

# 2014 Changes to Part I – AcSB Due Process Activities

## Foreword

During 2014, the Accounting Standards Board (AcSB) approved and incorporated, into Part I of the CPA Canada Handbook – Accounting, new or amended International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

The AcSB has approved for publication the contents of this document summarizing the due process activities it undertook in support of the changes made to the IFRSs in Part I during 2014.

The IASB's Basis for Conclusions document for each IFRS includes the IASB's rationale for developing or amending the IFRS, as well as the factors and considerations that led it to conclude as it did on the technical issues relating to the IFRS. This document does not replicate that information.

July 2015

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## INTRODUCTION

- 1 This document summarizes the due process activities undertaken by the Accounting Standards Board (AcSB) in support of its approval of new or amended International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and incorporated into Part I of the CPA Canada Handbook – Accounting during 2014.
- 2 Nothing in this document is to be taken as overriding the requirements of the Handbook.
- 3 As part of its due process, the IASB issues a Basis for Conclusions document for each new or amended IFRS that sets out the considerations of the IASB in reaching its conclusions (including its technical decisions) on that standard. Stakeholders wishing to understand those considerations for one or more of the changes to IFRSs addressed in this AcSB due process summary are referred to the relevant IASB Basis for Conclusions.

## **BACKGROUND**

### **IFRSs as an element of Canadian GAAP**

- 4 In January 2010, the AcSB released Part I of the Handbook, which consists of IFRSs 1 except for the IFRS for SMEs. For purposes of this document, any reference to IFRSs is exclusive of the *IFRS for SMEs*.<sup>2</sup> A separate document sets out the AcSB's rationale and process for adopting IFRSs as an element of Canadian GAAP.<sup>3</sup> The Preface to the CPA Canada Handbook – Accounting sets out the categories of Canadian financial reporting entities required or permitted to apply IFRSs.
- 5 Part I contains IFRSs in effect for annual periods beginning on January 1 each year. Separately, it also provides new or amended IFRSs issued by the IASB that are not yet effective. Part I is updated to incorporate new or amended IFRSs that the AcSB has approved for adoption into Canadian GAAP after completing the necessary due process activities. These activities are carried out as soon as possible after the IASB issues the standard in order to ensure the completeness of Part I at any point in time.
- 6 When, as part of its 2006-2011 Strategic Plan, the AcSB adopted IFRSs as an element of Canadian GAAP, it decided that doing so was generally in the Canadian public interest. To contribute towards the achievement of a single global set of financial reporting standards, the AcSB also decided to adopt IFRSs as issued by the IASB into Canadian GAAP with no modifications. This approach continues to date. Nevertheless, as the national standard setter, the role played by the AcSB in adopting a new or amended IFRS requires that it perform additional due process activities of its own beforehand.
- 7 This document:
  - (a) explains the interplay between the due process of the IASB, and that of the AcSB, as it relates to new or amended IFRSs; and
  - (b) outlines the due process activities undertaken by the AcSB before incorporating new or amended IFRSs into Part I.

It then describes the specific due process activities undertaken for the new or amended standards incorporated into Part I during 2014.

### **RELIANCE ON THE IASB'S DUE PROCESS**

- 8 In deciding to adopt IFRSs as an element of Canadian GAAP, the AcSB accepted that it would have to place considerable reliance on the due process followed by the IASB when developing and issuing a new or amended standard.
  - 9 At the same time, the AcSB recognized that it needed to put in place some procedures of its own to justify that reliance and to ensure that it has fulfilled its own responsibilities under its Terms of Reference. The AcSB has reviewed, and continues to monitor, the institutional arrangements that support the integrity of the IASB's due process to ensure that they are sound.<sup>4</sup> It has also determined that the due process applied by the IASB in establishing new or amended IFRSs is comparable to the AcSB's own due process and of the same quality. Most notably, both due processes:
    - (a) are designed to serve the public interest by addressing the need for transparency of the standard-setting process, extensive consultation and responsiveness to input received, and accountability to all stakeholders; and
    - (b) involve the same basic components, namely research, discussion and consultation.
- The AcSB also participates in the process for developing and amending the IASB's Due Process Handbook, in part by commenting on proposals to amend it as they arise.
- 10 The AcSB has concluded that if the IASB consistently follows its due process when developing IFRSs, it can be relied upon to produce high-quality standards that the AcSB is justified in adopting into Canadian GAAP after performing the additional due process activities described in paragraphs 11-18. That conclusion is tested regularly as part of the AcSB's process for considering whether to adopt individual new or amended IFRSs. On a project-by-project basis, the AcSB staff monitors:
    - (a) the IASB's activities to ensure that the IASB is indeed following its due process; and
    - (b) the work of the Due Process Oversight Committee of the IFRS Foundation, to assess whether that Committee is functioning as intended and is providing suitable oversight of the IASB's adherence to its established due process.

