



## Domestic Accounting Standards Update

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### Slide 1 – Title Page

DANIELLE MACLEOD: Good afternoon and welcome to today's "Domestic Accounting Standards Update" webinar.

This webinar qualifies as verifiable CPD pending successful completion. At the end of the webinar, we will include a link to the quiz. You may have multiple attempts on the quiz as needed.

### Slide 2

DANIELLE MACLEOD: Just a reminder that the opinions stated reflect those of the presenters and do not necessarily reflect the views of the AcSB.

### Slide 3 – Presenters

DANIELLE MACLEOD: On behalf of the Accounting Standards Board, it is now my pleasure to introduce today's speaker Armand Capisciolto.

Armand is currently the Interim Chair of the Canadian Accounting Standards Board.

He is also BDO Canada's National Accounting Standards Partner. He provides leadership to the firm on all matters related to accounting standards, gives advice and opinions on accounting and financial reporting technical matters and develops publications and training in these areas.

A quick introduction of myself as well. I'm Danielle MacLeod a Principal with the Accounting Standards Board. I work closely with the Board, external stakeholders, and volunteers to develop high quality accounting standards and other guidance for public companies, private enterprises, and not-for-profit organizations. I'm also the current Secretary of the Accounting Standards Board's Private Enterprise Advisory Committee.

### Slide 4 – Agenda

In today's session we will cover:

- Recently issued or effective domestic standards
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- The AcSB's current work plan for domestic standards;
- The AcSB's strategic and annual plans;
- Other current events related to developments in sustainability and why it matters for not-public entities

If you have questions throughout the webinar, you can type them in as we go along, and depending on time we'll try to get to as many as we can at the end of the session.

#### **Slide 5 – Polling Question #1**

DANIELLE MACLEOD: Before moving forward, we'll do a quick poll to understand who is listening in live to this webinar

- This will help us tailor our comments to those listening.

#### **Slide 6 – Polling Question #2**

And one additional polling question to better understand the participants of today's webinar

I'll now pass it over to Armand Capisciolto to discuss our first agenda item.

#### **Slide 7 – AcSB Strategic and Annual Plans**

#### **Slide 8 – Strategic and Annual Plans**

ARMAND CAPISCIOLTO: Our standard setting is driven by our five-year strategic plan

- The Board issued its 2022-2027 strategic plan on March 31, 2022. The link is provided in the slides.
- The AcSB decides on its strategic objectives after extensive consultation. Feedback was generally supportive of the proposals raised by the Board.

The strategic plan provides the guidelines for developing our 2022-23 Annual Plan, linked in the slides.

#### **Slide 9 – 2022-2027 Strategic Plan**

ARMAND CAPISCIOLTO: Following consultation with stakeholders, the strategic plan was finalized and issued on March 31, 2022 and became effective April 1, 2022.

The plan includes 3 key strategies:

- Deliver relevant and high-quality accounting standards
- Support improving the quality of reporting beyond traditional financial statements; and
- Grow the AcSB's international influence.

### **Slide 10 – 2022-2023 Annual Plan**

ARMAND CAPISCIOLTO: Informed by the Strategic Plan, annual plans set out specific annual objectives and help to further the strategies that fulfill the AcSB's public interest mandate.

The Annual Plan outlines the key activities we will undertake in the year to kick-off our new Strategic Plan including:

- Advancing work in global standard-setting;
- Continuing work on the domestic cloud computing, contributions, and pensions projects;
- Recognizing the need to be responsive to emerging issues; and
- Supporting the work of the ISSB and the newly formed Canadian sustainability standards board which will we discuss later on in the presentation.

I'll now pass it over to Danielle MacLeod to discuss recently issued or amended domestic standards.

### **Slide 11 – Recently Issued or Amended Domestic Standards**

DANIELLE MACLEOD: We'll now move on to our next agenda item - domestic standards or amendments that have been recently issued.

### **Slide 12 – Key Standards and Amendments – now effective**

DANIELLE MACLEOD: This slide summarizes the key domestic standards amendments and effective dates for each project.

