AUDIT COMMITTEE INSTITUTE

Canadian Audit Committee Update

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Preface

We are pleased to provide you with the 2010-01 issue of KPMG's *Canadian Audit Committee Update*.

The future is almost here. Many Canadian companies are now in the transition year of their move to IFRS—the year for which the opening balance sheet and interim financial statements will ultimately be restated using IFRS.

The year ahead will be challenging for many companies as they approach this looming deadline. Audit committees will play an important role this year in monitoring the progress of the company's conversion plan and reviewing the company's MD&A before its public release.

In **Current Issues Dominating the Audit Committee Agenda**, we identify what we consider to be the top 10 to-do's for audit committees in 2010. From actively overseeing changeover to IFRS to understanding the risks and pressures arising as a result of the recent economic downturn, this list is intended as a starting point for setting the audit committee agenda for the coming year.

In **Financial Reporting Updates**, we outline significant regulatory, accounting, and auditing rules, standards, and projects issued since our 2009-02 issue of *Canadian Audit Committee Update*. Because of Canada's upcoming move to IFRS, we have included in this section recent changes to IFRS accounting standards, current projects to develop future guidance, and a discussion of the IASB's work plan and the implications for changeover plans.

A review conducted by the OSC of 2008 annual and 2009 interim MD&A IFRS disclosures highlights that many issuers have fallen well short of the disclosure guidance provided by the CSA. A recent survey of Canadian financial analysts found that external stakeholders still have a lot to learn about IFRS and how it will affect the financial reporting of specific enterprises. The time and effort that companies will have to put into communicating with stakeholders about the effects of IFRS in the coming year should not be underestimated.

Audit Committee Evolving Issues therefore focuses on communicating to stakeholders about the impact of adopting IFRS. As the company prepares its 2010 MD&A disclosures, audit committees should be mindful of the needs and expectations of external stakeholders, including regulators. As we move closer to the changeover date, stakeholders expect more detailed

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information about the expected effects of IFRS. We highlight some considerations for determining when to quantify the impact of IFRS. Finally, we wrap up with some potential questions for audit committees to consider when thinking about IFRS-related communications.

In **Audit Committee Resources**, we identify additional resources to help audit committee members meet today's challenges.

KPMG is committed to helping audit committee members fulfill their responsibilities by

- communicating regulatory, accounting, and auditing changes
- addressing current and emerging issues
- sharing audit committee leading practices.

We hope this publication provides you with relevant, timely information that supports your decision making.

We encourage those in the financial reporting process—management, internal auditors, external auditors, and audit committee members—to discuss the financial reporting and other matters included in this issue of *Canadian Audit Committee Update*. While the ultimate impact of certain recommendations may depend upon decisions yet to be made at various regulatory and standard-setting bodies, other elements can be evaluated and implemented, as appropriate, by those involved in the financial reporting process.

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Current Issues Dominating the Audit Committee Agenda

This section explores current events and issues and their implications for audit committees. Today's changing business and economic conditions provide an opportunity for the audit committee to reassess its priorities and refocus its agenda.

Ten To-Do's for Audit Committees in 2010

KPMG works with many audit committees. Our involvement with audit committees for public companies, public sector entities, not-for-profits, and private companies gives us a window into the issues audit committees are currently addressing.

We have identified what we consider may be the top 10 to-do's for 2010. Of course, the needs and issues of individual organizations will vary. Use the following ideas as a starting point in reviewing your audit committee's agenda and workload.

When considering their 2010 agendas, audit committees should …

1. Regain control of the audit committee agenda.

The challenges of the economic downturn (access to capital, cash flow, liquidity, counterparty risks, impairments, etc.) have dominated audit committee agendas. As signs of recovery emerge, take the opportunity to develop more focused (yet flexible) agendas, with an eye on the company's key financial reporting risks, including the rapidly approaching changeover to IFRS. To improve the efficiency of committee meetings, insist on quality pre-meeting materials, spend less time on low-value or checklist activities, and engage in discussions rather than listening to presentations. Do not let compliance activities crowd out substantive discussion.

2. Actively oversee the enterprise's changeover to IFRS.

Understand how the changeover to IFRS will affect the organization and its stakeholders, and remember that the board and the compensation committee must also understand the implications of this change. Closely monitor the enterprise's progress in its conversion plan and whether work needs to be accelerated to meet key milestones.

Committee members need to have achieved appropriate levels of IFRS financial literacy, enabling them to clearly understand the financial reporting impact of management's choices of accounting policies and elective exemptions. Clearly understand how the enterprise's financial statements will change, and review management's communications plan for helping financial statement users to understand the impact of adopting IFRS.

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Consider regulators' expectations for IFRS-related disclosures, and examine the company's ongoing MD&A to ensure they provide appropriate disclosures, compared with those of the enterprise's peers and competitors.

3. Understand the risks posed by cost reductions made in response to the economic downturn.

Many companies have engaged in cost cutting as the economy declined. Every board and audit committee should now be asking whether the company's delivery model has been changed permanently, and whether a 'cost-reduced' business model can be sustained. Did we cut too much? What are the implications for our IFRS conversion project? How quickly can we restore critical infrastructure such as IT and sales force? How far have we extended the organization through outsourcing and offshoring?

As companies cut costs and reduce their workforce, the control environment becomes even more critical. Now is not the time to cut back on internal audit's budget.

4. Focus closely on all financial communications.

Narrative reporting (such as MD&A and the new Compensation Disclosure and Analysis referred to as CD&A), earnings releases and analyst briefings can pose difficult issues because they contain important business information that often does not come from the financial reporting system, is not audited, and is not subject to internal controls. If you have not already done so—given the uncertainties created by the economic downturn—reconsider the company's narrative reporting and the earnings guidance it issues. Engage early on in reviewing the 2010 disclosures, particularly new disclosures regarding the company's changeover to IFRS, risk, compensation, and corporate governance. Understand the company's policy on the use of Twitter and other social media networks to reach investors and customers.

5. Continue to monitor fair value issues, impairments, and management's assumptions underlying critical accounting estimates.

These issues, together with pension funding shortfalls and going-concern challenges, will continue to be major areas of focus for audit committees. No new changes are expected this year. To enable Canadian enterprises to focus on the January 1, 2011 changeover to IFRS, Canadian standard setters are working to minimize any new financial reporting developments that would require the committee's attention.

6. Rethink the audit committee's role in risk oversight.

The tremendous focus on risk today provides an opportunity for the board to reassess the oversight role of the audit committee, the full board, and the other standing committees such as the risk committee. Does the audit committee have the expertise and time to deal with strategic, operational, and other risks? Is the expertise of other board members being leveraged? Audit committees already have a lot on their plates with oversight of financial reporting risks.

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7. Make sure internal audit is properly focused and fully utilized.

Help refine internal audit's role, and focus internal audit's activities on key areas of risk, as well as risk management generally. Internal audit is not accountable or responsible for risk management, but it should provide added assurance to the audit committee regarding the adequacy of the company's risk management processes. Internal audit is most effective when it is focused on risk: ensure that the internal audit plan is risk-based and focuses on the critical risks to the business and not just compliance and financial risks.

