

January 2015

Technical Bulletin



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

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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, 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

<i>IFRS 3 Business Combinations</i>	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
<i>IFRS 13 Fair Value Measurement</i>	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
<i>IAS 40 Investment Property</i>	Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

These amendments have not yet been issued by the AcSB in Part I of the Handbook, which is expected for Q1 of 2015.

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.

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.

IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures

These standards were amended to clarify the application of the requirement for investment entities to measure subsidiaries at fair value instead of consolidating them.

IAS 1 Presentation of Financial Statements

Amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

These amendments have not yet been issued by the AcSB in Part I of the Handbook, expected for Q1 of 2015.

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.

Annual Improvements 2012-2014 Cycle

<i>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</i>	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.
<i>IFRS 7 Financial Instruments: Disclosures</i>	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.
<i>IAS 19 Employee Benefits</i>	Clarification regarding the currency of bonds used in the estimate of the discount rate for post-employment benefit obligations.
<i>IAS 34 Interim Financial Reporting</i>	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 Q1 of 2015.

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 Q1 of 2015.

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 Q1 of 2015.

Draft Advisory by the Office of the Superintendent of Financial Institution Canada (OSFI)

The OSFI has issued a Draft Advisory, requiring all Federally Regulated Entities (FREs), such as banks, cooperative credit associations, life insurance companies, with October 31 year ends, to early adopt IFRS 9 for their annual period beginning on November 1, 2017.

Did you know?

January 1, 2015 will mark 10 years since the adoption of IFRS by the European Union.

Recently Issued Documents for Comment

Disclosure Initiative (Proposed amendments to IAS 7)

The proposed amendments, issued by the IASB in December 2014, will require companies to provide a reconciliation between the opening and closing balances of liabilities and assets related to their financing activities, which will allow investors to clearly see movements in a reporting period that result from:

- cash flows from financing activities;
- the effects of mergers and acquisitions (eg. obtaining or losing control of subsidiaries or other businesses); and
- other non-cash changes (such as the effects of foreign exchange and changes in fair values).

The IASB believes that the proposed changes will also enable investors to better understand a company's financial position and liquidity. To improve transparency around a company's ability to use cash and cash equivalents, the IASB will also propose that a company disclose restrictions that affect management's decisions on how to use cash and cash equivalent balances.

Comment period ends on April 17, 2015.

The Disclosure Initiative is a portfolio of projects that are being undertaken with the aim of improving the effectiveness of disclosures in financial statements. The portfolio of projects includes both implementation and research projects together with ongoing activities that explore how presentation and disclosure principles and requirements in existing standards can be improved.

Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2)

The proposed amendments, issued by the IASB in November 2014, address the following:

Effects of vesting conditions on the measurement of a cash-settled share-based payment

- IFRS 2 does not specifically address the impact of vesting and non-vesting conditions on the measurement of the fair value of the liability incurred in a cash-settled share-based payment transaction. The IASB proposes to clarify that accounting for the effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based payment should follow the approach used for measuring equity-settled share-based payments.

Classification of share-based payment transactions with net settlement features

- The IASB proposes an exception that would specify that if the entity settles the share-based payment arrangement net by withholding a specified portion of the equity instruments to meet the statutory tax withholding obligation, then the transaction should be classified as equity-settled in its entirety, if the entire share-based payment would otherwise be classified as equity-settled if it had not included the net settlement feature.

Accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled

- Currently, IFRS 2 does not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications to the terms and conditions of the arrangement or where cash-settled share-based payment is settled and replaced by a new equity-settled

share-based payment. The IASB proposes to amend IFRS 2 so that:

- a) the share-based payment transaction is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification;
- b) the liability recognized in respect of the original cash-settled share-based payment is derecognised upon the modification, and the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date; and
- c) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately.

Comment period ends on March 25, 2015.

Current Status of Documents Previously Issued for Comment

Major Projects – Exposure Drafts

<i>Insurance Contracts</i>	Currently in deliberations.
<i>Leases</i>	Currently in deliberations. The IASB expects to issue the new standard in the second half of 2015.

Other Documents and Exposure Drafts

<i>Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12)</i>	<p>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.</p> <p>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</p>
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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 closed 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 comment period ends on January 15, 2015.

Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging

The IASB issued this DP 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 closed on October 17, 2014.

Conceptual Framework

This DP 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 Statement is expected to be issued in Q2 of 2015.

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?

