

## Countdown

Deloitte Canada's IFRS transition newsletter



Welcome to the May 2010 issue of Countdown!

The first four months of 2010 have come and gone and the nice weather is (hopefully!) once again upon us. As summer approaches this year, we can't slow down in our IFRS transition efforts, as time is quickly running out. In fact, for many organizations, the pace of IFRS conversion activities will need to accelerate over the remaining months to the implementation date of January 1, 2011.

This month, our lead article focuses on the standard setting process, and how each of us has a voice and can make a difference in that process.

Lightyear this month focuses on related parties and the increase in disclosures related to this IFRS standard.

As always, we want to continue to understand and meet your needs, so please submit ideas regarding matters that you would like to see us address in Countdown to [deloitteifrs@deloitte.ca](mailto:deloitteifrs@deloitte.ca).

See you again next month!



Don Newell  
National Leader - IFRS services

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# The Rules of the Game

## Making your opinion count in the development of IFRSs

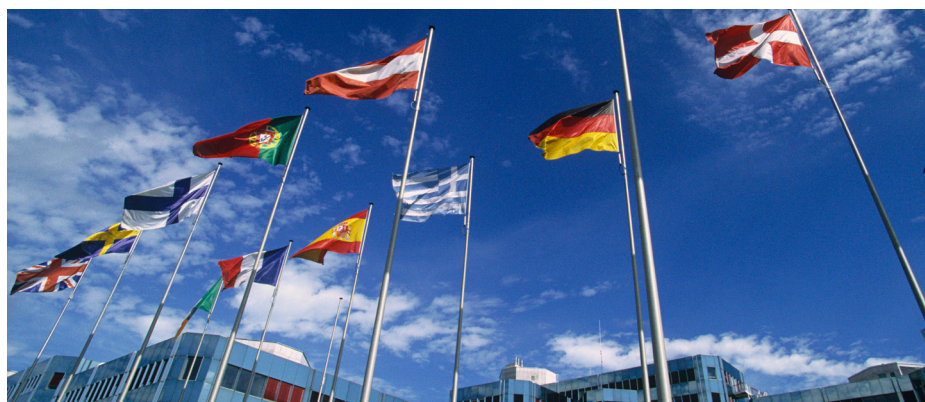
The adoption of International Financial Reporting Standards (IFRS) as Canadian generally accepted accounting principles (GAAP) gives Canadian companies the prospect of comparability with their global peers and an enhanced entry point into the global capital markets. Canadian companies have a much wider field within which they can potentially attract and raise funds, and the alignment of standards around the world will break down some of the cross-border barriers to entry that have previously served as an obstacle within the global market place. The removal of such barriers and adoption of global standards does, of course, mean that Canadian companies and their stakeholders will have to reconsider, to some extent, their role in the development of future financial reporting standards.

As one of the many countries which have adopted IFRS, we are entitled to take part in the financial reporting process; however, the rules of the game on the international playing field differ in some respects to what we are used to, and there are many other players. Accordingly, interested parties in Canada need to become familiar with the new rules and adopt a global mindset to have fair play and fair say in the development and amendment of IFRSs in the future.

### The Basic Rules of the Game

Over the decades, many Canadian companies, financial statement users, auditors and other stakeholders (such as analysts and regulators) in the financial reporting process have actively participated in the setting of accounting standards. The International Accounting Standards Board (IASB) has a process of public consultation that is similar to the standard setting due process in Canada. The IASB's standard setting process generally includes the following key steps:

- Identifying areas of financial reporting which warrant attention in consideration of the needs of investors – this results in an item making its way onto the IASB agenda;
- Deciding on the approach – will it be an IASB



only project or a joint project in conjunction with another standard setter?;

- Determining whether a working group should be established to perform research and act as an entry point into field tests and the gathering of practical experience;
- Issuing a discussion paper (DP) that analyzes the issues on a particular topic and often presents preliminary or alternative points of view;
- Conducting live roundtables where interested parties can appear in person and discuss the issues; and
- Developing an exposure draft (ED) that sets out the IASB's proposals on the contents of the new standard.

Interested parties in all countries are able to participate in the above process. It is important to monitor the IASB project agenda to gain insights into what's on the horizon that is of particular interest to your financial reporting needs. The issuance of a DP or an ED is typically combined with an invitation to comment from the IASB to the public at large. This is accompanied by specific questions and areas where comments are requested and a comment period deadline, which is the due date for receipt of comments if they are to be considered in the standard setting process. Accordingly, you may comment on an important project first, at the DP stage, where the IASB is

formulating its views on a particular topic and your comments may have the best chance of shaping the future direction of the project, and second, at the ED stage as it sets out how the IASB believes the new standard should appear and may also include proposed consequential amendments to other standards, as well as examples and interpretive guidance.

