
2014 Accounting Standards Year-end Summary

January 2015

This Year-end Summary contains key information and updates published online during 2014. It includes messages from the Chairs of the Accounting Standards Board (AcSB) and the Accounting Standards Oversight Council (AcSOC), FYI articles on projects and other matters, as well as effective dates for new standards. This information, and all AcSB news and updates, is found at www.frascanada.ca

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Table of Contents

Accounting Standards Oversight Council Annual Report 2013-2014	2
Message from the Chair, Kevin Nye	2
Accounting Standards Board Annual Report 2013-2014	3
Message from the Chair, Linda F. Mezon	3
International Financial Reporting Standards (IFRSs)	5
FYI Article – IASB Investor Initiatives.....	5
FYI Article – The Importance of Financial Statement User Input.....	6
FYI Article – Leases: IASB Makes Proposals More Cost Effective.....	7
FYI Article – Disclosure: Too Much of a Good Thing?	9
Effective Dates for New Standards	10
Standards for Private Enterprises	14
FYI Article – Consolidations: No More AcG-15 Headaches for Private Enterprises!	14
FYI Article – 2014 Annual Improvements: Clarifying the Standards	16
FYI Article – Financial Instruments: Reviewing the Standard	17
FYI Article – Accounting for Redeemable Preferred Shares Issued in a Tax Planning Arrangement	19
FYI Article – Joint Arrangements and Investments: Embrace the Changes	22
Effective Dates for New Standards	24
Standards for Not-for-Profit Organizations	26
Effective Dates for New Standards	26

Accounting Standards Oversight Council

Annual Report 2013-2014

[\[Full report\]](#) available online.]

Message from the Chair, Kevin Nye

Safeguarding the Public Interest

AcSOC serves a diverse range of stakeholders, including preparers and users of financial statements, by overseeing and advising the Accounting Standards Board (AcSB) and the Public Sector Accounting Board (PSAB).

It is important to note that AcSOC does not manage these Boards. The AcSB and PSAB act as independent standard setters whose activities and guidance are designed to meet the public interest by instilling confidence in markets, public institutions and private enterprises.

Instead, AcSOC oversees the Boards' activities, setting rigorous performance standards for them to ensure independence, integrity, superior quality and adherence to due process, and making high-level recommendations on key issues to ensure that the public interest is considered in all the Boards' activities. This makes AcSOC an important safeguard to ensure that the Canadian public can have confidence in the standards set by the AcSB and PSAB.

In fact, AcSOC established an ad hoc committee this year to focus on the meaning of "public interest". At the time of writing, this matter is still being actively considered.

Membership Diversity

To support the notion of the public interest in standard setting, AcSOC's membership is made up of approximately 25 individuals in senior positions from a wide range of backgrounds who volunteer their time to carry out the oversight role. The diversity of our membership stretches beyond just professional diversity; our members hail from different geographical locations, a number are bilingual and we also ensure there is gender diversity. This helps to ensure a variety of views are shared with the AcSB and PSAB while they undertake the standard-setting process.

2013-2014 Initiatives

In its oversight role, AcSOC oversaw the process for many major initiatives by the AcSB and PSAB. AcSOC's commitment to hearing directly from stakeholders and carefully considering their viewpoints or issues has led to the Council providing input on the standard-setting process at both the domestic and international levels.

In Canada, AcSOC's encouragement of PSAB to engage its stakeholders further led to its recently established Public Sector Accounting (PSA) Discussion Group, which held its initial meeting in September 2013. The PSA Discussion Group meetings have attracted significant public attendance and encouraged meaningful stakeholder dialogue. Stakeholders discussed issues arising from the application of the CPA Canada Public Sector Accounting Handbook. As a result, the Group has already helped resolve a number of issues and informed important PSAB deliberations.

Internationally, the Council has encouraged the AcSB's actions with regard to the IASB's controversial insurance contracts proposals. The AcSB has worked diligently to discuss with the Canadian life insurance industry their concerns with these proposals. The AcSB has dedicated significant resources to ensure the industry's concerns are heard by the IASB, facilitating one-on-one and public meetings on the topic, and consulting with the IASB project team and its own Insurance Accounting Task Force.

AcSOC supports the AcSB's decision to remain dedicated to this project over the next year. AcSOC's consistent reinforcement of the importance of reaching out to stakeholders to elicit feedback saw it support the AcSB and PSAB decision to issue their jointly-published Statement of Principles, "Improvements to Not-for-Profit Standards," in April 2013. The Statement of Principles presented key principles the Boards will consider using to develop new accounting standards for not-for-profit organizations (NFPOs). They did this to enhance the comparability and usability of NFPOs' financial statements. AcSOC was pleased with the Boards' extensive outreach to promote this document – their request for input attracted a record response from nearly 300 stakeholders.

These are just some of the initiatives our Boards carried out this year.

Accounting Standards Board Annual Report 2013-2014

[\[Full report\]](#) available online.]

Message from the Chair, Linda F. Mezon

Where We've Been

One of the most important activities the AcSB has been involved in this past year is removing the remaining obstacles to full implementation of International Financial Reporting Standards (IFRSs) in Canada.

