April 2013

Technical Bulletin

Collins Barrow

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This technical bulletin covers the various developments from January to March 2013.

Acknowledgement: The content of the Technical Bulletin has been summarized or reproduced from the CICA, IASB, IAASB, IFRIC, AcSB, PSAB, AASB, CSA press releases, updates, publications, meeting summaries and other publications referenced within the bulletin.

Summary of acronyms used in this bulletin is included at the end.

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1. ACCOUNTING

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Pronouncement effective for annual periods beginning on or after July 1, 2012

IAS 1 Presentation of Financial Statements
This standard was amended to require companies to group items presented within Other Comprehensive Income based on whether they may be subsequently reclassified to profit or loss. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged.

Pronouncements effective for annual periods beginning on or after January 1, 2013

I*FRS 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.

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 11 replaces IAS 31 Interest in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers.

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 - 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 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.

IAS 27 Separate Financial Statements
Amended standard incorporates requirements regarding separate financial statements, previously in IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures. In addition, requirements relating to consolidated financial statements have been removed and included in the new standard IFRS 10 Consolidated Financial Statements.

IAS 28 Investments in Associates and Joint Ventures
Amended standard incorporates accounting for joint ventures, as the equity method is now applicable to both joint ventures and associates.

Annual Improvements 2009-2011 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.

IFRS 1 First-time Adoption of International Financial Reporting Standards	guidance added to permit the repeat application of IFRS 1 and clarification added on the borrowing costs exemption relating to costs capitalized on qualifying assets before the transition to IFRSs
IAS 1 Presentation of Financial Statements	requirements for providing comparative information in financial statements are clarified
IAS 16 Property, Plant and Equipment	classification requirement for servicing equipment clarified
IAS 32 Financial Instruments: Presentation	income tax consequences of distributions to holders of an equity instrument and of transaction costs of an equity transaction clarified
IAS 34 Interim Financial Reporting	requirements on segment information for total assets and liabilities for each reportable segment clarified

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.

Pronouncements 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 - fiscal years beginning on or after January 1, 2014.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
Amendment to IFRS 10 introduces an exception for investment entities to the principle that all subsidiaries are consolidated. Amendments define investment entities and require them to measure subsidiaries at fair value through profit or loss. In addition, IFRS 12 has been amended to include disclosure requirements for investment entities. IAS 27 has been amended to require investment entities to measure investments in subsidiaries at fair value through profit or loss when separate financial statements are presented.

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.

Pronouncements effective for annual periods beginning on or after January 1, 2015

Entities with rate-regulated activities
Mandatory date for first-time adoption of IFRS by entities with rate-regulated activities - fiscal years 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 Exposure Drafts

Defined Benefit Plans: Employee Contributions (Proposed amendments to IAS 19)

This ED, published by the IASB in March 2013, addresses the accounting for contributions from employees or third parties when the requirement for such contributions is set out in the formal terms of a defined benefit plan. It proposes that such contributions may be recognised as a reduction in the service cost in the same period in which they are payable if, and only if, they are linked solely to the employee's service rendered in that period. An example would be contributions that are a fixed percentage of an employee's salary, so the percentage of the employee's salary does not depend on the employee's number of years of service to the employer. Comment period ends on July 25, 2013.

Financial Instruments: Expected Credit Losses

The objective of this ED, published by the IASB in March 2013, is to provide users of financial statements with more useful information about the expected credit losses on financial assets and on commitments to extend credit. The main proposals would require an entity to recognise expected credit losses on financial assets and on commitments to extend credit, using current estimates of expected shortfalls in cash flows on those financial instruments as at the reporting date. The entity would recognise those expected credit losses as a loss allowance (for financial assets) or as a provision (for commitments to extend credit). Under the proposals, recognition of credit losses would no longer be dependent on the entity first identifying a credit loss event. In addition, the range of information that an entity must consider when assessing credit risk and measuring expected credit losses would be broader. Comment period ends on July 5, 2013.

Novation of Derivatives and Continuation of Hedge Accounting (Proposed amendments to IAS 39 and IFRS 9)

This ED, published by the IASB in February 2013, proposes to require an entity to continue hedge accounting in a circumstance in which a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. The proposals introduce an exception to the requirements for the discontinuation of hedge accounting in IAS 39. The IASB proposes that the requirements for the discontinuation of hedge accounting in IAS 39 would not apply to the hedging instrument, if specific conditions are met. Equivalent requirements are proposed to be included in the forthcoming hedge accounting chapter in IFRS 9 Financial Instruments. Comment period ended on April 2, 2013.

