October 2014

Technical Bulletin

Collins Barrow

TABLE OF CONTENTS

This technical bulletin covers the various developments from July to September 2014.

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.

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

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

1. ACCOUNTING

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

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

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 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures

These standards were amended to eliminate an inconsistency between IFRS 10 and IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. Subsequent to the amendments, a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not) and a partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

This standard has not yet been issued by the AcSB in Part I of the Handbook, expected for Q4 of 2014.

IFRS 11 Joint Arrangements

Amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

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.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

IAS 16 Property, Plant and Equipment and IAS 41 Agriculture

These standards were amended to require bearer plants to be accounted for in the same way as property, plant and equipment in IAS 16 because their operation is similar to that of manufacturing. Bearer plants are used solely to grow produce over several periods. At the end of their productive lives they are usually scrapped. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates. The amendments include bearer plants within the scope of IAS 16 instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

IAS 27 Separate Financial Statements

The standard was amended to allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

The final amendments have not yet been issued by the AcSB in Part I of the Handbook, which are expected for Q4 of 2014.

Annual Improvements 2012-2014 Cycle

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Amendment stating that the same classification, presentation and measurements requirements continue to apply if there is a reclassification from being held for distribution to being held for sale or vice versa.
IFRS 7 Financial Instruments: Disclosures	Clarification regarding servicing contracts and assessment of 'continuing involvement'.
	Clarification on applicability of disclosure requirements in amendments to IFRS7 regarding Offsetting Financial Assets and Financial Liabilities.
IAS 19 Employee Benefits	Clarification regarding the currency of bonds used in the estimate of the discount rate for post-employment benefit obligations.
IAS 34 Interim Financial Reporting	Additional requirement to cross-reference the information disclosed 'elsewhere in the interim financial report'.

The final amendments have not yet been issued by the AcSB in Part I of the Handbook, expected for Q4 of 2014.

Pronouncement Effective for Annual Periods Beginning on or After January 1, 2017

IFRS 15 Revenue from Contracts with Customers

The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard contains enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improves guidance for multiple-element arrangements. IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue—Barter Transactions Involving Advertising Services.

This standard has not yet been issued by the AcSB in Part I of the Handbook, which is expected for Q4 of 2014.

Pronouncement Effective for Annual Periods Beginning on or After January 1, 2018

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 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. 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. IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value.

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.

In addition, a single, forward-looking expected loss impairment model is introduced, which will require more timely recognition of expected credit losses.

The final standard has not yet been issued by the AcSB in Part I of the Handbook, which is expected for Q4 of 2014.

Recently Issued Documents for Comment

Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12)

The amendments, issued by the IASB in August 2014, propose guidance that clarifies how to account for deferred tax assets related to debt instruments measured at fair value. The draft amendments are proposed in response to diversity in practice and are relevant in circumstances in which the entity reports tax losses.

The amendments will clarify that that decreases in the carrying amount of a fixed-rate debt instrument for which the principal is paid on maturity give rise to a deductible temporary difference if this debt instrument is measured at fair value and if its tax base remains at cost. This applies irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, i.e., by holding it to maturity, or whether it is probable that the issuer will pay all the contractual cash flows. The amendments will also clarify that an entity's estimate of future taxable profit excludes tax deductions resulting from the reversal of deductible temporary differences.

The comment period ends on December 18, 2014.

Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value (Proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13)

This Exposure Draft (ED) addresses questions regarding the unit of account for investments in subsidiaries, joint ventures and associates and on their fair value measurement when those investments are quoted in an active market (quoted investments) and regarding measurement of the recoverable amount of cash-generating units (CGUs) on the basis of fair value less costs of disposal when they correspond to entities that are quoted in an active market (quoted CGUs).

The proposed amendments clarify that an entity should measure the fair value of quoted investments and quoted CGUs as the product of the quoted price for the individual financial instruments that make up the investments held by the entity and the quantity of financial instruments.

The comment period ends on January 16, 2015.

Reporting the Financial Effects of Rate Regulation

This Discussion Paper (DP) considers the common features of rate regulation and explores which of them, if any, creates a combination of rights and obligations that is distinguishable from the rights and obligations arising from activities that are not rate-regulated.

The DP explores several possible approaches that the IASB could consider when deciding how best to report the financial effects of a defined type of rate regulation.