## Developing your Game Strategy

As the IASB notes in its EDs, comments are most helpful if they have the following attributes:

- The response provides comments on the questions posed in the ED. The ED will usually include specific questions on elements of the proposals. Don't feel like you have to answer every single question. Whatever you do comment on is always welcome. It is helpful, though, if responses are structured to address at least some of the important questions being considered by the IASB.
- The response clearly indicates the particular paragraphs or parts of the proposals to which it relates.
- The response contains a clear rationale or reasoning for the comments being put forward. When raising an issue or concern about a particular proposal, your response will be better received if it discusses the issues in light of the attributes of financial statements, such as relevance, reliability, cost/benefit etc...
- The response includes any alternative positions that you believe should be considered by the IASB and the reasoning behind this. Standard-setters are more than willing to consider well thought out, reasonable alternatives if they are presented to them.
- As noted above, you do not have to respond to each question contained in the ED or the DP. You can choose to only express your point of view on one or more of the specific questions or just provide your thoughts on the project as a whole.

Once all the comments to a particular proposal are in, the staff of the IASB will summarize the responses, all of which will also be available for IASB members to review. The responses, staff summaries and other Board papers used throughout the project are also available to the public on the [IASB's website](#). In fact, you will probably find



that the IASB's standard setting process is more transparent than what we are currently used to. Those interested can actually review the responses submitted by others, listen to the IASB discussion of particular projects and the IASB staff periodically hold webcasts, where they will provide information on a project and answer questions from the audience.

Finally, you may have noticed that the Canadian Institute of Chartered Accountants' (CICA) Accounting Standards Board (AcSB) has also been exposing for comment many of the IASB's recent proposals. Responding to these AcSB exposure drafts can be a good way to highlight any issues that might be unique in Canada. The AcSB passes these comments on to the IASB and is another effective Canadian voice in the international accounting standard setting process.

### Making a difference in the final score

So how much of a role can one, relatively small, country play in international standard setting? The answer is: quite a bit. Over the years, Canada has become a very well respected member of the international accounting standards community. Canadians have been active members on international committees and strong supporters of the IASB. As an important first time adopter country in the Americas, we have a key role to play.

# The Real Deal

## Related Party Disclosures



Related Parties is arguably one of the sleeping giants in IFRS transition. The impact of changeover from a Canadian financial reporting regime, which perhaps contains more rigorous rules than many other countries around measurement of related party transactions, to an IFRS environment is perhaps not fully clear for some entities. Lightyear wants to get its teeth into this issue in more depth now as the implementation team considers the extent of disclosure changes that may be necessary in their IFRS financial statements. The Lightyear team is aware that under IAS 24, *Related Party Disclosures* (IAS 24), there is significantly increased disclosure as compared to Canadian generally accepted accounting principles (GAAP) but have not yet considered what this will mean for them.

### What's the Deal?

The key difference between IAS 24 and CICA Handbook Section 3840 *Related Party Transactions*, is that IAS 24 deals solely with disclosure requirements while Canadian GAAP establishes standards for both measurement and disclosure of related party transactions. Disclosure tends to be more onerous, as noted above, and Lightyear will need to evaluate what guidance or requirements exist around measurement within the context of the underlying IFRSs which relate to the specific subject of a transaction. This may not always be clear and, accordingly, the Lightyear team is working closely with their Deloitte advisor, Hugh Guardian, to evaluate the specific measurement requirements of certain prior related party transactions, as well as the development of an IFRS-compliant accounting policy.

Some key terms to note under IAS 24:

Related Party	Is a person or entity that is related to the entity that is preparing its financial statements (examples of being related to a reporting entity are described in detail in IAS 24 paragraph 9).
A Related Party Transaction	Is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.
Key Management Personnel	Are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, <i>including any director (whether executive or otherwise) of that entity.</i>

### Keeping it Real

Lightyear has a few situations where the team is unsure as to whether or not Lightyear is in a related party situation:

1	Ethan Armstrong sits on the Board of Directors of Lightyear. He is also on the Board of Rox Co.	Having a common director between the two entities does not automatically make them related parties and in this case Lightyear and Rox Co. are not related parties based on this fact and circumstance alone.
2	Gayle Moore, is the Chief Financial Officer of Lightyear and is considered to be part of Key Management Personnel as defined by IAS 24. She has been married for 10 years to Andrew Moore who is not an employee, shareholder or director of Lightyear.	Members of key management personnel and their spouses and close family members are considered to be related parties and thus Andrew is a related party to Lightyear because he is married to Gayle.
3	Lightyear and BYT Inc. have joint control over RamTam Corp.	Jointly controlled entities are considered related parties – thus as Lightyear is a venturer in RamTam Corp., they are related.

