April 2014

Technical Bulletin

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Collins Barrow

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This technical bulletin covers the various developments from January to March 2014.

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

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1. ACCOUNTING

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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.

IAS 36 Impairment of Assets
The standard was amended to modify certain disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

IAS 39 Financial Instruments
The standard was amended to allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). Similar relief will be included in IFRS 9 Financial Instruments.

IFRIC 21 Levies
This new interpretation provides guidance on the accounting for levies imposed by governments. The Interpretation clarifies the obligating event that gives rise to a liability to pay a levy.

Pronouncements Effective for Annual Periods Beginning on or After July 1, 2014

IAS 19 Employee Benefits
Amendment to IAS 19 simplifies the accounting for contributions to defined benefit plans that are independent of the number of years of employee service.

Annual Improvements 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.

IFRS 2 Share-based Payments	Clarification of the definition of 'vesting conditions' by separately defining a 'performance condition' and a 'service condition'
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
IFRS 13 Fair Value Measurement	Clarification on guidance related to the measurement of short-term receivables and payables
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

Annual Improvements 2011-2013 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	Clarification that if a new IFRS is not yet mandatory but permits early application, that IFRS is permitted, but not required, to be applied in the entity's first IFRS financial statements
IFRS 3 Business Combinations	Modification to the scope exception for joint ventures to exclude the formation of all types of joint arrangements and clarification that the scope exception applies only to the financial statements of the joint arrangement itself
IFRS 13 Fair Value Measurement	Clarification that the portfolio exception applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32
IAS 40 Investment Property	Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

Pronouncement 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.

Pronouncement Effective for Annual Periods Beginning on or After January 1, 2016

IFRS 14 - Regulatory Deferral Accounts

This interim standard permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the Standard. Earlier application is permitted.

Pronouncement with Effective Date to Be Determined

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 also incorporates requirements for financial liabilities, most of which were carried forward unchanged from IAS 39. Certain changes were made to the fair value option for financial liabilities to address the issue of own credit risk.

As well, requirements related to Hedge Accounting, representing a new hedge accounting model, have been added to IFRS 9. The new model represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions.

As a result of these changes, users of the financial statements will be provided with better information about risk management and about the effect of hedge accounting on the financial statements.

IFRS 9 is available for application, however, previous mandatory effective date of January 1, 2015 has been removed as the IASB decided that this date would not allow sufficient time for entities to apply the new standard because the impairment phase of the IFRS 9 has not yet been completed. In February 2014, the IASB tentatively decided on the new mandatory effective date of January 1, 2018.

Recently Issued Documents for Comment

Amendments to IAS 1 Presentation of Financial Statements

The IASB is moving forward with its short-term project on materiality, based on the recommendations made at the Disclosure Forum it hosted in January 2013. The objective of the project is to help preparers, auditors and regulators use judgement when applying the concept of materiality in order to make financial reports more meaningful. The scope of the project is the application of materiality across the whole of the financial statements, however, the focus would be on applying the concept of materiality to the notes. The following areas are considered:

- the lack of understanding of what is meant by the concept 'materiality';
- the lack of clarity in applying the concept of materiality, in particular to disclosures in the notes to the financial statements; and
- how disclosure requirements are written, ie the use of unclear language used to describe disclosure objectives and other disclosure guidance in IFRS.

The IASB has issued this Exposure Draft in March 2014, proposing narrow-scope amendments to to address some of the concerns expressed about existing presentation and disclosure requirements and to ensure entities are able to use judgement when preparing their financial statements.

The proposed amendments:

- Clarify the materiality requirements in IAS 1, including an emphasis on the potentially detrimental effect of overwhelming useful information with immaterial information.
- Clarify that specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated.
- Add requirements for how an entity should present subtotals in the statement(s) of profit or loss and other comprehensive income and the statement of financial position.
- Clarify that entities have flexibility as to the order in which they present the notes, but also emphasize that understandability and comparability should be considered by an entity when deciding that order.
- Remove potentially unhelpful guidance in IAS 1 for identifying a significant accounting policy.

Comment period ends on July 23, 2014.

IFRS 3 – Post-implementation Review

Post-implementation Reviews are conducted by the IASB normally two years after the global application of a new Standard or a significant amendment to an existing Standard. The purpose of the review is to consider whether the new Standard is functioning as anticipated, has achieved its objectives and improved financial reporting.

