



# The Evolution Begins to Unfold

Canada's Accounting Standards Board (AcSB) recently released further information regarding the future of Accounting Standards for Private Enterprises (ASPE). While the AcSB remains committed to a period of time for ASPE and its other strategies to "bed down," the Board is not enjoying a hiatus from standard setting; rather, it is actively working to clarify certain aspects of ASPE through an "annual improvements" project, the resulting changes being effective for fiscal years commencing on or after January 1, 2011, the mandatory adoption date for ASPE. In addition, the AcSB is moving forward with its agenda for "major improvements," the most advanced project being *Employee Future Benefits* and the AcSB's proposal to abolish smoothing.

## Annual Improvements

The AcSB is addressing a number of issues in its first "annual improvements" project for ASPE. For the most part, changes are limited to providing clarifying guidance or to correct relatively minor unintended consequences, conflicts or oversights in ASPE. The AcSB issued the annual improvements in an exposure draft in May 2011 with a comment period ending June 30, 2011. The proposed improvements include:

- A requirement for an entity to provide a reference to its general purpose financial statements when it prepares additional financial statements under ASPE

- An amendment to *Goodwill and Intangible Assets* to clarify that the requirement to charge expenditures on advertising and promotional activities to income includes mail order catalogues and other similar documents intended to advertise goods, services or events
- An amendment to *Subsequent Events* to clarify the meaning of the term "date of completion" to be consistent with recent changes in Canadian Assurance Standards. In essence, management is responsible for identifying and considering the effects of events between the financial statement date (i.e. the year-end) and the date the financial

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statements are fully complete and ready for issuance. This will likely be a date later than under existing practice

- Hedge accounting will be amended to allow it to be applied:
  - o When an interest rate swap is not prepayable but the hedged item is prepayable, so long as it is probable that the hedged item will not be prepaid
  - o To a commodity swap, even though the location parameter of the derivative contract and the anticipated purchase or sale of the commodity does not match, provided the grade or purity of the commodity is similar
  - o To an anticipated transaction denominated in a foreign currency, when the forward contract hedging the foreign currency exposure matures within 30 days of expected settlement of the payable or receivable created by the anticipated transaction
  - o When the number of days by which the maturity date of a hedging derivative differs from the maturity date of the hedged position does not exceed 30 (previously 14)
  - o When a single derivative contract is designated as hedging a group of transactions, provided the terms of the contract match the critical terms of the group of transactions in aggregate.

- The changes to the hedging standards are designed to accommodate more common commercial arrangements used by private enterprises to qualify.

### **Major Improvements – Employee Future Benefits**

As we had advised in a previous communiqué, 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 remeasuring 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.

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

remeasurement 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:

- o An additional mandatory disclosure for employee future benefits—namely the remeasurement amount as discussed above. Preparers of financial statements will be required to calculate and disclose the remeasurement amount, either as a separate line in the income statement or in the notes to the financial statements. The upcoming exposure draft is expected to provide guidance on how the remeasurement amount can be calculated. This will be helpful, as many private businesses are unfamiliar with the remeasurement concept
- o 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
- o Administration costs for the management of plan assets be deducted from the return on plan assets
- o Past service costs for defined contribution plans be recognized immediately in income.

## Major Improvements – Other

Other major improvement projects on the AcSB's agenda include:

- o Agriculture
- o Consolidation
- o Discontinued operations
- o Fair value measurement, and possibly
- o Joint ventures.

While no details have been released, for the most part these projects will entail reviewing the related developments in International Financial Reporting Standards (IFRS) to determine if ASPE should be amended to adopt the new international standards, either directly or with appropriate amendments.

## Your Opportunity

The **Exposure Draft on Annual Improvements** is open for comment until June 30, 2011. Employee Future Benefits is expected to be exposed for comment later this year. KPMG Enterprise would encourage you to monitor the AcSB's proposals and either provide your input directly to the AcSB or convey your comments or concerns to your KPMG Enterprise business adviser, who can ensure they are considered in developing our response to the exposure drafts.

Remember, most companies must transition to either IFRS or ASPE **no later than December 31, 2011**. While there is still time to consider your transition elections and accounting policy choices, you will need to ensure that you leave adequate time to discuss your decisions with your lenders and other stakeholders to ensure your choices meet their needs. KPMG Enterprise business advisers are knowledgeable in these matters and have the tools to assist you in your analysis and assessment.

### 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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