

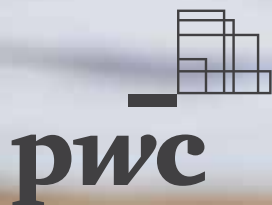
pwc.com/ca/accounting

Keeping your head above water

Recent issues in financial reporting

Financial Reporting Release

January 2021



In this Issue

There are three main topics that immediately jump out at you from this edition of the *Financial Reporting Release* – pandemic-related financial reporting matters, climate change disclosure and interest rate benchmark reform. The first two are obvious, the last less so. Benchmark reform is a bit of a stealth topic, at least it is for non-banks. Understandably, many have pushed this issue to the backburner on the basis that they've got more important fish to fry right now, thank you very much. Nevertheless, global regulators are determined to push the reforms through, pandemic or no, and you may have to address them sooner than you might think – even this year.

As we were putting this issue of the *Financial Reporting Release* together that famous line from Charles Dickens's *Oliver Twist* – “Please sir, I want some more” – kept running through our minds. We suspect that it's because so much of this edition is devoted, not so much to describing new financial reporting requirements, but rather to emphasizing recent demands for more extensive disclosures about key risks and uncertainties. Pandemic and climate-related change top of the list, of course, but there are others. It's easy to be cynical about these demands – when hasn't there been a press on for more and better disclosure? This time, however, cynicism might be a mistake. Increasingly, investors

are pushing for more expansive disclosures in financial statements about risks and uncertainties because they're fed up with boilerplate and opportunistic reporting in the MD&A and other parts of the annual report. “Put it in the statements and at least companies will take it seriously and the auditors will have to review it”, seems to be the underlying sentiment. Climate change reporting is the particular battleground on which investors are fighting now, but it has much broader implications than that.

There are other topics, of course, that need your attention, even if they are somewhat narrower in their scope than pandemic, climate change and rate reform. Did you know, for example, that there's new guidance coming out soon that may turn your long-term debt into current liabilities at a keystroke, that guidance is coming out on reporting of supplier chain financing arrangements, and that the IASB has taken another leap forward to standardizing income statement presentation formats and including disclosure of non-GAAP earnings measures in the financial statements? You do now.

The moral in all of this is a simple one. Even when nothing much seems to be happening, something is happening.

Pandemic Reporting Reminders	2
Climate Change Reporting — A Material Issue	3
ESG Reporting	4
CSA Continuous Disclosure Reviews	5
Interest Rate Benchmark Reform – What You Need to Know	6
Interest Rate Reform – IFRS Implications	7
Business Combinations Under Common Control	8
Covenants and Debt Classification	9
Income Statement Presentation and Non-GAAP Measures	10
Supply Chain Financing	11

Pandemic Reporting Reminders

“I was wondering why the ball kept getting bigger and bigger, but then it hit me.”

– Anonymous

A flood of pandemic-related financial reporting do’s and don’ts from securities regulators, standard setters and others swept over the corporate reporting world late last year, this in anticipation of 2020 year end and 2021 interim reporting. Heard it all before? Don’t need to hear it again? Really? Are you sure?

Predictably, a key message – perhaps “the” key message – from these organizations relates to pandemic-related uncertainties. The question that’s bedeviling everyone is, how exactly does one go about making estimates when past experience can no longer be relied upon to predict the future and there’s no clear indication of how the world will be changing? The advice of regulators and standard setters, admittedly general, is to use the best information that’s available, ensure that estimates are consistent with your business plans and strategies, rigorously debate the underlying techniques, judgments and assumptions with the audit committee and the auditors, and be transparent and entity specific in your disclosures. Do that, the regulators say, and we promise we won’t second guess you. Well, maybe not promise, but you get the drift. The essential point here is to be disciplined and thorough in your processes, be clear about what you’ve done, and let the chips fall where they may.

Dealing with risk and uncertainty may be the number one issue, but these certainly aren’t the only things that are occupying the minds of officialdom these days. Consider, for example, the list of reminders the Canadian Securities Administrators put together:

- Revisit regularly estimates and judgments such as going concern, fair value, revenue recognition, impairment, government assistance, and recoverability of deferred tax assets;
- Discuss the pandemic’s effects on the issuer’s liquidity and capital reserves;

- Expand disclosures in 2021 interim financial statements when the information in the 2020 annual report has become stale dated;
- Reconsider and if necessary, withdraw forward-looking guidance;
- Be cautious with respect to adding back COVID-related items in non-GAAP earnings, especially judgments that expenses are non-recurring, infrequent or unusual; and
- Assess the need for material change notices addressing pandemic effects.

