

A Year of Change for Canada

Introduction

Beginning 2011, Canadian organizations are faced with either a new financial reporting framework or some element of change to the standard they have historically applied. All Canadian organizations have adopted or will begin to adopt one of the four different financial reporting frameworks issued by the Accounting Standards Board (AcSB) or public sector accounting standards. The *CICA Handbook* has been restructured into four discrete parts covering the four different reporting frameworks, plus a fifth part archiving pre-changeover Canadian GAAP until such time as it is no longer in use. The changes Canadian organizations are facing include:

- (i) Most publicly accountable enterprises and government business enterprises are required to adopt IFRS for fiscal years beginning on or after January 1, 2011. IFRS are the principles-based standards and interpretations issued by the IASB and contained in Part I of the Handbook. Canadian SEC registrants have a choice of adopting US GAAP or IFRS as their primary financial reporting framework.
- (ii) Unlike publicly accountable enterprises, Canadian private enterprises may choose to adopt either IFRS or a separate set of Canadian Accounting Standards for Private Enterprises (ASPE) issued as Part II of the *CICA Handbook* for fiscal years beginning on or after January 1, 2011. While ASPE is mainly derived from existing Canadian GAAP, certain recognition, measurement and presentation requirements have been simplified and disclosure requirements have been reduced.
- (iii) Canadian private sector not-for-profit organizations (NPOs) may choose to adopt IFRS or a new NPO financial reporting framework for fiscal periods beginning on or after January 1, 2012. In the meantime, NPOs will continue to apply existing Canadian GAAP.
- (iv) Pension plans will prepare their financial statements in accordance with Section 4600, *Pension Plans*, as set out in Part IV of the *CICA Handbook*. Section 4600 is based on existing Canadian GAAP guidance for pension plans with certain modifications.

There will also be a number of changes impacting public sector enterprises. Organizations previously classified as government business type organizations (GBTOs) will now be classified as government business enterprises, government not-for-profit organizations or other government organizations. The resulting classification will determine which reporting framework the organization will adopt and when.

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To facilitate ease of finding the information most relevant to your organization, we have arranged this publication by organization type and the applicable financial reporting framework. The Update on IFRS section has been sourced from KPMG IFRG publications.

The information in this issue is based on pronouncements released prior to November 15, 2011. For pronouncements released after this date, please refer to the official document in question, or contact your local KPMG adviser.

Focus on Financial Reporting is of a general nature, intended solely to increase awareness of financial reporting developments. Individual readers should consult the original pronouncements and their own financial advisers for detailed guidance on the application of these standards.

Ways KPMG can help

KPMG professionals assist clients in understanding their financial reporting framework, be it IFRS, ASPE, or standards applicable to not-for-profit or public sector organizations or pension plans. Additionally, we have a range of publications and resources addressing developments in all of these areas and the implications for Canadian enterprises.

Publicly Accountable Enterprises

Publicly accountable enterprises are required to adopt IFRS for fiscal years beginning in 2011, with limited exceptions. If you are a Canadian public company that is an SEC registrant and have adopted US GAAP rather than IFRS, please refer to the section on *US GAAP Update and US Regulatory Developments* for recent developments relevant to your chosen financial reporting framework.

For Canadian public companies reporting under IFRS, this past year has proven to be a busy one implementing the new reporting framework and meeting the deadlines for filing the first interim IFRS financial statements. The IASB has also been extremely active this past year, and Canadian companies need to pay particular attention to issued and proposed amendments to IFRSs that will impact their IFRS financial statements in the upcoming years.

Update on IFRS

This past year has been one of unparalleled level of activity by the IASB. The Board has worked diligently to try to complete a number of major projects. There were several final standards issued in 2011, and several exposure drafts have been released or are underway proposing significant changes to IFRSs. Some of these individual standards may raise significant implementation and reporting issues for enterprises, while others may have minimal impact.

New guidance issued

The following is a summary of new guidance issued by the IASB since the previous edition of *Focus on Financial Reporting*.

The suite of consolidation standards

The IASB issued five new or amended standards in May 2011 as part of its project on consolidation and related standards. This suite of new and amended standards replaces the existing accounting for subsidiaries and joint ventures and makes limited amendments in relation to associates. The diagram below shows the five new or amended standards issued and their respective scopes.

	Accounting	Disclosure
Subsidiaries	IFRS 10	IFRS 12
Associates	IAS 28 (2011)	
Joint ventures	IFRS 11	
Joint operations		
Unconsolidated structured entities	Generally IFRS 9/IAS 39	

This suite of standards is effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, however, if an entity chooses to early adopt any one of these new or amended standards, it must early adopt the remaining standards at the same time, with the exception of IFRS 12, the new disclosure standard, which can be early adopted without triggering a requirement to adopt IFRS 10 or IFRS 11.

New standard on consolidation (IFRS 10) and amended standard on separate financial statements (IAS 27(2011))

IFRS 10, *Consolidated Financial Statements*, introduces a new approach to determining which investees should be consolidated. IAS 27 (2008) survives as IAS 27 (2011) only to carry forward the existing accounting requirements for separate financial statements, with some minor clarifications.

IFRS 10 provides a single model to be applied in the control analysis for all investees. That model states that an investor consolidates an investee when it has power, exposure to variability in returns, and a linkage between the two.

The IASB also has explicitly introduced the concepts of principal vs. agent and de facto control. The principal/agent analysis could be particularly important for industries such as funds, asset management and real estate. An entity's control conclusion may change under IFRS 10, particularly in respect of investees currently identified as special purpose entities. Overall, implementation of IFRS 10 will require significant judgment in several respects.

For further information, refer to KPMG International's [In the Headlines: Issue 2011/14](#) and for a more detailed analysis, see [First Impressions: Consolidated financial statements](#).

New standard on joint arrangements (IFRS 11) and amended standard on associates and joint ventures (IAS 28(2011))

IFRS 11, *Joint Arrangements*, overhauls the classification of and accounting for joint ventures (now referred to as joint arrangements). Under IFRS 11, joint arrangements are now classified as either joint operations or joint ventures, depending upon the rights and obligations of the parties to the arrangement. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements for which, although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have direct and primary rights to the assets and obligations for the liabilities of the arrangement. Such arrangements are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31.

In addition, under IFRS 11, joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now be accounted for using the equity method under IAS 28 (2011). Limited amendments were made to IAS 28 regarding associates and joint ventures held for sale and changes in interests held in associates and joint ventures.

For further information, refer to KPMG International's [In the Headlines: Issue 2011/15](#) and for a more detailed analysis, see [First Impressions: Joint arrangements](#).

New standard on disclosure of interests in other entities (IFRS 12)

IFRS 12, *Disclosure of Interest in Other Entities*, replaces the existing disclosure requirements for entities that have interests in subsidiaries, joint arrangements, (i.e. joint operations or joint ventures), and associates. It also contains disclosure requirements for entities that have an interest in unconsolidated structured entities.

The extensive required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows.

For further information, refer to KPMG International's [In the Headlines: Issue 2011/16](#).

IFRS 13: Fair Value Measurement

In May 2011, the IASB published IFRS 13, *Fair Value Measurement*. This standard does not establish new requirements for when fair value measurement or disclosure is required but provides a single source of guidance on how fair value is measured. It replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance.

The standard provides a framework for determining fair value, i.e. it clarifies the factors to be considered in estimating fair value in accordance with IFRSs. While it includes description of certain valuation approaches and techniques, it does not establish valuation standards on how valuations should be performed. However, it identifies the key principles in estimating fair value consistent with the IASB's measurement objective.

In addition, IFRS 13 requires more extensive disclosures to be provided, particularly when fair value measurements rely on unobservable inputs. The new standard is applicable prospectively for annual periods beginning on or after January 1, 2013.

Although many fair values will remain inherently uncertain, IFRS 13 is an important step forward in establishing consistent fair value measurement and disclosure guidance across IFRSs.

For more details on the standard and a discussion on the application issues, refer to KPMG International's [In the Headlines: Issue 2011/17](#) and for a more detailed analysis, see [First Impressions: Fair value measurement](#).

IAS 19: Employee Benefits (amended)

An amended version of IAS 19: *Employee Benefits* was published in June 2011 by the IASB. One of the significant changes in the amended standard is the elimination of the 'corridor method' under which the recognition of actuarial gains and losses could be deferred. Instead, all actuarial gains and losses are now recognized immediately in other comprehensive income. This amendment is expected to have a significant impact on those entities currently applying the corridor method.

However, even if an entity does not currently apply the corridor method, the amended standard may still have a significant effect on entities with funded defined benefit plans, because the amended standard introduces a new approach to calculating and presenting the net interest expense (income) on the net defined benefit liability (asset). This is now calculated as a single net interest figure, based on the discount rate that is used to measure the defined benefit obligation. As a consequence, an

entity will no longer be able to recognize in profit or loss, the long-term expected return on the plan assets actually held; for many entities this will result in a reduction in net profit from that reported under the current IAS 19. This amendment also impacts the accounting for certain termination benefits.

