



# Accounting Standards for Private Enterprises (ASPE)

Where are we now?

Where are we going?

December 9, 2015



# Questions

- Submit your questions during or after the call to the following mailbox – [deloitteupdate@deloitte.ca](mailto:deloitteupdate@deloitte.ca)

# Important caveats

- This webcast does not provide official Deloitte interpretive accounting guidance.
- Consult your Deloitte advisor for additional support.

# Agenda

- Activity during 2015
- Standards effective for fiscal years beginning January 1, 2016
- Future changes headed our way
- Resources
- Year-end reminders
- Questions and answers

# Activity during 2015

# Redeemable preferred shares issued in a tax planning arrangement

# Redeemable preferred shares issued in a tax planning arrangement

## Background

- In 2013, the AcSB approved a project to re-examine accounting for preferred shares issued in a tax planning arrangement
- Exposure draft (ED) issued in October 2014

## What does the ED propose?

- ED proposes to delete paragraph 3856.23 which requires redeemable preferred shares issued under certain tax planning arrangements (e.g., estate freezes) be classified as equity at their par, stated or assigned value
- Redeemable preferred shares within the scope of 3856.23 would be recognized as financial liabilities, initially measured at fair value, with the offset recorded to a separate component of equity
- Retrospective application would be required

# Redeemable preferred shares issued in a tax planning arrangement (cont'd)

## Comments received

- 70 comment letters received
- Many were not supportive of the proposals
- Suggested users other than creditors be consulted
- Concerns raised:
  - Users may not understand a liability classification
  - Potential difficulty/cost of renegotiating debt facilities
  - Potential unintended tax consequences
  - Increased complexity in accounting

## AcSB next steps

- Continued re-deliberation of comments received
- No change will be proposed prior to January 1, 2016
- Any change that is proposed will not be effective before January 1, 2018



# Post-implementation review – Financial instruments

# Post-implementation review – Financial instruments

## Background

- In October 2014, AcSB issued a Request for Information seeking feedback on Section 3856 Financial Instruments
- Purpose of the review was to assess the following:
  - Does Section 3856 provide useful information to users?
  - Are there unexpected costs or challenges in applying the standard?
  - Are there any areas of the standard that present interpretation challenges such that the standard may not be applied consistently?

## Topics considered in the post-implementation review

- Initial and subsequent measurement of financial instruments
- Recognition and measurement of financial instruments in a related party transaction
- Impairment of financial instruments
- Presentation of liabilities and equity
- Hedge accounting
- Disclosures

# Post-implementation review – Financial instruments (cont'd)

## Results of the post-implementation review

- In September 2015, AcSB issued a Feedback Statement summarizing results of the PIR
- Overall, stakeholders supported the principles and requirements in the standard
- Frequently raised comments:
  - Challenges in determining the initial measurement of certain financial instruments (e.g., below-market rate loans; transactions with unrelated parties that may not necessarily transact at fair value such as government loan agencies, angel investors)
  - Confusion regarding the scope and initial and subsequent measurement of financial instruments issued between related parties
  - Certain disclosures, particularly risk and uncertainty, not helpful to users

## AcSB next steps

- Further analyze the feedback and consider what, if any, aspects of Section 3856 should be amended
- Any changes will go through the AcSB's due process

# 2015 Annual improvements

Effective for fiscal years beginning on  
or after January 1, 2016

# Amendments to *Section 1582*

## *Business Combinations*

### Prior to amendment

#### Section 1582.62A

- Applicable to business combinations achieved through the acquisition of a **subsidiary that is consolidated**
- Requires disclosure of a condensed balance sheet showing major categories of assets acquired and liabilities assumed

### After amendment

#### Section 1582.62A

- Applicable to business combinations achieved through an **asset acquisition** as well as through the acquisition of a **subsidiary that is consolidated**
- Amendment requires disclosure of major categories of assets acquired and liabilities assumed in an asset acquisition, in addition to the former requirement

# Amendments to *Section 3051 Investments* and *Section 3065 Leases*

## Prior to amendment

### Scope:

- Investments accounted for using the cost and equity method
- Direct finance and sales-type lease receivables
- Operating lease receivables

Required to **recognize** an impairment loss and any reversal of a previously recognized impairment loss.

## After amendment

Required to **recognize and disclose** an impairment loss and any reversal of a previously recognized impairment loss.

