IFRS Discussion Group

Report on the Public Meeting

January 11, 2013

The IFRS Discussion Group is a discussion forum only. The Group's purpose is to assist the Accounting Standards Board (AcSB) regarding issues arising on the application of International Financial Reporting Standards (IFRSs) in Canada. The Group comprises members with various backgrounds who participate as individuals in the discussion. Any views expressed in the public meeting do not necessarily represent the views of the organization to which a member belongs or the views of the AcSB. The discussions of the Group do not constitute official pronouncements or authoritative guidance.

This document has been prepared by the staff of the AcSB and is based on discussions during the Group's meeting.

Comments made in relation to the application of IFRSs do not purport to be conclusions about acceptable or unacceptable application of IFRSs. Only the IFRS Interpretations Committee or the International Accounting Standards Board can make such a determination.

(*For a full understanding of the discussions and views expressed at the public meeting, listen to the audio clips*).

Items Presented and Discussed at the January Meeting

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Update on Previous Items Discussed by the Group

ITEMS PRESENTED AND DISCUSSED AT THE JANUARY MEETING

IFRS 2: Share-based Payment Awards with Variable Vesting Periods

Awards that accelerate vesting automatically upon a change of control are common in publicly traded companies (for example, an award with a time-based vesting period of three years but containing conditions that automatically accelerate vesting upon the occurrence of a change of control, so that all options vest immediately upon the occurrence of such an event).

IFRS 2 *Share-based Payment* does not deal explicitly with awards that have vesting conditional on such events. In July 2010, the IFRS Interpretations Committee reached a tentative decision that a requirement to float or be sold is a performance vesting condition rather than a non-vesting condition but, to date, no amendment has been made to IFRS 2 to clarify this point.

In accordance with IFRS 2, an expense in respect of an award is recognized immediately if the award vests immediately, or over the vesting period if one exists. In the case of an award that accelerates vesting upon a change of control, the award will vest at the earlier of the event occurring or the expiration of the time based vesting period (assuming the employees are still employed at the vesting date). Therefore, the vesting period will commence no later than the grant date and end no later than the expiration of the time based vesting period. This type of condition raises the question of how to estimate the vesting period.

Group members considered how the occurrence of a future exit event such as a change in control, which accelerates vesting of a share-based payment award, is taken into account when the employee must be in service when the exit event occurs.

The Group's Discussion

Group members noted that the technical analysis under IFRS 2 is relatively straightforward when vesting is accelerated upon the occurrence of an exit event such as a change in control. However, many are surprised that the accounting result under IFRSs differs from U.S. GAAP (and pre-changeover Canadian accounting standards).

Group members noted that, under U.S. GAAP, an exit event such as a change in control is generally only recognized when it occurs (i.e., U.S. GAAP takes the view that such an event is not probable until it actually happens).

In contrast, under IFRSs, an entity estimates the length of the expected vesting period at the grant date, based on the most likely outcome of the performance condition (paragraph 15(b) of IFRS 2). The entity would revise its estimate of the length of the vesting period if subsequent information indicates that the length of the vesting period differs from previous estimates. Changes in the likelihood of such an event occurring are accounted for as changes in estimates in accordance with paragraph 20 of IFRS 2.

Group members supported this technical analysis that, under IFRSs, an entity would need to continue to revise its estimate of the vesting period at each reporting period as expectations change. As a result, an acceleration of vesting is likely to be recognized in an earlier period under IFRSs than under U.S. GAAP. Group members noted the accounting treatment is straightforward for awards when a change of control occurs in a relatively short timeframe. However, the accounting becomes more problematic when a possible change of control, say due to a take-over bid, becomes a very prolonged event and the entity's assessment of the likelihood of the most probable outcome may change during the period of time that the take-over bid remains outstanding.

Group members noted that the specific facts and circumstances of the entity are important to the assessment and there could be circumstances that result in a conclusion that the expectation of a change in control is not probable and vesting would not be accelerated unless that expectation changes.

Group members noted that a slight change to the fact pattern could produce different accounting results, particularly if other features create a market condition rather than a performance condition. Group members noted that a debate comes up fairly regularly concerning whether a feature is a performance condition or a market condition, noting that the accounting treatments differ under IFRS 2. A market condition is taken into account when estimating the fair value of the equity instrument granted (paragraph 21 of IFRS 2) whereas a performance condition is not factored into the grant date fair value of the award (paragraph 19 of IFRS 2).