The possible approaches are as follows:

- Recognizing the package of rights and obligations as an intangible asset (i.e., a licence);
- Providing an exemption to the general requirements of IFRS to enable rate-regulated entities to apply regulatory accounting requirements that would otherwise conflict with existing Standards;
- Developing accounting requirements to defer or accelerate the recognition of costs, revenue or a combination of costs and revenue. This approach could more closely align the timing of recognition of specified costs and income for regulatory purposes and IFRS financial reporting purposes; or
- Prohibiting the recognition of regulatory deferral account balances and developing specific disclosure-only requirements to explain the financial effects of rate regulation to users of IFRS financial statements.

The comment period ends on January 15, 2015.

Current Status of Documents Previously Issued for Comment

Major Projects – Exposure Drafts

Insurance Contracts	Comment period closed on October 25, 2013. Currently in deliberations.
Leases	Comment period closed on September 13, 2013. Currently in deliberations.

Other Documents and Exposure Drafts

Investment Entities – Applying the Consolidation Exception (Proposed Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures)	This ED was issued by the IASB in June 2014, proposing amendments that are designed to clarify three issues about the application of the requirement for investment entities to measure subsidiaries at fair value instead of consolidating them. Comment period closed on September 15, 2014.
Amendments to IAS 1 Presentation of Financial Statements	Comment period ended on July 23, 2014. 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 IASB expects to issue the final amendments in Q4 of 2014.
Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging	The IASB issued this Discussion Paper in April 2014 with the goal of exploring a possible approach to better reflect dynamic risk management activities in entities' financial statements. The approach is the portfolio revaluation approach (PRA). When applying the PRA, exposures within open portfolios would be revalued with respect to the managed risk. This revaluation would offset the effect of measuring any risk management instruments (derivative instruments) that are used to manage those risks at fair value. The comment period ends on October 17, 2014.
Conceptual Framework	This Discussion Paper was published by the IASB in July 2013, as a first step towards issuing a revised Conceptual Framework. An Exposure Draft for a revised Conceptual Framework is expected to be published in Q1 of 2015.
IFRS 3 – Post-implementation Review	Comments period closed on May 30, 2014. Feedback Statements is expected to be issued in Q4 of 2014.

Recent IASB and Interpretations Committee Discussions

Is a telecommunications tower a building?

Should IAS 40 Investment Property apply to a structure that lacks the physical characteristics of a building, such as a telecommunications tower, if space in the tower is rented out? This question was raised at a recent IASB meeting to consider whether the scope of IAS 40 should be broadened. And what about other structures, such as gas storage tanks and advertising billboards?

The IASB staff will be undertaking a research project on this issue. Stay tuned…

IAS 12 Income Taxes – recognition of an asset when tax position is uncertain

The Interpretations Committee received a request for guidance on the recognition of a tax asset in the situation in which tax laws require an entity to make an immediate payment when a tax examination results in an additional charge, even if the entity intends to appeal against the additional charge. In the situation described by the submitter, the entity expects, but is not certain, to recover some or all of the amount paid. The Interpretations Committee was asked to clarify whether IAS 12 (and a 'probable' threshold) is applied to determine whether to recognize an asset for the additional payment, or whether the guidance in IAS 37 Provisions, Contingent Liabilities and Contingent Assets (and a 'virtually certain' threshold) should be applied.

In a recent meeting, the Interpretation Committee decided that there are two issues to be addressed here:

1. recognition of assets and liabilities in situations in which tax position is uncertain
2. measurement of assets and liabilities in situations in which tax position is uncertain

Recognition

Interpretations Committee noted that IAS 12, not IAS 37, provides the relevant guidance on recognition of current tax assets and current tax liabilities. Reference to IAS 37 in paragraph 88 of IAS 12 relates to disclosure only. Accordingly, the Interpretations Committee determined that further guidance is not required. In accordance with the requirements in IAS 12, an asset is recognized if the amount of cash paid (which is a certain amount) exceeds the amount of tax expected to be due (which is an uncertain amount) in the situation described above.

Measurement - to be discussed at future meetings.

IPO price difference between institutional offer price and retail offer price

In situations where an issuer needs to fulfil a minimum number of shareholders to qualify for a listing, shares to a retail investor may be offered at a discount from the price at which shares are sold to institutional investors. Should this transaction be analyzed within the scope of IFRS 2?