Recoverable Amount Disclosures for Non-Financial Assets (Proposed Amendments to IAS 36)

This ED, published by the IASB in January 2013, proposes to modify certain disclosure requirements in IAS 36, which were introduced by IFRS 13. The amendments will better represent the IASB's intentions with respect to disclosures about the recoverable amount of impaired assets, particularly if that amount is based on fair value less costs of disposal, which currently are more broadly applicable than originally intended by the IASB. In particular, the IASB had originally intended that the amendment would require an entity to disclose the recoverable amount of an asset (including goodwill) for which an impairment loss was recognised or reversed during the reporting period. Comment period ended on March 19, 2013.

Rate Regulation

The IASB issued a Request for Information in March 2013 relating to the re-activation of the Rate-regulated Activities project. The objective of the Request for Information is to identify a range of rate regulatory schemes to help determine the scope of the research project.

The original Rate-regulated Activities project was suspended in September 2010 but has now restarted. The Request for Information asks specific questions about the objectives of rate regulation and how those objectives are reflected in the rate-setting mechanisms employed by rate regulators. The fact patterns identified through this Request for Information and other research will be used to develop a Discussion Paper that will analyse the common features of rate regulation. The aim of the Discussion Paper is to identify what information about the consequences of rate regulation would be most useful for users of IFRS financial statements and whether the IASB should develop specific guidance for accounting for those consequences. Comment period ends on May 30, 2013.

The IASB expects to issue in the second quarter of 2013 an Exposure Draft for interim Standard that will permit some 'grandfathering' of existing recognition and measurement policies for rate regulated activities.

Reverse Take-Overs and IFRS

(IFRS 3 Business Combinations and IFRS 2 Share-based Payment — accounting for reverse acquisitions that do not constitute a business)

January's issue of the Technical Bulletin included the tentative decision reached by the Interpretations Committee with respect to the above matter, to be reconsidered at the next meeting.

Interpretations Committee met in March 2013 and addressed this matter again.

The Interpretations Committee received requests for guidance on how to account for transactions in which the former shareholders of a non-listed operating entity become the majority shareholders of the combined entity by exchanging their shares for new shares of a listed non-operating entity. However, the transaction is structured such that the listed non-operating entity acquires the entire share capital of the non-listed operating entity.

In the absence of a Standard that specifically applies to this transaction the Interpretations Committee observed that the analysed transaction has some features of a reverse acquisition under IFRS 3 because the former shareholders of the legal subsidiary obtain control of the legal parent. Consequently, it is appropriate to apply by analogy, in accordance with paragraphs 10–12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the guidance in paragraphs B19–B27 of IFRS 3 for reverse acquisitions. Application of the reverse acquisitions guidance by analogy results in the non-listed operating entity being identified as the accounting acquirer, and the listed non-operating entity being identified as the accounting acquiree. The Interpretations Committee noted that in applying the reverse acquisition guidance in paragraph B20 of IFRS 3 by analogy, the accounting acquirer is deemed to have issued shares to obtain control of the acquiree.

If the listed non-operating entity qualifies as a business on the basis of the guidance in paragraph B7 of IFRS 3, IFRS 3 would be applicable to the transaction. However, if the listed non-operating entity is not a business, the transaction is not a business combinations and is therefore not within the scope of IFRS 3. Because the analysed transaction is not within the scope of IFRS 3, the Interpretations Committee noted that it is therefore a share-based payment transaction which should be accounted for in accordance with IFRS 2.

The Interpretations Committee observed that on the basis of the guidance in paragraph 13A of IFRS 2, any difference in the fair value of the shares deemed to have been issued by the accounting acquirer and the fair value of the accounting acquiree's identifiable net assets represents a service received by the accounting acquirer. The Interpretations Committee concluded that, regardless of the level of monetary or non-monetary assets owned by the non-listed operating entity, the entire difference should be considered to be payment for a service of a stock exchange listing for its shares, and that no amount should be considered a cost of raising capital. The Interpretations Committee observed that the service received in the form of a stock exchange listing does not meet the definition of an intangible asset because it is not "identifiable" in accordance with paragraph 12 of IAS 38 Intangible Assets (i.e. it is not separable). The service received also does not meet the definition of an asset that should be recognised in accordance with other Standards and the Conceptual Framework.