Barriers to full IFRS adoption by entities with rate-regulated activities were removed, with the changeover date being January 1, 2015. The AcSB approved a new interim standard issued by the International Accounting Standards Board

(IASB) in January 2014 to allow entities with rate-regulated activities that have not already adopted IFRSs to continue to report regulatory assets and liabilities. There was also significant progress with investment entities transitioning to IFRSs, a process that is nearing completion. Although there are some implementation hurdles to overcome, as is the case with other first-time adopters, the changeover is proceeding relatively smoothly.

We are very pleased that all Canadian entities are able to fully adopt IFRSs.

Meanwhile, the accounting framework for the private enterprise sector is well established. Annual and major improvements projects occurred this past year, enabling the AcSB to maintain the quality of the standards it develops for these entities. In addition, the AcSB finalized its deliberations of the comments received on two major projects – consolidations and joint arrangements. The final standards were approved, and are effective for annual periods beginning on or after January 1, 2016.

In addition to the significant headway with IFRS adoption, the AcSB made progress with standards for not-for-profit organizations by issuing a Statement of Principles, “Improvements to Not-for-Profit Standards,” jointly with the Public Sector Accounting Board (PSAB). For this, we did extensive outreach and received substantial stakeholder response.

I have always been a firm believer that from outreach comes knowledge. Outreach is the cornerstone of any standard setter’s strategy and it gets results. In the past year, I have travelled across Canada to ensure that our stakeholders have the opportunity to meet with me and provide their feedback.

Working with PSAB on the Statement of Principles, the two Boards allowed an extended comment period lasting from April to December 2013. The Boards’ efforts to encourage stakeholder feedback included a live webinar, holding public roundtable meetings in 10 centres across Canada, private meetings, direct discussions with over 200 interested stakeholders, and extensive use of digital communication tools like website content and newsletters. These efforts garnered 292 written responses, with the AcSB and PSAB now working together to determine how to move forward based on the feedback.

Where We’re Going

Talking to stakeholders is a tried and true method. Discussions are vital to help the Board understand and consider different points of view; combined with support from our staff, they help to ensure the highest quality of standards. Getting feedback remains a high priority for the AcSB and I’m proud of what we’ve achieved.

Going forward, outreach will be more important than ever and I will continue efforts to travel across Canada to ensure stakeholders have many opportunities to share their views.

The AcSB is now committed to developing its next strategic plan, beginning in 2016. This initiative will require significant participation from stakeholders. A draft of this strategic plan will be available for public comment in 2015. In the meantime, I encourage stakeholders to familiarize themselves with the AcSB's processes, to connect with the Board and to provide input into other proposed standards in preparation for the new strategic plan.

International Financial Reporting Standards (IFRSs)

[See [other news items](#) available online.]

FYI Article – IASB Investor Initiatives

July 23, 2014.

Investor Perspectives

Members of the International Accounting Standards Board (IASB) regularly provide their perspectives on new IASB accounting proposals. These are written in an easily understandable manner by IASB members who are themselves users of financial statements in the form of the publication, Investor Perspectives.

Two recent examples of this are:

- [New Hedge Accounting Model Will Improve Investor Understanding of Risk Management](#)
- [Revenue Recognition: Finally, a Standard Approach for All](#)

[Register](#) to receive Investor Perspectives.

Investor Alerts

The IASB's Investor Education team develops educational publications and webcasts to assist investors with keeping up to date on the IASB's activities.

[Register](#) to receive free email alerts on these activities.

Investor Updates

To complement the IASB's investor alerts, the IASB recently announced the issue of its [Investor Update](#), a newsletter for the investment community. This newsletter aims to make it easy for investors to keep up to speed on changes in

the world of International Financial Reporting Standards (IFRSs) and how those changes may affect an investor's day job.

Each issue profiles the effect that recently introduced standards may have on an investor's analysis of a company's performance. The IASB will highlight changes that are in the pipeline and signal how they might alter the way in which investors look at companies. The IASB will also flag when and how investors can best share their thoughts on the direction the IASB is taking.

Get the first issue of *Investor Update*, which includes information on what the IASB is doing to try and improve disclosures, and insights on the changes to its revenue recognition standard.

More Information

To learn more about the IASB member Investor Perspectives, the IASB's *Investor Update*, or the IASB's communications activities in general, email Barbara Davidson, Principal, Investor Liaison, IASB at bdavidson@ifrs.org

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FYI Article – The Importance of Financial Statement User Input

July 23, 2014. The Accounting Standards Board (AcSB) is keenly interested in receiving input from its stakeholders, which include users, preparers, auditors, regulators and academe. One of the most difficult, but equally important groups, to hear from is users of financial statements. Standard setters, like the AcSB, need to hear from users so that our standards result in financial statements that provide meaningful information, enabling investors and others to allocate their resources to full advantage.

One of the ways the AcSB ensures user needs are heard in the standard-setting process is through our well-established [User Advisory Council](#), which has over 20 members. The User Advisory Council helps the AcSB to understand how users of financial statements, including investors and investment professionals, equity and credit analysts, and rating agencies use financial information. This user community feedback assists the AcSB in developing high-quality accounting standards that provide useful and reliable information at reasonable cost.