In the situation described above, the difference between the prices offered to retail and institutional investors arises from the existence of different markets (one that is accessible to retail investors only and another one accessible to institutional investors only) rather than receipt of any additional goods and services. Accordingly, the guidance in IFRS 2 does not apply as there is no share-based payment transaction. In the situation in question the fair value of the shares issued to retail investors is different from the fair value of the shares issued to institutional investors. The Interpretations Committee also observed that this situation differs from the reverse takeover scenarios, as a listing is obtained in those situations, and the difference in fair values of the shares deemed to have been issued by the accounting acquirer and the fair value of the accounting acquiree's net assets represents a service. In the situation described above, a listing is not obtained from the institutional or retail shareholders.

Condensed statement of cash flows

Is it sufficient to show only a total for each of operating, investing and financing cash flows activities in the condensed statement of cash flows in the interim financial statements?

Interpretation Committee discussed this request for clarification at a recent meeting and concluded that the requirements in IAS 34 to include all information that is relevant in understanding the entity's ability to generate cash flows and the entity's needs to utilise those cash flows are not expected to be met by presentation of only the totals for each activity.

Third party prices and fair value hierarchy levels

Does the price provided by a third party fall within Level 1 of the fair value hierarchy? Interpretations Committee noted during a recent discussion that classification depends on the evaluation of the inputs used by the third party to derive the price rather than the pricing methodology. Accordingly, fair value measurement that is based on prices provided by third parties may only be categorised within Level 1 of the fair value hierarchy if the measurement relies solely on unadjusted quoted prices in an active market for an identical instrument that the entity can access at the measurement date.

Questions? Issues?

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

CPA Reporting Alerts

CPA Canada issues Reporting Alerts 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.

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

- Commodity Prices and Impairment (Mining)
- Accounting for Precious Metal Streaming Arrangements by the Producer (Mining)
- Identifying Levies in the Mining Industry (Mining)

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

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

Pronouncements effective for annual periods beginning on or after January 1, 2016

Subsidiaries, Section 1591

This new Section, which replaces Section 1590, Subsidiaries and AcG-15, Consolidation of Variable Interest Entities, requires the use of judgment to determine when control is obtained through means other than equity interests. The guidance on accounting for subsidiaries controlled through equity interests has been brought forward from the previous standard unchanged.

Investments, Section 3051
This Section has been amended to clarify that investments subject to significant influence and certain other non-financial instrument investments are included in the scope of the standard, whereas other investments (such as subsidiaries and interests in joint arrangements) are excluded.

Interest in Joint Ventures, Section 3056
This new standard, which replaces Section 3055, Interest in Joint Ventures, specifies the accounting by an investor for an interest in a joint arrangement according to whether it is an interest in jointly controlled operations or jointly controlled assets, or a jointly controlled enterprise. The option to account for all types of joint arrangements using the proportionate consolidation method, cost method or equity method is eliminated.

Current Status of Documents Previously Issued for Comment

2014 Annual Improvements	Comment period for this exposure draft closed on June 2, 2014. The amendments are expected to be effective for annual periods beginning on or after January 1, 2015. The AcSB expects to issue the final amendments in Part II of the Handbook in Q4 of 2014.

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 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.

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 differ 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. The AcSB and PSAB are assessing the comments received.

PUBLIC SECTOR ACCOUNTING (PSA)

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

Assets, Contingent Assets and Contractual Rights

This Exposure Draft, issued by the PSAB in August 2014, proposes to issue three new Handbook sections: assets, contingent assets and contractual rights. Additional guidance on the definition of assets will be provided and disclosure of types of assets that are not recognized will be required. Contingent assets and contractual rights will be defined. Disclosure of contingent assets will be required when the occurrence of the confirming future event is likely. Disclosure of contractual rights will be required.

Comment period ends on November 3, 2014.

Restructuring Transactions

This Exposure Draft, issued by PSAB in August 2014, proposes guidance on accounting for and reporting assets and liabilities transferred in restructuring transactions by both transferors and recipients.

A restructuring transaction is a transfer of an integrated set of assets and/or liabilities, together with related responsibilities for program delivery or administrative operations, that does not involve a payment or other consideration that approximates the fair value of what is transferred. Restructuring transactions in the public sector usually involve no or nominal payment. Even when a substantial payment is involved, it is not determined based on the fair value of what is transferred.

To account for assets and liabilities transferred in a restructuring transaction, the transferor would remove the assets and liabilities transferred from its books at their carrying amount at the restructuring date and the recipient would recognize the assets and liabilities received at their carrying amount with applicable adjustments at the restructuring date. Both the transferor and the recipient would recognize the net effect of the transfer and any compensation involved as revenue or an expense. Financial information prior to the restructuring date would not be restated. Disclosure of such information in the notes and schedules is optional.

