August 2012

Technical Bulletin

Collins Barrow

Comptables agréés / Chartered Accountants

TABLE OF CONTENTS

This technical bulletin covers the various accounting and assurance developments up to August 2012.

Acknowledgement: The content of the Technical Bulletin has for the most part been summarized or reproduced from the CICA Accounting/Assurance Revisions Releases, International and Canadian Accounting and Assurance Board Decision Summaries and other publications referenced within the bulletin.

To discuss implementation or interpretation issues with respect to these or any other accounting or assurance matters, please contact your local Collins Barrow service provider.

Contact Information:
Internet: www.collinsbarrow.com
Email: info@collinsbarow.com

Collins Barrow regularly publishes Technical Bulletin for the general interest of its clients and friends to highlight the continually changing accounting and assurance standards, and the interpretations thereof, in Canada. Since this is not intended to be a complete reproduction or summarization of the standard or document reviewed, we recommend that you refer to the original document(s) discussed in this Bulletin and/or discuss the matter with your professional advisor before acting upon any of the matters discussed herein.

1. ACCOUNTING

NEW PRONOUNCEMENTS COMING INTO EFFECT – IFRS (CICA HANDBOOK PART I)

Presentation of Items of Other Comprehensive Income (Amendment to IAS 1)

This amendment was issued by IASB in June 2011 and is effective for annual periods beginning on or after July 1, 2012. The amendment is aimed at improving the consistency and clarity of the presentation of items of other comprehensive income.

A requirement has been added to present items in other comprehensive income grouped on the basis of whether they may be reclassified subsequently to profit or loss. This amendment makes clearer the effects items of other comprehensive income may have on profit or loss in the future. Consistent with this requirement, income tax on items presented in other comprehensive income is required to be allocated between items that will not be reclassified subsequently to profit or loss and those that might be reclassified, if the items in other comprehensive income are presented before tax.

NEW PRONOUNCEMENTS COMING INTO EFFCT – PUBLIC SECTOR ACCOUNTING

Financial Statement Presentation, Section PS 1201

This section revises and replaces Financial Statement Presentation, Section PS 1200. The new standard introduces a new statement for reporting of remeasurement gains and losses.

Foreign currency translation, Section PS 2601

This section revises and replaces Foreign Currency Translations, Section PS 2600. Definition of currency risk is aligned with the new Financial Instruments Section, PS 3450. The new standard also removes certain previously available exceptions to measurement of items on initial recognition. The deferral and amortization of foreign exchange gains and losses relating to long-term foreign currency denominated monetary items, hedge accounting and presentation of items as synthetic instruments are removed. In addition, the new statement of remeasurement gains and losses introduced in Section PS 1201 is used to reflect exchange gains and losses until the period of settlement, rather than reflecting them in the statement of operations.

Portfolio investments, Section PS 3041

This section replaces Section PS 3040, Portfolio Investments. In addition, Section PS 3030 is withdrawn as the distinction between temporary and portfolio investments is removed with the issue of Section PS 3041. The scope in the new standard is expanded to include interests in pooled investment funds and requirement for application of cost method is removed. The new standard is also aligned with the new Financial Instrument Section, PS 3450.

Financial instruments, Section PS 3450

This new Section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The standard introduces two measurement categories: fair value and cost or amortized cost. The statement of remeasurement gains and losses will reflect gains and losses arising on fair value remeasurement until an item is derecognized. The standard also introduces new disclosure requirements of items reported and the nature and extent of risks arising from financial instruments.

These new standards must be adopted at the same time and are applicable to annual periods beginning on or after April 1, 2012 for government organizations and on or after April 1, 2015 for governments. Earlier adoption is permitted.

EXPOSURE DRAFTS – IFRS (CICA HANDBOOK PART I)

Annual Improvements to IFRS (2010-2012 Cycle)

Annual improvements process is comprised of minor revisions, clarifications or corrections to the standards, by compiling amendments to a number of standards into one exposure draft (ED) rather than issuing a separate ED for each issue. Issuance of new standards is not included in the annual improvement process.