As Canadian publicly accountable entities and others know, the AcSB adopts the International Accounting Standards Board's (IASB) International Financial Reporting Standards (IFRSs). Formal bodies of users like the User Advisory

Council are a rare breed, and the staff and members of the IASB consider the Council to be a valuable consultation tool, frequently participating in their meetings. They often use the User Advisory Council as a sounding board in the development of new and amended IFRSs.

The User Advisory Council is an important body to obtain users' input so that they can receive financial statements that are beneficial to them.

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FYI Article – Leases: IASB Makes Proposals More Cost Effective

July 16, 2014. In January 2014, the International Accounting Standards Board (IASB) started to consider the feedback received on its May 2013 revised Exposure Draft on leases. The IASB received extensive feedback, including that of numerous preparers who concluded that the accounting proposed in the Exposure Draft would be very complex and costly to apply.

In response, the IASB made some tentative changes to the proposals. It is increasingly apparent that cost/benefit considerations were pivotal to several of these decisions.

Project Background

The objective of the [Leases project](#) is to record all significant leases, including operating leases, on the balance sheet, similar to current requirements for capital leases. A joint project with the U.S. Financial Accounting Standards Board, the two boards reached different conclusions on some of the issues. This article focuses on the IASB's decisions only.

The Original Proposals

The Exposure Draft proposed a dual approach to the recognition, measurement and presentation of expenses and cash flows arising from a lease:

- For some types of leases (labelled Type A leases), a lessee would report amortization of the asset separately from interest on the lease liability, similar to capital leases today.
- For other types of leases (labelled Type B leases), a lessee would report a straight-line lease expense in its income statement.

Many respondents to the Exposure Draft thought that a dual approach was operationally complex to implement because it requires determining, for each lease, what type it is, and the accounting processes differ for each type.

What's Happening Now?

Lessee Accounting Model

The IASB decided on a single approach for lessee accounting where all leases are accounted for the same way (i.e., as Type A leases), eliminating the distinction between the two types that was included in the Exposure Draft.

Lessor Accounting Model

The IASB also decided that no significant changes are needed to the current lessor accounting model in IFRSs and eliminated the proposed receivable and residual approach. Therefore, a lessor will classify and account for its leases using guidance similar to the current requirements in IAS 17 Leases.

Small-Ticket and Short-Term Leases

Many constituents were concerned that, since lessees often have numerous leases that are high in volume, small in value and not material to users, the cost of applying the proposals to those leases would exceed the benefits. The IASB decided to provide cost relief by permitting lessees, as an accounting policy choice, to not capitalize leases of small assets. Additionally, the proposed recognition and measurement exemption for short-term leases of 12 months or less will be retained. However, the definition of a short-term lease will be revised and this will increase the number of leases that qualify for the exemption.

Portfolio Approach

The IASB also decided to address the cost concerns of implementing the proposals for entities with a large number of leases that have similar characteristics (for example, leases of a fleet of similar cars). Both lessees and lessors will be permitted to account for leases at a portfolio level (rather than a lease-by-lease basis) when doing so would not result in a material difference from accounting for the leases on an individual basis.

Reassessment and Remeasurement

Many respondents disagreed with the Exposure Draft proposals on when reassessment of the lease term and remeasurement of the right-of-use asset and lease liability would be required. The concern is that there would be significant costs and complexities in performing individual reassessments of each lease, particularly for companies with a large number of leases.

In response, the IASB will limit the circumstances in which reassessment would be required, as compared to the proposals in the Exposure Draft. A lessee is required to reassess the lease term only upon the occurrence of a significant event or a significant change in circumstances that is within the lessee's control. A lessee is only required to reassess variable lease payments that depend on an index or a rate when there is a contractual change in the cash flows. A lessor

is not required to reassess the lease term or reassess variable lease payments that depend on an index or a rate.

Separating Lease and Non-Lease Components

Some constituents disagreed with the proposal requiring lessees to separate lease and non-lease components. They argued that it would be costly to do so, with little added benefit to users, particularly for lessees with a large number of contracts.

The IASB, as a practical expedient, decided to allow lessees an accounting policy choice by class of asset to not separate lease components from non-lease components and instead account for the components together as a single lease component. Lessees will also be allowed to use estimation techniques (for example, a residual approach) in determining the stand-alone selling prices of components if observable prices are not available.

What's Next?

The IASB will continue its redeliberations on this project at future meetings.

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FYI Article – Disclosure: Too Much of a Good Thing?

July 9, 2014. There is a lot of talk of disclosure overload – disclosure requirements are ever increasing and it is often difficult to identify what is important in financial statement notes. In light of this, the International Accounting Standards Board (IASB) started a multi-part [Disclosure Initiative](#) to determine how to improve disclosure requirements in IFRSs.

Earlier this year, the IASB published an Exposure Draft of proposed amendments to IAS 1 *Presentation of Financial Statements* which is the first part of the initiative.

These proposals clarify existing requirements, rather than change them – changes will be part of later stages of the project after appropriate research is done. The IASB hopes that the proposals will assist companies to use judgment to make presentation and disclosure more relevant.

The Exposure Draft proposes to clarify the following:

- **Materiality** applies to note disclosure. A company need not provide a disclosure required by a standard if the information is not material. Disclosing immaterial information may reduce the understandability of

the financial statements by detracting from the material information. Information should not be aggregated or disaggregated in a manner that obscures useful information.

