for this sector, subject to the expected interim standard being issued early in 2014. The deferral expires at the end of that year.

The IASB's interim IFRS will be available for use in Canada after its incorporation into Part I of the CPA Canada Handbook – Accounting. Entities wishing to prepare now for its adoption can read about changes to the IASB's April 2013 proposals in its October 2013 Update.

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Accounting Standards for Private Enterprises

Biological Assets: Planting the Seed

The Accounting Standards Board (AcSB) is currently working to fill a void in respect of accounting for biological assets. There currently is no authoritative guidance for these assets in Part II of the CPA Canada Handbook – Accounting, and the result is significant diversity in practice. This diversity is causing problems for many stakeholders (Read more) – primarily financial statement users.

Issues to be addressed by this project include:

- when a biological asset should be recognized;
- how it should be measured on initial recognition;
- how it should be measured in subsequent periods;
- how agricultural produce at the point of harvest should be accounted for; and
- what disclosures should be required.

The guidance will be built on the extensive research and consultations undertaken with a wide variety of stakeholders from across the country. The first major milestone in this project, prior to development of an exposure draft, will be publication of a discussion paper. The paper will include a comprehensive overview of the issues, possible approaches in addressing the issues, preliminary views on the issues, and an invitation to comment. The AcSB agreed that the discussion paper should present a preliminary view that biological assets are inventories or property, plant and equipment, and accordingly, that historical cost should be used to measure biological assets.

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Joint Arrangements and Investments: Change Is Coming

In August 2013, the Accounting Standards Board (AcSB) issued an Exposure Draft that proposes to replace Section 3055, *Interests in Joint Ventures*, with Section 3056, *Interests in Joint Arrangements*, and amend Section 3051, *Investments*. The proposals are consistent with the key concepts in IFRS 11 *Joint Arrangements*.

Under existing Section 3055, an investor may choose to account for its interests in joint ventures (now called joint arrangements) using the proportionate consolidation, cost or equity method. These choices can result in accounting that does not provide a faithful representation of the substance of some joint arrangements.

The Exposure Draft proposes that an investor in a joint arrangement would account for its interest according to its rights and obligations in the joint arrangement, as follows:

- An investor in a jointly controlled operation or a jointly controlled asset has rights to the individual assets and obligations for the individual liabilities relating to the joint arrangement and would account for its interest in the joint arrangement by recognizing its share of assets controlled, liabilities incurred, revenues and expenses.
- An investor in a jointly controlled enterprise that has rights to the net assets of the joint arrangement would account for that interest in the net assets using either the cost or equity method. Alternatively, if the investor has rights to the individual assets and obligations, his or her share of assets controlled, liabilities incurred, revenues and expenses would be recognized.

Certain gains arising from a contribution to a joint arrangement are currently deferred and recognized in future periods. This accounting is complex and not well understood. Therefore, the AcSB proposes to exclude this deferral requirement from Section 3056.

The Exposure Draft proposals clarify the scope of Section 3051. That scope includes investments subject to significant influence and certain other non-financial instrument investments (such as works of art and other tangible assets held for investment purposes), but does not include other investments (such as subsidiaries and interests in joint arrangements). Guidance on contributions and transactions between an investor and an equity accounted investee that is consistent with the guidance in Section 3056 is proposed to be added to Section 3051. This will provide clearer guidance than currently exists in Section 3051.

The proposals in Section 3056 include specific transitional provisions for:

- changing from the proportionate consolidation method to the cost or equity method; and
- changing from the cost or equity method to accounting for the investor's interests in the individual assets and liabilities of a joint arrangement.

The transitional provisions proposed for the amendments to Section 3051 include permitting prospective application in accordance with Section 1506, *Accounting Changes*.

Keep up to date on the development of the revised guidance via the Joint Arrangements project page.