This exposure draft was issued by IASB in May 2012. Comments are due September 5, 2012. This exposure draft proposes to incorporate certain amendments to the following IFRSs:

- IFRS 2 Share-based Payment — Clarification of the definition of 'vesting conditions'.
- IFRS 3 Business Combinations — Clarification of the accounting for contingent consideration in a business combination.

- IFRS 8 Operating Segments — Addition of a disclosure requirement about the aggregation of operating segments and clarification of the reconciliation of the total of the reportable segments' assets to the entity's assets.
- IAS 1 Presentation of Financial Statements — Clarification of the classification of current/non-current liabilities.
- IAS 7 Statement of Cash Flows — Clarification of the classification of interest paid that is capitalized.
- IAS 12 Income Taxes — Clarification of the recognition of deferred tax assets for unrealized losses.
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets — Clarification of the requirements for the revaluation model regarding the proportionate restatement of accumulated depreciation.
- IAS 24 Related Party Disclosures — Clarification of the identification and disclosure requirements for related party transactions when key management personnel services are provided by a management entity.
- IAS 36 Impairment of Assets — Harmonization of disclosures for value in use and fair value less costs of disposal.

The IASB's Exposure Draft also contains an addition to the Basis for Conclusions for IFRS 13 *Fair Value Measurement* to explain that an entity is able to measure short-term receivables and payables with no stated interest rate at invoice amounts. This amendment is to clarify the amendments to other IFRSs made by IFRS 13.

The IASB expects to issue the proposed amendments in the first quarter of 2013. All amendments have a proposed effective date of January 1, 2014, except for the amendment to IFRS 3, which will have an effective date of January 1, 2015. Earlier application will be permitted.

Levies Charged by Public Authorities on Entities that Operate in a Specific Market

This draft IFRIC Interpretation was issued by IASB in May 2012. Comments are due by September 5, 2012. This interpretation provides guidance on the accounting for levies in the financial statements of the entity paying the levy, specifically, including when the liability to pay a levy should be recognised and additional guidance on the definition of a present obligation in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Entities would be required to apply the Interpretation retrospectively in accordance with IAS 8.

Put Options Written on Non-controlling Interests

This draft IFRIC Interpretation was issued in May 2012. Comments are due by October 1, 2012. This interpretation would apply, in the parent's consolidated financial statements, to put options that oblige the parent to purchase shares of its subsidiary that are held by a non-controlling-interest shareholder for cash or another financial asset (NCI puts). However, the draft Interpretation would not apply to NCI puts that were accounted for as contingent consideration in accordance with IFRS 3 *Business Combinations* (2004) because IFRS 3 (2008) provides the relevant measurement requirements for those contracts. This interpretation will provide guidance on subsequent measurement of the financial liability that is recognized for an NCI put. Changes in the measurement of that financial liability would be required to be recognised in profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments*. Entities would be required to apply the Interpretation retrospectively in accordance with IAS 8.

EXPOSURE DRAFTS – ASPE (CICA HANDBOOK PART II)

Discontinued Operations

This exposure draft was issued by AcSB in July 2012. Comment period closes on October 31, 2012. Final Handbook material is expected to be issued in late 2013. AcSB proposes to modify the definition of a discontinued operation in Disposal of Long-Lived Assets and Discontinued Operations, Section 3475. The proposal creates a higher threshold for a disposal to be classified as a discontinued operation resulting in fewer disposals qualifying as discontinued operations in practice.

This section also applies to not-for-profit organizations applying the standards in Part III of the CICA Handbook.