Request for Information was issued by the IASB in January 2014. This post-implementation review aims to assess whether the information provided by IFRS 3 is useful to financial statement users, whether there are any implementation challenges that hinder consistent application of the requirements and whether the costs of preparing, auditing and enforcing the requirements have been in line with expectations. Comments period ends on May 30, 2014.

Current Status of Documents Previously Issued for Comment

Major Projects – Exposure Drafts

IFRS 9 Financial Instruments (replacement of IAS 39)	
Classification and Measurement: Limited Amendments to IFRS 9 (2010) (Proposed amendments to IFRS 9 (2010))	Comment period closed on March 28, 2013. Currently in deliberations. Amendments expected to be issued by the IASB in the Q2 of 2014 together with the completed version of IFRS 9. AcSB expects to issue final amendments in Handbook in Q3 of 2014.
Financial Instruments: Expected Credit Losses	Comment period closed on July 5, 2013. The new requirements are expected to be issued by the IASB in Q2 of 2014. AcSB expects to issue final amendments in Handbook in Q3 of 2014.
Insurance Contracts	Comment period closed on October 25, 2013. Currently in deliberations.
Leases	Comment period closed on September 13, 2013. Currently in deliberations.

Revenue Recognition	The final standard is expected to be issued by the IASB in Q2 of 2014. AcSB expects to issue final amendments in Handbook in Q3 of 2014.

Other Exposure Drafts

Equity Method: Share of Other Net Asset Changes (Proposed amendments to IAS 28: Investments in Associates and Joint Ventures)	Currently in deliberations. Amendments are expected to be issued by the IASB in Q2 of 2014. AcSB expects to issue final amendments in Handbook in Q3 of 2014. The effective date for the amendments will be January 1, 2016.
Clarification of Acceptable Methods of Depreciation and Amortization (Proposed amendments to IAS 16 and IAS 38)	Amendments are expected to be issued by the IASB in Q2 of 2014. AcSB expects to issue final amendments in Handbook in Q2 of 2014 as well. The effective date for the amendment is expected to be July 1, 2015.
Acquisition of an Interest in a Joint Operation (Proposed amendment to IFRS 11)	Amendment expected to be issued by the IASB in Q2 of 2014. AcSB expects to issue final amendments in Handbook in Q3 of 2014. The effective date for the amendment is expected to be January 1, 2016.
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed amendments to IFRS10 and IAS28)	Amendments are expected to be issued by the IASB in Q2 of 2014. AcSB expects to issue final amendments in Handbook in Q2 of 2014 as well. The effective date for the amendments is expected to be January 1, 2016.
Agriculture: Bearer Plants (Proposed amendments to IAS 41)	Comment period closed on October 28, 2013. Currently in deliberations.
Annual Improvements 2012-2014 Cycle	Comment period closed on March 13, 2014. Currently in deliberations. The amendments are expected to be effective for annual periods on or after January 1, 2016.
Equity Method in Separate Financial Statements (Proposed amendments to IAS 27 Separate Financial Statements)	Comment period closed on February 3, 2014. Currently in deliberations.

Other Documents

Put Options Written on Non-controlling Interests	Comment period for this draft interpretation closed on October 1, 2012. In light of comments received, the IASB decided to re-consider the requirements in IAS 32. Next steps are yet to be determined by the IASB.
Conceptual Framework	This Discussion Paper was published by the IASB in July 2013, as a first step towards issuing a revised Conceptual Framework. Comment period closed on January 14, 2014. Subsequently, an Exposure Draft will be developed by the IASB for a revised Conceptual Framework, expected to be published in Q4 of 2014.

Investment Entities

Accounting for a subsidiary that is both and investment entity and provides investment related services - further developments

The Investment Entity amendments introduced an exception to the consolidation requirement that an investment entity shall measure its investments in subsidiaries at fair value. There is an exception to the exception: if a subsidiary provides investment-related services, the investment entity shall not measure this subsidiary at fair value and the investment entity shall consolidate the subsidiary instead.

IFRS Interpretations Committee received a request to clarify the accounting in cases where an investment entity subsidiary meets the definition of an investment entity (which has investees measured at fair value) and, additionally, provides investment-related services. In such cases it is unclear whether the investment entity parent should measure that subsidiary at fair value or consolidate it.

