

Countdown

Deloitte Canada's IFRS transition newsletter

We are pleased to present this **special edition** of Countdown – Deloitte's newsletter on International Financial Reporting Standards ("IFRS") transition in Canada. This edition brings you a summary of the second IFRS exposure draft ("ED") **just issued** by the Canadian Accounting Standards Board ("AcSB"). This exposure draft provides a revised definition of the scope of entities that are required to adopt IFRSs as well as a summary of the IFRSs included in this ED. This ED is the second in, what is expected to be, a trilogy of IFRS EDs with a third and, based on current predictions, final ED in the series expected later this year.

Just Released – “Adopting IFRSs in Canada, II”

March 12, 2009 - The Canadian Accounting Standards Board ("AcSB") today issued its second exposure draft ("ED") on the adoption of IFRSs in Canada ("ED II"). This is part two of the IFRS adoption series and follows the issuance of the first omnibus ED issued in April 2008 entitled Adopting IFRSs in Canada ("ED I"). The primary objectives of ED I were to expose for comments the first set of IFRSs to be incorporated into the Canadian Institute of Chartered Accountants ("CICA") Handbook ("the Handbook") and to identify the types of enterprises required to adopt IFRSs from January 1, 2011. ED II carries forward these objectives with exposure of additional IFRSs, consideration of comments received to date and with clarification of certain matters.

Items covered are:

- Incorporation of IFRSs into the Handbook
- Proposed definition of a publicly accountable enterprise ("PAE")
- Confirmation of the effective date of IFRSs
- Introductory material for the Handbook
- Changes to IFRS, since the 2007 bound volume (exposed in ED I)
- IFRS 1 – First-time Adoption of IFRSs
- Emerging Issues Committee ("EIC") Abstracts

The comment period for the proposals outlined in the ED ends on May 15, 2009.

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Incorporation of IFRSs into the Handbook

The AcSB concluded that there were no compelling arguments suggesting that one or more of the standards and interpretations in the 2007 IFRS bound volume should not be applied in Canada. Accordingly, the AcSB is continuing with its plans to incorporate IFRSs into the Handbook and exposes in ED II the IFRSs effective to January 1, 2008. Although the recently issued ED II provides a link to the text of all 2008 IFRSs, comments are solicited only on the additional standards, interpretations and related amendments since the 2007 IFRS text exposed last year. For additional clarity, these additions and amendments are listed in ED II.

Definition of a PAE

Based on comments received, the AcSB has amended the definition of a PAE in order to clarify the meaning of key terms such as “a public market” and “fiduciary capacity”. The revised PAE definition, which incorporates the comments received, is 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.

So, what does the definition mean for Financial statement preparers?

- Public companies remain in scope but there is now additional guidance on what is meant by a “public market”.
- Entities that hold assets in a fiduciary capacity are segregated into those that do so as part of their primary, as opposed to incidental, business activities. Examples of the former typically include banks and credit unions whereas certain types of co-operative enterprises may fall into the latter category and would not be considered a PAE.
- Private enterprises that do not hold assets in a fiduciary



capacity and not-for-profit organizations are not scoped into the definition of a PAE and therefore will be permitted but not required to adopt IFRSs.

- Public sector enterprises that are not considered publicly accountable by the Public Sector Accounting (“PSA”) Handbook¹ will be subject to the basis of accounting proposed by the CICA Public Sector Accounting Handbook.
- Pension plans are not scoped into the definition and will continue to apply Section 4100 of the current CICA Handbook. The AcSB is considering what additional guidance will be required for pension plans and this is expected to be the subject of a separate subsequent ED.

In summary, it appears that this revised definition slightly narrows the group of entities to which mandatory IFRS adoption will apply. Entities such as pension plans and public sector enterprises are advised to remain tuned into the ongoing projects that will address the specific characteristics and needs of these other financial reporting groups. Relevant links to such projects are provided in ED II.

¹ Refer to the February 24, 2009 Invitation to Comment issued by the Public Sector Accounting Board regarding alternatives for the requirement of some or all Government Business Enterprise (“GBEs”) and Government Business-Type Organizations (“GBTOs”) to adopt IFRSs. The PSA Handbook currently requires all government organizations which are GBEs or GBTOs as defined in the PSA Handbook to adopt IFRSs.

Confirmation of the effective date of IFRSs

The key message here is that 2011 is still “on” – a message that the AcSB is keen to reinforce notwithstanding the current market uncertainty. Many entities are in the midst of IFRS changeover plans and the view is that there is no reason to delay the 2011 effective date.

As far as applicability of IFRSs to the interim financial statements are concerned, 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. As such, for entities adopting IFRSs on the mandatory changeover date, the AcSB is requiring that IFRSs apply to both the interim and annual financial statements. For early adopters; however, the AcSB has previously indicated that the early adopter will need to determine

the appropriate basis of accounting for its interim financial statements in consideration of its own stakeholder requirements including those of regulatory bodies. [Note that we expect that the Canadian Securities Administrators will require early adopters to apply IFRSs to their interim financial statements].