The Interpretations Committee also observed that on the basis of the guidance in paragraph 8 of IFRS 2 which states that "when the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they shall be recognised as expenses", the cost of the service received is recognised as an expense.

On the basis of the analysis above, the Interpretations Committee determined that, in the light of the existing IFRS requirements, neither an interpretation nor an amendment to Standards was necessary

CICA Reporting Alerts

CICA issues 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:

Issue 001; November 2011	To consolidate, or not to consolidate, that is the question (IFRS 10)
Issue 002; June 2012	Joint ventures redefined (IFRS 11)

Issue 003; June 2012	Helping users understand your interest in other entities (IFRS 12)
Issue 004; June 2012	One-stop shopping for fair value measurement (what is fair value and how is it calculated) (IFRS 13)
Issue 005; June 2012	IFRIC 20: Accounting for stripping costs in the production phase of a surface mine
Issue 006; June 2012	Round-up alert – high level summary of amendments and new standards for which a separate alert has not been prepared
Issue 007; July 2012	Easier than you may have feared – Amendments to IFRS 10, IFRS 11 and IFRS 12
Issue 008; August 2012	Annual Improvements Alert – addresses the following topics: • Starting again for the first time (IFRS 1) • Clarification on capitalization (IFRS 1) • Controlling the comparatives (IAS 1) • Sparing us the spare parts (IAS 16) • Now a less taxing read (IAS 32) • Aligning with the annuals (IAS 34)
Issue 009; March 2013	Third statement of financial position - when a new standard is adopted requiring retrospective application (e.g. IFRS 11 Joint Arrangements)

These Alerts are accessible on:

http://www.cica.ca/focus-on-practice-areas/reporting-and-capital-markets/ifrs-reporting-alerts-and-resources/index.aspx

Teaching Materials

As part of its Education Initiative, IFRS Foundation will be publishing free-to-download Framework-based teaching materials. Materials that have recently been made available by the IFRS Foundation cover property, plant and equipment and other non-financial assets. The following topics will be covered by future issues: liabilities, business combinations and consolidations. Other topics will follow.

To access the materials, go to:

http://www.ifrs.org/Alerts/Publication/Pages/IFRS-Foundation-publishes-free-teaching-material.aspx

Your Questions Answered

CICA held webinars in January 2013 on IFRS 10, IFRS 11 and IFRS 13. Participants at the webinars could submit their questions during the sessions and have them answered by the presenters. This publication comprises responses to some of the unanswered questions posed by the participants. Practitioners may find this publication useful as the questions posed deal with practical aspects of the application of the new standards. To access this publication, go to:

http://www.cica.ca/focus-on-practice-areas/reporting-and-capital-markets/ifrs-reporting-alerts-and-resources/item73274.pdf

Disclosure Overload?

As noted in our November Technical Bulletin, IASB hosted a public Disclosure Forum in January 2013 on the topic of disclosure overload. The forum is intended to foster dialogue between the IASB, preparers, auditors, regulators and users of financial statements on how to improve the usefulness and clarity of financial disclosures.

Ahead of the Forum, the IASB conducted a survey aimed at identifying various factors that contribute to the disclosure problem. Highlights of the survey are as follows:

- Over 80 per cent of respondents agreed that improvements could be made to the way financial information is disclosed. Half of those respondents felt that such improvements were required across all parts of the annual report, and not just the financial statements.
- Most preparers of financial statements identified the primary problem as disclosure requirements being too extensive with not enough being done to exclude immaterial information—which has been referred to as disclosure overload.
- Many users of financial statements felt that preparers could do more to improve the communication of relevant information within the financial statements, rather than leaving users to sift through large amounts of data.
- A range of views on the underlying causes of the problem was identified. Some respondents felt that more could be done to improve the way in which accounting standards are set out. Others

expressed concerns that preparers, auditors and regulators are approaching financial reporting as an exercise in compliance rather than as a means of communication.

