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IFRS in Focus - Canada

Welcome to the September edition of IFRS in Focus – Canada. With the past few months seeing the issuance of several new standards and amendments, including the much anticipated package of five standards, which deals with control, joint arrangements and related disclosures, our September edition supplements the respective Global IFRS in Focus newsletters for our Canadian readers. Need to access the Global in Focus newsletters? Please click here.

We welcome your comments and suggestions at DeloitteIFRS@deloitte.ca.

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International Headlines

On August 25, 2011, the IASB published ED/2011/4 *Investment Entities* (the "ED"). The ED would require an investment entity to recognize entities it controls at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* (or IAS 39 *Financial Instruments: Recognition and Measurement* if IFRS 9 is not yet applied). A potential difference from Canadian standards on this topic is that the ED proposes that, in consolidated financial statements, a parent of an investment entity would need to consolidate investees of its investment company subsidiary (i.e, fair value accounting of controlled investees would not flow up to the parent). The comment deadline for this ED, which will be of particular interest to Canadian investment entities, is January 5, 2012. Please click here for more information.

On August 4, 2011, the IASB issued ED/2011/3 *Amendments to IFRS 9 Financial Instruments* (November 2009) and *IFRS 9 Financial Instruments* (October 2010): *Mandatory Effective Date*, proposing to delay the effective date of IFRS 9 Financial Instruments (both 2009 and 2010 phases) from January 1, 2013 to January 1, 2015. Please click here for more information.

The Package of Five Standards

On May 12, 2011, the IASB issued the "package of five standards", with an effective date of January 1, 2013 and earlier application permitted provided that each of the standards within the suite of five is early adopted at the same time:

- IFRS 10 *Consolidated Financial Statements*;
- IFRS 11 *Joint Ventures*;
- IFRS 12 *Disclosures of Involvements with Other Entities*;
- IAS 27 *Separate Financial Statements* (revised 2011); and
- IAS 28 *Investments in Associates and Joint Ventures* (revised 2011).

With a new definition of control under IFRS 10, entities that were previously not consolidated under Canadian GAAP may meet the new definition of control, and vice versa. One area to note is that of special purpose entities (such as trusts) - with more explicit rules and quantitative guidance under Canadian GAAP, a fresh look at these vehicles under the new control definition may be warranted. Of note also is the significant judgment required in areas where control may not be clear through voting rights – with different possible views on identification of the relevant activities of the investee.

Joint arrangements exist when one or more parties have joint control over an activity. The IFRS classifies joint arrangements into two types—joint operations and joint ventures. A joint operation is a joint arrangement where the parties that have joint control of the arrangement (ie joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement.

For more information please see the following websites:

www.iasplus.com

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A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (ie joint venturers) have rights to the net assets of the arrangement. An entity determines the type of joint arrangement in which it is involved by considering its rights and obligations. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the contractual terms agreed to by the parties to the arrangement and, when relevant, other facts and circumstances. Distinguishing between joint operations and joint ventures may require significant judgment and can have important consequences for how the arrangement is accounted for in a join operator's financial statements.

One of the more significant changes for Canadian issuers under IFRS 11 is the elimination of the proportionate consolidation method for joint ventures and the requirement to use the equity method of accounting. Where the arrangement is a joint operation, each operator would account for individual assets and liabilities (and related revenues and expenses) of the operation in relation to its interest in the operation.

What is the more significant IFRS 12 change? IFRS 12 will apply to any entity that has an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. The objective of the standard is to improve the disclosure of information about interests in other entities. The new disclosures may be extensive in certain cases and include disclosure of the judgments made in determining whether control exists, as well as more transparent disclosure of assumptions where control does not exist.

The amendments to IAS 27 and 28 are a direct consequence of these other new standards and deal with accounting in separate, or unconsolidated, financial statements, as well as the mechanics of equity accounting for joint ventures.

Do I need to focus on these standards now? Although not mandatory until January 1, 2013, these standards will be available for early adoption by Canadian entities once approved by the CICA's Accounting Standards Board (expected early this fall). In addition, until the standards are adopted, disclosure of the expected impact of the new standards is required. For Canadian entities with U.S. operations, differences will remain between IFRS and U.S. GAAP with regards to the application of the control principles. In addition, differences from US GAAP may also arise in accounting for joint arrangements.

Fair Value Measurement & Disclosure

On May 12, 2011, the IASB issued IFRS 13 with an effective date of January 1, 2013 and prospective application required.

What are the more significant effects of this standard? This could vary by entity.

- In cases where highest and best use was not considered in determining fair value, the effects could be significant (e.g. revaluation of property, plant and equipment and an IAS 36 impairment analysis based on fair value less costs to sell).
- The market in which the entity transacts most frequently is in most cases the market with the greatest volume and deepest liquidity (the most advantageous). However, where this is not the case, IFRS 13 could change the current practice.

With a new fair value definition, an assessment of valuation models and appraisals may be warranted to adjust for any differences in definitions. It is also important to note that this new IFRS is a comprehensive standard, which provides measurement and disclosure requirements for all instances where fair value information is required.

Amendments to Employee Benefits

On June 16, 2011, the IASB issued amendments to IAS 19 *Employee Benefits* (2011). The amendments are effective for annual periods beginning on or after January 1, 2013 and retrospective application required, with certain exceptions.

What is the most significant amendment? Actuarial gains and losses were generally deferred under Canadian GAAP and subsequently amortized on a systematic basis, and this accounting policy has been carried over in many cases into Canadian companies' reporting under IFRS. The new amendments will require changes in defined benefit obligations and plan assets to be recognized in other comprehensive income when they occur – eliminating the ability to defer and amortize under the corridor approach. On transition to the amended Standard, this could change the pension related amounts in the statement of financial position and increase volatility of earnings going forward.

Should I focus on this now? Similar to the news IFRSs described above, disclosure of the anticipated impact of the new standard will be required before adoption in January 1, 2013. The final version of revised IAS 19 is expected to be approved by the CICA's Accounting Standards Board, and therefore available for early adoption, in the late fall.

Presentation of items of Other Comprehensive Income

With the amendments to IAS 1 on items of other comprehensive income issued on June 16, 2011 – the one notable change is the requirement to group items of other comprehensive income into those that will and will not be subsequently recycled into profit or loss. The effective date is for reporting periods beginning on or after July 1, 2012.

Improvements to IFRSs

On June 22, 2011, the IASB issued Exposure Draft ED/2011/2 *Improvements to IFRSs 2011* with proposed amendments to five IFRSs: IFRS 1 *First Time Adoption of IFRSs*; IAS 1 *Presentation of Financial Statements*; IAS 16 *Property Plant and Equipment;* IAS 32 *Financial Instruments: Presentation*; and IAS 34 *Interim Financial Reporting*.

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