



ASPE – Change is (already) in the Air!

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Most of Canada's private businesses will be adopting Canada's new Accounting Standards for Private Enterprises (ASPE) for their first fiscal year commencing on or after January 1, 2011. Selecting transition options and accounting policy choices and drafting financial statements that include the retrospective application of these choices will keep accounting managers and chief financial and executive officers busy during 2011.

While the first financial statements using ASPE may have yet to be drafted, let alone the ink having dried, Canada's Accounting Standards Board (AcSB) has announced its first round of major improvements to ASPE. The good news is that the effective date of the changes will be no earlier than fiscal years beginning on or after January 1, 2014. Major improvement projects underway include a standard for agriculture and revised standards for consolidation, discontinued operations, employee future benefits and fair value measurement.

While we do not have details regarding most of the proposed changes, the AcSB has provided some insights into the proposed improvements to accounting for employee future benefits. Many private businesses sponsor employee future benefit plans that provide defined post-employment benefits such as defined benefit pension plans. They will be aware that there is currently a choice under ASPE between retaining the deferral and amortization approach and adopting the new immediate recognition approach.

Under the immediate recognition approach, a private business is allowed to use the actuarial valuation prepared for funding purposes (generally prepared to meet the requirements of the relevant pension legislation), but must recognize all actuarial gains and losses and past service costs in income in the period in which they arise. Under this approach, the company's balance sheet reflects the funded status of the plan.

Conversely, under the deferral and amortization approach, actuarial gains and losses and past service costs are recognized through income over future periods based on the expected average remaining service life of the employee group. Users of the financial statements must look to the note disclosure for information on the funded status of the plan.

The AcSB is proposing to withdraw the deferral and amortization approach from ASPE. Impetus for the change is the proposal to revise the International Financial Reporting Standard, IAS 19 – *Employee Benefits*. The proposed revised IAS 19, which Canadian public companies would be required to follow, would no longer permit the deferral of actuarial gains and losses and past service costs.

The AcSB recognizes that public companies will be able to flow actuarial gains and losses and past service costs into equity through “other comprehensive income (OCI)” and avoid volatility in the reported profit or loss. ASPE does not include the concept of OCI; therefore, the AcSB is considering whether some type of similar relief should be provided for private companies to avoid the income statement volatility that is inherent in the immediate recognition model.

Private companies that sponsor defined benefit pension plans will want to consider this development in selecting either the immediate recognition or the deferral and amortization models on transition to ASPE. Given the possibility that the deferral and amortization model may have a sunset clause within the next 3 years, private companies may choose to transition directly to the immediate recognition model to avoid a significant accounting policy change so soon after the adoption of ASPE.

How we can help

KPMG Enterprise business advisers can help you analyze the financial reporting impact on your business of this proposed change to accounting for employee future benefits. We are also available to assist with other transition issues as your business prepares to present its 2011 financial statements under ASPE. KPMG Enterprise is also ready to support private businesses that decide to adopt International Financial Reporting Standards rather than ASPE.

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