- **Order of the notes.** IAS 1 does not require a specific order for the notes. Companies should develop a systematic approach, considering understandability and comparability. For example, notes could follow the order of line items in the financial statements, notes containing more significant information could come before other notes, or the accounting policy for financial instruments could be included in the financial instrument note.
- **Information to be presented in the statement of financial position and the statement of profit or loss and other comprehensive income.** IAS 1 currently identifies certain lines that should be shown in those statements. Those lines are not required to be shown separately if they are not material – and should be disaggregated if this would provide more relevant information. The Exposure Draft proposals also clarify that additional subtotals can be included provided certain criteria are met, similar to the Canadian Securities Administrators guidance on additional GAAP measures.

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Effective Dates for New Standards International Financial Reporting Standards

This summary of recently issued pronouncements has been prepared for information purposes only. Consequential amendments to existing standards resulting from the issuance of new standards and less significant changes to existing standards are not included below. For more details, see the [CPA Canada Handbook – Accounting](#).

Qualifying [investment companies and segregated accounts of life insurance enterprises](#) and entities with [rate-regulated activities](#) are required to adopt International Financial Reporting Standards (IFRSs) as Canadian GAAP for interim and annual financial statements related to fiscal years beginning on or after January 1, 2014 and January 1, 2015, respectively.

Pronouncement

Application

Effective for annual periods beginning on or after January 1, 2018:

IFRS 9 *Financial Instruments*
(New in 2014: replaces IAS 39, IFRIC 9 and earlier versions of IFRS 9)

In accordance with specific requirements in IFRS 9.

Amendments to IFRS 7 *Financial Instruments: Disclosures*

Simultaneously with IFRS 9, in accordance with specific requirements in IFRS 7.

Effective for annual periods beginning on or after January 1, 2017:

IFRS 15 *Revenue from Contracts with Customers*

In accordance with specific requirements in IFRS 15.

(New in 2014)

Effective for annual periods beginning on or after January 1, 2016:

Annual Improvements (2012-2014 Cycle) to:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- IFRS 7 *Financial Instruments: Disclosure*
- IAS 19 *Employee Benefits* (Amended in 2011)
- IAS 34 *Interim Financial Reporting*

IFRS 5 and IAS 19 – prospective
IFRS 7 – in accordance with the specific requirements in IFRS 7
IAS 34 – retrospective

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (Amended in 2011) re:

Prospective

- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Amendments to IFRS 11 *Joint Arrangements* re:

Prospective

- *Accounting for Acquisitions of Interests in Joint Operations*

Pronouncement	Application
IFRS 14 <i>Regulatory Deferral Accounts</i> (New in 2014)	Retrospective
Amendments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i> re: <ul style="list-style-type: none"> • <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> 	Prospective
Amendments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 41 <i>Agriculture</i> re: <ul style="list-style-type: none"> • <i>Agriculture: Bearer Plants</i> 	In accordance with specific requirements in IAS 16 and IAS 41
Amendments to IAS 27 <i>Separate Financial Statements</i> (Amended in 2011) re: <ul style="list-style-type: none"> • <i>Equity Method in Separate Financial Statements</i> 	Retrospective

Effective for annual periods beginning on or after January 1, 2015:

Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> re: <ul style="list-style-type: none"> • <i>Mandatory Effective Date and Transition Disclosures</i> 	In accordance with specific requirements in IFRS 7
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Effective for annual periods beginning on or after July 1, 2014:

Amendments to IAS 19 <i>Employee Benefits</i> (Amended in 2011) re: <ul style="list-style-type: none"> • <i>Defined Benefit Plans: Employee Contributions</i> 	Retrospective
Annual Improvements (2010-2012 Cycle) to: <ul style="list-style-type: none"> • IFRS 2 <i>Share-based Payment</i> • IFRS 3 <i>Business Combinations</i> • IFRS 8 <i>Operating Segments</i> • IAS 16 <i>Property, Plant and Equipment</i> • IAS 24 <i>Related Party Disclosures</i> 	IFRS 2 and IFRS 3 – prospective IFRS 8, IAS 16, IAS 24 and IAS 38 – retrospective

Pronouncement

Application

- IAS 38 *Intangible Assets*

Annual Improvements (2011-2013 Cycle) to:

- IFRS 3 *Business Combinations*
 - IFRS 13 *Fair Value Measurement*
 - IAS 40 *Investment Property*
- IFRS 3 – prospective
IFRS 13 – in accordance with specific requirements in IFRS 13
IAS 40 – retrospective

Effective for annual periods beginning on or after January 1, 2014:

Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* re:

In accordance with specific requirements in IFRS 10, IFRS 12 and IAS 27

- *Investment Entities*

Amendments to IAS 32 *Financial Instruments: Presentation* re:

Retrospective

- *Offsetting Financial Assets and Financial Liabilities*

Amendments to IAS 36 *Impairment of Assets* re:

In accordance with specific requirements in IAS 36

- *Recoverable Amount Disclosures for Non-Financial Assets*

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* re:

Retrospective

- *Novation of Derivatives and Continuation of Hedge Accounting*

IFRIC 21 *Levies* (New in 2013)

Retrospective

Standards for Private Enterprises

[See [other news items](#) available online.]