2012 Improvements to Accounting Standards for Private Enterprises

Annual improvements process is comprised of minor revisions, clarifications or corrections to the standards, *by compiling amendments to a number of standards into one exposure draft (ED) rather than issuing a separate ED for each issue. Issuance of new standards is not included in the annual improvement process.*

This exposure draft was issued by AcSB in March 2012. Comment period closed on June 1, 2012. Final Handbook material is expected to be approved in the third quarter of 2012. The exposure draft proposed several amendments, which would improve accounting standards for private enterprises and would also apply to not-for-profit organizations using standards in Part III. The following amendments were proposed:

- Income Statement, Section 1520 – amendment eliminates inconsistencies between Section 1520 and other standards in Part II of the Handbook.
- Business Combinations, Section 1582 – amendment requires cost of issuing debt securities to be recognized in accordance with FINANCIAL INSTRUMENTS, Section 3856.
- Subsidiaries, Section 1590 – the proposed amendments require acquisition costs for subsidiaries accounted for using the cost or equity methods to be expensed, except for costs to issue debt or equity securities. The proposal also requires contingent consideration to be measured at fair value at the date of acquisition and accounted for as part of the investment in the subsidiary. In subsequent periods, contingent consideration is also measured on the same basis as required in Section 1582.
- Foreign Currency Translation, Section 1651 – The proposed amendment removes an inconsistency with NON-CONTROLLING INTERESTS, Section 1602, when an entity's interest in a self-sustaining foreign operation changes. The proposed amendment also clarifies the accounting for foreign exchange gains and losses accumulated in a separate component of shareholders' equity for different scenarios involving a full or partial reduction in an entity's interest in a foreign operation.
- Investments, Section 3051 - The proposed amendment would require gains and losses resulting from the dilution of an entity's interest in an investee accounted for using the equity method to be recognized in income, which is consistent with the accounting for a gain or loss arising from the sale of a portion of an investment.

Employee Future Benefits

This exposure draft was issued by AcSB in January 2012. Comment period closed on May 25, 2012. Final Handbook material is expected to be issued in late 2013. The Exposure Draft proposes to replace Employee Future Benefits, Section 3461, in Part II of the CICA Handbook – Accounting with new Section 3462. This section will also apply to not-for profit organizations applying the standards in Part III and may also apply to pension plans applying the standards in Part IV. Main features of the Exposure Draft include elimination of the option to defer the recognition of gains and losses on its defined benefit plans to future period (the "deferral and amortization approach") and a change in measurement of the plan obligations and plan assets, whereby these would be measured at the balance sheet date rather than up to three months before that date.

RECENT PRONOUNCEMENTS NOT YET EFFECTIVE – IFRS (CICA HANDBOOK PART I)

Effective for annual periods beginning on or after January 1, 2013

Entities with rate-regulated activities

Mandatory date for first-time adoption of IFRS by entities with rate-regulated activities has been extended to fiscal years beginning on or after January 1, 2013.

IFRS 10 - Consolidated Financial Statements

This new standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. A new definition of 'control' has been established. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 - Joint Arrangements

This new standard establishes the principles for joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method whereas for a joint operation the venture will be accounted for using the proportionate consolidation method.

IFRS 12 - Disclosure of Interests in Other Entities

This new standard lists the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

Transition Guidance - Proposed amendments to IFRS 10, IFRS 11 and IFRS 12

Amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements and also provide additional transition relief in IFRS 10, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

IFRS 1 First-time Adoption of International Financial Reporting Standards

Amendment provides relief for first-time adopters from the retrospective application of IFRSs when accounting for loans received from governments at a below-market rate of interest.

IFRS 7 Financial Instruments: Disclosures

Amendment provides additional information about offsetting of financial assets and financial liabilities.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This new interpretation applies to all types of natural resources that are extracted using the surface mining activity process. IFRIC 20 permits capitalization of stripping costs if all of the three criteria are met: probability of economic benefit, identifiability of ore body and measurability of stripping costs. IFRIC 20 provides a more detailed cost allocation guidance based on a relevant production measure that allows allocation between inventory produced and the stripping activity asset. IFRIC 20 may represent a change in accounting practice for some Canadian mining entities.

IFRS 13 Fair Value Measurement

This new standard defines fair value, sets out in a single standard a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements.

