



## **Adopting IFRSs in Canada, II**

### **March 2009**

**COMMENTS MUST BE RECEIVED BY  
MAY 15, 2009**

This Exposure Draft of proposed accounting standards is issued by the Accounting Standards Board. The Board is composed of persons knowledgeable in the preparation and use of financial statements who are drawn from public practice, business and academe. All members serve as individuals and not as representatives of their employers or organizations.

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs, and, when expressing disagreement with the Exposure Draft, they clearly explain the problem, and include a suggested alternative supported by specific reasoning. All comments received will be available on the website at [www.acsbcanada.org](http://www.acsbcanada.org) 10 days after the comment deadline, unless confidentiality is requested.

**To be considered, comments must be received by  
May 15, 2009, addressed to:**

**Peter Martin, CA  
Director, Accounting Standards  
Accounting Standards Board  
277 Wellington Street West  
Toronto, Ontario M5V 3H2**

**For ease of handling, we prefer comments to be sent by  
e-mail (in Word format) to:**  
[ed.accounting@cica.ca](mailto:ed.accounting@cica.ca)

“Standards need not be applied to immaterial items. While materiality is a matter of professional judgment in the particular circumstances, the Board believes that, as a general rule, materiality should be judged in relation to the significance of financial statement information to decision makers. An item of information, or an aggregate of items, is deemed to be material if it is probable that its omission or misstatement would influence or change a decision.”

(Introduction to Accounting Standards — CICA Handbook — Accounting)

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## Highlights

The Accounting Standards Board (AcSB) proposes, subject to comments received following exposure, to incorporate the International Financial Reporting Standards (IFRSs) set out in this Exposure Draft into the CICA Handbook – Accounting (Handbook). The Handbook will be updated as necessary thereafter so that it includes all IFRSs in force. Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, IFRSs will replace the standards and interpretations currently applicable to publicly accountable enterprises.

## Background

In April 2008, the AcSB issued an Exposure Draft of the IFRSs included in the International Accounting Standards Board’s (IASB) 2007 Bound Volume of International Financial Reporting Standards (i.e., all IFRSs in effect at January 1, 2007).<sup>1</sup> The Exposure Draft proposed incorporating these IFRSs into the Handbook as a benchmark reference of the standards and interpretations that will apply to publicly accountable enterprises. Respondents presented no compelling arguments for why one or more of the IFRSs exposed in the April 2008 Exposure Draft should not be applied in Canada. Accordingly, the AcSB is continuing with its plans to incorporate IFRSs into the Handbook.

The April 2008 Exposure Draft noted the need to update this benchmark reference of IFRSs for any changes made after the 2007 Bound Volume was published. This Exposure Draft exposes a number of such changes (see “Changes to IFRSs since the 2007 Bound Volume” below). It also:

- (a) addresses items carried forward from the April 2008 Exposure Draft, including the definition of a publicly accountable enterprise (see “Definition of a publicly accountable enterprise” below), the mandatory effective date for the adoption of IFRSs by publicly accountable enterprises (see “Effective date” below), and the disposition of the Emerging Issues Committee (EIC) Abstracts currently forming part of Canadian generally accepted accounting principles (GAAP) (see “Disposition of Emerging Issues Committee (EIC) Abstracts” below); and
- (b) presents a preliminary draft of new introductory material to be included in the Handbook once it contains IFRSs (see “New introductory material for Handbook” below).

## Proposals

### *Entities affected by the AcSB’s IFRS strategy*

After redeliberating its proposals for the entities to be affected by its IFRS strategy, based on comments received on the April 2008 Exposure Draft, the AcSB confirmed its original intentions in this regard. Therefore:

- (a) IFRSs will replace the current standards and interpretations applicable to publicly accountable enterprises, effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011;

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<sup>1</sup> See the April 2008 Exposure Draft, “[Adopting IFRSs in Canada](#),” and related [comment letters](#).

- (b) the primary standard applicable to pension plans will continue to be PENSION PLANS, Section 4100,<sup>2</sup> rather than IAS 26, “Accounting and Reporting by Retirement Benefit Plans”; and
- (c) private enterprises and not-for-profit organizations will be permitted to adopt IFRSs once they have been included in the Handbook, but will not be required to do so.