The amendment is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively, with certain exemptions.

For more details on the standard and a discussion on the application issues, refer to KPMG International's *In the Headlines: Issue 2011/20* and for a more detailed analysis, see *First Impressions: Employee benefits*.

Amendments to IAS 1: Presentation of Financial Statements

The amendments, published by the IASB in June 2011, introduce changes to the presentation of items of other comprehensive income ("OCI"), but not to its measurement.

The amendments require that an entity present separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss (such as actuarial gains and losses in respect of defined benefit plans). Consequently an entity that presents items of OCI before related tax effects will also have to allocate the aggregated tax amount between these two categories. The amendment does not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regards. The existing option to present the profit or loss and other comprehensive income in two statements has remained unchanged.

The amendments are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. Early adoption is permitted.

For more details, read KPMG IFRG Limited's publication *In the Headlines: Issue 2011/19*.

IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine

In IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, the IFRS Interpretations Committee sets out principles for the recognition of production stripping costs in the balance sheet. The interpretation recognizes that some production stripping in surface mining activity will benefit production in future periods and sets out criteria for capitalizing such costs. While this interpretation is generally consistent with previous Canadian GAAP, some refinements to practices may be required. This guidance is applicable for fiscal years beginning on or after January 1, 2013 with early adoption permitted.

For more details, read KPMG IFRG Limited's publication *First Impressions: Production stripping costs*.

Deferred Tax Exception: Recovery of Underlying Assets

The IASB has published limited amendments to IAS 12, *Income Taxes*, to introduce an exception to the current measurement principles of deferred tax assets and liabilities arising from property measured using the fair value model in accordance IAS 40, *Investment Property*. This amendment may have a significant impact on non tax exempt real estate and other entities holding investment properties carried at fair value.

The amendment is applicable retrospectively for periods beginning on or after January 1, 2012 with early adoption permitted.

For more information on the amendment, read KPMG IFRG Limited's publication, [IFRS Briefing Sheet: Issue 229](#).

Amendments to Certain IFRS 1 exemptions

The IASB published amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, to replace two references to a fixed date of January 1, 2004, with "the date of transition to IFRSs".

This means that first-time adopters would no longer be required to:

- Restate financial instrument derecognition transactions that occurred before the date of transition to IFRSs; or
- Calculate "day one" gains or losses on the initial recognition of financial instruments when the transaction occurred before the date of transition to IFRSs.

These amendments are mandatorily effective for fiscal years beginning on or after July 1 2011, but can be early adopted.

For more information on the amendment, read KPMG IFRG Limited's publication [IFRS Briefing Sheet: Issue 228](#).

Reminders of certain guidance that may be of interest to Canadian issuers in 2011

The following is a summary of certain selected amendments issued in prior years in respect of IFRS disclosures that maybe of interest to Canadian entities preparing annual IFRS financial statements. It does not contain all amendments issued in recent years that are applicable for 2011. Readers are encouraged to refer to previous editions of *Focus on Financial Reporting* for details on other amendments and interpretations issued in previous years.

IAS 24: Related Party Disclosures (revised 2009)

The amendments establish new disclosure requirements for government-related entities and may be of significant interest to Canadian government business enterprises adopting IFRS. While the overall disclosure requirements for related party transactions have not been lessened, the amendments do provide an exemption from some of the detailed requirements relating to outstanding balances and certain transactions for entities meeting the definition of a government-related entity.

These amendments also make limited changes to the definition of a related party and may impact an entity's disclosures under IAS 24.

The amendments are effective for annual periods beginning on or after January 1, 2011.

For more details, read KPMG IFRG Limited's publication [First Impressions: Revised IAS 24 Related Party Disclosures](#).

Disclosures – Transfers of Financial Assets (Amendments to IFRS 7)

While derecognition of financial assets is generally considered more difficult to achieve under IFRSs, these amendments to IFRS 7 introduce new disclosure requirements for transactions in which financial assets have been partially derecognized under IAS 39, *Financial Instruments: Recognition and Measurement*, or those when the entity retains continuing involvement in a fully derecognized financial asset.

The amended disclosures are effective for annual periods beginning on or after July 1, 2011 and therefore will be mandatorily effective in the first IFRS financial statements only for those first-time adopters with a year-end of June 30 or later.

The amendments are summarized in KPMG International's [Briefing Sheet: Issue 216](#).

Proposed Amendments to IFRSs

This section discusses the more significant exposure drafts issued by the IASB in 2011 and other significant projects underway at the IASB. The following discussion is general in nature and does not include all IFRS developments. For a complete listing of IFRS projects, refer to the [IASB's updated work plan](#).

Exposure Draft: *Investment Entities* and delayed application of IFRS for Investment Companies and Segregated Accounts of Life Insurance Enterprises.

The IASB's proposed amendments to IFRS 10, *Consolidated Financial Statements*, providing a consolidation exemption for qualifying investment entities have finally been issued. Such investment entities would be required to account for their investments, including investments in subsidiaries, associates and joint arrangements at fair value through profit and loss. However, not all entities currently applying AcG-18, *Investment Companies*, under Canadian GAAP would qualify as an investment entity under the proposal. The private equity sector and real estate funds in particular should pay attention to the qualification criteria.

A KPMG publication, [New on the Horizon: Investment entities](#), discusses the proposals in more details.

As a result of these proposed amendments, which are expected to be finalized in 2012, the AcSB has decided to extend by one year to January 1, 2013, the mandatory IFRS changeover date for these investment companies and segregated accounts of life insurance enterprises.

The AcSB has also noted that entities that are separate from a pension plan and whose sole purpose is to hold and invest assets received from one or more pension plans, but do not themselves have pension obligations, will qualify for the deferral of the mandatory IFRS changeover date because they are investment companies. Accordingly, the AcSB will not decide whether such an entity should be within the scope of Section 4600, *Pension Plans*, in Part IV of the *CICA Handbook – Accounting* until the IASB has finalized its proposed amendments to IFRS 10.

Exposure Draft: *Improvements to IFRSs*

In June 2011, the IASB published Exposure Draft *Improvements to IFRSs* as part of the annual improvements project cycle that began in 2009. A final *Improvements to IFRSs*, based on the exposure draft, is expected to be published in March 2012 with a January 1, 2013 effective date. Early adoption would be permitted.

Certain of the proposals in the exposure draft include:

- An amendment to IFRS 1 to clarify that an entity that capitalizes borrowing costs in accordance with its previous GAAP before its date of transition may carry forward without adjustment the amount previously capitalized in the opening statement of financial position. In addition, it also proposes to clarify that borrowing costs incurred after the date of transition that relate to qualifying assets under construction at the date of transition should be accounted for in accordance with IAS 23, *Borrowing Costs*.

- A clarification that servicing equipment should be classified as items of property, plant and equipment under IAS 16 when they are used during more than one period. If the servicing equipment is used only during one period, it should be classified as inventory.
- An amendment to IAS 32 so that it refers to IAS 12 for the accounting for income tax relating to distributions to holders of an equity instrument and transaction costs of an equity transaction.
- An amendment to IAS 34 to clarify that, for interim financial statements, total assets for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements.

For more details about the exposure draft, read KPMG IFRG Limited's publication [In the Headlines: Issue 2011/22](#).

Exposure Draft: Mandatory Effective Date of IFRS 9

In 2009, the IASB issued IFRS 9, *Financial Instruments* as part of the first phase of its project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The chapters of the standard released in 2009 (IFRS 9 (2009)) only related to the classification and measurement of financial assets. In 2010 the IASB included guidance on the classification and measurement of financial liabilities by issuing IFRS 9 (2010). Although both standards were mandatorily effective for annual periods beginning on or after January 1, 2013, the IASB has now extended its timeline for completion of the remaining impairment and hedging phases of the IAS 39 replacement project beyond its previous target of June 2011. In order to allow entities adequate time to implement all phases of the IAS 39 replacement project at the same time, the IASB recently issued an exposure draft proposing to postpone the mandatory effective date of IFRS 9 to annual periods beginning on or after January 1, 2015.

More details on the proposed delay in effective date can be found in KPMG IFRG Limited's publication [In the Headlines 2011/26](#).

Exposure Draft: Government Loans – Proposed amendments to IFRS 1

This exposure draft proposes an exception to the retrospective fair value measurement of government loans with below-market rates of interest for first-time adopters of IFRS in order to be consistent with the proposed application of this requirement under the standard on government grants. This amendment, once approved, would be effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

For more details about the exposure draft, read KPMG IFRG Limited's publication [In the Headlines: Issue 2011/34](#).

Exposure Draft: Offsetting Financial Assets and Financial Liabilities

The IASB and FASB issued an exposure draft in early 2011 that proposed to eliminate the differences between IFRS and US GAAP in the area of offsetting of financial assets and liabilities. However, in light of the comments received on the exposure draft, the Boards decided to move forward with different offsetting models. The Boards have however agreed on converged disclosures which would amend IFRS 7, *Financial Instruments: Disclosures*, and provide users with information about rights of set-off related to an entity's financial instruments and the effects of such rights on its statement of financial position.