As you can see there has been lots of activity in the last couple of years.

Some of these effective dates were deferred by a year when COVID first started to allow stakeholders more implementation time.

The dates on the slide are the already deferred dates and gives you a sense of what you should already be applying and what to think about for the rest of this year.

More information on each of these issued or amended standards is included in an appendix to these slides.

I'll now pass it back to Armand Capisciolto to kick off the discussion on our domestic work plan.

### **Slide 13 – AcSB Domestic Standards Work Plan**

### **Slide 14 – Cloud Computing Arrangements**

ARMAND CAPISCIOLTO: The Board developed an Accounting Guideline to address financial reporting issues specifically related to cloud computing arrangements from a customer's perspective.

Accounting Guidelines are a primary source of GAAP

The Guideline not only clarifies how Section 3064 should be applied to cloud computing arrangements, but it also provides guidance to address other issues raised.

Most importantly – provides new accounting policies for entities to choose from – which I'll explain in a bit more detail later.

In developing the accounting policies, the Board took into consideration that:

- Some private enterprises and not-for-profit organization find it difficult and costly to perform an analysis to determine whether an intangible asset exists in the arrangement, particularly those with limited resources;
- While on the other hand, there are some private enterprises and not-for-profit organizations investing significant dollars to implement a cloud-based solution, and therefore expensing everything in one period if the software is not controlled does not communicate relevant information to its users.
- In addition, some users are indifferent on whether amounts are capitalized or expensed - it is most important for them to understand how the arrangement is accounted for in the financial statements so that they can perform the necessary analysis to support their decision-making process.

This is why the Guideline provides an entity with various accounting policy choices.

### **Slide 15 – Cloud Computing Arrangements – Accounting Policy Choices in the Guideline**

ARMAND CAPISCIOLTO: The Guideline contains a few accounting policies to choose from given there are various types of expenditures in a cloud computing arrangement. The Guideline contains a decision tree that is intended to help an entity walkthrough the implications of the policy choices.

The simplification approach – designed to really “simplify” the accounting for entities, is the most straight forward approach that doesn't require an entity to capitalize anything to its balance sheet.

As long as the expenditures are within the scope of this Guideline, an entity can expense as incurred.

No further analysis needed to determine if the arrangement contains an intangible asset.

Applying the simplification approach means the expenditures in the arrangement are treated as the supply of services.

But if an entity does not apply the simplification approach because expensing everything doesn't tell users the relevant story behind the entity's decision to implement a cloud-based solution, then the entity needs to perform a bit more analysis of its cloud computing arrangement.

Specifically – an entity needs to determine if the software element in the arrangement is a software intangible asset or is a software service

This determination is important as it impacts how the related implementation costs are accounted for and the available policy choices.

## **Slide 16 – Cloud Computing Arrangements – AcSB Deliberations**

ARMAND CAPISCIOLTO: At its July and September meetings, the AcSB completed its discussion of stakeholders' feedback on the Exposure Draft.

Feedback was received from comment letters, as well as from outreach activities and roundtables held during the comment period.

In general, feedback received on the overall proposed solution in accounting for cloud computing arrangement was positive (i.e., the accounting policy choices provided).

Stakeholders provided comments on specific areas which the Board deliberated.

One area we did get a lot of feedback on was regarding how the capitalized expenditures using the exception in the Guideline should be presented.

Originally the ED proposed to present as prepaid expenses but there were stakeholders, including users, concerned with the confusion such presentation might create with other true prepaid expenses.

So the Board decided to create a new balance sheet caption so that it is clear the capitalized amount represent assets for implementation of software services

We also received comments on transition and effective date – so the Board decided to:

provide additional transition relief

defer the effective date from January 1, 2023 to January 1, 2024, with early application permitted

The Board plans to issue the final Guideline in the Handbook mid-November 2022.

