

January 2014

# Technical Bulletin

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**Collins Barrow**

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This technical bulletin covers the various developments from October to December 2013.

Acknowledgement: The content of the Technical Bulletin has been summarized or reproduced from the CPA Canada, CICA, IASB, IAASB, IFRIC, AcSB, PSAB, AASB 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.

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

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

## 1. ACCOUNTING

### INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

#### **Pronouncements Effective for Annual Periods Beginning on or After January 1, 2013**

##### *IFRS 1 First-time Adoption of International Financial Reporting Standards*

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

##### *IFRS 7 Financial Instruments: Disclosures*

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

##### *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.*

<i>IFRS 1 First-time Adoption of International Financial Reporting Standards</i>	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
<i>IAS 1 Presentation of Financial Statements</i>	requirements for providing comparative information in financial statements are clarified
<i>IAS 16 Property, Plant and Equipment</i>	classification requirement for servicing equipment clarified
<i>IAS 32 Financial Instruments: Presentation</i>	income tax consequences of distributions to holders of an equity instrument and of transaction costs of an equity transaction clarified
<i>IAS 34 Interim Financial Reporting</i>	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.

*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.*

<b>IFRS 2 Share-based Payments</b>	Clarification of the definition of 'vesting conditions' by separately defining a 'performance condition' and a 'service condition'
<b>IFRS 3 Business Combinations</b>	Clarification of the accounting for contingent consideration in a business combination
<b>IFRS 8 Operating Segments</b>	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
<b>IFRS 13 Fair Value Measurement</b>	Clarification on guidance related to the measurement of short-term receivables and payables
<b>IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets</b>	Clarification of the requirements for the revaluation model regarding the proportionate restatement of accumulated depreciation
<b>IAS 24 Related Party Disclosures</b>	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.*

<b>IFRS 1 First-time Adoption of International Financial Reporting Standards</b>	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
<b>IFRS 3 Business Combinations</b>	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 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. The IASB will decide upon a new date when the entire IFRS 9 project is closer to completion.

**Recently Issued Documents for Comment**

**Annual Improvements 2012-2014 Cycle**

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

This ED was issued by the IASB in December 2013 and includes the following amendments:

<i>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</i>	Changes in methods of disposal
<i>IFRS 7 Financial Instruments: Disclosures</i>	Additional guidance on servicing contracts Applicability of the amendments to IFRS 7 to condensed interim financial statements
<i>IAS 19 Employee Benefits</i>	Discount rate: regional market issue
<i>IAS 34 Interim Financial Reporting</i>	Clarification of the meaning of disclosure of information 'elsewhere in the interim financial report'

Comment period ends on March 13, 2014. 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)**

This ED was issued by the IASB in December 2013. Currently, IAS 27 allows the entity to account for investments in subsidiaries, joint ventures and associates either at cost or in accordance with IFRS 9 in the entity's separate financial statements. The proposed amendments to IAS 27 would allow entities to use the equity method to account for these investments in their separate (parent only) financial statements. Comment period ends on February 3, 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 1st half 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 the 1<sup>st</sup> half of 2014.

*Insurance Contracts* Comment period closed on October 25, 2013. Currently in deliberations. AcSB issued an exposure draft in September 2013, asking for specific input from Canadian respondents. Comment period closed on January 6, 2014.

*Leases* Comment period closed on September 13, 2013. Currently in deliberations.

*Regulatory Deferral Accounts* Comment period for the exposure draft on the interim standard closed on September 4, 2013. The final standard is expected to be issued by the IASB in the Q1 of 2014. The effective date for this interim IFRS is expected to be January 1, 2016, with earlier application permitted.

*Revenue Recognition* Comment period closed on March 13, 2012. The final standard is expected to be issued by the IASB in Q1 of 2014.

**Other Exposure Drafts**

**Equity Method: Share of Other Net Asset Changes (Proposed amendments to IAS 28: Investments in Associates and Joint Ventures)** Comment period closed on March 22, 2013. Currently in deliberations. Amendments are expected to be issued by the IASB in Q1 of 2014.

**Clarification of Acceptable Methods of Depreciation and Amortization (Proposed amendments to IAS 16 and IAS 38)** Exposure draft issued in December 2012. Comment period closed on April 2, 2013. Amendments are expected to be issued in Q1 of 2014.

**Acquisition of an Interest in a Joint Operation (Proposed amendment to IFRS 11)** Exposure draft issued in December 2012. Comment period closed on April 23, 2013. Amendment expected to be issued in Q1 of 2014. The effective date for the amendment is expected to be January 1, 2015.

**Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed amendments to IFRS10 and IAS28)** Exposure draft issued in December 2012. Comment period closed on April 23, 2013. Amendments are expected to be issued by the IASB in Q1 of 2014. The effective date for the amendments is expected to be January 1, 2015.

**Agriculture: Bearer Plants (Proposed amendments to IAS 41)** Comment period closed on October 28, 2013. 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.

**Post-implementation Review of IFRS 3** Post-implementation review was initiated in July 2013. The IASB anticipates publishing the Request for Information in Q1 of 2014.

*The purpose of the review is to consider whether the new Standard is functioning as anticipated, has achieved its objectives and improved financial reporting.*

**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 2014.

**Change in Policy or Change in Estimate?**

The IFRS Interpretations Committee received a request to clarify the distinction between a change in an accounting policy and a change in an accounting estimate.

The Interpretations Committee noted that the principal guidance on distinguishing a change in accounting policy from a change in accounting estimate is set out in IAS 8. Other IFRSs provide additional guidance that can be helpful in making the distinction.