# Amendments to *Section 3462 Employee Future Benefits*

## Prior to amendment

Policy choice available to measure defined benefit obligations:

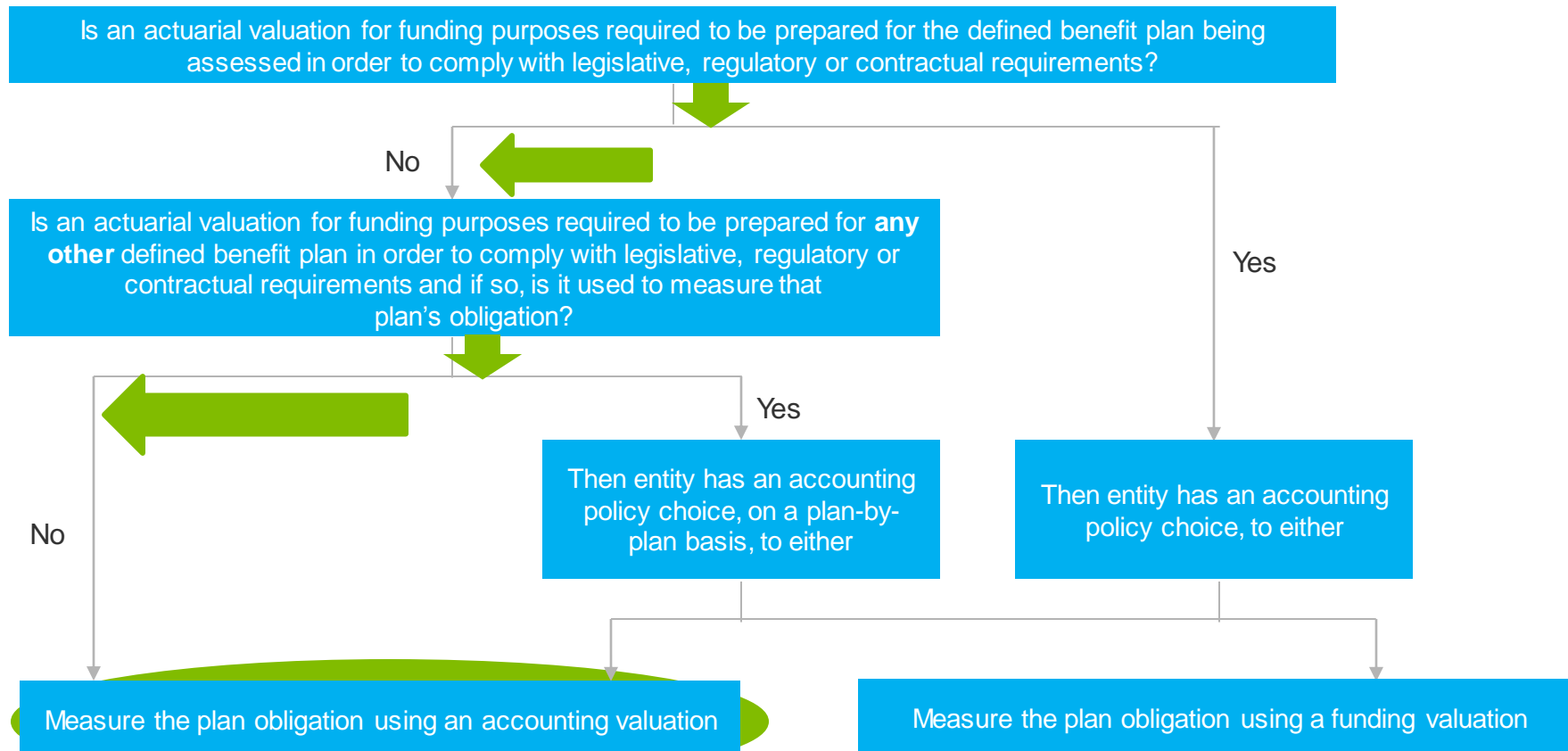
- Funding valuation
- Accounting valuation

## After amendment

Clarification of policy choice:

- Funding valuation permitted for defined benefit plans with a requirement under legislation, regulation or contractual obligation, to prepare a funding valuation report
- Funding valuation acceptable for a defined benefit plan with no requirement to prepare a funding valuation report, **provided that** an entity has another defined benefit plan with a requirement under legislation, regulation or contractual obligation to prepare a funding valuation report and the funding valuation is used to measure that obligation