IAS 19 Employee Benefits

Amended standard eliminates options to defer the recognition of gains and losses in defined benefit plans, requires remeasurement of a defined benefit plan's assets and liabilities to be presented in other comprehensive income and increases the disclosure.

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

Investment Companies and Segregated Accounts of Life Insurance Enterprises

Mandatory date for first-time adoption of IFRS by investment companies and segregated accounts of life insurance enterprises has been extended to fiscal years beginning on or after January 1, 2014.

IAS 32 Financial Instruments: Presentation

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32): amendment addresses inconsistencies identified in applying some of the offsetting criteria.

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

IFRS 9 Financial Instruments

This new standard replaces the requirements in IAS 39 Financial Instruments: Recognition and Measurement for classification and measurement of financial assets.

IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures

Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7): amendment defers the effective date of IFRS 9 and provides additional disclosures about its initial adoption.

RECENT PRONOUNCEMENTS NOT YET EFFECTIVE – PENSION PLANS (CICA HANDBOOK PART IV)

Section 4600, Pension Plans

Amendment was issued in July 2012 to clarify fair value disclosures and requirement to comply with fair value disclosures specified in IFRS 7 until IFRS 13 is adopted.

UPDATES FROM STANDARD SETTERS

International Accounting Standards Board (IASB)

Topics discussed at recent IASB meetings:

- Definition of the term 'non-monetary asset'
- Effective date and transition methods
- IFRS 10 Consolidated Financial Statements transition requirements
- Financial instruments: impairment
- Macro hedge accounting
- Review of the IFRSs for SMEs
- Insurance contracts
- Investment entities
- Post-implementation review of IFRS 8 Operating Segments, Request for Information (RFI) published, seeking feedback on whether the standard is functioning as intended, as well as more practical information on the challenges and costs associated with implementing the standard. Comment period ends on November 16, 2012.
- Additional topics discussed at the joint IASB/FASB meeting:
  - Financial instruments: classification and measurement
  - Financial instruments: impairment
  - Investment entities
  - Insurance contracts
  - Leases – the boards agreed on an approach for accounting for lease expenses as part of a project to revise lease accounting in IFRS and U.S. GAAP. Exposure draft is expected in the fourth quarter of 2012
  - Revenue recognition

For further details on the topics covered in the meeting, refer to: http://www.ifrs.org/Updates/IASB-Updates/Pages/IASB-Updates.aspx

Accounting Standards Board (AcSB)

Topics discussed at recent AcSB meetings:

- IFRS
  - AcSB's response to "Annual Improvements to IFRSs 2010-2012 Cycle" exposure draft
  - Tentative decisions made by IASB on "Investment Entities" exposure draft
  - Decision to refer the issue "IFRS 3 and IAS 12: Uncertain Tax Position Acquired in a Business Combination" to the IFRS Interpretation Committee
  - IFRS Foundation's invitation to comment on IASB and IFRS Interpretation Committee Due Process Handbook
  - International developments with respect to rate regulated activities
- ASPE
  - Responses to 2012 Improvements to Accounting Standards for Private Enterprises Exposure Draft
  - Project on consolidations – elimination of AcG-15

For further details on the topics covered in the meetings, refer to: http://www.frascanada.ca/accounting-standards-board/meetings/decision-summaries/index.aspx

Invitation to Comment - Post-Implementation Review: IFRS 8 Operating Segments

As highlighted under update on IASB activities, IASB issued a Request for Information on IFRS 8 and whether the standard is meeting its objectives on improving financial reporting as compared to the previous standard. Since Canadian stakeholders have no experience with the previous standard, AcSB has issued the Invitation to Comment in August 2012 with modified questions, whereby the comparison to the previous IASB standard has been removed. The comment period ends on November 16, 2012.