FYI Article – Consolidations: No More AcG-15 Headaches for Private Enterprises!

December 19, 2014. In September 2014, the Accounting Standards Board (AcSB) issued Section 1591, *Subsidiaries*, which replaced Section 1590, *Subsidiaries*, and Accounting Guideline AcG-15, Consolidation of Variable Interest Entities in Part II of the CPA Handbook – Accounting.

Why Were Changes Made?

When the standards in Part II were developed, AcG-15 was identified as causing significant difficulty for private enterprises. AcG-15 was based on parts of U.S. GAAP that were recognized as needing improvement and that were replaced subsequent to the adoption of AcG-15 by the U.S. Financial Accounting Standards Board (FASB) issuance of Interpretation 46(R), Consolidation of Variable Interest Entities. In addition, the International Accounting Standards Board (IASB) was revising its consolidation standard to replace the guidance previously in International Financial Reporting Standards (IFRSs) on broadly the same issue as that addressed by AcG-15. Therefore, the AcSB committed to taking on a project to replace the AcG-15 guidance once the IASB's work was completed, so that the AcSB could benefit from both the work of the IASB and the FASB. Implementing multiple changes in the short term, or coming to final conclusions that were not converged, would not serve the needs of private enterprises.

The AcSB, with the advice of the Private Enterprise Advisory Committee, reviewed IFRS 10 Consolidated Financial Statements to determine how appropriate it would be for Canadian private enterprises. The AcSB chose to adopt some concepts from IFRS 10 while minimizing the changes for private enterprises.

What Has Changed?

Section 1591 includes additional guidance that requires the use of judgment to determine when control is obtained through means other than equity interests. This guidance includes a description of when an enterprise has control through contractual rights and circumstances an enterprise could consider when determining control while using professional judgment.

Based on the feedback received from stakeholders, the AcSB decided to clarify and provide additional examples and guidance concerning types of contractual arrangements and circumstances that may give one enterprise control over another. Other than this change, minor drafting changes were made to the

Exposure Draft proposals as a result of the feedback received from stakeholders.

In accordance with the AcSB's due process requirements, the AcSB discussed whether re-exposure was required as a result of the changes made. The AcSB decided it was not necessary as the only change made was to provide additional examples of contractual arrangements to consider when evaluating control over another enterprise.

What Was Not Changed?

The guidance on enterprises controlled through voting interests remained consistent, including the definition of control. As well, the AcSB thought that the accounting policy choice to account for subsidiaries using the cost or equity method should be retained. The AcSB understands that the accounting policy option is widely used in practice and that the cost/benefit rationale for providing those options remains unchanged. Therefore, the AcSB decided to modify Section 1590 by incorporating adapted guidance from IFRS 10.

Transitional Provisions and Effective Date

Section 1591 transitional guidance provides relief for enterprises that prepared consolidated financial statements previously, and those that choose to prepare consolidated financial statement for the first time, when applying the new standard.

The guidance provides a choice of methods to measure the assets, liabilities and non-controlling interests in each previously unconsolidated enterprise on a subsidiary-by-subsidiary basis, when the information is available. The option to apply the acquisition method in Section 1582, Business Combinations, would result in an enterprise preparing the most complete set of consolidated financial statements. However, the AcSB recognizes that applying the acquisition method can be time consuming and costly for some enterprises. Therefore, the guidance includes the option to use the carrying amounts of the assets and liabilities of the previously unconsolidated enterprise. When applying those options, the standard also permits an enterprise to measure any item of property, plant and equipment at fair value at the beginning of the comparative period, to be consistent with the option provided in Section 1500, First-Time Adoption.

Some enterprises that choose to prepare consolidated financial statements for the first time when applying the new standard might have subsidiaries that have not prepared financial information in accordance with accounting standards for private enterprises previously and may lack the information to do so. In those situations, the transition guidance permits the enterprise to measure the assets, liabilities and non-controlling interests by applying the acquisition method in accordance with Section 1582 without the recognition of any goodwill and

intangible assets, as of the beginning of the comparative period. The AcSB excluded those assets because internally generated goodwill and intangible assets would not otherwise have been reported, and it would be difficult to distinguish between assets that were purchased and those that were internally generated.

The AcSB also provided relief for enterprises that would no longer be required to consolidate an enterprise that it had consolidated previously.

The new standard is effective for fiscal years beginning on or after January 1, 2016. Earlier application is permitted.

For additional information on the revised guidance, see the [Consolidations](#) project page and watch for the Basis for Conclusions document.

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FYI Article – 2014 Annual Improvements: Clarifying the Standards

December 2, 2014. The Accounting Standards Board (AcSB) has a mechanism to address issues relevant to the accounting standards for private enterprises that are narrow and specific in nature – the annual improvements process.

Annual improvements consist of limited amendments to accounting standards for private enterprises set out in Part II of the CPA Canada Handbook – Accounting to clarify guidance or wording, or correct relatively minor unintended consequences, conflicts or oversights. The focus of annual improvements is to help stakeholders apply the standards, rather than introduce significant changes.

About the 2014 Annual Improvements

Two amendments were included in the 2014 annual improvements, both related to Section 3856, Financial Instruments.