As reported in the January 2014 edition of the Technical Bulletin, the IFRS Interpretations Committee discussed this issue and noted that it was not clear how to account for a subsidiary that is both an investment entity subsidiary and provides investment-related services.

The IASB discussed this issue at its March 2014 meeting and decided to continue to develop proposals to amend IFRS 10 to confirm that all investment entity subsidiaries should be measured at fair value through profit or loss.

Other proposed amendments to IFRS 10 and IAS 28

At its March 2014 meeting, the IASB also discussed the following proposed narrow-scope amendments:

The IASB tentatively decided to amend IFRS 10 to confirm that the exemption from preparing consolidated financial statements set out in paragraph 4(a) of IFRS 10 should be available to an intermediate parent entity that is a subsidiary of an investment entity but that is not an investment entity itself.

In addition, the IASB tentatively decided to amend IAS 28 so that, when applying the equity method:

- A non-investment entity that is party to a joint venture cannot retain the fair value accounting applied by that investment entity joint venture.
- A non-investment entity investor should, for cost-benefit reasons, retain the fair value accounting applied by an investment entity associate.

IFRIC 21 – what's included?

IFRS Discussion Group discussed the scope of IFRIC 21 Levies at its December 2013 meeting. While the focus of the discussion was on WSIB and property taxes, the group concluded that the scope of IFRIC 21 is potentially quite broad and that careful consideration of all types of payments imposed by governments is necessary. One approach is to consider what kind of payments are imposed on an entity by governments and work through a complete list of such payments to identify why each type of payment might not be in the scope of IFRIC 21.

With respect to the taxes that were the focus of the discussion, group members noted that the premiums payable under the WSIB plan may be considered to fall outside the scope of IFRIC 21 because these payments fall within the scope of IAS 19 *Employee Benefits*. However, group members observed that property taxes appear to fall within the scope of IFRIC 21, in accordance with the criteria in paragraph 4 of the Interpretation, and the application of IFRIC 21 may result in a change in the timing of the liability and expense recognition.

The group further discussed application of IFRCI 21 at its February 2014 meeting. Specifically, the items presented were:

<u>IFRIC 21 Levies – Property Taxes in Canada</u>

Majority of the group was of the view that the liability to pay property taxes should generally be recognized ratably throughout the year, noting, however, that some members did see merit in the view that the liability should be recognized at a point in time, particularly when other facts and circumstances exist. As for the debit side of the entry, where the liability is recognized ratably, a prepaid asset would only be recorded when property taxes have been paid in excess of the amount of the obligation based on the pro-rated number of days of ownership during the year. However, where the latter view to recognizing the liability is taken – liability is recognized at a point in time – the majority of the group was of the view that the property taxes should be expensed and that it was difficult to support the view that the payment of property taxes generated an asset because it is a non-reciprocal transaction.

<u>IFRIC 21 Levies – Consideration of Levies Other than Property Taxes.</u>

The group sees an issue with IFRIC 21 in that its scope is potentially broader than many preparers might expect. The term "levies" is not one that is widely used in Canada but it is important to remember that it is not what an item is called that determines whether or not it falls within the scope of IFRIC 21. Rather, the key issue is whether or not the item, whatever it may be called, meets the definition of a "levy" under IFRIC 21. As such, Canadian companies should consider all payments imposed by, and/or paid to, government pursuant to legislation or regulation, rather than by contract, to determine if they are within the scope of IFRIC 21. Items that are considered to be levies within the scope of IFRIC 21 may be referred to as a levy or as some other term in the underlying legislation. Examples of items that may be levies under IFRIC 21 include rents, royalties, taxes, contributions and fees. Group members noted that preparers may conclude prematurely that IFRIC 21 does not apply in their circumstances based on what an item is called.

Group members noted that the discussion was intended to raise awareness of IFRIC 21 and how Canadian entities may be impacted by this Interpretation.

Click **here** for detailed summary of this discussion.

For additional guidance on implications of adoption of IFRCI 21, refer to the **decision summary** from the AcSB's January 2014 meeting and CPA Reporting Alert **IFRIC 21 Levies**.

Questions? Issues?

Here are some resources that will assist in the application of the standards.

CPA Reporting Alerts
CPA Canada 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.

Recent alerts:

February 2014 IFRIC 21 Levies

Click **here** to access the Alerts.

