Ontario Energy Board

Commission de l'énergie de l'Ontario

IFRS Consultation

Key Differences – IFRS versus Canadian GAAP

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Overview

- Many ***similarities*** between IFRSs and Canadian standards
  - Based on a similar conceptual framework
  - Cover many of the same topics
  - Standards are similar on many issues
  - Style and form are relatively the same
  - Already some convergence between Canadian GAAP and IFRS
- There are some ***key differences*** between IFRSs and Canadian GAAP

Key Differences – IFRS versus Canadian GAAP

- Regulatory Assets and Liabilities
- Property, Plant, and Equipment
- Employee Benefits
- Deferred Income Taxes
- Provisions
- Related Party Disclosures

Plus special provisions for First Time Adoption of IFRS (IFRS 1)

Regulatory Assets and Liabilities

- “Regulatory accounting” is generally not applied under IFRS
  - However, pressure from Canadian rate-regulated community on IASB to have it apply on adoption of IFRS
- IFRSs do not completely rule out the recognition of regulatory assets and liabilities
  - However, regulated entities should carefully apply recognition criteria of IASB
  - Uncertainty – Fall 2008 – IFRIC (International Financial Reporting Interpretations Committee) to consider whether to take both regulatory assets and liabilities on to the agenda

Property, Plant, and Equipment (IAS 16, 23, 36)

- Administration and general overhead not permitted to be capitalized
- Capitalized carrying charges limited to actual interest charges incurred (IAS 23)
- Significant components of assets capitalized and depreciated accordingly to each component
- Fair value option subsequent to initial recognition
- Impairment (IAS 36) – discounted cash flows; reversal if circumstances have changed
- Capital Contributions – IFRIC draft D24 – liability versus contra-account to Property, Plant, and Equipment

Employee Benefits (IAS 19)

- The standards are generally aligned
- Multi-employer plan with defined benefit characteristics must be accounted for as defined benefits plans, if information is available by employer
  - Currently, may be accounted for as defined contribution in audited financial statements
  - However, still unclear whether there will be enough information available
  - May result in an increase in employee future benefit liabilities
- Other
  - E.g. may recognize actuarial gains/losses directly in equity

Deferred Income Taxes (IAS 12)

- Effective January 1, 2009, as a result of August 2007 AcSB decision for rate-regulated entities:
  - Must use the accrual method of accounting for income tax rather than the taxes payable method (cash method)
  - Generally, no expected changes in reporting in 2011 under IFRS

Provisions (IAS 37)

- Includes both constructive obligations and legal obligations
  - Need to recognize constructive obligations – can be inferred from a set of facts in a particular situation as opposed to a contractually based obligation
  - e.g. a company's environmental policy may infer a constructive obligation to clean up contaminated land, even though a legal obligation may not exist
- Threshold for recognition lower under IFRS
  - "More likely than not" versus "likely"
- Requires a best estimate of the obligation

Related Party Disclosures (IAS 24)

- Appears to be no particular recognition or measurement requirements under IFRS
- More onerous related party transaction disclosure under IFRS for state-controlled entities when they transact with similar entities (i.e. entities controlled by the same government)
  - IASB Exposure Draft issued – this would reduce disclosure by state-controlled entities
- IFRS also requires disclosure of the compensation of key management personnel

First Time Adoption of IFRS (IFRS 1)

- IFRS 1 provides exemptions to the normal basis of application of IFRS (full retrospective application) when a new basis of accounting is applied for the first time – first time adoption of IFRS
- Accounting policy decisions and presentation of financial statements – can start a new approach

First Time Adoption of IFRS (IFRS 1) continued

- 14 elective exemptions available under IFRS 1
  - Can avoid the required full retroactive application of IFRSs
  - For example, election to measure an item of property, plant, and equipment at its fair value and use fair value as deemed cost at the date of transition
  - Also put forth at May 22, 2008 IASB meeting – tentatively decided to propose amendment to IFRS 1
    - Proposed exemption for rate-regulated entities from retroactively remeasuring the cost of PP&E in accordance with IFRS – could elect to use the carrying amount at the date of transition to IFRS as the deemed cost, subject to an impairment test at that date
    - No decision made yet – Exposure Draft to be issued