The IASB has also decided to address inconsistencies in the application of the current offsetting criteria in IAS 32 by adding application guidance to the standard.

These amendments are due to be issued in December 2011 and the IASB has tentatively agreed that the amendments should be applied retrospectively for annual and interim periods beginning on or after January 1, 2013.

Exposure Draft: Leases

As noted in the previous edition of *Focus on Financial Reporting*, in August 2010, the IASB and the FASB issued a joint exposure draft proposing a new standard on lease accounting that would replace IAS 17, *Leases*, and related interpretations. The proposed guidance would represent a substantial change from existing IFRS lease accounting guidance.

The Boards are currently in the process of redeliberating the proposals in the original exposure draft based on the comments received. Due to the significance of the changes ensuing from the redeliberations, the Boards expect to issue a revised exposure draft in the first half of 2012, followed by a final standard in the second half of 2012. The effective date of the proposed standard has not yet been released, but is not expected to be earlier than 2015.

For lessees, the exposure draft proposed that all leases be recognized on-balance sheet using a model in which a lessee would recognize a "right-of-use" asset representing its right to use the underlying asset, and a liability representing its obligation to pay lease rentals over the lease term. For lessees, the Boards are proposing to retain the model proposed in the original exposure draft with certain amendments and clarifications.

For lessors, the exposure draft proposed two different accounting models which were based on the level of the lessor's retention of exposure to risk. However, in response to comments received and subsequent outreach on the proposed lessor accounting models, the Boards have now settled on a variant of the proposed derecognition approach, now renamed the 'receivable and residual' model. Under the 'receivable and residual' model, the lessor derecognizes the leased property and recognizes an asset for the right to receive lease payments and retains a residual asset that represents the portion of the leased property that is not derecognized. The lessor would recognize profit at commencement of the lease if the fair value of the leased property exceeds its carrying amount or if the lease receivable exceeds the carrying amount of the leased property.

In redeliberations, the Boards have tentatively decided to simplify requirements for accounting for short-term leases for both lessors and lessees, and to exempt investment property as defined in IAS 40, *Investment Property*, held by lessors from the proposed 'receivable and residual' approach. The Boards appear to be fairly close to completing their redeliberations on the leases project and are currently fine-tuning a short list of remaining issues.

For more details on recent redeliberations and the status of the project, read KPMG's [IFRS Leases Newsletters](#).

Exposure Draft: Revenue

In 2010, the IASB and the FASB issued a joint exposure draft for a new standard on revenue from contracts with customers that would replace IAS 11, *Construction Contracts*, IAS 18, *Revenue* and related interpretations.

Through its process of redeliberating its original proposals, the Board concluded that a revised exposure draft would be issued. The re-exposure draft was issued on November 14, 2011 and the final standard is expected to be issued in the second half of 2012. The effective date for the standard is not yet finalized but generally is not expected to be before 2015.

The revised exposure draft proposes a single revenue recognition model that would apply to all contracts with customers and two approaches to recognizing revenues: over time, which is similar to current stage of completion accounting, or at a point in time, which is similar to current accounting for the sale of goods. The model features a contract-based five-step analysis of transactions to determine whether and how much revenue is recognized. The five steps would be:

- a. Identify the contract with the customer.
- b. Identify the separate performance obligations in the contract.
- c. Determine the transaction price.
- d. Allocate the transaction price to the separate performance obligations in the contract.
- e. Recognize revenue when (or as) each performance obligation is satisfied.

For complex transactions with multiple components and/or variable amounts of consideration, or when the work is carried out under contract for an extended period of time, the application of the proposals may lead to the recognition of revenue being accelerated or delayed in comparison with current IFRS requirements. New estimates and judgemental thresholds would be introduced that could affect the amount and/or timing of revenue recognized when consideration is variable or contingent, or when dividing a contract into separate components.

The IASB has indicated that the standard would not be effective earlier than 2015.

For more details on the standard and a discussion on the application issues, refer to KPMG International's *In the Headlines: Issue 2011/35* and for a more detailed analysis, see *New on the Horizon: Revenue from contracts with customers*.

Exposure Draft: Insurance

In 2010, the IASB issued an exposure draft to introduce the first comprehensive IFRS accounting model for insurance contracts, to replace the interim guidance contained in IFRS 4, *Insurance Contracts*. These proposals were expected to significantly impact the accounting policies and practices, systems, data, processes and broader business aspects of all entities issuing insurance contracts.

The exposure draft proposed a comprehensive measurement model for all types of insurance contracts, with a modified approach for some short-term contracts. The proposed measurement model was based on a "fulfilment" objective which reflects the fact that an entity generally expects to fulfil its liabilities over time by paying benefits and claims to policyholders as they become due, rather than transferring the liabilities to a third party.

The Board is currently in the process of redeliberating the proposals in the exposure draft based on the comments received. Some of the points of discussion include:

- No recognition of gains at inception of policy, but recognition of losses are possible.
- Discounting is required using a risk-free interest rate, plus a “liquidity adjustment”; however, in 2011 the IASB indicated that a “top-down” approach could be used as an alternative, which could allow somewhat higher discount rates. There would be no linkage of discount rates to assets actually held, with limited exceptions for asset-linked and participating businesses.
- A margin on top of discounted cash flows would be required, but this margin could be different from Canadian actuarial provisions for adverse deviations.
- In recent redeliberations, the IASB tentatively decided to modify the proposals in the exposure draft to recognize contracts at the effective date or beginning of the coverage period, as a more practical approach to the original proposals which would have required recognition prior to the effective date in some circumstances.
- In March 2011, IASB tentatively decided to amend the exposure draft’s approach to determine acquisition costs on a portfolio basis rather than a contract issued basis, which will broaden the definition of acquisition costs.
- The exposure draft proposes mandatory use of an unearned premium approach for pre-claim liabilities of short term business defined as having a term of approximately one year or less where there are no significant embedded derivatives. Unlike current unearned premium approaches, recognition in income would reflect the time value of money.
- The IASB has tentatively decided to defer the mandatory adoption date of IFRS 9 to 2015, and has also indicated that they will consider reopening IFRS 9 (“targeted improvements”) to address volatility problems in discounting insurance liabilities at market discount rates. This is being referred to as a “2-sided OCI” solution, and would have changes in claims liabilities due to discount rate changes put through OCI, along with changes in values of assets backing insurance liabilities (AFS designation in effect).

The Board will decide whether to issue a revised exposure draft in the first half of 2012. The effective date of the proposed standard has not yet been released, but is not expected to be earlier than 2015 or 2016.

For more details on recent redeliberations and the status of the project, read KPMG’s [IFRS Insurance Newsletters](#).

Project on Financial Instruments: *Hedging*

The hedge accounting project, currently being worked on by the IASB consists of two phases, one being the development of a general hedge accounting model and the second being a macro (portfolio) hedge accounting model. The objective of this phase is to improve the usefulness of financial statements for users by fundamentally reconsidering the current hedge accounting requirements.

An exposure draft on general hedge accounting was issued in late 2010. The IASB has now completed its redeliberations and has decided to post a final staff draft on the IASB website for 90 days during which time the IASB will undertake extended fatal flaw review and outreach processes.

The new general hedging model seeks to simplify the requirements that allow designation of hedge accounting relationships and seeks to link it to the risk management strategy of the organization. It addresses the eligibility of the hedged item (financial and non-financial), eligibility of hedging instruments, effectiveness testing, termination of hedge relationships, fair value hedge mechanics, and presentation and disclosure. Transitional requirements have also been addressed. The mandatory effective date of the new hedge accounting model will be aligned with the effective date of IFRS 9, *Financial Instruments*.

The development of the macro hedge accounting model seeks to address risk management strategies referring to open portfolios (macro hedging) which are not covered by the general hedge accounting model. The Board expects to issue an exposure draft on macro hedge accounting in the first half of 2012.

Project on Financial Instruments: *Impairments*

The IASB and FASB are working together to develop a converged financial instruments impairment model. In 2009, the IASB issued an exposure draft proposing an expected cash flow model for measuring financial instruments at amortized cost. In January 2011, the Boards issued a joint supplement to the Exposure Draft and are currently in the process of developing an alternative approach for the recognition of expected losses. The proposals are expected to have the greatest impact on financial institutions and other entities that measure their financial assets at amortized cost. The Boards expect to issue a revised exposure draft in the first half of 2012.

Public consultation on IASB agenda for the next three years

The IASB, in July 2011, issued a request for views on its agenda setting. The purpose on the agenda consultation is to obtain input on the IASB's agenda-setting process. The agenda consultation asks constituents open questions to gather views on the IASB's future work programme. In particular, the IASB is seeking feedback on how it should balance the development of financial reporting with the maintenance of IFRSs by asking questions on:

- What constituents believe should be the IASB's strategic priorities over the next three years;
- Whether they agree with the proposed IASB approach; and
- How they would balance the two categories and the five strategic areas within them as identified by the IASB.