Now that Lightyear has determined who their related parties are, transactions with these related parties will require the team to consider the measurement for these transactions based on the substance of each transaction.

Lightyear's other key area of focus under IAS 24 relates to the required disclosures in its IFRS financial statements. Key disclosures that will be required include:

- relationships between parent and subsidiaries (even if there have been no transactions during the year);
- the related party relationship when control exists (even if no transactions during the year); and
- key management personnel compensation in total and for each of the following categories:
  - short-term employee benefits;
  - post-employment benefits;
  - other long-term benefits;
  - termination benefits; and
  - share-based payments.

Disclosing key management compensation in the notes to the financial statements will be a huge change for most companies upon transition to IFRS, and this includes Lightyear. This will likely be an issue of great sensitivity for many companies, as these disclosures are very detailed, requiring disclosures of total compensation paid to key management personnel as well as analyzed between various categories of compensation (as described above). It is important to note that the term "key management personnel" is not defined by the position of the individual but rather by their authority and responsibility and thus does require some careful consideration. It also creates additional internal control considerations, as key management compensation was previously included in the management proxy circular each year may not have been subject to the same disclosure controls as financial statement disclosures. As such, Lightyear is in the process of establishing more robust controls over the tracking and accumulation of all related party information, including key management personnel compensation and will include this information in their regular disclosure control process.

Where there have been transactions with related parties, Lightyear will be required to disclose at a minimum:

- the nature of the related party relationship;
- the amount of the transactions (terms and conditions, details of guarantees given or received);
- provisions for doubtful debts related to the amount of outstanding balances; and
- the expense recognized during the period in respect of bad or doubtful debts due from related parties.

### Until next time.....

As Lightyear moves forward with the remainder of its IFRS conversion activities, the team will need to determine who they consider to be key management personnel and how they will capture the information that they will require for their financial statement disclosures. In addition, they will have to use their judgement and other IFRS standards in order to determine how to measure transactions with related parties.

See you again next month as Lightyear continues forging ahead, with only a few months left to go before their date of transition!

# Deloitte IFRS publications and events

A comprehensive summary of Deloitte IFRS publications and events is [available here](#).

Please first [login](#), first time visitors will need to complete a short registration form. Below we have included new publications and events most relevant to Canadian publicly-accountable enterprises.

## Publications

### Out of 100: What's your degree of financial literacy?

Executives, board members, and those who prepare financial statements are all expected to have some degree of financial literacy. With publicly accountable entities in the process of migrating from Canadian GAAP to IFRS, maintaining financial literacy is a challenge. To help assess your financial literacy, Deloitte offers this interactive assessment. It will help you evaluate the elements of your financial literacy across four areas: Canadian GAAP, IFRS principles, internal controls and financial statements interpretation.

[Click here](#) to access the online version of the assessment. A printed copy is also available upon request.

## Webcasts

**IFRS technical update – Keeping current in a year of change!** - It's official – the IFRS standards have now been incorporated into the CICA Handbook. Stay up to date with recent activities at the CICA and the IASB on key projects under development and how they may impact your organization. Keep current on matters being discussed by the Canadian Accounting Standards Board (AcSB), the Canadian Securities Administrators (CSA) and other regulators. Receive some tips and suggestions to consider during your 2010 conversion activities.

- **March 23, 2010** - English session  
[View archive here](#)
- **April 7, 2010** - French session  
[View archive here](#)



### Beneath the numbers - A systems perspective on IFRS

Information systems are an integral part of the IFRS conversion process as data, reporting, and disclosure requirements change under IFRS. To accommodate these new standards, modifications may be required to source data, interfaces and the chart of accounts. Age and flexibility of current systems, as well as potential impacts to other systems and processes will drive decisions to replace or upgrade systems. Starting early and mapping out how your information systems will be impacted by IFRS are important first steps. This webinar provides you with tools to address information system challenges on your journey to IFRS conversion.

- **April 27, 2010**  
[View archive here](#)

**IFRS valuation requirements – A practical discussion of what you need to know** - The introduction of IFRS will put a considerable focus on the fair value of assets and liabilities. With reporting dates quickly approaching, it is important to understand where fair value determinations are required, how they should be completed and whether your organization has the resources to undertake these fair value determinations. The webcast addresses key areas where fair value determinations are now required under IFRS and where they differ from current Canadian GAAP. The discussion covers both technical elements and practical implementation issues.