8. The economy continues to put pressure on compliance and anti-fraud programs.

Be vigilant. The economic downturn has placed tremendous pressure on management to achieve operating results; at the same time, cost cutting and workforce reductions have exacerbated the pressure on these programs. How has the company treated its employees? How do they think they have been treated? A comprehensive review of the company's anti-fraud and compliance programs may be in order. The right tone at the top and throughout the organization is critical.

9. Help reduce the risk of misalignment as the company undergoes change.

Change creates risk. During times of dramatic change, the risk of misalignment—of the company's strategy, goals, risk, controls, compliance, incentives, and people—goes up exponentially. Given the audit committee's role in overseeing risk, internal controls, compliance and, ultimately, the impact of significant changes including the changeover to IFRS on the company's financial statements, the committee is in a unique position to help reduce the risk of misalignment.

10. Take a fresh look at the audit committee's composition and leadership.

The audit committee's effectiveness and accountability hinges on meaningful self-assessment of the audit committee as a group as well as individual members. Take a hard look at the committee's composition, independence, and leadership. Is there a need for a 'fresh set of eyes'? Do board directors have adequate IFRS financial literacy to support succession planning for the audit committee?

Remember, this is not a prescriptive list; individual boards will find value in setting aside time to reassess and reflect on their own priorities, taking into account their unique circumstances and needs.

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Financial Reporting Updates

In this section, we identify recent significant regulatory, accounting, and auditing rules, standards, and projects issued since our 2009-02 edition of *Canadian Audit Committee Update*, as well as future projects of broad interest to audit committees. The information in this section provides a general summary and is intended only to increase awareness of financial reporting developments. For detailed guidance on the application of these standards, readers should consult their financial advisers and the original pronouncements.

Canada will adopt International Financial Reporting Standards for publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. These entities are therefore increasingly interested in IFRS developments. Accordingly, this edition of *Canadian Audit Committee Update* includes recent changes to IFRS and projects to develop future guidance.

To keep abreast of ongoing changes to IFRS and projects, we encourage you to review the IASB's Work Plan using the link at www.iasb.org. The Work Plan is a timetable showing the current best estimate of publication dates of proposed changes to IFRS. The current Work Plan indicates that, in 2010 and 2011, the IASB will issue several new or amended standards, which will have effective dates no earlier than 2012. However, where early adoption is permitted, Canadian companies should be evaluating the merits of early adopting these standards as part of their overall conversion efforts.

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Regulatory and Other Developments

We highlight here recent significant regulatory and other developments in Canada and the US since our 2009-02 edition of *Canadian Audit Committee Update*.

Canadian Developments

NI 23-102, *Use of Client Brokerage Commissions as Payment for Order Execution Services or Research Services*

Instrument prescribes obligations for both advisers and dealers.

This instrument sets out requirements for brokerage transactions involving client brokerage commissions. It classifies the broad characteristics of goods and services that may be acquired by advisers in these circumstances, and also describes the advisers' disclosure obligations. The instrument also sets out the obligations of registered dealers. The CSA has proposed consequential amendments to Form 81-101F2 *Contents of Annual Information Form* and Form 41-101F2 *Information Required in an Investment Fund Prospectus* to ensure consistency between the instrument and disclosures prescribed for investment funds in the forms.

This instrument is effective on June 30, 2010.

CSA Notice 51-330, *Guidance Regarding the Application of Forward-looking Information Requirements under NI 51-102 Continuous Disclosure Obligations*

FOFI that includes fiscal years beginning post-changeover must be prepared in accordance with IFRS.

This notice summarizes CSA staff findings with respect to forward-looking information based on continuous disclosure reviews. CSA staff remind issuers that FOFI or a financial outlook is based on the accounting policies that a reporting issuer expects to use to prepare its historical financial statements for the period covered by the FOFI or the financial outlook.

As IFRS will be applicable to all publicly accountable enterprises for fiscal years beginning on or after January 1, 2011, issuers should ensure that FOFI or financial outlooks that include fiscal years beginning on or after January 1, 2011, are based on the appropriate accounting policies.

Additional CSA observations about FOFI address

- identification of forward-looking information
- disclosure regarding material risk factors and material factors or assumptions
- explanation of the purpose of, and cautionary language related to, FOFI or financial outlook
- disclosure regarding goals or targets
- updating practices.

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CSA review highlights areas for improvement in disclosure of executive compensation.

CSA Staff Notice 51-331, *Report on Staff's Review of Executive Compensation Disclosure*

This notice provides staff observations from a targeted review of 70 reporting issuers with respect to compliance with disclosure requirements for executive compensation. These disclosure requirements were effective for financial years ending on or after December 31, 2008. Of the 70 reviews, eight resulted in supplemental executive compensation disclosure filings. Most of the other reviews resulted in a recommendation to improve disclosure in future filings.

Significant disclosure issues were noted in issuers' compensation discussion and analysis, in particular relating to performance goals and benchmarking. For example, many issuers failed to tie performance goals to a discussion of compensation. Other issues included failing to quantify termination or change of control benefits, and failing to provide a reconciliation of the grant date fair value and accounting fair value in the summary compensation table.

The CSA notes that it will continue to review executive disclosure as part of its continuous disclosure review programs.

OSC review of continuous disclosure focused on issues arising from the economic downturn.

OSC Staff Notice 51-706, *Corporate Finance Report* (2009)

OSC staff issued this report of findings and recommendations arising from its fiscal 2009 continuous disclosure reviews. A total of 436 continuous disclosure reviews were performed in fiscal 2009, down slightly from 2008. Staff focused on issues arising from the economic downturn and performed targeted reviews focused on financial instruments, inventory, pension funding obligations, and non-bank sponsored ABCP.

Of the 436 reviews conducted

- 48 percent of the issuers committed to make prospective changes to future filings—the majority of which were to correct deficiencies in MD&A and pension obligations disclosures and enhance financial instruments and capital disclosures in the financial statements
- 26 percent of the issuers were identified in advance by the OSC as being at risk of a specific disclosure issue with respect to market conditions and were provided awareness of the issue in advance of the issuer's filing, with follow-up reviews conducted thereafter
- 9 percent resulted in a requirement to restate, refile, or file documents not previously filed. Most of the refilings related to non-compliance with certification obligations, failure to provide comparative financial statements in interim periods, and incorrect application of Canadian GAAP

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- 2 percent of the issuers reviewed were found to have serious deficiencies resulting in one of three outcomes: referral to the enforcement branch, adding the issuer to the default list, or the issuance of a cease trade order
- 17 percent resulted in no action required by the issuer.

OSC Staff Notice 52-718, *IFRS Transition Disclosure Review*

Review shows IFRS disclosures in MD&A generally falling short of expectations.

OSC staff recently published this notice summarizing the results of a review of issuers' IFRS transition disclosure. The review was conducted to assess the extent and quality of disclosures in light of the disclosure guidance provided by the CSA. The notice emphasizes the importance to investors of disclosures that are specific to the issuer. The notice provides additional guidance for issuers regarding their future MD&A filings, and cautions issuers that OSC staff will be giving close scrutiny to IFRS-related disclosures and will require re-filings or pursue regulatory action if required.