## **Slide 17 – Revenue – Upfront Non-Refundable Fees or Payments**

DANIELLE MACLEOD: In December 2019, the AcSB issued a narrow scope amendment to the revenue standard in Part II of the Handbook that provided additional guidance on a number of topics including upfront non-refundable fees/payments.

These amendments became effective January 1, 2022.

As entities started to apply the amendments to the revenue standard, the AcSB heard of application challenges from stakeholders – particularly member benefit organizations relating to the amendments for upfront non-refundable fees or payments.

These stakeholders were concerned about the decision usefulness of deferring upfront non-refundable fees over long member durations.

They also expressed concerns about the associated cost of applying the amendments.

The AcSB considered the feedback and decided that more time is needed to research the concerns raised by stakeholders and the underlying contracts.

The AcSB issued an Exposure draft proposing to defer the effective date of the amendments relating to upfront non-refundable fees or payments to January 1, 2025 while it researches the effects of the previously issued amendments.

The Exposure Draft was issued July 15, 2022 with a 30 day comment period closing on August 15th.

### **Slide 18 – Revenue – Upfront Non-Refundable Fees or Payments**

DANIELLE MACLEOD: September 2022 – AcSB approved the proposal to defer effective date of amendments relating to upfront non-refundable fees or payments to January 1, 2025

November 2022 – Amendment issued in Handbook

AcSB currently undertaking research to inform the Board's decision on how to address concerns raised

### **Slide 19 – Related Party Transactions**

DANIELLE MACLEOD: The Board conducted a research project on related party business combinations

Scope of this research project was:

- Business combinations under common control
- Business combinations not under common control
- Combinations not considered a business (acquisition of assets)

To assist with research on this project, the Board formed a working group of tax and assurance practitioners to provide expertise on the characteristics of related party combinations and the related accounting treatments

The Board also consulted users to better understand their information needs for these transactions.

Feedback received indicated that preparers experience challenges applying the existing guidance.

Items to be addressed in this project include:

- Clarifying that business combinations under common control are accounted for as business combinations when certain criteria are met
- Removing the requirement to retroactively restate comparatives when a business combination under common control occurs that are measured at carrying amount

Clarifying that financial instruments acquired in a common control transaction should be measured in accordance with Section 3840 *Related Party Transactions*

The Board just issued its exposure draft this month on November 1 2022 and it's now open for comment. Respond to this Exposure draft before the deadline of January 31, 2023.

### **Slide 20 – Contributions – Revenue Recognition and Related Matters (Part III)**

ARMAND CAPISCIOLTO: The existing contributions standards for not-for-profit organizations were established in 1996

Since their issuance, the contributions standards have remained largely unchanged even though our research suggests that the landscape for not-for-profit organizations have evolved.

For example, contributions agreements are becoming more complex.

The current guidance provides an accounting policy choice for recognizing revenue from restricted contributions

This choice adds complexity to not-for-profit financial statements and also results in a lack of comparability across organizations.

While researching this project, the board also did not identify other jurisdictions that provide organizations with an accounting policy choice for the timing of recognition of revenue from restricted contributions.

To seek input from stakeholders, the Board issued a Consultation Paper in 2020.

The consultation paper included 49 questions and covered a number of topics including: restricted contributions, endowments, pledges and bequests, contributed materials and services, and the capital asset recognition exemption.

### **Slide 21 – Contributions – Revenue Recognition and Related Matters (Part III)**

ARMAND CAPISCIOLTO: The Board conducted extensive outreach and received many comment letters in response to its consultation paper.

There was also support for exploring an approach discussed in the Consultation Paper that recognized revenue by considering the type of contribution and its characteristics.

In March 2022, considering feedback from the Consultation Paper, the Board approved the project plan to develop an Exposure Draft

Since then the Board has been discussing the exposure draft proposals.

