

IFRS Update

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Guy Thomas CPA, CA



- Guy articulated with a national firm and obtained his CA designation in 1985.
- He has extensive audit experience in a wide range of industries and geographic locations and has held senior finance positions in operating and development companies.
- He joined Davidson & Company LLP in 2000 and currently chairs several committees within the firm, as well as CPABC's Public Company Forum.
- Guy is also a member of CPA Canada's Small Company Advisory Group, the Crypto-Asset Auditing Working Group, and CPABC's Public Practice Committee.
- Guy is an avid skier, occasional golfer and tennis player. He enjoys the company of his wife and his three adult children.

Agenda

IFRS

- Brief history (short)
- 2020 IFRS (nothing)
- 2020 IFRS guidance (much)



Recent IFRS History

2018 introduced

- IFRS 15 - Revenues from Contracts
- IFRS 9 - Financial Instruments

2019 introduced

- IFRS 16 - Leases

2020 IFRS

2020 introduced NO NEW IFRS's

IFRS 15 gave us:

5 step model to achieve the core principle

- Identify the contract with the customer
- Identify the performance obligations
- Determine the transaction price
- Allocate the transaction price to the performance obligations
- Recognize revenue when the performance obligation is satisfied

IFRS 9 gave us:

3 classifications for financial assets:

1. Fair value through profit or loss
2. Fair value through Other Comprehensive Income
3. Amortized cost (SPPI)
4. ECL model for receivables

2019 - IFRS 16 gave us

One model for capitalization of all-but insignificant leases (with exemptions)

- more calculations
- more reconciliations
- bigger balance sheets and non-cash transactions



IFRS 16 Leases - measurement

- 1) Lease term
- 2) Lease payments
- 3) Determine Discount rates
- 4) Calculate PV of future lease payments

IFRS 16 Leases re-measurements

Re-measure if there is a change in:

- lease term
- assessment of option to purchase
- amounts payable for residual guarantees
- index or rate related to lease payments

Change is reflected in Lease Liability and the related Right Of Use asset, and likely a P&L effect as well.

IFRS 16 Leases – modifications

- **Re-measure**
- **Account as separate lease if:**
 - Lease scope is increased by adding right of use asset(s) and
 - Consideration increases by a commensurate stand-alone price for the increased scope
- **If not a separate lease:**
 - Adjust lease liability and related right of use asset, likely P&L effect

IFRS 16 Leases – Ongoing

Watch for:

- changes in lease terms or estimates
- embedded leases within service contracts
- separate impairment considerations of Right Of Use assets
- Subleases – intermediate lessor
 - Is sublease financing or operating
 - If financing, de-recognition of part of asset but liability has different counterparties



2020

No new IFRS's but some big
amendments

The Amendments

Amendments **effective Jan 1, 2020**

- Definition of a business – IFRS 3
- Interest rate benchmark reform (IFRS 9, 7, IAS 32)
- Definition of Material (IAS 1, 8)

Amendment **effective June 1, 2020**

- COVID-19 rent related concessions (IFRS 16)

The Amendments – IFRS 3

IFRS 3 – business combinations

- New approach on definition of a business – expect more companies to be accounted for as asset acquisitions
- Reduces measurement complexities – intangibles, contingent consideration, other

2020 Amendment – IFRS 3

Change evaluation process to include:

- Inputs (employees [organized workforce] and materials) **and**
- Processes are substantive
(together these contribute significantly to ability to create outputs)

2020 Amendment – IFRS 3

- No longer consider either:
 - Whether market participants have ability produce outputs from the inputs and processes
 - Ability to reduce costs
- Optional concentration test
 - If substantially all of the FV of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, then not a business

2020 Amendment – IFRS 9,7 IAS 39

Financial instruments and disclosure

- Interbank Offered Rates (IBOR) to replace LIBOR
- Relief for hedge accounting where contracts often are based, or refer to, LIBOR
- assumes cash flows do not get altered for transition from LIBOR to IBOR

2020 Amendment – IAS 1

Definition of Material – effective January 1, 2020

- “information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users...make...”
- Remove obscuring or confusing disclosure

2020 Amendment – IFRS 16

COVID related Rent concessions

- Practical expedient (relief) to allow election not to consider concession as a modification
- Reduce liability and offset to P&L

2020 Amendment – IFRS 16

- Must be a direct consequence of COVID 19
- Must meet three criteria:
 - revised consideration to be same or less
 - Reduction in lease payments impacts payments originally due prior to June 30, 2021
 - No substantive change to other terms and conditions
 - IFRS Discussion Group (IDG) guidance



2020 Amendments – effective 2022

IFRS Amendments Effective 2022

(passed by IASB, process by AcSB)

- Annual Improvements Process *
- IAS 37 – Onerous contracts
- IAS 16 – PPE – Proceeds before intended use *
- IFRS 3 – Business combinations conceptual framework

Effective 2022 – Annual improvement process *

- IFRS 1 first time adoption of IFRS – CTA for subsidiaries
- IFRS 9 – fees in the 10% test for derecognition of financial liabilities
- IFRS 16 – illustrative example change
- IAS 41 – Agriculture re inclusion of taxation in cash flow measurements

Effective 2022 – PPE Proceeds before intended use *

Huge impact on mineral extraction industry in development stage:

“The amendments prohibit a company from deducting from the cost of PPE amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit and loss.”