Of the 106 issuers reviewed, 40 percent failed to provide any IFRS transition disclosure in their MD&A.

For the 60 percent that did provide disclosure

- approximately half provided a generic description of the plan without any direct application to their own circumstances
- 80 percent failed to describe significant milestones and expected timelines for key elements in the plan
- 48 percent failed to provide quarterly updates in 2009 interim MD&A on the progress made toward implementation of the plan.

To assist issuers, the Notice provides examples of the types of disclosures OSC staff would expect to see in future MD&A filings.

As year of adoption of IFRS approaches, increased detail required in MD&A disclosures.

The notice reminds issuers that, as they move through 2010, disclosures should include more detailed information about the expected effects of IFRS—providing significant details of their conversion plan, and describing their policy choices under IFRS 1 *First-time adoption of IFRS*. Additionally, when available, issuers should include quantified information about the impact of IFRS on key financial statement line items in the MD&A.

CSA Proposal – NI 45-106, *Prospectus and Registration Exemptions*

Proposed amendments address changes to securities legislation arising due to changeover to IFRS.

These proposed amendments address changes to securities legislation arising as a result of the changeover to IFRS. The amendments update accounting terms and references to reflect the fact that, for financial years beginning on or after January 1, 2011, Canadian GAAP for publicly accountable enterprises will be IFRS as incorporated into the *CICA Handbook*.

The CSA has acknowledged that an offering memorandum filed during the transition period may contain financial information using both existing

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Canadian GAAP and IFRS. As a result, during the transition period, two versions of the instrument will exist. The new version, containing IFRS terms and references, will apply to an issuer's offering memorandum that includes, or incorporates by reference, financial statements for periods relating to financial years beginning on or after January 1, 2011. The existing version, containing the existing Canadian GAAP terms and references, will apply to an issuer's offering memorandum that includes, or incorporates by reference, financial statements for periods relating to financial years beginning before January 1, 2011.

Proposed Amendments to NI 51-101, *Standards for Disclosure for Oil and Gas Activities*

More comprehensive disclosures required for oil and gas activities.

The CSA has proposed a number of amendments related to disclosure of reserves, including:

- a prohibition against adding across resource categories
- requiring that where a high estimate of reserves is disclosed, a corresponding low and best-case estimate of reserves must also be disclosed
- amending the optional supplemental disclosure of reserves data in annual disclosure to allow for disclosure that is comparable to US disclosure
- adding a requirement that the annual disclosure must include a discussion of significant economic factors or significant uncertainties associated with properties for which no reserves data has been developed.

Proposed Amendments to NI 81-106, *Investment Fund Continuous Disclosure*

Proposed amendments address transition challenges for investment funds.

These proposed amendments accommodate the transition to IFRS for investment funds. The proposals require that for financial years beginning on or after January 1, 2011, investment funds should prepare financial statements in accordance with IFRS and to report compliance with IFRS. The proposed amendments do not alter securities law requirements, but the adoption of IFRS will change the accounting principles currently used by investment funds and will impact the presentation of the financial statements. Two of the more significant IFRS transition challenges for investment funds are:

- Classification of securities – Under IFRS, a puttable financial instrument must meet certain criteria in order to be classified as equity. Investment funds will need to determine if they have issued puttable instruments and whether these meet the equity classification requirements under IFRS. The proposed amendments will alter some of the line items in the financial statements to accommodate either an equity or liability presentation.

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- Consolidation – Under current Canadian GAAP, the requirement to consolidate does not apply to investment funds that account for their investments at fair value. However, under IFRS, all entities must apply the consolidation standard as no exemption currently exists for investment funds. The proposed amendments would require
  - investment funds to prepare and file consolidated financial statements (other than the statement of investment portfolio)
  - the statement of investment portfolio to be prepared on a non-consolidated basis
  - the statement of investment portfolio to be audited
  - the financial highlights included in the management reports of fund performance to be presented on a non-consolidated basis.

US Developments

Update for Smaller Public Companies Requiring Audit of Internal Control over Financial Reporting

Assuming no further delays, calendar year-end non-accelerated filers required to have an auditor's report on the effectiveness of internal control over financial reporting for December 31, 2010 year ends.

On October 2, 2009, the SEC announced that public companies with public float below $75 million must begin to comply with the final stage of Section 404 that requires auditor attestation of the effectiveness of internal control over financial reporting, beginning with their annual reports for fiscal years ending on or after June 15, 2010. The SEC stressed that no further deferrals should be expected.

However, on November 4, 2009, the US House Financial Services Committee passed a bill including a provision that would permanently exempt companies with market capitalizations of less than $75 million from meeting the SOX 404(b) requirement to have an audit of internal control over financial reporting. Although the White House supports the exemption, the level of support in the Senate is unclear. The issue remains unresolved.

SEC Final Rule Proxy Disclosure Enhancements

Significantly increased disclosures now required for executive compensation and corporate governance.

The SEC announced amendments to enhance information provided in connection with proxy solicitations and in other reports filed with the Commission. The amendments require new or enhanced disclosure of

- compensation policies and practices that present material risk to the company and any potential conflicts of interest of compensation consultants that advise the company or its board
- stock and option awards of executives and directors
- background and qualifications of directors
- leadership structure of the board and its role in risk oversight.

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These amended rules are applicable to proxy and information statements, annual reports, and registration statements effective February 28, 2010. Issuers with fiscal years ending on or after December 20, 2009, that file a Form 10-K or proxy statement on or after February 28, 2010, are required to be in compliance with the new proxy disclosure requirements.

SAB 113, Oil and Gas Producing Activities

This bulletin amends certain guidance regarding accounting rules related to the oil and gas industry. The principal revisions

- change the price used to estimate future net cash flows from the production of proved oil and gas reserves
- eliminate the option to use post-quarter-end prices to evaluate write-offs of excess capitalized costs under the full-cost method of accounting
- remove the exclusion of unconventional methods used in extracting oil and gas from oil sands or shale as an oil and gas producing activity, and
- remove certain questions and interpretive guidance no longer necessary.

SEC Staff Guidance on Non-GAAP Financial Measures

SEC staff encouraging more non-GAAP financial measures in filings.

This interpretation updates and replaces previous guidance on non-GAAP financial measures. The primary change clarifies that non-GAAP financial measures are no longer limited to those used in managing the company's business or for other purposes. The amended guidance also permits a registrant to adjust a GAAP measure for a charge or gain even though it may be prohibited from being characterized as non-recurring, infrequent or unusual. Under the revised guidance, registrants can disclose certain non-GAAP per-share performance measures, but cannot disclose non-GAAP liquidity measures on a per-share basis.

For foreign private issuers, the staff clarified that the use of non-GAAP financial measures that are not specifically identified by home country accounting standards (previously referred to as 'expressly permitted') may be used if it can be demonstrated that there is 'explicit acceptance' of the presentation of the non-GAAP financial measure by the primary securities regulator in the local jurisdiction.