Viewpoints
This series discusses views of the Oil and Gas Task Force and the Mining Task Force on IFRS application issues relevant to junior oil and gas companies and junior mining companies, respectively.

Some of the recent issues being addressed in these publications include:

- Capitalization of borrowing costs (Mining)
- Accounting for share purchase warrants issued (Mining)
- Revising an existing decommissioning liability (Oil and Gas)

Click to access the **mining** alerts and **oil and gas** alerts.

The Guide to International Financial Reporting Standards in Canada
This guide, issued by CPA Canada, examines and explains the application of IFRSs from a Canadian perspective.

Each publication includes an overview of key requirements and a detailed analysis of relevant issues, including practical application insights, as well as a discussion of accounting policy choices, significant judgments and estimates.

Additional application insights include:

- extracts from financial statements of Canadian entities;
- analysis of IFRS Discussion Group reports;
- items discussed but never incorporated into the IASB agenda;
- industry application viewpoints via the Viewpoint Series;
- illustrative examples; and
- statistics on particular IFRS application

Click **here** to access the publications.

IFRS Discussion Group Meeting Topics
Established by the AcSB, the IFRS Discussion Group implements and maintains a regular public forum to discuss issues that arise in Canada when applying IFRS.
The Financial Reporting & Assurance Standards Canada website allows for topics and issues discussed by the IFRS Discussion Group to be searched and sorted. Find out whether the Group has discussed an issue that you face in applying IFRSs and get the meeting report extract and audio webcast for each issue you find. Click here to access the database.

ACCOUNTING STANDARDS FOR PRIVATE ENTERPRISES (ASPE)

Pronouncements effective for annual periods beginning on or after January 1, 2014

Employee Future Benefits, Section 3462

The new standard replaces Section 3461 Employee Future Benefits. The new standard requires immediate recognition of all gains and losses arising from defined benefit plans as they are incurred, thus eliminating the deferral and amortization accounting. The new standard also requires for the plan obligations and plan assets to be measured at the balance sheet date. In addition, past service costs are now recognized in the current period for defined contribution plans.

Disposal of Long-lived Assets and Discontinued Operations, Section 3475

This standard was amended to modify the definition of a discontinued operation by creating a higher threshold for a disposal to be classified as a discontinued operation, thus resulting in fewer disposals qualifying as discontinued operations in practice.

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.

Cash Flow Statement, Section 1540	Reference to non-controlling interests removed
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 contingent consideration is remeasured when the contingency is resolved
	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
	Clarification of the treatment of hedging relationships using foreign exchange forward contracts that mature before the hedged item is recognized

Recently Issued Document for Comment

2014 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.

This ED was issued by the AcSB in March 2014 and includes the following amendments:

Employee Future Benefits, Section 3462	Clarification that the option to use a funding valuation for unfunded defined benefit plans can only be applied by entities that have at least one funded defined benefit plan
Financial Instruments, Section 3856	Clarification that the hedging item is remeasured at the balance sheet date using the spot rate in effect at that date, with any gain or loss included in net income
	Clarification that when impairment has been determined on a group basis, only the amount of allowance for impairment of financial assets is required to be disclosed and not the carrying amount of the impaired assets

Comment period ends on June 2, 2014. The amendments are expected to be effective for annual periods beginning on or after January 1, 2015.

Current Status of Documents Previously Issued for Comment

Consolidations	Amendments are expected to be issued by the AcSB in Q3 of 2014, effective for fiscal years beginning on or after January 1, 2016, with earlier adoption permitted.
Joint Arrangements and Investments	Amendments are expected to be issued by the AcSB in Q3 of 2014, effective for fiscal years beginning on or after January 1, 2016, with earlier adoption permitted.

Questions? Issues?

Here are some resources that will assist in the application of the standards.

CPA Canada Reporting Alerts for ASPE
CPA Canada issues Reporting Alerts which are aimed at assisting 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.

Recently published Alerts:

February 2014	AMENDED – 2013 Annual Improvements to Accounting Standards for Private Enterprises

Alerts are accessible by clicking **here**.

Private Enterprise Advisory Committee
Established by the AcSB in 2010, the Committee assists the AcSB in maintaining and improving accounting standards for private enterprises and advises on the need for non-authoritative guidance about the standards. At the request of the AcSB, the Committee may also undertake research into the financial reporting needs of private enterprises.

Click **here** to access recent meeting notes.

ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS (ASNPO)

Pronouncement effective for annual periods beginning on or after January 1, 2014

Reporting Employee Future Benefits by Not-for-Profit Organizations, Section 3463
This new Section provides guidance for defined benefit plans on the recognition and presentation of remeasurements and other items that differs from the guidance in Employee Future Benefits, Section 3462 in Part II of the Handbook. The requirements in Section 3462 apply in all other respects.

The main features of Section 3463 are as follows:

- Remeasurements and other items are: recognized directly in net assets in the statement of financial position rather than in the statement of operations, and presented as a separately identified line item in the statement of changes in net assets.
- Remeasurements and other items are not reclassified to the statement of operations in a subsequent period.

Current Status of Document Previously Issued for Comment

Improvements to Not-for-Profit Standards (Statement of Principles)	Statement of Principles issued by the AcSB and PSAB in April 2013 and presents key principles that each Board expects to include in future exposure drafts, aimed at revising ASNPO and PSA Handbook including the PS 4200 series of Sections in order to improve the existing standards for financial reporting by not-for-profit organizations (NFPOs). Comment period closed on December 15, 2013.

PUBLIC SECTOR ACCOUNTING (PSA)

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.

Pronouncement effective for fiscal years beginning on or after April 1, 2014

PS 3260 Liability for Contaminated Sites

The new standard establishes recognition, measurement and disclosure standards for liabilities relating to contaminated sites.

Pronouncements effective for fiscal years beginning on or after April 1, 2016
(except for government organizations that applied CICA Handbook – Accounting prior to adoption of the CICA Public Sector Accounting Handbook, for which these pronouncements apply to fiscal years beginning on or after April 1, 2012)

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.

Recently Issued Document for Comment

Introduction to Public Sector Accounting Standards

This re-exposure draft was issued by the PSAB in February 2014 and proposes to:

- amend the set of standards to be followed by a non-business government partnership with only public sector entity partners; and
- clarify the transitional provisions for a government organization (now classified as a government component) and for a non-business government partnership and a government business partnership with only public sector entity partners.

The implications of the proposals include the following:

- Certain government organizations, that are not currently following the standards for governments in the PSA Handbook (i.e., are following the standards applicable to publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting or standards for not-for-profit organizations in the PSA Handbook), will become government components and need to transition.
- Greater clarity is provided as to what are general purpose and special purpose financial statements and the role of the PSA Handbook in preparing general purpose financial statements.

- Government partnerships, including government business partnerships, may need to transition to the proposed source of generally accepted accounting principles if they issue general purpose financial statements.

Comment period ends on April 30, 2014.

Current Status of Documents Previously Issued for Comment

Revenue	Comment period for this Statement of Principles closed on February 3, 2014. Exposure draft is expected to be issued in Q3 of 2014.
Assets, Contingent Assets and Contractual Rights	Comment period for this Statement of Principles closed on November 29, 2013. Exposure draft is expected to be issued in Q3 of 2014.
Restructurings	Comment period for this Statement of Principles closed on May 17, 2013. Currently in deliberations. Exposure draft is expected to be issued in Q3 of 2014.
Concepts Underlying Financial Performance	Comments on the second consultation paper are currently in deliberations. Statement of Principles is expected to be issued in Q3 of 2014.
Related Party Transactions	Comment period for this re-exposure draft closed on September 4, 2013. Revised draft is being developed.
Improvements to Not-for-Profit Standards (Statement of Principles)	Statement of Principles issued by the AcSB and PSAB in April 2013 and presents key principles that each Board expects to include in future exposure drafts, aimed at revising ASNPO and PSA Handbook including the PS 4200 series of Sections in order to improve the existing standards for financial reporting by not-for-profit organizations (NFPOs). Comment period closed on December 15, 2013. Currently in deliberations.

PSA Discussion Group Meeting Topics

Established by the PSAB, the PSA Discussion Group provides a public forum for discussion of issues arising on the application of the PSA Handbook.

Summaries of topics and discussions from past meetings are available on the Financial Reporting & Assurance Standards Canada website by clicking **here**.

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, and are effective for periods ending on or after December 15, 2014.

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.

Current Status of Documents Previously Issued for Comment

Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)

This ED was issued by the IAASB in July 2013, with a goal of improving the auditor's report on audited financial statements. This ED is the culmination of the IAASB's deliberations on the topic of auditor reporting, which were informed by international research, public consultation (including the responses to the IAASB's June 2012 Invitation to Comment: Improving the Auditor's Report), and stakeholder outreach.

