IFRS Discussion Group

Report on the Public Meeting

November 29, 2016

The IFRS Discussion Group's purpose is to act in an advisory capacity to assist the Accounting Standards Board (AcSB) in supporting the application in Canada of International Financial Reporting Standards (IFRSs). The Group maintains a public forum at which issues arising from the current application, or future application, of issued IFRSs are discussed and makes suggestions to the AcSB to refer particular issues to the International Accounting Standards Board (IASB) or IFRS Interpretations Committee. In addition, the Group provides advice to the AcSB on potential changes to IFRSs and such discussions are generally held in private.

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

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

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ITEMS PRESENTED AND DISCUSSED AT THE NOVEMBER MEETING

IAS 8 and IAS 12: Change in Tax Rate for Indefinite Life Intangible Assets

The IFRS Interpretations Committee was asked to clarify how an entity would determine the expected manner of recovery of indefinite life intangible assets when measuring deferred tax.

Paragraph 51 of IAS 12 *Income Taxes* indicates that:

> "the measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities."

Such recovery may arise upon sale of the asset or through its use. Paragraph 51A of IAS 12 states, in part, that:

> "the manner in which an entity recovers (settles) the carrying amount of an asset (liability) may affect either or both of:
>
> (a) the tax rate applicable when the entity recovers (settles) the carrying amount of the asset (liability); and
>
> (b) the tax base of the asset (liability).
>
> In such cases, an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement."

In practice, there was uncertainty as to how the term "manner of recovery" should be applied and interpreted for indefinite life intangible assets. Some stakeholders drew analogies between indefinite life intangible assets and non-depreciable assets measured using the revaluation model. Deferred taxes related to non-depreciable assets measured using the revaluation model have separate measurement guidance under paragraph 51B of IAS 12 and are measured based upon recovery by sale. Stakeholders drawing this analogy placed emphasis on the fact that paragraph BC6 in the Basis for Conclusions of IAS 12 states, in part, that "because an asset is not depreciated, no part of its carrying

amount is expected to be recovered (i.e. consumed) through use" and concludes that indefinite life intangible assets will always be recovered through sale.

However, the IFRS Interpretations Committee published an agenda decision in its November 2016 IFRIC Update that notes that the requirements of paragraph 51B of IAS 12 are not applicable because an intangible asset with an indefinite useful life is not a non-depreciable asset given that an non-depreciable asset has an unlimited (or infinite) useful life and indefinite does not mean infinite.

Issue 1: Should a change in the deferred tax rate resulting from the IFRS Interpretation Committee's agenda decision be considered a change in accounting policy or a change in estimate under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*?*

View 1A – Change in accounting estimate.

Proponents of this view think that a change in the deferred tax rate, arising from the IFRS Interpretation Committee's agenda decision, is a refinement of the deferred tax rate rather than a change in accounting policy. Under this view, the principles, rules and practices underlying the accounting for income taxes have not changed. Therefore, treatment as a change in accounting policy is not appropriate.

View 1B – Change in accounting policy.

Proponents of this view note that analogizing the manner of recovery of an indefinite life intangible asset to a non-depreciable asset and assuming recovery through sale as outlined under paragraph 51B, was being supported in practice under IFRSs. Therefore, the clarifications provided in the IFRS Interpretation Committee's agenda decision result in a change in conventions and practices (i.e., a change in an accounting policy).

They also note that there has been no change in the manner of recovery because the assessment was not based upon new information, developments or changes in specific facts and circumstances. Therefore, the change in tax rate cannot be treated as a change in accounting estimate.

The Group's Discussion

Group members agreed that a change in the deferred tax rate resulting from the IFRS Interpretation Committee's agenda decision should be considered a change in accounting policy and applied retrospectively (View 1B) in accordance with the requirements of IAS 8 for such changes.

A few Group members noted that it is important to assess the specific facts and circumstances in determining the deferred tax rate to be utilized.

Issue 2: If the change in deferred tax rate is viewed as a change in accounting policy, and the indefinite life intangible asset arose on a business combination for which the measurement period has elapsed, how should the retrospective adjustment be presented?

Fact Pattern

The indefinite life intangible asset arose upon the completion of a business combination that resulted in the recognition of goodwill. There has been no subsequent impairment of goodwill since the date of

acquisition and the measurement period for gathering information necessary to complete the purchase price allocation permitted by paragraph 45 of IFRS 3 has elapsed.

The exemptions available under IFRS 1 *First-time Adoption of International Financial Reporting Standards* were not applied.

View 2A – Adjust goodwill.

Proponents of this view recognize that paragraph 23 of IAS 8 requires a change in accounting policy to be applied retrospectively to present the entity's financial position, financial performance and cash flows as if the new accounting policy had always been applied. They note that the measurement period under IFRS 3 *Business Combinations* does not apply. Further, in order to apply IAS 8 and present the business combination in a manner that reflects the change in accounting policy, the initial accounting for the business combination must be amended resulting in an adjustment to goodwill.

View 2B – Adjust opening retained earnings.

Proponents of this view would note that the adjustments arise outside of the measurement period described by paragraph 45 of IFRS 3 and therefore should not result in an adjustment to goodwill because the initial accounting for the business combination has been finalized. As a result, the retrospective adjustment would be recorded to a prior year's deferred tax expense and opening retained earnings.

The Group's Discussion

One Group member asked whether the fact pattern assumed that there was a temporary difference on day one. The fact pattern was clarified to note that the entity was acquired directly through the purchase of shares. Therefore, the timing difference existed as at the date of acquisition of the entity and the underlying intangible asset.

For this fact pattern, Group members supported retrospectively adjusting goodwill (View 2A) noting that goodwill should be accounted for assuming that the new policy on deferred taxes had always been applied. Furthermore, Group members also agreed that the measurement period restriction under IFRS 3 should not be applied in this scenario.

One Group member questioned how this issue would affect previous calculations of goodwill impairment write-downs. Some Group members noted that previous impairment calculations might need to be retroactively adjusted. Another Group member noted that some may consider the guidance on impracticability in respect of retrospective application in IAS 8. However, this threshold is high and would be difficult to support in these circumstances, especially since goodwill is required to be tested for impairment on an annual basis.

The Group's discussion raises awareness about this item. No further action was recommended to the AcSB.

(For a full understanding of the discussions and views expressed, listen to the audio clip).

IAS 21: Source of Exchange Rates

Historically, the Bank of Canada has published the noon and closing foreign exchange rates for 55 currency pairs. The noon rate exchange rate for the Canadian dollar against the U.S. dollar is calculated to reflect the trades that take place between 11:59 a.m. and 12:01 p.m. All other Canadian dollar noon exchange rates are derived from the Canadian/U.S. dollar exchange rate and from indicative wholesale market quotes for a broad array of other currencies. The closing rates are updated at 4:30 p.m. All Bank of Canada exchange rates are indicative rates only, derived from averages of transaction prices and price quotes from financial institutions, and are sourced from Thompson Reuters.