In our October 2014 issue of the Technical Bulletin, we reported that the IASB staff would be undertaking a research project on this issue. Based on the outreach and analysis performed, the IASB decided not to pursue this issue further at the current time because there appeared to be limited demand for fair value accounting for these types of structures, and limited diversity in practice.

Test your knowledge of IFRSs and IASB – take the online quiz launched by the IFRS Foundation.

Questions?

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.

The latest Reporting Alerts:

- IFRS 15 Revenue from Contracts with Customers – click **here** to access.
- IFRS Round Up 2014 - click **here** to access.

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.

The Guide to International Financial Reporting Standards in Canada

This guide, published 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

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

<i>Cash Flow Statement, Section 1540</i>	Reference to non-controlling interests removed
<i>Business Combinations, Section 1582</i>	Clarification that contingent consideration is remeasured when the contingency is resolved
<i>Subsidiaries, Section 1590</i>	Amendment to require that certain of the existing disclosures are only applicable if the subsidiary is consolidated
<i>Non-controlling Interests, Section 1602</i>	Clarification that the accounting for a change in ownership should be based on the accounting policy used to account for the subsidiary
<i>Financial Instruments, Section 3856</i>	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
	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, 2015

2014 Annual Improvements

Financial Instruments, Section 3856 Clarification that, when a reporting period ends between the date the hedged transaction occurs and the date the hedging item matures, the hedging item is remeasured at year end and any gain or loss since the date of the hedged transaction is included in income

Clarification that disclosure of the carrying amount of impaired financial assets is required for financial assets other than current trade receivables

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.

Interests in Joint Arrangements, 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.

Recently Issued Documents for Comment

Redeemable Preferred Shares Issued in a Tax Planning Arrangement

This ED, issued by the AcSB in October 2014, proposes to amend Section 3856 Financial Instruments to require

redeemable preferred shares issued in a tax planning arrangement to be presented as liabilities and, therefore, be accounted for consistently with other financial liabilities. The effect of recognizing the liability would be presented as a separate component of equity, and there would be additional disclosure on this separate component of equity. The proposed effective date of the amendments would be for fiscal years beginning on or after January 1, 2016, provided no significant changes are required to the proposal after comments received are deliberated.

Comment period ends on January 15, 2015.

Post-Implementation Review: Section 3856 Financial Instruments

This Request for Information has been issued by AcSB in October 2014. The post-implementation review of Section 3856 is a comprehensive review and is the first post-implementation review undertaken by the AcSB. The AcSB intends to assess the following, with respect to Section 3856:

- whether it provides financial statement information that is useful to users of financial statement and how the usefulness of this information could be improved;
- whether there are unexpected costs or challenges in applying the requirements of the standard; and
- whether there are areas of the standard that represent interpretation challenges and as a result, impair the consistent application of the standard.

Comment period ends on February 9, 2015.

Questions?

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.

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)

Pronouncements 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

<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
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organizations (NFPOs).

Comment period closed on December 15, 2013. The AcSB and PSAB are assessing the comments received.

PUBLIC SECTOR ACCOUNTING (PSA)

Introduction to Public Sector Accounting Standards

In December 2014, Introduction to Public Sector Accounting Standards was amended to:

- introduce the term public sector entity;
- define a government component;
- amend the definition of a government organization;
- include specific definitions of all types of government organizations and partnerships; and
- provide guidance as to the basis of accounting to be used by government components, organizations and partnerships, where the partnerships have two or more public sector entity partners.

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 Documents for Comment

Post-Implementation Review: Section PS 3410, Government Transfers

This Request for Information was issued by PSAB in November 2014. Now that stakeholders have had an opportunity to work through the issues related to Section PS 3410, PSAB is looking for comments on how those issues were dealt. Undertaking this post-implementation review will help PSAB assess any implementation challenges encountered by stakeholders, and the nature, extent and cause of any ongoing issues.

Comment period ends on May 15, 2015.

Financial Instruments: Transition

This ED, issued by the PSAB in October 2014, proposes to clarify aspects of the Section’s scope of application, specifically, the receivables and payables that the Section does not apply to, and add transitional provisions and new guidance relating to certain specialized forms of agreements.

Comment period ends on January 15, 2015.