Other areas addressed include reconciling non-GAAP measures, earnings before interest and taxes (EBIT) and earnings before interest, taxes, depreciation, and amortization (EBITDA), segment information, segment profitability, revenue by product, and constant currency.

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Guidance clarifies disclosure requirements about the impact of climate change and related risks.

SEC Interpretive Guidance for Climate Change Disclosures

This guidance outlines SEC staff views regarding existing disclosure obligations about the impact of material climate change and climate-related risks, with an aim to clarify the requirements and promote greater consistency in application. SEC regulation S-K requires disclosure of climate change related matters in narrative form that summarizes the risks, events or circumstances that are material to an investor's understanding of the registrant's business. The guidance indicates the following four areas where climate change may require disclosures by registrants:

- impact of existing and pending legislation and regulations
- impact of international accords
- indirect consequences of regulation on business trends (e.g., there may be lower demand for goods that produce significant greenhouse gas emissions)
- physical impact of climate change to personnel, physical assets, and the supply and distribution chain.

Registrants should also consider whether they have an effective system for capturing and collecting data or output necessary to comply with applicable legislation and regulation and to be able to assess the materiality of the related impact.

Accounting Developments

We highlight certain significant new accounting standards issued in Canadian GAAP, IFRS, and US GAAP since our 2009-02 edition of *Canadian Audit Committee Update*. We also describe current and future projects underway regarding new accounting standards in Canadian GAAP and IFRS, indicating the direction of future standards.

Recently Issued Guidance – Canada

IFRS available – Part I of the *CICA Handbook*

Restructured Handbook reflects AcSB strategy to adopt different standards for different categories of entities.

The *CICA Handbook – Accounting* was recently restructured to formally incorporate IFRS into Canadian GAAP as Part I of the *Handbook*. Until the changeover to IFRS, existing Canadian GAAP for publicly accountable enterprises is included in Part V of the *Handbook*.

Part II of the *Handbook* contains the new accounting standards for private enterprises as issued by the AcSB in December 2009. Revised standards for pension plans are expected in April 2010 and will be included in Part IV of the *Handbook*. The pension plan project is discussed in more detail on page 15.

The standards in Part I and II are effective for years commencing on or after January 1, 2011, although early adoption is permitted. Part III of the *Handbook* has been reserved for standards applicable to not-for-profit

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organizations. An exposure draft of these standards was released in March 2010.

IFRS, as contained in Part I, do not include the basis for conclusions, introductory paragraphs, implementation guidance and illustrative examples published by the IASB. While these materials do not form part of the official authoritative IFRS, they may be helpful when applying these standards.

Interim Financial Statements in the Year of Adoption of IFRS

The AcSB issued a commentary providing staff views on the presentation of interim financial statements in the first year of adoption of IFRS. While not authoritative, the document addresses some of the challenges first-time adopters are expected to encounter when preparing interim reports in 2011. Significant items discussed in the commentary include:

AcSB commentary addresses challenges first-time adopters will encounter in preparing 2011 interim reports.

- actions required when the interim financial statements do not constitute a complete set of financial statements
- required disclosures when a complete list of significant accounting policies is not presented because specific accounting policies have not changed from Canadian GAAP on adoption of IFRS
- clarification regarding the IASB proposal to allow first-time adopters of IFRS to change their IFRS 1 elective exemptions and accounting policies during the first year of adoption of IFRS
- a reiteration of the minimum disclosures and reconciliations required in the interim financial statements
- a discussion of the CSA's proposed filing requirements for entities transitioning to IFRS.

This commentary is available on the CICA website at http://www.acsbcanada.org/international-activities/ifrs/item33787.pdf.

HB 4600, *Pension Plans*

Final pension plan standard approved.

This amended standard applies to all pension plans as well as to other benefit plans. This standard sets out the measurement, presentation, and disclosure requirements for a plan's investment portfolio and pension obligations. For accounting guidance for other than its investment portfolio or pension obligations, a pension plan is required to comply with either IFRS or accounting standards for private enterprises, as long as this choice is applied consistently, and those standards do not conflict with the requirements contained in the pension plan standard.

This standard is effective retrospectively for annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted.

The AcSB recently deliberated expanding the scope of the pension plan

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standard to include an entity that holds and invests assets received from a pension plan, but does not have its own pension obligations (e.g., a master trust). The AcSB plans to issue an exposure draft on this expanded scope, concurrent with the release of the final pension plan standard.

Abstracts from the Emerging Issues Committee – Canada

We highlight certain abstracts from the Emerging Issues Committee.

EIC 175, *Multiple Deliverable Revenue Arrangements*

This abstract revises previous guidance for transactions that involve multiple revenue-generating activities. The amendments are consistent with recent amendments made by the FASB.

New guidance for recognition of revenue in arrangements involving multiple deliverables.

Under the abstract, a vendor is required to use the relative selling price method when allocating consideration to an arrangement that involves multiple deliverables. In the absence of vendor-specific objective evidence or third-party evidence to establish fair value, an entity allocates revenue in arrangements involving multiple deliverables based on its best estimate of the selling price of each deliverable, even when such deliverables are not sold separately either by the entity or other vendors.

The abstract provides disclosure guidance intended to provide qualitative and quantitative information about a vendor's revenue arrangements and the significant judgments made in applying the guidance.

The abstract may be applied prospectively and should be applied to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011. Early adoption is permitted. Where an entity early adopts this abstract, it should be applied retroactively from the beginning of the entity's fiscal period.

EIC 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*

The basis of application in this abstract was recently amended. Entities that do not apply the financial instruments standard (i.e., private enterprises) are not required to adopt this abstract.

Recently Issued Guidance – International Standards

IAS 24 *Related Party Disclosures*

Government-related entities exempted from certain related party disclosure requirements.

This standard was amended to exempt a government-related entity from some of the detailed disclosure requirements that relate to certain transactions and outstanding balances between the entity and a government that has control, joint control, or significant influence over the entity; and between the entity and another entity over which the same government has

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control, joint control or significant influence. These exemptions will be of particular interest to Canadian government business enterprises transitioning to IFRS.

The amendments also remove certain inconsistencies in the definition of a related party and make the definition symmetrical, i.e., if Company A is identified as a related party for purposes of preparing Company B's financial statements, then Company B also will be identified as a related party for purposes of preparing Company A's financial statements.

These amendments are effective for annual periods beginning on or after January 1, 2011.

IAS 32 *Financial Instruments Presentation*

This standard was amended to address the accounting for certain rights issues (rights, options, or warrants) that are denominated in a currency other than the functional currency of the issuer and that would otherwise be classified as liabilities.

Amendment addresses accounting for issued rights, options and warrants when denominated in a foreign currency.

The amendment requires rights to acquire a fixed number of an entity's own equity instruments, for a fixed price stated in a currency other than the entity's functional currency, to be classified as equity instruments, provided the entity offers the rights pro rata to all of its existing holders of a class of equity instruments.

These amendments are effective for annual periods beginning on or after February 1, 2010.