Group members emphasized that entities need to understand the terms of awards and what conditions might accelerate vesting and what kinds of condition they are under IFRS 2. When an award includes a change of control condition, preparers need to assess and deal with the accounting repercussions that might accelerate vesting or result in a change in the estimated vesting period depending on the circumstances.

Group members noted that an entity in these circumstances should also consider what disclosures about the significant judgments and estimates are relevant and should be provided in accordance with IAS 1 *Presentation of Financial Statements*.

IFRS 2: Outreach Request from IFRS Interpretations Committee

The IFRS Interpretations Committee (IFRIC) is currently working on the following issues relating to IFRS 2 *Share-based Payment*:

- Classification and measurement of share-based payment transactions for which the manner of settlement is contingent on either:
  - a future event that is outside the control of both the entity and the counterparty; or
  - a future event that is within the control of the counterparty.

- Classification of a share-based payment transaction in which the entity is required to withhold a specified portion of the shares that would otherwise be issued to the counterparty upon exercise (or vesting) of the share-based payment award in order to settle the counterparty's tax obligation.
- Measurement of, and accounting for, a share-based payment when a cash-settled award is cancelled and replaced by a new equity-settled award that has a higher fair value than the original award.

In light of this current project, the IFRIC staff has asked whether there is significant divergence in practice on other IFRS 2 issues.

The Group's Discussion
Group members identified one additional issue and recommended that it should be included in the AcSB staff's response to IFRIC's request.

That issue is whether an award with pro rata early vesting terms under specific circumstances is:
- a graded award, with each tranche accounted for separately; or
- a single award to be accounted for on a straight-line basis.

For example, typically plan documentation states that awards vest at the end of a specified number of years. However, the plan documents may also state that an employee who leaves the company's employment before the end of the vesting period will receive a pro rata portion of the award if the employee leaves for a specified reason such as being made redundant, death, or disability.

IFRS 12: Disclosures in Interim Financial Statements

IFRS 12 *Disclosure of Interests in Other Entities* is effective for annual periods beginning on or after January 1, 2013 and applies when an entity has an interest in a subsidiary, a joint arrangement (i.e., joint operation or joint venture), an associate, or a structured entity that is not controlled by the entity (i.e., an unconsolidated structured entity).

IFRS 12 requires the "entity to disclose information that enables users of its financial statements to evaluate: (a) the nature of, and risks associated with, its interests in other entities; and (b) the effects of those interests on its financial position, financial performance and cash flows."

The Group considered whether all of the disclosures required by IFRS 12 must be provided in the first condensed interim financial statements in an annual period in which IFRS 12 has been adopted (i.e., at March 31, 2013 for entities with calendar year ends).

View A – All of the IFRS 12 disclosures are required to be provided because they relate to new information that was not provided in the most recent annual financial statements.

View B – Only disclosures required by IAS 34 Interim Financial Reporting *are provided.*

The Group's Discussion
Group members supported View B, noting that condensed interim financial statements are prepared in accordance with IAS 34. Group members observed that paragraph 16A of IAS 34 requires disclosure of additional information that might trigger some of the disclosures required by IFRS 12. For example, paragraph 16A(a) requires disclosure in the condensed interim financial statements of a description of the nature and effect of a change in accounting policy. Group members noted that although there is no explicit requirement for the IFRS 12 disclosures to be included in condensed interim financial statements, some of those disclosures may be necessary depending, in part, on the results of applying IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*.

Group members noted the level of additional disclosures an entity requires when applying IFRS 12 will vary depending on an entity's specific circumstances. For example, more disclosures will be necessary if an entity has a joint arrangement that was previously proportionately consolidated and will need to be accounted for under IFRS 11 using the equity method.

Group members noted that some of the challenges include assessing significance to determine what disclosures should be included in the condensed interim financial statements and an ongoing debate on the interplay between aggregation and materiality. Group members observed that there are more judgments required in applying the standards and it takes time to think through those judgments in terms of determining what to disclose and when to disclose it.

Group members encouraged preparers to think early and carefully about the IFRS 12 disclosure requirements. Group members observed that preparers may want to consider whether to accelerate disclosures voluntarily by including some disclosures in their 2012 annual financial statements to achieve a more seamless transition. Group members encouraged preparers to ensure the appropriate information is gathered in advance of preparing the 2013 annual financial statements.

