

## CICA handbook – accounting revisions release no. 26 November 2003

### ACCOUNTING RECOMMENDATIONS

#### Business combinations, paragraphs 1581.A39-.A41

Amended to remove references to methods of accounting other than the fair value based method, as a result of amendments to Section 3870.

#### Stock-based compensation and other stock-based payments, Section 3870

Paragraph 3870.01 amended to indicate that a fair value based method of accounting is required for all stock-based payments.

Paragraph 3870.65, formerly 3870.74, continues to allow equity settled stock appreciation rights to be measured according to the guidance in paragraphs 3870.24 or 3870.38.

Former paragraphs 3870.65-.73 renumbered 3870.66-.74.

Paragraphs 3870.74-.76, which indicated when the fair value based method of accounting was to have been applied, and encouraged the application of the fair value based method of accounting for all employee stock-based plans, deleted.

Former wording of paragraphs 3870.74 and 3870.75 was as follows:

- .74 ♦ *This Section applies to all stock-based payments to non-employees, and to employee awards that are direct awards of stock, or call for settlement in cash or other assets (see paragraph 3870.38). Stock appreciation rights that call for settlement by the issuance of equity instruments should be presented as equity and measured using the guidance for:*
- (a) *equity instruments awarded to employees (see paragraph 3870.24); or*
  - (b) *awards calling for settlement in cash or other assets (see paragraph 3870.38).*

*For purposes of reporting in the separate financial statements of a subsidiary enterprise, a method other than the fair value based method, such as the intrinsic value based method, may be used to account for stock compensation plans based on the stock of a parent enterprise granted to employees of that subsidiary. [JAN. 2002]*

- .75 ♦ *Enterprises are encouraged to apply the fair value based method of accounting for all employee stock-based compensation plans, but are only required to apply this Section to awards as specified in paragraph 3870.74. An enterprise that has not applied the fair value based method of accounting should disclose for each period for which an income statement is provided the pro forma net income and, if earnings per share is presented, pro forma earnings per share, as if the fair value based accounting method had been used to account for stock-based compensation cost. Those pro forma amounts should reflect the difference between compensation cost, if any, included in net income in accordance with the method of accounting adopted, if any, such as the intrinsic value based method and the related cost measured by the fair value based method, as well as additional tax effects, if any, that would have been recognized in the income statement if the fair value based method had been used. The required pro forma amounts should reflect no other adjustments to reported net income or earnings per share. [JAN. 2002]*

Paragraph 3870.75 added to indicate that Section 3870 applies to transactions with non-employees entered into during fiscal years beginning on or after January 1, 2002.

Paragraphs 3870.77-.80 deleted. Expense recognition is now required for all employee stock-based awards.

Paragraph 3870.76, formerly paragraph 3870.82, amended to indicate that Section 3870 applies to the awards specified in that paragraph that are outstanding at the start of the first fiscal year beginning on or after January 1, 2002.

Paragraph 3870.77, formerly paragraphs 3870.81 and 3870.83, amended to indicate that, for awards other than those specified in paragraph 3870.76, Section 3870 is adopted for fiscal years beginning on or after January 1, 2004, using either retroactive or prospective application. Paragraph 3870.77 also amended to clarify that opening retained earnings are to be adjusted if prior periods are not restated.

Paragraph 3870.78 added to harmonize pro forma disclosure requirements in Section 3870 with those of paragraph 2(e)(c)(3) of the United States Financial Accounting Standards Board Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure." Paragraph 3870.78 also includes a reference to paragraph 3870.79, to require the disclosure of pro forma earnings information for non-public enterprises that avail themselves of a one-year deferral to defer the recognition requirements of Section 3870.

Paragraph 3870.79, formerly paragraph 3870.81, amended to clarify that non-public companies apply Section 3870 for fiscal years beginning on or after January 1, 2003 to transactions with non-employees, and to awards settled in cash or other assets. For all other awards, non-public enterprises are permitted to defer the recognition requirements of Section

3870 until fiscal years beginning on or after January 1, 2005. Pro forma income and earnings per share disclosure is required if the fair value based method of accounting has not been applied to all awards.

Paragraph 3870.80 added to require measurement and recognition of equity instruments that have not yet been measured when a non-employee changes status to an employee.

Former paragraph 3870.84 renumbered 3870.81.