Governments and other entities in the public sector refer to the CICA Public Sector Accounting Handbook to determine the basis of accounting for purposes of their financial reporting. The Public Sector Accounting Board (PSAB) has agreed to seek additional information relating to the application of the current definitions of, and the source of GAAP used by, organizations controlled by the government. Further information on this initiative is available [here](#).

#### *Definition of a publicly accountable enterprise*

Based on comments received from the public on the proposed definition of a publicly accountable enterprise included in its April 2008 Exposure Draft, the AcSB has amended the definition in order to clarify the meaning of key terms such as “a public market” and “fiduciary capacity”. The definition is also now stated in the positive, rather than the negative, as follows:

A **publicly accountable enterprise** is an entity, other than a not-for-profit organization, or a government or other entity in the public sector that:

- (i) has issued, or is in the process of issuing, debt or equity instruments that are, or will be, outstanding and traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- (ii) holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

Banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks typically meet the second of these criteria. Other entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if an entity does so for reasons incidental to one of its primary businesses (as, for example, may be the case for some travel or real estate agents, or cooperative enterprises requiring a nominal membership deposit), it is not considered to be publicly accountable.

#### *Effective date*

The AcSB has considered the implications, for its IFRS strategy, of recent events including the current financial market uncertainty. The AcSB found no reason to change its proposed mandatory effective date for the adoption of IFRSs by publicly accountable enterprises. The AcSB continues to think that adequate advance notice has been provided. Many entities are proceeding well with their preparations for the changeover based on the understanding that this date will not change. Furthermore, delaying the effective date would require the AcSB to reconsider the timing of adoption of some global accounting developments that it previously decided should be adopted at the Canadian changeover date. It could also result in the transition to

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<sup>2</sup> The AcSB is considering the extent to which Section 4100 requires change, as well as whether guidance in addition to that found in Section 4100 is needed after 2011, and, if so, the appropriate source of such guidance. The AcSB’s proposals in this area will be exposed for public comment separately from this Exposure Draft.

IFRSs occurring at a time that makes ongoing changes to certain of the standards less manageable from a Canadian perspective.

The AcSB also redeliberated its proposal that IFRSs be applied to an entity's first interim financial statements in the year of adoption. Concerns have been expressed that this proposal unduly burdens entities already occupied with producing their final year-end financial statements in accordance with existing Canadian GAAP, and auditors attempting to review an entity's initial IFRS interim financial statements at the same time as its opening IFRS statement of financial position. The suggestion has also been made that delaying the adoption of IFRSs until an entity's annual financial statements in the year of adoption would produce better quality results.

The AcSB is of the view that the arguments in favour of applying IFRSs to interim financial statements in the year of adoption outweigh those against. Application to interim financial statements provides early information to users of financial statements about the effects of IFRS adoption, and will ensure that an entity's financial statements for each period in the first year of adoption are prepared using consistent accounting policies. It also allows an entity to move its systems from existing Canadian GAAP to IFRSs commencing in the first quarter of the year of adoption, rather than maintaining parallel systems until year end, and eliminates the need to restate comparative figures in the following year, as would otherwise be required. Regarding the quality of results, the advice the AcSB has received from the Accounting Standards Oversight Council and a number of stakeholders has been that making IFRSs first applicable to annual financial statements in the year of adoption is more likely to delay the point at which some entities begin their preparations, rather than improve the quality of their IFRS financial reporting in the changeover year. The AcSB notes that an entity is required to prepare an opening IFRS statement of financial position at the beginning of the first comparative period. Thus, it must be ready for the changeover well before publishing its first IFRS financial statements.

#### *New introductory material for Handbook*

The AcSB intends to replace the "Introduction to Accounting Standards" currently found in the Handbook with new introductory material in order to assist Handbook users both before and after the changeover date. Among other things, this introductory material will do the following:

- (a) Direct each category of financial reporting entity to the standards that apply to it. (The introductory material will reflect the revised definition of a publicly accountable enterprise provided above.)
- (b) Discuss voluntary early adoption of IFRSs.
- (c) Address questions that have arisen with respect to the use of IFRSs (for example, the initial application of IFRSs to entities with a financial reporting period that does not coincide with the end of a month, and the effects of the AcSB's IFRS strategy on entities that are already reporting in accordance with IFRSs).