Not that you’d have done anything different, would you?

PwC observation. Some might object to being hit over the head with these reminders again so soon after first hearing them when the pandemic broke, but you shouldn’t be rejecting them out of hand. After all, reminders can be useful. Especially relevant, we think, are those relating to disclosures of measurement uncertainties. Disclosure in 2020 about these matters often was, well, let’s say spotty, and regulators are urging that companies be more “entity specific” in their focus. For 2021 reporting, companies and audit committees may wish to revisit whether disclosures about the techniques, assumptions, judgments and sensitivities relating to critical accounting estimates should be expanded – all such estimates, not just pandemic-related ones. (The Alberta Securities Commission 2020 Corporate Finance Disclosure Report has an extensive discussion of this issue that’s worth reading.) We expect that regulators will be bearing down on this issue this year. Also, be warned. The goal posts may be moving in terms of what’s acceptable, thanks in large part to relatively recent clarifications by the IASB about how the principle of materiality applies to disclosure. If you have been labouring under the impression that complying with specific IFRS disclosure requirements is good enough, you may be in for a surprise. Check out the following page to see what we mean.

Climate Change Reporting – A Material Issue

“I went to a general store. They wouldn’t let me buy anything specific.”

– Stephen Wright

It’s no secret that investors have been pushing strongly for significant improvements in companies’ reporting of the effects of climate-related change. What you may not know is that the IASB is extending a helping hand.

Our story begins with an article on climate change reporting written by an IASB Board member and published by the IASB just over a year ago. The article appears to have been spectacularly successful in achieving what surely must have been the IASB’s goal in publishing it – demonstrating to critics that IFRS existing standards do in fact require companies to meaningfully address climate change in their accounting and disclosures, even though the words climate change never appear anywhere in its standards. To say that investors have leaped to embrace the article may be an understatement. For example, recently a group of European investment companies managing over US\$ 103 trillion of assets published an open letter urging companies and auditors to apply the article in preparing and auditing accounts. Another European group relied on it to conclude in a widely publicized think piece that IFRS requires disclosure of the following information in financial statements when companies are significantly affected by climate change:

- An affirmation that the goals of the Paris accord have been considered in preparing the statements, or, if not, a discussion of why not, together with an assessment of the financial statement effects of a 4-degree Celsius increase in temperatures;
- How critical accounting judgments are consistent with achieving net zero carbon emissions by 2050, or why they’re not, along with information about the effects of aligning with the accord;
- Sensitivity analysis linked to variations in judgments or estimates;
- The implications on dividend paying capacity of Paris-alignment, especially for those whose objectives aren’t aligned; and
- Confirmation of consistency between narrative reporting in other parts of the annual report and the accounting assumptions or an explanation for any divergence.

The group is also calling for auditors to address in audit opinions whether company’s accounting estimates or judgments properly reflect material climate risks, their consistency with Paris alignment and any inadequate assumptions and missing sensitivity analysis.

Late in 2020 the IASB extended a helping hand to financial statement preparers by issuing educational guidance to supplement the Board member’s article; for example, by highlighting and cross-referencing to the specific and general disclosure requirements the article emphasizes.

PwC observation. The main theme of the IASB’s educational guidance and article is that obeying specific IFRS disclosure requirements isn’t necessarily enough for a company to be able to assert compliance with IFRS. As a general test, it also must stand back and assess whether any additional related financial information is material to investors’ understanding of the statements and provide that as well. For example, IFRS specifically requires a company to make certain disclosures about assumptions used in the preparation of the statements if there’s a significant risk that they will result in a material adjustment to assets and liabilities within the next year. However, even if a company determines that this condition does not exist, disclosure of such information still may be necessary depending on risks of the industry in which the company operates and investor requirements. Climate-related disclosures the article contemplates might be appropriate include the impact of climate-related changes on assumptions and sensitivities relating to future cash flows, discount rates and useful lives on assets. While the article doesn’t identify any of the Paris accord and other climate-related information the investor group has called for, it does emphasize that investor demands for information can’t be ignored in materiality assessments. What’s the authority of the article? It’s based on an IASB Practice Statement that explains how to apply the IASB’s recently revised definition of materiality. None of the Statement, the IASB article or the IASB educational guidance is authoritative but given investors’ expectations, you may want to consider very carefully before ignoring them.

