

Accounting
Standards Board

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ACCOUNTING STANDARDS BOARD ANNUAL REPORT

FOR THE YEAR ENDED MARCH 31, 2014



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Acronyms Used In This Report

AcSB	Accounting Standards Board
AcSOC	Accounting Standards Oversight Council
ASAF	Accounting Standards Advisory Forum
AICPA	American Institute of Certified Public Accountants
CPA Canada	Chartered Professional Accountants of Canada
CSA	Canadian Securities Administrators
FASB	U.S. Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
IASB	International Accounting Standards Board
IFASS	International Forum of Accounting Standard Setters
IFRSs	International Financial Reporting Standards
OSFI	Office of the Superintendent of Financial Institutions
PSAB	Public Sector Accounting Board
SEC	U.S. Securities and Exchange Commission

MESSAGE FROM THE CHAIR



I am very pleased to have taken on the challenging role of Chair of the Accounting Standards Board (AcSB) in such a rapidly changing environment.

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.

With Thanks To...

The dedication and high-quality work that the volunteers of the Board and its committees do each year is what allows the AcSB to accomplish its goals. The efforts and devotion of the AcSB staff are also a crucial component to any success and in leading changes to accounting standards in Canada.

The Accounting Standards Oversight Council (AcSOC) was a tremendous help to the AcSB over the past year. In addition to overseeing the Board's activities to ensure we are serving the public interest, AcSOC remains a vital resource for the AcSB by providing high-level recommendations on key issues as well as through the diverse backgrounds of its members that ensure the process for setting standards is functioning as it should.

I would like to thank my predecessor, Gord Fowler, for the work accomplished during his term as Chair, as well Peter Martin, who is retiring after being the AcSB's Director for over 10 years. They both leave a tremendous mark on accounting standards in Canada.

The Board aims to continue to advance its mandate to produce the highest possible quality of financial reporting and standards. We look forward to what the next year will bring.

Linda F. Mezon, FCPA, FCA, CPA (MI)

Chair, Accounting Standards Board

INTRODUCTION

This report summarizes the activities of the Accounting Standards Board (AcSB) for its operating year ending March 31, 2014, including performance relative to its Annual Plan and its Strategic Plan.

The AcSB has been heavily engaged with a number of activities in support of the development and application of International Financial Reporting Standards (IFRSs). In particular, it developed extensive comment letters on International Accounting Standards Board (IASB) proposals for new standards on insurance contracts, expected credit losses and leases, after undertaking significant outreach to stakeholders.¹ The AcSB also commented on drafts of the interim standard on rate regulation and several less significant amendments to other standards, as well as a discussion paper on the conceptual framework. While carrying on a number of routine activities as in prior years, it also participated in the IASB's newly established Accounting Standards Advisory Forum (ASAF).

The AcSB was able to make further progress towards removing the remaining obstacle to full implementation of the IFRS strategy by working with the IASB to continue development of standards for rate-regulated entities. The IASB has approved an interim standard that will permit Canadian entities with rate-regulated activities that have not already adopted IFRSs to continue to report regulatory assets and liabilities consistent with existing practices. The new standard was issued in January 2014. The IASB is also planning to issue a discussion paper later in 2014 as the basis for a fundamental reconsideration of the topic. On the basis of these developments, the AcSB confirmed the January 1, 2015 IFRS changeover date for rate-regulated entities.

The AcSB made solid progress in advancing its strategies for the private enterprise and not-for-profit sectors by carrying out projects to assess whether and how to amend the new frameworks first applied in those sectors in 2011 and 2012, respectively. In addition, the AcSB and PSAB carried out a major consultation program with the not-for-profit sector, based on a joint Statement of Principles issued in April 2013. The proposed principles elicited a record number of comment letters in addition to substantial stakeholder response through public roundtable meetings.

Overall, the AcSB had a very successful year in 2013-2014 despite some significant challenges. It achieved the key objectives in its Annual Plan and remains on track to achieve its long-term strategic objectives. With support from stakeholders and the Accounting Standards Oversight Council (AcSOC),

¹ The term "stakeholders" refers to all those individuals and entities with an interest in financial reporting standards.

the AcSB extended the term of its current Strategic Plan for two years to provide adequate time for a thorough assessment of its strategic directions and development of the next strategic plan. It continues to make progress towards its long-term goal of having Canadian reporting entities produce decision-useful financial statements for their external stakeholders.



AcSB SCORECARD

The AcSB achieved the key objectives in its 2013-2014 Annual Plan and is on track to achieve the objectives in its 2011-2016 Strategic Plan. The major accomplishments during the year were:

- the IASB's issuance of an interim standard on rate regulation, based in part on time and effort invested by the AcSB and its stakeholders,* permitting adoption of IFRSs by Canadian rate-regulated entities to proceed in 2015;
- the AcSB's participation in the IASB's new Accounting Standards Advisory Forum, reflecting the high regard that the IFRS Foundation and the IASB have for the AcSB;
- development of several extensive comment letters on major IASB project proposals, including insurance contracts and the conceptual framework;
- finalization of several major and annual improvements to standards for private enterprises, and substantial progress in developing future improvements; and
- publication of the AcSB/PSAB's Statement of Principles on not-for-profit organization issues, followed by extensive outreach and substantial stakeholder response.

As discussed in its performance report for 2013-2014, the AcSB also:

- supported the ongoing application of IFRSs in Canada by most publicly accountable enterprises;
- contributed to the improvement of IFRSs, at the standards and implementation guidance levels, through support of, and participation in, the Accounting Standards Advisory Forum and International Forum of Accounting Standards Setters, requests to the IFRS Interpretations Committee for implementation guidance, support of Canadian members of the IFRS Interpretations Committee and responses to:
 - each of the IASB's exposure drafts and formal requests for information and requests for input from the IASB's Interpretations Committee and staff;
- continued to fulfil its responsibility for improving Canadian GAAP by:
 - completing an update of its documentation of due process and internal policies and starting development of a process for risk analysis and
 - applying due process to the development and adoption of new and amended IFRSs, as well as domestic standards for private enterprises, not-for-profit organizations and pension plans;
- dealt with ongoing standards developments, including the challenges noted below;
- maintained and developed its communications with stakeholders; and
- extended the term of its 2011-2014 Strategic Plan by two years, until 2016, and finalized plans for assessing the implementation of the current strategic directions as the basis for developing a new strategic plan.

As a result of these achievements, the AcSB made progress towards the long-term outcomes in its 2011-2016 results chain. However, some issues were not resolved during 2013-2014 and will take more time to deal with fully. The main remaining challenges are:

- addressing the significant concerns of some Canadian stakeholders about recent IASB proposals on insurance contracts, expected credit losses, financial asset classification and measurement, and leases;
- addressing practical implementation issues arising from the lack of clarity or the lack of specific guidance in some IFRSs; and
- determining the next steps in the joint AcSB/PSAB project on not-for-profit organization issues, in light of the considerable input received on the Statement of Principles.

**The term “stakeholders” refers to all those individuals and entities with an interest in financial reporting standards.*

Long-term strategic goal – different strategies for different categories of reporting entity all actively applied; activities to achieve long-term objectives proceeding		
Publicly accountable enterprises	Adopt IFRSs—Part I	<ul style="list-style-type: none"> • Standards in place • IFRS reporting now well established in practice, except for rate-regulated entities and investment entities, with no indication of significant issues • Barriers to initial IFRS adoption by rate-regulated entities now removed – interim standard issued and changeover will proceed in 2015 (Canadian Securities Administrators permit some entities to apply U.S. GAAP until 2019) • Transition to IFRSs by investment entities nearing completion without significant problems • Ongoing AcSB participation at the IASB and related bodies at a high level
Private enterprises	Create and adopt separate set of standards tailored to the needs of these entities—Part II	<ul style="list-style-type: none"> • Standards in place • Accounting framework for this sector now established in practice, with no indication of significant issues • Annual improvements and major improvements projects underway
Not-for-profit organizations	Create and adopt a separate set of standards tailored to the needs of these entities—Part III	<ul style="list-style-type: none"> • Standards in place • First annual reporting under the new framework completed, with no indication of significant issues • AcSB/PSAB Statement of Principles issued, followed by extensive outreach and substantial stakeholder response
Pension plans	Create and adopt a separate set of standards tailored to the needs of these entities—Part IV	<ul style="list-style-type: none"> • Standards in place • Accounting framework for this sector now established in practice, with no indication of significant issues
Maintain standard-setting capability		<ul style="list-style-type: none"> • Committee structure fully operational • Resources and processes to carry out operating plans in place, although staff resources currently stretched • Succession plans for AcSB Chair and one volunteer member successfully completed
Address standards fatigue		<ul style="list-style-type: none"> • Period of relatively less AcSB activity from the perspective of many stakeholders (but not all)
Improve communications		<ul style="list-style-type: none"> • Outreach programs operational; focus on the Board’s online presence (for example, website, other online profiles, links to the Board’s website from other websites) and email efforts (i.e., targeting and expansion), new contacts developed
Overall assessment for 2013-2014:	All key objectives and most other objectives in the Annual Plan achieved; good progress made towards longer term goals. Current challenges (see above) being addressed.	