The IASB is also asking for input on how the IASB should prioritize its project in light of time and resource constraints.

Certain projects, for which the Board decided to amend project timelines in 2010, will be reviewed as part of its agenda consultation process. These projects include *Financial Statement Presentation* (the replacement of IAS 1 and IAS 7), *Financial Instruments with Characteristics of Equity*, *Emissions Trading Schemes*, *Liabilities* (IAS 37 amendments) and *Income Taxes*.

For more details about the consultation, read KPMG IFRG Limited's publication [In the Headlines: Issue 2011/25](#).

Canadian Regulatory Developments Applicable to all Issuers

The following is a summary of the new Canadian securities regulatory rules, instruments, policies, and documents that are applicable to a broad range of issuers. The summary discusses a number of both proposed and final amendments, issued since the last edition of *Focus on Financial Reporting*. Copies of all rules, instruments, policies and documents can be accessed by visiting the [OSC's website](#).

CSA Staff Notice 52-328, *Disclosures about Accounting Policies in the Year of Changeover to International Financial Reporting Standards*

During 2011, the CSA issued Staff Notice 52-328, *Disclosures about Accounting Policies in the Year of Changeover to International Financial Reporting Standards*. The notice indicates that generally interim and annual MD&A's are required to include detailed disclosures about accounting policies initially adopted but notes that this requirement does not apply to accounting policies adopted as a result of the changeover to IFRS. However, if an issuer voluntarily changes an accounting policy subsequent to filing its first interim financial report, other than due to the early adoption of a new or revised IFRS standard, then the detailed disclosures are required.

The CSA indicated that management may want to include supplemental disclosures in the MD&A about entity specific features of the issuer's transition to IFRS that are not addressed in the financial statements, such as the discussion of an issuer's choices among alternative acceptable accounting policies under IFRS including the reasons for a particular choice. The CSA also noted that an issuer should consider discussing significant differences between MD&A disclosures about IFRS transition made prior to the changeover and information reported in the current period about accounting policy choices.

The CSA suggests that to avoid confusion, issuers should consider presenting information pertaining to an issuer's transition to IFRS and its accounting policies in one section of the MD&A and separately from the discussion of financial performance and financial condition.

CSA Staff Notice 52-327, *Certification Compliance Update*

This notice provides a summary of the results of a selected review of the 2009 annual MD&A's and the annual certificates for 195 reporting issuers (145 non-venture and 50 venture issuers) to assess compliance with the provisions of NI 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*.

The notice provides examples of disclosures which meet and do not meet the disclosure requirements of NI 52-109. Other specific findings are highlighted and discussed.

The notice also reminds issuers of their obligation to disclose under NI 52-109 any changes to ICFR related to IFRS that will materially affect, or is reasonably likely to materially affect, the issuer's ICFR. The disclosure must be "in the period in which the change first impacts the reliability of financial reporting."

OSC Staff Notice 52-719, *Going Concern Disclosure Review*

Staff of the Ontario Securities Commission (OSC) conducted a review to assess the timeliness and adequacy of disclosures in financial statements and management's discussion and analysis related to the going concern assumption. This notice summarizes the results of the review. The notice emphasizes that it is management's responsibility to make an assessment of the issuer's ability to continue as a going concern and to ensure adequate disclosures are included in the issuer's continuous disclosure filings. It reminds issuers that the audit committee should ensure that management has made an appropriate assessment of the issuer's ability to continue as

a going concern and has made the necessary disclosures in its continuous disclosure filings. The notice also provided some specific reminders regarding MD&A going concern disclosures and additional considerations when doing a prospectus offering and going concern risks are present.

Overall, the OSC noted that there is need for improvement in both the timeliness and robustness of the going concern disclosures, particularly in the MD&A. As a result of the review, certain issuers were required to make prospective improvements in their disclosure, and in some cases were required to file material change reports. The OSC also indicated that disclosure of going concern risks will continue to be an area of focus in continuous disclosure and prospectus reviews.

CSA Staff Notice 51-334, *Continuous Disclosure Review Program Activities for the fiscal year ended March 31, 2011*

This notice summarizes the results of the CSA's continuous disclosure review program for issuers other than investment funds.

In fiscal 2011, the CSA completed 1,351 reviews, of which 68% were issue-oriented reviews and 32% were full reviews. Based on the reviews, no action was required for 30% of the issuers, 40% of issuers required prospective changes; 10% received recommendations for future filings; 16% required refilings; and 4% were referred to enforcement or a cease trade order was issued.

The notice summarizes the findings of various issue oriented reviews on topics such as IFRS transition disclosure, CEO/CFO certification, oil and gas technical disclosure, corporate governance disclosure, material contracts, mining technical disclosure and press releases.

The most common deficiencies found in the MD&A included:

- Presentation of Non-GAAP financial measures without the required additional disclosures.
- Lack of identification of forward-looking information and inadequate disclosures regarding such measures.
- Discussion of immaterial information regarding operations without inclusion of information that maybe material to investors and insufficient analysis of why changes have occurred.
- Inadequate disclosure of an issuer's liquidity.
- Inadequate discussion and analysis of items or events that had a material impact in the fourth quarter.
- Inadequate disclosures of material components of capitalized or expensed exploration costs by venture issuers who have not had significant revenue from operations.

The most common deficiencies found in the financial statements included:

- Inadequate inventory disclosures.
- Failure to disclose the nature of a transaction and describe the relationship with a related party.

The most common regulatory compliance deficiency related to insufficient disclosures on the Statement of Executive Compensation (Form 51-102F6).

The CSA staff has indicated that for fiscal 2012, their main focus will be on IFRS transition.

OSC Staff Notice 51-718, Key Considerations Relating to an Auditor's Involvement with Interim Financial Reports

This notice highlights significant non-compliance with requirements related to the auditor's involvement with interim financial reporting including failure to disclose when an auditor has not reviewed the interim financial report, failure to disclose if the auditor was unable to complete a review and why, and failure to file a written report from the auditor if the auditor has performed a review and expressed a reservation in the auditor's interim review report. The OSC selected a sample of 44 venture issuers and 28 non-venture issuers. 48% of the venture issuers and 14% of the non-venture issuers were not in compliance with the relevant requirements.

The OSC indicated that they will continue to monitor issuers' compliance with these disclosure requirements and will require issuers to refile their interim financial statements with the required disclosure when non-compliance is detected.

CSA Staff Notice 52-306, Non-GAAP Financial Measures and Additional GAAP Measures

In 2010, the CSA issued a revised version of Staff Notice 52-306, dealing with disclosure of non-GAAP financial measures and additional GAAP measures. The CSA maintains its long-standing view that entities should not include non-GAAP measures, such as EBITDA, in their financial statements. The CSA defines a "non-GAAP" financial measure as a numerical measure not required by an issuer's GAAP and that either:

- Excludes amounts that are included in the most directly comparable measure presented in accordance with GAAP; or
- Includes amounts that are excluded from the most directly comparable measure presented in accordance with GAAP.

However, the CSA recognizes that IFRS may require in certain instances the presentation of additional line items, headings and subtotals when they are relevant to an understanding of the entity's financial position or performance. The CSA considers these items as "additional GAAP measures." If an entity determines that additional GAAP measures are required for compliance with IFRS, the CSA expects issuers to demonstrate that this information is relevant, reliable, comparable and understandable.

As a result of the changes to CSA Staff Notice 52-306, the CSA has also updated NP 41-201, *Income Trusts and Other Indirect Offerings*, which provides guidance on measures of cash available for distribution.

CSA Staff Notice 58-306, Corporate Governance Disclosure Compliance Review

This notice summarizes the results of the CSA's compliance review of corporate governance disclosures. The notice characterizes the level of non-compliance with National Instrument 58-101, *Disclosure of Corporate Governance Practices*, as "unacceptable".

The CSA selected 72 issuers composed of 46 non-venture issuers and 26 venture issuers, of which 55% of issuers (63% of non-venture issuers and 42% of venture issuers) were required to make prospective enhancements to corporate governance disclosures. Significant and frequent disclosure deficiencies were noted in the areas of board of directors, position descriptions, orientation and continuing education, ethical business conduct, nomination of directors and assessments.

For each of the identified deficiencies, the CSA reminds issuers what information needs to be disclosed, suggests questions an issuer should consider when preparing the disclosures and provides examples on how to meet the disclosure requirement when filing their next management information circular or other filings.

Amendments to Form 51-102F6, *Statement of Executive Compensation*

In July 2011, the CSA announced amendments to Form 51-102F6, *Statement of Executive Compensation*. These amendments are designed to improve the disclosures investors receive regarding executive compensation. The amendments clarify existing requirements and introduce new substantive requirements to enhance the quality of the information disclosed by public companies about key risks, governance and compensation matters.