ESG Reporting

“Two fish are in a tank. One of them says, how do you drive this thing?”

– Anonymous

It would have been very hard indeed to have missed the plethora of calls within the last year or so for more standardization of environmental, social, and governance (ESG) reporting. Our news? They're starting to pay off.

Recently, some organizations producing voluntary ESG reporting frameworks have agreed to combine forces or otherwise work together to develop more common reporting. That's important but potentially even more significant is a consultation paper issued by the IFRS Foundation Trustees asking for views on whether they should be establishing a Sustainability Standards Board to harmonize global reporting in this area. The Trustees believe that the Foundation being the sponsor of the Board would have the following benefits:

- It would promote coherency with IFRS financial reporting;
- In setting up the Board, the Foundation could leverage and adapt its existing global standards setting processes, due process procedures and the network of the Foundation; and
- It would create the potential for synergies between the IASB and SSB.

The paper contemplates that the SSB would begin by considering climate-related change standards first and broader environmental, social and governance reporting issues later. With respect to climate change, the initial priority would be on addressing the reporting of the effects on companies; reporting by companies on their effect on the climate would be a subsequent step.

PwC observation. The Foundation's proposal to be the driver behind setting up and overseeing the Board has drawn enthusiastic support from many constituents, including us. While you can expect the usual healthy debate over exactly how the Board should be set up and operate, there seems to be broad agreement that the Foundation should be building on the best of what's available and working collaboratively with existing organizations promoting common ESG reporting. One issue that we see looming on the horizon is establishing the boundary between what gets reported in the financial statements, and so lies within the authority of the IASB, and what gets reported outside of the financial statements, and so belongs to the SSB.

CSA Continuing Disclosure Reviews

“Eternity is a terrible thought. I mean, where’s it all going to end?”

– Tom Stoppard

Gather the children around the fire; it’s time to discuss the report issued by the staff of the Canadian Securities Administrators on the results of their continuous disclosure reviews for the two years ended March 31, 2020. It’s not quite up there with Harry Potter, of course, but it’s riveting stuff, nonetheless.

Continuous disclosure reviews include top to bottom reviews by staff of companies’ financial statements, MD&A and other areas of regulatory reporting. There are also issue-specific reviews. For 2020, the latter included material change reports, news releases, financial statements and MD&A, mining and oil and gas technical matters, cryptocurrencies and change in auditor notices. A very broad mix indeed.

For the 2020 year, the reviews resulted in 8% of companies being referred to enforcement or subject to a cease trading order, 17% amending filings, and 30% making changes prospectively. Overall, just under 60% of filings were found to be wanting in some respect. The report doesn’t break down results between smaller and larger issuers, but it’s a fairly safe bet that the frequency of problems is higher in the former group than the latter.

The document also identifies various “hot button” issues:

- Non-compliance with certain specific IFRS requirements relating to matters such as frequency of testing for impairment, measurement of acquired intangible assets, and failure to provide all required operating segment disclosure;
- Disclosure in the MD&A regarding liquidity and capital resources that merely reproduces information found in the financial statements, inadequate forward-looking information disclosure or presentation, and insufficient quantitative and qualitative discussions of related party transactions;

- Undue prominence being given to non-GAAP measures in communications;
- Overly promotional material, insider reporting deficiencies;
- Absence of or late earning warnings about acquisitions of interests in issuers and material change notices; and
- Improper material project disclosures.

The report also includes CSA reminders about pandemic-related reporting, which we’ve discussed earlier, and provides examples of good and bad MD&A discussions about the impact of COVID-19 on operations.

PwC observation. Boilerplate and opportunistic reporting have been regular features of these reports pretty much forever, but it’s becoming increasingly apparent that these deficiencies are having a consequence that extends well beyond regulatory handwringing. The consequence is that investors are now calling for information to be moved out of the MD&A and into the audited financial statements. Their purpose is solely to get more assurance that the information is unbiased and complete. If you want examples, consider that this was a primary motivation behind the IASB’s proposal to include non-GAAP earnings measures in the financial statements. It’s also one of the reasons why investors are pressing for more climate change disclosure in financial statements. We’re not sure of how this is all ultimately going to end, but it appears that soon we may be weighing financial statements by the pound rather than the ounce.

Interest Rate Benchmark Reform – What You Need to Know

“Procrastination is the art of keeping up with yesterday.”

– Don Marquis

It would be a serious mistake to assume that global interest rate benchmark reforms only affect banks. Corporates could be too. After all, almost everybody's got floating interest rate exposures of some type or the other. How might you be affected? To help you answer that question we provide below a brief overview of key features of the reforms that we expect will be of particular interest to Canadian companies.