Appendix 2 to these Highlights contains preliminary drafts of a Preface to the Handbook and an Introduction to IFRSs.

#### *Changes to IFRSs since the 2007 Bound Volume*

This Exposure Draft exposes for public comment in Canada the standards and interpretations issued by the IASB since the 2007 Bound Volume and included in the 2008 Bound Volume (i.e., the body of IFRSs in effect at January 1, 2008). Following is a list of these standards, with the issue date indicated in parentheses:

- Amended IFRS 2, "Share-based Payment" (issued January 2008)
- Revised IFRS 3, "Business Combinations" (issued January 2008)

- Revised IAS 1, “Presentation of Financial Statements” (issued September 2007)
- Revised IAS 23, “Borrowing Costs” (issued March 2007)
- Amended IAS 27, “Consolidated and Separate Financial Statements” (issued January 2008)
- IFRIC 12, “Service Concession Arrangements” (issued November 2006)
- IFRIC 13, “Customer Loyalty Programmes” (issued June 2007)
- IFRIC 14, “IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” (issued July 2007)

Appendix 1 to these Highlights provides a high-level summary of each of the IFRSs listed above. It also describes significant amendments made to other IFRSs as a result of their issuance.

This Exposure Draft provides a link not only to the IFRSs being exposed (i.e., those listed above), but also to the remainder of the IFRSs in effect at January 1, 2008. The AcSB is not seeking comments on the latter, which were previously exposed in Canada as part of the April 2008 Exposure Draft. They are included here in order to provide the proper context for the new standards and interpretations being exposed, and to allow stakeholders to review the resultant amendments to existing standards. The link provided is to only the material in the 2008 Bound Volume described as being an integral part of the standards, as well as the IASB’s “Framework for the Preparation and Presentation of Financial Statements.” This excludes bases for conclusions and other non-authoritative material included in the 2008 Bound Volume. Such material will not be included in the Handbook and, hence, is not being exposed by the AcSB for comment. To view the IFRSs, [click here](#).

This Exposure Draft does not include changes made to IFRSs after the compilation of the 2008 Bound Volume. The AcSB plans to expose those changes for public comment in Canada either individually, or in a third and final omnibus Exposure Draft of IFRSs later this year (see “Plans for finalizing the proposals” below). This will ensure that, at any point in time, the most current version of IFRSs is available for use by Canadian entities. Subject to comments received on this omnibus Exposure Draft and the next one, the AcSB proposes to incorporate the IFRSs exposed in each into the Handbook.<sup>3</sup>

### *IFRS 1*

As noted in the April 2008 Exposure Draft, AcSB staff proposed to the IASB a number of modifications to IFRS 1, “First-time Adoption of International Financial Reporting Standards,” intended to address issues likely to impede the adoption of IFRSs in Canada. In September 2008, the IASB issued an Exposure Draft proposing additional relief in a number of areas.<sup>4</sup> The IASB is in the process of redeliberating its proposals based on the comments received.

The AcSB invites stakeholders to inform it of any further amendments to IFRS 1 they think are warranted as a result of the IFRSs exposed in this Exposure Draft.

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<sup>3</sup> IFRSs will continue to change between now and the mandatory changeover date. AcSB staff has prepared a paper that analyzes the changes still expected, and their likely effect. The paper, entitled “Which IFRSs Are Expected to Apply for Canadian Changeover in 2011?”, is updated periodically and is available on the AcSB’s website at [www.acsbcanada.org/download.cfm?ci\\_id=46450&la\\_id=1&re\\_id=0](http://www.acsbcanada.org/download.cfm?ci_id=46450&la_id=1&re_id=0).

<sup>4</sup> The IASB’s Exposure Draft, “Additional Exemptions for First-time Adopters (proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*),” is available on the IASB’s website at [Exposure Draft and Comment Letters](#).

### *Disposition of Emerging Issues Committee (EIC) Abstracts*

After redeliberating the proposals contained in its April 2008 Exposure Draft based on comments received from the public, the AcSB confirmed its general intention not to issue application or interpretative guidance on IASB standards. As noted in that Exposure Draft, a task force was struck to determine if any of the issues addressed in current EIC Abstracts should either be referred to the IASB's International Financial Reporting Interpretations Committee (IFRIC), or be the subject of new guidance issued by the AcSB (because the issue is affected by specific Canadian legal, tax, regulatory or other circumstances that do not apply in other countries and, therefore, are unlikely to be addressed by the IASB).