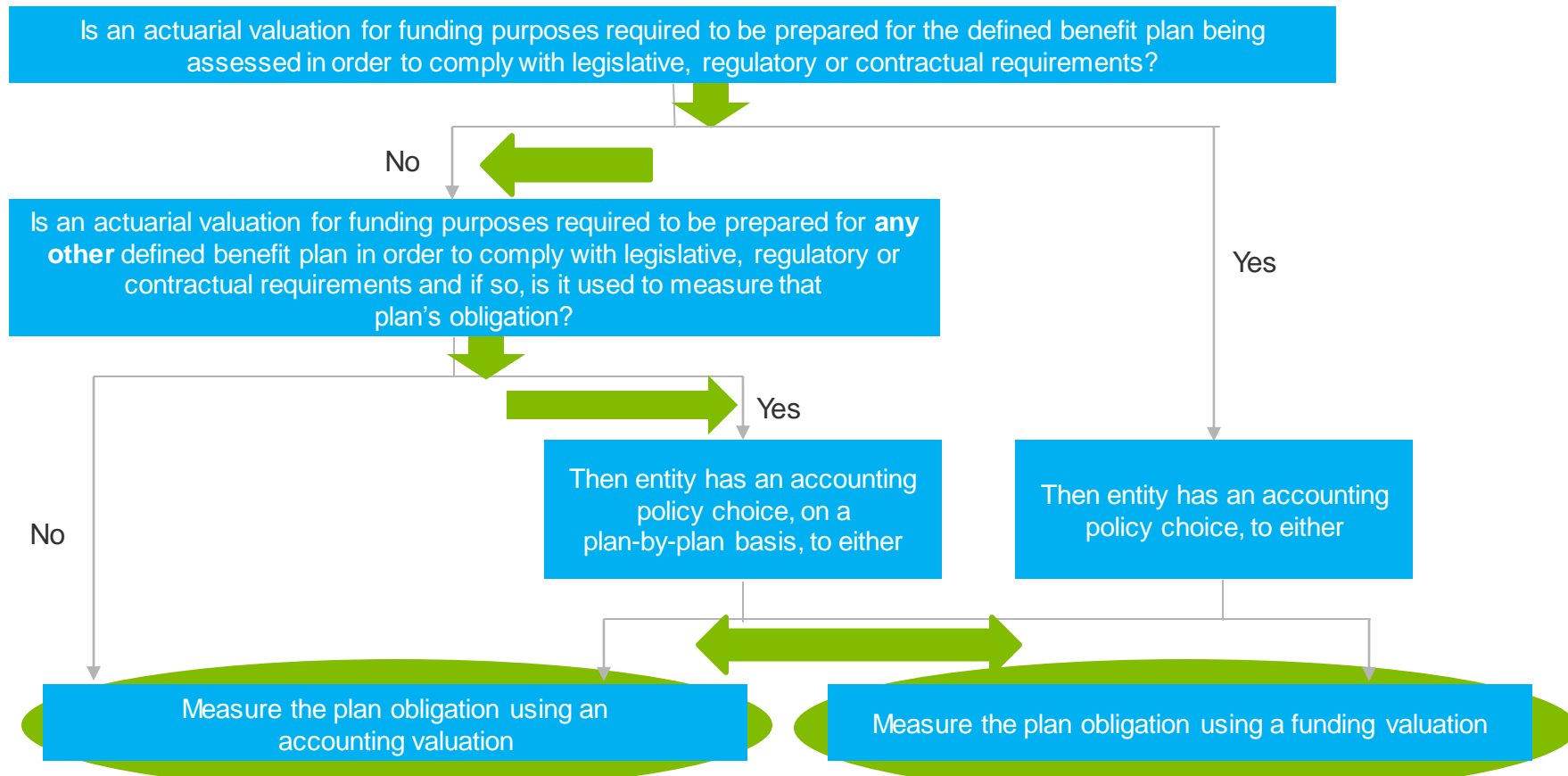
# Amendments to *Section 3462 Employee Future Benefits* (cont'd)



You are encouraged to monitor your defined benefit plans for changes down the road such as when a plan requiring a funding valuation is wound-up or otherwise ceases to exist.