Introductory material for the Handbook

A replacement to the current introduction to the Handbook is proposed in order to assist financial statement users and preparers in the period before, after and during IFRS changeover. ED II includes a draft of the proposed preface and requests comments on the extent and nature of the guidance provided in this new introduction. Items covered in the proposed introduction include:

- A discussion around voluntary early adoption of IFRSs.
- Guidance and direction on the standards contained in the Handbook which pertain to particular classes of financial reporting entities. (For example, PAEs will be directed towards the IFRSs, pension plans will be directed towards Canadian GAAP standards for pension plans).
- Responses to frequently answered questions with respect to the use of IFRSs. One example of this would be the date of initial application of IFRSs to an entity that has a 52-week/53-week fiscal year.

This revised introductory material should provide a helpful guide to financial statement preparers seeking to navigate through the revised format and content of the handbook and assist in finding solutions for some of the practical issues they can expect to encounter.

Changes to IFRSs since the 2007 bound volume (exposed in ED I)

ED II lists eight changes to the IFRSs which have occurred since ED I and it is these areas on which comments are solicited through this ED. The changes include the revised standard on business combinations as well as three new financial reporting interpretations. A summary of the new literature is included as part of ED II.

IFRS 1 – First-time Adoption of IFRSs

One of the outcomes of the ED I was to request additional relief for first-time adopters on areas likely to impede the adoption of IFRSs in Canada. The request in this ED is whether, based on the changes to IFRSs listed above, other exemptions are necessary for which such relief should be sought.

EIC Abstracts

The AcSB completed a review of all EIC abstracts in May 2008 and, in ED II, confirms its intent to withdraw all EIC abstracts from the Handbook for those adopting IFRSs. The AcSB will



not be issuing new interpretative guidance on matters currently the subject of an EIC abstract but has identified a sub-group of five abstracts which they will be referring to the International Accounting Standards Board ("IASB") or addressing through another project.

Next Steps?

The comment period for ED II ends on May 15, 2009 and the AcSB has requested respondents to focus on four key questions for which advice is solicited. In addition, a third and final ED ("ED III") is expected to be issued later this year to expose to the Canadian financial reporting community changes in IFRSs since the 2008 text. This will then put Canada on a real-time basis as far as IFRS is concerned. Subject to any comments received on either ED II, or the planned ED III, all of the IFRSs exposed through this trilogy are expected to be incorporated into the Handbook before the end of 2009. This will occur just in time for the date of transition for calendar-year reporters adopting on the mandatory changeover date!

For further information on ED II and how it impacts you, we invite you to contact a Deloitte professional who can provide additional insights as well as discuss other relevant matters relating to your IFRS transition. We also invite you to review the following items on IFRS transition which may be of interest:

- [IFRS transition survey](#): We are looking to share with you information to help you benchmark your progress and key decisions with other Canadian IFRS adopters.
- [IFRS 1 Webinar](#): Deloitte will be hosting a webinar in conjunction with the CICA on April 27, 2009. This will discuss IFRS transition and practical application of the rules to first-time adopters. The speakers are Karen Higgins, Partner and Clair Grindley, Senior Manager.

This special edition newsletter provides a factual summary of selected items from ED II and should not be interpreted as providing our views on the proposals contained in the ED or predictions of any future related events. Readers are advised to [read the full ED](#) in order to obtain a comprehensive understanding of the items discussed in the ED.

Contact information

National

Don Newell
416-601-6189
dnewell@deloitte.ca

Robert Lefrançois
514-393-7086
rlefrancois@deloitte.ca

Karen Higgins
416-601-6238
khiggins@deloitte.ca

Clair Grindley
416-601-6034
clgrindley@deloitte.ca

Bryan Pinney
403-503-1401
bpinney@deloitte.ca

Delna Madon
416-874-4330
dmdon@deloitte.ca

Anshu Grover
416-775-7317
ansgrover@deloitte.ca

Peter Chant
416-874-3650
pchant@deloitte.ca

Atlantic

André Vincent
902-721-5504
avincent@deloitte.ca

Jacklyn Mercer
902-721-5505
jamercer@deloitte.ca

Jonathan Calabrese
506-663-6614
jcalabrese@deloitte.ca

Québec

Nathalie Tessier
514-393-7871
ntessier@deloitte.ca

Marc Beaulieu
514-393-6509
mabeaulieu@deloitte.ca

Richard Simard
418-624-5364
risimard@deloitte.ca

Maryse Vendette
514-393-5163
mvendette@deloitte.ca

Ontario

Tony Ciciretto
416-601-6347
tciciretto@deloitte.ca

Kerry Danyluk
416-775-7183
kdanyluk@deloitte.ca

Steve Lawrenson
519-650-7729
slawrenson@deloitte.ca

Lynn Pratt
613-751-5344
lypratt@deloitte.ca

Éric Girard
613-751-5423
egirard@deloitte.ca

John E. Hughes
416-874-3519
Johnehughes@deloitte.ca

Manitoba

Susan McLean
204-944-3547
sumclean@deloitte.ca

Richard Olfert
204-944-3637
rolfert@deloitte.ca

Saskatchewan

Cathy Warner
306-565-5230
cwarner@deloitte.ca

Andrew Coutts
306-343-4466
ancoutts@deloitte.ca

Alberta

Steen Skorstengaard
403-503-1351
sskorstengaard@deloitte.ca

Anna Roux
403-503-1421
aroux@deloitte.ca

Paul Borrett
780-421-3655
paborrett@deloitte.ca

British Columbia

Dan Rollins
604-640-3212
drollins@deloitte.ca

Carol Warden
604-640-3271
cwarden@deloitte.ca

Scott Munro
604-640-4925
scmunro@deloitte.ca



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