The task force completed its review of all current EIC Abstracts in May 2008. The AcSB agreed with the conclusion of the task force that formal interpretations of the issues addressed by the Abstracts will not be required for publicly accountable enterprises once IFRSs are adopted in Canada. Accordingly, the AcSB decided to withdraw all EIC Abstracts, and that it will not issue new interpretative guidance on those issues.<sup>5</sup> The AcSB also decided the following:

- (a) Key principles from EIC-116, "Pension Plans — Disclosure Requirements for Income from Investments in Segregated Funds," and EIC-168, "Accounting by Pension Plans for Transaction Costs," should be incorporated into Section 4100 (see "Entities affected by the AcSB's IFRS strategy" above).
- (b) The issues addressed by EIC-111, "Determination of Substantively Enacted Tax Rates under CICA 3465," should be considered by the AcSB's planned forum for the discussion of financial reporting issues arising from the application of IFRSs.
- (c) The issues addressed by EIC-146, "Flow-Through Shares," should be included in AcSB staff's review of the IASB's exposure draft on income taxes.
- (d) The issues addressed by EIC-160, "Stripping Costs Incurred in the Production Phase of a Mining Operation," should be referred to the IFRIC due to the lack of guidance in IFRSs on accounting for stripping costs.
- (e) Issues in other EIC Abstracts that could be helpful in the development of current IASB projects should be communicated by AcSB staff to the appropriate IASB staff.

### **Plans for finalizing the proposals**

The AcSB expects to issue a third and final omnibus Exposure Draft of IFRSs in mid-2009 (see "Changes to IFRSs since the 2007 Bound Volume" above), and to incorporate the IFRSs in all three omnibus Exposure Drafts into the Handbook in the second half of the year (unless the IASB replaces or amends one of these IFRSs, in which case the new or amended standard will be incorporated in its place).

The AcSB will redeliberate its proposals to take into account comments received on this Exposure Draft. The AcSB will provide updates about its redeliberations on its website at [www.acsbcanada.org](http://www.acsbcanada.org).

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<sup>5</sup> As part of its deliberations on the appropriate financial reporting models for private enterprises and not-for-profit organizations, the AcSB is considering whether certain of the principles articulated in some EIC Abstracts should be incorporated into these models for use by these two categories of financial reporting entity.

## Comments requested

The AcSB welcomes comments on the following questions:

1. The IFRSs proposed in this Exposure Draft (i.e., those listed under “Changes to IFRSs since the 2007 Bound Volume” above) have been developed by the IASB for universal application. Do you think that, regardless of this fact, one or more of these IFRSs contain requirements that would lead to inappropriate results if they were applied in Canada? If so, please specify each such requirement and the aspects or circumstances that make it inappropriate for Canadian entities, together with a proposed alternative requirement with supporting rationale.
2. In general, the AcSB will not issue application or interpretative guidance on IASB standards. Do you think that such guidance is necessary for any of the IFRSs being exposed, even though it appears unnecessary elsewhere in the world? If so, please specify the standard, the specific issue giving rise to the need for application or interpretative guidance, and the nature of the guidance needed.
3. Are amendments to IFRS 1, “First-time Adoption of International Financial Reporting Standards,” needed to provide special transitional provisions for the adoption by Canadian entities of any of the IFRSs being exposed? If so, please specify each such IFRS, the transitional provision required and why you think it is necessary.
4. Does the draft new introductory material for the Handbook (presented in Appendix 2 to these Highlights) provide clear direction to each category of financial reporting entity on the standards that apply to it? Does it address, in a satisfactory manner, other issues arising with respect to the use of IFRSs? If not, please specify how you think the preliminary draft could be improved.