SUMMARY OF ACTIVITIES

As discussed in more detail below, in 2013-2014 the AcSB undertook the following activities:

- a) extended the term of its existing Strategic Plan by two years, with input from stakeholders and AcSOC, and planned strategic initiatives to be undertaken in 2014-2015 as groundwork for the development of its next strategic plan;
- b) continued to support the application of IFRSs in Canada by publicly accountable enterprises;
- c) assisted the IASB in developing an interim standard on the effects of rate regulation, issued in early 2014, which will allow Canadian rate-regulated entities to proceed with their first-time adoption of IFRSs in years beginning on or after January 1, 2015. The AcSB is also providing input on a separate, early-stage IASB project to develop a complete standard on the effects of rate regulation, on which the IASB plans to issue a discussion paper in mid-2014;
- d) monitored the first-time adoption of IFRSs by investment entities as those entities prepared to report on an IFRS basis for years beginning on or after January 1, 2014. Although these entities have had to work through implementation issues, as have other first-time adopters previously, the changeover is proceeding without significant problems;
- e) contributed to the improvement of IFRSs at the standards and implementation guidance levels by providing input to the development of IFRSs through such means as:
 - i) participation in the newly established ASAF, comprising 12 national and regional standards bodies;
 - ii) responses to each of the IASB's exposure drafts, including major proposals on expected credit losses, leases and insurance contracts, as well as a discussion paper on the conceptual framework;
 - iii) responses to requests for input from the IASB's staff; and
 - iv) raising concerns about implementation issues for consideration by the IASB, its staff or the IFRS Interpretations Committee;
- f) advanced the second program of major improvements to the standards for private enterprises, dealing with consolidation, joint arrangements and investments, to the final stage and also completed the third annual improvements program. The AcSB also began major improvements projects on redeemable preferred shares issued in a tax planning arrangement and application of the business combinations standard when a subsidiary is accounted for on the cost or equity basis, carried out research on agriculture and commenced the fourth annual improvements program;
- g) issued a Statement of Principles for public comment on major issues specific to not-for-profit organizations in collaboration with the Public Sector Accounting Board (PSAB), and undertook an extensive process of public consultation that resulted in substantial stakeholder input;

- h) continued to fulfil its responsibility for improving Canadian generally accepted accounting principles (GAAP) by applying due process to the development and adoption of new and amended IFRSs and domestic standards for private enterprises, not-for-profit organizations and pension plans. The AcSB also undertook projects to address various governance issues, including completing an update and improvements to its documentation of its due process following similar work by the IASB, as well as updating the terms of reference of its committees and various internal policy and procedure statements, and starting development of a process for risk analysis;
- i) dealt with ongoing developments, including the challenges discussed below; and
- j) maintained and developed its communications with stakeholders, primarily through web-based communication improvements.

As a result of those activities, the AcSB has continued to make progress towards the long-term outcomes in its 2011-2016 results chain.² However, some issues were not resolved during 2013-2014 and will take more time to deal with fully. The main ongoing challenges are:

- a) dealing with the significant concerns of some Canadian stakeholders about the IASB's most recent proposals on insurance contracts, expected credit losses and leases;
- b) addressing practical implementation issues arising in the application of IFRSs by Canadian publicly accountable enterprises because of a lack of clarity or specific guidance in some IFRSs, primarily through the AcSB's IFRS Discussion Group; and
- c) determining what the next steps will be in the joint project with PSAB on not-for-profit organization reporting issues in light of the considerable input received on the AcSB/PSAB Statement of Principles.

The AcSB made slower progress towards certain targets in its Annual Plan for 2013-2014 than anticipated.

- a) Projects to improve standards for private enterprises on redeemable preferred shares issued in a tax planning arrangement and develop a new standard on agriculture—A delay resulted from limitations on committee and staff time. Work on these projects is continuing and progress is anticipated in 2014-2015.
- b) The joint project with PSAB to review current standards on issues unique to not-for-profit organizations—As discussed with AcSOC, the Boards agreed to a much longer than usual comment period on the AcSB/PSAB Statement of Principles issued in April 2013. The substantial volume of response and the wide range of issues raised by stakeholders will require considerable time for the staff to analyze and summarize and for the Boards to consider in 2014-2015.
- c) A review of governance and standard-setting processes and updating of related documentation—This activity became more extensive than originally conceived including, for example, adding a project to develop a risk analysis at the suggestion of AcSOC. More has been done than originally expected but some work remains incomplete although still progressing.

The AcSB has also not made much progress in carrying out its intention to develop different methods for requesting more feedback from its stakeholders concerning its performance. This is due to a combination of an inability to identify new approaches to pursue, a lack of time to devote to the issue

² A copy of the results chain is provided in the annual plans for 2013-2014 and 2014-2015.

and the evolution of plans for seeking input in developing a new strategic plan. The AcSB intends to consider this issue in 2014-2015 in conjunction with its strategic planning.

Although the AcSB has been able to carry out most of its planned activities for 2013-2014, its resources have been stretched at times. Some activities would likely have benefitted from more attention and resources than the AcSB had available to devote to them. The AcSB is mindful of the need to allocate its limited resources carefully in dealing with changing circumstances as effectively as possible. For example, the AcSB has devoted more resources to the IASB project on insurance contracts than it expected when it drew up the Annual Plan after the need to do so became evident.

The AcSB continues to keep a close watch over U.S. developments. The basis of financial reporting by public companies in U.S. capital markets is determined by the U.S. Securities and Exchange Commission (SEC), which has studied IFRSs for a number of years but has not come to any decision about adopting them for U.S. companies. It is unclear when the SEC will be in a position to deliberate and decide on the matter because it is so heavily engaged in carrying out other, more pressing responsibilities. Meanwhile, Canadian enterprises are currently able to access U.S. capital markets using IFRS financial statements, as well as U.S. GAAP.

IFRS ADOPTION STRATEGY

The AcSB continued its ongoing work of monitoring issues that might affect its strategy of adopting IFRSs for Canadian publicly accountable enterprises and permitting their use by other entities. Under its 2011-2016 Strategic Plan, the AcSB is committed to assess the strategy as a basis for developing its next strategic plan. The initial planning and activities, beginning in 2012-2013, focused on extending the term of the current plan to provide more time to undertake a more thorough investigation into the operation of the strategy in practice. Following consultation with stakeholders through a public invitation to comment and discussion with AcSOC, the AcSB decided in December 2013 to extend the term of its existing Strategic Plan until March 2016.

The AcSB did not undertake any broad surveys of stakeholders in the publicly accountable enterprise sector in 2013-2014 beyond the invitation to comment on extending the term of the Strategic Plan discussed above. AcSB representatives continue to seek input from individuals and stakeholder groups through direct contacts in meetings and conferences, as well as written communications. In addition, the AcSB has undertaken a targeted survey of individuals who have participated in its public roundtables to get their views on the AcSB's performance. The email survey asked for the views of those individuals on the AcSB's activities specific to the project(s) of particular interest to them.

The wide range and nature of views the AcSB has heard from stakeholders did not change significantly from previous years. Support for the IFRS strategy remains solid amongst the stakeholders the AcSB heard from, although the AcSB is also aware that some still feel that the costs of adopting IFRSs outweigh the benefits or that adopting U.S. GAAP would have been preferable.

Criticisms of IFRSs in some industries, such as insurance and rate-regulated entities, are mostly focused on specific aspects of individual standards or proposals and not on the strategy as a whole. Some stakeholders continue to question the timing of Canada's adoption of IFRSs relative to developments in the United States. However, the AcSB considers that waiting for the United States to make a decision while trying to maintain a separate set of credible national standards for public companies would have been an untenable strategy given the AcSB's limited resources and the information needs of the capital markets.