IFRS 9 *Financial Instruments*

The IASB issued this standard as part of its comprehensive review of financial instruments accounting. This standard deals only with the classification and measurement of financial assets, with guidance for financial liabilities expected to be issued by the end of 2010.

New financial instruments standard mandatory in 2013.

The standard establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard eliminates the existing categories of held-to-maturity investments, available-for-sale financial assets, and loans and receivables. The guidance in IAS 39 on impairment of financial assets, and hedge accounting continues to apply until these aspects of the financial instruments standard are revised in subsequent phases of this project.

The standard is not mandatorily effective until annual periods beginning on or after January 1, 2013; however, earlier adoption is permitted.

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IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

This interpretation provides guidance for entities that enter into transactions involving the exchange of shares or other equity instruments to settle all or a part of a financial liability (i.e., a debt for equity swap). This interpretation requires that the equity instruments be measured at their fair value at the date of extinguishment, and where this cannot be reliably measured, at the fair value of the financial liability extinguished. Any difference between the amount recognized for the equity instrument and the carrying amount of the liability extinguished should be reflected in the entity's profit or loss for the period.

This interpretation is effective for annual periods beginning on or after July 1, 2010.

Projects to Develop Future Guidance – Canada and IFRS

The AcSB will replace Canadian GAAP with IFRS for publicly accountable enterprises for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011. As part of this plan, the AcSB has exposed certain IASB proposed standards or amendments to standards as part of the IFRS standards to be adopted into Canadian GAAP upon changeover to IFRS.

IFRS Discussion Group

IFRS discussion group provides a public forum to discuss issues arising from the application of IFRS in Canada.

The AcSB created this discussion group to consider issues arising from the application of IFRS. The IDG meet quarterly to discuss issues and to make recommendations to the AcSB as to whether certain issues warrant referral to the IFRIC. Issues considered by the IDG are those for which there is, or the potential exists for, divergent practice in Canada. At the most recent meeting of the IDG, the following topics were discussed:

- IAS 19: increasing vacation entitlement
- IAS 32: classification of trust units
- IAS 12: tax benefits on trust distribution
- IFRS 1: meaning of "presented"
- IAS 17: residual value in calculation of implicit interest rate
- IAS 36: deferred taxes in testing for impairment
- IFRS 1 and IAS 23: capitalization of borrowing costs
- IAS 1: going concern
- IFRS 1 and IAS 24: related party transactions
- IAS 8: push down accounting
- Framework: consistent assumptions
- Definition of a publicly accountable enterprise.

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ED – *Financial Instruments: Amortized Cost and Impairment*

IASB project to improve accounting for financial instruments.

The AcSB released this exposure draft of a proposed IFRS. This proposal represents another step in the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The proposed amendments relate to the recognition and measurement of an impairment of financial assets and would replace the existing incurred loss model with an expected loss model.

Under the proposal, an entity would be required to incorporate expectations about credit losses expected to be incurred over the life of the instrument and to reflect changes in these expectations as an adjustment to the amortized cost of the instrument. The revisions would alter the recognition and presentation of interest income and bad debt expense.

A final standard is expected in 2010, but would not be mandatorily effective until 2013. Earlier adoption would be permitted but not prior to an entity adopting the new standard on classification and measurement of financial assets, IFRS 9 *Financial Instruments*.

ED – Liabilities – Improving IAS 37

Revised measurement guidance for liabilities specifies what should be measured and how.

The IASB recently released a limited re-exposure of certain aspects of the proposed measurement guidance for liabilities as part of its project to replace IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The replacement standard will likely result in significant changes in accounting for provisions, contingent liabilities and contingent assets. This limited re-exposure focuses on the following aspects of the proposed measurement requirements:

- the measurement objective for liabilities by reference to the amount that an entity rationally would pay to be relieved of the present obligation
- measuring service obligations by reference to the price a contractor would charge to undertake the service (i.e., incorporating a profit margin)
- a limited exception to the proposed measurement requirements for certain onerous contracts.

The IASB expects to issue a final standard in 2010, but it is unlikely to be effective prior to 2012.

IASB's Project Plan

Standard setters reaffirm plan for global convergence of accounting standards.

In the fall of 2009, the IASB and the FASB issued a joint statement reaffirming their commitment to improve and converge their respective accounting standards in accordance with the previously agreed to Memorandum of Understanding. The Boards committed to increase their efforts to complete, by June 2011, the major joint projects described in the MoU. These joint projects include consolidation, derecognition, fair value measurement guidance, financial instruments, financial statement

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presentation, income taxes, joint ventures, leases, post-employment benefit plans and revenue recognition. The Boards will meet on a monthly basis and report quarterly on their progress toward convergence.

Many of the IASB's projects have experienced repeated delays and the recent credit crisis resulted in new projects and priorities. Canadian companies will be required to adopt standards that are issued and effective at December 31, 2011.

The IASB has suggested that standards issued in 2010 will be effective only from periods beginning on or after January 1, 2012, at the earliest, thus providing a stable platform of IFRS for the next two years. However, given the number of major standards likely to be effective in 2012 and 2013, companies will still need appropriate resources post changeover to deal with the ongoing changes in accounting standards.

Recently Issued Guidance – United States

Accounting Standard Updates

Effective July 1, 2009, changes to authoritative US GAAP are communicated through an accounting standards update. The following is a summary of key updates issued since the last edition of *Canadian Audit Committee Update*.

2010-11 Derivatives and Hedging: *Scope Exception Related to Embedded Credit Derivatives*

FASB clarifies embedded credit-derivative scope exception.

This update clarifies that financial instruments that contain embedded credit-derivative features related only to the transfer of credit risk in the form of subordination of one instrument to another are not subject to potential bifurcation and separate accounting. The scope exception applies only to an embedded credit-derivative feature that relates to subordination between tranches of debt issued by an entity. Other features that relate to another type of risk (including another type of credit risk) must be evaluated for separation as an embedded derivative. The update also contains guidance regarding the evaluation of the clearly and closely related criteria.

The guidance is effective at the beginning of an entity's first fiscal quarter after June 15, 2010. The guidance may be early adopted in the first fiscal quarter beginning after March 5, 2010.

2010-10 Consolidation: *Amendments for Certain Investment Funds*

The FASB recently deferred the consolidation requirements in SFAS 167, Amendments to FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities* for interests in certain investment entities (e.g., certain mutual funds, private equity funds, hedge funds) generally if specific circumstances are met.

The update also clarifies guidance that addresses whether fee arrangements represent a variable interest for all service providers and decision makers.

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The deferral permitted by this amendment will continue until the IASB and the FASB, as part of their joint consolidation project, decide how to determine whether an asset manager functions as a principal or an agent.

The amendments are effective for interim and annual periods for fiscal years beginning after November 15, 2009.

2010-09 Subsequent Events: *Amendments to Certain Recognition and Disclosure Requirements*

SEC filers required to evaluate subsequent events through the date the financial statements are issued.