IFRS 13: Disclosures in Interim Financial Statements

IFRS 13 *Fair Value Measurement* is effective for annual periods beginning on or after January 1, 2013. IFRS 13 explains how to measure fair value and applies to fair value measurements and disclosures that are required or permitted by other IFRSs.

The Group considered whether all of the disclosures required by IFRS 13 must be provided in the first condensed interim financial statements in an annual period in which IFRS 13 has been adopted (i.e., at March 31, 2013 for entities with calendar year ends).

View A – All of the IFRS 13 disclosures are required to be provided because they relate to new information that was not provided in the most recent annual financial statements.

View B – Only disclosures required by IAS 34 Interim Financial Reporting *are provided, which includes only some of the IFRS 13 disclosures.*

The Group's Discussion
Group members supported View B, noting that condensed interim financial statements are prepared in accordance with IAS 34. Group members observed that the International Accounting Standards Board (IASB) made a consequential amendment adding paragraph 16A(j) to IAS 34 when issuing IFRS 13. This additional paragraph requires certain IFRS 13 disclosures about financial instruments. Group members noted that disclosures in addition to those required by paragraph 16A(j) of IAS 34 may be necessary in the condensed interim financial statements to meet the other general disclosure requirements in that standard.

Group members observed that the disclosures required by IFRS 13 do not relate only to financial instruments but also include requirements for disclosure about non-financial assets, such as biological assets and real estate. Group members noted that some may be surprised about the disclosures required for non-financial assets (for example, disclosures of the level of the fair value hierarchy were previously required only for financial instruments). Group members noted that preparers could elect to disclose all IFRS 13 requirements in the condensed interim financial statements but are not required to do so.

One Group member noted that this issue was the topic of a significant debate globally that was ultimately resolved in support of View B. However, this debate is indicative of the different ways people around the world read the words and standards. For example, in the Basis for Conclusions for IFRS 13, some initially read paragraph BC 230 in isolation to arrive at View A, while others considered this paragraph in light of paragraphs BC 222-224 to support View B. Group members were reminded that the Basis for Conclusions is not authoritative and not included in the CICA Handbook – Accounting.

Group members noted that IAS 34 specifies the minimum disclosures required and judgment is necessary to decide how to meet those requirements. Group members observed that preparers may want to consider whether to accelerate disclosures voluntarily by including some disclosures in their 2012 annual financial statements.

Group members encouraged preparers to perform an early, careful analysis of the full requirements in IFRS 13 to determine the extent of disclosures that should be made and ensure, at a minimum, the appropriate information is gathered in advance of preparing the 2013 annual financial statements.

IFRS 13: Prospective Transition Adjustments

IFRS 13 *Fair Value Measurement* is required to be applied prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 explains how to measure fair value and applies to fair value measurements and disclosures that are required or permitted by other IFRSs. IFRS 13 may affect the measurement and disclosure of fair value for both financial and non-financial assets and liabilities as well as an entity's own equity instruments.

In some instances, the fair value measurement basis required by IFRS 13 could differ from the determination of fair value required prior to applying IFRS 13. Accordingly, in such instances, the initial application of IFRS 13 will result in the recognition of a measurement adjustment.

Group members considered, for example, an entity that has owned land and a small office building (which constitute investment property) in the core of a growing city for 25 years. The land and building is surrounded by high-rise condominiums that were built in the last 5 years. The entity uses the fair value model to measure its investment property in accordance with IAS 40 *Investment Property*. Prior to applying IFRS 13, the fair value of the investment property was determined based on current rental rates and projected cash flows in accordance with paragraph 40 of IAS 40. On initial application of IFRS 13, the entity needs to consider also the guidance in IFRS 13 relating to the highest and best use of non-financial assets. Specifically, paragraph 27 of IFRS 13 states:

> "A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its *highest and best use* or by selling it to another market participant that would use the asset in its highest and best use."

In this example, the highest and best use of the investment property to a market participant may not be simply to use it in its current condition but rather to sell the land to a property developer or convert the property into a high-rise condominium. As a result, a measurement adjustment could arise upon the initial application of IFRS 13.

The Group considered when the initial application of IFRS 13 might result in measurement adjustments and what accounting treatment is appropriate for such adjustments.