Some Canadian reporting entities are concerned about the fact that they are usually the first to report on the basis of a new or amended standard because they report on a quarterly basis while some other countries report on a half-yearly basis. There is also concern that some other jurisdictions may defer the effective date of new requirements. While the concerns are considered by the AcSB when developing its responses to IASB proposals, the AcSB has a policy of adopting IFRSs as issued by

the IASB into Canadian GAAP. It also cannot override the requirements of the Canadian Securities Administrators (CSA) that reporting issuers publish interim financial reports each quarter and make an unreserved statement of compliance with IFRSs. However, the AcSB will continue to monitor this matter and ensure specific issues that Canadian reporting entities face with it are considered by the Board.

The AcSB remains of the view that no new arguments or evidence were identified during the year that would call the IFRS strategy into question. The ongoing uncertainties in the United States on the future of its financial reporting requirements, discussed further below, reinforce the AcSB's view that its strategy has been, and remains, the most appropriate for financial reporting by publicly accountable Canadian enterprises.

Global Adoption of IFRSs

The AcSB monitors global financial reporting developments closely. Although some major economies have yet to adopt IFRSs, it remains clear that this constitutes the most practical path towards a single set of high-quality, globally accepted financial reporting standards. That objective is generally accepted by major jurisdictions that have yet to adopt IFRSs.

The adoption of IFRSs in practice continues internationally. The United States, Japan, India and China remain the major holdouts, but all are continuing to consider the matter in their own way. Japan has taken further steps to pave the way towards full adoption as a number of its major public companies are changing over currently. China intends to adopt IFRSs in the longer term but currently faces significant challenges in building the necessary financial reporting infrastructure. Progress in India had stalled in the face of opposition by those who consider change unnecessary, but a decision has been made recently to work towards full adoption in the near term. A number of smaller countries are still proceeding with plans to implement IFRSs but almost all major economies other than the United States, Japan, India and China now require IFRS reporting.³

The AcSB has continued to monitor developments in the United States. The SEC has not undertaken any steps to begin adopting IFRSs for use by U.S. public companies while it deals with other more pressing regulatory issues. Some U.S. public companies are awaiting an opportunity to adopt IFRSs but discussion of the issue has become muted recently as other, more immediate concerns occupy U.S. stakeholders' attention. Most recently, the SEC's draft strategic plan⁴ states that it will "promote higher quality financial reporting worldwide and will consider, among other things, whether a single set of high-quality global accounting standards is achievable." Nevertheless, a significant number of major foreign companies active in the U.S. capital markets report on an IFRS basis.

Pending any decision by the SEC on U.S. adoption of IFRSs, the U.S. Financial Accounting Standards Board (FASB) continues to carry out its role and responsibility of setting standards for U.S. GAAP reporting. The FASB participates in international forums, including the IASB's ASAF, but the program

3 The IFRS Foundation has published country profiles for all G20 countries and 102 other countries as part of a process to compile complete and up-to-date information on the status of IFRS adoption globally. The information is available at www.ifrs.org/Use-around-the-world/Pages/Jurisdiction-profiles.aspx.

4 Posted on the SEC website on February 3, 2014 at www.sec.gov/about/secstratplan1418.htm.

of IASB/FASB convergence on several key topics is winding down. Converged positions have been finalized on some issues but, increasingly, the two Boards are coming to different conclusions on key aspects of their remaining joint projects.

The AcSB and FASB have taken steps to achieve closer contact with each other during 2013-2014. The Chairs and senior representatives of the FASB and the AcSB now meet periodically to update each other and exchange views on global issues. In particular, views are shared in advance of ASAF meetings. The AcSB identified a knowledgeable Canadian candidate who has been appointed to the FASB's Advisory Council. The AcSB has also worked with the FASB in setting up an implementation group to support the initial adoption of the new IASB/FASB standard on revenue, expected to be issued in mid-2014. An experienced Canadian financial statement preparer has been named to that group.

The capital markets appear to have adjusted to the current circumstances in which IFRS and U.S. GAAP financial reporting coexist, both within the United States and in other markets. This situation is true for Canadian entities who are SEC registrants as, of the 318 SEC registrants domiciled in Canada (as of December 31, 2013),⁵ 85 of those entities apply U.S. GAAP instead of IFRSs. However, a clear majority (204) apply IFRSs. Financial statement users have indicated that they find both bases of reporting decision-useful and are able to identify ways of working with information on either basis for analytical purposes. Empirical evidence from market research supports this conclusion. Nevertheless, through participation in various global standards activities, the AcSB continues to seek ways to influence the IASB and the FASB to narrow the differences between their standards.

Adoption of IFRSs in Canada

The process of adopting IFRSs into Canadian financial reporting practice is now nearing completion. Many publicly accountable enterprises have just finalized their third annual IFRS financial statements and others have completed at least one full year of IFRS reporting. The exceptions are:

- a) Canadian SEC registrants that have elected to adopt U.S. GAAP, a number of which did so some time before the adoption of IFRSs in Canada and chose not to make any change in their basis of reporting;
- b) investment entities, including the large number of mutual funds and other entities subject to the investment fund reporting requirements of the CSA, which make the changeover for annual periods beginning on or after January 1, 2014; and
- c) rate-regulated entities, which will make the changeover for annual periods beginning on or after January 1, 2015 (January 1, 2019 in the case of those entities provided temporary exemptive relief by the CSA).

In assessing the quality of IFRS reporting, the AcSB watches the reaction of capital markets and remains in close contact with major Canadian stakeholder groups. As was observed in previous years' reports, the process of transition to IFRSs has involved effort and cost but no reported problems of any significance from a strategic perspective. Some researchers are undertaking empirical research into the effects of the transition and finding positive capital market effects. AcSOC supported a study

⁵ Three entities out of the 318 SEC registrants noted here are still applying pre-changeover Canadian GAAP. Twenty-six foreign private issuers did not file an annual report in 2013 but were still reported on the SEC's foreign private issuer list.

of the costs of the transition⁶ undertaken by the Canadian Financial Executives Research Foundation at the request of the IFRS Foundation Trustees. Such research has not uncovered any unexpected results to date. The AcSB will continue to monitor such evidence in the future as it begins the process of developing a new strategic plan.

The AcSB has maintained its longstanding liaison with representatives of the key government agencies that have authority over financial reporting by Canadian publicly accountable enterprises, primarily the CSA and the Office of the Superintendent of Financial Institutions (OSFI). The AcSB has not heard concerns from these agencies about the core strategy of adopting IFRSs. The CSA remain concerned about reporting by rate-regulated entities and OSFI has expressed concerns this year about the IASB's proposals on insurance contracts and, to a lesser extent, financial instruments issues, as discussed below. The regulators are continuing with their more routine activities of reviewing entities' financial statements and reporting on their practices in applying IFRSs, with no unexpected results relative to the AcSB's strategy.

Challenges in Adopting IFRSs in Canada

Effects of rate regulation

In working towards full adoption of IFRSs by publicly accountable Canadian enterprises, the issue of accounting for the effects of rate regulation has been one of the most challenging for the AcSB. Last year's report discussed this issue at length. The following discussion is an update on that report.

As of March 2013, the IASB had reactivated a previously discontinued project on accounting for the effects of rate regulation, which it was pursuing in two phases. It had carried out initial work on a full-scale project and published a formal request for information on the topic. However, that project will likely take several years to complete before a new standard would become effective. The IASB had also begun work to develop an interim standard that would essentially "grandfather" existing national practices of first-time IFRS adopters while it completes its full-scale project.

On the strength of the progress at the IASB, the AcSB had set January 1, 2015 as the IFRS transition date for Canadian rate-regulated entities. That date coincides with the expiration of exemptive relief granted to a number of rate-regulated entities by the CSA, permitting those entities to adopt U.S. GAAP instead of IFRSs for a three-year period. As noted above, some entities have been granted extended exemptive relief by the CSA.

The AcSB continued to monitor progress on the IASB project closely during 2013-2014 and offered to provide any necessary support to the IASB project team. In the meantime, publicly accountable Canadian rate-regulated entities are reporting under several different accounting frameworks (IFRSs, U.S. GAAP, pre-changeover Canadian GAAP and various hybrids). This state of affairs is unsatisfactory as a long-term strategy and causes some confusion. However, capital markets appear to be able to cope with the current diversity of accounting frameworks in practice as most rate-regulated entities have applied a framework that results in continued recognition of assets and liabilities arising as a result of rate regulation.

6 The Costs of IFRS Transition in Canada, available on the website of the Financial Executives Canada at <http://portal.feicanada.org/enews/file/CFERF%20studies/2012-2013/The%20cost%20of%20IFRS%20transition%20in%20Canada%20-%20July%204,%202013%20-%20final.pdf>.