Full news release on the survey is available on:

http://www.ifrs.org/Alerts/PressRelease/Documents/2013/PR-Disclosure-Forum-January-2013.pdf

Accounting Standards Advisory Forum

The proposal for creation of the Accounting Standards Advisory Forum (ASAF) was published for comment in November 2012, aimed at formalizing the relationship between National Standard-Setters (NSS) and other regional bodies and IASB and how the IASB can better engage with them on a collective basis. The aim of the proposal was that the relationship will be based on productive discussions on technical issues that will contribute to the technical work of the IASB.

In February 2013, the IASB issued a feedback statement, summarizing the comments received, indicating support for the establishment of the ASAF. The ASAF will serve as a technical advisory body to the IASB and will consist of various members of the global accounting standard-setting community, with inaugural members announced in March 2013. For further information on the membership, refer to:

http://www.ifrs.org/Alerts/Governance/Pages/Trustees-announce-membership-of-ASAF-March-2013.aspx

ACCOUNTING STANDARDS FOR PRIVATE ENTERPRISES

Pronouncements effective for annual periods beginning on or after January 1, 2013

2012 Annual Improvements

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.

Income Statement, Section 1520	inconsistencies between Section 1520 and other standards in Part II of the Handbook are eliminated
Business Combinations, Section 1582	cost of issuing debt securities are to be recognized in accordance with Section 3856
Subsidiaries, Section 1590	acquisition costs for subsidiaries accounted for using the cost or equity methods are to be expensed, except for costs to issue debt or equity securities
	contingent consideration is to be measured at fair value at the date of acquisition and accounted for as part of the investment in the subsidiary
Foreign Currency Translation, Section 1651	inconsistency with Section 1602 is eliminated
	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 is clarified
Investments, Section 3051	gains and losses resulting from the dilution of an entity's interest in an investee accounted for using the equity method are required 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

Recent Exposure Draft

2013 Annual Improvements

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.

Business Combinations, Section 1582	clarification that contingent consideration is remeasured when the contingency is resolved
	amendment to require that certain of the existing disclosures are only applicable if the subsidiary is consolidated
Subsidiaries, Section 1590	clarification that the accounting for a change in ownership should be based on the accounting policy used to account for the subsidiary

Non-controlling Interests, Section 1602	clarification that an entity does not deduct non-controlling interests in determining net income
	clarification on allocation of exchange gains and losses arising from translation of a self-sustaining foreign operation that are attributable to the non-controlling interest
Financial Instruments, Section 3856	clarification that a financial instrument that would only be redeemed by economic compulsion rather than any contractual requirement would not be classified as a financial liability
	correction of an oversight that currently results in hedge accounting requirements not achieving the intended result when an anticipated transaction is hedged by a foreign exchange forward contract that settles by an exchange of currencies before the hedged transaction is recognized

This ED was issued by the AcSB in March 2013. Comments period ends on June 1, 2013. The AcSB expects to issue final amendments in the fourth quarter of 2013, with amendments effective for years beginning on or after January 1, 2014, with earlier application permitted.

PUBLIC SECTOR ACCOUNTING

Pronouncement effective for fiscal years beginning on or after March 1, 2013

PS 3450 Financial Instruments
Amendment to the standard clarifies requirements relating to externally restricted assets that are financial instruments.

Recent Exposure Drafts

PS 2125 First-time Adoption by Government Organizations
This ED, issued by the PSAB in January 2013, proposes to clarify the transitional requirements when government organizations adopt new standards in the same period they transition to public sector accounting standards. Comment period ended on February 22, 2013.

Introduction to Public Sector Accounting Standards
This ED, issued by the PSAB in February 2013, proposes to amend the Introduction to Public Sector Accounting Standards under phase 1 of the PSA Handbook Terminology project. The definitions proposed in the document will help distinguish between government organizations and entities that are component parts of a government. It also includes proposed guidance on which accounting standards these entities and government partnerships should follow to prepare their general purpose financial statements. Comment period ends on May 3, 2013.

Restructurings

PSAB issued for comment in February 2013 a statement of principles on restructurings that addresses accounting and reporting of a wide range of restructuring activities among entities not under common or joint control. Comment period ends on May 17, 2013.

2. ASSURANCE

Pronouncements 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.

In February 2013, the AASB approved changes to CAS 610. These changes deal with the auditor's use of direct assistance from internal auditors and mirror the changes made by the IAASB in finalizing ISA 610.