The Interpretations Committee acknowledged that distinguishing between a change in accounting policy and a change in accounting estimate can require judgement and may be challenging. However, it observed that IAS 8 states that when it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

The Interpretations Committee noted that a change in accounting estimate may encompass a change in method used to develop an estimate, as well as a change in inputs to the method, both of which result in a change in the amount of the estimate. Regardless of the type of change, the Interpretations Committee thinks that a change in a method of estimation should only be made if that change produces reliable and more relevant information.

The Interpretations Committee observed that it would be helpful if more clarity were given to help entities make the distinction between a change in accounting policy and a change in accounting estimate, including clarity on how to deal with changes in the method of estimation. However, it considered that any amendment to the Standards would be too broad for it to address within the confines of existing IFRSs. Instead, the Interpretations

Committee considered that it should bring the issue to the IASB's attention for future consideration in the Disclosure project and/or the Conceptual Framework project.

**Investment Entities: accounting for a subsidiary that is both an investment entity and provides investment related services**

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.

The Interpretations Committee noted that an investment entity could provide investment-related services through various structures. The Interpretations Committee was concerned that the accounting for investment-related services should reflect the substance of the arrangements and should not be unduly affected by the structure of the group. The Interpretations Committee observed that IFRS 10 was clear that:

- an investment entity parent should account for a subsidiary that is also an investment entity at fair value if that subsidiary does not provide investment-related services; and
- an investment entity parent should consolidate on a line-by-line basis a subsidiary that is not an investment entity, but that provides investment-related services, because such services are an extension of the operations of the investment entity parent.

However, the Interpretations Committee noted that it is not clear how to account for a subsidiary that is both an investment entity subsidiary and provides investment-related services. Accordingly, the Interpretations Committee decided to add this issue to its agenda with a view of proposing an amendment.

**Questions? Issues?**

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

*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.

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.

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

The following publications have been made available: IAS 36 Impairment of Assets and IAS 16 Property, Plant and Equipment. 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, 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

### 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

*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:

*September 2013* Section 3462, Employee Future Benefits

*September 2013* Amended Section 3475, Disposal of Long-Lived Assets and Discontinued Operations

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.

**Current Status of Documents Previously Issued for Comment**

*Consolidations* Exposure draft issued in August 2013. Comment period closed on November 11, 2013. Currently in deliberations. Amendments are expected to be issued by the AcSB in Q3 of 2014.

*Joint Arrangements and Investments* Exposure draft issued in August 2013. Comment period closed on November 11, 2013. Currently in deliberations. Amendments are expected to be issued by the AcSB in Q3 of 2014.

**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.

**Questions? Issues?**

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

- Remeasurements and other items are not reclassified to the statement of operations in a subsequent period.

#### Current Status of Document Previously Issued for Comment

<i>Improvements to Not-for-Profit Standards (Statement of Principles)</i>	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.
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## 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, 2015

**(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.

**Current Status of Documents Previously Issued for Comment**

<i>Revenue</i>	Comment period for this Statement of Principles ends on February 3, 2014. Exposure draft is expected to be issued in Q3 of 2014.
<i>Assets, Contingent Assets and Contractual Rights</i>	Comment period for this Statement of Principles closed on November 29, 2013. Exposure draft is expected to be issued in Q3 of 2014.
<i>Introduction to Public Sector Accounting Standards</i>	Comment period for this exposure draft closed on May 3, 2013. Currently in deliberations. Re-exposure draft is expected to be issued in Q2 of 2014.
<i>Restructurings</i>	Comment period for this Statement of Principles closed on May 17, 2013. Currently in deliberations. Exposure draft is expected to be issued in Q1 of 2014.
<i>Concepts Underlying Financial Performance</i>	Comment period for the second consultation paper closed on January 31, 2013. Currently in deliberations. Statement of Principles is expected to be issued in Q3 of 2014.
<i>Related Party Transactions</i>	Comment period for this re-exposure draft closed on September 4, 2013. Final Handbook material is expected to be issued in Q2 of 2014. Proposed effective date is fiscal years beginning on or after April 1, 2016.
<i>Improvements to Not-for-Profit Standards (Statement of Principles)</i>	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.

## 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.

**Recently Issued Document for Comment**
*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.

#### Current Status of Documents Previously Issued for Comment

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##### *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
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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.

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#### *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. The proposed CSRS 4460 would be effective for public accountants' reports dated on or after April 1, 2015. AuG-4 and AuG-13 will be withdrawn.

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#### *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.

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.

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#### *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.

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#### *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.

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#### *A Framework for Audit Quality*

Comment period for this consultation paper issued by the IAASB closed on May 15, 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.

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#### *Enhancing Audit Quality (EAQ)*

Conclusions and recommendations report has been 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.

CPA Canada is now launching projects to address two of the recommendations. Working with a group of experienced audit committees (through the Institute of Corporate Directors), CPA Canada will further develop guidance on the annual assessment of audit firms, based on the initial guidance provided in the EAQ final report. CPA Canada will also develop new guidance and tools to assist audit committees when undertaking a periodic comprehensive review of an audit firm, including guidance on the preparation and content of the audit committee's public report on the review.

The third project is being addressed by CPAB

who, with audit firm and audit committee representatives, has developed a protocol for increasing the information made available to audit committees. In November 2013, CPAB issued a consultation paper titled "Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees" ("Protocol"). Under this draft 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 will be effective after the conclusion of CPAB's consultation process. It is anticipated that the Protocol will be effective for inspections of audit files commencing on or after March 31, 2014. Comment period ends on January 24, 2014. Click [here](#) to access the Protocol.

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#### **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. 11 was issued in January 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