On February 16, 2016, the Bank of Canada announced that effective March 1, 2017, it will reduce the number of currency pairs published from 55 pairs to approximately 25 pairs and will no longer publish noon and closing rates, but rather a single indicative rate per currency pair each day. This rate will be a daily average rate, calculated using a methodology that will reflect the average exchange rate observable throughout the Canadian business day. The details of the Bank's methodology are expected to be publically released in the fourth quarter of 2016[1].

Paragraph 21 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* states that:

> "A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction."

Paragraph 22 of IAS 21 states that:

> "The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with IFRSs. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate."

Paragraph 23(a) of IAS 21 states that at the end of each reporting period, "foreign currency monetary items shall be translated using the closing rate."

Issue 1: Under IAS 21, will the new indicative daily rate for the 25 currency pairs be acceptable as the spot exchange rate for initial recognition of foreign currency transactions and the exchange rate at the dates of the transactions for income and expenses?

View 1A – Bank of Canada indicative daily rates can be used even if rates fluctuate significantly during the course of the day of the transaction.

Proponents of this view note that, while paragraph 8 of IAS 21 defines the spot exchange rate as the "exchange rate for immediate delivery", paragraph 21 of IAS 21 specifies the use of the spot exchange rate at the date of the transaction, not the time of the transaction. Read together, proponents of this

[1] Subsequent to this meeting, the Calculation Methodology for Foreign Exchange Rates Published by the Bank of Canada was released.

view think that the use of a daily average rate on the date of the transaction is appropriate, even if rates fluctuate significantly during the course of the day.

Paragraph 39(b) of IAS 21 also refers to the exchange rate at the dates of the transactions rather than at the times of the transactions. Therefore, proponents of this view think that the use of a daily average rate on the date of the transaction is appropriate, even if rates fluctuate significantly during the course of the day. Similarly, proponents of this view think that a closing rate or noon rate on the date of the transaction would also be acceptable as each of these represent an exchange rate at the date of the transaction, even if rates fluctuate significantly during the course of the day.

View 1B – Bank of Canada indicative daily rates can be used only if rates do not fluctuate significantly during the course of the day of the transaction.

Proponents of this view note that the spot exchange rate is a point-in-time measure. Therefore, they think that paragraph 21 of IAS 21 must be read to mean the spot exchange rate at the time of the transaction, and not an average, closing or noon rate on the date of the transaction. Similarly, the reference to an exchange rate at the dates of the transactions in the context of paragraph 39(b) of IAS 21 must be read as a point-in-time measure because it is not explicitly described as an average.

Paragraphs 22 and 40 of IAS 21 note that for practical reasons, an entity can use a rate that approximates the actual rate at the date of the transaction, but caution that if exchange rates fluctuate significantly, the use of an average rate for the period is inappropriate.

The Group's Discussion

Several Group members supported the use of Bank of Canada indicative daily rates (even if rates fluctuate significantly) for the initial recognition of foreign currency transactions and the exchange rate at the dates of the transactions for income and expenses (View 1A). These Group members noted that this approach would not result in a material difference under the vast majority of circumstances. They were also concerned that the operational costs of obtaining spot exchange rates from sources such as Bloomberg or Reuters would outweigh the benefits for many entities, and supported View 1A as a practical approach.

Other Group members thought that the use of Bank of Canada indicative daily rates would only be appropriate if rates do not fluctuate significantly during the day (View 1B). Although they were sympathetic with the operational concerns that smaller organizations may face in obtaining alternate sources for transactional exchange rates, these Group members noted that the difference between an average rate and a spot exchange rate could be material under certain circumstances. Consequently, they supported View 1B as the technically correct view.

One Group member also noted that the Bank of Canada cautions that its indicative rates do not necessarily reflect the rates at which actual market transactions occur[2] and, consequently, financial institutions are currently using traditional sources such as Bloomberg and Reuters for spot exchange rates.

Group members agreed that the issue would warrant consideration of the facts and circumstances surrounding the transaction, and that materiality may be an important factor.

Issue 2: Will the new indicative daily rate for the 25 currency pairs be acceptable under IAS 21 for use as the closing rate for the purposes of translating foreign currency monetary items at the end of the reporting period?

View 2A – Bank of Canada indicative daily rates can be used.

Proponents of this view think that reading the standard to require a point in time measure for measurement at the end of the reporting period (i.e., subsequent measurement), rather than an average rate, is illogical, given that the standard explicitly permits the use of an average rate in other circumstances when it approximates the actual rate (i.e., initial measurement). They also note that paragraph 26 of IAS 21 uses the term "measurement date", implying that, even for measurement at the end of subsequent reporting periods, the exchange rate is for a date rather than a specific point in time within a day.

Under this view, the use of an indicative daily rate would be an appropriate proxy for the closing rate provided exchange rates do not fluctuate significantly over the course of the day.

View 2B – Bank of Canada indicative daily rates cannot be used.

Proponents of this view note that the closing exchange rate is a point-in-time measure. Therefore, they think that paragraph 23 of IAS 21 must be read to mean the exchange rate at the end of the day of the reporting period end. To the extent that an end-of-day exchange rate is not used, the magnitude of the difference between this rate and the closing rate used in the financial statements would need to be assessed to determine whether such a deviation is material.

The Group's Discussion

Group members supported View 2B noting that the indicative daily rates cannot be used because a closing exchange rate is clearly a point-in-time measure. Therefore Group members found it difficult to support the use of an indicative measure (View 2A). However, Group members expressed concern that many entities will respond by using traditional sources for closing rates, such as Bloomberg and Reuters, and others would continue to use Bank of Canada indicative rates, leading to diversity in practice.

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[2] All Bank of Canada exchange rates are indicative rates only, derived from averages of transaction prices and price quotes from financial institutions. As such, they are intended to be broadly indicative of market prices at the time of publication but do not necessarily reflect the rates at which actual market transactions have been or could be conducted. They may differ from the rates provided by financial institutions and other market sources. Bank of Canada exchange rates are released for statistical and analytical purposes only and are not intended to be used as the benchmark rate for executing foreign exchange trades. The Bank of Canada does not guarantee the accuracy or completeness of these exchange rates. The underlying data is sourced from Thomson Reuters. Source: http://www.bankofcanada.ca/terms/#fx-rates

Group members observed that this issue may become similar to the use of discount rates, in that accounting policies may vary by entity. Group members also noted that as foreign exchange markets never close, consistency is an important factor in determining an appropriate exchange rate.