This update amends existing guidance on subsequent events. SEC filers, as defined in the update, are no longer required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. This amendment removes a potential conflict between the FASB's guidance on subsequent events and the filing requirements of the SEC. SEC filers continue to be required to evaluate subsequent events through the date the financial statements are issued. Conduit bond obligors are also required to evaluate subsequent events through this date.

Entities that are neither SEC filers nor conduit bond obligors are required to evaluate subsequent events through the date the financial statements are available to be issued.

The amendment is effective immediately for SEC filers. For conduit bond obligors, the amendment is effective for interim or annual periods ending after June 15, 2010.

2010-06 Fair Value Measurements and Disclosures: *Improving Disclosures about Fair Value Measurements*

Additional fair value measurement guidance is now effective.

The FASB recently introduced new requirements and clarified existing requirements for the disclosure of fair value measurements. New disclosures are required for recurring and non-recurring fair value measurements, including significant transfers into and out of Level 1 and Level 2 fair value measurements. A reporting entity must disclose and consistently follow its policy for determining when transfers between levels are recognized. An entity is also required to provide information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. The FASB clarified existing fair-value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques.

These changes are effective for annual and interim reporting periods beginning after December 15, 2009, with the exception of the new disclosures required in the reconciliation of Level 3 fair value measurements, which is effective for annual and interim periods beginning after December 15, 2010.

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Amendments modernize reserve estimation requirements and expand required disclosures.

2010-03 Extractive Industries – Oil and Gas: *Oil and Gas Reserve Estimation*

Oil and gas reserve estimation and disclosure requirements were recently amended to align with the requirements in the SEC's final rule, *Modernization of the Oil and Gas Reporting Requirements*, which was issued on December 31, 2008. The main provisions in the update:

- expand the definition of oil and gas producing activities
- amend the definition of proved oil and gas reserves and require use of the 12-month average price instead of the year-end price
- require separate disclosure of reserve quantities and financial statement amounts for geographic areas that represent 15 percent or more of proved reserves
- clarify that equity method investments must be considered when determining whether the entity has significant oil and gas producing activities
- expand the disclosure requirements for equity method investments.

The amendments are effective for annual reporting periods ending on or after December 31, 2009.

New guidance on consolidation modifies scope provisions and expands disclosures.

2010-02 Consolidation: *Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification*

The FASB released this guidance to address implementation issues arising from the change in ownership provisions contained in SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*.

The applicability of the requirements for accounting for a decrease in the ownership of a subsidiary have been changed to include only subsidiaries that are businesses or non-profit activities and groups of assets that constitute businesses or non-profit activities even when those assets are not within a separate legal entity.

The decrease-in-ownership provisions require an entity that ceases to have a controlling interest in a subsidiary or group of assets that is a business or non-profit activity to recognize a gain or loss on the transaction and include an amount for the remeasurement of any retained investment to fair value. A decrease in the ownership interest that does not result in a loss of control is accounted for as an equity transaction with no gain or loss recognized.

Decreases in ownership of subsidiaries that are in-substance real estate sales and oil and gas producing activities are excluded from the scope of SFAS 160 and continue to be governed by specific industry guidance.

The amended guidance includes additional disclosure requirements.

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The amendments are effective in the period that an entity adopts SFAS 160. If an entity has already adopted that guidance, the amendments are effective at the beginning of the first interim or annual reporting period ending on or after December 15, 2009, retrospectively to the first period that an entity adopted SFAS 160.

2009-14 Software: *Certain Revenue Arrangements that Include Software Elements*

This update codifies a recent consensus by the EITF to amend the accounting for revenue arrangements that include both tangible products and software elements. The previous guidance often resulted in recognizing deferred revenue due to the absence of vendor-specific objective evidence to separate an arrangement's elements.

Sales of tangible products that contain 'essential' software elements excluded from the scope of the more stringent revenue recognition guidance for software licensing arrangements.

Tangible products containing software components and non-software components that function together to deliver the tangible product's essential functionality are no longer within the scope of the software revenue guidance. Hardware components of a tangible product containing software components will now always be excluded from the software revenue guidance. The update also provides guidance on arrangement consideration allocation for arrangements that include both tangible products and software.

This amendment is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. A vendor may elect to apply the amendment retrospectively to all prior periods.

2009-13 Revenue Recognition: *Multiple Deliverable Revenue Arrangements*

This update amends the criteria for separating consideration in multiple deliverable revenue arrangements. These arrangements will now be separated in more circumstances than under previous EITF 00-21, *Revenue Arrangements with Multiple Deliverables*. The amendments establish a hierarchy for determining the selling price of each deliverable to be used in allocating consideration:

Amendments may allow an entity to recognize revenue earlier than under previous guidance.

1. Vendor-specific objective evidence (VSOE) is used if available.
2. Third party evidence is used if VSOE is not available.
3. Estimated selling price is used if neither VSOE nor third-party evidence is available.

Use of the residual method to allocate consideration to deliverables will no longer be acceptable. The amendments require that the relative selling price

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method be used to allocate consideration to all deliverables. The update requires significant additional disclosures, both in the year of adoption of the amendments, and ongoing.

This update is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. A vendor may apply the amendments retrospectively to all prior periods.

Auditing Developments

We highlight recent significant releases from the CICA Auditing and Assurance Standards Board issued since our 2009-02 edition of *Canadian Audit Committee Update*.

Recently Issued Guidance

Assurance Implications of the Changeover to IFRS

Publication provides guidance to auditors on changeover to IFRS.

This publication summarizes the views of the CICA Task Force on Assurance Implications of Changeover to IFRS and is intended to assist auditors in understanding and applying the requirements of the AASB. The guide contemplates various scenarios and addresses audit considerations in the following areas:

- selection of IFRS accounting policies
- application of a specific IFRS accounting policy selected by management
- opening IFRS statement of financial position for internal use
- review of the first interim financial statements in 2011
- auditor assistance to underwriters
- performing early audit on elements of the opening IFRS statement of financial position
- application of auditing standards on opening IFRS statement of financial position.

The guide will be updated as significant changeover issues arise.

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Canadian Auditing Standards available – Part I *CICA Handbook – Assurance*

Canadian Auditing Standards now incorporated into the Handbook.

The AASB has adopted International Standards on Auditing (ISAs) as Canadian Auditing Standards (CASs) and has incorporated these 36 standards into Part I of the *CICA Handbook – Assurance*. The CASs are effective for audits of financial statements for periods ending on or after December 14, 2010.

Part II of the *CICA Handbook – Assurance* consists of the currently effective financial statement auditing standards. All audits of financial statements for periods ending before December 14, 2010, should be performed in accordance with these existing Canadian generally accepted auditing standards.

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The descriptive and summary statements included in the Financial Reporting Updates section are not intended to substitute for the original rules, standards and pronouncements. All relevant facts and circumstances should be evaluated to arrive at situation-specific conclusions. Persons who apply these rules, standards and pronouncements may want to consult their advisers.

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Audit Committee Evolving Issues

Disclosing the Impact of Adopting IFRS – When and How?