Rates and nature of reforms–

- Benchmarks that are subject to reform generally are those derived from submissions by banks about the interest rates they pay on interbank borrowing. There are many in the world, but LIBOR, far and away the world's most popular benchmark, is the prime example of the type of benchmark that's caught.
- Authorities have a curious understanding of the meaning of the word reform considering that many of these benchmarks will be eliminated, LIBOR chief among them. One of those that will survive, however, is CDOR, the popular benchmark used for Canadian dollar BAS and swaps.

Timing of disappearance of LIBOR–

- LIBOR likely will be disappearing on a split timetable – rates for all LIBOR currencies other than the most popular US dollar rates will stop being published soon after the end of 2021, with the surviving US rates continuing for another 18 months. However, ...
- Bank regulators are putting pressure on companies to stop entering any new LIBOR-based contracts after this year, in some jurisdictions perhaps even earlier. This is because authorities provided the extra 18 months for US dollar LIBOR only to accommodate legacy contracts.

Replacement benchmarks–

- These benchmarks are typically derived from interest rates on “nearly risk free” overnight borrowings in deep and liquid markets, not from bank submissions. Examples include CORRA, the Bank of Canada's preferred alternative to CDOR, and SOFR, a replacement for US dollar LIBOR.

Implementation issues–

- There are three key implementation issues relating to these benchmarks that are stoking controversy, especially in the US. The first is that forward-looking term rates for these benchmarks aren't yet being published. Until they are, it will be impossible to fix the interest payable for a period on a floating rate loan at the start of the period, the way you do now. Instead, you'll have to calculate interest for each day using overnight rates. The hope is that forward rates for SOFR and CORRA will be available sometime this year, but no one's making any promises.
- The second is that computing interest using overnight rates necessarily delays the calculation of an interest payable until the end of the period, is very complicated and just plain weird. Among other things contributing to the weirdness is that special conventions have had to be introduced so that interest for a period can be calculated early enough to enable it to be paid on time.
- The third is that, unlike LIBOR, increases in bank funding costs due to changes in banks credit risk don't automatically pass through to borrowers via changes in the benchmark rate. Under the replacement benchmarks, banks now will have to eat these costs. That's not necessarily a win for borrowers – to compensate banks will be increasing the fix spread over the benchmark they charge. This issue has prompted some banks to consider alternative benchmarks that are more LIBOR like in their characteristics. There are some, but how popular they will be remains to be seen.

PwC observation. If you haven't already begun the process of identifying your floating rate exposures, assessing whether any are affected by the reforms and developing appropriate transition strategies, it's time to get started; procrastination is no longer an option. Systems, controls, operating and financing plans all could be significantly affected. If your exposures are significant, don't forget to consider whether you need to discuss the impacts, your transition plans and other relevant information in your MD&A or financial statements.

Interest Rate Reform – IFRS Implications

“If you don’t know where you’re going, you might wind up somewhere else.”
– Yogi Berra

On the last page, we referred to “legacy” floating rate contracts; i.e., those contracts which require the use of an interest rate benchmark to calculate cash flows that will be disappearing before the contract does. These contracts should be amended to clarify how the contracts should operate when that happens, which is a pain, but the IASB has made the task easier to swallow by simplifying the accounting ramifications.

Modifications often will involve the parties agreeing to amend or insert “fallback” provisions into loans and other similar contracts to identify a replacement benchmark and describe when and how it should apply. This is known as “hardwiring” the contract. Without the IFRS amendment, you’d have to worry about remeasuring the amended contract, recognizing a gain or loss, and ceasing hedge accounting. With the amendment, these issues disappear. Poof. Instead, you simply:

- Recognize interest income or expense based on the original benchmark until the conditions are met for using the replacement;
- Leave the carrying value of the instrument intact; and
- Continue any hedge accounting. The amendment also softens certain hedge ineffectiveness tests that otherwise might get in your way.

In short, essentially you get to pretend that nothing has happened.

There’s a catch, of course, there’s always a catch. You also have to consider whether the revised terms of the contract are “economically equivalent” to the old ones. If not, you can’t apply the amendment to the changes that are causing the economics of the contract to change. Rather, regular IFRS applies to these changes.

The guidance is effective for annual periods beginning on or after January 1, 2021. It applies retrospectively to loans and other financial instruments if they’re measured at amortized cost, as well as to certain lease and insurance contracts. Additional disclosures, including related risk exposures and the company’s progress in completing its transition plan, are necessary.