Issue 3: Under IAS 21, will the new indicative daily rate for the 25 currency pairs be acceptable as the closing rate to translate assets and liabilities for an entity whose functional currency is not the presentation currency, or for a foreign operation within a reporting entity, into the presentation currency?

View 3A – Bank of Canada indicative daily rates can be used as the closing rate to translate assets and liabilities.

Proponents of this view note that paragraph 39(a) of IAS 21 refers to the date of the statement of financial position rather than to a specific time on the date of the statement of financial position. The use of an average daily rate for the date of the statement of financial position complies with these requirements.

View 3B – Bank of Canada indicative daily rates cannot be used as the closing rate to translate assets and liabilities.

Proponents of this view note that the closing exchange rate is a point-in-time measure. Therefore, they think that paragraph 39(a) of IAS 21 must be read to mean the exchange rate at the end of the day of the date of the statement of financial position. To the extent that an end-of-day exchange rate is not used, the magnitude of the difference between this rate and the closing rate used in the financial statements would need to be assessed to determine whether such a deviation is material.

The Group's Discussion

Group members agreed that this issue is analogous to Issue 2 and supported that indicative daily rates cannot be used (View 3B).

Issue 4: What other foreign exchange rate sources might entities use?

When the Bank of Canada's indicative daily foreign exchange rates cannot be used because they are not appropriate under IAS 21 (View 1B if there is excessive volatility, or Views 2B and 3B), or will no longer be provided, other potential sources of foreign exchange rates include the following:

- OANDA – provides bid and ask rates that are based on averages for the global foreign exchange markets. The averages are based on a 24 hour period to reflect the fact that foreign exchange markets never close. For major currency pairs, rates are based on tens of thousands of price points, collected every few seconds, 24 hours a day.
- Bloomberg – provides real-time composite bid and ask prices as well as a daily last price. Composite bid prices are the highest bid rate of all the currently active, contributed, bank indications, while composite ask prices represent the lowest ask rate offered by these same active, contributed bank indications. For rates to be accepted into the Bloomberg composite, they have to come from data contributors who have been privileged to send data to the composite, and the pricing must be considered valid and current. Contributors are evaluated for the quality and consistency of the data they provide, as well as consensus with the market.

- Reuters – also publishes intra-day and closing spot rates based on foreign exchange quotes from multiple financial institutions that are subject to a periodic validation process. The intra-day spot rates are provided on an hourly basis from 6 a.m. Hong Kong time to 10 p.m. GMT, while the closing prices are based on the rates at 4 p.m. GMT. These spot rates are calculated based on bid and ask rates for the five-minute period around the cut-off time.

The Group's Discussion

Group members discussed the importance of considering whether other sources of exchange rates would meet the requirements of IAS 21. In response to the Bank of Canada's announcement, Group members noted that the Canada Revenue Agency is proposing changes to the tax regulation to clarify what are "rates acceptable to the Minister."

Group members noted that the facts, circumstances and materiality would drive the conclusion over what is or is not acceptable in the issues discussed.

The Group's discussion raises awareness about this item. Group members suggested that either CPA Canada or the AcSB should consider what additional actions could be taken to raise awareness of the Bank of Canada's announced changes.

(For a full understanding of the discussions and views expressed, listen to the audio clip).

Update on Implementation Support

The staff of the IASB provided a brief update on the activities that the IASB is undertaking to support implementing the recently issued IFRSs (i.e., IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contract with Customers*, and IFRS 16 *Leases*).

Some of the IASB's implementation support activities include:

- creating a dedicated implementation webpage;
- establishing a transition resource group (TRG);
- providing webcasts;
- producing other materials such as project summaries, feedback statements and articles;
- maintaining an email inbox that enables stakeholders to inform the IASB of implementation questions or issues;
- delivering presentations at conferences and seminars;
- conducting informal stakeholder discussions; and
- working with regulators.

The following is a chart summarizing the resources available for the recently issued IFRSs:

Link	TRG materials	Webcasts	Issues inbox	Other materials
IFRS 9 web page	✓	✓	✓	✓
IFRS 15 web page	✓	✓	✓	✓
IFRS 16 web page		✓	✓	✓

IFRS 9 – The IASB formed a TRG for impairment of financial instruments to provide support on implementation issues arising on the new impairment requirements of IFRS 9. Although no further TRG meetings are currently planned, stakeholders can still submit issues via the issues inbox.

A few Group members who watched the July 2016 webcasts that are available on the webpage commented on how useful they found the content.

IFRS 15 – The IASB, along with the U.S. Financial Accounting Standards Board (FASB) formed a joint TRG to support the implementation of IFRS 15 and FASB's Topic 606, *Revenue from Contract with Customers.* Although no further TRG meetings are currently planned, stakeholders can still submit issues via the issues inbox.

IFRS 16 – Although the IASB decided not to set up a TRG for IFRS 16, stakeholders can still submit implementation questions that meet the submission criteria on the webpage via the issues inbox. In addition, the IASB produced a series of implementation webcasts that focus on the practical application of the standard, such as the pros and cons of transition options that entities should consider.

(For a full understanding of the discussions and views expressed, listen to the audio clip).

IFRS 16: Transition

The Group considered transition issues related to the adoption and implementation of IFRS 16.

For lessors, IFRS 16 generally carries forward the requirements in IAS 17 *Leases*. For lessees, IFRS 16 introduces a new accounting model, generally requiring a lessee to recognize assets and liabilities for all leases with a term of more than twelve months by capitalizing a right-of-use asset and recognizing a lease liability.

From a lessee perspective, an entity will bring virtually all leases onto its statement of financial position, producing a result akin to purchasing an asset on a financed basis. An entity will need to assess the transition options as it relates to the right-of-use asset carefully to determine the most appropriate approach.

IFRS 16 and the FASB's Topic 842, *Leases,* are aligned in many respects, as both standards generally result in leases being reflected in a lessee's statement of financial position. However, the expense recognition in an entity's statement of profit or loss will differ under IFRSs and U.S. GAAP.

Lease definition

IFRS 16 requires an entity to apply the definition of a lease to all contracts. However, the IASB provided a practical expedient that grandfathers existing contracts and only requires entities to apply the

definition of a lease to new or changed contracts. In deciding whether to use the practical expedient, an entity will need to consider a number of transition impacts, including the potential of recognizing leases on the statement of financial position under IFRS 16 when the contract may not meet the definition of a lease under the new standard. That means by selecting the grandfather option, certain leases would not be recognized on-balance sheet if the new definition was applied to the existing contracts.

Recognition exemptions

IFRS 16 includes an exemption that permits a lessee to not recognize assets and liabilities for leases with a lease term of twelve months or less that have no purchase options. IFRS 16 also includes a recognition exemption for leases of low-value assets that are not subject to a sublease. However, in using either of these recognition exemptions, IFRS 16 requires disclosure of the expenses relating to these short-term and low-value leases.