Reporting under IFRS will change financial reporting. It will likely affect not only an enterprise's reported results and financial position, but also the format of its financial statements. Canadian audit committees are very focused on this upcoming move to IFRS and the impact on their company's financial reporting. However, external stakeholders also need to understand, before the actual changeover, what is likely to occur and why.

How well do external stakeholders understand the IFRS-related changes that are coming? Analysts are often considered to be a reasonable proxy for the wider investment community. To gauge their understanding of IFRS and its impact, KPMG commissioned a survey of Canadian financial analysts, both buy-side and sell-side. The results of this survey suggest that external stakeholders still have a lot to learn about IFRS and how it will affect the financial reporting of specific enterprises.[1]

Canadian regulators expect companies to prepare stakeholders for these changes. In 2008, the CSA initially provided guidance on IFRS-related disclosures.[2] This guidance recognized that appropriate entity-specific disclosure would assist investors in assessing the readiness of an issuer for transition to IFRS as well as the impact the adoption of IFRS is expected to have on the issuer.

In their targeted review of 2008 annual and 2009 interim MD&A, OSC staff found, however, that "issuers are not adequately disclosing information related to their IFRS transition efforts."[3] The OSC therefore advises issuers to be prepared because, going forward, regulators will be giving close scrutiny to IFRS-related disclosures in MD&A, and, as required, will request re-filings or take other regulatory actions.

The audit committee is responsible for reviewing the company's MD&A before its public release. The OSC's cautions therefore serve as a timely reminder. How does an audit committee become satisfied that the company's MD&A and other communications are providing investors and other stakeholders with meaningful and timely information about the company's move to IFRS?

1. *Preparing your stakeholders for IFRS*, KPMG in Canada, February, 2010, www.kpmg.ca/en/ms/ifrs/preparing_stakeholders.html.

2. CSA Staff Notice 52-320 *Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards, May 9, 2008.*

3. OSC Staff Notice 52-718 *IFRS Transition Disclosure Review*, February 5, 2010.

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Think about external stakeholders' needs and expectations

Who are the company's key stakeholders, and what should they know and understand? Remember that the term 'stakeholders' can encompass many different external parties, including shareholders, institutional investors, buy-side and sell-side analysts, lenders, debt investors, credit rating agencies, unions, regulators, and the financial media.

Periodically, audit committee members may find it useful to step back and reflect on their own learning curve for the company's move to IFRS. Their recollections should help them relate to investors and other stakeholders who also need to understand what financial reporting under IFRS will mean for them, but who do not enjoy the same level of direct support from management that the audit committee receives.

What kinds of information do these stakeholders generally require? How do they expect it to be communicated to them, for example, through financial statements, MD&A, earnings releases, investor/analyst calls or webcasts, supplementary materials, or other sources?

What about regulators – what information do they expect issuers to include in MD&A disclosures? OSC staff remind issuers that, moving through 2010, their disclosures should include more detailed information about the effects of IFRS—providing significant details of their conversion plan, and describing their policy choices under IFRS 1 *First-time Adoption of International Financial Reporting Standards*. In addition, CSA Staff Notice 52-320 recommends that:

> "If an issuer has quantified information about the impact of IFRS on the key line items in the issuer's financial statements available when it prepares its interim and annual MD&A for the financial year beginning one year before an issuer's changeover date, an issuer should include this information in its MD&A."

In other words, a company with a calendar year-end should include this information in its 2010 interim and annual MD&A.

The OSC also points out that, through 2010, staff will conduct further targeted reviews of issuers' IFRS transition disclosures. If an issuer has not met its disclosure obligations, regulators have said they are likely to request re-filings of MD&A or take other action.

How detailed and informative are the "leading edge" MD&A disclosures? Naturally, each company's disclosures should be specific to its circumstances. From the outset, however, some companies' disclosures have been more fulsome than others. In their 2009 annual MD&A, for example, some 2011 adopters provided quantitative estimates of the expected impact of specific accounting policy decisions they are considering under IFRS. Through 2010, more companies will provide meaningful IFRS-related MD&A disclosures, including quantifying the potential impact on key financial statement line items. These disclosures

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will effectively 'raise the bar' in terms of the market's expectations of all issuers. As a result, companies will likely feel increasing pressure from investors, analysts, regulators, and other stakeholders to explain the likely impact of IFRS in quantitative terms.

Determine when to quantify the impact of IFRS

To understand the impact of IFRS on financial results, most people know that being able to work through the numbers is generally more effective than having to rely on words alone.

When should a company provide quantified information about the impact that IFRS is likely to have, both on transition and ongoing? This question triggers considerable discussion, but the answers appear to fall into two clusters.

- Some financial executives take a conservative stance. They strongly believe that companies should disclose quantitative information only when management is absolutely confident that the information it can provide is complete and accurate.

- In contrast, other financial executives are willing to provide quantitative insights at an earlier point. They are prepared to provide information, when they have it, on the potential quantitative impact of specific accounting policies being considered. They will, however, require that their disclosures be subject to certain conditions. For example, they may indicate that management has confidence in the process used to reach these decisions and reasonable confidence in the numbers being provided, and also include in the disclosure appropriate cautionary language about key assumptions and that amounts are unaudited.

For each company, determining the right time to provide quantitative disclosure will require a fine balance—management's comfort with the level of accuracy and completeness of the information versus stakeholders' need for information to understand the likely impact of IFRS. As noted earlier, management's initial plans about when to provide quantitative information may be further complicated by peer companies or competitors making information available earlier than anticipated. Also, regulators clearly expect this information to be provided as soon as possible.

Effective disclosure controls and procedures as well as the company's disclosure committee should certainly demonstrate their value this year. For example, any messages being delivered by investor relations to the market definitely need to be aligned with any quantitative IFRS-related disclosures provided in MD&A.

Audit committees should be prepared for interesting and challenging discussions through 2010. To help directors in considering how effectively their company is communicating with stakeholders about its move to IFRS, we provide the following questions to stimulate some ideas.

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IFRS-related communications – Potential questions for audit committees

1. Who are the key internal and external stakeholders who need to receive communications and/or education (e.g., affected employees, senior management, board, lenders, regulators, investors, analysts)?
2. What level of information do these parties expect to receive, and how frequently? What communications have been provided to date? How should these communications change in the future (e.g., different level of detail or frequency)?
3. What are the company's communications plans and the timing of key activities for specific stakeholder groups? How will these communications help these stakeholders to 'connect the dots'? How are these plans being executed? How does management feel its communications plans, particularly the timing, compare with similar plans for the company's peers and competitors?
4. How does management plan to inform investors, analysts, and other stakeholders about the financial reporting impact of IFRS on the company and/or its industry? How comfortable is the audit committee with these plans and the disclosures to date?
5. Are the company's current disclosure controls and procedures for financial information adequate for public disclosures in MD&A about its changeover to IFRS? What about disclosures outside MD&A?
6. Do the company's MD&A disclosures to date regarding its changeover to IFRS provide sufficient information for shareholders? How do these MD&A disclosures compare with those of other similar companies? How do the company's disclosures align with the CSA's expectations? How is management planning to provide incremental information every quarter through 2010 regarding the company's changeover?
7. When does management plan to include quantified information about the impact of IFRS? When does management expect the company's peers or competitors to provide similar information? How do the company's disclosures compare with what others have recently disclosed?
8. What other information should be disclosed during 2010 about the broader implications of the company's changeover to IFRS, e.g., information relevant to shareholders, such as the effect on key performance indicators (KPIs)?
9. How effectively is the company updating and augmenting the information it has provided in the past?
10. How might IFRS-related disclosures affect external perceptions of the company?