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Proposed Revised Guidance for Subsidiaries

Project objective

The Accounting Standards Board (AcSB) is addressing concerns shared by stakeholders that Accounting Guideline AcG-15, *Consolidation of Variable Interest Entities*, in Part II of the CPA Canada Handbook – Accounting is complex and often requires significant effort to apply.

In its Exposure Draft, "Consolidations," the AcSB is proposing to remove AcG-15 and replace Section 1590, *Subsidiaries*, with Section 1591. Section 1591 would include additional guidance that requires the use of judgment to determine when control is obtained through means other than equity interests. An enterprise would need to consider all facts and circumstances such as its involvement in the design of the other enterprise, any call or liquidation rights related to the activities of the other enterprise, and the ability to obtain future economic benefits. The proposals are based on the concepts in IFRS 10 *Consolidated Financial Statements*. Proposed revisions to the guidance on equity interests are limited, to minimize the extent of change private enterprises need to consider.

Current status

The AcSB is currently deliberating the comment letters and feedback received through webinars and roundtable discussions.

Review the Consolidations project page to stay up to date on new developments on this project.

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Redeemable Preferred Shares Issued in a Tax Planning Arrangement

The Accounting Standards Board (AcSB) has commenced a major project for a fundamental re-examination of the accounting for redeemable preferred shares issued pursuant to a tax planning arrangement as set out in *Financial Instruments*, paragraph 3856.23. This project is in response to a number of issues with the current simplification, including issues related to scope, reclassification and measurement.

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The AcSB will be discussing recommendations from its Private Enterprise Advisory Committee on this project early in 2014.

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Subsidiaries: Do You Use the Cost or Equity Method?

The Accounting Standards Board (AcSB) recently approved a project to clarify certain issues in accounting for subsidiaries under the cost and equity methods.

Section 1590, *Subsidiaries*, provides an accounting policy option for a private enterprise either to consolidate its subsidiaries, or account for its subsidiaries using the cost or equity method. Stakeholders have informed the AcSB that the existing guidance in Section 1582, *Business Combinations*, Section 1590, *Subsidiaries*, and Section 3051, *Investments*, has resulted in uncertainty regarding if, or when, Section 1582 should be applied on initial recognition of a subsidiary when an entity's accounting policy for subsidiaries is to use either the cost or equity method. One of the issues that the project will examine is what constitutes "cost". Both the cost and equity methods require the investment to be recognized initially at cost, but no definition of what constitutes cost is provided in the standards.

If you use the cost or equity method to account for your subsidiaries, keep up to date with the developments via the Subsidiaries project page.

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Accounting Standards for Not-for-Profit Organizations

Look How Far We've Come …

In April 2013, the Accounting Standards Board (AcSB) and the Public Sector Accounting Board (PSAB) issued a Statement of Principles that proposes to improve the existing standards for financial reporting by not-for-profit organizations (NFPOs) in their respective Handbooks. The original comment deadline of September 15, 2013 was extended to December 15, 2013 to give organizations adequate time to consider the proposals.

Throughout the comment period, the AcSB performed numerous outreach activities to provide further information on the proposals. This included webinars, conducted in both English and French, which are archived on the Standards for Not-for-Profit Organizations project page. The AcSB also held numerous roundtables throughout Canada to gather input on the proposals.

In August 2013, the AcSB issued a Request for Input – Financial Reporting User Needs, to gather information on whether the reporting currently required by the CPA Canada Handbook – Accounting adequately meet the needs of users of private sector NFPOs' financial statements.

In light of the comments received on the Statement of Principles, and the input received on the adequacy of the current reporting requirements, the AcSB and PSAB will assess the expected effects of the principles. They will then confirm or revise the principles they propose to adopt and determine whether the exposure process will include one or more exposure drafts. Development of exposure drafts will take into account comments about the effects the proposed principles may have on NFPOs and the quality of the information they provide to users of their financial statements.

Keep up to date on developments via the Standards for Not-for-Profit Organizations project page.