Hedging

In some cases a hedged transaction occurs before a year end and the hedging item matures after the year end. This raises the question of how to account for the hedging item in the period between the date the hedged transaction occurs and the year end. The amendment clarifies that the hedging item is remeasured at year end and any gain or loss since the date of the hedged transaction is included in income.

Disclosure of Impairments

Disclosure of the allowance for impairment of financial assets and of the carrying amount of impaired financial assets by type of asset was previously required by the standard. For certain financial assets, such as trade receivables, the allowance for impairment is often determined as a group, based on an age analysis or other methodology rather than on an individual receivable basis. As a result, the allowance for impairment may not relate to a specific item and the related carrying amount of the impaired receivable may not be determinable. The amendment clarifies that disclosure of the carrying amount of impaired financial assets is not required for current trade receivables.

The above amendments were issued in October 2014 and are effective for fiscal years beginning on or after January 1, 2015, with earlier application permitted.

We Are Always Open to Hearing Your Issues

Help us to help you. Do you have an issue that should be considered as an annual improvement? The AcSB relies on stakeholders to inform it of the issues that need attention, as stakeholders are the ones using the standards. If you have an issue – [let us know](#).

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FYI Article – Financial Instruments: Reviewing the Standard

November 11, 2014. The AcSB has issued a [Request for Information](#) as part of its post-implementation review of Section 3856, *Financial Instruments* in Part II of the CPA Canada Handbook – Accounting.

Your input is due by **February 9, 2015**.

Who Should Be Interested in This Post-Implementation Review?

Most private enterprises and not-for-profit organizations apply Section 3856.

What Is a Post-Implementation Review?

A post-implementation review looks at the experience of applying a new standard; for instance:

- Do financial statement users find the information provided useful?
Could the standard provide more useful information?

-
- Are there significant challenges in applying the standard that were not anticipated and/or costs that could be reduced?
 - Are there aspects of the standard where clarification or additional guidance would be useful?

A post-implementation review generally occurs two or three years after a new standard is first applied, so there is sufficient experience to address the above questions. Post-implementation reviews are part of the AcSB's [due process](#).

Why Is This Important?

This is your opportunity to identify to the AcSB any difficulties or concerns you have with Section 3856 and any suggestions for improvement. Your input, based on your experience with Section 3856, will help the AcSB decide whether and how to improve the financial instruments standard, taking into account cost/benefit considerations.

Questions Asked in the Post-Implementation Review

Accounting for financial instruments was significantly revised as part of the changeover to accounting standards for private enterprises set out in Part II of the CPA Canada Handbook – Accounting. The Section 3856 Post-Implementation Review covers all aspects of the standard, including:

- initial measurement;
- subsequent measurement;
- related party transactions;
- impairment;
- presentation of liabilities and equity;
- derecognition;
- hedge accounting; and
- disclosures.

What Happens After the Post-Implementation Review?

Once the Post-Implementation Review is completed, the AcSB will seek recommendations from its [Private Enterprise Advisory Committee](#) on whether any changes should be made to Section 3856. In making any changes to the standard, the AcSB will follow its normal due process, including issuing an exposure draft of the proposed changes for comment by stakeholders. The AcSB will also present the findings of the Post-Implementation Review in a public report.

Request for Information

Input can be provided through written responses to the questions in the [Request for Information](#), by using this [Response Questionnaire](#) by **February 9, 2015**, or through attending one of the roundtable meetings that are being arranged.

Further information about this Post-Implementation Review, including details of the roundtables, can be found on the [project page](#).

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FYI Article – Accounting for Redeemable Preferred Shares Issued in a Tax Planning Arrangement

October 29, 2014. The Accounting Standards Board (AcSB) has recently issued an Exposure Draft regarding accounting for redeemable preferred shares issued in a tax planning arrangement, specifically for shares issued in transactions commonly known as an “estate freeze”. The proposal would see these shares treated in the same manner as any other redeemable preferred shares – i.e., as a financial liability.

Background

Accounting for these redeemable preferred shares is not a new issue. As the shares are redeemable by the holder, they meet the definition of a liability. Liability presentation, with initial measurement at fair value (generally equal to the redemption amount), would result in a large reduction in equity. This is due to the redemption amount of the preferred shares in an estate freeze being equal to the value of the enterprise at the time of the transaction. Historically, the concern has been that liability treatment will wipe out the entities’ equity making the entity appear to be in poor financial condition. For a number of years, the solution has been to make an exception and present these shares as equity and measure them at their par or stated amount – usually a nominal value. This provision is currently contained in Financial Instruments, paragraph 3856.23. A key argument in the creation of equity treatment was a concern that financial statement users would not understand the nature of the liability and resulting reduced equity in the company making it difficult for companies to access capital. Explaining the nature of the redeemable preferred shares to users could be a significant effort for companies and their accounting advisors.

The current proposals would eliminate equity classification (i.e., paragraph 3856.23).

Why Is the AcSB Proposing This Change?

The current exception has become ineffective in several respects and an analysis of cost/benefit suggests that it is no longer needed. Paragraph 3856.23 was created to provide relief to redeemable preferred shares issued as part of a tax planning structure that passed a business from one generation to the next. Over time, the simplification has become ineffective. Some redeemable

preferred shares that are issued as part of these tax planning arrangements are not eligible for equity treatment because they do not make use of the specific income tax act sections noted in the paragraph 3856.23. Also, the current wording of paragraph 3856.23 allows redeemable preferred shares that are issued in a number of other transactions to receive equity treatment (for example, commercial financing arrangements, business combinations, and key employee incentive programs). These issues resulted in the AcSB undertaking a re-examination of equity treatment of these shares.