## APPENDIX 1

### SUMMARY OF CHANGES INTRODUCED BY THE IFRSs BEING EXPOSED

This Appendix provides a high-level description of the changes introduced by each of the IFRSs included in this Exposure Draft, including significant amendments made to existing IFRSs as a result of the new standards and interpretations.<sup>1</sup>

#### **Amended IFRS 2, “Share-based Payment”**

The amendment to IFRS 2 deals with two matters specific to vesting conditions and cancellations. It clarifies that the only features of a share-based payment that are vesting conditions are service conditions and performance conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

#### **Revised IFRS 3, “Business Combinations” and Amended IAS 27, “Consolidated and Separate Financial Statements”<sup>2</sup>**

With the issuance of revised IFRS 3 and amended IAS 27, the IASB completed the second phase of its business combinations project. Following are the main changes made to the versions of IFRS 3 and IAS 27 included in the 2007 Bound Volume:

- **Partial acquisitions:** Non-controlling interests are measured either at their proportionate interest in the net identifiable assets (which was the original IFRS 3 requirement) or at fair value.
- **Step acquisitions:** The requirement to measure at fair value every asset and liability at each step for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill is measured as the difference at acquisition date (i.e., the date on which control is obtained) between the net assets acquired and the aggregate of the consideration transferred, any non-controlling interest in the acquiree and the fair value of any investment in the business held before the acquisition.
- **Acquisition-related costs:** Acquisition-related costs are generally recognized as expenses (rather than as part of the purchase consideration).
- **Contingent consideration:** Contingent consideration must be recognized and measured at fair value at the acquisition date. Subsequent changes in fair value are recognized in accordance with other IFRSs, usually in profit or loss (rather than by adjusting goodwill).
- **Transactions with non-controlling interests:** Changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions.
- **Loss of control:** When an entity loses control of a subsidiary, any investment retained in the former subsidiary is measured initially at fair value at the date when control is lost (rather than an allocation of historical carrying amount). Any resulting gain or loss is recognized in profit or loss.

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<sup>1</sup> See “Transitional provisions and effective date” in the affected IFRSs for the effective date of each amendment. These amendments, and the remaining (less significant) amendments made to existing IFRSs as a result of the new standards and interpretations, have been incorporated into the relevant IFRSs included in the 2008 Bound Volume.

<sup>2</sup> The AcSB exposed substantial portions, but not all, of revised IFRS 3 and amended IAS 27 in its August 2005 Exposure Draft, “Business Combinations,” and April 2008 Exposure Draft, “Non-controlling Interests,” respectively. Accordingly, these new IFRSs are included in this Exposure Draft in their entirety.

Revised IFRS 3 and amended IAS 27 resulted in numerous changes to other IFRSs. Following are the more significant amendments:

Amendments resulting from revised IFRS 3:

- IFRS 1 permits first-time adopters to elect not to apply IFRS 3 retrospectively to business combinations that occurred before the date of transition to IFRSs. In accordance with Appendix B to IFRS 1, entities that instead choose to restate must also restate all later business combinations. As a result of revised IFRS 3, paragraph B1 was amended to require such entities to apply amended IAS 27 (rather than IAS 36, “Impairment of Assets,” and IAS 38, “Intangible Assets”) from the same date. In addition, paragraph B2(g) was amended to remove the requirement to adjust goodwill for contingencies affecting the amount of the purchase consideration for a past business combination when the contingency has been resolved before the date of transition to IFRSs.
- The “Scope” section of IFRS 2, “Share-based Payment,” (see paragraph 5) was expanded to note that revised IFRS 3 provides guidance helpful to the determination of whether equity instruments issued in a business combination are within the scope of that standard or IFRS 2.
- Scope exceptions for contracts for contingent consideration in a business combination were removed from IAS 39, “Financial Instruments: Recognition and Measurement,” IFRS 7, “Financial Instruments: Disclosures,” and IAS 32, “Financial Instruments: Presentation.”
- In IAS 12, “Income Taxes”:
  - the guidance in paragraph 21 on the measurement of goodwill was changed to mirror that found in paragraph 32 of revised IFRS 3;
  - new paragraph 32A was added requiring that a deferred tax asset (which results when the carrying amount of goodwill is less than its tax base) arising from the initial recognition of goodwill be recognized as part of the accounting for a business combination when it is probable that there will be taxable profit against which the deductible temporary difference can be utilized; and
  - guidance pertaining to the recognition of acquired deferred tax benefits realized after a business combination was clarified (see paragraphs 68, 81(k), 93 and 94).
- Appendix C was added to IAS 36, “Impairment of Assets,” to provide guidance on impairment testing of cash-generating units with goodwill and non-controlling interests.
- In IAS 38, “Intangible Assets”:
  - various paragraphs were amended (for example, paragraphs 33 and 35) or deleted (former paragraph 38) to reflect the fact that if an asset acquired in a business combination is separable or arises from contractual or other legal rights, its fair value can be measured reliably (and, thus, the reliable measurement criterion in paragraph 21(b) is always considered to be satisfied for intangible assets acquired in business combinations); and
  - paragraph 94 was amended and new paragraph 115A added to provide guidance on the useful life of a reacquired right recognized as an intangible asset in a business combination, and how to determine the gain or loss on the sale of such a reacquired right to a third party.