The results are reported to the AcSB throughout the life of the project and when seeking the AcSB's approval to incorporate the final standard issued by the IASB into Part I of the Handbook (see "Step 2" of the AcSB's three-step process below).

### **THE AcSB'S DUE PROCESS**

- 11 Although the IASB's due process provides assurance that a new or amended standard is suitable for adoption into IFRSs, the AcSB takes additional measures to ensure that the standard is appropriate for application in Canada. The AcSB does not replicate all of the IASB's efforts but does take steps to obtain sufficient information to allow it to reach its own conclusion about whether the requirements of a new or amended IFRS are appropriate for application in Canada. Specifically, the AcSB performs the following three steps:

#### **Step 1: Obtain an understanding of the new or amended IFRS**

- 12 AcSB members learn about new guidance from the IASB long before a final new or amended standard is issued. The AcSB is made aware of new IASB projects and the IASB's preliminary views on issues significant to Canada through monitoring activities of the AcSB staff throughout the project's life, and the participation of the AcSB Chair and Director in international meetings with the IASB and other standard setters, including the IASB's Accounting Standards Advisory Forum.<sup>5</sup> The AcSB generally responds to all published IASB invitations to comment on the agenda-setting process and on IASB discussion papers, exposure drafts, draft interpretations and similar documents in individual standard-setting projects, as well as to requests for information for post-implementation reviews. For each IASB exposure draft, the AcSB issues a corresponding "wraparound" exposure draft and considers the responses it receives when developing its comment letter to the IASB (see "Step 3" below).
- 13 Once the IASB issues a new or amended standard, AcSB members are provided with copies, as well as accompanying material helpful to an understanding of the standard, such as the IASB's Basis for Conclusions document, implementation guidance and illustrative examples. Building on knowledge gained from the activities described in the preceding paragraph, members familiarize themselves with the requirements of the new or amended standard through self-study and a review of other information provided by the AcSB staff, including a précis of the standard and summaries of:
- (a) the comments made by Canadians and the AcSB on the relevant IASB exposure draft;
  - (b) key changes the IASB made to the proposals in its exposure draft;<sup>6</sup>
  - (c) possible challenges to Canadians in applying the new or amended standard; and
  - (d) in general terms, the degree to which the new or amended standard contributes to convergence with U.S. GAAP.

#### **Step 2: Assess the IASB's due process in developing the new or amended IFRS**

- 14 In light of the AcSB's conclusions about the calibre of the IASB's due process and the diligence given its application, the AcSB considers it unnecessary to perform a detailed review of all due process activities undertaken by the IASB in connection with a particular new or amended IFRS. Instead, this step involves the review of documentation on the IASB's and Due Process Oversight Committee's assessment of whether the IASB has met its due process for that IFRS. The Due Process Oversight Committee's meeting reports have changed over time to now include a direct statement on whether the IASB has complied with due process. The AcSB's balloting process requires each AcSB member to record whether they are satisfied that the IASB's due process has been appropriately followed after reviewing the results of the monitoring activities performed by the AcSB staff described in paragraph 10.

#### **Step 3: Evaluate whether the requirements of the new or amended IFRS are appropriate for application in Canada**

- 15 The AcSB's due process requires that it obtain the views of Canadians on proposed changes to the Handbook. In the case of new or amended IFRSs, the AcSB meets this requirement, in part, by publishing its own wraparound exposure draft of the IASB's exposure draft of the proposed IFRS.<sup>7</sup> The AcSB's exposure draft notes whether the IASB has followed due process in developing the proposals and asks for input on whether the proposed new or amended standard is appropriate for application in Canada. Depending on the topic and the nature of the IASB's proposals, the AcSB may also do one or more of the following:
- (a) Seek input from its advisory committees.
  - (b) Hold public roundtables on the IASB's proposals.
  - (c) Perform other outreach activities including meetings with affected stakeholder groups or individuals.

The AcSB may decide such additional activities are necessary when, for example, it judges the proposals to be particularly complex or controversial based on stakeholder input received to date.

- 16 The AcSB reviews responses to its wraparound exposure draft, and input obtained through the other means described in the preceding paragraph, to identify any unique Canadian circumstances that might justify a departure from a proposed new or amended IFRS, including the effective date set by the IASB.
- 17 The AcSB considers the information obtained through these three steps to decide whether there is any compelling reason why a standard developed and adopted by the IASB in accordance with its due process would not be suitable for application in Canada. If no such reason exists, the AcSB approves the standard for incorporation into Part I. Summaries demonstrating when and how each of the AcSB's due process requirements for a new or amended IFRS was completed are prepared by the staff for all major projects and form part of the supporting documentation for the AcSB's ultimate decision to adopt the IFRS.
- 18 The AcSB monitors new or amended standards after they are incorporated into Part I to ensure that no issues arise, calling into question their suitability in Canada. It does this primarily through its IFRS Discussion Group (which is chaired by an AcSB member and input from which is directly available to the AcSB) and participation in post-implementation reviews of new standards carried out by the IASB.