Cost/Benefit Analysis

In re-examining paragraph 3856.23, the AcSB performed a cost/benefit analysis. In evaluating the benefits, the AcSB consulted a number of creditors – the primary financial statement users of private enterprises. The unanimous view of the users consulted is that they understand the nature of redeemable preferred shares issued pursuant to a transfer of a business from one generation to the next. Consequently, users did not think that they would make different lending decisions than today if these redeemable preferred shares were presented as liabilities.

Many of the users agreed that these redeemable preferred shares should be shown as liabilities because:

- the shares are liabilities and there is value in consistent application of principles;
- doing so avoids financial statement users having to reclassify the shares from equity to liabilities; and
- it ensures the nature of the shares is identified.

Therefore, the AcSB thinks that there are significant benefits associated with liability classification. This analysis suggests that there are no benefits associated with equity classification – in fact there are some who argue that there are negative benefits to users in not presenting these shares in the same way as all other redeemable preferred shares.

Costs are assessed based on the costs of complying with an accounting requirement. Factors assessed include preparation costs, communication costs, specialized expertise costs and related assurance costs. The main cost argument supporting equity treatment was that, if financial statement users do not understand the nature of these redeemable preferred shares, there would be significant communications costs involved in educating users. As financial statement users currently state that they understand the nature of these redeemable preferred shares, the costs associated with explaining the results of liability classification should be minimal and non-recurring.

The change in the user perspective is the driver of the current proposal to remove paragraph 3856.23 and require redeemable preferred shares issued in tax planning arrangements to be presented as liabilities rather than equity.

Liability presentation would reflect the economic nature of redeemable preferred share and would improve financial reporting.

Because the issuance of these redeemable preferred shares is not accompanied by an infusion of capital, liability classification with measurement of the shares at their redemption value will result in a substantial debit. Based on the existing requirements in Section 3251, *Equity*, the Exposure Draft proposes that this debit be recorded in a separate component of equity. The balance in this separate component of equity would be reclassified to retained earnings as the redeemable preferred shares are redeemed. The accompanying note disclosure would explain the nature of this component of equity, its relationship to the redeemable preferred shares, and the basis on which it will be reclassified to retained earnings. The advantage of this separate component of equity is that the effect on retained earnings is directly observable in future periods. Without this separate presentation, the effect of issuing these shares would be “folded” into equity in future periods.

Effective Date

The Exposure Draft proposes retrospective application of this change. Given the significant impact on the balance sheet, retrospective application would provide better information because the current and prior period would be comparable.

The proposed effective date is for periods beginning on or after January 1, 2016. The AcSB understands that removal of paragraph 3856.23 will have a significant effect on the balance sheet and may require amendment of loan agreements. The AcSB thinks that the proposed effective date will give private enterprises sufficient time to adopt the new requirements and make amendments to existing loan agreements.

Comments Welcome

The [Exposure Draft](#) is open for comment until **January 15, 2015**. The Exposure Draft includes an analysis of the arguments that the AcSB considered in drafting its proposals. The AcSB welcomes responses to the Exposure Draft. Responses are most helpful if they provide specific reasons for the support or objection to the proposals. The AcSB will redeliberate the proposals in light of comments received. Part of the redeliberation process includes consultations with the AcSB’s Private Enterprise Advisory Committee.

Further information about this project, including planned communications activities and updates about AcSB redeliberations, can be found on the supporting [project page](#).

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FYI Article – Joint Arrangements and Investments: Embrace the Changes

October 7, 2014. In September 2014, the Accounting Standards Board (AcSB) issued Section 3056, Joint Arrangements (which replaced Section 3055, Interests in Joint Ventures) and amended Section 3051, Investments in Part II of the CPA Handbook – Accounting.

What Has Changed?

Method of Accounting for Interests in Joint Arrangements

Under Section 3055, an investor could choose to account for its interests in joint ventures (now called joint arrangements) using the proportionate consolidation, equity or cost method. This accounting policy choice continued the differential reporting option from pre-changeover standards in Part V of the Handbook. Section 3056 eliminates this free choice in accounting for joint arrangements.

Jointly Controlled Operations and Jointly Controlled Assets

Section 3056 requires an investor with an interest in jointly controlled operations or jointly controlled assets to recognize its interest in the individual assets, obligations, revenues and expenses of the joint arrangement. This accounting would be similar to the proportionate consolidation method of accounting from Section 3055 but may produce different results depending on the details of the joint arrangement. However, in many cases, accounting for the investor's interest in assets and liabilities would produce the same accounting result as proportionate consolidation.

Jointly Controlled Enterprises

Section 3056 allows an investor to account for an interest in a jointly controlled enterprise using either the equity method or the cost method. Section 3056 also permits, but does not require, the investor to undertake additional analysis of its interests in all jointly controlled enterprises to determine whether it has an interest in net assets or in individual assets and liabilities. When an investor performs this optional analysis and determines that its interest in a jointly controlled enterprise represents an interest in individual assets and liabilities, the investor is required to account for that interest in each of those assets and liabilities. As a result of feedback received on the Exposure Draft, "[Joint Arrangements and Investments](#)," issued in August 2013, additional application guidance for investors in jointly controlled enterprises who choose to perform the analysis, as described above, was added to Section 3056.