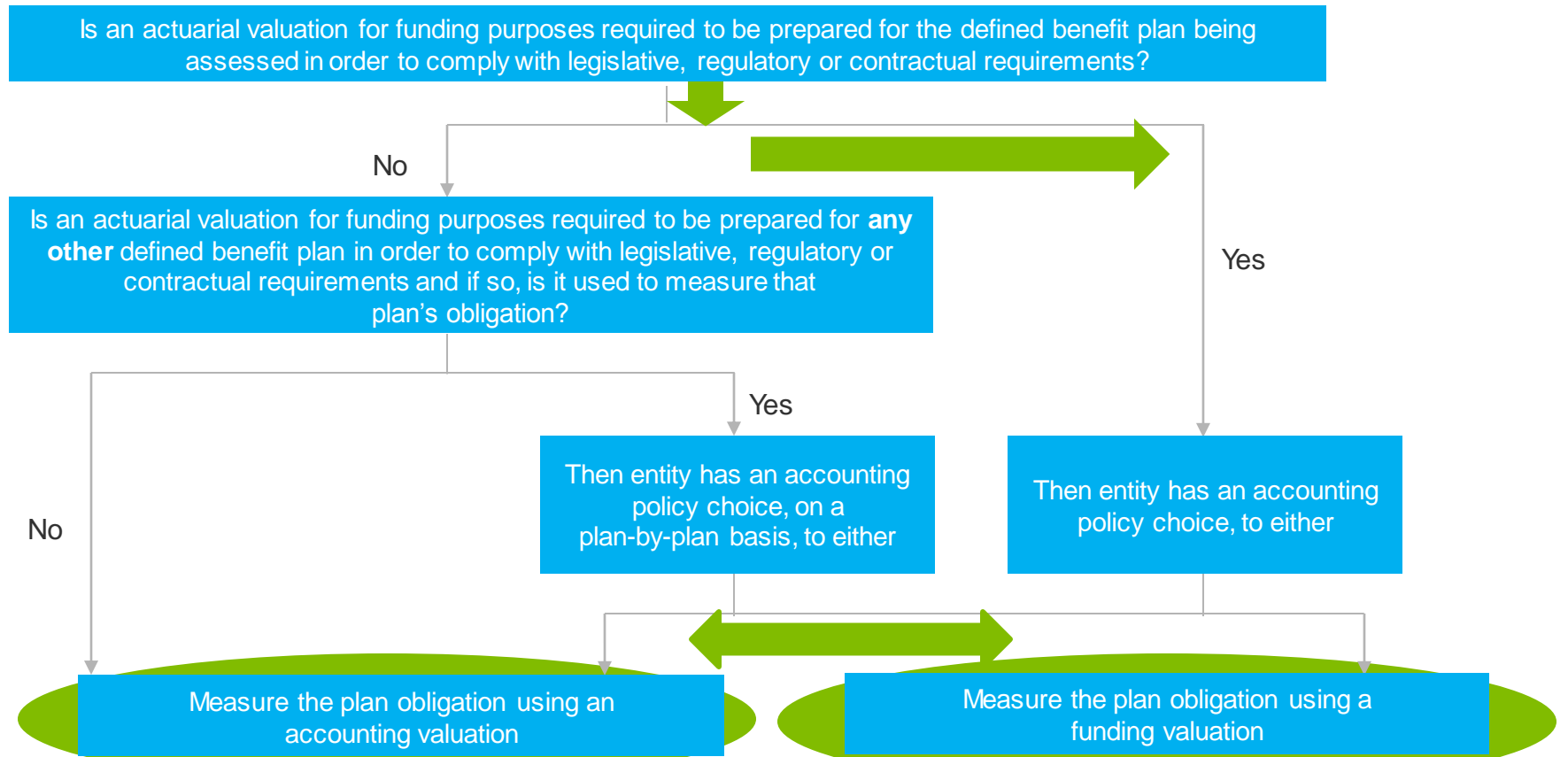


# Amendments to *Section 3462 Employee Future Benefits* (cont'd)



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# Amendments to *Section 3462 Employee Future Benefits* (cont'd)



You are encouraged to monitor your defined benefit plans for changes down the road such as when a plan requiring a funding valuation is wound-up or otherwise ceases to exist.

# Standards effective for fiscal years beginning January 1, 2016

# Subsidiaries – Section 1591

## Highlights

- Section 1591 results in the withdrawal of AcG-15, Consolidation of variable interest entities, which was complex to understand and difficult to apply in practice
- Section 1591 provides new guidance for determining whether one enterprise controls another through means other than holding equity interests (e.g., through contractual arrangements)
- This new guidance will impact enterprises which prepare consolidated financial statements
- The existing guidance for determining whether one enterprise controls another through voting interests has not changed
- The accounting policy choice to account for subsidiaries using the cost or equity method has been retained

# Assessing control through means other than equity interests

An enterprise will need to review contractual arrangements with enterprises where equity interests “may not be the dominant factor in determining control”. Examples include:

## Supply arrangements

- Enterprise has a contractual arrangement with another enterprise to manufacture a key component for its use; enterprise has a contractual arrangement with another enterprise which distributes its product

## Management contracts

- Enterprise provides management or operating services to another enterprise (e.g., manage a property, operate a mine)

## Lease agreements

- Enterprise leases property from another enterprise which is a single-asset entity

## License agreement

- Enterprise licenses technology, trademark, etc. to another enterprise for its use

## Finance arrangement

- Enterprise provides subordinated financing to other enterprise (e.g., preferred shares) or guarantees its debt

# Assessing control through means other than equity interests (cont'd)

Enterprise has control through contractual rights when it holds:

Rights sufficient to direct the strategic operating, investing and financing policies of the other enterprise without the co-operation of others

+

Right and ability to obtain future economic benefits and is exposed to the related risks of the other enterprise

Specific facts and circumstances to consider

# Considerations when evaluating whether contractual rights are sufficient to give control

- Degree of involvement in determining the **purpose and design** of the other enterprise
- **How decisions are made** about the **strategic policies** of the other enterprise
- **Risks** to which the other enterprise was designed to be exposed, risks it was designed to pass onto parties, and whether the enterprise is exposed to some or all of these risks
- Whether the investor has the continuing ability in a contractual arrangement to direct the strategic policies of the other enterprise **without the co-operation of others**

Consider all rights including put, call, liquidation rights over another enterprise, and rights to make decisions only when certain events or circumstances occur (i.e., for auto-pilot entities).

An enterprise **exercises professional judgment and considers all facts and circumstances** before concluding on control!

# Section 1591

## Planning for transition

- Determine whether the consolidation model will be applied to subsidiaries after the effective date (either as continuation of the current policy, or as a result of a decision to adopt a policy of consolidation)
- Reconsider any enterprises previously consolidated under the AcG-15 guidance
- Identify contractual arrangements that confer rights or powers in unconsolidated enterprises to determine if those contractual arrangements **alone or together** with equity interests may confer control under the new guidance
- Identify enterprises that are currently subsidiaries which may have contractual arrangements with other enterprises that confer rights or powers to another enterprise which may indicate that a more detailed control analysis is required



# Joint Arrangements – Section 3056

## Highlights

- In September, 2014, Section 3056, Interests in Joint Arrangements was issued which replaces Section 3055, Interests in Joint Ventures
- What constitutes a “joint venture”, the definition of “joint control” and the types of joint ventures have **not changed**
- The **accounting** for joint ventures **has changed**:
  - Accounting policy choice to account for any type of joint venture using the cost, equity or proportionate consolidation method has been **eliminated**
  - Investors with joint control are now required to account for their interests in joint arrangements based on the type of joint arrangement. Policy choice is available for jointly controlled enterprises.
  - Elimination of the requirement to defer and amortize gains on the sale or contribution of assets to a joint arrangement attributable to non-related investors

# Joint Arrangements – Section 3056 (cont'd)

Under the new model, classification of the joint arrangement drives the accounting

Jointly controlled asset	Jointly controlled operation	Jointly controlled enterprise
<p>Investor with joint control accounts for:</p> <ul style="list-style-type: none"><li>• Its share of jointly controlled assets</li><li>• Its share of liabilities incurred jointly</li><li>• Any revenue from sale or use of its share of output from the JA and its share of expenses</li></ul>	<p>Investor with joint control accounts for:</p> <ul style="list-style-type: none"><li>• Assets it controls</li><li>• Liabilities it incurs</li><li>• Its share of revenue and expense of the JA</li></ul>	<p>Investor has policy choice:</p> <ol style="list-style-type: none"><li>1. Cost method – All JCEs</li><li>2. Equity method –All JCEs</li><li>3. Analyze each interest in JCE:<ol style="list-style-type: none"><li>a) If interest is in net assets only – Apply cost or equity method</li><li>b) If interest is in individual assets and liabilities – Account for as a jointly controlled asset or operation</li></ol></li></ol>

## Key points:

1. For jointly controlled assets/operations – Can no longer apply cost/equity method.
2. For jointly controlled enterprises – Policy choice.

# Analysis of a jointly controlled enterprise



# Joint Arrangements – Section 3056

## Planning for transition

- Have you identified all joint arrangements?
- Have you appropriately classified each joint arrangement that exists?
- Do you have jointly controlled assets or operations that are currently accounted for using the cost or equity method (no longer permitted)?
- For each jointly controlled enterprise, has an accounting policy choice been made?
- Where there is an anticipated change from proportionate consolidation to the cost or equity method, has consideration been given to changes in presentation of the financial statements, including other effects such as banking covenants, working capital, hedge accounting, etc.