Transition options

IFRS 16 allows either a modified retrospective approach with practical expedients or full retrospective application with no practical expedients (other than the ability to grandfather the lease definition assessment).

The modified retrospective approach measures the lease liability as the present value of remaining rentals plus the present value of expected payments at the end of the lease. In this case, the discount rate used to calculate the lease liability is the lessee's incremental borrowing rate at initial application of IFRS 16.

The modified retrospective approach provides two options for measuring the right-of-use asset that is chosen on a lease-by-lease basis. Option 1 measures the right-of-use asset retrospectively using the transition date discount rate. Option 2 measures the right-of-use asset as the lease liability plus or minus prepaid or accrued payments. For either option, IAS 36 *Impairment of Assets* is applied at initial application.

Fact Pattern[3]

An entity enters into a 7-year equipment lease from January 1, 2016 with:

- $10,000 per annum in arrears;
- a 2016 discount rate of 6%; and
- a 2019 discount rate of 4%.

Present value of $10,000 per annum	7 years 6%	7 years 4%	4 years 6%	4 years 4%
	$56,000	$60,000	$34,000	$36,000

[3] Fact pattern includes rounding.

The following table illustrates the results of using the different transition options:

	Full retrospective	Modified retrospective	
		Right-of-use asset option 1	Right-of-use asset option 2
Right-of-use asset at January 1, 2019	$32,000	$34,000	$36,000
Lease liability at January 1, 2019	(34,000)	($36,000)	($36,000)
Net lease position at January 1, 2019	($ 2,000)	($ 2,000)	—
Depreciation for 2019	(8,000)	(8,500)	(9,000)
Interest for 2019	(2,100)	(1,400)	(1,400)
Total lease expense for 2019	($10,100)	($9,900)	($10,400)

Under the modified retrospective approach, option 1 results in lower post-implementation depreciation than under option 2, and may be considered better for some significant, high-value leases on a lease-by-lease basis. On the contrary, option 2 may be attractive for a higher-volume lower-value population of leases because of the ease of setting the asset equal to the lease liability.

While under the modified retrospective approach, option 2 appears easier in that the right-of-use asset is set at the amount of the lease liability and relies less on historical information from day two onwards, the lease creates a net liability on the statement of financial position for a lessee. Further, under option 2, by artificially increasing the right-of-use asset to match the lease liability, depreciation is higher post implementation.

Modified retrospective with practical expedients

When using the modified retrospective approach, IFRS 16 includes various practical expedients permitting a lessee to:

- apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- rely on a previous assessment of whether leases are onerous in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative to performing an impairment review;
- account for leases for which the lease term ends within twelve months from the date of initial application as short-term leases;
- exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- use hindsight in applying IFRS 16 (for example, in determining the lease term if the contract contains options to extend or terminate the lease).

Other transition scenarios

IFRS 16 does not permit reassessment of whether a transfer in a sale and leaseback transaction qualifies as a sale under IFRS 15 *Revenue from Contracts with Customers* and provides finance and

operating lease transition guidance for the leaseback portion of the transaction. For a sale and finance leaseback under IAS 17, an entity would continue to amortize the gain on sale over the lease term. For a sale and operating leaseback under IAS 17, an entity would adjust the right-of-use asset for deferred gains and losses.

For operating subleases under IAS 17, IFRS 16 requires intermediate lessors to reassess the classification of the sublease. Additionally, if the sublease is classified as a finance lease under IFRS 16, it would be accounted for as a new lease.

Effective dates based on the transition option chosen

Using a full retrospective approach with no practical expedients requires entities to use parallel systems for 2018 (i.e., both IFRS 16 and IAS 17), IFRS 16 in 2019, and a January 1, 2018 equity adjustment date. Using a modified retrospective approach with practical expedients, entities would apply IAS 17 in 2018, IFRS 16 in 2019, and would have a January 1, 2019 equity adjustment date. Using a modified retrospective approach also requires additional disclosures.

Additional factors for the lessee to consider

Transitioning to IFRS 16 requires a lessee to consider numerous other factors such as the significance of the accounting change, availability of historical information, profit going forward, contract structure and volume of contracts, competitors, disclosure requirements, systems and processes, costs and comparability of information and investor perceptions.

The Group's Discussion

One Group member noted, that while the optional exemptions may initially appear to be more attractive by potentially reducing an entity's cost of adoption, a preparer must consider the extent of the disclosures required that relate to the optional exemptions and how such information will be tracked (i.e., together with other leases or in a separate system).

Another Group member observed that the Basis for Conclusions to IFRS 16 includes a threshold for low-value items. Entities need to consider how they will determine, in practice, whether a contract is of low-value. Applying this threshold to low-value items could result in excluding a significant number of leases from the statement of financial position. When considering the disclosure requirements for these two optional exemptions, entities would need to consider whether such disclosure would be material to the financial statements.

Group members observed that the IASB provided practical expedients to reduce the cost and effort of adopting IFRS 16. While the practical expedients appear to simplify the requirements, for a larger organization with a number of leases there will potentially be a significant number of decision points in going through the transition. Accordingly, preparers could consider modelling the different possible combinations provided under the IFRS 16 transition provisions.

The Group's discussion raises awareness about this item. No further action was recommended to the AcSB.

(For a full understanding of the discussions and views expressed, listen to the audio clip).

IFRS 9: Non-viability Contingent Conversion Feature

The Office of the Superintendent of Financial Institutions (Canada) released an Advisory relating to non-viability contingent capital (NVCC) as part of Canada's implementation of Basel III. Capital instruments, other than common shares, issued by federally regulated deposit-taking institutions, must have a clause requiring a full and permanent conversion into common shares of the deposit-taking institutions upon a trigger event. This requirement ensures that investors in non-common share regulatory capital instruments bear losses before taxpayers when the government determines that it is in the public interest to rescue a non-viable bank. The triggering event is determined by the regulator.

IFRS 9 *Financial Instruments* provides guidance to the holders of financial instruments and measures financial assets at:

- amortized cost;
- fair value through other comprehensive income; or
- fair value through profit or loss.

This determination is based on both:

- the entity's business model for managing the financial assets; and
- the contractual cash flow characteristics of the financial asset (i.e., the solely payments of principal and interest or SPPI test).

The SPPI test is a contractual cash flow test that is based on the contractual terms of a basic, "plain vanilla" lending arrangement.