Pronouncement effective for assurance reports covering periods ending on or after September 30, 2013

CSAE 3410 – Assurance Engagements on Greenhouse Gas Statements

This new standard deals with assurance engagements to report on an entity's greenhouse gas statement, and was adopted from the ISAE 3410 issued by the IAASB.

Pronouncements effective April 1, 2013

Section 7150 - Auditor's Consent to the Use of a Report of the Auditor Included in an Offering Document

Section 7150 replaces sections 7110 and 7115, and AuG-30. Section 7150 sets out the auditor's responsibilities when a subsequent event is identified in circumstances when the audited financial statements were prepared in accordance with a financial reporting framework that does not allow dual dating. In addition, the new standard requires only one consent letter to be provided by auditors in connection with certain offering documents filed with a Canadian securities regulator. The new standard also sets out new wording for the auditor's consent.

Section 7200 – Auditor Assistance to Underwriters and Others

Amendments issued to provide guidance to the auditor when responding to inquiries from underwriters regarding the auditor's consent letter addressed to Canadian securities regulators.

Section 7500 – Auditor's Consent to the Use of the Auditor's Report in Connection with Designated Documents

Amendments issued to eliminate material related to offering documents.

Recent Exposure Draft

Independence Standards

This ED was prepared by the Independence Task Force (ITF) of the Public Trust Committee of the CICA in February 2013, with comments requested by May 31, 2013.

The CA profession is a member of International Federation of Accountants (IFAC), and as such, the Rules of Professional Conduct adopted by the Provincial Institutes should be not less stringent than the requirements included in the Code of Ethics for Professional Accountants (the "Code") issued by the International Ethics Standards Board for Accountants (IESBA) unless in respect of a particular provision it is prohibited by law or regulation or it is determined not to be in the public interest. This ED is a result of the Task Force's review of the existing Rules of Professional Conduct to determine what changes were needed to conform to the Code issued by the IESBA where the Code is considered to be more rigorous, amended as appropriate to address Canadian circumstances.

One of the more significant changes proposed by the ITF is to eliminate the reporting issuer threshold currently in place which allows for the more restrictive independence requirements to be applied only to audits of reporting issuers with either market capitalization or total assets in excess of $10 million.

The ED proposes eliminating this threshold exemption for fiscal years commencing after December 15, 2018, which would provide an appropriate period of time for entities to obtain alternative service providers for such services as accounting and tax assistance, if required. During the transitional period, the proposals would require the firm to inform the audit committee of the entity of any relationships and conditions that exist that would not be permitted if the more stringent non-threshold independence requirements were to apply.

The full text of the ED and an overview of the more significant changes are available on:

http://www.cica.ca/about-cica-and-the-profession/protecting-the-public-interest/independence-requirements/item73008.pdf

For all proposed changes, refer to the true mark-up of existing Rules and Council Interpretations, available on:

http://www.cica.ca/about-cica-and-the-profession/protecting-the-public-interest/independence-requirements/item72895.pdf

and

http://www.cica.ca/about-cica-and-the-profession/protecting-the-public-interest/independence-requirements/item73325.pdf

A Framework for Audit Quality

The IAASB issued a consultation paper "A Framework for Audit Quality" in January 2013. The objectives of the framework are to:

- Raise awareness of the key elements of audit quality,
- Encourage key stakeholders to explore ways to improve audit quality and
- Facilitate greater dialogue between key stakeholders on the topic.

The framework identifies factors that the IAASB believes to be the key contributors to quality audits:

- Inputs (values, ethics, attitudes, knowledge, experience and time and audit process and quality control procedures),
- Output from the auditor, the audit firm, the entity and audit regulators,
- Interactions between auditors, management, those charged with governance, users and regulators, and
- Contextual factors, such as regulatory environment, business practices, applicable financial reporting framework, corporate governance, financial reporting timetable and cultural factors.

The IAASB has issued this framework with the aim that it will generate discussion, and positive actions to achieve a continual improvement to audit quality. The consultation paper also discusses a number of areas for consideration by both auditors and other participants identified by the IAASB that may benefit audit quality on a global basis.

For the complete text of the consultation paper, refer to:

http://www.ifac.org/sites/default/files/publications/files/A%20Framework%20for%20Audit%20Quality.pdf

Enhancing Audit Quality

The initiative from the Canadian Public Accountability Board (CPAB) and CICA, entitled Enhancing Audit Quality (EAQ), was introduced in June 2012. 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. Three committees have been set up, focusing on:

- The role of the audit committee
- Auditor reporting
- Auditor independence

Discussion papers on auditor reporting and auditor independence have been issued in the fall of 2012 and were summarized in the November 2012 Technical Bulletin.

