

IFRS accounting standards

ACTIVITIES OF THE CANADIAN ACCOUNTING STANDARDS BOARD AND STAFF

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SEPTEMBER 2009

MESSAGE FROM THE CHAIR



It is a wonderful opportunity to become the Chair of the Accounting Standards Board again. This is especially true given the interesting times accounting standard setters are experiencing at the moment.

Of course, it is also a challenging time for companies preparing financial statements and investors who make decisions relying on them. In Canada, our public companies face the additional challenge of the transition to International Financial Reporting Standards (IFRSs). In the immediate future, one of the Board's primary tasks is to monitor the

activities of the International Accounting Standards Board (IASB) closely to ensure that the concerns relating to jurisdictions adopting IFRSs in the near term are clearly understood and appreciated.

The other critical task is to complete the financial reporting standards for private enterprises. The Board has a stated objective of making the new standards available for 2009 reporting. We will do everything necessary, within the constraints of due process considerations, to achieve that goal.

Important work also remains to be done to finalize standards for not-for-profit organizations. We will continue to work with our Public Sector Accounting Board colleagues on this initiative.

In all of these activities, I am inheriting the significant accomplishments the Board achieved under Paul Cherry's leadership. That leadership has been recognized in his appointment as the Chairman of the IASB's Standards Advisory Council. Nothing could be more appropriate for such a long-time champion of international standards. And, as the IASB has agreed that Paul will take up my previous responsibilities to liaise with our Board, we will continue to benefit from his advice and experience. So, we are changing hats.

Although it has been a great experience to be part of the IASB's formative years, it will be nice to be home.

Cheers!

Tricia

THIRD OMNIBUS EXPOSURE DRAFT OF IFRSs

The Accounting Standards Board will issue its final omnibus Exposure Draft of IFRSs by the end of this month. To date, the AcSB has published two omnibus Exposure Drafts of IFRSs as part of its strategy for publicly accountable enterprises. The Exposure Drafts fulfill the Board's due process requirement to expose all IFRSs for public comment in Canada before incorporating them into the CICA Handbook – Accounting. The first two Exposure Drafts provided the opportunity to comment on the AcSB's definition of a publicly accountable enterprise and new introductory material for the Handbook once it includes IFRSs.

The third omnibus Exposure Draft will pick up where the second one left off. It will include standards issued after the IASB compiled its 2008 Bound Volume of IFRSs, as well as more recently issued IASB Exposure Drafts. The AcSB will make exceptions when it thinks a particular IASB Exposure Draft warrants special attention and should be issued separately from the omnibus Exposure Draft. In either case, as before, the AcSB will ask if any of the IFRSs or proposed IFRSs would produce inappropriate results if applied in Canada, and whether additional interpretative or application guidance is required to make the standards workable here.

The AcSB expects that after considering the comments received on this final Exposure Draft, it will approve IFRSs for incorporation into the Handbook by the end of 2009. Once the third omnibus Exposure Draft has been issued, the AcSB will effectively be caught up in terms of exposing existing IFRSs for incorporation into Canadian GAAP and can carry on operating only in “real time”. This means that whenever the IASB issues a proposed standard, the AcSB will expose it in Canada as soon as possible and incorporate the final standard into Canadian GAAP when it is available. The final omnibus Exposure Draft will mark the completion of an important part of Canada's journey towards IFRSs.

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FIRST-TIME ADOPTION OF IFRSs — CHANGES TO IFRS 1

IFRS 1 *First-time Adoption of International Financial Reporting Standards* provides important relief for entities adopting IFRSs for the first-time. Rather than applying IFRSs retrospectively — as if the entity had always used IFRSs — IFRS 1 contains exemptions and exceptions from retrospective application. The exemptions are optional and apply when retrospective application would be unduly onerous. The exceptions are mandatory and apply to a limited number of instances when it would be inappropriate to apply IFRSs with the benefit of hindsight.

A number of IFRSs are expected to change in the next year or so — around the same time that Canada adopts IFRSs. These changes to standards include dealing with consolidations, derecognition and the recognition and measurement of financial instruments. It is important that close attention is paid to first-time adoption aspects relating to those standards because Canadian entities will apply many of these changing standards on first-time adoption of IFRSs. When a Canadian entity applies a standard on first-time adoption of IFRSs, it does not use the transitional provisions in the standard for existing IFRS users. Rather, it uses the relevant transitional provisions in IFRS 1.