The Group's Discussion

Group members observed that it has been some time since a new standard required prospective application and emphasized that the prospective application of IFRS 13 results in the same accounting treatment as a change in estimate under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. This approach requires that any measurement adjustments upon initial application of IFRS 13 be recognized in the period of adoption through profit or loss or other comprehensive income. The adjustment would not be recognized directly in retained earnings (as would be the case if the standard had required retrospective application).

Group members noted that whether the adjustment is recognized through profit or loss or other comprehensive income is determined by the applicable IFRS that requires an item to be measured at fair value (noting that IFRS 13 stipulates how to measure fair value not when or where). In the investment property example, the change in fair value upon initial application of IFRS 13 should be recognized in profit or loss because IAS 40 requires subsequent measurement adjustments to be recognized in profit and loss. Similarly, an entity should recognize a fair value measurement change arising upon initial application of IFRS 13 in other comprehensive income, when another IFRS requires the subsequent fair value changes to be recognized through other comprehensive income.

Group members observed that fair value measurements can be triggered at different points in time and, as a result, measurement adjustments on initial application of IFRS 13 could occur at different times. For example, a measurement adjustment relating to an asset that is regularly measured at fair value at each reporting period would be recognized in the first quarter. Other assets may only be periodically adjusted to fair value. For example, an entity may have a policy to test goodwill for impairment in the third quarter. In this case, the initial application of IFRS 13 would not trigger a transition adjustment in the first quarter because the asset is not remeasured at that time. Instead, an adjustment could arise following the impairment test performed in the third quarter and that adjustment would be recognized in profit and loss at that time.

Some Group members expressed concern that some might approach IFRS 13 quite broadly and at too high a level. Group members noted that the initial application of IFRS 13 represents a significant change not only for financial instruments but for non-financial assets as well. Group members encouraged preparers to give IFRS 13 sufficient attention because the analysis required to apply IFRS 13 generally needs to be at a fairly detailed level. Group members noted that in many cases, such as the investment property example, IFRS 13 provides guidance when there was previously no guidance and correct application will require some detailed thought.

Group members emphasized that preparers should consider what disclosures are required by paragraphs 28 and 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the annual financial statements in the year before and the year of initial application including, but not limited to, disclosures about the amount of the adjustment.

Group members observed that the International Accounting Standards Board (IASB) did not make a consequential amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* to provide prospective transition relief for IFRS 13. As a result, Group members noted that entities that have not transitioned to IFRSs yet will need to think through how IFRS 13 should be applied and consider the effect of the general exception in IFRS 1 to avoid the use of hindsight.

IAS 19 (2011): Transition (Other than for Defined Benefit Pension Plans)

IAS 19 *Employee Benefits* (Amended in 2011) is effective for annual periods beginning on or after January 1, 2013. Entities will need to consider the implications of applying the revised standard to employee benefit plans other than defined benefit pension plans.

The changes include:

- revised definitions of both short-term and other long-term employee benefits;
- new guidance on the reclassification of short-term employee benefits;
- removal of the concept of demonstrable commitment as the basis for recognition of termination payments; and
- additional details on the measurement of termination benefits on initial recognition and subsequent changes to termination benefits.

The Group's Discussion

Group members noted that it is important that preparers not ignore the changes to IAS 19 due to an incorrect assumption that the changes only affect those with defined benefit plans. Group members discussed key changes in the amended standard relating to the classification of employee benefits and termination benefits.

Classification of employee benefits

Group members observed that, on adoption of the amended standard, an entity will need to reconsider the existing classification of its employee benefits as either short-term or long-term. Group members noted that the amended IAS 19 changes the definition of short-term and other long-term benefits so that it is clear that the distinction between the two depends on when the entity expects the benefits to be settled rather than when the benefits are due to be settled (i.e., depends on the entity's expectations rather than the employee's entitlement to the benefit).

Group members observed that the amended standard also provides new guidance on reclassification between short-term and long-term employee benefits. As a result, entities will need to review these classifications continuously in case of changes to expectations on an other than temporary basis.

Group members noted that issues surrounding classification of employee benefits as short-term or long-term were relatively common previously and the clarifications made to IAS 19 will be helpful. Also, for some entities the classification of an employee benefit as short-term or long-term can be a significant determination that should be considered carefully. Group members noted that the entities that will be most affected are those with significant accrued benefits that employees are permitted to carry forward such as vacation pay and sick pay.