The Invitation to Comment is accessible through:
http://www.frascanada.ca/international-financial-reporting-standards/documents-for-comment/item67059.pdf

Public Sector Account Board (PSAB)

Topics discussed at recent PSAB meetings:

- PSAB strategic plan for 2013-2016
- Creation of issues discussion group
- Consultation paper on concepts underlying financial performance
- Impairment of non-financial assets project proposal
- PSA Handbook terminology, specifically addressing government departments and ministries
- Restructurings standard

For further details on the topics covered in the meetings, refer to:
http://www.frascanada.ca/public-sector-accounting-board/meetings/decision-summaries/index.aspx

OTHER

CICA Reporting Alerts

CICA began issuing Reporting Alerts which are aimed at assisting smaller public companies in determining the impact of new and revised standards on their business. Reporting Alerts provide a summary of the standard, highlight significant items, summarize key changes and address common questions.

The following Alerts have been published by CICA and are accessible on:

http://www.cica.ca/applying-the-standards/ifrs/ifrs-resources/implementing-ifrs/item54240.aspx

To consolidate, or not to consolidate, that is the question (IFRS 10)	Issue 001; published November 2011
Joint ventures redefined (IFRS 11)	Issue 002; published June 2012
Helping users understand your interest in other entities (IFRS 12)	Issue 003; published June 2012
One-stop shopping for fair value measurement (what is fair value and how is it calculated) (IFRS 13)	Issue 004; published June 2012
IFRIC 20: Accounting for stripping costs in the production phase of a surface mine	Issue 005; published June 2012
Round-up alert – high level summary of amendments and new standards for which a separate alert has not been prepared	Issue 006; published June 2012
Easier than you may have feared – Amendments to IFRS 10, IFRS 11 and IFRS 12	Issue 007; published July 2012

Toward a Measurement Framework for Financial Reporting by Profit-Oriented Entities by J. Alex Milburn, PhD, FCA

Reproduced from the June 2012 FYI Newsletter:

A recently issued research paper proposes an approach to developing a financial reporting measurement framework that would have major implications on financial reporting.

Available at no cost, "Toward a Measurement Framework for Financial Reporting" was published by the Canadian Institute of Chartered Accountants at the request of the Accounting Standards Board. It is written by Alex Milburn, FCA, Ph.D, one of Canada's leading accounting theorists, who has extensive experience with accounting measurement issues.

The paper is reasoned from fundamental premises about business purposes, financial reporting objectives, and the role of markets and market prices. It sets out to demonstrate that substantial improvement in the conceptual underpinnings of financial reporting measurement is both possible and urgently needed. It is being distributed for international study and discussion.

To participate in a discussion on the paper and general measurement issues with the author, visit Dr. Milburn's Measurement Framework for Financial Reporting blog. All those who have an interest in the improvement of financial reporting measurement are invited to study the paper and submit their questions, comments and ideas by November 30, 2012.

The paper can be accessed by clicking here: http://www.cica.ca/focus-on-practice-areas/reporting-and-capital-markets/alex-milburns-blog-about-this-research-paper/item65693.pdf

2. ASSURANCE

RECENT PRONOUNCEMENTS NOT YET EFFECTIVE - CAS

Effective for audits of financial statements for periods ending on or after December 15, 2013:

CAS 315 – Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment

This standard replaces the existing CAS 315 and incorporates changes resulting from revisions to CAS 610. Changes include more guidance on when to apply CAS 610 and matters that the auditor needs to consider when making inquiries and obtaining understanding of internal audit function.

CAS 610 - Using the Work of Internal Auditors

This standard replaces the existing CAS 610. It establishes a strengthened judgment-based framework for use by the external auditor in deciding whether and, if so, to what extent, to use the work of the internal audit function.