Generally, investments in equity instruments would be expected to fail the SPPI test since they do not have contractually specified cash flows and do not exhibit characteristics of a typical lending arrangement. Therefore, such investments would be recorded at fair value through profit or loss. However, there is an irrevocable election available that allows investments in equity investments to be recorded at fair value through other comprehensive income under IFRS 9. Paragraph BC5.21 in the Basis for Conclusions to IFRS 9 notes that the definition of equity is provided in IAS 32 *Financial Instruments: Presentation*, with the implication being that there should be symmetry in the application of definitions between issuers and holders as the definition of an equity instrument under IFRS 9 is based on the guidance in IAS 32. For this reason, the issuer's liability or equity classification of an instrument may be an important consideration for the application of IFRS 9 to the holder's accounting for the instrument.

Paragraph 4.3.2 of IFRS 9 indicates that hybrid contracts with financial asset hosts are not bifurcated into their different components; instead, the holder of the instrument applies the IFRS 9 classifications to the entire hybrid contract. Embedded features may result in the instrument failing the SPPI test and, therefore the financial asset in its entirety would need to be recorded at fair value through profit or loss.

Fact Pattern 1

- Bank A issues preference shares bearing a one per cent non-cumulative dividend that is payable at the discretion of the issuer.
- The preference shares include an NVCC provision and as such, the preference shares are convertible into a variable number of Bank A common shares if the regulator announces that Bank A is, or is about to become, non-viable, or if a federal or provincial government publicly announces that Bank A has accepted or agreed to accept a capital injection, or equivalent support, to avoid non-viability. The contingent conversion feature has a floor price (i.e., if the fair value of Bank A's common shares falls to the floor price, then on conversion the number of common shares issued will be determined by reference to that floor price).
- The contingent event of the occurrence of non-viability of Bank A is considered to be genuine and beyond the control of both issuer and holder.
- Bank A considers that the preferred shares have an equity host as well as a liability element given the contingent feature that would, if triggered, require conversion into a variable number of shares. The probability of occurrence of a non-viability event affecting Bank A and requiring conversion of the preferred shares into a variable number of common shares is considered extremely remote. As a result, on initial accounting for the issuance of the NVCC preferred shares, Bank A concluded that the fair value of the liability element was nominal and the entire proceeds on issuance of the shares were assigned to equity in Bank A's financial statements.

Issue 1: What is the appropriate accounting classification for the holder of the NVCC shares?

View 1A – Equity through fair value through profit or loss or fair value through other comprehensive income under the irrevocable election for equity instruments.

Under this view, these shares do not have terms that would be typical of a lending arrangement, from the holder's perspective, because there are no contractually required cash flows and the terms of the instrument fail the SPPI test. As a result, the shares must be carried at fair value through profit or loss unless they qualify for the irrevocable election by the holder to carry them at fair value through other comprehensive income.

Proponents of this view think that this election is available for these NVCC preferred shares and note that the instruments are equity shares by their nature because there is no mandatory redemption and distributions are discretionary. The theoretical liability element, being the contingent conversion into a variable number of shares, is considered to be an event that is so remote that this element has negligible value. Consistent with the classification by the issuer, the holder should also consider the instruments to be equity. Therefore, provided that the investment is not held for trading by the holder, the NVCC shares can be classified as fair value through other comprehensive income at initial recognition.

View 1B – Hybrid or compound instrument through fair value through profit or loss (No fair value through other comprehensive income option).

Proponents of this view think that these instruments include both a liability component and an equity component, irrespective of the conclusion that the liability component is negligible. Therefore, since the instruments are not equity instruments in their entirety, the instrument fails the SPPI test and the fair value through other comprehensive income election is not available to the holders of these instruments.

The Group's Discussion

Most Group members agreed that these NVCC preferred shares include both a liability and equity component, irrespective of the conclusion that the liability component is negligible. Group members noted that as these instruments fail the SPPI test, the fair value through other comprehensive income election would not be available to holders of these instruments and, therefore, the instruments would be recorded at fair value through profit or loss (View 1B).

One Group member noted that there is diversity in views on whether there is an equity host associated with these instruments. Another member noted that although the IFRS Interpretations Committee considered five alternatives for how the issuer might account for these instruments, the views highlighted above are the predominant views in Canada.

One Group member noted that generally, in Canada, the fair value of the liability component is considered to be nominal, given that the prospects of a non-viability event occurring are slim.

Fact Pattern 2

Similar to fact pattern 1, except Bank A issues subordinated debt.

- Bank A issues a subordinated debt with a face value of $100 with a maturity date of 2024. The debt bears five per cent interest.
- The subordinated debt includes an NVCC provision and, as such, is convertible into a variable number of Bank A common shares if the regulator announces that Bank A is, or is about to become, non-viable, or if a federal or provincial government publicly announces that Bank A has accepted or agreed to accept a capital injection, or equivalent support, to avoid non-viability.
- The contingent event, being the occurrence of non-viability of Bank A, is considered to be genuine and beyond the control of both the issuer and holder.
- Bank A considers the likelihood of a non-viability event occurring to be extremely remote.
- Although the debt is contingently convertible into common shares, Bank A notes that the conversion is into a variable number of shares, with the number of shares varying predominantly based on the fair value of the common shares. In other words, Bank A would need to deliver its common shares to the value of unpaid principal and interest. The contingent conversion feature has a floor price (i.e., if the fair value of Bank A's common shares falls to the floor price, then on conversion the number of common shares issued will be determined by reference to that floor price).

- Bank A records the NVCC debt as a liability in its entirety under IAS 32. The conversion feature is considered to be an alternate settlement feature and not an embedded derivative.

Issue 2: What is the appropriate accounting classification for the holder of the NVCC debt?

View 2A – The debt instrument is valued at fair value through profit or loss (i.e., the instrument would fail the SPPI test).

Proponents of this view note that the SPPI test is not met because the conversion feature is an exposure that is not consistent with a basic lending arrangement.

Proponents of this view interpret paragraph BC4.189 in the Basis for Conclusions to IFRS 9 to mean, a financial asset must be measured at fair value through profit or loss if a remote (but genuine) contingency would result in contractual cash flows that are not solely payments of principal and interest.

In addition, paragraph BC4.190 in the Basis for Conclusions to IFRS 9, states, in part, that:

> "contingently convertible instruments and bail-in instruments could give rise to contractual cash flows that are not solely payments of principal and interest and indeed are structured for regulatory purposes such that they have contractual characteristics similar to equity instruments in particular circumstances. Consequently, the IASB believes that amortised cost does not provide relevant or useful information to users of financial statements about those financial instruments, in particular if the likelihood of that future event occurring increases."

Therefore, the NVCC debt investment is measured at fair value through profit or loss and the fair value through other comprehensive income election is not available.

View 2B – The debt instrument may be accounted for at amortized cost or fair value through other comprehensive income, depending on the business model (i.e., the instrument would not fail the SPPI test).