Amendments resulting from amended IAS 27:

- IFRS 1 was amended to prohibit retrospective application of some aspects of accounting for non-controlling interests. However, first-time adopters electing to apply revised IFRS 3 retrospectively to past business combinations are required to apply amended IAS 27 as well (see paragraph 34C).

- Paragraph 33 of IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations,” was amended to require the disclosure of the amount of income from continuing operations and from discontinued operations attributable to owners of the parent.
- Paragraph 106 of IAS 1, “Presentation of Financial Statements,” was amended to require the presentation, in the statement of changes in equity, of changes in ownership interests in subsidiaries that do not result in a loss of control.
- New paragraph 42A was added to IAS 7, “Statement of Cash Flows,” to require that cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control be classified as cash flows from financing activities.
- Guidance on partial disposals of an entity’s interest in a foreign operation was added to IAS 21, “The Effects of Changes in Foreign Exchange Rates,” (see paragraphs 48A-48D).
- IAS 28, “Investments in Associates,” was amended to require that when an investor loses significant influence over an associate, the investor:
  - measures any retained interest at fair value and recognizes, in profit or loss, any difference between this amount (plus proceeds of disposal) and the investment’s carrying value (see paragraph 18); and
  - accounts for all amounts recognized in other comprehensive income in relation to that associate on the same basis as if the associate had directly disposed of the related assets or liabilities (see paragraph 19A).
 Similar changes were made to IAS 31, “Interests in Joint Ventures,” in respect of situations in which an investor ceases to have joint control over an entity.

### **Revised IAS 1, “Presentation of Financial Statements”**

Revised IAS 1 requires the aggregation of information in the financial statements on the basis of shared characteristics. It requires all changes in a company’s equity resulting from transactions with owners in their capacity as owners (such as dividends and share repurchases) to be presented in the statement of changes in equity, separately from non-owner changes in equity. All changes in equity not resulting from transactions with owners in their capacity as owners (i.e., comprehensive income) are required to be presented in one statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The revised standard changed the titles of some of the financial statements (for example, the balance sheet was renamed a statement of financial position). The new titles will be used in IFRSs, but are not mandatory for use in financial statements.

Revised IAS 1 resulted in changes to a number of standards reflecting the change in title for some financial statements, as well as the introduction of the term “comprehensive income” and the statement of comprehensive income. For example, references to amounts being recognized directly in equity were changed to refer instead to their recognition in other comprehensive income, and requirements to report amounts in profit or loss subsequent to their initial recognition in equity were changed to require their reclassification into profit or loss as a reclassification adjustment.

Other amendments to existing IFRSs as a result of revised IAS 1 include the following:

- IFRS 1, “First-time Adoption of International Financial Reporting Standards,” was amended to require:
  - the presentation of an opening IFRS statement of financial position as at the date of transition to IFRSs (see paragraphs 6 and 36); and
  - the inclusion, in an entity’s first IFRS financial statements, of a reconciliation of total comprehensive income under previous GAAP to total comprehensive income under IFRSs for the latest period in its most recent annual financial statements (or profit or loss under previous GAAP to total comprehensive income under IFRSs, if the entity did not previously report total comprehensive income).
- New paragraph 33A was added to IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations,” to require that when an entity presents comprehensive income in two statements rather than one, the separate income statement include a section relating to discontinued operations.
- New paragraphs were added to IAS 12, “Income Taxes,” to require:
  - the presentation of tax expense or income related to profit or loss from ordinary operations in a separate income statement, when an entity chooses to present comprehensive income in two statements rather than one (see paragraph 77A); and
  - separate disclosure of the amount of income tax relating to each component of other comprehensive income (see paragraph 81(ab)).
- New paragraph 4A was added to IAS 33, “Earnings per Share,” to require that when an entity presents the components of profit or loss in a separate income statement, it present earnings per share only in that separate statement. When this is the case, the standard’s requirement to present basic and diluted earnings per share also applies to the separate statement (see paragraphs 67A and 68A).
- IAS 34, “Interim Financial Reporting,” was amended to require that:
  - an entity include in its interim financial report a condensed statement of comprehensive income, presented as either a condensed single statement, or a condensed separate income statement and a condensed statement of comprehensive income (see paragraph 8); and
  - if an entity presents a separate income statement, it present interim condensed information from that separate statement (see paragraph 8A).