The IASB has made solid progress on both phases of its project during 2013-2014. An exposure draft of the interim standard was issued in April 2013, for comment by September 2013. Affected Canadian entities, other interested stakeholders and the AcSB were all broadly supportive of the exposure draft. Following deliberation of the comment letters, the IASB approved the standard substantially as proposed. The standard was issued in January 2014 and provides a path towards 2015 adoption by affected entities. It applies to a rate-regulated entity that has not previously adopted IFRSs. The entity adopts all other IFRSs in the same way as other entities but, in addition, reports separately the total amounts of all regulatory deferral assets and all regulatory deferral liabilities. The standard also requires additional disclosures along the lines of a pre-changeover Canadian standard.

The IASB has also made progress as planned on its full-scale project and plans to issue a discussion paper in mid-2014. The AcSB and other members of the ASAF were provided with a briefing on the project in the December 2013 meeting of the Forum and discussed it further in the March 2014 meeting.

Investment companies

The other category of Canadian publicly accountable enterprises not yet reporting on an IFRS basis, in addition to rate-regulated entities, is investment companies. Last year's report described the amendment to the consolidation standard issued in 2012 that will permit investment companies to adopt IFRSs in 2014.

The AcSB has monitored the preparations undertaken by investment entities for their transition to IFRSs. As with the earlier transition by other entities, there have been some practical issues to consider and resolve. However, these matters have been dealt with by the individual entities, their industry associations, their advisors and their auditors. Some issues have been raised with the IFRS Interpretations Committee but to date there has been no need for intervention by the AcSB.

Implementation challenges

As reported in previous years, Canadian financial statement preparers and auditors continue to struggle to some extent with the greater degree to which IFRSs provide scope for differing interpretations on various issues and explicit accounting policy choices in a few cases compared to the pre-changeover Canadian standards. Some prefer having a single acceptable treatment on all issues and worry about whether there is too much diversity in practice. Concerns also arise over a lack of clarity in some standards that fosters diversity. Financial statement users seem generally able to cope with the effects of alternative treatments, when they arise.

The AcSB addresses concerns about lack of clarity and divergent practices primarily through its IFRS Discussion Group. The Group met four times in 2013-2014. The number of issues raised by stakeholders has declined with the passage of time but the AcSB anticipates that this trend will reverse when standards currently under development are finalized and initial application begins. A number of issues have been discussed primarily to make stakeholders more aware of them, particularly for changes to IFRSs that became effective in 2013. Few issues were referred to the AcSB, with a recommendation that the issues be raised with the IFRS Interpretations Committee. Those issues were discussed by the AcSB and generally required further research before any formal submission

to the Interpretations Committee. In some cases, informal discussion with Interpretations Committee staff resolved issues or refined them before a formal submission. Issues are often identified by the major accounting firms, discussed within and among the firms at the global level, and then raised with the Interpretations Committee by the firms' global IFRS technical teams. On the basis of its network of contacts and those of its volunteer members, the AcSB has been able to monitor these activities closely.

In common with many stakeholders globally, the AcSB encouraged the IASB to put increased emphasis on the maintenance and improvement of the existing standards in responding to the IASB's three-yearly agenda consultation in 2012. The IASB decided to adopt that approach and has put more emphasis on interpretive guidance and narrow-scope improvements to standards. The AcSB staff is in close and continuing contact with the staff of the Interpretations Committee in raising issues and responding to requests for input. Interpretations Committee requests for input sent to national and regional standards bodies have increased markedly during 2013-2014 to such an extent that the AcSB staff is not confident that it can continue to support the current policy of responding to all such requests. This development has been discussed by the AcSB, which will now monitor plans for prioritizing work.

As a result of the work of the AcSB, its IFRS Discussion Group, its staff and other Canadian stakeholders in identifying and discussing implementation issues and bringing them to the IASB, the Interpretations Committee and its staff, some of the Canadian concerns about IFRSs are being dealt with successfully. Accordingly, to date, the AcSB has been able to maintain its policy of not modifying or interpreting IFRSs. Canadian enterprises continue to be able to report in accordance with "IFRSs as issued by the IASB" without any authoritative Canadian guidance.

Standards fatigue

The IFRS strategy has continued to challenge the resources of all categories of stakeholders as the IASB continues to issue a steady stream of due process materials, amendments to standards and interpretive materials. A number of significant new requirements came into effect in 2013, dealing with consolidations, joint arrangements, disclosures about interests in other entities, fair value measurement, employee benefits and surface mine stripping costs. Proposals were issued on several important topics (rate regulation, expected credit losses, leases, insurance contracts and the conceptual framework) and a number of additional narrow scope issues. A new standard on hedge accounting was issued.

Like their counterparts in other countries, Canadian stakeholders are coping with these changes. Some issues arising from the new standards have required attention by the AcSB, its IFRS Discussion Group and staff. The IASB is bringing its major projects closer to completion and shifting its focus to put more emphasis on maintenance of existing standards, development of an improved conceptual framework and research to support possible future projects. However, the AcSB expects that stakeholders will remain occupied over the next two or three years preparing for the next wave of new standards resulting from completion of current projects.

Financial reporting by pension plans

In developing its 2006-2011 Strategic Plan, the AcSB concluded that pension plans are publicly accountable in nature and, in principle, should apply IFRSs. However, the AcSB also recognized that adopting the IFRS for pension plan reporting would not result in the quality of reporting that Canadian plans had already achieved and that the IFRS was unlikely to be improved for some time. Accordingly, as a long-term interim measure, the AcSB created a separate accounting framework for pension plans in Part IV of the *CPA Canada Handbook – Accounting*. This framework appears to be meeting the current needs of plan stakeholders but the staff has planned preliminary work to assess the need for improvements.

Participating in the Development of IFRSs

The IASB remained very active in 2013-2014, as outlined above. Its activities are set out in its work plan.

The four main agenda topics—revenue, leases, financial instruments and insurance contracts—are convergence projects being carried out in collaboration with the FASB. However, it became increasingly clear in 2013-2014 that the two Boards cannot agree on some basic elements of financial instruments accounting (the projects on classification and measurement and hedge accounting were not set up to achieve converged positions but the project on expected credit losses was). They have also made different proposals on insurance contracts and concluded that they will take different paths to expected improvements in reporting on that topic. However, they have been able to agree on a converged standard on revenue that was issued in mid-2014 and are still deliberating jointly on their latest proposals on leases. Convergence is of particular concern to some Canadian stakeholders because of the close connections between the Canadian and U.S. capital markets. When an entity's reported financial performance differs significantly between the IFRS basis and the U.S. GAAP basis, it may need to do additional work to explain the differences. The AcSB continues to encourage the IASB and the FASB to come to agreed positions but the two Boards and many stakeholders globally are becoming increasingly more interested in getting current projects completed on a timely basis even at the cost of divergent outcomes.

The IASB issued relatively few new requirements during 2013-2014:

- a) In May 2013, it modified the disclosure requirements in the asset impairment standard associated with recoverable amounts of non-financial assets.
- b) In June 2013, it modified the financial instrument standards to address questions related to the novation of derivatives and continuation of hedge accounting arising from the creation of central clearinghouses for derivatives.
- c) In November 2013, it clarified the treatment of employee contributions in the standard on employee benefits.
- d) In November 2013, it issued a new chapter of IFRS 9 *Financial Instruments* on hedge accounting that has made it possible to apply special hedge accounting treatment to more types of hedging arrangements than previously. A number of Canadian entities, notably in the resource sector, are expected to adopt the new requirements early for their 2014 fiscal years. The IASB also deferred the mandatory effective date of IFRS 9 to January 1, 2018.

- e) In December 2013, it issued the results of its 2010-2012 and 2011-2013 annual improvement projects to make minor clarifications on 12 separate issues.
- f) In January 2014, as noted above, it issued IFRS 14 *Regulatory Deferral Accounts* as an interim standard to address the effects of rate regulation.

In May 2013, the IASB also issued a new Interpretation, IFRIC 21 *Levies*, with effect for 2014 fiscal years. It was designed to address questions arising from the imposition of new charges on European banks but has a much wider scope than that and has raised some significant questions in practice as to its intended effect. The AcSB has expressed concerns to the IASB (as have others) and is continuing to monitor developments in practice from implementation of IFRIC 21.

The AcSB considered and adopted into Canadian GAAP each of the new and amended IFRSs in accordance with its due process. The AcSB was under some pressure from stakeholders anxious to apply the new hedge accounting, who wanted the ability to do so at the earliest possible time. The AcSB expedited its normal due process and also informed stakeholders of the necessary processes and the expected timeline for completing them. The new standard was issued into the *CPA Canada Handbook – Accounting* on February 1, 2014.