CSA Staff Notice 51-333, *Environmental Reporting Guidance*

This notice was issued to assist reporting issuers, other than investment funds, on continuous disclosure requirements relating to environmental matters. It clarifies existing disclosure requirements and provides extensive examples of specific disclosures.

Proposed National Instrument 51-103, *Ongoing Governance and Disclosure Requirements for Venture Issuers*

The CSA released proposed National Instrument 51-103, *Ongoing Governance and Disclosure Requirements for Venture Issuers*, which propose changes to continuous disclosure and governance obligations as well as disclosures for prospectus offerings and certain exempt offerings. The proposals are intended to streamline and tailor venture issuer disclosure to reflect the needs and expectations of venture issuer investors and to make the disclosure requirements for venture issuers more suitable and manageable for issuers at this stage of development. For detailed information on the proposal, refer to [KPMG's Accountability e-Alert newsletter](#) on the proposed amendments.

Proposed Amendments to Prospectus Requirements

In July 2011, the CSA issued a request for comments on proposed amendments to NI 41-101 *General Prospectus Requirements*, NI 44-101 *Short Form Prospectus Distribution*, NI 44-102 *Shelf Distributions*, NI 81-101 *Mutual Fund Prospectus Disclosure* and related companion policies and forms (the "Prospectus Rules").

The proposed amendments to the Prospectus Rules are intended to clarify certain provisions of the Prospectus Rules; address significant identified gaps in the Prospectus Rules; modify certain requirements in the Prospectus Rules to enhance their effectiveness; remove or streamline certain requirements in the Prospectus Rules that are burdensome for issuers and of limited utility for investors or security holders; and codify prospectus relief that has been granted in the past.

Revised Proposed Amendments Regarding Communication with Beneficial Owners of Securities of a Reporting Issuer

In June 2011, the CSA issued revised proposed amendments to National Instruments 54-101 *Communication with Beneficial Owners of Securities of a Reporting Issuer* and related companion policy and National Instrument 51-102 *Continuous Disclosure Obligations* and related companion policy. The proposed amendments:

- Provide reporting issuers with a new "notice-and-access" mechanism to send proxy related materials to registered holders and beneficial owners of securities.
- Simplify the process by which beneficial owners are appointed as proxy holders in order to attend and vote at shareholder meetings, and
- Require reporting issuers to provide enhanced disclosure regarding the beneficial owner voting process.

Industry Specific Canadian Regulatory Developments

The following is a summary of certain new Canadian securities regulatory rules, instruments, policies, and documents that are applicable to issuers in specific industries. The summary discusses certain proposed and final amendments, issued since the previous edition of *Focus on Financial Reporting*.

Standards of Disclosure for Mineral Projects

On April 8, 2011, the CSA issued new versions of National Instrument 43-101, *Standards of Disclosure for Mineral Projects*, Form 43-101F1 (Technical Report) and Companion Policy 43-101CP which replaces previous versions of these documents.

This new rule:

- Eliminates or reduces the scope of certain requirements.
- Provides more flexibility to mining issuers and qualified persons in certain areas.
- Provides more flexibility to accept new foreign professional associations, professional designations, and reporting codes as they arise or evolve.
- Reflects changes that have occurred in the mining industry, and
- Clarifies or corrects areas where the prior rule was not having the effect the CSA intended.

CSA Staff Notice 51-327, *Oil and Gas Disclosure: Resources other than Reserves Data*

While disclosure of resources not included in reserves data is not required under NI 51-101 *Standards of Disclosure for Oil and Gas Activities*, the CSA has observed an increase in such optional disclosures. This notice states that when the disclosures of resources other than reserves data is made, the disclosures should be consistent with all applicable securities laws, including but not limited to the principles and requirements and restrictions of NI 51-101, *Standards of Disclosure for Oil and Gas Activities*. The notice also provides guidance on recurring issues found by the CSA in their reviews of such disclosures.

CSA Staff Notice 81-321, *Early Use of Fund Facts to Satisfy Prospectus Delivery Requirements*

The notice sets out the terms and conditions for exemptive relief in order to be able to use the Fund Facts document to satisfy current prospectus delivery requirements. While the notice lists out the conditions, it is also indicated that other terms and conditions may be imposed as part of the application review process.

OSC Staff Notice 81-714, *Compliance with Form 41-101F2 – Information Required in an Investment Fund Prospectus*

This notice highlights concerns of the OSC staff regarding departures from the general requirements to use plain language, brevity and the ordering of information and use of headings in an Investment Fund Prospectus. The notice discusses the major concerns related to cover page and prospectus summary disclosure and disclosures related to the investment objectives of the fund. Concerns surrounding whether the requirements and purpose of the Form are being met in a multi-fund prospectus are also discussed.

OSC Staff Notice 33-735, *Sale of Exempt Securities to Non-Accredited Investors*

The notice reminds issuers and dealers how to apply the definition of Accredited Investor which has specified criteria based on financial assets or net assets. It reminds issuers and dealers that financial assets include cash, securities or a contract of insurance, deposit or an evidence of a deposit that is not a security for the purposes of security legislation. The value of an investor's personal residence or other real estate should not be included in the calculation of financial assets. Such real estate may be included in determining net assets, minus all liabilities. It reminds issuers to ensure that the distribution of their securities through dealers is being made in compliance with securities laws. The notice also includes a non-exhaustive list of steps that dealers should take in order to meet their obligations under securities laws when selling exempt securities to Accredited Investors.

Proposed Amendments to NI 81-101, *Mutual Fund Prospectus Disclosure*

In August 2011, the CSA published for comment proposed amendments to NI 81-101, *Mutual Fund Prospectus Disclosure*, Form 81-101F3, *Contents of Fund Facts Document*, and the related companion policy which will allow delivery of the Fund Facts document to satisfy the current prospectus delivery requirements. The amendments represent Stage 2 of the CSA's implementation of the point of sale disclosure initiative for mutual funds, which is intended to provide investors with more meaningful and effective disclosure.

US GAAP Update & US Regulatory Developments

For Canadian SEC registrants that have chosen to adopt US GAAP as their reporting framework, the challenges to keep abreast of developments in US GAAP are all too familiar. *KPMG in the US's resource website* and the *FASB's website* provide the necessary resources to stay current with all US GAAP developments.

Two informative resources that Canadian entities reporting in US GAAP will find useful include the *Quarterly Outlook* and the *Quarterly Review* publications of KPMG in the US. The *Quarterly Outlook* publications summarize major developments including upcoming financial reporting matters and ongoing standard setting and other activities. It also discusses the status of the IASB's and FASB's major convergence projects between US GAAP and IFRS, including financial instruments, revenue recognition, leases and insurance contracts.

The *Quarterly Review* publications are intended to be a reminder of recently issued financial reporting guidance (accounting matters and SEC filing and disclosure matters) that may affect financial statements for many companies beginning in the relevant quarter or in future periods.

The following discussion highlights the main contents of recent *Quarterly Outlook* publications that maybe of interest to Canadian entities reporting in US GAAP.

September 2011 Quarterly Outlook

The September 2011 *Quarterly Outlook*, which can be accessed [here](#), addresses accounting considerations related to the recent US government credit rating downgrade, changes in accounting for goodwill impairment and troubled debt restructuring. It also discusses upcoming financial reporting matters such as fair value measurements, new disclosure requirements about multiemployer pension plans, changes to the presentation of comprehensive income, and costs associated with insurance contracts.

The publication also describes the recent FASB activities on de-recognition of in-substance real estate and discusses the SEC activities related to the consideration of incorporating IFRS in the United States, loss contingency disclosures, and recent SEC comments about income taxes, and shareholder proxy access rules.

June 2011 Quarterly Outlook

The June 2011 *Quarterly Outlook*, which can be accessed by clicking [here](#), discusses accounting considerations for natural disasters and goodwill impairment testing. It also addresses upcoming financial reporting matters including changes in accounting for repurchase agreements and fair value measurements as well as the FASB's activity on consolidation.

March 2011 Quarterly Outlook

The March 2011 *Quarterly Outlook*, which can be accessed by clicking [here](#), addresses new disclosures for credit losses, fair value measurement disclosures, revenue recognition for multiple element arrangements and goodwill impairment testing standards.

December 2010 Quarterly Outlook

The December 2010 *Quarterly Outlook*, which can be accessed by clicking [here](#), addresses new disclosures for credit losses, fair value measurement disclosures, revenue recognition standards, recent SEC activity, and an IRS action on uncertain tax positions and covers two approved FASB Emerging Issues Task Force (EITF) Consensuses on disclosure of supplementary pro forma financial information for business combinations and on goodwill impairment testing. The publication also discusses loss contingency disclosures, employers' disclosures about multiemployer postretirement plans, and clarifying guidance issued by the FASB about troubled debt restructurings.