Proponents of this view note that the instruments are debt instruments that Bank A has classified wholly as liabilities. Even if an NVCC event occurred, holders would get the value of their principal and interest receivable in shares. Unlike a fixed conversion option, whereby holders would receive a fixed number of shares, the fair value of the proceeds that the holders would receive in the form or shares will equal the cash payment that they would otherwise be entitled to. As such, the NVCC debt instruments do not fail the SPPI test and, depending on the business model, the holder may measure this investment at amortized cost or fair value through other comprehensive income.

The Group's Discussion

Most Group members supported the view that NVCC debt instruments would fail the SPPI test because they would not be considered a basic lending arrangement. Some members noted that the reason for this view is the existence of the share settlement along with the stipulated floor price that could limit the number of common shares such that the holder may not receive full value in a conversion event. As a result, these instruments should be measured at fair value through profit or loss (View 2A). One member expressed a concern that in the event that a financial institution becomes non-viable and the debt is converted into common shares, the value of the common shares may not represent the value of

the debt instrument. The member noted that the value of the common shares received in exchange for the debt instruments could be minimal, or hold no value, given the precarious financial position at the date of the triggering event. One member noted that the probability of the triggering event for the conversion may be remote should factor into the analysis.

Another Group member noted that similar floor features are not uncommon in other financial instruments that are convertible or can be settled in a variable number of common shares.

The Group's discussion raises awareness about this item. No further action was recommended to the AcSB.

(For a full understanding of the discussions and views expressed, listen to the audio clip).

IAS 16: Capitalization of Costs

The Group discussed how to best move forward with raising the issue of when an asset is capable of operating in the manner intended by management (IAS 16: Capitalization of Costs)[4] in light of recent international discussions.

At its October 2016 meeting, the IASB agreed with the IFRS Interpretations Committee's recommendation and tentatively decided to propose amendments to IAS 16 *Property, Plant and Equipment*. The amendments would prohibit the deduction of proceeds from selling items produced from the cost of property, plant and equipment (PPE) before it is capable of operating as intended by management. IASB staff agenda paper 12C summarized the IFRS Interpretations Committee's considerations and recommendations over the various meetings it had on the submitter's issue. This summary refers to the Group's issue of clarifying when an asset is available for use because at one point in time, the IFRS Interpretations Committee was considering whether to address this matter as well (refer to paragraphs 32 to 39 in the IASB staff agenda paper). However, clarifying when an item of PPE is available for use was determined to be beyond the scope of the question submitted.

The IASB staff agenda paper also noted that the IFRS Interpretations Committee had concluded that, "in assessing whether PPE is functioning properly, an entity assesses the technical and physical performance of PPE."

Although the issue of when an asset is available for use is not being addressed, the IASB staff agenda paper had suggested some possible indicators that might indicate that PPE is in the location and condition necessary for it to be capable of operating in the manner intended by management. Those indicators, as described in paragraph 37 of the IASB staff agenda paper, are as follows:

"(a) The physical construction of the PPE is complete (as discussed in paragraph 23 of IAS 23 *Borrowing Costs*).

(b) The testing of the technical and physical performance of the asset is complete.

(c) The PPE is capable of producing items that can be sold in the ordinary course of business (ie the PPE is capable of producing inventory as defined in IAS 2 *Inventories*). Similarly to the meaning of testing discussed earlier in this paper, this assessment would focus on the

[4] After the Group's discussion in December 2014, the Group had a follow-up discussion in May 2016.

technical and physical performance of the PPE, and not the financial performance of that PPE."

The IASB staff agenda paper indicated that "including these indicators would not remove the need to apply judgement – an entity ultimately would still need to determine when the property, plant and equipment is capable of operating in the manner intended."

Question 1: Would including indicators in IAS 16, such as those above, help clarify the issue of when an asset is capable of operating as intended by management?

The Group's Discussion

Some Group members thought additional guidance, such as including indicators in IAS 16 to clarify when an asset is capable of operating as intended by management, would be helpful to achieve a greater degree of consistency in practice. However, since this determination involves significant judgment by management, diversity would be reduced rather than eliminated.

The Group members observed that although additional guidance would be helpful, the issues relating to the accounting for the proceeds from selling items produced before the asset is available for use would still exist. With respect to the forthcoming proposals to amend IAS 16, the Group members noted that these proposals would not change how an entity determines when an asset is capable of operating in the manner intended by management. However, a few Group members thought the financial results produced under these proposals might bring further visibility to the issue if significant amounts of revenue are being recognized in profit or loss during the pre-production stage.

Group members also noted that another significant issue with the forthcoming proposals is how to allocate the costs associated with the revenue generated before the asset is available for use. For some mining entities, depreciation expense is one of the single largest costs. If the cost allocation issue is not properly addressed, profit margins may be distorted during the pre-production stage.

Another Group member thought there would be significant diversity in how preparers allocate costs to the associated revenue. The existing guidance in IAS 2 or IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* is not sufficient to address the cost allocation issue. For example, a preparer would struggle to apply the concepts of abnormal and normal costs for inventory in a pre-production phase.

One Group member also noted that IFRS 6 *Exploration for and Evaluation of Mineral Resources* may also need to be amended to reflect this potential amendment to IAS 16.

Question 2: Which one of the following options do Group members recommend the AcSB take as a next step in clarifying when an asset is capable of operating as intended by management?

Option 1 – Raise the issue when the narrow-scope amendments to IAS 16 are published for stakeholder comment.

Option 2 – Develop a separate submission to the IFRS Interpretations Committee proposing a possible solution.

Option 3 – Not raise the issue in light of the international discussions.

The Group's Discussion

The Group agreed with the staff's recommendation to raise the issue of clarifying when an asset is capable of operating in the manner intended by management when the narrow-scope amendments to IAS 16 are published for stakeholder comment (option 1). The Group acknowledged that there is doubt on whether this issue will be addressed given the IFRS Interpretations Committee had attempted to do so during its deliberations. However, the Group sees this issue to be more fundamental than addressing where in the financial statements to recognize the revenue from selling items before an asset is ready for use. Furthermore, in light of the forthcoming proposals to prohibit the deduction of proceeds from the cost of PPE, the cost allocation issue is another fundamental matter that should be addressed.

(For a full understanding of the discussions and views expressed, listen to the audio clip).

Settlement of a Shareholder Loan

An entity may settle a loan due to a shareholder by the issuance of the entity's equity instruments (for example, common shares). This transaction may give rise to a difference between the carrying amount of the shareholder loan and the fair value of the common shares issued.

Paragraph 41 of IAS 39 *Financial Instruments: Recognition and Measurement* and paragraph 3.3.3 in IFRS 9 *Financial Instruments* both state that:

> "The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss."