Discussion paper on the role of the audit committees, titled "The Role of the Audit Committee in External Auditor Oversight" was issued in January 2013. This discussion paper addresses the following items:

- Discussion on best practices for audit committees in fulfilling their duties and proposal on augmented activities to further contribute to enhanced audit quality, for example: reviewing the audit plan and monitoring its execution, reviewing and evaluating audit findings and conducting an annual assessment of the auditors' performance.
- Proposal for comprehensive review of audit firms (detailed in the "Enhancing Audit Quality: Canadian Perspectives – Auditor Independence") introduces new procedures and an increased mandate for audit committees in auditor oversight. The comprehensive review is recommended in addition to the audit committees' annual assessment of the external audit undertaken in accordance with current regulations. This review will provide audit committees with information not included in current assessment activities, as information and analysis of trends over a five year period, as suggested by the working group, can provide a different picture from the results of an annual assessment.
- Communication of components of CPAB inspection findings to the audit committees as part of the comprehensive review.
- Public reporting by the audit committees on their comprehensive reviews, including the process undertaken and conclusions reached.

For more information on the 'Enhancing Audit Quality' project and full text of the discussion papers, go to:
http://www.cica.ca/enhancing-audit-quality-canadian-perspective/item64401.aspx

Engagement Quality Control Reviews: Practical Considerations

This Information Paper was issued by the Transnational Auditors Committee (TAC), a committee of the International Federation of Accountants (IFAC) and Forum of Firms.

IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies.

Forum of Firms is an association of international networks of accounting firms that perform transnational audits.

The paper provides general considerations in applying the relevant requirements set out by ISQC 1 and ISA 220 (in Canada - CSQC 1 – Canadian Standard on Quality Control and CAS 220 – Quality Control for an Audit of Financial Statements).

The TAC believes this paper will be a valuable tool for audit firms of all sizes in developing, enhancing and evolving their policies on EQCR and contributing to their own processes of continuous improvement - thereby, further demonstrating their ongoing commitment to enhancing audit quality.

For complete text of the information paper, refer to:

http://www.ifac.org/sites/default/files/publications/files/TAC-FoF-Engagement-Quality-Control-Reviews-Information-Paper.pdf

Auditing and Assurance Standards Practice Notes

Auditing and assurance practice notes issued by the AASB may include:

- Canadian Auditing Practice Notes (CAPNs);
- Canadian Review Engagement Practice Notes (CREPNs);
- Canadian Assurance Engagement Practice Notes (CAEPNs); and
- Canadian Related Services Practice Notes (CRSPNs).

Practice Notes are non-authoritative material. They are not part of the Canadian Standards on Quality Control, Canadian Auditing Standards, or Other Canadian Standards issued by the Auditing and Assurance Standards Board in the CICA Handbook – Assurance. Practice Notes do not impose additional requirements on practitioners beyond those included in the standards, nor do they change the practitioner's responsibility to comply with all standards relevant to an audit, assurance or related services engagement.

Practice Notes provide practical assistance to practitioners, and may be of use to firms in developing their training programs and internal guidance. For example, depending on the nature of the topic(s) covered, a CAPN may assist a financial statement auditor in:

- obtaining an understanding of the circumstances of the entity, and in making judgments about the identification and assessment of risks of material misstatement;
- making judgments about how to respond to assessed risks, including selection of procedures that may be appropriate in the circumstances; or
- addressing reporting considerations, including forming an opinion on the financial statements and communicating with those charged with governance.

Special Considerations in Auditing Financial Instruments – CAPN 1000

This CAPN was issued by the AASB in January 2013 to supplement CAS 540.

The purpose of this CAPN is to provide:

- Background information about financial instruments, and
- Discussion of audit considerations relating to financial instruments.

Financial instruments may be used by financial and non-financial entities of all sizes for a variety of purposes. Some entities have large holdings and transaction volumes while other entities may only engage in a few financial instrument transactions. Some entities may take positions in financial instruments to assume and benefit from risk while other entities may use financial instruments to reduce certain risks by hedging or managing exposures.