UPDATES FROM STANDARD SETTERS

International Auditing and Assurance Standards Board (IAASB)

Topics discussed at recent IAASB meetings:

- Auditor reporting – improving the Auditor's Report
- Auditing financial statement disclosures – considerations on project proposal

For further details on the topics covered in the meetings, refer to:
http://www.ifac.org/auditing-assurance/meetings

Auditing and Assurance Standards Board (AASB)

Topics discussed at recent AASB meetings:

- CASs
  - Issues related to the IAASB's project on auditor reporting
- Assurance and Related Services Standards (other than CASs)
  - Clarifying Section 5020, Association
  - Auditor's Role and Responsibilities in Capital Markets (7000 Series)- developing a revised standard to replace existing Section 7110, Auditor Involvement with Offering Documents of Public and Private Entities, Section 7115, Auditor Involvement with Offering Documents of Public and Private Entities—Current Legislative and Regulatory Requirements, and AuG-30, The Auditor's Consent and Comfort with Securities Offering Documents.
  - Authority of Guidelines Issued by the AASB - approved revisions to the Preface to the CICA Handbook – Assurance, CAS 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards, and Section 5021, Authority of Auditing and Assurance Standards and Other Guidance for Engagements Other than Audits of Financial Statements and Other Historical Financial Information. The revisions will be reflected in a September 2012 Handbook update.
  - Approved withdrawal of AuG-19, Audit of Financial Statements Affected by Environmental Matters, AuG-32, Electronic Commerce — Effect on the Audit of Financial Statements, and AuG-39, Auditing Derivative Financial Instruments. The Guidelines will be withdrawn from the CICA Handbook –

Assurance as part of an August 2012 Handbook update.

- Revisions to Section 5025, Standards for Assurance Engagements Other than Audits of Financial Statements and Other Historical Financial Information.

For further details on the topics covered in the meetings, refer to:
http://www.frascanada.ca/auditing-and-assurance-standards-board/meetings/decision-summaries/index.aspx

OTHER

Invitation to Comment (ITC): Improving the Auditor's Report

Issued by IAASB, reproduced from "At a Glance" issued in June 2012

The ITC sets out the IAASB's indicative direction proposed for the future auditor's report. It reflects the progress the IAASB has made in its deliberations to date, based on what it has learned from its research, its May 2011 consultation paper, its ongoing dialogue and outreach activities, and related initiatives of others.

The ITC is an important milestone in the IAASB's project on auditor reporting, as it will inform the IAASB's future standard-setting proposals. It is therefore vital for the IAASB to have a robust understanding about the value and viability of the IAASB's preferred options for improvements in auditor reporting and how best to effect these changes globally.

The IAASB has reached general agreement on a number of improvements to the auditor's report that it believes in principle should be promulgated internationally.

Suggested improvements:

- Additional information in the auditor's report to highlight matters that, in the auditor's judgment, are likely to be most important to users' understanding of the audited financial statements or the audit, referred to as "Auditor Commentary." This information would be required for public interest entities (PIEs) –which includes, at a minimum, listed entities –and could be provided at the discretion of the auditor for other entities.
- Auditor conclusion on the appropriateness of management's use of the going concern assumption in preparing the financial statements and an explicit statement as to whether material uncertainties in relation to going concern have been identified.
- Auditor statement as to whether any material inconsistencies between the audited financial statements and other information have been identified based on the auditor's reading of other information, and specific identification of the information considered by the auditor.
- Prominent placement of the auditor's opinion and other entity-specific information in the auditor's report.
- Further suggestions to provide clarity and transparency about audits performed in accordance with ISAs.

The ITC is open for public comment through October 8, 2012. Taking into account the feedback from the ITC, the IAASB intends to develop an exposure draft of revised auditing standards for approval in June 2013.

The full text of the ITC is available on:
http://www.ifac.org/publications-resources/improving-auditor-s-report

Audit Quality Consultations

A new initiative from the Canadian Public Accountability Board (CPAB) and CICA, entitled Enhancing Audit Quality (EAQ) has been introduced in June 2012. This project, which focuses on the role of the audit committee, auditor reporting and auditor independence, will result in issuance of discussion papers for comment. This initiative is aimed at providing a Canadian perspective to the international discussion on audit quality. It is expected that this process will be completed in 2013.

For more information, go to:
http://www.cica.ca/enhancing-audit-quality-canadian-perspective/media-centre/item65304.aspx

Reporting Implications of New Auditing and Accounting Standards

8th issue of this report was issued in May 2012. Among other changes, a new illustrative report relating to Pension Fund financial statements has been added to the guide. This example deals with the format of the report for the Pension Fund Financial Statements filed with a regulator after transition to new financial reporting framework.