Paragraphs 6 and 9 of IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* require that:

> "When equity instruments issued to a creditor to extinguish all or part of a financial liability are recognised initially, an entity shall measure them at the fair value of the equity instruments issued, unless that fair value cannot be reliably measured." "The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the consideration paid, shall be recognised in profit or loss, in accordance with paragraph 41 of IAS 39. The equity instruments issued shall be recognised initially and measured at the date the financial liability (or part of that liability) is extinguished."

However, paragraph 3(a) of IFRIC 19 states that the Interpretation shall not be applied in situations when "the creditor is also a direct or indirect shareholder and is acting in its capacity as a direct or indirect existing shareholder."

Paragraph BC7 of the Basis of Conclusions to IFRIC 19 explains that:

> "The IFRIC considered whether to provide guidance on transactions in which the creditor is also a direct or indirect shareholder and is acting in its capacity as an existing direct or indirect shareholder. The IFRIC concluded that the Interpretation should not address such transactions. It noted that determining whether the issue of equity instruments to extinguish a financial liability in such situations is considered a transaction with an owner in its capacity as an owner would be a matter of judgement depending on the facts and circumstances."

Fact Pattern

An entity has a loan that is due to a significant shareholder. The loan is not convertible into common shares at a previously agreed conversion price (i.e., was not a convertible loan on issuance). The entity's common shares are listed on a stock exchange. The entity is unable to repay the loan. The effect of the loan on the entity's financial position is of such significance that it is reducing the entity's ability to raise additional financing needed to invest in its business. The shareholder agrees to convert the amount owing into common shares of the entity and to do so on favourable terms. The conversion price agreed to by the shareholder is higher than the current market price of the entity's common shares meaning that the fair value of the common shares issued is less than the carrying amount of the loan.

Issue: How should the entity account for any difference between the fair value of the consideration paid and the carrying value of the shareholder loan extinguished?

View A – The difference is recognized as a gain in profit or loss.

Under this view, the transaction relates to a loan that is classified as a liability and accordingly IAS 39 (or IFRS 9) should be referred to in determining the appropriate accounting treatment.

Proponents of this view note that paragraph 41 of IAS 39 (or paragraph 3.3.3 of IFRS 9) provides specific guidance that requires the difference between the consideration paid and the carrying value of the liability to be recognized in profit or loss. While IAS 39 and IFRS 9 do not provide explicit guidance on determining the value of the consideration paid, other guidance, such as IFRS 3 *Business Combinations* and IFRIC 19, indicates that consideration paid in the form of equity instruments is measured at fair value.

View B – No gain should be recognized in profit or loss on the extinguishment of the shareholder loan. Any difference is credited to another equity account.

Proponents of this view note that there are actually two components to this transaction:

- the shareholder receiving consideration for its agreement to extinguish the liability; and
- a contribution from the shareholder.

Under this view, the consideration paid is recorded at fair value due to the reasons described in View A. However, the difference between the fair value of the consideration paid and the carrying value of the shareholder loan is in effect a contribution from the shareholder that does not meet the definition of income and should be recorded as a credit in another equity account.

View C – No gain should be recognized in profit or loss. The common shares are measured at the carrying amount of the shareholder loan extinguished.

Proponents of this view note that this transaction is not within the scope of IFRIC 19 and, accordingly, there is no requirement to measure the shares issued at fair value. They also think that it is more appropriate to measure the shares at the value that reflects the change in the net assets of the entity because this transaction is with a shareholder.

View D – An accounting policy choice exists.

Under this view, financial statement preparers may select an accounting policy that best reflects the substance of the transaction.

The Group's Discussion

Group members confirmed that this issue occurs quite frequently in practice. Group members agreed that the question of whether or not the shareholder is acting in its capacity as a shareholder should determine the appropriate accounting treatment, but that the answer to that question is not always clear. As a result, several Group members suggested that beginning with the presumption that a shareholder is acting in his or her capacity as a shareholder might be appropriate, unless there is clear and convincing evidence to the contrary.

Group members agreed that evidence of the same or similar transactions executed with other non-shareholder creditors is a factor to consider in determining whether the transaction is with a shareholder acting in his or her capacity as a shareholder. However, they noted that other factors are not relevant in this determination (for example, whether the amount due to the shareholder originated from fees for services rather than advances of cash, or whether the shareholder agreed to extinguish the loan through a cash payment that is less than the carrying amount of the loan rather than the issuance of shares).

Group members agreed that, if it is determined that a creditor is acting in his or her capacity as a shareholder, the difference between the carrying value of the financial liability and the fair value of the consideration paid would represent a contribution rather than a gain or loss on the transaction. Consequently, Group members agreed that the recognition of a gain or loss (View A) would be inappropriate.

Group members discussed whether it would be more appropriate to recognize the difference in equity (View B) or to measure the common shares at the carrying value of the liability extinguished (View C), and agreed that either view would be acceptable given that there is minimal guidance with regards to accounting for transactions in equity. However, at least one Group member thought that the lack of related party guidance in IFRSs makes it difficult to preclude the application of an IFRIC 19 model by analogy, despite the scope exclusion in the Interpretation.

The Group's discussion raises awareness about this item. No further action was recommended to the AcSB.

(For a full understanding of the discussions and views expressed, listen to the audio clip).

UPDATE ON PREVIOUS ITEMS DISCUSSED BY THE GROUP

IFRS 6: Technical Feasibility and Commercial Viability

At the September 2016 meeting, the Group discussed this issue and observed there is no bright line or evidentiary threshold specified in IFRS 6 *Exploration for and Evaluation of Mineral Resources* requiring the establishment of mineral reserves in demonstrating technical feasibility and commercial viability. Although there is tension between IFRS 6 and National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (NI 43-101), it is unclear how often there would be differences. The representatives from the Canadian Securities Administrators (CSA) commented that they would take the feedback received from the Group and consider what next steps may be needed.

At the November 2016 meeting, a CSA representative indicated that the views of the Group were discussed internally with technical staff and the Chief Accountants of the CSA. While the CSA's view on this issue remains unchanged from what was expressed at the previous meeting, emphasis was placed on reminding issuers with mineral projects to use consistent concepts and terminologies when providing financial and technical information to users. The CSA is concerned that confusion could arise if an entity's accounting policy describes demonstration of technical feasibility and commercial viability in a way that conflicts with other disclosures that comply with securities legislation and international definitions of mineral resources and mineral reserves.

NI 43-101 includes several sections that the CSA strongly recommends issuers consider when they develop an approach to demonstrating technical feasibility and commercial viability under IFRS 6. In particular,

- Section 3.4 of NI 43-101 requires an issuer that discloses in writing the results of an economic analysis of mineral resources on a property material to the issuer, to include a prominent statement that mineral resources that are not mineral reserves do not have demonstrated economic viability.
- Section 4.2 of Companion Policy 43-101CP addresses disclosure in situations when an issuer puts a mineral projection into production without first establishing mineral reserves.
- Section 3.3 of Companion Policy 43-101CP discusses disclosure of scientific and technical information about an adjacent property. The Section indicates that to avoid misleading disclosure, an issuer should clearly distinguish between such information and an entity's own property and not state or imply the issuer will obtain similar information from its own property.