# Future changes headed our way

# AcSB Workplan

**SP** – Strategic plan

**DP** – Discussion paper

Standards for private enterprises	2015	2016
	Q4	Q2
AcSB Strategic Initiative		SP
Major Improvements		
Agriculture	DP	
Redeemable Preferred Shares Issued in a Tax Planning Arrangement		
Subsidiaries and Investments		

Status based on AcSB workplan as at December 7, 2015.

<http://www.frascanada.ca/standards-for-private-enterprises/projects/active/item56206.aspx>

# AcSB Strategic initiative

- The AcSB are currently considering the responses to the request for comment on the 2016-2021 Strategic Plan
- A final plan is expected to be issued in Q2 2016

## ASPE related common themes

- AcSB will continue its core strategy to maintain separate set of standards for private enterprises
- The AcSB consistently monitors changes in other jurisdictions as they may relate to ASPE
- Reassessing who are the users of ASPE financial statements, originally considered to be predominantly lenders
- Considers whether users of ASPE financial statements have the ability to obtain financial information in addition to the financial statements

# Agriculture discussion paper

Currently there is no comprehensive standard in ASPE dealing with the accounting for biological assets

## **Expected scope:**

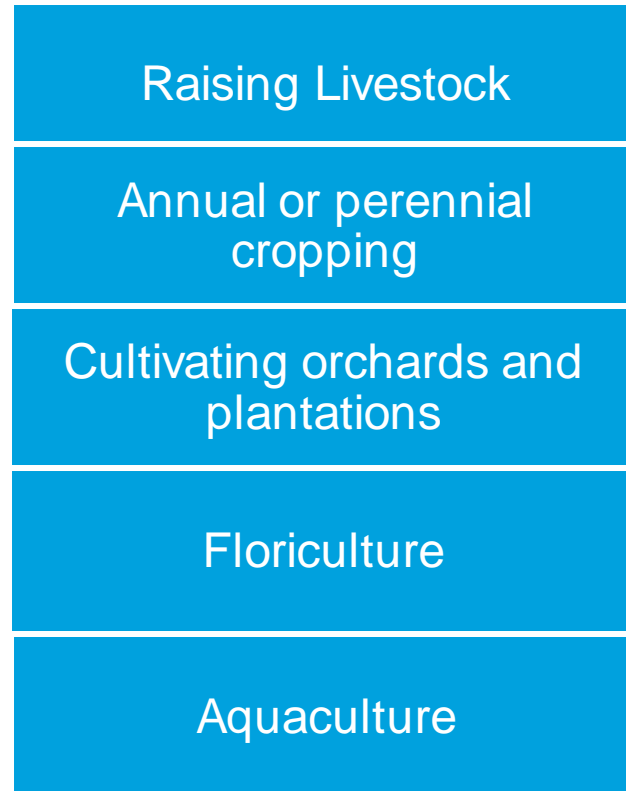
- Agricultural activity, agricultural produce and biological assets as defined under IAS 41

## **Issues to be addressed by this project include:**

- When a biological asset should be recognized
- How it should be measured on initial recognition
- How it should be measured in subsequent periods
- How agricultural produce at the point of harvest should be accounted for, and
- What disclosures should be required



# Agriculture discussion paper (cont'd)



**The AcSB plans to issue the DP in late 2015**

# Subsidiaries and investments

- Exposure draft issued in September 2015
- Scope is limited to accounting for subsidiaries and investments subject to significant influence when applying the cost method
- Prospective application on transition is proposed
- Effective for fiscal years beginning on or after January 1, 2018
- Addresses areas of uncertainty:
  - What is the cost of an interest in a subsidiary and an investment subject to significant influence
  - Treatment of acquisition costs
  - Acquisitions of additional interests
  - Bargain purchases



**This is a great opportunity to have your say and impact the future of the accounting standards!**

**Comments on the ED are due to the AcSB staff by January 6, 2016**

# Subsidiaries and investments (cont'd)

## Initial measurement

- Initial measurement should be on a basis consistent with other business combinations
- Measure cost at acquisition date fair value of consideration transferred to the other party in exchange for the interest
- Acquisition-related costs are expensed
- Cost of additional investment + carrying amount of previously held investment = total cost of investment
- Previously capitalized costs remain untouched
- Bargain purchase gains should not be recognized
- Costs related to the settlement of pre-existing relationships would not be a cost of the investment
- Provisional amounts may be used when initial accounting is incomplete