#### **DOCUMENTATION OF DUE PROCESS ACTIVITIES**

- 19 The AcSB decided to publish a single (omnibus) document on an annual or other combined basis for individual changes to Part I for the adoption of new or amended IFRSs, as well as amendments to its Introduction when those occur. The document communicates the actions taken and the considerations that were deemed significant by AcSB members in reaching their decisions to make each change.
- 20 This document does not reproduce the various summaries and other documentation used by the AcSB to obtain an understanding of each new or amended standard incorporated into Part I. IASB material used by the AcSB staff to facilitate that understanding (for example, IASB Updates, documents for comment, project summaries and feedback statements) is available on the IASB's website, as are some of the sources of the information contained in the AcSB staff summaries listed in paragraph 13 (for example, comment letters from Canadians and the AcSB). Instead, this document focuses on Steps 2 and 3 of the AcSB's due process for new or amended IFRSs to demonstrate the activities it performs before approving each standard for adoption into Canadian GAAP.

## **2014 CHANGES TO PART I**

- 21 During 2014, changes were made to Part I of the Handbook to incorporate new or amended IFRSs issued by the IASB. The Appendix summarizes the AcSB's due process activities for each change. Responses to AcSB wraparound exposure drafts simply reproducing the respondent's comment letter to the IASB are not reflected in the Appendix because the points raised were considered by the IASB as part of its due process.

### **Appendix**

#### **New or amended IFRSs incorporated into Part I in 2014**

##### **Summary of AcSB due process activities by standard**

Date issued by the IASB	Step 2: Assess the IASB's due process in developing the new or amended IFRS	Step 3: Evaluate whether the requirements of the new or amended IFRS are appropriate for application in Canada		Date issued in Part I
	AcSB review of IASB due process compliance	AcSB Exposure Draft corresponding to IASB Exposure Draft	Other outreach activities	
<i>IFRS 9 Financial Instruments, IFRS 7 Financial Instruments: Disclosures, IAS 39 Financial Instruments: Recognition and Measurement</i> (amendments regarding hedge accounting and mandatory effective date)				
November 2013	The Due Process Oversight Committee April 2013 meeting report notes that the Committee was satisfied that all the due process requirements had been met for this project. The IASB's report to the April 2013 Due Process Oversight Committee meeting explained that the shorter than normal comment period was approved based on the timeline for IFRS 9 at the time, and the fact that extensive outreach activities helped to ensure that constituents had been able to follow the project.	AcSB Exposure Draft issued February 2011 – 2 responses. Response summary and other information demonstrating the completion of Step 3 reviewed by the AcSB as part of the December 2013 balloting material.	Stakeholder consultations  User Advisory Council (January 2011)  Public Roundtable (February 2011)	February 2014
<i>IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures</i> (amendments regarding sale or contribution of assets between an investor and its associate or joint venture)				
September 2014	The Due Process Oversight Committee July 2014 meeting report notes that the Committee was satisfied that all the due process requirements had been met for this project.	AcSB Exposure Draft issued January 2013 – 1 response. Response summary and other information demonstrating the completion of Step 3 reviewed by the AcSB as part of the September 2014 balloting material.		November 2014
<i>IFRS 11 Joint Arrangements</i> (amendments regarding accounting for acquisitions of interests in joint operations)				