### **Revised IAS 23, “Borrowing Costs”**

Revised IAS 23 removed the option of immediately recognizing as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for use or sale). As a result, an entity is required to capitalize such borrowing costs as part of the cost of the asset.

As a result of revised IAS 23, an exemption relating to borrowing costs was added to IFRS 1, “First-time Adoption of International Financial Reporting Standards,” permitting first-time adopters to apply the transitional provisions of IAS 23 (see paragraph 25I of IFRS 1). A number of other standards were also amended, primarily to remove references to an alternative treatment for borrowing costs.

### **IFRIC 12, “Service Concession Arrangements”**

IFRIC 12 is a new Interpretation addressing how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements.

### **IFRIC 13, “Customer Loyalty Programmes”**

IFRIC 13 is a new Interpretation addressing the accounting by entities that grant loyalty award credits (such as “points” or travel miles) to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services to customers who redeem award credits.

### **IFRIC 14, “IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”**

IFRIC 14 is a new Interpretation providing general guidance on how to assess the limit in IAS 19, “Employee Benefits,” on the amount of a retirement plan surplus that can be recognized as an asset. It also explains how the defined benefit asset or liability may be affected when there is a statutory or contractual minimum funding requirement.

## **APPENDIX 2**

### **NEW INTRODUCTORY MATERIAL FOR HANDBOOK**

This Appendix provides a preliminary draft of new introductory material for the Handbook once it contains IFRSs. At that point, the Handbook will be made up of the following:

- Part I — the standards that apply to publicly accountable enterprises;
- Part II — the standards that apply to private enterprises and not-for-profit organizations, unless an entity in either of these categories of financial reporting entity elects to apply IFRSs;
- Part III — the standards that apply to pension plans; and
- Part IV — the standards constituting Canadian GAAP before the mandatory effective date for the adoption of Parts I, II or III.

Following are preliminary drafts of a Preface that will apply to all Canadian financial reporting entities, and an Introduction that will apply to publicly accountable enterprises. This Introduction will be included in Part I of the Handbook.

Introductory material for Parts II and III of the Handbook will be developed when the new financial reporting models for private enterprises, not-for-profit organizations and pension plans have been established.

## PREFACE TO CICA HANDBOOK – ACCOUNTING

1. The Accounting Standards Board determines the contents of the CICA Handbook – Accounting (Handbook). This Preface explains the applicability of the Handbook to entities preparing financial statements in accordance with Canadian generally accepted accounting principles (GAAP).

### DEFINITIONS

2. The following definitions have been adopted for the purposes of determining which part of the Handbook applies to the various categories of financial reporting entity:
  - (a) A **publicly accountable enterprise** is an entity, other than a not-for-profit organization, or a government or other entity in the public sector that:
    - (i) has issued, or is in the process of issuing, debt or equity instruments that are, or will be, outstanding and traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
    - (ii) holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

Banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks typically meet the second of these criteria. Other entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if an entity does so for reasons incidental to one of its primary businesses (as, for example, may be the case for some travel or real estate agents, or cooperative enterprises requiring a nominal membership deposit), it is not considered to be publicly accountable.
  - (b) A **pension plan** is any arrangement (contractual or otherwise) by which a program is established to provide retirement income to employees. [This is the definition presently in PENSION PLANS, Section 4100.]
  - (c) A **not-for-profit organization** is an entity, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. A not-for-profit organization's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization. [This is the definition presently in FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4400.]
  - (d) A **private enterprise** is a profit-oriented entity that is not a publicly accountable enterprise.