Private Enterprises

In December 2009, Accounting Standards for Private Enterprises (ASPE) were issued as Part II of the *CICA Handbook*. Canadian private enterprises must choose to adopt ASPE or IFRS as their financial reporting framework for fiscal years beginning on or after January 1, 2011.

ASPE was derived from existing Canadian GAAP and is a principles-based set of standards that encourages the use of professional judgement. While many of the recognition and measurement standards remain the same as existing Canadian GAAP, some of the significant changes are as follows:

- Simplification of recognition, measurement and presentation requirements in areas such as financial instruments, employee future benefits, income taxes, subsidiaries, investments and joint ventures.
- Reduction in financial statement disclosures, based on the needs of users, who are typically owners, managers, investors and lenders.
- Elimination of EIC Abstracts as they currently exist, with certain guidance that is important to private enterprises now embedded in the standards.

Some of the more significant new reporting requirements and options applicable to enterprises that currently prepare their financial statements under existing Canadian GAAP include:

- The requirement to measure investments in equity instruments which trade in an active market at fair value, with changes in fair value being reflected through income.
- An option to value any financial instrument at fair value; the option must be selected on initial recognition of the instrument and is irrevocable.
- Restricted use of hedge accounting. Hedge accounting has been simplified but is only permitted when the relationship can be evaluated as fully effective under what is known as the critical terms match method.
- Requirement to expense transaction costs for the acquisition of financial instruments carried at fair value.
- New accounting requirements for business combinations, the preparation of consolidated financial statements and the recognition of the interests of non-controlling shareholders. The requirements include a broader application of fair value, the requirement to expense costs incurred in acquiring a new business and treating the interests of non-controlling shareholders as a portion of equity, and
- The option to account for defined benefit pension plans using the actuarial information that is prepared for funding purposes. If this option is adopted, all actuarial gains and losses must be immediately recognized in income; there is no opportunity for deferral and amortization.

A new section (Section 1500, *First-time Adoption*) in Part II of the *CICA Handbook* prescribes the basis on which an enterprise prepares its first financial statements in accordance with ASPE.

The general principle is retrospective application of the new standards but relief has been provided where the AcSB concluded that the cost of retrospective application would be excessive. There is also a general principle that estimates made in prior periods cannot be revised on transition. Additional financial statement disclosures will be required in the year of transition to inform the reader as to the impact of the transition including disclosures on the accounting policy choices made by management.

The CICA has published *The CICA's Guide to Accounting Standards for Private Enterprises in Canada* to help enterprises transition to the new Canadian accounting standards. The guide also provides a comparison of new ASPE (Part II of the revised CICA Handbook) to existing Canadian GAAP. Another publication of the CICA, *Accounting Standards for Private Enterprises: A guide to understanding transitional options and accounting policy choices*, helps explain the accounting policy choices that management will have to make and the transitional options available when first applying these standards.

The staff of the AcSB also prepared a high-level comparison of ASPE and IFRS as private enterprises are permitted, but not required, to adopt IFRS. The comparison covers significant recognition and measurement differences only and does not necessarily include all of the differences that might arise in a particular entity's circumstances. This comparison does not address financial statement disclosure requirements which are voluminous under IFRS. Please refer to the *CICA website* for a copy of the comparison.

Developments in Accounting Standards for Private Enterprises

The following section discusses developments in ASPE since the previous edition of *Focus on Financial Reporting* in 2010.

Amendment to Section 1500, *First-time adoption*

In December 2010, the Board amended Section 1500, *First-time Adoption*, to permit an entity to carry forward, upon transition, any unrecognized actuarial gains and losses and past service costs that were determined in accordance with 3461, *Employee Future Benefits*, or another recognized financial reporting framework, prior to the adoption of ASPE.

Improvements issued to accounting standards for private enterprises

In May 2011, the Board issued an exposure draft, *2011 Improvements to Accounting Standards for Private Enterprises*. The purpose of this exposure draft was to clarify guidance or wording in the standards, or to correct for relatively minor unintended consequences, conflicts or oversights. After considering the responses received to the exposure draft, certain amendments and clarifications were made to the *CICA Handbook* in October 2011 and are effective for fiscal years beginning

on or after January 1, 2011. The key amendments made include, but are not limited to, the following:

- Amendment to Section 1400, *General Standards of Financial Statement Presentation*, to require an enterprise to present only one set of general purpose financial statements under Part II of the *CICA Handbook – Accounting* in any particular period, and to refer to this set of financial statements in any additional sets of financial statements prepared by the enterprise.
- Section 3064, *Goodwill and intangible assets*, has been amended to clarify that the requirement to expense expenditures on advertising and promotional activities includes expenditures on mail order catalogues and other similar documents intended to advertise goods, services or events to customers.
- Amendments were made to Section 3856, *Financial Instruments*, to provide clarifications and additional guidance for certain hedging scenarios. These amendments also permit entities to retrospectively designate qualifying hedging relationships entered into at any time prior to the end of the entity's first fiscal year beginning on or after January 1, 2011.
- A revision was made to Section 3820, *Subsequent Events*, clarifying the meaning of the date of completion of the financial statements.

Major Improvements under development

In 2011, the AcSB announced its first round of major improvements to ASPE. The effective dates of the changes will be no earlier than fiscal years beginning on or after January 1, 2014. Major improvement projects currently underway include a standard for agriculture and revised standards for consolidation, discontinued operations, employee future benefits and fair value measurement. The AcSB plans to issue exposure drafts on individual topics in late 2011 and 2012 with an eye on issuing the final standards in 2013.

These improvements will also include amendments to Section 1000, *Financial Statement Concepts*, to be consistent with changes to the IASB's conceptual framework in Part I of the Handbook. Consideration is also being given to whether changes should be made to the standard on Joint Ventures.

The most advanced of these projects is the proposed revised standard on *Employee Future Benefits*, with an exposure draft expected in December 2011.

The AcSB is proposing to abolish the ability to smooth the recognition of actuarial gains and losses through income as allowed by the deferral and amortization method of accounting for employee future benefits, including defined benefit pension plans. The AcSB believes that users of financial statements want relevant information about such employee benefit plans that is easy to understand and permits comparison amongst enterprises. Therefore, the AcSB is proposing that the full amount of a plan sponsor's defined benefit obligation, net of plan assets, be recorded on the sponsor's balance sheet and any changes resulting from subsequently re-measuring these amounts (i.e. the obligation and the assets) be recorded in income as they arise. The AcSB is proposing to allow the use of either an actuarial valuation for accounting purposes or an actuarial valuation for funding purposes; however, the valuation method should be applied consistently to all defined benefit plans of the entity. The re-measurement component would also include past service costs and gains and losses arising from settlements and curtailments.

This change could result in significant additional variability in reported net income for entities using ASPE. It is interesting to note that entities using IFRS will be able to “park” these re-measurement gains and losses in equity to avoid income volatility, but that option will not be available to private companies if the AcSB’s proposals are adopted.

The AcSB is also proposing:

- An additional mandatory disclosure for employee future benefits— namely the re-measurement amount as discussed above. Preparers of financial statements will be required to calculate and disclose the re-measurement amount, either as a separate line in the income statement or in the notes to the financial statements. Guidance on measurement of plan assets is expected to be included in the standard on fair value measurement which is also a part of the Major Improvements project. This will be helpful, as many private businesses are unfamiliar with fair value measurement concepts.
- That plan assets and the defined benefit obligation be measured as at the balance sheet date, instead of as at a date up to 3 months prior to the balance sheet date.
- Administration costs for the management of plan assets be deducted from the return on plan assets.
- Past service costs for defined contribution plans are recognized immediately in income.
- Disclosure of the effective date of the most recent actuarial valuation, as well as disclosure of whether a funding or accounting valuation was used and disclosure of any change in the actuarial cost method when a funding valuation is used.

These amendments would be applied retrospectively in accordance with Section 1506, *Accounting Changes*, except that when benefit costs are included in the carrying amount of assets such as inventories or property, plant and equipment, the carrying amount of these assets at the date of adoption of the amendments would not need to be adjusted. Transitional relief is also available for enterprises currently measuring plan assets and defined benefit obligation up to three months prior to the balance sheet date which would allow such enterprises to calculate the defined benefit cost for the period from the previous measurement date to the end of the year of adoption and allocate this amount proportionately to current period benefit cost and an adjustment to retained earnings.

For the other projects, while no details have been released, the major improvements project will, for the most part, entail reviewing the related developments in IFRS to determine if ASPE should be amended to adopt the new international standards, either directly or with appropriate amendments.

Not-For Profit Organizations

In late December 2010, both the AcSB and the PSAB issued new standards for not-for-profit organizations effective for fiscal years beginning on or after January 1, 2012 with early adoption permitted.

The PSAB issues standards for governments and other entities in the public sector, including government not-for-profit organizations (GNPOs). GNPOs are entities controlled by the government that are not-for-profit organizations and have counterparts outside the public sector. The AcSB's standards apply to all not-for-profit organizations (NPOs) that are not controlled by government.