May 2014	No indications of non-compliance from a review of the IASB's project activities and Due Process Oversight Committee discussions (based on the IASB's report to the April 2014 Due Process Oversight Committee meeting).	AcSB Exposure Draft issued January 2013 – 1 response. Response summary and other information demonstrating the completion of Step 3 reviewed by the AcSB as part of the May 2014 balloting material.		July 2014
<i>IFRS 14 Regulatory Deferral Accounts (new)</i>				
January 2014	The Due Process Oversight Committee January 2014 meeting report notes that the Committee was satisfied that all the due process requirements had been met for this project.	AcSB Exposure Draft issued May 2013 – 1 response. Response summary and other information demonstrating the completion of Step 3 reviewed by the AcSB as part of the February 2014 balloting material.	Stakeholder consultations User Advisory Council (November 2012)	April 2014
<i>IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (amendments regarding clarification of acceptable methods of depreciation and amortisation)</i>				
May 2014	No indications of non-compliance from a review of the IASB's project activities and Due Process Oversight Committee discussions (based on the IASB's report to the January 2014 Due Process Oversight Committee meeting).	AcSB Exposure Draft issued December 2012 – 1 response. Response summary and other information demonstrating the completion of Step 3 reviewed by the AcSB as part of the May 2014 balloting material.		July 2014
<i>IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (amendments regarding bearer plants)</i>				
June 2014	The July 2014 Due Process Oversight Committee meeting report notes that the Committee was satisfied that all the due process requirements had been met for this project.	AcSB Exposure Draft issued July 2013 – no responses. Information demonstrating the completion of Step 3 reviewed by the AcSB as part of the July 2014 balloting material.	Stakeholder consultations	September 2014
<i>IAS 19 Employee Benefits (amendments regarding defined benefit plans: employee contributions)</i>				
November 2013	No indications of non-compliance from a review of the IASB's project activities and Due Process Oversight Committee discussions (based on the IASB's report to the October 2013 Due Process Oversight Committee meeting).	AcSB Exposure Draft issued April 2013 – no responses. Information demonstrating the completion of Step 3 reviewed by the AcSB as part of the December 2013 balloting material.	Stakeholder consultations	February 2014
<i>IAS 27 Separate Financial Statements (amendments regarding equity method in separate financial statements)</i>				
August 2014	The Due Process Oversight Committee July 2014 meeting report notes that the Committee was satisfied that all the due process requirements had been met for this project. The IASB's April 2014 report to the Due Process Oversight Committee explained that the shorter than normal comment period reflected the importance of this change to several jurisdictions.	AcSB Exposure Draft issued December 2013 – 1 response. Response summary and other information demonstrating the completion of Step 3 reviewed by the AcSB as part of the September 2014 balloting material.		November 2014
Annual Improvements to IFRSs (2010–2012 Cycle) (i.e., narrow-scope amendments clarifying or correcting particular aspects of existing IFRSs) affecting: IFRS 2 <i>Share-based Payment</i> ; IFRS 3 <i>Business Combinations</i> ; IFRS 8 <i>Operating Segments</i> ; IAS 16 <i>Property, Plant and Equipment</i> ; IAS 38 <i>Intangible Assets</i> ; and IAS 24 <i>Related Party Disclosures</i>				

December 2013	No indications of non-compliance from a review of the IASB's project activities and Due Process Oversight Committee discussions (based on the IASB's report to the October 2013 Due Process Oversight Committee meeting).	AcSB Exposure Draft issued June 2012 – 1 response. Response summary and other information demonstrating the completion of Step 3 reviewed by the AcSB as part of the January 2014 balloting material.		March 2014
Annual Improvements to IFRSs (2011–2013 Cycle) (i.e., narrow-scope amendments clarifying or correcting particular aspects of existing IFRSs) affecting: IFRS 3 <i>Business Combinations</i> ; IFRS 13 <i>Fair Value Measurement</i> ; and IAS 40 <i>Investment Property</i>				
December 2013	No indications of non-compliance from a review of the IASB's project activities and Due Process Oversight Committee discussions (based on the IASB's report to the October 2013 Due Process Oversight Committee meeting).	AcSB Exposure Draft issued December 2012 – no responses. Information demonstrating the completion of Step 3 reviewed by the AcSB as part of the January 2014 balloting material.	Stakeholder consultation	March 2014

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## Footnotes

1. The term "International Financial Reporting Standards" includes International Financial Reporting Standards (IFRSs) as issued by the IASB, International Accounting Standards (IASs) as issued by the IASB's predecessor, the Board of the International Accounting Standards Committee, and adopted by the IASB upon its inception, and Interpretations developed by the IFRS Interpretations Committee (previously named the International Financial Reporting Interpretations Committee (IFRIC) or its predecessor, the Standing Interpretations Committee (SIC)).
2. The *IFRS for SMEs* is a self-contained standard designed by the IASB to meet the needs and capabilities of small and medium-sized entities. The AcSB decided against adopting the *IFRS for SMEs* for application by private enterprises. Instead, the AcSB developed accounting standards for private enterprises set out in Part II of the Handbook.
3. See "Adoption of International Financial Reporting Standards – Background Information and Basis for Conclusions."
4. The AcSB Due Process Handbook, provides the details of what the AcSB's review entails (see "Reliance on the IASB's due process").
5. The Accounting Standards Advisory Forum (ASAF) is an advisory group to the IASB consisting of national accounting standard setters and regional bodies with an interest in financial reporting. It meets four times a year to discuss technical standard-setting issues relating primarily to the IASB's work plan.
6. The IASB redeliberates its proposals in accordance with its due process after considering comments received from the public, including those from Canadians, and makes changes to its proposals as appropriate. As a result of the summaries described in paragraphs 13(a)-(b), the AcSB has knowledge of the key issues raised by Canadians and the results of IASB redeliberations pertaining to those issues.
7. Depending on the topic and the nature of the IASB's proposals, the AcSB may seek the views of Canadians before the exposure draft stage (for example, when the IASB has published a discussion paper or other consultation document).

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