The latest issue of this guide is available on:
http://www.frascanada.ca/canadian-auditing-standards/resources/reference-material/item50999.pdf

3. REGULATORY

CSA Staff Notice 51-337 - Continuous Disclosure Review Program Activities for the fiscal year ended March 31, 2012

Reproduced from the CSA Notice issued on July 19, 2012.

The CSA's continuous disclosure (CD) review program is designed to identify material disclosure deficiencies that affect the reliability and accuracy of an issuer's disclosure record, and has two fundamental objectives: education and compliance.

CD review program in 2012 focused on issuers' first IFRS interim financial reports. Results were generally positive. Approximately 5% of issuers were required to re-file financial statements due to basic transition issues. In fiscal 2012, 56% of review outcomes required issuers to take action to improve disclosure, compared to 70% in fiscal 2011.

The staff notices details specific deficiencies identified in issue-oriented reviews and full reviews and provides example of both insufficient disclosure and appropriate disclosure.

The CSA notice also outlines areas of focus for fiscal 2013 review, which will be on first annual IFRS report, with greater attention given to judgments and sources of estimation uncertainty disclosure, asset impairments and business combinations.

Full text of CSA notice can be found on each CSA member website:
Alberta
http://www.albertasecurities.com/securitiesLaw/Pages/ViewDocument.aspx?ProjectId=585e9586-ee87-40cb-8c77-d78341be4b41
Ontario
http://www.osc.gov.on.ca/documents/en/Securities-Category5/csa_20120719_51-337_cd-review-fiscal2012.pdf

New Multilateral Instrument 51-105 Issuers Quoted in the U.S. Over-the-Counter Markets

Reproduced from the CSA Notice issued on May 10, 2012.

Multilateral Instrument 51-105 Issuers Quoted in the U.S. Over-the-Counter Markets designates as reporting issuers in the local jurisdiction, any issuer whose securities are quoted only on a US OTC market and that have a significant connection to that local jurisdiction.

The OTC Rule (the new Multilateral Instrument 51-105 and related forms and Companion Policy) and the consequential changes are initiatives of all CSA members except Ontario. Provided all necessary ministerial approvals are obtained, the OTC Rule is coming into force on July 31, 2012.

Purpose of the OTC Rule is to improve disclosure by issuers with a significant connection to a Canadian jurisdiction whose securities are quoted in the U.S. over-the-counter markets and to discourage the manufacture and sale in a Canadian jurisdiction of U.S. over-the-counter quoted shell companies that can be used for abusive purposes

The OTC Rule applies to any OTC issuer that has a significant connection to a local Canadian jurisdiction.

Under the OTC Rule, an OTC issuer is an issuer whose securities are quoted on any U.S. over-the-counter markets unless the issuer is also listed or quoted on the TSX Venture Exchange, The Toronto Stock Exchange, the Canadian National Stock Exchange, the New York Stock Exchange, the NYSE Amex Equities, or the NASDAQ Stock Market. An OTC reporting issuer also includes an issuer if trades in its securities are reported in the grey market.

Under the OTC Rule, an OTC issuer has a significant connection to a Canadian jurisdiction if

1. it is directed or administered or promotional activities are conducted in or from the jurisdiction, in whole or in part, or
2. it distributed securities in a Canadian jurisdiction prior to obtaining a ticker-symbol for the purpose of having its securities quoted on an over-the-counter market in the U.S. and those securities became the issuer's OTC–quoted securities.

Under the OTC rule, OTC reporting issuers must:

- meet the same periodic disclosure requirements imposed on other domestic reporting issuers under National Instrument 51-102 Continuous Disclosure Obligations, including an annual information form (AIF), management's discussion and analysis (MD&A), and audited financial statements
- comply with Canadian timely disclosure requirements
- file their public disclosure on SEDAR

Other than the requirement to file an AIF, OTC reporting issuers would be treated as venture issuers, as defined in National Instrument 51-102 Continuous Disclosure Obligations.