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CHANGES TO IFRSs

This summary identifies new International Financial Reporting Standards (IFRSs) and amendments to IFRSs that the International Accounting Standards Board (IASB) issued recently or expects to issue shortly.

Expected to be issued in 2013

- Annual Improvements from 2010-2012 cycle
- Annual Improvements from 2011-2013 cycle

Expected to be issued in 2014

- Regulatory Deferral Accounts – interim IFRS
- Revenue from Contracts with Customers
- IFRS 9, requirements regarding impairment and amendments regarding classification and measurement
- IFRS 10 and IAS 28, amendments regarding sale or contribution of assets between an investor and its associate or joint venture
- IFRS 11, amendments regarding acquisition of an interest in a joint operation
- IAS 16 and IAS 38, amendments regarding clarification of acceptable methods of depreciation and amortization
- IAS 28, amendments regarding equity method of accounting for other net asset changes

Effective date to be determined – made available for earlier application

- IFRS 9 *Financial Instruments: Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39* (eliminates mandatory effective date)
- IFRS 9 *Financial Instruments* (New in 2010; incorporates *Mandatory Effective Date and Transition Disclosures* (Amendments to IFRS 9 and IFRS 7)

Effective January 1, 2015

- IFRS 7 *Financial Instruments: Disclosures*
  - *Mandatory Effective Date and Transition Disclosures* (Amendments to IFRS 9 and IFRS 7)

Effective July 1, 2014

- IAS 19 *Employee Benefits*
  - *Defined Benefit Plans: Employee Contributions* (Amendments to IAS 19)

Effective January 1, 2014

- IFRS 10, IFRS 12 and IAS 27
  - *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27)
- IAS 32 *Financial Instruments: Presentation*
  - *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32)
- IAS 36 *Impairment of Assets*
  - *Recoverable Amount Disclosures for Non-Financial Assets* (Amendments to IAS 36)
- IAS 39 *Financial Instruments: Recognition and Measurement*
  - *Novation of Derivatives and Continuation of Hedge Accounting* (Amendments to IAS 39)
- IFRIC 21 *Levies* (New in 2013)

Effective January 1, 2013

- IFRS 1 *First-time Adoption of International Financial Reporting Standards*
  - *Government Loans* (Amendments to IFRS 1)
- IFRS 7 *Financial Instruments: Disclosures*
  - *Disclosures — Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7)
- IFRS 10 *Consolidated Financial Statements* (New in 2011; incorporates *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities*: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12))
- IFRS 11 *Joint Arrangements* (New in 2011; incorporates *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to IFRS 10, IFRS 11 and IFRS 12))
- IFRS 12 *Disclosure of Interests in Other Entities* (New in 2011; incorporates *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to IFRS 10, IFRS 11 and IFRS 12))
- IFRS 13 *Fair Value Measurement* (New in 2011)
- IAS 19 *Employee Benefits* (Amended in 2011)

- IAS 27 *Separate Financial Statements* (Amended in 2011)
- IAS 28 *Investments in Associates and Joint Ventures* (Amended in 2011)
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (New in 2011)
- Amendments to IFRSs resulting from the 2009–2011 cycle of the annual improvements project

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DOCUMENTS FOR COMMENT DEADLINES

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

International Financial Reporting Standards

Discussion Paper

A Review of the Conceptual Framework for Financial Reporting
- comment deadline is January 14, 2014

Accounting Standards Board

Insurance Contracts
- comment deadline is January 6, 2014

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WEBINARS

These webinars were held live in 2013, but archived versions are available for listening, and provide you with comprehensive updates and overviews on projects and initiatives for 2013 and beyond:

- How Is Canadian GAAP Being Further Developed? (November 2013)
- Revised Standards On Consolidations, Joint Arrangements And Investments: Ensure Your Voice Is Heard! (September 2013)
- Improvements to Not-for-Profit Standards: Ensure Your Voice Is Heard! (June 2013)

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