PwC observation. Critical to applying the IASB amendment is the economic equivalence test. The IASB doesn’t define this term, so what path you should be following to reach this happy state can be confusing. As a general rule, we think that the test is to be met if the new basis on which floating cash flows are calculated is a proxy for the one that it’s replacing and there are no other changes to the contract. For example, we think the test is met if a contract that originally is based on LIBOR is amended to provide that the replacement benchmark is SOFR plus a spread for the historical difference between SOFR and LIBOR. In this case, the replacement is a “synthetic LIBOR” benchmark. This is the approach that authorities are using to establish standardized fallback language for floating loans and swaps. Under it, you can’t “prove” equivalence, all you can do is your best to restore the parties to the same position they were in before the change.

Business Combinations Under Common Control

“I am a man of fixed and unbending principles, the first of which is to be flexible at all times.” – Everett Dirksen

The IASB has just issued a discussion paper dealing with transfers of businesses under common control. The Board is proposing a novel, flexible and pragmatic approach – surely an oxymoron for a standard setter? – that almost certainly will dissatisfy purists on either side of the debate.

The fundamental issue, of course, is whether such transfers should be measured at fair value or book value. The IASB’s tentative answer is that it depends – fair value is mandatory when the company receiving the transferred business is a public company with minority owners that are unrelated to the controlling shareholder. If the company is private, fair value is also necessary unless the minority owners consent to book value. In all other situations book value is the rule, for example, for transfers involving wholly owned subsidiaries.

The paper also gets into some fairly heavy technical details about mechanics. The most important of these are:

- Reverse takeover accounting never can occur – the company receiving the transferred assets is always the acquirer;
- Book value is the value of the net assets as recorded in the accounts of the transferred business;

- The receiving company doesn’t restate comparatives regardless of whether fair value or book value accounting is being used; and
- Differences between consideration paid and book values are treated as contributions to or distributions of equity.

See why we told you that the Board is being flexible and pragmatic?

PwC observation. Three key decisions underlie the Board’s proposals. The first is that something much more than a shifting of assets of the controlling owner is going on if a non-controlling interest is affected by the transfer. The second is that when the receiving company is public, the non-controlling interest’s need for fair value information about the transfer trumps the controlling interest’s need for book value. After all, the Board argues, the latter can always get book value information from other sources. The third is that cost-benefit considerations can be important, especially in dealing with private company transactions. Even accepting these principles, which certainly are worthy of careful consideration, our initial reaction is that the proposals raise significant operational issues that will have to be sorted out if the project is to go further.

Covenants and Debt Classification

“A horse is dangerous at both ends and uncomfortable in the middle.”

– Ian Fleming

Recently amended IFRS requirements for classifying long-term debt are proving to be so troublesome the IFRS Interpretations Committee already is proposing to clarify how they apply. Warning. You’re not going to be happy.

Draft guidance is open for comment until February 15, 2021. It focuses on the implications of covenants on long-term debt that are based on the borrower’s financial position, for example, having to meet a minimum working capital requirement. The draft proposes that long-term debt subject to such covenants must be classified as current at the reporting date in each of the following situations:

- You don’t actually have to meet a covenant at the reporting date, but one will apply within the next 12 months that you fail to meet currently;
- You have to meet a covenant at the reporting date, and you do, but you’ll have to meet a stricter version within the next 12 months that you fail to meet currently; and
- You fail a covenant and obtain a waiver from the lender by the reporting date. However, the lender agrees to waive its right to demand repayment only until the date the covenant next applies, which will be within 12 months.

The guidance emphasizes that these conclusions hold even when the borrower fully expects to meet the covenants in the future. Some may find this conclusion surprising because the IASB has observed that it may be appropriate to take expectations into account in evaluating compliance with performance-based covenants, for example, meeting a targeted level of sales over a period. IASB staff, however, are adamant that this observation isn’t relevant to covenants that are based on a company’s financial position.

The amended classification requirements are effective for years beginning on or after January 1, 2023. The draft IFRIC guidance is subject to the IASB’s approval.