Termination benefits

Group members observed that the amended standard removes the concept of demonstrable commitment from the recognition of termination benefits. Under the amended standard, a liability and expense for termination benefits is recognized at the earlier of when the entity:

(a) can no longer withdraw the offer of those benefits; and
(b) recognizes costs for restructuring relating to the specific event involving the payment of those benefits.

Group members noted that entities may need to rethink the timing of recognition of termination benefits, which may result in earlier or later recognition depending on the facts of their arrangements. This work may be particularly important for termination plans that span the end of a reporting period because IAS 19 (Amended in 2011) is to be applied retrospectively and comparative quarterly results will need to be restated.

Group members observed that the amended standard provides additional guidance on the measurement of termination benefits and provides new requirements if the termination benefits are provided as enhancements to a post-employment benefit plan. Group members noted that this change relates to timing rather than what the termination benefits are or how they are determined. Group members noted that the amended standard clarifies the distinction between a benefit paid for future service and a termination benefit. Group members observed that the amended standard provides a new example to illustrate the application of paragraphs 159-170 of IAS 19 (Amended in 2011).

Interim remeasurements

Group members also noted that, under the amended standard, remeasurements are recognized immediately in the period in which they arise. Group members noted that because the amended standard is to be applied retrospectively, the issue of interim remeasurements could have implications for the comparative figures and preparers need to be alert to the possibility of these interim remeasurements.

IAS 32: Cash Settlement Options for Equity-Linked Conversion Features in Convertible Debt

IAS 32 *Financial Instruments: Presentation* addresses how to classify financial instruments, from the perspective of the issuer, as financial assets, financial liabilities and equity instruments, including the classification of related interest, dividends, losses and gains. It also addresses circumstances in which financial assets and financial liabilities should be offset.

A financial instrument is an equity instrument if, and only if, the conditions specified in paragraph 16 of IAS 32 are met. In addition, paragraph 26 of IAS 32 elaborates on how to address settlement provisions when a financial instrument gives one party a choice over how it is

settled. For example, the settlement provision may provide the issuer or the holder with a choice of net settlement in cash or by exchanging shares for cash.

Paragraph 26 of IAS 32 clarifies that when a settlement option exists between settlement in cash or the exchange of shares, the instrument is "a financial asset or a financial liability unless all of the settlement alternatives would result in it being an equity instrument."

Example:

- Convertible debt instruments contain conversion features whereby the holder of the debt instrument has an option to settle the debt instrument by requiring the issuer to deliver a fixed number of common equity shares of the issuer. This conversion feature satisfies paragraph 16(b) of IAS 32 and meets the "fixed for fixed" criterion.
- The conversion features also contain an option for the issuer to settle the conversion option by either:
  - paying the holder the market value of the shares in cash; or
  - exchanging its own shares for settlement of the debt instrument (i.e., physical delivery).

The issue for consideration is whether liability or equity treatment is appropriate in this example.

The Group's Discussion

Group members observed that the classification of a financial instrument as a financial liability or an equity instrument can be complex and requires an analysis of the various features of the financial instrument to arrive at a conclusion on the appropriate classification.

For this example, Group members noted that IAS 32 is quite clear but that the accounting result to treat the conversion feature as a liability continues to be a surprise in practice. Paragraph 26 of IAS 32 requires the conversion feature to be treated as an embedded derivative liability that is not closely related to the debt host contract and, therefore, carried at fair value with changes in fair value recognized in profit or loss. Alternatively, the entire instrument could be accounted for at fair value through profit and loss under paragraph 11A of IAS 39 *Financial Instruments: Recognition and Measurement*. Paragraph 27 of IAS 32 provides a similar example that also requires liability treatment.

Group members noted that there are many conversion features that can prevent the issuer from classifying a conversion option in equity. Group members observed that convertible debentures are complicated and entities issuing these instruments should be prepared to complete the necessary analysis and obtain help when necessary to avoid unexpected accounting consequences.

IAS 39: Measurement of an Investment in a Private Company

Paragraph 43 of IAS 39 *Financial Instruments: Recognition and Measurement* generally requires that financial assets be recognized at fair value initially, plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement of financial assets is generally also at fair value, with certain exceptions as stipulated in paragraph 46 of IAS 39. Generally, equity investments are amongst those carried subsequently at fair value. The exception to this general rule is certain specified investments in unquoted securities as stated in paragraph 46(c) of IAS 39: "investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost."

Paragraph 80 of the Application Guidance to IAS 39 elaborates on these requirements and indicates that fair value is considered "reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that instrument or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value."