Subsequent to the issuance of the Multilateral Instrument 51-105, the securities commissions of British Columbia, Alberta, Quebec and Nova Scotia have issued blanket orders exempting certain issuers from the application of this instrument. Full text of the Alberta blanket order can be found on:
http://www.albertasecurities.com/securitiesLaw/Pages/BlanketOrders.aspx

Full text of CSA notice can be found on:
http://www.albertasecurities.com/securitiesLaw/Pages/InstrumentsPolicies.aspx

4. PRACTICE NOTES, PUBLICATIONS

RECENT COLLINS BARROW PUBLICATIONS

NPO Alert – Summer – 2012

- Not-For-Profit Tax Audit
- Maintaining Charitable Status
- Changes to the Donation Tax Credit may be on the Horizon
- Impact of New International Standards on Auditing Small Entities

Collins Barrow publications can be found on: http://www.collinsbarrow.com/news.asp

OTHER

Canada Not-for-profit Corporations Act (CNCA)

Collins Barrow NPO Alert – 2011 – Winter discussed the changing landscape for charities and other not-for-profit organization with the introduction of the Canada Not-For-Profit Corporations Act (CNCA) to replace Part II of the Canada Corporations Act (CCA). Since its publication, CNCA has come into force effective October 17, 2011. As a result of this, every non-profit corporation currently governed by Part II of the CCA will have until October 17, 2014 to formally make the transition to the CNCA. In order to be governed by the CNCA, a corporation will have to apply for a certificate of continuance within this three year transition period. There will be no government fee for the filing of articles of continuance if they are filed within the prescribed three years. If a corporation does not complete the transition within the three year transition period, the corporation will be dissolved. If a corporation is dissolved for failure to file the transition articles, it will be eligible for revival under the CNCA subject to a prescribed fee.

In order to comply with the CNCA, each federal not-for-profit corporation will need to review its letters patent and revise them as additional information will be required to be included in them. Furthermore, the by-law requirements under the CNCA will be different than the requirements under the CCA and current government policy so each corporation will be required to conduct a by-law review and amend its by-laws accordingly. Corporations and their directors should be proactive in taking the necessary steps to comply with the new legislation.

The assurance requirements for these corporations are different under the CNCA compared to the former Act, and can be summarized as follows:

> Under the CNCA, it is necessary to determine whether the corporation is a soliciting corporation. Section 2(5.1) generally defines a corporation to be a soliciting corporation if it received income in excess of the prescribed amount ($10,000) over three years in the form of donations and grants and other financial assistance from government or government agencies.
>
> Soliciting corporations with gross annual revenues above $250,000 are required to have an audit engagement. Where gross annual revenues are between $50,000 and $250,000, the default is that the corporation is required to have an audit engagement. However, members can elect to have a review engagement. Where gross annual revenue is less than $50,000, the default is that the corporation is required to have a review engagement. However, members can elect to have an audit engagement or unanimously consent to not appointing a public accountant.
>
> Non-soliciting corporations with gross annual revenues above $1,000,000 are required to have an audit. Where gross annual revenue is less than $1,000,000, the default is that the corporation is required to have a review engagement. However, members can elect to have an audit engagement or unanimously consent to not appointing a public accountant.

The CNCA can be accessed through the following link:
http://laws-lois.justice.gc.ca/eng/acts/C-7.75/index.html

Provincial regulations may be changing as well. Firms and clients will need to monitor those changes, if and when they occur, to determine the impact on affected entities.

In Ontario, for instance, Ontario Not-for-Profit Corporations Act (ONCA) is targeted to come into force on January 1st, 2013. Once in force, ONCA will automatically apply to every corporation without share capital incorporated under an Act of the Ontario Legislature, including the current Corporations Act (CA).

The ONCA can be accessed through the following link:
http://www.e-laws.gov.on.ca/navigation?file=browseStatutes&reset=yes&menu=browse&lang=en