# Subsidiaries and investments (cont'd)

## Subsequent measurement

- Earnings would be recognized to income when received or receivable
- Adjustments from provisional to final numbers are not recorded retrospectively
- Upon disposal of a portion of the held interest, the remaining carrying amount is calculated as a proportionate share of the carrying amount of the investment immediately prior to the disposal
- Consider whether the cost of additions, proceeds from disposals or dilutions of investments are indicators of impairment (e.g., when fair value of additional interest purchased is less than carrying amount of existing interest)

# Resources

# Welcome to Deloitte's centre for financial reporting

Summaries, analysis, history  
and resources for ASPE  
standards

Update on current projects

Quick  
access to  
topics

The screenshot shows the Deloitte Centre for Financial Reporting website. The header is dark blue with the Deloitte logo on the left and 'Centre for Financial Reporting' on the right, with a language dropdown set to 'Canada (English)'. Below the header is a navigation bar with links: Home, About CFR, News, Publications, Standards, Projects, and Resources. A search bar is located on the right side of the navigation bar. The main content area has a green banner that reads 'Beyond compliance – Promoting excellence in financial reporting'. Below this, there are two tabs: 'Latest news' and 'Latest publications'. The 'Latest news' tab is active, showing a list of articles. Each article has a logo on the left, a title, a date, and a brief description. The articles listed are: 'AcSB Decision Summary – November 24, 2015' (Dec 04, 2015), 'FSB Task Force to develop climate-related financial disclosures' (Dec 04, 2015), 'IESBA November 30-December 4, 2015 Meeting Highlights' (Dec 04, 2015), and 'FASB proposes amendments to the disclosure requirements for fair value measurements' (Dec 03, 2015). On the right side of the main content area, there is a 'Financial Reporting Insights' section with a tree image and a description. Below this is an 'Important dates' section with a table of upcoming events. The table has two columns: 'Event' and 'Date'. The events listed are: 'Webinar – Looking to the Future: The AASB's Next Strategic Plan' (Dec 08, 2015), 'ASPE annual technical update - Where are we now? Where are we going?' (Dec 09, 2015), 'Roundtable Discussions – AASB's Draft Strategic Plan for 2016-2021 and other projects' (Dec 14, 2015), 'OSC SME Institute - Continuous Disclosure Obligations' (Dec 15, 2015), 'Comment letter deadline on ED on Subsidiaries and Investments (Sections 1591 and 3051)' (Jan 09, 2016), and 'Comment letter deadline on proposed OSC Whistleblower Program' (Jan 12, 2016). Red arrows point from the annotations to specific elements on the website: one to the navigation bar, one to the search bar, one to the 'AcSB' article, one to the 'Financial Reporting Insights' section, and one to the 'Important dates' section.

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**AcSB** **AcSB Decision Summary – November 24, 2015**  
Dec 04, 2015  
On December 4, 2015, the Accounting Standards Board (AcSB) released an executive summary of discussions and decisions with respect to the topics addressed at this meeting.

**FSB** **FSB Task Force to develop climate-related financial disclosures**  
Dec 04, 2015  
On December 4, 2015, the Financial Stability Board (FSB) announced that it is to create an industry-led disclosure task force on climate-related financial risks.

**IESBA** **IESBA November 30-December 4, 2015 Meeting Highlights**  
Dec 04, 2015  
On December 4, 2015, the International Ethics Standards Board for Accountants (IESBA) released the highlights of its November 30-December 4, 2015 meeting.

**FASB** **FASB proposes amendments to the disclosure requirements for fair value measurements**  
Dec 03, 2015

**Financial Reporting Insights**  
Looking for guidance on ASPE S.1591 and S. 3056? Check out our newsletter to hear what our experts have to say.

**Important dates**

<b>Webinar – Looking to the Future: The AASB's Next Strategic Plan</b> Dec 08, 2015 En ligne	<b>ASPE annual technical update - Where are we now? Where are we going?</b> Dec 09, 2015 Online
<b>Roundtable Discussions – AASB's Draft Strategic Plan for 2016-2021 and other projects</b> Dec 14, 2015 Held at various venues and dates	<b>OSC SME Institute - Continuous Disclosure Obligations</b> Dec 15, 2015 Toronto, Ontario
<b>Comment letter deadline on ED on Subsidiaries and Investments (Sections 1591 and 3051)</b> Jan 09, 2016	<b>Comment letter deadline on proposed OSC Whistleblower Program</b> Jan 12, 2016