Key enhancements are identified as follows:

- Prominent placement of the auditor's opinion and other entity-specific information in the auditor's report.
- Auditor reporting on "Key Audit Matters", required for audits of financial statements of listed entities. Key audit matters are those matters that, in the auditor's judgment, were of most significance in the audit of the current period financial statements.
- Auditor reporting on going concern, including a conclusion on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and a statement as to whether a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern has been identified.
- Auditor reporting on other information (to be finalized as part of the separate project to revise ISA 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements).
- An explicit statement that the auditor is independent of the entity and has fulfilled the auditor's other relevant ethical responsibilities, with disclosure of the source(s) of those requirements.
- Disclosure of the name of the engagement partner, required for audits of financial statements of listed entities, unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant security threat to the individual.
- Improved description of the responsibilities of the auditor and key features of the audit (together with provision for certain components of this description to be relocated to an appendix to the auditor's report, or for reference to be made to such description on the website of an appropriate authority).

An illustration of the proposed auditor's report for a listed entity is included in the **'At a Glance'** summary of the ED.

Comment period for this **ED** closed on November 22, 2013. Proposed standards are expected to be finalized in 2014.

Reports on Supplementary Matters Arising from an Audit or a Review Engagement

This ED was issued by the AASB in August 2013, with a goal of issuing a new Canadian Standard for Related Services (CSRS) 4460, Reports on Supplementary Matters Arising from an Audit or a Review Engagement. The new CSRS would require the public accountant to perform some additional procedures to support the public accountant's report under this standard.

Comment period closed on November 29, 2013. AASB expects to issue the new standard in Q2 of 2014. The proposed CSRS 4460 would be effective for public accountants' reports dated on or after April 1, 2016. AuG-4 and AuG-13 will be withdrawn.

Engagements to Review Historical Financial Statements

This ED was issued by the AASB in June 2013, with the objective of issuing a new Canadian Standard on Review Engagements (CSRE) 2400, Engagements to Review Historical Financial Statements, which will replace Sections 8200 and 8500, as well as Assurance and Related Services Guidelines AuG-20 and AuG-47.

The ED proposed CSRE 2400 would be effective for reviews of historical financial statements for periods ending on or after December 14, 2015.

Comment period closed on December 11, 2013. The AASB at its March 2014 meeting decided that the effective date will be deferred while it continues to deliberate on this matter.

The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon

Comment period for this exposure draft issued by the IAASB closed on March 14, 2013. Currently in deliberations. The IAASB is expected to finalize the revised standard in 2014.

Independence Standards

Comment period for this ED prepared by the Independence Task Force (ITF) of the Public Trust Committee of the CICA in February 2013, closed on May 31, 2013. Currently in deliberations, with the goal of the Rule and Council Interpretations being recommended for adoption for assurance engagements commencing after December 15, 2014.

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.

A Framework for Audit Quality

Comment period for this consultation paper issued by the IAASB closed on May 15, 2013. The IAASB is considering a revised draft of the framework.

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.

Auditor Review of Interim Financial Statements

This ED was issued by the AASB in November 2013 to replace Section 7050, Auditor Review of Interim Financial Statements, with Section 7060.

Main features of the ED:

- Consistent with Section 7050, the focus of the auditor in conducting an interim review under Section 7060 is to assist the audit committee in discharging its responsibilities with respect to interim financial statements that are to be issued under the provisions of securities legislation. Accordingly, the auditor's interim review report is a special purpose report provided only to the audit committee. The AASB is of the view that the focus on assisting the audit committee promotes high quality interim financial statements in a practical way.
- Since the auditor is providing comments to the audit committee and not to the general public, the AASB is of the view that oral communication of the interim review report is sufficient, except in certain circumstances.
- The following items, previously in guidance in Section 7050, are included as requirements in Section 7060:

(a) written agreement of terms of engagement with both management and the audit committee;

(b) inquiries relating to fraud, illegal acts, and non-compliance with provisions of laws and regulations;

(c) procedures relating to going concern;

(d) accumulation and evaluation of misstatements;

(e) responses to discovery of a material misstatement subsequent to the issuance of the auditor's interim review report; and

(f) content and extent of documentation.