### APPLICABILITY

3. Publicly accountable enterprises, other than pension plans, preparing financial statements in accordance with Canadian GAAP apply International Financial Reporting Standards,<sup>3</sup> as specified in the Introduction to Part I of this Handbook.
4. Private enterprises and not-for-profit organizations preparing financial statements in accordance with Canadian GAAP apply either International

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<sup>3</sup> References to International Financial Reporting Standards are to those standards issued by the International Accounting Standards Board (IASB).

Financial Reporting Standards (provided in Part I of this Handbook), or Canadian GAAP standards for private enterprises or not-for-profit organizations, as specified in the Introduction to Part II of this Handbook. [The AcSB continues to deliberate the appropriate standards for private enterprises and not-for-profit organizations.]

5. Pension plans preparing financial statements in accordance with Canadian GAAP apply Canadian GAAP standards for pension plans, as specified in the Introduction to Part III of this Handbook. [The AcSB continues to deliberate the appropriate standards for pension plans.]
6. Governments and other entities in the public sector refer to the CICA Public Sector Accounting Handbook to determine the basis of accounting for purposes of their financial reporting.
7. An entity may apply only one of the sets of standards provided in Parts I, II and III of this Handbook. If an entity chooses not to adopt the standards applicable to it before their mandatory effective date, it continues to follow the standards constituting Canadian GAAP before that date. Those standards are provided in Part IV of this Handbook.

#### **EFFECTIVE DATES**

8. Part I of this Handbook is effective for publicly accountable enterprises for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted.
9. Entities adopting Part I of this Handbook prior to the mandatory effective date need not apply the standards to interim financial statements in the year of adoption, unless required to do so by another authoritative body.
10. [This paragraph will address the effective date for private enterprises, once the AcSB has completed its deliberations in this area.]
11. [This paragraph will address the effective date for not-for-profit organizations, once the AcSB has completed its deliberations in this area.]
12. [This paragraph will address the effective date for pension plans, once the AcSB has completed its deliberations in this area.]
13. For entities with a financial reporting period that does not coincide with the end of a month, as in the case of a 52-week/53-week fiscal year, the mandatory effective date for first-time adoption of Parts I, II or III of this Handbook is the fiscal period beginning at the date closest to the mandatory effective date for that part.

#### **CONCEPTUAL FRAMEWORK**

14. The objective of a conceptual framework is to facilitate the consistent and logical formulation of standards and provide a basis for the use of judgment in resolving accounting issues. The standards set out in Parts I, II and III of this Handbook are based on common, but not identical, conceptual frameworks. When exercising judgment, an entity refers to the framework relating to the set of standards it is applying.

## **INTRODUCTION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

### **AUTHORITY**

- I.1 The Accounting Standards Board has approved the incorporation of International Financial Reporting Standards into the CICA Handbook – Accounting (Handbook) as Canadian generally accepted accounting principles (GAAP) standards for publicly accountable enterprises and other categories of reporting entity permitted, but not required, to apply the standards set out in this part of the Handbook.
- I.2 International Financial Reporting Standards have been incorporated into the Handbook without modification. The Accounting Standards Board retains the ability to modify an International Financial Reporting Standard for purposes of Canadian GAAP. This ability will be exercised rarely, only when there are compelling arguments that an International Financial Reporting Standard would lead to inappropriate results in Canada because of circumstances not found elsewhere in the world.

### **COMPLIANCE WITH CANADIAN GAAP**

- I.3 An entity whose financial statements comply with this part of the Handbook can state compliance with both International Financial Reporting Standards and Canadian GAAP. This applies equally to an entity that adopted International Financial Reporting Standards before their incorporation into the Handbook, notwithstanding the fact that the entity might have previously applied older versions of International Financial Reporting Standards that were never part of Canadian GAAP.

### **DUE PROCESS**

- I.4 The Accounting Standards Board will approve the incorporation of new standards and changes in existing standards into the Handbook only after due process.

### **EFFECTIVE DATE AND TRANSITIONAL PROVISIONS**

- I.5 The objective of the AcSB is to incorporate International Financial Reporting Standards into this part of the Handbook with the same mandatory effective date and transitional provisions as those required by the International Accounting Standards Board.

### **OFFICIAL VERSIONS**

- I.6 This Handbook provides International Financial Reporting Standards in English and French. Both versions have equal status and effect under Canadian GAAP.