Comment period ends on November 28, 2014.

Retirement Obligations

This Statement of Principles was issued by PSAB in August 2014. Subject to comments received, the PSAB proposes to expose a proposed new section on retirement obligations associated with tangible capital assets controlled by a public sector entity.

The main features of this Statement of Principles are as follows:

- Retirement obligations associated with tangible capital assets result from legal, constructive and equitable obligations.
- Retirement costs increase the carrying amount of the related tangible capital asset or a component thereof and are expensed in a rational and systematic manner.
- Subsequent remeasurement of the liability can result in either a change in the carrying amount of the related tangible capital asset or a component thereof, or an expense, depending on the nature of the remeasurement and whether the asset remains in productive use.
- Retirement obligations associated with tangible capital assets include post-retirement operation, maintenance and monitoring.
- A present value technique is often the best method with which to estimate the liability.

Comment period ends on November 21, 2014.

Current Status of Documents Previously Issued for Comment

Revenue	Comment period for this Statement of Principles closed on February 3, 2014. Currently in deliberations. Exposure draft is expected to be issued in Q2 of 2015.
Concepts Underlying Financial Performance	Comments on the second consultation paper are currently in deliberations. The third consultation paper is expected to be issued in Q2 of 2015.
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. The AcSB and PSAB are assessing the comments received.
Introduction to Public Sector Accounting Standards	This re-exposure draft proposes to amend the set of standards to be followed by a non-business government partnership with only public sector entity partners and to 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. Comment period closed on April 30, 2014. Final Handbook material is expected to be issued in Q4 of 2014.
Related Party Transactions	This Re-exposure Draft was issued by the PSAB in April 2014. To promote clarity, PSAB proposes two new Sections: related party disclosures and inter-entity transactions. Comment period closed on September 15, 2014.

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

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

CSAE 3410 – Assurance Engagements on Greenhouse Gas Statements

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

Pronouncements effective 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 reviews of interim financial statements for interim periods of fiscal years beginning on or after December 15, 2014

Section 7060, Auditor Review of Interim Financial Statements

Focus of the new standard is consistent with that of Section 7050, which this standard replaces, 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.

Section 7060 contains new requirements with respect to:

- agreeing to terms of engagement with both management and the audit committee;
- inquiries relating to fraud, illegal acts, and non-compliance with provisions of laws and regulations;
- procedures relating to going concern;
- accumulation and evaluation of misstatements;
- responses to discovery of a material misstatement subsequent to the issuance of the auditor's interim review report; and
- content and extent of documentation.
- determination of materiality;
- identification of the risks of material misstatement and design and performance of procedures to address the identified risks;
- the auditor's response when he or she becomes aware of a misrepresentation in the interim management discussion and analysis;
- the date of management representation; and
- communication of the effect of accumulated misstatements to management and the audit committee in misstatements.

Pronouncement effective for reports dated on or after April 1, 2016

CSRS 4460 - Reports on Supplementary Matters Arising from an Audit or a Review Engagement

The development of CSRS 4460 was undertaken by the AASB to address an increasing trend by various third parties, including regulators, to place responsibility on the practitioner to report on matters beyond the scope of the audit or review of an entity's financial statements. Such matters are relevant to the third party, and may have come to the attention of the practitioner when performing the audit or review. These matters are referred to as "supplementary matters".

This new Canadian Standard on Related Services deals with engagements to report on supplementary matters to a third party and sets out requirements related to:

- accepting the engagement, including circumstances when acceptance is prohibited;
- performing the engagement; and
- reporting, including the content of the practitioner's report.

Revisions to Independence Standards

The revisions are based on the final report of the Independence Task Force (ITF) of CPA Canada's Public Trust Committee. A number of changes have been made in order that the Rules be no less stringent than the requirements of the Code of Ethics for Professional Accountants (Code) issued by the International Ethics Standards Board for Accountants, unless it is determined that a particular provision is either not in the public interest or it is prohibited by law or regulation.

The changes take effect for assurance engagements in respect of reporting periods commencing after December 15, 2014.

