

# Davidson & Company LLP: Regulatory Update

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# Agenda



**Introduction**



**Focus by  
industry**



**Coming up at  
CPAB**



**Q&A**



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# About CPAB



**Inspections**



**Thought Leadership**



**Stakeholder Engagement**



**To execute impactful inspections and make recommendations**



**Provide meaningful thought leadership through practical tools and information**



**Promote audit quality, protect stakeholders and advance developments in global audit regulation**



# Focus by industry

<b>Technology</b>	<ul style="list-style-type: none"> <li>• Growth industry: move to personalized, active E&amp;M experiences</li> <li>• New digital customer: more technologically savvy, offering forced to become more personal (entertainment, use of podcasts)</li> <li>• Impact of IFRS 15 including comparability and transparency (variable payments etc.)</li> </ul>
<b>Mining</b>	<ul style="list-style-type: none"> <li>• 2018 was a turning point, TSX valuations fell 13% in 2018, largely recovered in Q1 2019</li> <li>• Liquidity fell: investors contemplate alternative investments (e.g. Commodity Traded ETFs, emerging industries such as cannabis)</li> <li>• 2020 forward: the level of risk and uncertainty increasing (cyber risk for production companies, geopolitical unrest, etc.) and potential for companies to move into the next stage of growth, exploration and development</li> </ul>
<b>Cannabis</b>	<ul style="list-style-type: none"> <li>• Few large players: ~ 5 entities make up more than 75% of market cap in Canada (12.31.18)</li> <li>• Regulatory environment: Inconsistent regulatory environments (Canada, US, Worldwide)</li> <li>• Expected international expansion (already happening) as the domestic market alone will not be able to support such high valuations for the entire industry</li> </ul>
<b>Crypto Assets</b>	<ul style="list-style-type: none"> <li>• Immature legal and operating environments: Hacks approx. \$1.7 bn in 2018 (e.g. Quadriga); Q2 2019: \$4.3 bn (e.g. Binance –BTC)</li> <li>• Accounting : Specific to operations of the entity (IAS 38 : Intangible Assets, IAS 2: Inventories etc.)</li> <li>• Regulations expected in Canada: Proceeds of Crime (Money Laundering) and Terrorist Act (PCMLTF) and United States: Financial Action Task Force (FATF)</li> </ul>

# Key considerations: Technology



**Cybersecurity and data  
governance**



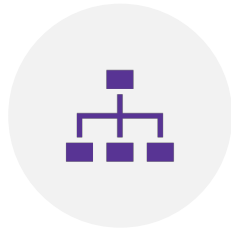
**Revenue recognition  
(IFRS 15)**



**Capitalization of  
development costs**



**Impairment  
assessment (goodwill  
and intangible assets)**



**Governance structures:  
mergers acquisitions  
and divestitures**



**Use of data analytics**

# Key considerations: Mining



**Use of specialists and experts**



**Reliability of data – reserve engineer reports**



**Validity of license and understanding of laws and regulations**



**Impairment of E&E assets and PPE by CGU**



**Governance structures: M&A activity and consolidations**



**Going Concern**

# Key considerations: Cannabis



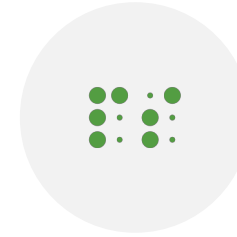
Use of published data from reputable sources for estimates (yields, costs etc.)



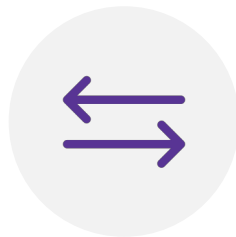
Reliability of data – biological assets fair value model



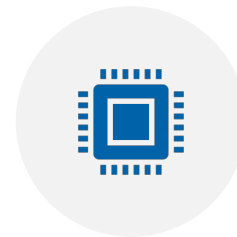
Validity of license and understanding of laws and regulations (jurisdiction)



Impairment assessment by state or jurisdiction (CGUs)



Governance structures – moving from a black market to mainstream



Infrastructure to manage change (consolidation, edibles, going concern etc.)

# Key considerations: Crypto Assets



**Understanding of audit risks**



**Reliance on third party service providers (exchanges and custodians)**



**Information obtained from the blockchain**



**Ownership of crypto holdings**



**Audit of mining rewards received**

# Coming up at CPAB



**Going concern**



**Fraud**

# Q&A





**Thank You**