The CSA representative also provided several comments in relation to some of the comments made by Group members at the September 2016 meeting.

The CSA representative noted that there is nothing in NI 43-101 that would prohibit an issuer to put a mineral project into production without obtaining a pre-feasibility or feasibility study because this decision is a business decision. However, in such a circumstance, an issuer should provide adequate disclosure of the increased uncertainty and specific risks of economic or technical failure.

IFRS 15: Guidance on Transition Resource Group

At the September 2016 meeting, the Group discussed this issue and the views expressed highlighted the need for clarity on whether preparers should consider the material from the Transition Resource Group (TRG) for Revenue Recognition. The Group's discussion considered both materials from the Joint TRG between the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB), and the FASB-only TRG. To alleviate some of the concerns expressed by Group members, the CSA representatives agreed to provide additional information on this topic at the Group's next meeting.

At the November 2016 meeting, a CSA representative indicated that the views of the Group were discussed internally with the Chief Accountants of the CSA.

Reiterating the comments previously expressed at the September 2016 meeting, the CSA representative noted that paragraph 10 in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states, in part, that "in the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy." Paragraph 12 of IAS 8 further notes that management may consider "other accounting literature" in making its judgment. The CSA representative noted that the materials from the Joint IASB/FASB TRG meetings are useful resources that may help inform management's views and strongly encourages their use.

Also, the CSA representative reiterated that there is nothing produced by the FASB that an issuer preparing financial statements in accordance with IFRSs is required to follow. However, the CSA representative noted that FASB TRG material could also be considered "other accounting literature" that may help to inform management's view if IFRSs did not provide a clear answer on the accounting for a particular set of facts and circumstances.

In addition, the CSA representative mentioned that the Ontario Securities Commission (OSC) issued OSC Staff Notice 52-723, "Office of the Chief Accountant Financial Reporting Bulletin," that indicates the OSC's expectations around the implementation of the upcoming new accounting standards, including IFRS 15. Staff Notice 52-723 discusses the OSC's expectations on disclosures required by paragraph 30 of IAS 8:

> "When an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose:
>
> (a) this fact; and
>
> (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application."

The OSC staff expects to see progressively more detailed disclosures as entities work through the implementation of the new standards, both in the financial statements and in the management commentary, in order to provide meaningful and relevant information to users.

IFRS 3 and IAS 39: Transaction Price Allocation

At the September 2016 meeting, the Group recommended that this issue be discussed with the AcSB to determine whether it should be referred to the IASB or the IFRS Interpretations Committee.

At the November 2016 meeting, the AcSB staff reported that the AcSB discussed the issue at its November 2016 meeting and decided to refer the issue to the IFRS Interpretations Committee.

OTHER MATTERS

IFRS 5 and IFRS 9: Application of IFRS 9 to Transactions of a Subsidiary when the Subsidiary is Held for Sale

A member of the IFRS Interpretations Committee highlighted the discussion of this item at the Committee's November 2016 meeting. He noted that the IFRS Interpretations Committee has implemented a new process on how they discuss items relating to the requirements of recently issued standards. The Committee members will not make decisions on these items but, instead, will provide input on the clarity of those requirements and advice to the IASB about how to proceed. The IASB will discuss such items at a future Board meeting.

One of the items discussed at the November 2016 IFRS Interpretations Committee meeting relates to the application of IFRS 9 *Financial Instruments* in consolidated financial statements to transactions of a subsidiary when the subsidiary is held for sale. The IFRS Interpretations Committee discussed two situations, being cash flow hedge accounting within the subsidiary and the business model assessment in IFRS 9 with respect to the subsidiary. In both situations, the IFRS Interpretations Committee members were of the view that, in its consolidated financial statements, an entity assesses the relevant requirements of IFRS 9 from the group perspective. Stakeholders were encouraged to monitor the IASB's future discussions as this issue may have implications on Canadian practice.

IASB Agenda Consultation

In November 2016, the IASB published a Feedback Statement on its 2015 Agenda Consultation, which resulted in a Work Plan for 2017-2021. The central theme for the IASB's activities will be better communication in financial statements. The focus areas include completing the large projects, supporting implementation and focusing on the research program. Stakeholders were encouraged to read the document on the IASB's website.

Pension and Post-employment Benefit Plans

There have been some recent developments relating to pension and post-employment benefit plans.

In November 2016, the Canadian Institute of Actuaries announced that it expects to be updating its September 2011 educational note on Accounting Discount Rate Assumption for Pension and Post-employment Benefit Plans early in 2017 to reflect a revised approach for establishing the corporate AA discount rate curve. The Canadian Institute of Actuaries had decided to revisit the yield curve construction process due to changes in the Canadian bond market environment over the last few years, particularly with regard to the significant reduction in the number of AA-rated corporate bonds with

maturities greater than ten years. The revised approach is intended to further improve the extrapolation approach and the spread adjustment calculation for bonds with maturities greater than ten years.

Another area that has been garnering attention is how an entity would measure its defined benefit obligation in a negative interest rate environment. Two potential views exist on this matter – whether an entity uses the negative interest rate as the discount rate or uses a discount rate of zero as the interest rate floor. Although it is not common to see negative interest rates in Canada, stakeholders should be aware of the matter and continue to monitor the environment for further changes.

Stakeholders are also reminded that the Government of Canada has proposed changes to the Canada Pension Plan that may affect the benefits due under a pension and post-employment benefit plan.

(For opening remarks, including other matters, listen to the audio clip).

PRIVATE SESSIONS

In November 2016, the AcSB expanded the Group's mandate to include assisting the Board in influencing the development of IFRSs (for example, providing advice on potential changes to IFRSs). The Group's discussion of these matters will support the AcSB in undertaking various activities to ensure the Canadian perspectives are considered internationally. Since these discussions do not relate to assisting stakeholders in applying issued IFRSs, this portion of the Group's meeting is generally conducted in private (consistent with the AcSB's other advisory committees).

IASB's Accounting Standards Advisory Forum Topics

At the November 2016 meeting, the Group provided input to the AcSB on two topics:

- IFRS 13 *Fair Value Measurement* – Post-implementation Review; and
- cryptocurrencies.

Both these topics were being discussed at the IASB's Accounting Standards Advisory Forum (ASAF) December 8-9 meeting. The Group provided input to the AcSB Chair and Director who represent the AcSB at the meeting.