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# Private Enterprise Advisory Committee (PEAC)

**What is PEAC?**

**Who are the members?**

**When does the committee meet?**

**Opportunity to have your say!**

**<http://www.frascanada.ca/standards-for-private-enterprises/private-enterprise-advisory-committee/submit-an-issue/item55442.aspx>**

# Private Enterprise Advisory Committee

## Current year meetings:

### April

- Refundable tax accounts in retirement compensation arrangements
- Feedback on the S.3856 PIR
- Accounting for subsidiaries and investments under the cost method
- Survey on financial statement disclosures

### June

- AcSB Strategic Plan
- 2015 Annual Improvements
- Reporting Framework when raising capital in non-traditional markets

### October

- 2016 Annual Improvements – general
- 2016 Annual Improvements – financial instruments
- Employee future benefits – implications of recent mortality improvements
- AcSB and AASB's 2016 – 2021 Draft Strategic Plans



# Private Enterprise Advisory Committee

## Link to PEAC meeting notes:

- <http://www.frascanada.ca/standards-for-private-enterprises/private-enterprise-advisory-committee/meeting-notes/item72805.aspx>

# Year-end reminders

# Preparing for year-end

## Revenue

- Are there new revenue streams in the current year that need to be assessed from an accounting perspective?
- Have multiple element arrangements been identified and appropriately treated?
- Is there active monitoring and consideration of side agreements, vendor rebates, discounts, rights of return and other sales type arrangements?
- Do your financial statements present or disclose the major categories of revenue recognized in the period?
- Do you have an accounting policy that addresses each material stream of revenue recognized in the period?
- Have appropriate controls been designed by management and implemented to support accurate and complete reporting of revenue? Is this process revisited regularly to maintain relevance? Who owns this process in your organization?

# Assets held for sale... a few reminders

**In order for a long-lived asset to be classified as held for sale, 5 conditions must be met:**

Management commits to plan to sell

Available for immediate sale in present condition

Active program to locate buyer initiated

Sale is probable (expect to be completed in 1 year)

Significant changes to (or withdrawal of) the plan are unlikely

# Assets held for sale... a few reminders (cont'd)

Q1: What if a long-lived asset **meets** the held for sale criteria at the balance sheet date?

- If the long-lived asset is being disposed of as part of a disposal group, ensure other assets (e.g., accounts receivable, investments) are evaluated for impairment first and any necessary write-downs are taken
- Write-down disposal group to lower of carrying amount and fair value less cost to sell
- Cease amortizing the long-lived asset once classified as held for sale
- Present assets and liabilities held for sale separately on the balance sheet
- Consider whether the disposal group may qualify as a “discontinued operation”!!

Q2: What if a long-lived asset **does not meet** held for sale criteria at balance sheet date?

- If you are aware of impairment indicators based on information obtained (e.g., expected selling price of long-lived asset is less than its carrying amount), test for impairment under S. 3063
- Determine if the held for sale criteria are met before completion of the financial statements as disclosures are required

# Year end reminders...

Area of focus	Considerations
Changes in accounting policies	<ul style="list-style-type: none"> <li>Consider if you want to change any accounting policies listed in S. 1506.09</li> </ul>
Significant and/or unusual transactions	<ul style="list-style-type: none"> <li>Consider whether you have entered into any significant and/or unusual transactions such as – New financings, acquisitions, divestitures, reorganizations, tax optimization strategies. Consider carefully the appropriateness of the accounting, presentation and disclosure.</li> </ul>
Estimates	<ul style="list-style-type: none"> <li>Revise amortization methods and useful lives to ensure they are reflective of the asset's actual and expected life</li> <li>Review and assess the appropriateness of other estimates (e.g., bad debts, inventory obsolescence, contingent liabilities, etc.)</li> </ul>
Impairment	<ul style="list-style-type: none"> <li>Consider whether there are indicators of impairment (or reversals of impairment) for long-lived assets, intangibles, goodwill, etc.</li> </ul>
Changes in ownership interests	<ul style="list-style-type: none"> <li>Consider whether there have been increases or decreases in ownership interest in investments including subsidiaries</li> </ul>
Employee benefits	<ul style="list-style-type: none"> <li>Consider whether there have been amendments to defined benefit pension or employee benefit plans, employee terminations</li> </ul>
Financial statement considerations	<ul style="list-style-type: none"> <li>Consider whether the impact of the 2014 annual improvements have been reflected in the financial statements</li> </ul>

# Q&A



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