- **May 11, 2010**  
[View archive here](#)

**The “tax-ing” issues of IFRS transition** - As more and more companies have explored their own tax accounting under IFRS, almost all have seen their deferred tax balances change compared to those under Canadian GAAP and a number of interpretive issues have arisen compared to positions previously taken. Many issues come with diverse views on the application of the standard; certain issues come with policy choices. The webcast will address key Canadian GAAP – IFRS tax differences, selective interpretive issues, transition considerations and what to do next.

- **June 1, 2010**  
[Click here to register](#)

**IFRS technical update – Keeping Current!**

This IFRS technical update will provide some highlights relating to both developments in IFRSs over the last few months and IFRS transition in Canada. Combining technical expertise with practical

experience this webcast will discuss what’s new and what’s next, the IFRS opening balance sheet and a variety of other matters including regulatory developments.

- **June 22, 2010**  
[Click here to register](#)

**Toronto**

- **June 10, 2010**  
**LOMA Canada Annual Conference**  
[Click here](#) for more information

- **June 11, 2010**  
**What Lawyers Need to Know about IFRS – Osgoode Hall Law School, York University**  
[Click here](#) for more information

# International Round-up

## Updates and news from the IASB

### May 6, 2010: IASB concludes the 2008-2010 cycle of annual improvements to IFRSs

The IASB has issued Improvements to IFRSs a collection of amendments to seven IFRSs as its latest set of annual improvements.

IFRS	Subject of amendment
IFRS 1 First-time Adoption of IFRSs	Accounting policy changes in the year of adoption Revaluation basis as deemed cost Use of deemed cost for operations subject to rate regulation
IFRS 3 Business Combinations	Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS Measurement of non-controlling interests Un-replaced and voluntarily replaced share-based payment awards
IFRS 7 Financial Instruments: Disclosures	Clarification of disclosures
IAS 1 Presentation of Financial Statements	Clarification of statement of changes in equity
IAS 27 Consolidated and Separate Financial Statements	Transition requirements for amendments arising as a result of IAS 27
IAS 34 Interim Financial Reporting	Significant events and transactions
IFRIC 13 Customer Loyalty Programmes	Fair value of award credits

These amendments have been proposed in EDs issued in August 2008 and August 2009. Some of the amendments are effective for annual periods beginning on or after January 1, 2011, and others for annual periods beginning July 1, 2010, although entities are generally permitted to adopt them earlier. [Click here](#) for our IASplus newsletter.

## May 11, 2010: IASB addresses 'counter-intuitive' effects of fair value measurement of financial liabilities

The IASB has published an [exposure draft](#) (ED) proposing to amend the way the fair value option in IAS 39 *Financial Instruments: Recognition and Measurement* is applied with respect to financial liabilities. Many investors and others have said that volatility in profit or loss resulting from changes in an entity's own credit risk is counter-intuitive and does not provide useful information – except for value changes relating to derivatives and liabilities held for trading (such as short sales). The IASB is proposing, therefore, that all gains and losses resulting from changes in 'own credit' for those financial liabilities that an entity chooses to measure at fair value should be recognized as a component of 'other comprehensive income', not in profit or loss. The ED does not propose any other changes for financial liabilities. Consequently, the proposals will affect only those entities that elect to apply the fair value option to their financial liabilities. Importantly, those who prefer to bifurcate financial liabilities when relevant may continue to do so. That is consistent with the widespread view that the existing requirements for financial liabilities work well, other than the 'own credit' issue that these proposals cover. The comment period is open until July 16, 2010. [Click here](#) for our newsletter.



## May 12, 2010: AcG-18 Investment Company Deferral Option - allowed to continue to apply Part V of the CICA Handbook for 2011

The IASB decided, in February 2010, that an investment company should be exempted from the requirement to consolidate investments in entities it controls and should account for those investments at fair value. In April 2010, the IASB decided on the criteria for an entity to qualify as an investment company. Various stakeholders have raised concerns about the implications of the IASB's project plan for Canada's transition to IFRSs. The IASB has decided that investment companies should account for investments in controlled investees at fair value, subject to comments received on exposure, but the standards may not be revised before the current mandatory adoption date by Canadian publicly accountable enterprises. The AcSB has decided to take action to keep Canadian investment companies from having to change their current accounting treatment for controlled investees while the IASB completes its standards.

The AcSB has decided to propose that entities currently applying Accounting Guideline (AcG) 18, *Investment Companies*, can continue to apply existing Canadian GAAP standards in Part V of the CICA Handbook – Accounting until fiscal years beginning on or after January 1, 2012, although earlier application would be permitted. The AcSB will expose the proposed amendment shortly. The full decision summary can be [read here](#), and our newsletter [accessed here](#).



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