When the IASB issues exposure drafts likely to be effective on or around the Canadian IFRS adoption date, the AcSB staff pays close attention to whether appropriate amendments to IFRS 1 are also proposed. The AcSB staff encourages all Canadian entities to take note of these aspects of the proposals and, if necessary, comment to the IASB if they seem inadequate for the Canadian transition. IFRS 1 amendments are usually exposed in a separate part of the exposure draft dealing with consequential amendments to IFRSs and, therefore, can easily be overlooked in studying the proposals. In some cases, no amendments to IFRS 1 are proposed. In those cases, the AcSB staff will consider whether any amendments are required and comment accordingly to the IASB.

The purpose of IFRS 1 is to alleviate the burden of first-time adoption of IFRSs. Because Canada is one of the leading countries adopting IFRSs in 2011, the onus is on us to make sure that it is suitable for our needs. We cannot sit back and expect others to pay attention to issues on our behalf.

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HOW TO DETERMINE A FAIR VALUE MEASUREMENT

In May 2009, the IASB published an Exposure Draft, “Fair Value Measurement,” proposing to establish a framework for measuring fair value and requiring disclosures about those measurements. The proposed new standard is to replace existing and sometimes inconsistent guidance in IFRSs on how to measure fair value.

The Exposure Draft is largely converged with US Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), as amended. To provide additional guidance, the Exposure Draft also proposes a framework for determining fair values of liabilities and application guidance to assist in identifying markets that are not active and transactions that are not orderly. Similar amendments to SFAS 157 are being developed.

The AcSB issued an Exposure Draft to adopt the final version of the IASB’s standard into Canadian GAAP (available at www.acsbcanda.org). The standard will be applicable to publicly accountable enterprises and other enterprises that choose to adopt IFRSs. As well, the AcSB proposed in its Exposure Draft, “Pension Plans,” that plans’ investment assets and investment liabilities be measured at fair value in accordance with the proposed standard.

The IASB has not yet selected the effective date of the proposed standard, but early application will be permitted. The mandatory effective date is likely to be after the changeover date to IFRSs for Canadian entities because the final IFRS is not expected until the second

quarter of 2010. This will allow a Canadian entity to choose whether to adopt the changes on changeover, or wait until a year after that date. The Exposure Draft proposes that IFRS preparers apply the new standard prospectively. Accordingly, the disclosure requirements need not be applied to comparative information prior to initial application. For first-time adopters, the IASB has not proposed any exemptions from retrospective application of the standard.

Comments are due to the IASB by September 28, 2009 and the AcSB by October 15, 2009.

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IMPAIRMENT OF DEBT SECURITIES

In August 2009, the AcSB amended Section 3855, *Financial Instruments — Recognition and Measurement*. The changes bring greater consistency in Canadian GAAP with IFRSs and US GAAP regarding the timing of impairment recognition for debt instruments. The amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008. Hence, entities need to take these amendments into account in their upcoming financial reports.

While the changes will probably affect financial institutions to the greatest extent, they should be taken into account by other entities. In particular, entities that have classified financial assets as held-to-maturity investments will now be required to assess those financial assets for impairment using the impairment requirements of Section 3025, *Impaired Loans*.

The amendments allow more debt instruments to be classified as loans and receivables. This allows those instruments to be evaluated for impairment using Section 3025. In addition, the amendments require reversal of previously recognized impairment losses on available-for-sale financial assets in specified circumstances and require that loans and receivables that an entity intends to sell immediately or in the near term be classified as held for trading.

The transitional provisions are complex and are accompanied by disclosure requirements to explain any reclassifications made on adopting the amendments. Entities are encouraged to study these amendments well before the end of the financial period in which they expect to apply them.

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FINANCIAL INSTRUMENTS – ALL CHANGE

Just when you thought that one of the more straightforward aspects of adopting IFRSs was going to be accounting for financial instruments, because Canadian GAAP is largely the same as IFRSs, the IASB has decided to rewrite its standards in this area fundamentally.

The reason for doing so is that many people view the existing standards as unduly complex. Parties with significant influence, such as the G20 group of finance ministers and the European parliament, have called for swift simplification of the standards as part of the response to the recent economic crisis. Accordingly, the IASB is seeking to develop new standards to replace IAS 39 *Financial Instruments: Recognition and Measurement* by the end of 2010.

The IASB is undertaking a three-phase project. The first phase considers the classification and measurement of financial assets and financial liabilities. An Exposure Draft was issued in July 2009, with new requirements expected to be completed by the end of 2009. The second phase considers impairment of financial assets. An Exposure Draft is expected in October 2009, with new requirements completed in the second quarter of 2010. The third phase considers hedge accounting. An Exposure Draft is expected in the fourth quarter of 2009, with new requirements completed in the second quarter of 2010. In addition, the IASB is presently consulting on the issues of accounting for credit risk in liability measurement and on the feasibility of an expected cash flow approach to impairment of financial assets.