At the beginning of 2013-2014, the IASB had exposure drafts open for comment on expected credit losses and employee benefits (employee contributions). During the year, it issued further proposals on:

- a) regulatory deferral accounts (discussed above);
- b) leases (a re-exposure draft);
- c) insurance contracts (a re-exposure draft);
- d) agriculture (bearer plants);
- e) equity method of accounting in separate (non-consolidated) financial statements;
- f) annual improvements (2012-2014 cycle) covering four topics; and
- g) amendments to the standard on financial statement presentation to provide for improved reporting practices, as a first step in the IASB's disclosure initiative.

In addition, the IASB issued for comment a discussion paper on revisions to its conceptual framework covering a large number of fundamental issues.

Stakeholders were also invited to respond to a request for information document issued in January 2014 to initiate the IASB's second post-implementation review project, dealing with IFRS 3 *Business Combinations*.

The AcSB responded to all exposure drafts and other due process documents issued by the IASB in 2013-2014. Developing the comment letters on expected credit losses, leases, insurance contracts and the conceptual framework involved considerable effort by the AcSB. In each case, the staff undertook research and the AcSB canvassed views of Canadians on the IASB proposals through roundtable meetings and other outreach activities, in addition to discussing the key issues in board meetings. In the case of leases, insurance contracts and the conceptual framework, the AcSB also worked with advisory groups of individuals expert in the subject matter. Comment letters went through multiple rounds of drafting and review before being submitted to the IASB.

The IASB proposals on insurance contracts have proven to be particularly challenging for the AcSB because of the deep concerns of the Canadian life insurance industry. The industry has engaged its prudential regulators and the Minister of Finance as well as working with U.S. and other insurance entities to ensure that its concerns are clearly and fully expressed. The AcSB has gone to considerable lengths to ensure that those concerns have been heard and understood by the IASB project team (board advisors and staff), including arranging private meetings between representatives of the IASB and the industry. The AcSB also facilitated public roundtables, participated in FASB-sponsored roundtables and organized a presentation to AcSOC. The AcSB has applied every process and activity available to it and expended considerable care in ensuring that the issues are clear to all and will be given proper attention by the IASB in its ongoing deliberations. This activity will remain a work-in-progress in 2014-2015.

The IFRS Foundation Trustees remained active in 2013-2014 but have not initiated any new major strategies or formal consultations with stakeholders. The Trustees have been following through with previously agreed initiatives on a number of topics, which the AcSB has been monitoring. The Trustees' Due Process Oversight Committee continues to be very active in carrying out its important function.

The AcSB is one of the 12 bodies represented on the IASB's newly established ASAF. ASAF members include the European Financial Reporting Advisory Group, the Asian-Oceanian Standard Setters Group, the AcSB, FASB and eight other national standards bodies. The ASAF provides a formal mechanism for the IASB to receive input directly from national and regional standards bodies. It replaces previous bilateral arrangements with certain standards bodies and gives all regions of the world an opportunity to participate. The ASAF met five times during 2013-2014, commencing with its inaugural meeting in April 2013 and including one conference call. The face-to-face meetings are scheduled for two days and cover issues associated with current projects on which the IASB is seeking input.

Membership on the ASAF gives the AcSB an opportunity to participate more fully and directly in IASB projects, to the benefit of Canadian stakeholders. The ASAF meetings during 2013-2014 have touched on a number of important topics. The AcSB was asked to develop a paper on measurement concepts for the March 2014 meeting. For both the IASB and the ASAF members, the first meetings have been a learning experience in how to set meeting agendas for the group and how to prepare for discussions. The AcSB considers that the ASAF is a worthwhile initiative that has yet to achieve its full potential.

The AcSB has continued its longstanding involvement in, and support of, the International Forum of Accounting Standard Setters (IFASS). IFASS meets semi-annually to discuss matters of mutual interest and provide input to the IASB. Canada currently provides the Chair and secretarial support to this group, develops and presents agenda papers, and participates in the group's discussions.

During 2013-2014, the AcSB, its committees and its staff continued to follow the processes developed in previous years for participating fully as a national standard setter in the work of the IASB. The AcSB

remains committed to the “Statement of Best Practice: Working Relationships between the IASB and other Accounting Standard-Setters” that it subscribed to in 2006. In accordance with that agreement, the AcSB undertakes a number of activities in support of the IASB and the development and application of IFRSs. Those activities include important communication steps to facilitate engagement of Canadian stakeholders with the IASB. For example, the AcSB’s User Advisory Council provides input directly to the IASB through the participation of IASB members and staff in Council meetings via teleconference. This input is particularly valuable to the IASB. Members of the IASB and its staff have advised that, in various ways, the AcSB’s involvement is making important contributions to the IASB’s work.

Current Assessment of the IFRS Strategy

Developments during 2013-2014 have continued to validate the AcSB’s original strategic decision to adopt IFRSs as Canadian GAAP, despite the challenges the AcSB and its stakeholders have faced. Progress was made in dealing with the two industry sectors for which the adoption of IFRSs had to be deferred. In other sectors, no serious problems with the IFRS strategy have been reported to the AcSB, and continuing application is now relatively routine. Stakeholders are also able to cope with the ongoing processes for improving the standards and for working out implementation issues. However, some stakeholders have deep concerns about some of the current proposals for improving individual IFRSs, most notably Canadian life insurance entities. The AcSB remains very active in the process for developing IFRSs and has taken action to see that concerns of Canadian stakeholders are considered by the IASB.

The AcSB has been preparing to undertake outreach to stakeholders to find out how it might implement its IFRS strategy better. It is also compiling information and feedback received regarding the adoption of the strategy. To date, both anecdotal and empirical evidence suggests that the benefits of applying IFRSs are beginning to emerge.

Performance Measures for the AcSB’s IFRS Strategy

The AcSB’s Annual Plan for 2013-2014 sets out three measures for assessing the success of its work during the year on its strategy of adopting IFRSs. Those measures and actual outcomes are as follows.

A high level of participation by the AcSB and stakeholders in the publicly accountable enterprise sector in global standard-setting activities.

Throughout the year, the AcSB was fully engaged with the IASB, its Interpretations Committee, the IFRS Foundation and other national and regional standards bodies in all aspects of global standard-setting activity. The AcSB’s contributions are valued by those other bodies. As discussed above, the AcSB’s efforts have produced very positive results in addressing issues associated with rate-regulated enterprises, relative to the associated challenges. The AcSB has also been able to bring IASB representatives into the ongoing discussions in Canada on several projects, the most intensive contacts being in respect of insurance contracts. As reported to AcSOC by the Canadian member of the IFRS Foundation Trustees, the Vice-Chairman of the IASB and the Chairman of the FASB, the AcSB’s contributions to global standard-setting are well regarded.

<p>Satisfaction of stakeholders, assessed through feedback in face-to-face contacts and correspondence received.</p>	<p>Stakeholders appear to be generally satisfied with the AcSB's work. The AcSB has heard positive feedback for its efforts in working with the IASB and advancing Canadian issues and concerns, including in respect of the insurance proposals. Attendees at the AcSB's various roundtables during the year were surveyed and reported their satisfaction with those meetings.</p>
<p>Fulfilment of mandates of the AcSB, the User Advisory Council and the IFRS Discussion Group, and satisfaction of members, self-assessed through completion of annual surveys.</p>	<p>The members of the AcSB, the User Advisory Council and the IFRS Discussion Group were surveyed and reported a high level of satisfaction with their work in 2013-2014. Members are confident that each of their respective groups is fulfilling its mandate.</p>

None of the planned performance measures lend themselves to objective quantitative reporting. In the AcSB's view, it achieved a desired level of success in 2013-2014 relative to all three measures.

In summary, the AcSB is satisfied that it attained its objectives in advancing the implementation of its IFRS strategy in 2013-2014. The way forward is now clear for rate-regulated entities to begin reporting on an IFRS basis even though concerns remain about how the accounting for the effects of rate regulation under IFRSs may change in the future. Concerns about insurance contracts and some other current IASB projects will require ongoing attention. The AcSB considers that it is making progress towards its long-term objective for the publicly accountable enterprise sector.

STRATEGY FOR PRIVATE ENTERPRISES

During 2013-2014, the AcSB continued its programs for supporting the separate set of standards developed for the Canadian private enterprise sector while monitoring the adoption of the standards in practice through its Private Enterprise Advisory Committee. The AcSB continued to devote a considerable amount of time and resources to maintaining the quality of the standards through its annual improvements process and improving the standards through major standard-setting projects.

The standards for private enterprises continue to be generally well received by stakeholders in that sector. The standards were first effective for fiscal years beginning on or after January 1, 2011 and the effects of applying them in practice are now generally apparent. As is the case for the IFRS strategy, the AcSB will be carrying out an assessment of the implementation of the strategy for private enterprises over the next two years.