This CAPN is relevant to entities of all sizes, as all entities may be subject to risks of material misstatement when using financial instruments.

The guidance on valuation in this CAPN is likely to be more relevant for financial instruments measured or disclosed at fair value, while the guidance on areas other than valuation applies equally to financial instruments either measured at fair value or amortized cost. This CAPN is also applicable to both financial assets and financial liabilities.

For complete text of this CAPN, refer to:

http://www.frascanada.ca/canadian-auditing-standards/resources/practice-notes/item71518.pdf

3. REGULATORY

Amendments to Prospectus Rules

The CSA issued amendments to NI 41-101 - General Prospectus Requirements and related changes in February 2013. The CSA are amending the prospectus rules and their related companion policies to address user feedback and the CSA's experience with the prospectus rules since their implementation in March 2008.

The amendments are intended to:

- clarify certain provisions of the prospectus rules;
- address gaps in the prospectus rules;
- modify certain requirements in the prospectus rules to enhance their effectiveness;
- remove or streamline certain requirements in the prospectus rules that are burdensome for issuers and of limited utility for investors; and
- codify prospectus relief that has been granted in the past.

Amendments will be effective May 14, 2013. For further details, refer to:

http://www.securities-administrators.ca/aboutcsa.aspx?id=1122

Multilateral CSA Staff Notice 51-338

The CSA staff notice issued in March 2013 relates to all jurisdictions other than Alberta and British Columbia. The notice provides information about continuous disclosure and prospectus requirements applicable to documents that are schedules or exhibits to, or incorporated by reference in, disclosure documents prepared in accordance with the United States Securities and Exchange Act of 1934 and filed in Canada.

In particular, the definition of annual information form (AIF) in NI 51-102 allows SEC issuers to file as an AIF an annual report under the 1934 Act on Form 10-K or Form 20-F (a 1934 annual report). A 1934 annual report may contain various schedules and exhibits, as well as documents incorporated by reference, all of which form part of the 1934 annual report. The CSA staff noted that SEC issuers filing a 1934 annual report in Canada must include in their SEDAR filings all schedules and exhibits to, or documents incorporated by reference in, the 1934 annual report.

As well, Part 4 of NI 71-102 allows an SEC foreign issuer to satisfy certain continuous disclosure obligations under NI 51-102 by filing in Canada a copy of certain disclosure documents that it files with, or furnishes to, the SEC. The CSA staff noted that SEC foreign issuers filing a U.S. disclosure document in reliance on an exemption in Part 4 must include in their SEDAR filings all schedules and exhibits to, or documents incorporated by reference in, the U.S. disclosure document.

Other matters addressed in the staff notice relate to:

- Incorporation by reference requirements under short form prospectus rule,
- Filing schedules, exhibits and documents incorporated by reference on SEDAR,
- Consideration for exemptive relief, and
- French language requirements under Québec legislation.

For the complete text of the staff notice, refer to:

http://www.gov.ns.ca/nssc/CSANotices/csanotice51-338.pdf

Disclosure Requirements for Investment Costs and Performance

The CSA are implementing new requirements to ensure all investors receive essential information about the costs and performance of their investments. The new requirements apply to all firms registered to deal in securities or act as portfolio managers. The new requirements are set out in amendments to National

Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations (NI 31-103).

Research shows that many investors currently do not receive this vital information. Providing investors with clear and meaningful information about the costs and performance of their investments will enable them to assess their progress toward their investing goals and the value of professional advice they receive.

Investors can expect new cost disclosure that includes:

- at account opening, what product and service costs they can expect to pay;
- at the time of a transaction, the transaction cost and any deferred cost; and,
- annually, a summary in dollar terms of what they were charged and any other fees paid to the firm, such as trailing commissions and commissions on bond trades.

Investors can expect a new annual investment performance report that includes:

- how much they have contributed and what it is worth as of the report date;
- deposits and withdrawals for the past year and since their account was opened; and,
- percentage returns for their account over one, three, five and 10 years and since it was opened.

The amendments will take effect on July 15, 2013, to allow time for ministerial approvals that are required in some jurisdictions. They will then be phased-in over three years, so that firms can develop, test and implement the necessary systems, as well as compile the information they will need in order to generate the new reports to clients.