Under the Exposure Draft proposals, investors would have been required to analyze each interest in a jointly controlled enterprise in order to determine

whether it represented an interest in net assets or in individual assets and liabilities. However, after considering comment letters and other feedback received on the Exposure Draft, the AcSB decided to simplify the proposals. Permitting the use of the cost or equity methods to account for all jointly controlled enterprises means that the additional analysis is optional rather than required.

The changes regarding investments in jointly controlled enterprises were the only significant changes to the Exposure Draft proposals. In accordance with its due process requirements, the AcSB discussed whether to re-expose the proposals as a result of these changes. The AcSB decided this was not necessary because the changes respond to concerns raised by respondents to the Exposure Draft, simplify the proposals and provide additional guidance. The AcSB thought that it was unlikely that it would learn anything new by re-exposing the proposals.

Contributions and Transactions

For contributions to a joint arrangement, the requirement in Section 3055 to defer and amortize the portion of a gain that does not relate to the amount of cash received or fair value of other assets received has not been included in Section 3056 because it did not meet a cost/benefit test. The AcSB received feedback from preparers and users of private enterprises' financial statements that this deferral added additional complexity to the accounting and was not well understood.

Amendments to Section 3051

The AcSB also decided to amend certain paragraphs in Section 3051 to provide clearer guidance on how to account for transactions (including contributions) between an entity and an equity accounted investee. The AcSB decided that gains and losses for interests in the net assets of a joint arrangement accounted for using the equity method should be recognized and measured consistently with other investments accounted for using the equity method. Therefore, guidance on contributions and transactions between an investor and an equity-accounted investee that is consistent with the guidance in Section 3056 was added to Section 3051.

The scope of Section 3051 was clarified to specify that it includes investments subject to significant influence and certain other non-financial instrument investments (such as works of art and other tangible assets held for investment purposes) but does not include other investments (such as investments held by investment companies). The scope was also amended to clarify that a different accounting policy choice can be made for each of the following types of investments:

- subsidiaries that are not consolidated;

- investments subject to significant influence; and
- interests in the net assets of a joint arrangement.

Transitional Provisions and Effective Date

Section 3056 includes specific transitional proposals for changes from the proportionate consolidation method to the equity or cost method and for changes from the equity or cost method to accounting for the investor's interests in the individual assets and liabilities of a joint arrangement. The amendments to Section 3051 permit prospective application in accordance with Section 1506, *Accounting Changes*.

The new standards are effective for fiscal years beginning on or after January 1, 2016. Earlier application is permitted.

For additional information on the revised guidance, see the [Joint Arrangements](#) project page.

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Effective Dates for New Standards Private Enterprises

This summary of recently issued pronouncements has been prepared for information purposes only. Consequential amendments to existing standards resulting from the issuance of new standards and less significant changes to existing standards are not included below. For more details, see the [CPA Canada Handbook – Accounting](#).

Pronouncement	Application
Effective for annual periods beginning on or after January 1, 2016:	
Section 1591, Subsidiaries	In accordance with specific requirements in Section 1591
Amendments to Section 3051, Investments	In accordance with specific requirements in Section 3051
Section 3056, Interests in Joint Arrangements	In accordance with specific requirements in Section 3056

Pronouncement

Application

Effective for annual periods beginning on or after January 1, 2015:

[2014 Improvements](#) to Section 3856, *Financial Instruments* Retrospective

Effective for annual periods beginning on or after January 1, 2014:

[2013 Improvements](#) to:

- Section 1520, *Income Statement*
- Section 1540, *Cash Flow Statement*
- Section 1582, *Business Combinations*
- Section 1590, *Subsidiaries*
- Section 1602, *Non-controlling Interests*
- Section 3055, *Interests in Joint Ventures*
- Section 3856, *Financial Instruments*

Retrospective, except for improvements to Section 1582 and Section 3856, which are applied in accordance with specific requirements in those Sections.

Section 3462, [Employee Future Benefits](#)

In accordance with specific requirements in Section 3462

Amendments to Section 3475, [Disposal of Long-lived Assets and Discontinued Operations](#)

In accordance with specific requirements in Section 3475

Standards for Not-for-Profit Organizations

[See [other news items](#) available online.]

Effective Dates for New Standards Private Sector Not-for-Profit Organizations

This summary of recently issued pronouncements has been prepared for information purposes only. Consequential amendments to existing standards resulting from the issuance of new standards and less significant changes to existing standards are not included below. For more details, see the [CPA Canada Handbook – Accounting](#).

Private sector not-for-profit organizations are required to adopt either accounting standards for not-for-profit organizations in Part III of the Handbook or International Financial Reporting Standards in Part I as Canadian GAAP

Pronouncement

Application

Effective for annual periods beginning on or after January 1, 2014:

Section 3463, [Reporting Employee Future Benefits by Not-for-Profit Organizations](#)

In accordance with specific requirements in Section 3463

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