The AcSB and its staff are working with the assistance of the Private Enterprise Advisory Committee to develop proposals for amending or replacing individual standards within the accounting framework for this sector. The Advisory Committee continued to meet quarterly and provided valuable assistance to the AcSB from the perspective of auditors, preparers and users of financial statements in the private enterprise sector. The membership of the Advisory Committee has been gradually turning over, particularly amongst the user representatives, but the AcSB is able to recruit new members with solid credentials.

The annual improvements process is now an established process for addressing minor issues within individual standards. Issues are accumulated over the course of a calendar year and proposed solutions developed. Amendments to the standards are then exposed for public comment early in the following year and finalized in time to be applied in preparing financial statements for that same year. The process is designed to clarify and correct standards but not to provide interpretations that would eliminate all diversity in practice. Some stakeholders have indicated that they would like to see the scope of the process broadened to provide interpretations, somewhat along the lines of the old Emerging Issues Committee consensuses, or other steps taken to eliminate diversity in practice. The AcSB continues to think that such an approach would be contrary to the principles-based structure underlying the development of the standards for private enterprises but recognizes that more informal, non-authoritative implementation guidance would be helpful. Such guidance is developed and issued by the staff of CPA Canada's Research, Guidance and Support Group, in some cases with input from AcSB staff.

The AcSB and its Advisory Committee are currently working on several major improvements to the original version of the standards for private enterprises. The AcSB proposed a package of new and amended standards in 2013, with a view to their adoption in 2015 or 2016. This timeframe allows for due process in developing the standards and a reasonable period between their issuance and mandatory adoption. As of March 31, 2014, the AcSB had approved amendments to the standards dealing with consolidations and joint arrangements, subject only to completion of final drafting and a written ballot. The AcSB also has further projects in progress that are expected to be completed later and will constitute the third program of major improvements. Those projects respond to input from stakeholders. They involve agriculture, redeemable preferred shares issued in a tax planning arrangement and accounting for investees under the cost and equity methods.

The AcSB continued its communication activities to inform affected stakeholders of the new standards and provided limited implementation support in the form of presentations and supplementary guidance, when needed. The AcSB's staff assisted the professional bodies in developing non-authoritative guidance and professional development materials. Information obtained from stakeholders in the sector indicates that preparers and assurance providers have sufficient implementation guidance and support available to assist them in applying the standards.

The AcSB's approach to financial reporting by private enterprises received unexpected support in 2012-2013 from the United States. The American Institute of Certified Public Accountants (AICPA) issued a proposal to adopt a set of standards based on the AcSB's, with some modifications, as a suitable accounting framework for U.S. private enterprises not wishing to adopt U.S. GAAP. The AICPA has subsequently followed through and issued its set of standards. The FASB did not adopt the AICPA's framework and has continued its recently adopted approach of developing "differential reporting" modifications for private companies within its standards.

As with the IFRS strategy, the AcSB has developed plans to carry out outreach to stakeholders to find out how it might implement its strategy for private enterprises better.

Performance Measures for the AcSB's Private Enterprise Strategy

The AcSB's Annual Plan for 2013-2014 sets out three measures for assessing the success of its work during the year on its strategy of adopting a separate accounting framework for private enterprises. Those measures and actual outcomes are as follows.

<p>Timely completion of planned steps for supporting the new set of private enterprise standards.</p>	<p>The AcSB was not able to move ahead as quickly as anticipated on some of the major improvements projects. In response to stakeholder input, the AcSB decided to take some additional steps in its project to develop a replacement for the current standard on consolidating "variable interest entities" (special purpose entities), such as testing the proposals on various fact patterns found in practice, to ensure that the amended standard was of sufficiently high quality when exposed for public comment. In addition, redeliberation of exposure draft proposals on joint arrangements in light of stakeholder input caused the AcSB to consider changing some elements of its proposals. However, as indicated above, the AcSB was able to approve both new standards by year end. Work to develop a completely new standard on agriculture has advanced more slowly than originally expected in the project plan. The AcSB decided during 2012-2013 that it should undertake more research and issue a discussion paper on this topic rather than proceeding directly to an exposure draft. Taking the additional steps is expected to make subsequent work proceed faster than might otherwise have been the case. There is no pressure from stakeholders to move ahead more quickly on any of its current projects and the AcSB thinks that the additional due process steps it is undertaking will ensure high quality results. The small delays in timing will have no implications for the AcSB's long-term goals.</p>
<p>Satisfaction of stakeholders, assessed through feedback in face-to-face contacts and from correspondence received.</p>	<p>From limited face-to-face contacts and correspondence with stakeholders, there appears to be general satisfaction with the accounting framework designed specifically for private enterprises. In particular, the financial statement user representatives on the Private Enterprise Advisory Committee have expressed no concerns about the quality of financial statements they are receiving. The AcSB received no criticisms of its strategy from stakeholders. Developments in the United States, together with the continuing adoption of the IASB's <i>IFRS for Small and Medium-sized Entities</i> in some countries, provide some additional support for the AcSB's strategy of providing a separate accounting framework for private enterprises.</p>
<p>Fulfilment of the mandates of the AcSB and the Private Enterprise Advisory Committee, and the satisfaction of members, self-assessed through completion of annual surveys.</p>	<p>The members of the AcSB and the Private Enterprises Advisory Committee were surveyed and reported a high level of satisfaction with their work in 2013-2014. Members are confident that each of their respective groups is fulfilling its mandate.</p>

As indicated in respect of the strategy for publicly accountable enterprises, the planned performance measures generally do not lend themselves to objective quantitative reporting. With respect to the first measure, the AcSB decided that, in response to stakeholder input, it needed to take more time to complete projects on consolidations and joint arrangements. In the AcSB's view, it achieved a desired level of success in 2013-2014 relative to the second and third measures.

In summary, the AcSB made solid progress in satisfying its objective for the private enterprise sector in 2013-2014. Progress on some major improvements projects was slower than anticipated in the Annual Plan but work continued steadily in carrying out modified project plans. Overall, stakeholders appear well satisfied and the AcSB is confident that it is achieving the expected outcomes from its strategy for this sector.

STRATEGY FOR NOT-FOR-PROFIT ORGANIZATIONS

Implementation of the strategy for not-for-profit organizations in the private sector began, by design, a year later than for the for-profit sectors. The new set of standards for the not-for-profit sector was effective for fiscal years beginning on or after January 1, 2012. Accordingly, many organizations have reported only once on the new basis. The changeover from one accounting framework to another was not expected to result in much change in practice for most organizations. Limited feedback from stakeholders indicates that the changeover proceeded without significant problems.⁷ As is the case for the strategies for profit-oriented entities, the AcSB will be carrying out an assessment of the implementation of the strategy for not-for-profit organizations in 2014-2015.

Since creating Part III of the *CPA Canada Handbook – Accounting* for not-for-profit organizations, the AcSB embarked on a major project to review the standards that were carried forward from the previous accounting framework essentially unaltered. The AcSB concluded that the standards need to be re-examined, having remained largely unchanged since their finalization in 1995. The AcSB also undertook some limited work to identify who uses the financial statements of not-for-profit organizations and how they use the information provided. More work may be required on this issue in conjunction with the review of current standards.

The current project to review the existing standards began in January 2011, although some work had been done previously under the AcSB's former strategy. The first stage of the project was carried out by the Joint Not-for-Profit Task Force of the AcSB and PSAB, which met nine times during 2011 and 2012 to review all aspects of the accounting framework for the not-for-profit sector and achieve consensus on recommendations to the Boards. The membership of the Task Force was drawn from both the public and private sectors and includes preparers, auditors and users of financial statements. The two Boards are working to reach common positions on the issues to the maximum extent possible.

The two Boards separately discussed the Task Force's recommendations, culminating in the approval by each Board of a common Statement of Principles setting out the basic principles they

⁷ Not-for-profit organizations in the private sector also have the option of adopting IFRSs, instead of the domestic accounting framework, and would have done so with mandatory effect in 2012. Not-for-profit organizations in the public sector are required to apply the standards in the *CPA Canada Public Sector Accounting Handbook*, for fiscal years beginning on or after January 1, 2012. Organizations in the public sector may have been required to make more changes from their previous reporting practices than those in the private sector.

proposed to follow in developing future exposure drafts. The Statement of Principles was issued for comment in April 2013. The comment period was originally six months but, at the urging of interested stakeholders, was extended to December 15, 2013 to allow sufficient time for stakeholders to consider the proposals, consult and formulate comments. During the comment period, the AcSB conducted a live webinar to inform stakeholders and encourage their participation in the consultative process. AcSB members and staff took part in 13 public roundtable meetings in 10 different centres across Canada to inform stakeholders and receive their comments. Several additional private meetings were held for that purpose. In the aggregate, AcSB representatives had face-to-face discussions with over 200 interested stakeholders. Written responses to the Statement of Principles totalled 292 letters, many from groups of individuals. These very successful outreach processes resulted in substantial input from stakeholders having a wide variety of backgrounds. As anticipated, some of the proposals are controversial and the two Boards will need to assess how to proceed with this major project after analyzing and considering the comments. That process is expected to take several months, extending well into 2014-2015.