Additionally, paragraph 81 of the Application Guidance indicates that, in many circumstances, the variability of fair value estimates should not be significant, and that "normally" it is possible to estimate reasonably a fair value for an equity instrument that was acquired from a third party.

The Group considered when cost is acceptable as the ongoing measurement basis for an investment in a private company classified as available for sale.

The Group's Discussion

Group members noted that it is often possible to measure the fair value of investments in unquoted securities reliably and circumstances when the exception in paragraph 46 of IAS 39 applies should be rare.

Group members observed that it is inappropriate to set an accounting policy that all investments in unquoted securities are carried at cost. Instead, further analysis is required to support a conclusion that it is not possible to measure the fair value of each investment reliably and that the exception can be applied. Group members noted that entities that initially conclude the exception applies have often not performed a sufficiently rigorous analysis to support that conclusion. Group members observed that entities must reassess whether the exception applies at each reporting date.

Group members noted that IFRS 9 *Financial Instruments*, which is mandatorily effective for annual periods beginning on or after January 1, 2015, would appear to lessen the ability to measure investments in unquoted securities at cost subsequent to initial recognition when

compared to IAS 39. IFRS 9 addresses investments in unquoted equity securities in a different manner than IAS 39. IFRS 9 requires fair value but provides that, in some cases, cost may be an appropriate estimate of fair value. In contrast, IAS 39 permits an exception to the use of fair value when fair value cannot be reliably measured.

Group members noted that in practice, the exception in IAS 39 has been applied in some limited circumstances and more so in some sectors, such as the junior markets. Group members noted that this issue is generally problematic for entities in those markets and there will be of pressure not to spend a lot of time and money to determine fair value when applying IFRS 9 in those circumstances. Group members observed that this issue is particularly significant for entities in the junior sector that often issue or receive shares in exchange for goods and services.

In December 2012, the International Accounting Standards Board (IASB) issued educational material regarding IFRS 13 on "Measuring the fair value of unquoted equity instruments within the scope of IFRS 9 *Financial Instruments*." This material is non-authoritative guidance that accompanies, but is not part of, IFRS 13.

UPDATE ON PREVIOUS ITEMS DISCUSSED BY THE GROUP

IAS 10: Reissuing Financial Statements in Connection with an Offering Document

The AcSB staff reported that the IFRS Interpretations Committee (IFRIC) discussed the AcSB's submission in November 2012 and tentatively decided not to add the issue to its agenda because "the issue arises in jurisdictions with particular securities laws and regulations and addressing this issue could conflict with national laws and regulations in other jurisdictions" (November IFRIC Update).

Group members noted that, while the issue was submitted to IFRIC in an effort to reach an ideal solution, other solutions were being pursued at the same time. Group members observed that, for an entity that is a reporting issuer only in Canada, the issue has been largely resolved because of the recent changes made by the Auditing and Assurance Standards Board in issuing CICA Handbook – Assurance Section 7150, *Auditor's Consent to the Use of a Report of the Auditor Included in an Offering Document*.[1] With this change in most situations, Canadian reporting issuers are not expected to be required to reissue financial statements in connection with an offering document.

Group members noted that this issue is relevant to reporting issuers registered with the U.S. Securities Exchange Commission (SEC), and a matter of significant interest to the SEC. Group members observed that the International Practices Task Force of the American Institute of Certified Public Accountants discussed this issue at its November 2012 meeting and is working on potential solutions for SEC registrants. The Highlights from that meeting state that the requirement:

> "… to update previously issued financial statements to reflect retroactive accounting changes (such as changes in accounting principles, discontinued operations or changes in segments) … was not meant to result in changing the cut-off date for adjusting subsequent events.

[1] The November 2012 Auditing and Assurance Bulletin, "Auditor's Consent to the Use of a Report of the Auditor Included in an Offering Document" highlights key aspects of new Section 7150.

> Various possible alternatives for compliance with the registration statements requirements were discussed." (November 20, 2012 Highlights).

Group members observed that it looks hopeful that there will be approaches developed soon that will mitigate the problem for SEC filings. Reporting issuers that also file in the U.S. should monitor these developments.

Following the January 2013 meeting, the IFRIC published a tentative agenda decision on this issue in the January IFRIC Update requesting comments by April 4, 2013. Following deliberation of any comments received, the IFRIC's final agenda decision is expected to be published in its May 2013 IFRIC Update.