The AcSB's new standards for non-government NPOs form Part III of the *CICA Handbook*. Non-government NPOs will have a free choice to adopt either IFRS with no modification or the Accounting Standards for Not-for-Profit Organizations (Part III).

The PSAB will allow GNPOs to choose either the Public Sector Accounting (PSA) Standards of the *PSA Handbook* or the PSA Standards supplemented by unique standards for not-for-profits incorporated as the PS 4200 series within the *PSA Handbook*.

The financial reporting framework for both NPOs and GNPOs who elect using PS 4200 is substantially the same material that the AcSB developed in the 1990s and that NPOs have been following since 1997, often referred to as the 4400 series standards. More specifically, the framework maintains the special accounting rules for:

- Financial statement presentation, including both the restricted fund and deferral methods of accounting.
- Contributions, revenue recognition and contributions receivable.
- Capital assets.
- Collections, including works of art and historical treasures.
- Reporting controlled and related entities including those where the entity has control, significant influence or another economic interest.
- Disclosure of related party transactions.
- Disclosure of allocated expenses.

Although substantially the same as the existing 4400 series standards, some changes have been made by both the AcSB and PSAB, as noted below.

Canada's not-for-profit organizations need to determine whether they are a GNPO or an NPO (i.e. not controlled by government). They will then have to choose an accounting framework: for GNPOs, the PSA Standards or the PSA Standards plus 4200; for NPOs, either Part III of the *CICA Handbook* or IFRS. The timelines for transition and the options are now established and some of the transition options may take time to implement.

NPOs

NPOs not controlled by government that elect to apply Part III of the *CICA Handbook* will have new reporting requirements and options. The ASPE Standards (Part II) are applicable for topics that are not addressed in Part III. The more significant changes are:

- A new intangible assets section. This section confirms the applicability of the intangible assets section 3064 in Part II of the *CICA Handbook* for NPOs except as provided in this new section. The section provides for the write-down of intangible assets when the asset no longer has service potential.
- A new inventory section. The new section confirms the applicability of the inventory section 3031 in Part II of the *CICA Handbook* for NPOs, but also provides for recognition and measurement of inventories that have been contributed, are held for distribution at no charge or for a nominal charge, or are held for use in the production process of goods to be distributed at no charge or for a nominal charge.
- Changes to financial instruments as NPOs will apply the ASPE standards for financial instruments. These changes include the following:
 - Requirement to record equity investments that trade in an active market at fair value. All other financial instruments would be reported at amortized cost, unless the election is made.
 - The “available for sale” option has been removed, which doesn’t impact the carrying value of the investment, but fluctuations in fair value must now be recorded through the statement of operations.
 - An election to value any financial instrument at fair value; the election must be selected on initial recognition of the instrument and is irrevocable.
 - Restricted use of hedge accounting. Hedge accounting has been simplified, but is only permitted when the relationship can be evaluated as fully effective under what is known as “critical terms match” method.
- Option to measure an individual capital asset at fair value at the date of transition.
- Changes to employee future benefits; NPOs will apply the ASPE standards for employee future benefits. These changes include the option to account for deferred benefit pension plans using the actuarial information that is prepared for funding purposes. If this option is adopted, all actuarial gains and losses must be immediately recognized in income; there is no opportunity for deferral and amortization.
- New accounting requirements for business combinations, including a broader application of fair value, the requirement to expense costs incurred in acquiring a new business, and treating the interests of non-controlling shareholders as a portion of equity.

A new section (Section 1501, *First-time Adoption by not-for-profit organizations*) in Part III of the *CICA Handbook* prescribes the basis on which an NPO (or organization) prepares its first financial statements in accordance with Part III. The general principle is retrospective application of the new standards but relief has been provided where the AcSB concluded that the cost of retrospective application would be excessive.

There is also a general principle that estimates made in prior periods cannot be revised on transition. Additional financial statement disclosures will be required in the year of transition to inform the reader as to the impact of the transition including disclosures on the accounting policy choices made by management.

In February 2011, the Board issued an amendment to Section 1501, *First-time adoption by not-for-profit Organizations*, that permit an organization that accounts for its defined benefit plans using the deferral and amortization approach to carry forward any unrecognized actuarial gains and losses and past service costs that were determined previously under existing Canadian GAAP or an equivalent.

In October 2011, the Board issued an amendment to Section 1400, *General Standards of financial statement presentation for not-for-profit organizations*, which clarifies that an organization should only present one set of general purpose financial statements prepared under part III of the Handbook in any particular period, and that any additional sets of financial statements should make reference to this set.

In October 2011, the Board also issued improvements to accounting standards for private enterprises which also apply to not-for-profit organizations. Of significance is the change to Section 3064, *Goodwill and intangible assets*, which requires expenditures on advertising and promotional activities to be expensed as incurred.

The Board is considering developing further guidance on combinations of not-for-profit organizations as part of its program of improvements to the existing standards for the not-for-profit sector. The Board has noted that Section 1582, *Business Combinations*, in Part II does not apply to combinations of not-for-profit organizations or an acquisition of a profit-oriented enterprise by a not-for-profit enterprise.

Changes made to or being contemplated in Part II of the *CICA Handbook* should be monitored, as these changes may affect such NPOs. As discussed in the section on Private Enterprises which can be accessed by [clicking here](#), the Board has issued certain amendments to Part II of the *CICA Handbook* in October 2011 as part of its annual improvements project. Such amendments also impact such NPOs. The Board has also proposed that amendments to Section 3461, *Employee Future Benefits*, in Part II of the *CICA Handbook* (being undertaken as part of the Major Improvements project of the Board) would also apply to such NPOs and is seeking input from NPOs on this issue.

This publication does not outline the changes that would result should an NPO elect IFRS.

GNPOs

Government not-for-profit organizations that elect to apply the Public Sector Accounting Standards of the *PSA Handbook*, including the PS 4200 standards, will have new reporting requirements and options, the more significant of which are:

- The modified equity method of accounting for those investments reported previously using the equity method.
- Controlled profit-related investees that meet specific criteria of a government business enterprise (GBE) report using IFRS.

- Changes to the employee future benefits calculation methodology, which includes a different discount rate, a requirement to recognize plan amendments immediately, and a removal of the ability to apply the corridor method for actuarial gains and losses and past service costs. The corridor method provided a relief from amortization of such costs when the deferrals were less than 10 percent of the plan's assets or obligations.
- Requirement to record the liability for compensated absences for benefits (such as sick leave) that accumulate but do not vest.
- Changes to the standards for financial instruments. These changes include the following:
 - A removal of the ability to apply hedge accounting.
 - A requirement to value equity investments that trade in an active market at fair value. Other financial instruments are valued at cost or amortized cost.
 - An election to value any financial instrument at fair value; the election must be selected on initial recognition of the instrument and is irrevocable.
 - The requirement to review embedded derivatives and, in certain cases, account for them separate from the host instrument.

Changes made to or being contemplated in the Public Sector Accounting Standards should be monitored, as these changes may affect such GNPOs. For a discussion on such changes, [click here](#).

This publication does not outline the changes that would result should GNPOs elect the *PSA Handbook* without section PS 4200. Information provided is limited to recent additions and amendments to the *PSA Handbook standard* and does not include other differences, such as financial statements format, that will result.

A new section (PS 2125, *First-time Adoption by Government Organizations*) prescribes the basis on which an organization prepares its first financial statements in accordance with the PSA Standards. The general principle is retrospective application of the new standards but relief has been provided where the PSAB concluded that the cost of retrospective application would be excessive. There is also a general principle that estimates made in prior periods cannot be revised on transition. Additional financial statement disclosures will be required in the year of transition to inform the reader as to the impact of the transition including disclosures on the accounting policy choices made by management.

Public Sector Enterprises

Introduction to the PSAB Handbook

As reported previously, there are a number of changes that impact financial reporting for government organizations. Some of these organizations are required to adopt new financial reporting frameworks as early as this year. Those organizations that are not required to adopt new reporting frameworks may still be impacted by changes to the current standards that they are applying.

The concept of government business type organizations (GBTOs) has been discontinued and any organizations previously classified as GBTOs will now be classified as either:

- (i) An other government organization (OGO),
- (ii) A government business enterprise (GBE), or
- (iii) A government not-for-profit organization (GNPO).

These organizations must adopt this change in classification for their first fiscal year beginning on or after January 1, 2011. The resulting classification of the organization will determine which financial reporting framework must be adopted and when.

The reporting changes that will be faced by the various government organizations and the effective dates are provided in the table below:

Organization type	Required standards	Effective date – fiscal years beginning on or after
Government business enterprises	International Financial Reporting Standards (IFRS)	January 1, 2011 (with an optional one year extension for rate regulated entities)
Government not-for-profit organizations (GNPOs)	Choice of PSA Handbook or PSA Handbook plus the standards for NPOs in PS 4200 (click here for more information)	January 1, 2012
Other government organizations (OGOs)	Choice of IFRS or PSA Handbook	January 1, 2011

The CICA published a [Summary Comparison of the CICA Public Sector Accounting Handbook and the CICA Handbook – Accounting](#) (Part V of the *CICA Handbook*), which provides a high-level comparison of the two Handbooks. The objective of the comparison was to assist government organizations in their transition to the *CICA Public Sector Accounting Handbook*.