Current Status of Documents Previously Issued for Comment

Addressing Disclosures in the Audit of Financial Statements

This exposure draft was issued by the IAASB in May 2014, aiming to clarify expectations of auditors when auditing financial statement disclosures. The proposals include new guidance on considerations relevant to disclosures—from when the auditor plans the audit and assesses the risks of material misstatement, to when the auditor evaluates misstatements and forms an opinion on the financial statements.

The proposed changes are as follows:

- To clarify that the definition of financial statements in the ISAs includes all disclosures.
- To highlight that it is beneficial for auditors to agree with management their responsibilities relating to the preparation of disclosures, as well as providing access to information necessary for audit purposes.
- To add emphasis for auditors to consider disclosures when assessing the risk of misstatement arising from fraud.
- To encourage auditors to discuss matters relating to disclosures and the financial statements early in the audit process.
- To focus auditors on the planning considerations related to disclosures earlier in the audit process.
- To assist auditors with more effectively and consistently identifying and assessing the risks of material misstatement in disclosures.
- To clarify that the nature of potential misstatements in disclosures is also relevant to the design of audit procedures to address the risks of material misstatement.
- To assist auditors with more effectively responding to the risks of material misstatement in disclosures.
- To clarify that misstatements in disclosures are accumulated, and the effect of uncorrected misstatements, both individually and in aggregate, are to be considered in light of the financial statements as a whole.
- To provide guidance for the audit procedures when evaluating the presentation of the financial statements, including whether fair presentation has been achieved (if applicable).

The AASB issued a related Canadian exposure draft in June 2014 and proposes no Canadian amendments to the proposed revised ISAs.

The IAASB is proposing that the effective date for the revised ISAs be aligned with the effective date for the revisions arising from the auditor reporting project and the project to revise ISA 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements. The revised ISAs are expected to be effective approximately 12 to 15 months after the issuance of the revised ISAs, the new and revised ISAs resulting from the auditor reporting and ISA 720 projects as final standards. The revised CASs would have the same effective date as the revised ISAs.

Comment period ended on August 15, 2014 relating to the AASB's exposure draft and on September 11, 2014 relating to the IAASB's exposure draft. Currently in deliberations.

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.

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).

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

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

This re-exposure draft, issued by the IAASB in April 2014, proposes revisions to ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*. The AASB approved a related Canadian re-exposure draft, which was issued in May 2014.

Proposed ISA 720 (Revised) deals with the auditor's responsibilities relating to other information included in an entity's annual report, as defined in the standard. The scope is expanded to include a combination of documents that accompany the audited financial statements, as opposed to being limited to a document that contains the audited financial statements. However, the scope is narrowed to limit it to a document, or combination of documents, that meets the definition of an annual report.

The AASB is proposing to include a Canadian-only application and other explanatory paragraph. CAS 720 (Revised) would state that in Canada, the Management Discussion and Analysis (MD&A) issued under the provisions of Canadian securities legislation would normally be considered to be within the scope of CAS 720. If an entity issues an annual report, the annual report would also be within the scope of CAS 720 if it meets the definition set out in the standard.

Comment period closed on July 4, 2014 relating to the AASB's re-exposure draft and on July 18, 2014 relating to the IAASB's re-exposure draft. Currently in deliberations. Final Handbook material is expected in Q2 of 2015.

Attestation and Direct Engagements

This ED was issued by the AASB in June 2014. AASB proposes to adopt International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information, as Canadian Standard on Assurance Engagements (CSAE) 3000, Attestation Engagements Other than Audits or Reviews of Historical Financial Information and issue a new CSAE 3001, Direct Engagements.

These standards will replace:

- Standards for assurance engagements other than audits of financial statements and other historical financial information, Section 5025;
- Quality control procedures for assurance engagements other than audits of financial statements and other historical financial information, Section 5030;
- Use of specialists in assurance engagements other than audits of financial statements and other historical financial information, Section 5049;
- Using the work of internal audit in assurance engagements other than audits of financial statements and other historical financial information, Section 5050; and
- General review standards, Section 8100.

Comment period ends on November 3, 2014.

Questions? Issues?

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.

Audit & Assurance Alerts

These alerts are issued by CPA Canada to raise awareness about challenging aspects of assurance standards.

The following alerts have recently been issued:

- CAS 600 – Challenges in Complying with the Requirements in Group Audits Involving Components Located in Emerging Markets
- CAS 600 – Challenges in Complying with the Requirements in Group Audits
- CAS 540 – Challenges in Complying with the Requirements When Auditing Accounting Estimates

Click **here** to access these alerts.

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