The staff members who support the AcSB’s work on not-for-profit organizations have also been monitoring changes to the standards for private enterprises, as not-for-profit organizations applying Part III of the *CPA Canada Handbook – Accounting* also apply the private enterprise standards. The AcSB separately considers the effects on not-for-profit organizations of any new requirements for private enterprises. In 2013-2014, the AcSB issued a new standard that modifies the application to not-for-profit organizations of a recent amendment to the standard for private enterprises on employee benefit plans. The modification is significant because it requires that certain portions of the periodic remeasurement of a not-for-profit organization’s defined benefit plan be reported as a direct charge or credit to net assets, rather than to the statement of operations (or in the case of a private enterprise, the income statement).

As with its other strategies, the AcSB has developed plans to conduct outreach to stakeholders to find out how it might implement its strategy for not-for-profit organizations better.

Performance Measures for the AcSB’s Not-for-Profit Organizations Strategy

The AcSB’s Annual Plan for 2013-2014 set out four measures for assessing the success of its work during the year on its strategy of adopting a separate accounting framework for not-for-profit organizations. Those measures and actual outcomes are as follows.

<p>Timely completion of planned steps for supporting the new set of not-for-profit organization standards.</p>	<p>The AcSB was able to carry out the steps in its Annual Plan for this sector on a timely basis, as discussed above.</p>
<p>Conducting extensive outreach, through roundtables and webinars, to solicit views of a broad spectrum of stakeholders on the AcSB/PSAB Statement of Principles.</p>	<p>The level of stakeholder outreach and response to the Statement of Principles is unsurpassed in the AcSB’s experience and provided a lot of valuable input, as discussed above.</p>

Satisfaction of stakeholders, assessed through feedback in face-to-face contacts and from correspondence received.	From face-to-face contacts and correspondence with stakeholders, there appears to be general acceptance of the accounting framework designed specifically for not-for-profit organizations. Despite concerns about some of the proposals in the Statement of Principles, stakeholders seem satisfied with the process being followed to develop updates to the current standards.
Fulfilment of mandates of the AcSB and the AcSB/PSAB Joint Not-for-Profit Task Force, and satisfaction of members, self-assessed through completion of annual surveys.	The members of the AcSB were surveyed and reported a high level of satisfaction with their work in 2013-2014. Members are confident that the AcSB is fulfilling its mandate. The AcSB/PSAB Joint Not-for-Profit Task Force members were not surveyed in 2013-2014 as the Task Force was inactive during the period in which the Statement of Principles was open for public comment.

In summary, the AcSB attained its objectives in implementing the new strategic direction for the not-for-profit sector and preparing to update the current standards in the coming years. The mechanism for working jointly with PSAB to improve the existing standards is working well. Stakeholders the AcSB heard from have not indicated any concerns with the AcSB's overall strategy for the sector, which is to maintain a separate accounting framework based on the standards for private enterprises but incorporating standards on issues unique to the not-for-profit sector. Stakeholders are concerned about some of the proposals in the AcSB/PSAB Statement of Principles but discussion of those proposals is ongoing. The AcSB is satisfied with its continuing progress towards its long-term objective for not-for-profit organizations.

STANDARD-SETTING CAPABILITY

One of the AcSB's objectives for 2013-2014 was to ensure that it continued to have the structures, processes and resources appropriate for implementing its strategies for all categories of reporting entities. Its Annual Plan called for evolutionary improvements to the regime established over the preceding three years while the new strategic directions were being put in place. For example, the plan envisaged that committees whose work was completed be wound up, the membership profiles of continuing committees be reconsidered and rebalanced when necessary and emerging best practices of other standard setters be adopted when suitable to the AcSB's circumstances.

The basic standard-setting structure of a single board responsible for all categories of private sector reporting entities, supported by advisory committees and staff, is working well. The AcSB had no difficulty in attracting qualified individuals to serve on the Board and its committees.

The mid-year transition to the current Chair from her predecessor was accomplished smoothly. The new Chair has undertaken a program of outreach to stakeholder groups and instituted several new processes to improve AcSB meetings.

The AcSB generally had sufficient time available within its established meeting schedule in 2013-2014 to address all of the matters requiring its attention. The Chair called one additional conference call meeting to finalize the AcSB's response to the IASB's proposals on insurance contracts on a timely basis. The demands on volunteer members' time to attend AcSB meetings remained consistent with the level over recent years. Members do a considerable amount of preparation and review work outside of meetings, five volunteer members have devoted additional time to serving on AcSB committees and some members have participated in communication activities. The total call on members' time was significant but consistent with prior years. The AcSB and its committees were successful in retaining volunteer members, although there continues to be a normal level of turnover. The AcSB had no difficulty recruiting new volunteers with solid credentials to fill routine vacancies as they have arisen.

The AcSB's staff and consultant resources provided the support necessary to carry out its plans. The staff complement has remained the same as in previous years but the deployment of staff resources has changed from time to time to suit the needs of the AcSB. The AcSB continues to retain the part-time services of a consultant to help support work on not-for-profit organization projects. Staff resources

were stretched during 2013-2014 to meet the various objectives of the plan for the year, primarily due to an increased volume of IFRS-related activities and a temporary reduction in available personnel. One staff member left in November 2013 and another had to take a medical leave of absence for several months starting in January 2014. A new staff member was hired to join the staff on April 30. As indicated by the preceding sections of this report, the AcSB was able to carry out its plans for the year on a wide range of issues even though its resources were stretched.

The AcSB had sufficient financial resources in 2013-2014 to pay for all necessary operating costs in addition to staffing, principally costs of meetings and travel and translation. However, due to a short-term increase in the overall workload of CPA Canada's Language Services Department, translation of certain sections of IASB exposure drafts has had to be curtailed. This step was taken after consultation with representatives of Canada's francophone accounting community and AcSOC, and is planned to end in mid-2015.

The AcSB carried out a review of its standard-setting processes during the year to ensure that they follow best practices of other standard setters. Revised documentation of the AcSB's due process was developed in light of the updated IASB documentation issued in early 2013 and approved in substance in the AcSB's March 2014 meeting. The AcSB has also redrafted its statement of operating procedures and various related operating policy documents. The AcSB has continued to operate in compliance with its due process, with no significant departures.

The AcSB was unable to complete and publish its public record documentation of the work it has undertaken in updating IFRSs periodically since their initial adoption in 2010. The work is underway but limited availability of staff time has precluded timely completion of this document.

During 2013-2014, the AcSB enhanced its governance processes. The AcSB provided input to AcSOC's review of the AcSB's terms of reference and also developed a proposed mandate for appointing an AcSB Vice-Chair, for AcSOC's consideration, which became effective on April 1, 2014. On the advice of AcSOC, the AcSB started a project to develop a formal risk analysis model in collaboration with PSAB. When completed, the analysis will provide an additional tool to guide future planning and operational decisions.

The AcSB continued to monitor best practices of other standard setters to identify any advances in the basis for assessing a standard setter's performance. The AcSB was unable to identify any emerging improvements.

One of the AcSB's objectives for 2013-2014 was to carry out its activities with due consideration for "standards fatigue" amongst its stakeholders. The AcSB has limited influence over the pace of activity at the IASB but has commented in the past on the standards fatigue issue, particularly in responding to the IASB's 2011-2012 agenda consultation. In designing its current agenda, the IASB paid heed to calls for fewer major projects. However, it is also under pressure to complete its four major current

projects and increase its work on narrow-scope amendments and interpretation issues. The AcSB recognizes the challenges but considers that they do not place an excessive burden on stakeholders. AcSB activity to improve the standards for private enterprises and not-for-profit organizations has been at a slower pace and there were no indications that stakeholders are concerned about the rate of change in those sectors.

Performance Measures for the AcSB's Standard Setting Capability

The AcSB's Annual Plan for 2013-2014 set out four measures for assessing whether it has the structures, processes and resources appropriate for implementing its strategies for each category of reporting entity. Those measures and actual outcomes are as follows.