Former wording of paragraphs 3870.81-.84 was as follows:

- .81 ♦ *The Recommendations of this Section should be adopted for fiscal years beginning on or after January 1, 2002 and applied to awards granted on or after the date of adoption. Enterprises other than public enterprises, co-operative enterprises, deposit-taking institutions and life insurance enterprises may defer the application of this Section until fiscal years beginning on or after January 1, 2003. Public enterprises are those enterprises that have issued debt or equity securities that are traded in a public market (a domestic or foreign stock exchange or an over the counter market, including local or regional markets), that are required to file financial statements with a securities commission, or that provide financial statements for the purpose of issuing any class of securities in a public market. Earlier adoption is encouraged. [JAN. 2002]*
- .82 ♦ *The Recommendations of this Section should also be applied to the following awards that are outstanding at the date of adoption of this Section:*
- (a) *awards that call for settlement in cash or other assets (see paragraph 3870.38);*
  - (b) *stock appreciation rights that call for settlement by the issuance of equity instruments; and*
  - (c) *any other award that is modified so as to become an award included in (a) or (b) above. The award should be accounted for as a new award in accordance with paragraph 3870.74, and not using modification accounting.*
- The cumulative amount, applicable to (a) or (b) above, that would have been recognized in prior years had this Section been applied, less any amount previously recognized, should be recognized as the effect of a change in accounting policy and charged to opening retained earnings for the fiscal year in which this Section is initially applied, without restatement of prior periods, in accordance with ACCOUNTING CHANGES, Section 1506. [JAN. 2002]*
- .83 ♦ *When it initially adopted this Section an enterprise may have only applied the fair value based method of accounting to certain employee awards, in accordance with paragraph 3870.75. If the enterprise subsequently applies the fair value based method of accounting to types of awards that were not previously accounted for at fair value, it should use one of the following alternatives:*
- (a) *Retroactive application — the fair value based method of accounting is adopted for all types of award previously not accounted for at fair value, and either:*
    - (i) *prior periods are not restated; or*
    - (ii) *prior periods are restated to include the expense for awards of that type that was included in the pro forma note disclosure for prior periods (see paragraph 3870.75).*
  - (b) *Prospective application — the fair value based method is applied to awards (of the type previously not accounted for at fair value) granted, modified or settled on or after the beginning of the fiscal year in which the enterprise adopts this Section for those awards. This alternative is only available to enterprises that elect to apply the fair value based method of accounting to that type of award for fiscal years beginning before January 1, 2004.*

*An enterprise should disclose whether it has adopted the fair value method of accounting for these awards on a retroactive or prospective basis and, if retroactive, whether prior periods have been restated. [OCT. 2003]*

- .84 ♦ *For awards granted before fiscal years beginning on or after January 1, 2002, the Recommendations in paragraphs 3870.66- 68 and 3870.70 should be applied to those awards in financial statements for fiscal years beginning on or after that date. [JAN. 2002]*

Paragraph 3870.85 deleted as it is no longer applicable. Former wording of paragraph 3870.85 was:

- .85 ♦ *The disclosure of pro forma net income and pro forma earnings per share required by paragraph 3870.75 should be provided in financial statements for fiscal years beginning on or after January 1, 2002, when applicable. In the first year of application, comparative disclosures need not be provided for prior years. The pro forma disclosure should be provided for awards granted in fiscal years beginning on or after January 1, 2002, but need not be provided for awards granted before that date. When the pro forma disclosure omits the effect of awards granted before fiscal years beginning on or after January 1, 2002, that fact should be disclosed. [JAN. 2002]*

Transitional provision paragraphs are no longer stated in italics.

## **ACCOUNTING GUIDELINES**

### **Consolidation of variable interest entities (AcG-15)**

Amended by changing the effective date in paragraph 31 to annual and interim periods beginning on or after November 1, 2004 and adding disclosure requirements in new paragraph 32 for annual and interim periods beginning on or after January 1, 2004.

## **EIC ABSTRACTS**

### **Accounting for trading, speculative or non-hedging derivative financial statements (EIC-128)**

Amended on September 12, 2003 to provide a definition of "financial guarantee".

**Accounting for retained interests by the transferor in a securitization transaction accounted for as a sale under AcG-12 (EIC-139)**

Issued on September 12, 2003.

**Accounting for operating leases acquired in either an asset acquisition or a business combination (EIC-140)**

Issued on September 12, 2003.

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