ASSURANCE AND ACCOUNTING

AMENDMENT TO PART I OF THE CICA HANDBOOK - ACCOUNTING

Part I of the CICA Handbook – Accounting contains the International Financial Reporting Standards (IFRS). The timing of mandatory adoption of IFRS has recently been amended by the Accounting Standards Board (AcSB) for certain types of entities. The amendment allows qualifying entities with rate-regulated activities, investment companies and segregated accounts of life insurance enterprises to adopt IFRS for the first time, no later than interim and annual financial statements relating to annual periods beginning on or after January 1, 2012. Such qualifying entities that elect for deferral would need to disclose this fact.

Entities with rate-regulated activities

The key issue for rate-regulated entities (RREs) adopting IFRS is the recognition of regulatory assets and liabilities. The IASB has a rate-regulated activities project that contemplates the recognition of regulatory assets and liabilities. Since this project is still outstanding and the changes may be significant, RREs may require more time to deal with it. As a result, the AcSB has allowed for an optional deferral of IFRS for one year. The AcSB does not plan to extend this deferral based on the status of the project. The deferral is restricted to entities that:

1. Have activities subject to cost-based regulation
2. Recognize regulatory assets and liabilities

For example, a parent company that prepares consolidated financial statements of its subsidiaries that meets both of these criteria would be allowed to elect for this deferral. However, a subsidiary entity that does not meet these criteria would not qualify for the deferral in its stand alone financial statements.

Therefore, it is important to determine the applicability of this deferral on an entity specific basis.

At its September 16, 2010 meeting, the IASB board — while undergoing discussions to determine the accounting treatment of rate-regulated activities — decided that it would consider:

- Developing disclosure requirements on rate-regulated activities
- Developing an interim standard (similar to IFRS 4 and 6)
- Developing a medium-term project to the post-2011 agenda on intangible assets, but only focus on regulatory assets and liabilities
- Developing a major project on accounting for intangible assets

Investment companies and segregated accounts of life insurance enterprises

The IASB is currently working on an investment company proposal that suggests that investment companies should account for investments in controlled investees at fair value. However, the amendments will not be finalized before the mandatory January 1, 2011 adoption date. In order to keep Canadian investment companies from changing their accounting for controlled investees twice — on transition to IFRS and again when the IASB finalizes these amendments — the AcSB has allowed for a deferral of one year.

Investment companies under Canadian GAAP that follow AcG-18, Investment Companies, generally use a fair value model. They are scoped out of Section *1590 – Subsidiaries for consolidation purposes*. In contrast, under IFRS, there is no scope exemption for investment companies in *IAS 27 – Consolidated and Separate Financial Statements*. This could result in significantly different accounting for investment companies on transition to IFRS.

This deferral is limited to those entities expected to be scoped in the IASB's investment company proposal. This includes segregated accounts of life insurance enterprises and pension funds whose sole purpose is to hold and invest assets received from one or more pension plans, but which do not have a pension obligation themselves. The AcSB will continue to monitor the IASB's investment company project and will consider the need to revise the IFRS changeover date for these entities, if required.

For further guidance on IFRS information or reference sources, please contact your local BDO office or visit www.bdo.ca/ifrs.