The Board has made a number of tentative decisions on the draft proposals. While these could be subject to change, the Board has tentatively decided that:

- A restricted contribution is subject to external restrictions that have been explicitly communicated between the organization and the contributor; and requires the resources to be used for a designated purpose or in a designated period.
- Revenue from restricted contributions is recognized when the restrictions have been met, provided the contribution is measurable and collection is reasonably assured.
- With regards to Capital asset contributions the Board spent a lot of time discussions the accounting alternatives. The Board has tentatively decided that capital assets that will be amortized should be deferred and recognized as revenue in the same basis as the amortization

expense. Capital assets relating to assets that will not be amortized will be recognized as a direct increase in net assets.

- Endowment contributions will be recognized as direct increases in net assets.

The Board will be continuing to discuss the draft proposals and plans to issue an exposure draft along with a Basis for Conclusions on the exposure draft proposals in March 2023.

Once issued, the Board will be seeking input from stakeholders in comment letters and conducting outreach sessions on the draft proposals.

Follow our project page which is linked on this slide for updates on the project.

### **Slides 22 – Standards for Pension Plans**

ARMAND CAPISCIOLTO: We'll now cover a project for pension plans in part IV of the Handbook

Pension plans including registered pension plans and other benefit plans apply Part IV of the Handbook to report the pension plans' activities.

The AcSB identified improvements to Part IV as a priority in its 2021-2022 Annual Plan and approved a project in September 2021 to make targeted improvements

The AcSB issued an Exposure Draft for comment on March 1, 2022 with comments due on June 15, 2022

The proposals in the exposure draft would:

- clarify that a statement of changes in pension obligations is not required for defined contribution pension plans;
- provide guidance on determining the split or amalgamation date for pension plans;
- provide recognition, measurement and disclosure guidance on the accounting for guaranteed annuity contracts (commonly referred to as "buy-in" or "buy-out" annuity contracts);
- clarify the presentation requirements for combination plans; and
- require additional risk disclosures for investments in master trusts.

The AcSB is has analyzed stakeholder feedback on the ED.

At the September 2022 Board meeting the AcSB approved the issuance of the final amendments to section 4600 subject to drafting and written ballot.

The board plans to issues the amendments in December 2022

### **Slide 23 – Other Research Projects**

DANIELLE MACLEOD: The AcSB is also undertaking a few research projects:

The first is related to accounting for Insurance contracts with a cash surrender value



- Currently there is no specific guidance on this topic in Parts II or III of the Handbook.
- The Board has been consulting with its advisory committees on the current accounting and issues in practice.
- The Board will consider this input to determine whether to undertake a standard setting project on this topic.

The second is Reporting Controlled and Related Entities which applies to not-for-profit organizations reporting under Part III of the Handbook

Currently a not-for-profit organization is required to report each controlled NFPO by consolidating the NFPO or providing specific disclosures about the NFPO.

If the controlled NFPO is one of a large number of individually immaterial organizations, it is exempt from consolidation and more limited disclosures are required.

The Board is consulting with its Not-for-Profit advisory Committee on this topic and will consider their input to determine whether a standard setting project is needed.

#### **Slide 24 – Other Current Events**

#### **Slide 25 – Developments in Sustainability Standards**

ARMAND CAPISCIOLTO: There continue to be significant developments in the world of sustainability reporting.

In November 2021, the IFRS Foundation Trustees announced the creation of the ISSB to address the demand for better information to be able to assess the effect of sustainability-related risks and opportunities on an entity's enterprise value.

In the past year the ISSB published its first two proposed disclosure standards:

- IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information; and
- IFRS S2 Climate-related Disclosures.

These will form a global baseline of sustainability-related financial disclosures for capital markets.

At this stage these are proposals in the form of Exposure Drafts.

The AcSB responded to these Exposure Drafts as well as many others in Canada.

The ISSB is in the stage of deliberating the feedback it received.

#### **Slide 26 – Why Does it Matter to Canadian Private Enterprises and NFPOs?**

ARMAND CAPISCIOLTO: You may be wondering, why are these developments relevant to me as a private enterprise or not-for-profit organization in Canada?

The ISSB standards are not limited to public companies applying IFRS Standards.

Whether or not a private enterprise or NFPO adopts ISSB standards they may be impacted by the proposals.

