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October 17, 2016

Submitted electronically via director@fasb.org

Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, Connecticut 06856-5116
United State of America

Technical Director:

**Re: AcSB Response to the FASB's Agenda Consultation – File Reference No. 2016-290
Invitation to Comment**

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the Financial Accounting Standard Board's (FASB) Invitation to Comment (ITC), "Agenda Consultation," issued in August 2016.

Our views

We welcome the opportunity to respond to the FASB's ITC regarding its future agenda priorities. This consultation, along with other outreach activities conducted by the FASB, demonstrates its commitment to considering stakeholder views when setting its agenda, and to transparency and accountability.

We commend the FASB for the overall nature and structure of its ITC. In our view, the initial research led to a document that clearly lays out for stakeholders the magnitude of the issues and potential approaches that the FASB could consider in responding to these issues. This should assist in carrying out projects more effectively and efficiently. We are considering following a similar approach in seeking targeted feedback on our priorities.

Investing is international

Investing is an international activity. Therefore, investors around the world face the challenge of working with multiple accounting frameworks. We understand, based on discussions with our User Advisory Council¹, that investors:

- rely on financial statements and other reporting documents when making investment decisions; and
- expend a significant amount of effort comparing the financial statements of entities who report using different accounting frameworks and that these comparisons are often complex, making investment decisions difficult.

Investors in Canada's 292 Foreign Private Issuers² face the challenge of working with two accounting frameworks as these entities have the option to prepare their financial statements in accordance with IFRS as issued by the IASB or U.S. GAAP³. Investors in other jurisdictions face similar challenges. For example, a study prepared by the [Office for National Statistics](#) in the UK illustrates that North Americans beneficially held approximately 25% of the value of the UK stock market at December 31, 2014. A U.S. study⁴ illustrates that approximately US\$16.2 trillion or 21% of U.S. long-term securities were held by foreigners at June 30, 2015.

Overall, we think that financial statement users around the world are seeking a common language when reading financial statements. We think that common financial reporting will help to facilitate efficient capital markets, increase investor confidence and potentially reduce the cost of capital. From that perspective, we encourage the FASB and the IASB to, whenever possible, seek high-quality solutions that will result in more comparable financial reporting outcomes in the U.S. and globally.

In light of investor needs both within and outside the U.S., we urge the FASB to seek the views of other standard setters, including the IASB, on projects of mutual interest. From that perspective, we commend the FASB for considering, as part of its agenda consultation, IFRS guidance as a potential starting point to improve accounting for intangible assets and post-retirement benefits. However, we note that it may not be necessary for the FASB to consider all aspects of that IFRS guidance when

¹ The User Advisory Council is comprised of Canadian buy and sell side analysts that assist the AcSB in understanding how investors use financial statements.

² The term "Foreign Private Issuer" is defined by the US Securities and Exchange Commission (SEC) based on meeting a set of criteria, including that an entity is not incorporated or organized under US laws and files financial statements with the SEC.

³ There were 292 Foreign Private Issuers domiciled in Canada as at December 31, 2015. Based on data compiled by AcSB staff, the market capitalization of 281 of these entities was CDN\$1.4 trillion. Of these 281 entities:

- 70% prepared their financial statements in accordance with IFRS; and
- 30% prepared their financial statement in accordance with U.S. GAAP.

⁴ This [study](#) was conducted jointly by the Department of Treasury, Federal Reserve Bank of New York and Board of Governors of the Federal Reserve System.

seeking globally consistent financial reporting outcomes. For example, IAS 38 *Intangible Assets* provides an entity with an accounting policy choice to measure intangible assets either at cost or using the revaluation model. We understand that very few Canadian entities use the revaluation model as it is only available for those intangible assets for which fair value can be measured by reference to an active market, and very few intangible assets are quoted in an active market.

Potential for significant improvement and priority of addressing each issue

In our view, each of the issues identified in the ITC presents its own challenges and represents areas in financial reporting that are in need of significant improvement. Several other accounting standard setters, including ourselves, are also undertaking work on these issues. We encourage the FASB to consider the activities of other standard setters when determining how to prioritize these topics, and to leverage current thinking and best practices from around the world.

We used the following criteria to prioritize the issues identified in the ITC. These criteria were developed by applying the criteria that we use to assess the merit of adding a project to our work plan.