- Additional new requirements were developed to improve the clarity of former Section 7050, as follows:

  (a) determination of materiality;

  (b) identification of the risks of material misstatement, and design and performance of procedures to address the identified risks (as opposed to obtaining an understanding of the entity and its environment sufficient to identify types of potential material misstatements);

  (c) the auditor's response when he or she becomes aware of a misrepresentation (as opposed to an untrue statement of a material fact) in the interim management discussion and analysis;

  (d) the date of management representation; and

  (e) communication of the effect of accumulated misstatements to management and the audit committee in misstatements.

- The AASB proposes to clarify that the auditor is required to express a modified conclusion if he or she concludes that any material modification is necessary for the interim financial statements to be in accordance with the applicable financial reporting framework

The proposed Section 7060 would be effective for reviews of interim financial statements for interim periods of fiscal years beginning on or after December 15, 2014. Comment period closed on January 15, 2014. Currently in deliberations.

Enhancing Audit Quality (EAQ)

Conclusions and recommendations report was issued in May 2013 by CPAB and CICA. Among the recommendations, the EAQ report called for specific steps that audit committees and audit firms should take to enhance audit quality. These included performing a comprehensive review of the external audit firm at least once every five years; conducting annual assessments of the external audit firm; and providing increased transparency to audit committees on the CPAB's inspections.

As a result of the projects launched by CPA Canada to address these recommendations, three publications have recently been issued to help audit committees enhance their oversight of external auditors:

- Oversight of the External Auditor – Guidance for Audit Committees

  Provides an overview of activities that audit committees perform to assist them in overseeing and assessing the effectiveness of the external auditor.

- Annual Assessment of the External Auditor – Tool for Audit Committees

  This companion publication and annual assessment tool is intended to be used in years when the audit committee is not conducting a comprehensive review of the external auditor and identifies three key factors of audit quality for the audit committee to consider and assess including: independence, objectivity and professional skepticism; quality of the engagement team; and quality of communications and interactions with the external auditor.

- Periodic Comprehensive Review of the External Auditor – Tool for Audit Committees

  As recommended by the EAQ initiative, audit committees should periodically (at least every five years) conduct a comprehensive review. This comprehensive review publication and tool provides is deeper and broader assessment than its annual counterpart and includes guidance on the preparation and content of the audit committees' public report on the review.

Another project was being addressed by CPAB who, with audit firm and audit committee representatives, has developed "Protocol for Audit Firm Communication of

CPAB Inspection Findings with Audit Committees" ("Protocol") for increasing the information made available to audit committees.

Under this Protocol, audit firms will provide Audit Committees of all reporting issuers with a copy of CPAB's public report on an annual basis. In addition, in the event that CPAB has inspected the audit file of a reporting issuer, the audit firm will provide the Audit Committee with the following information: (a) a description of the focus areas selected for inspection by CPAB, (b) an indication of whether or not there are any significant inspection findings, and (c) any significant inspection findings as reported by CPAB per CPAB's Engagement Findings Report ("EFR") including a description of actions taken by the firm in response to the findings and CPAB's disposition.

The objective of sharing inspection findings is to provide Audit Committees with relevant information regarding CPAB's inspection findings to support them in their role in overseeing and evaluating the external auditor. This Protocol is a voluntary Protocol which has been developed to respond to the demand from Audit Committees for additional information about CPAB's inspection findings. CPAB's expectation is that all participating firms will share inspection findings as contemplated by this Protocol.

This Protocol is effective for inspections of audit files commencing on or after March 1, 2014.

To access the CPA Canada guidance, click **here**.

Toa access the Protocol, click **here**.

Reporting Implications of New Auditing and Accounting Standards

This guide is published by CPA Canada, and has been developed by the Task Force on Audit Reporting Implications of the New Canadian Auditing Standards. The purpose of this guide is to promote consistency in the form and content of practitioners' reports by providing guidance with respect to commonly occurring circumstances. Issue No. 12 was issued in April 2014. Click **here** to access the guide.

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.

To access practice notes, click **here**.

ACRONYMS USED
AASB – Auditing and Assurance Standards Board
AcSB – Accounting Standards Board
GAAP – Generally Accepted Accounting Standards
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
CPAB – Canadian Public Accountability Board
CSA – Canadian Securities Administrators
PSAB – Public Sector Accounting Board