There may be increased pressure to adopt the standards or provide sustainability related information to key stakeholders for a number of reasons:

#### 1. Value chain reporting

- Proposals will require entities that apply ISSB Standards will need to disclose information about sustainability-related risks and opportunities related to the use of resources along their value chains.
- Entities along these value chains could include private enterprises and NFPOs.
- For entities to be able to comply with the ISSB Standards and measure, monitor and manage progress toward their sustainability-related objectives, they will expect entities in their value chain to:
  - Provide timely sustainability information about their own operations; and
  - Work toward addressing their own sustainability-related risks and opportunities.
- This would be expected of all entities in the value chain, regardless of whether they are private enterprises or NFPOs, and regardless of whether they adopt the ISSB Standards themselves or not.

#### 2. Sources of revenue and capital

- Banks and other lenders are increasingly looking to entities' sustainability disclosures in making lending decisions, based on which would help them reduce their own carbon footprints via financed emissions.
- Similarly, institutional donors may evaluate various NPOs based on their sustainability disclosures in making large donation decisions, with a view to reduce Scope 3 emissions resulting from those donations.
- When investors evaluate an entity as a potential investment, they would be interested in the sustainability of the business model in a low-carbon future (e.g., the entity's strategic response to different climate scenarios).
- Customers are paying more attention to how entities are addressing sustainability issues when making purchasing decisions, and sustainability reporting is one way for an entity to communicate its strategy with its customers.

For larger private enterprises, there could be greater interest in adopting standards for better comparability with public companies that adopt.

### **Slide 27 – Canadian Perspective**

ARMAND CAPISCIOLTO: At this time there is no formal mechanism in place to formally adopt ISSB standards in Canada.

In June 2022, the Oversight Councils approved the formation of the Canadian sustainability standards.

An implementation Committee has been formed to develop necessary groundwork for the CSSB such as establishing a recruitment process for a chair and board members, defining governance and process-related considerations, and more.

While the groundwork is being established, we expect once operational the CSSB will share the Canadian perspective globally like what is currently done with regards to IFRS Standards.

In addition, we expect that the CSSB will also consider the needs the unique reporting needs of non-public entities including private enterprises and NFPOs.

The goal is to have a fully operational CSSB by April 1, 2023

The slide includes a link to a webpage to stay up to date on developments in sustainability standards in Canada and also there is a video for more information on where Canada stands.

### **Slide 28 – Get Involved**

DANIELLE MACLEOD: Next we'll cover how you can get involved with the work of the Board.

### **Slide 29 – How to Get Involved**

DANIELLE MACLEOD: We want to know what you think and are always interested in hearing from stakeholders.

- You can send us a question or comment directly on our website
- You can respond to the Exposure Draft on Related Party Combinations

You can also share your views by volunteering to join an advisory committee. We post volunteer opportunities on our website, or you can reach out to one of the staff contacts on the slide to find out about any open opportunities to join a committee or working group.

If you have any questions on a project or want to share your views, you can also contact the staff listed on this slide.

### **Slide 30 – Stay up to Date**

DANIELLE MACLEOD: To stay up to date on the AcSB's activities, subscribe to our bi-weekly e-newsletter the Standard.

You can also follow us on social media on Facebook, Twitter, and LinkedIn using the links on this slide.

**Slide 31 – Stay up to Date**

DANIELLE MACLEOD: Lastly, this slide includes a link to our website where you can find additional information.

**Slide 32**

DANIELLE MACLEOD: We will now move on to the Q&A portion of today's session.

Just a reminder you can submit a question using the Q&A function.

We will try to get to as many questions as we can before the end of the session.

**Slide 34 –**

DANIELLE MACLEOD: Thank you, Armand Capisciolto for your time today.

And thank you to our audience for taking the time to join us today.

The on-demand version of this presentation will be made available shortly after today's live webinar

The slides will be available to download on the webinar registration page

If you have any questions you can reach out to the staff listed on the earlier slide at any time.

Thank you for participating in today's webinar. Have a great afternoon!