- (a) Is the issue pervasive (across multiple industries and entities)?
- (b) How important is the matter to those who use financial statements?
- (c) Has there been a recent emergence of new types of transactions in need of guidance?
- (d) Is the issue related to another issue that needs to be addressed first?

The topics below are ranked in order of our assessed priority.

Priority	Financial Reporting Issue
1	<p>Pensions and other post-retirement benefit plans</p> <p>We think that some elements of this topic are more significant than others. In particular, we think that the FASB should focus its efforts on the identification of new and emerging types of post-retirement benefit plans (including hybrid plans) and consider the dynamic ways in which risk is being transferred in these plans. Overall, we are concerned that current defined benefit and defined contribution accounting guidance may not faithfully represent the sponsor's obligation for the new or emerging plans being used by companies today.</p> <p>Other elements of this issue, including the delayed recognition of some gains or losses, may not necessarily provide information that is useful to financial statement users. Some of the alternatives presented in the ITC (including the IAS 19 approach) would result in some gains or losses being recognized in other comprehensive income. If IAS 19 alternative were selected, this element of this project may need to be prioritized after the completion of the reporting performance and cash flows project (see priority 3).</p>

Priority	Financial Reporting Issue
2	<p>Distinguishing liabilities from equity</p> <p>The classification of financial instruments as liabilities or equity is one of the most common issues debated in Canada when applying U.S. GAAP or IFRS.</p> <p>We agree that current U.S. GAAP requirements for liability or equity classification of complex financial instruments are particularly challenging to apply. The requirements could lead to confusion or misapplication of the standard, and may allow for financial structuring. While some entities may not necessarily issue complex financial instruments, we understand that these instruments are becoming increasingly common and more complex based on our outreach. Furthermore, we think that financial statement users would benefit from increased global comparability in the classification of these instruments.</p>
3	<p>Reporting performance and cash flows</p> <p>We think that this project is important as users of financial statements look to measures of performance when analyzing entities (particularly the income statement and statement of cash flows). While we see merit in improving performance and cash flow reporting, we think that the regulatory information available to investors in North American entities, including in the Management, Discussion and Analysis, provides insight into the operations of the entity. Therefore, we prioritized this issue lower than the topics above.</p>
4	<p>Intangible assets, including research and development</p> <p>We acknowledge that U.S. GAAP does not have in-depth recognition and measurement guidance for internally developed intangible assets and that many entities across multiple industries embark on research and development activities. However, based on our outreach with users and other stakeholders, we are not aware of a pressing need for change in this area. In addition, we acknowledge that the development stage capitalization criteria in IAS 38 <i>Intangible Assets</i> can be difficult to apply and that there is often a significant degree of management judgement used when assessing these criteria.</p> <p>Furthermore, we are concerned that a project in this area may result in the recognition of additional long-lived assets. Therefore, we recommend that the FASB complete a wholesale reconsideration of the impairment of long-lived assets (including goodwill) prior to embarking on a project that may result in the recognition of additional assets for impairment consideration. Overall, we think that any project considering impairment of long-lived assets should attempt to simplify the impairment model, while addressing the recognition of intangible assets and considering whether to amortize goodwill.</p>

Other potential major projects

We agree with the FASB's conclusion to not add consolidation, and inventory and cost of sales to the list of major financial reporting topics included in the ITC. We agree that additional research is necessary to better understand the scope of concerns raised by stakeholders.

We urge the FASB to monitor the standard setting activities of the IASB and national standard setters with regard to provisions, contingent liabilities and contingent assets, and pollutant pricing mechanisms (or emission trading schemes). The accounting for provisions and contingent liabilities and assets differs between IFRS and U.S. GAAP and may lead to different measurement and recognition of amounts depending on the framework used. We encourage the FASB to conduct further research with the objective of simplifying the recognition and measurement of provisions. In addition, as we observe that pollutant pricing mechanisms are being used more frequently, we encourage the FASB to revisit its 2014 decision to remove this project from its agenda, and to consider conducting additional research.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or alternatively, Rebecca Villmann, Director, Accounting Standards at +1 416 204-3464 (email rvillmann@cpacanada.ca) or Andrew White, Principal, Accounting Standards at +1 416 204-3487 (email awhite@cpacanada.ca).

Yours truly,



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About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.