Effective 2022 – PPE Proceeds before intended use *

Implications:

- complexity during mill commissioning stage
- estimation of related costs
- inventory tracking and inventory counts
- potential for negative margins and significant swings in P&L

2020 Amendments – effective 2023

IAS 1 – Presentation of Financial Statements

- classification of liabilities as current or non-current (compound instruments)

IFRS 17 – Insurance Contracts

- various revisions



IFRS Interpretations Committee (IFRIC)

- **IAS 1** – Liabilities or assets related to uncertain tax treatment
- **IAS 41** – subsequent expenditures on biological assets
- **IAS 7** – disclosure of changes in liabilities arising from financing activities
- **IFRS 16** – lessee's incremental borrowing rate
- **IFRS 9** – FV hedge of foreign currency risk
- **IFRS 15** – compensation for delays or cancellations /training costs to fulfill a contract
- **IFRS 16** – Lease term and useful life of leasehold improvements / sale and leaseback with variable payments
- **IAS 21** – hyperinflationary foreign operations – translation/comparative amounts/exchange differences
- **IAS 12** – consequences of recovering an asset / investment in a subsidiary
- **IAS 38** – player transfer payments
- **IAS 1, 37** – reverse factoring arrangements

IFRS Discussion Group (IDG)

- Meet 3 times per year
- Reports and webcasts of meetings available
- Searchable
- Non-authoritative but very relevant

IFRS 16

- sale leaseback considerations
- Variable lease payments and onerous lease provisions
- Timing of depreciation on ROU assets
- Lease term and useful life of leasehold improvements
- Application of definition of lease to a surface right
- Impact on inventory costing, revenue recognition, bio assets
- Accounting for COVID 19 related rent concessions
- Acquisitions in business combinations or asset acquisitions
- Rent concessions

IDG

- **IFRS 9**
 - IBOR reform
 - Allocating transaction price to multiple elements of a transaction involving warrants
- **IFRS 3**
 - Application issues from an asset acquisition
 - Deferred taxes on goodwill in a business combination
- **IFRS 2** - share-based payments for an asset acquisition
- **IAS 41** – Cannabis accounting
- **IAS 19** – Pension remeasurement long-term bonus plans contingent on future events or performance
- **IAS 36** – climate change and asset impairment
- **IAS 32** – classification of limited partnership units

IDG

- COVID – effect on:
 - Impairment
 - Expected credit loss model
 - Employees costs when inactive
 - Government assistance
 - Revenue recognition
 - Rent concessions

Viewpoints

Mining

- Asset acquisition versus business combination
- Accounting for metal streaming arrangement by the producer

Cannabis

- Overview of fair value considerations for biological assets
- Cannabis stages of growth and post-harvest activities

Exposure Drafts

- IAS 8 Accounting policies and estimates
- IAS 19 Availability of a refund
- IAS 1 Disclosure of accounting policies
- IAS 12 DIT related to a single transaction
- IFRS 9 Interest rate benchmark reform phase 2
- IAS 1 General Presentation and Disclosures *

Exposure Drafts – IAS 1

Huge impact on all companies

- defined subtotals in P&L
 - Operating income/loss
 - Income from integral associates and JV's
 - Income from investing activities
 - Income from financing activities
- Non-GAAP management performance measures to be disclosed in one note
- more disaggregation of information

(closed for comment September 30)

Research Projects

- Extractive industries
- Goodwill and impairment
- Business combinations under common control
- Dynamic risk management (hedges)
- Financial instruments with characteristics of equity
- Other



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Other Considerations

Audit report change

- Key audit matters (KAMs) for all TSX filers for years ending on or after December 15, 2020
- Deferred for TSX-V and CSE filers until 2022

Other considerations

Audit focus points:

- **COVID related changes**
 - Controls over financial reporting
 - Controls over prevention of fraud
 - Access to information
 - Changes to estimates / impairment considerations
- **Judgements**
 - Use of research materials and preparation of position papers
- **Estimates**
 - Prepare support documentation for assumptions for audit
 - More scrutiny (professional skepticism) required by auditors
- **Non-GAAP measures in MD&A**
 - CSA and others

Good sources of information

- International Accounting Standards Board (**IASB**) – provides authoritative guidance
- International Financial Reporting Interpretations Committee (**IFRIC**)
- IFRS Discussion Group (**IDG**)
- Communications from regulators such as Canadian Securities Administrators (**CSA**)
- **Viewpoints**

Recap

- Keep the recent changes in mind (IFRS 9 and 15 and 16)
- Accounting revisions and amendments require constant review
- Use the available guidance

Recap

Stay safe and stay tuned



IFRS Viewpoint Summary

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