Further details can be found on:

http://www.securities-administrators.ca/aboutcsa.aspx?id=1136

Early Warning Reporting

The CSA published for comment in March 2013 proposed amendments and changes to the early warning reporting regime in Canada, including to Multilateral Instrument 62-104 Take-Over Bids and Issuer Bids, National Instrument 62-103 Early Warning System and Related Take-Over Bid and Insider Reporting Issues and National Policy 62-203 Take-Over Bids and Issuer Bids.

The purpose of early warning reporting is to allow the market to review and assess the potential impact of changes in the ownership of, or control or direction over, a reporting issuer's voting or equity securities.

The objective of the proposed amendments is to provide greater transparency about significant holdings of issuers' securities by:

- proposing an early warning reporting threshold of five per cent;
- requiring disclosure of both increases and decreases in ownership of two per cent or more of securities;
- proposing that a person include certain equity derivative positions in determining whether the threshold has been reached; and
- enhancing the content of the disclosure in the early warning news releases and reports required to be filed, with more specific disclosure about an acquiror's actual economic and voting interests in an issuer.

Comment period ends on June 12, 2013. For further details on the proposed amendments, refer to:

http://www.osc.gov.on.ca/documents/en/Securities-Category6/mi_20130313_62-104_take-over-bids.pdf

2012 Enforcement Report

CSA released its annual Enforcement Report in February 2013.

The CSA's 2012 Enforcement Report brings into focus the enforcement work done by CSA members against those who commit wrongdoing in Canada's capital markets. CSA members concluded cases against 322 individuals and companies. Concluded securities fraud cases involved 66 individuals and companies.

Key highlights of the 2012 Enforcement Report:

- 10 (seven per cent) of the concluded cases were in the fraud category and involved 33 individuals and 33 companies.

- 135 concluded cases involved a total of 206 individuals and 116 companies that resulted in:
    - Fines and administrative penalties of almost $37 million.
    - More than $120 million in restitution, compensation and disgorgement.
    - Jail sentences against seven individuals.
- Concluded matters against 185 respondents following a contested hearing, 74 respondents by settlement agreement and 63 respondents by court decision.
- 145 matters commenced against a total of 242 individuals and 146 companies.
- 56 interim orders and asset freeze orders were issued against 87 individuals and 77 companies.

The report came out in advance of Fraud Prevention Month in March, which highlights tools and resources Canadians can use to recognize and avoid investment fraud, and lets them know they can turn to securities regulators for help.

For the full text of the report, refer to:

http://er-ral.csa-acvm.ca/

Other Fraud Prevention Month publications are available on the CSA website:

http://www.securities-administrators.ca/

March 5, 2012 news release:

Securities regulators across the country stress that being an informed investor is the best defence against investment fraud. A simple first step in protecting yourself is checking the registration of any firm or individual selling securities or offering investment advice.

The CSA has provided investors with a tool, the National Registration Search, which is quick and easy to use. Registration is designed to help protect investors because Canadian securities regulators will only register firms and individuals that meet specific qualifications and standards.

National Registration Search is accessible through:

http://www.securities-administrators.ca/nrs/nrsearch.aspx?id=850

4. PRACTICE NOTES, PUBLICATIONS

Recent Collins Barrow Publications

NPO Alert – January 2013

- Not-For-Profit Corporations Act, 2010 Ontario (the Act)

Since the publication of this NPO alert, the Ontario government announced that the proclamation of the Act will be delayed. The Act is now targeted to come into effect no earlier than January 2014.

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

CPA Canada Update

CPA's first fiscal year began on April 1, 2013, when CICA and CMA Canada operations were transferred to the new national body.

The national CPA organization has been established effective January 1, 2013 and will support provincial bodies that have unified, and all those that will unify, under the CPA banner.

Refer to **http://cpacanada.ca/** for the latest national and provincial developments.

ACRONYMS USED

AASB – Auditing and Assurance Standards Board
AcSB – Accounting Standards Board
ASC – Alberta Securities Commission
IAASB – International Auditing and Assurance Standards Board
IASB – International Accounting Standards Board
IFRIC – International Financial Reporting Interpretations Committee
CICA – Canadian Institute of Chartered Accountants
CMA – Certified Management Accountants
CPA – Chartered Professional Accountants
CSA – Canadian Securities Administrators
NI – National Instrument
OSC – Ontario Securities Commission
PSAB – Public Sector Accounting Board
SEC – U.S. Securities and Exchange Commission