Current Status of Documents Previously Issued for Comment

<i>Assets, Contingent Assets and Contractual Rights</i>	<p>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.</p> <p>Comment period closed on November 3, 2014.</p>
<i>Restructuring Transactions</i>	<p>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.</p> <p>Comment period closed on November 28, 2014.</p>
<i>Retirement Obligations</i>	<p>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. Comment period closed on November 21, 2014.</p>

<i>Revenue</i>	Comment period for this Statement of Principles closed on February 3, 2014. Currently in deliberations.
<i>Concepts Underlying Financial Performance</i>	Comments on the second consultation paper are currently in deliberations. The third consultation paper is expected to be issued in Q2 of 2015.
<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. The AcSB and PSAB are assessing the comments received.
<i>Related Party Transactions</i>	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. Currently in deliberations.

PSA Discussion Group Meeting Topics

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

Summaries of topics and discussions from past meetings are available on the Financial Reporting & Assurance Standards Canada website by clicking [here](#).

2. ASSURANCE

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.

Recently Issued Documents for Comment

Joint Policy Statement Concerning Communications with Law Firms Regarding Claims and Possible Claims in Connection with the Preparation and Audit of Financial Statements ("Statement")

This ED was issued by the AASB and the Canadian Bar Association (CBA) in November 2014.

The new Statement will replace the existing Statement, with the same title, and Assurance and Related Services Guideline, AuG-46, Communication with Law Firms under New Accounting and Auditing Standards (often known to lawyers as the "Interim Guidance").

Fundamental proposed changes include:

- expanding the scope of the revised Statement to apply to in-house legal counsel who is acting in a legal capacity by performing a role that commonly would be performed by external legal counsel;
- providing a more detailed discussion on the legal concept of privilege;
- structuring the revised Statement to be accounting framework neutral so that it can be used regardless of the applicable financial reporting framework applied by management to evaluate the entity's claims and possible claims; and
- updating guidance with respect to the timing of issuance of the inquiry and response letters.

The ED proposes to amend the Canadian-only paragraph CA25a of CAS 501 to:

- remove wording that may incorrectly imply that the auditor and the entity's legal counsel communicate directly, whereas the communication with respect to entity's claims and possible claims is between management and the entity's legal counsel,
- scope in the in-house legal counsel, and
- acknowledge terminology differences between the Statement and CAS 501.

The revised Statement is expected to be effective for inquiry letters dated on or after December 1, 2016.

Comment period ends on April 6, 2015.

Auditor's Consent to the Use of the Auditor's Report Included in a Business Acquisition Report

This ED was issued by the AASB in October 2014. The AASB is proposing to replace section 7500, Auditor's Consent to the Use of the Auditor's Report in Connection with Designated Documents with section 7170, Auditor's Consent to the Use of the Auditor's Report Included in a Business Acquisition Report.

Section 7500 deals with the auditor's responsibilities when the auditor agrees to consent to the use of the auditor's report in connection with a designated document, including a business acquisition report. Consent in connection with a business acquisition report is driven by the Canadian securities regulatory requirement. Consent in connection with documents that are currently within the scope of Section 7500 other than the business acquisition report is not driven by securities

regulatory requirements. The AASB is of the view that the auditor's consent in connection with such documents is similar in nature to the public accountant's consent contemplated in Association, Section 5020. Accordingly, the AASB concluded that Section 7170 should focus solely on the auditor's consent in connection with a business acquisition report.

When Section 7170 becomes effective, an auditor's professional responsibilities in responding to requests to consent would be addressed by the following standards:

- Section 7170 – Consent in connection with a business acquisition report;
- Section 7150 – Consent in connection with an offering document; and
- Section 5020 – Consent in connection with documents other than an offering document or a business acquisition report.

Section 7500 is drafted in the context of an auditor providing consent to a client of the auditor in connection with a designated document prepared by that client. For a business acquisition report, the auditor provides consent to the acquirer of a business to the use of the auditor's report on the audited financial statements of that acquired business. Therefore, the extant requirements and guidance in Section 7500 have been significantly redrafted to capture the nuances necessary to deal with consent in connection with a business acquisition report. Section 7170 requires the auditor to request written representations from appropriate parties relating to intervening period events, providing flexibility in terms of whether the representation is requested from management of the acquired business or the acquirer and matters to be included in the written representations. Consistent with Section 7150, proposed Section 7170 permits the auditor's consent in connection with a business acquisition report to be provided either orally or in writing.

Comment period ends on January 30, 2015.

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 CASSs 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).

IAASB plans to release the new and revised standards in January 2015.

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.

Based on comments received, the AASB plans to issue a re-exposure draft, which is expected to be approved in Q1 of 2015.

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 closed on November 3, 2014.

Questions?

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 alert has recently been issued:

- CSRS 4460 – A New Standard for Reports on Supplementary Matters: Are You Ready?

Click **here** to access this alert.

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