The AcSB does not currently expect to adopt these changes into Canadian GAAP before the changeover to

IFRSs. The AcSB expects these changes to be mandatory for years beginning on or after January 1, 2012. Therefore, an entity will have a choice as to whether to adopt these standards on adoption of IFRSs, or to adopt the existing requirements of IAS 39 and the new requirements subsequently.

The US Financial Accounting Standards Board (FASB) is also undertaking a project to re-write its financial instruments standards. The IASB and FASB are talking with one another, but at the current time are developing approaches that differ from one another in some important aspects. The AcSB strongly encourages the IASB and FASB to develop a single global standard on accounting for financial instruments.

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PENSION PLANS — ACSB PROPOSES NEW STANDARDS

What GAAP will pension plans follow on or after the changeover to IFRSs in 2011? Take a look at the Exposure Draft, *Pension Plans*, issued by the AcSB at the end of July 2009. (available at www.acsbcanada.org).

The Exposure Draft reflects the AcSB's decision that, upon adoption of IFRSs by publicly accountable enterprises, pension plans should continue to prepare their financial statements in accordance with Canadian GAAP, rather than IAS 26 *Accounting and Reporting by Retirement Benefit Plans*. The AcSB considered the extent to which changes are necessary to existing Section 4100, *Pension Plans*, as well as whether additional guidance is needed after 2011, and if so, the appropriate source of such guidance.

The proposed new standards include increased disclosures, the requirement to measure all investment assets and investment liabilities at fair value determined in accordance with the proposed IFRS on fair value measurement and the requirement to present pension obligations on the face of the statement of financial position.

Voice your opinion now! To provide input on the Exposure Draft we encourage stakeholders to respond by October 31, 2009. You can also express your views by participating in a roundtable session to be held in Toronto on October 8, 2009.

The Exposure Draft, further information about the roundtable and updates on the Accounting Standard Board's redeliberations can be found on the AcSB website at www.acsbcanada.org.

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RATE-REGULATED ACTIVITIES

In July 2009, the IASB issued an Exposure Draft, "Rate-regulated Activities". The IASB's proposals help to reduce the uncertainty surrounding the impending adoption of IFRSs by Canadian publicly accountable enterprises with rate-regulated activities concerning the treatment of the regulatory assets and liabilities they currently report.

In brief, the proposed new standard would require an entity to recognize regulatory assets and regulatory liabilities when it has operating activities subject to cost-of-service regulation and a regulator's actions have given it the right to increase (or the obligation to decrease) rates in future periods.

The Exposure Draft includes indicators of cost-of-service regulation. Regulatory items would be measured at their

expected present value and tested for impairment, in total as part of the cash-generating unit to which they belong, when it is not reasonable to assume that sufficient revenues can be collected from customers to recover the entity's costs.

The IASB proposes to require disclosures about regulatory items similar to those required by Accounting Guideline AcG-19, *Disclosures by Entities Subject to Rate Regulation*. It also proposes to amend IFRS 1 *First-time Adoption of International Financial Reporting Standards* to add an election to use the previous carrying amount of qualifying items of property, plant and equipment and intangible assets as deemed cost on transition.

In September 2009, the AcSB expects to issue an Exposure Draft proposing to incorporate the IASB's final standard on this topic into Canadian GAAP. The Exposure Draft (to be available at www.acsbcanada.org) also describes the effects of the IASB's proposals relative to existing Canadian GAAP. Based on the IASB's timetable for completion of this project, the AcSB expects the new standard to form part of the IFRSs to be adopted by publicly accountable enterprises in 2011.

The Accounting Standards Board encourages entities with rate-regulated activities to respond to both the IASB and the AcSB Exposure Drafts. Comments on both are due by November 20, 2009.

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

COMMENT DEADLINES

The AcSB has issued Exposure Drafts on IASB's proposed new standards for the following:

- Financial Instruments: Classification and Measurement
 - comment deadline to IASB is September 14, 2009
 - comment deadline to AcSB is September 30, 2009
- Fair Value Measurement
 - comment deadline to IASB is September 28, 2009
 - comment deadline to AcSB is October 15, 2009
- Rate-regulated Activities
 - comment deadline to both AcSB and IASB is November 20, 2009

The AcSB has issued an Exposure Draft on Pension Plans for comment by October 31, 2009

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