<p>The extent of AcSB and stakeholder involvement in IASB and IFASS activities, including the views of other standard setters on the AcSB's contributions.</p>	<p>As discussed above, the AcSB has been involved in all of the IASB's activities to the extent of responding to all invitations to comment. On major projects, the AcSB provided additional input commensurate with the nature of the issues and the concerns of Canadian stakeholders (the most notable example relating to proposals on insurance contracts). In response to inquiries, AcSOC has received correspondence from the Canadian IFRS Foundation Trustee, the Vice-Chairman of the IASB and the Chairman of the FASB, commenting positively on the AcSB's participation and contributions to global standard setting.</p>
<p>The satisfaction of stakeholders in the private enterprise and not-for-profit sectors.</p>	<p>Stakeholders in the private enterprise sector have provided limited input to the AcSB in 2013-2014 but are supportive of its activities. Stakeholders in the not-for-profit sector have expressed strong concerns about some of the proposals in the AcSB/PSAB Statement of Principles but also strong support for the processes being followed in that project.</p>
<p>An assessment of the adequacy of the AcSB's structure, processes and resources.</p>	<p>The AcSB has not undertaken a formal assessment of its structure, processes and resources pending the development of a new strategic plan over the next two years. However, its current structure and processes have worked well in carrying out current activities and fulfilling the AcSB's mandate. Resources have generally been adequate although there are some concerns about the sufficiency of staff resources to carry out to the extent appropriate all of the tasks that the AcSB considers necessary. Some activities have been delayed relative to plans and expectations and others have not been carried out as thoroughly as desirable. For example, the AcSB's document summarizing its process for adopting amendments to IFRSs in 2011-2013 has not been completed and issued. This trend will require careful management of staff resources to ensure that they are deployed to best achieve the AcSB's objectives.</p>
<p>An annual self-assessment by the AcSB and its associated committees.</p>	<p>The results of the AcSB's annual self-assessment and similar assessments by six of its committees indicated a high level of satisfaction amongst the members of each group with the structure, processes and resources of the AcSB.</p>

In summary, the current structure, processes and resource arrangements generally worked well in 2013-2014 and appear to be sufficiently robust to continue to contribute to the fulfilment of the AcSB's mandate in the foreseeable future. The AcSB considers that it applied its due process appropriately in setting standards during the year. It relied on "comply or explain" provisions of due process to depart from normal practices on several occasions, each of which was reported to AcSOC. Due regard was paid to the potential for "standards fatigue" amongst stakeholders. The AcSB has some concern about the continuing ability of its current staff resources to carry out its plans as fully as desirable.

COMMUNICATIONS

The AcSB has carried out its extensive ongoing program of communications with stakeholders, building incrementally on programs developed in previous years and modifying practices when improvements are possible. The AcSB was able to extend its “reach” by making connections with additional stakeholder groups and communication media while maintaining existing connections.

The website remains a cornerstone of the AcSB’s communications programs. In April 2013, the Standards Group Communications Manager initiated a website survey that received over 150 responses from stakeholders, of whom 77% said that they were “overall satisfied with the website.” As a result of the feedback, website content rewrites and organization updates were done to align better with stakeholder requirements.

In June 2013, *The Standard* was launched, a weekly email that is tailored to stakeholders’ topic preferences (news on IFRSs, standards for private enterprises or standards for not-for-profit organizations). *The Standard* consistently sees higher-than-industry-averages for open and click-through rates, averaging a 66% open rate and 28.6% click-through rate in 2013. A survey asking for stakeholder feedback to improve *The Standard* was completed in March 2014. Over 130 stakeholders responded, with 92% calling *The Standard* always or generally informative. Respondents offered suggestions for improvements that will be made in 2014-2015.

The AcSB expanded its external communications and media contacts in 2013-2014 through additional outreach efforts, resulting in a communication contact list totalling over 60 individuals at professional accounting and relevant association bodies and over 150 up-to-date media contacts at business and finance publications throughout Canada.

Since mid-2013, the Communications Manager has been monitoring the main social media platforms in use by the business community today – LinkedIn, Facebook, Twitter and various blogging platforms. Monitoring results will help identify whether the AcSB’s stakeholders engage in conversations via social media and how often, as well as the tone of the conversations. This information will support the development of a long-term social media strategy to be developed in 2014-2015. Static social media presences on Wikipedia and LinkedIn currently ensure that background information and a link back to the AcSB’s website are available to users of those platforms.

The AcSB is aware of the need to keep reminding stakeholders of its strategies and the underlying rationale. It continues to use every opportunity to convey its messages through its own communications media (newsletters, conference presentations, articles and face-to-face liaison meetings), partnering with other organizations and using their communications media, and through the limited opportunities available in the business press. The Chair's public presentations have also put increasing emphasis on explaining the structure and processes of the AcSB and AcSOC.

The AcSB continued its ongoing relationship with the IASB's communications programs. The IASB made further progress in developing its various outreach programs in 2013-2014, notably outreach to financial statement users. Members of the IASB and its senior staff visited Canada in person several times and participated by teleconference in the AcSB's outreach activities, including meetings of its User Advisory Council.

Performance Measures for the AcSB's Communications Program

The AcSB's Annual Plan for 2013-2014 set out three measures for assessing the success of its communication activities. Those measures and actual outcomes are as follows.

<p>Adoption of new processes and establishment of new contacts under the communications plan.</p>	<p>As discussed above, the AcSB made progress in adopting new processes and establishing new contacts through the operation of its website, email and direct contacts. Quantifiable increases in stakeholder reach were observed through the website and use of email. Contacts with other organizations having an interest in financial reporting issues, such as professional bodies and firms and business organizations, resulted in those other organizations reporting the AcSB's messages more widely.</p>
<p>Nature and extent of contacts with stakeholders, as documented in the schedule of communication activities.</p>	<p>The AcSB has maintained and strengthened existing face-to-face contacts with a number of key stakeholder organizations and also established some new contacts. The overall level of stakeholder contact remains at a high level, as documented in the AcSB's log of its various communication activities.</p>
<p>Satisfaction of stakeholders, assessed through feedback in face-to-face contacts and from correspondence received.</p>	<p>Stakeholders have indicated satisfaction with the AcSB's communications programs in limited face-to-face discussions and through a survey of website visitors. Website usage and email subscribers have increased significantly. Feedback on webinars has been positive.</p>

In summary, the AcSB carried out an extensive communications program that reflects its strategies and stakeholder needs. It built on past efforts to extend the reach of its communications to wider audiences using up-to-date and appropriate communication tools. Opportunities for further improvements exist and are being pursued. The AcSB's communication efforts over the past several years to support the implementation of its current strategies have been substantial and contributed to their successful adoption.

PREPARING FOR FUTURE STRATEGIC INITIATIVES

During the year, the AcSB extended the term of its existing Strategic Plan, following consultation with stakeholders and AcSOC. As a result, the plan will remain in effect until March 2016. The extension will give the AcSB and its stakeholders more experience with applying the current strategic directions before preparing the next strategic plan, as well as allowing more time to develop the plan in accordance with due process.

The AcSB has developed detailed plans for identifying improvements to the implementation of the current strategic directions through outreach to stakeholders next year. The AcSB has focused attention on developing those plans and has not carried out any comprehensive surveys of stakeholder views of its performance during 2013-2014.

CONCLUSION

The AcSB met the key objectives in its 2013-2014 Annual Plan and made significant progress towards achieving the broader objectives in its 2011-2016 Strategic Plan and its long-term goals. The AcSB considers that there is nothing of significance to its long-term goals that it would have done differently in 2013-2014 or was unable to do. The difficulties encountered in the transition to IFRSs by rate-regulated entities and investment entities in previous years are now being resolved satisfactorily. The AcSB was unable to advance some of its projects to improve private enterprise standards as far as planned due to decisions to undertake additional work in response to stakeholder input but it foresees being able to progress projects in the coming year. A major step in reviewing the standards for not-for-profit organizations was carried out with significant involvement by interested stakeholders. The AcSB's resources were stretched but able to carry out all of the necessary work to fulfil plans and achieve key objectives.

Overall, the AcSB had a successful year in 2013-2014. It has developed and is instituting improved governance processes while continuing to apply full due process to the development of standards. It also made continued progress on key IFRS-related issues, which clearly outweigh the effects of minor delays in completing private enterprise projects. The AcSB is confident that it has the right strategies in place to maintain and establish accounting standards in the public interest and will be able to achieve its broader objectives in its 2011-2016 Strategic Plan while undertaking the work to develop a new plan over the next two years.

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