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Audit Committee Resources

KPMG is committed to helping audit committee members fulfill their responsibilities by communicating accounting, auditing, and regulatory changes and by sharing audit committee leading practices. In each issue of *Canadian Audit Committee Update*, we describe current publications and other valuable resources pertaining to audit committees. The following resources may be of particular interest.

Shaping the Canadian Audit Committee Agenda

This publication is designed to assist audit committees in examining what they are doing and how they are doing it. In it, we discuss leading audit committee practices to help audit committees identify and react to current and future economic events, as well as address accounting, auditing, and regulatory changes.

Shaping the Canadian Audit Committee Agenda covers the full range of audit committee activities involved in creating, sustaining, and running an effective audit committee. The publication identifies and describes the audit committee's responsibilities for oversight of financial reporting and disclosures, financial risks and internal control process, and the external and internal audit processes.

The publication has relevant audit committee toolkit items, including an example audit committee charter, potential audit committee topics, a planning framework for audit committee meeting agendas, evaluations of the audit committee and the external auditor, and recommendations for conducting a private session with the auditor.

For a copy of *Shaping the Canadian Audit Committee Agenda,* visit www.kpmg.ca/auditcommittee/shaping.html or contact a KPMG office near you.

Accountability e-Lert

Audit committee members, directors, officers, and others with an interest in corporate reporting are invited to subscribe to our e-mail-based information service, *Accountability e-Lert*. This free service provides readers with useful information on the most important breaking developments in North American corporate reporting and sends a concise analysis to your personal e-mail address. Previous issues are available on our website. Subscribe to *Accountability e-Lert* on-line at www.kpmg.ca/accountability.

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Focus on Financial Reporting

Focus on Financial Reporting is published annually by KPMG and provides an overview of recent financial reporting developments in Canada and the US. Our most recent edition (December 2009) reflects accounting pronouncements released prior to that date. For a copy of *Focus on Financial Reporting*, visit www.kpmg.ca/en/services/audit/FFR.html.

Canada's Transition to IFRS

Because Canada's transition to IFRS presents enterprises with a significant new challenge, KPMG has developed, and regularly updates, our special website devoted to IFRS at www.kpmg.ca/ifrs. Visit this website to obtain Canadian and international information dealing with the accounting standards themselves, the changeover process, and the financial reporting implications of this change.

Some materials on this website have been developed specifically for directors and audit committees. Other information will be helpful to both management and directors. For example, directors considering their financial literacy in IFRS may want to obtain copies of our publication, *IFRS compared to Canadian GAAP: An overview*, to help them in understanding the significant differences between these accounting standards.

Audit Committee Institute – A Resource for Audit Committee Members

Developed by KPMG, the Audit Committee Institute was created to help serve and educate audit committee members. Wholly sponsored by KPMG, the Audit Committee Institute provides complimentary guidance and helps increase awareness for corporate audit committee members who need to keep up with their evolving responsibilities. The Audit Committee Institute's website at www.kpmg.ca/auditcommittee provides access to Canadian content of interest to audit committees, including archived issues of *Canadian Audit Committee Update* and the joint Audit Committee Institute and Institute of Corporate Directors Canadian surveys of audit committee members. This website also provides access to the Audit Committee Institute's websites in other countries around the world. Audit committees with a particular interest in US developments should visit www.kpmg.com/aci.

Audit Committee Roundtables

The Audit Committee Institute facilitates roundtable sessions designed to provide a forum for the exchange of views and insights on topics of interest to members of audit committees. Feedback from audit committee members attending these roundtables has been consistently positive and enthusiastic.

Each spring and fall, roundtable sessions are held in Calgary, Toronto, and Vancouver. These roundtables explore the issues and challenges currently facing audit committee members. For more information on these roundtable sessions, please contact your local KPMG office or register on-line at www.kpmg.ca/aciroundtable.

Audit Committee Insights – International Edition

The International Edition of the Audit Committee Institute's *Audit Committee Insights* is a complimentary bi-weekly e-mail alert covering issues and topics of interest to audit committee members, corporate officers, or anyone concerned with financial reporting oversight in a global context. This electronic publication incorporates relevant articles from hundreds of respected business journals, industry publications, and association websites. Subjects include financial reporting, surveys and trends, shareholder issues and news, commentary and perspectives, and more.

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Many of KPMG's publications are available in electronic and hard copy. If you, a colleague, or associate would be interested in obtaining copies, please contact a KPMG office near you.

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Acronyms Defined

AASB — Auditing and Assurance Standards Board (CICA)

ABCP — Asset-backed commercial paper

AcSB — Accounting Standards Board (CICA)

CAS — Canadian Auditing Standard

CD&A — Compensation Discussion & Analysis

CICA — Canadian Institute of Chartered Accountants

CSA — Canadian Securities Administrators

DC&P — Disclosure Controls and Procedures

ED — Exposure Draft

EIC — Emerging Issues Committee (CICA)

FASB — Financial Accounting Standards Board (US)

GAAP — Generally Accepted Accounting Principles

HB — Handbook (CICA)

IAS — International Accounting Standard

IASB — International Accounting Standards Board

IDG — IFRS Discussion Group

IFRIC — International Financial Reporting Interpretations Committee

IFRS — International Financial Reporting Standards

ISA — International Standard on Auditing

MD&A — Management's Discussion and Analysis

MoU — Memorandum of Understanding

MD&A — Management's Discussion and Analysis

NI — National Instrument

OSC — Ontario Securities Commission

QSPE — Qualifying special-purpose entity

SEC — Securities and Exchange Commission (US)

SFAS — Statement of Financial Accounting Standard (US)

US — United States

VSOE — Vendor-Specific Objective Evidence

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About the Audit Committee Institute

Recognizing the importance of audit committees, KPMG created the Audit Committee Institute to serve audit committee members and help them to adapt to their changing role. Wholly sponsored by KPMG, the Audit Committee Institute provides knowledge to audit committee members and is a resource to which they can turn for information or support, or to share knowledge.

Since 1999, KPMG's Audit Committee Institute has been communicating with audit committee members to help enhance their awareness of—and commitment and ability to implement—effective audit committee processes. Today, audit committee members, directors, and senior management from organizations around the world draw on Audit Committee Institute resources to help strengthen the integrity of their financial reporting process and the quality of their corporate governance practices.

The Audit Committee Institute website at www.kpmg.ca/auditcommittee provides access to Canadian content of interest to audit committees. Audit committee members interested in developments in other countries, including the US and the UK, can also visit www.kpmgauditcommitteeinstitute.com. If you want to learn more, need assistance, or have any questions, please contact a KPMG office near you.

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