Developments in Public Sector Accounting Standards

The following section discusses developments in public sector accounting standards since the previous edition of *Focus on Financial Reporting*.

Government Transfers

PSAB has issued Section PS3410, *Government Transfers*, which replaces the existing Section PS3410. This standard establishes the recognition, measurement, and disclosure requirements for government transfers. It provides specific revenue recognition criteria for both the transferring government and the recipient government. It specifies that a liability may exist because the transfer stipulations direct the use of the funds for specific purposes. In other cases, a liability may exist because the transfer stipulations and the action and communication of the recipient government direct the use of the funds for specific purposes. In both of these cases, the transfer would be reported in revenue as the liability is settled.

This section is effective for fiscal years beginning on or after April 1, 2012 and may be applied retroactively or prospectively. Early adoption is encouraged.

Financial Instruments

A new standard, Section PS3450, *Financial Instruments*, was issued in June 2011. This standard establishes recognition, measurement, and disclosure requirements for derivative and non-derivative financial instruments for public sector entities. The standard requires fair value measurement of derivatives and portfolio investments that are equity instruments quoted in an active market. All other non-derivative financial instruments will be measured at cost or amortized cost. A government can elect to record other financial assets or liabilities on a fair value basis, if they manage and evaluate the asset and liability groups on that basis. Unrealized gains and losses are presented in the new statement of re-measurement gains and losses. New requirements clarify when financial liabilities can be derecognized. Offsetting of financial assets and liabilities is not permitted unless there is a legally enforceable right to set off the recognized amounts and an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Disclosure of the nature and extent of risks arising from holding financial instruments is also required.

Foreign currency

Section PS2601, *Foreign Currency Translation*, was issued in June 2011 and replaces the existing Section PS2600. This standard has been revised to ensure consistency with the financial instruments standard. The standard requires that non-monetary items denominated in a foreign currency that are included in the fair value category are adjusted to reflect the exchange rate at the financial statement date. Unrealized exchange gains and losses are presented in the new statement of re-measurement gains and losses. The section eliminates hedge accounting, presentation of items as synthetic instruments and the ability to defer and amortize any foreign exchange gains or losses related to long-term foreign currency denominated monetary items.

Financial statement presentation

A new standard, Section PS1201, *Financial Statement Presentation*, was issued in June 2011. This standard requires entities to present a new statement of re-measurement gains and losses separate from the statement of operations.

This new statement includes unrealized gains and losses arising from re-measurement of financial instruments and items denominated in foreign currencies and any other comprehensive income that arises when a government includes the results of government business enterprises and partnerships. The combination of this new statement and the statement of operations accounts for all changes in assets and liabilities. The accumulated surplus or deficit is presented as the total of the accumulated operating surplus or deficit and the accumulated re-measurement gains and losses.

The requirements in Financial Instruments, Foreign Currency and Financial Statement Presentation should all be implemented together and, for government organizations, are effective for fiscal years beginning on or after April 1, 2012. For governments, these standards are effective for fiscal years beginning on or after April 1, 2015. Early adoption is permitted.

PSAB projects underway

The following section discusses the major projects that the Public Sector Accounting Board is currently working on.

Update of Terminology

An exposure draft was approved in June 2011, titled "Update of Terminology" with an objective of amending the Introduction and applicable sections with a terminology to describe public sector entities which follow the PSA Handbook. The exposure draft proposes replacing references to "government", "public sector reporting entity", "entity" and "reporting entity" with "public sector entity" where applicable and removing government partnerships and school boards from the definition of public sector in the Introduction to Public Sector Accounting Standards. The Board expects to approve the final amendments in December 2011.

Amendments to Public Sector Accounting Standards

The introduction to the new section on financial instruments discussed above gives rise to the need for revisions and amendments to other standards in order to conform to the new guidance. Accordingly, the board has issued two exposure drafts, the first one being "Amendments resulting from Section PS 3450". This exposure draft proposes to remove the existing section on Temporary Investments (PS 3030) and to amend the existing guidance in Section PS 3040, *Portfolio Investments*, and to make related amendments to other standards.

The second exposure draft, "Handbook Improvements", proposes amendments to Section PS 2500, *Basic Principles of Consolidation*, to address transfer of derivatives among entities in a government reporting entity, and proposes amendments to Section PS 2700, *Segment Disclosures*, to address re-measurement gains and losses and other related amendments.

The Board expects to approve these amendments in December 2011.

Pension Plans

As noted last year, the AcSB has decided that, upon adoption of IFRS by publicly accountable enterprises, pension plans will prepare their financial statements in accordance with Section 4600, *Pension Plans*, in Part IV of the Handbook issued by the AcSB in 2010. Section 4600 is based on existing Section 4100, *Pension Plans*, of the Handbook with certain modifications.

The standards will apply to annual financial statements of pension plans relating to fiscal years beginning on or after January 1, 2011, with earlier application permitted. The standards apply retrospectively to all prior periods presented.

Developments in Accounting Standards for Pension Plans

The following section discusses developments in the accounting standards for pension plans since the last edition of *Focus on Financial Reporting*.

Amendments to Section 4600, Pension Plans

Following the issuance of IFRS 13, *Fair Value Measurements*, the AcSB has issued certain amendments to Section 4600, *Pension Plans* in November 2011.

The significant amendments are noted below:

- A pension plan will be required to follow the new fair value measurement guidance (IFRS 13, *Fair Value Measurement*) in Part I of the *CICA Handbook* in determining fair value for its investment assets and liabilities. Until such time as IFRS 13 becomes effective, which is for periods beginning on or after January 1, 2013, pension plans can apply the guidance in either IAS 39, *Financial Instruments: recognition and measurement*, or IFRS 13, *Fair Value Measurement*. Consequently, the existing definition of fair value in Section 4600 has been deleted. A pension plan is required to disclose which of the above standards has been applied in determining the fair value of its investment assets and liabilities. For more details on IFRS 13, [click here](#)
- Pension plans will be required to recognize and derecognize all financial assets and financial liabilities in accordance with the requirements in either Part I or Part II of the Handbook, consistent with the basis of accounting chosen in selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations.

Proposed expanded scope of S4600, Pension Plans

In April 2010, the AcSB had issued an exposure draft, *Pension Plans (Proposed amendment to the Scope of Section 4600)*, proposing an expanded scope of Section 4600 to include 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. In addition, the AcSB is considering a requirement for such entities to apply the accounting standards for pension plans in Part IV of the Handbook or alternatively, a choice to apply Part I (IFRSs).

The entities proposed to be included in the scope of Section 4600 currently meet the definition of an investment company and hence, the delayed application of IFRS for investment companies (currently applicable for fiscal years beginning on or after January 1, 2013) will also apply to them.

The AcSB has noted that it continues to believe that an entity separate from a pension plan and without a pension obligation itself, whose sole purpose is to hold and invest assets received from one or more pension plans, should measure its investments at fair value.

The AcSB will evaluate whether such an entity would qualify as an investment entity under the IASB's *Exposure Draft on Investment Entities*. Based on that evaluation, the AcSB will decide whether such an entity should be brought within the scope of Section 4600, *Pension Plans*, in Part IV of the Handbook, as proposed in its exposure draft.

Other

As a result of the issuance of IFRS 12, *Disclosure of Interests in Other Entities*, and IFRS 13, *Fair Value Measurements*, the staff of the AcSB is considering modifications to the disclosure requirements in Section 4600, *Pension Plans*.

Appendix

Acronyms

AcSB	Accounting Standards Board (CICA)	IFRS	International Financial Reporting Standards
ASPE	Accounting Standards for Private Enterprises	MD&A	Management's Discussion and Analysis
CICA	Canadian Institute of Chartered Accountants	NI	National Instrument
CSA	Canadian Securities Administrators	NP	National Policy
EIC	Emerging Issues Committee (CICA)	OCI	Other Comprehensive Income
EITF	Emerging Issues Task Force (FASB)	OSC	Ontario Securities Commission
FASB	Financial Accounting Standards Board (US)	PSA	Public Sector Accounting
GAAP	Generally Accepted Accounting Principles	PSAB	Public Sector Accounting Board
IAS	International Accounting Standard	SEC	Securities Exchange Commission
IASB	International Accounting Standards Board	US	United States
ICFR	Internal Controls over Financial Reporting		
IFRIC	International Financial Reporting Interpretations Committee, now known as the IFRS Interpretations Committee		

Websites

www.cica.ca	CICA
www.iasb.org	IASB
www.fasb.org	FASB
www.aicpa.org	AICPA
www.kpmg.ca	KPMG
www.osc.gov.on.ca	OSC
www.sec.gov	SEC

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