PwC observation. The guidance will be especially relevant for those whose covenants are based on seasonal considerations. Although the Committee is unhappy with its conclusions, it was unable to find a comfortable spot on which to perch to support a different reading. We’re expecting that both the Committee and the IASB will be getting a lot of feedback opposing finalization of the draft guidance. Some will believe that current classification is inconsistent with the business purpose underlying the covenants and the Board’s foundation principle for permitting long-term classification for debt subject to covenants generally. Others will think that a different reading of the requirements is possible that results in a more reasonable interpretation. Still others will wonder whether a covenant requiring an improved financial position at a future date often is a financial performance covenant in substance. This one is in for a rocky ride.

Income Statement Presentation and Non-GAAP Measures

“Louie, I think this is the beginning of a beautiful friendship.”

– Rick Blaine, Casablanca

Interested in how constituents have reacted to the IASB’s “game changing” proposals to fundamentally reshape the income statement, require disclosures of non-GAAP measures in IFRS financial statements and enhance related requirements? The comments are now in – all 215 of them. Here’s a summary of IASB staff’s analysis of them:

- A majority of respondents agreed with the proposal to split the income statement into separately defined operating, investing and financing categories with subtotals, albeit with some concerns over how to classify foreign exchange items and fair value changes;
- Constituents generally turned up their noses at the idea of presenting equity earnings from integral and non-integral investments separately on the income statement. Observations made by a few Board members suggest that this proposal may have only a short while to live;
- Although the IASB proposed requiring operating expenses to be classified by nature or function on the income statement, the Board appears to be willing at least to discuss the possibility of continuing to allow a mixed model. This is a very big issue for some Canadian companies;
- Constituents generally supported the need for a definition and disclosure of unusual items but not the Board’s proposed definition of the term;
- The IASB was disconcerted by feedback suggesting that its disaggregation proposals may result in more aggregation of items in the financial statements rather than less; and
- A majority of respondents supported disclosing information about non-GAAP earnings measures in the footnotes, including reconciliations to GAAP earnings subtotals. Among the issues the Board identified for further discussion are whether disclosure of cash flow and other non-earnings measures is also appropriate, the auditors have a reasonable basis for auditing non-GAAP information, and the difficulty of allocating non-controlling interest and income taxes.

As expected, some respondents were strongly opposed to the proposals, particularly with respect to disclosing non-GAAP earnings, and there were many requests for clarifications or modifications.

PwC observation. The IASB has fast tracked this proposal from the start and it’s obvious that it remains a very high priority. Based on the Board’s initial reactions to the responses, we see no indication that it’s going to revisit its main conclusions. This is going to become reality, maybe not today, maybe not tomorrow....

Supply Chain Financing

“Tweet me that on Facebook.”

– Schitt’s Creek

The accounting for and disclosure of supply chain financing topics is becoming a very big issue in some jurisdictions, so much so that the IFRIC has just issued guidance on how IFRS applies to these matters.

Under SCF programs, a company typically arranges for a bank to pay the company’s suppliers directly, with the company paying the bank back sometime later (sometimes a lot later) usually with a fee. In theory, everyone should be happy – the supplier gets paid earlier than it otherwise would, the company pays its obligations later than it ordinarily would, and the bank earns a fee. The problem, of course, is that SCF arrangements can be used for evil as well as good – payables can be dragged out to disguise a deteriorating financial position, inflate operating cash flow, and improve key performance ratios without any real change in the underlying business. What’s also troubling is that these transactions are only rarely being disclosed. A recent international study showed that although more than 50% of companies use these programs, less than 5% made any mention of them in their public filings. (The incidence of use in Canada may be significantly less.)

What the IFRIC has issued is guidance that identifies and considers the application of IFRS requirements that are relevant in addressing the accounting issues arising from these arrangements. These include whether a company should:

- Separately present SCF payables on the balance sheet and reclassify them as debt when the financier pays the supplier;
- Deduct payments made by the financier to the supplier in computing cash flow from operating activities on the cash flow statement, or exclude them from the statement altogether as non-cash transactions;
- Classify payments made by the company to the financier as operating or financing transactions in the cash flow statement; and
- Disclose these arrangements as part of its liquidity disclosures.

The IFRIC guidance takes the form of a summary outlining why it’s decided not to issue a formal interpretation, nevertheless, companies have to follow the guidance it establishes. There is no effective date but doing it within a reasonable time is necessary.

PwC observation. Several IASB members observed that SCF arrangements raised serious issues whether cash flow presentation requirements are sending the wrong message, especially with respect to the treatment of non-cash transactions. The IASB may be considering at a future meeting whether future standard setting relating to matters such as these is necessary.

For more information

This newsletter has been prepared for the clients and friends of PwC by National Accounting Consulting Services. For further information on any of the matters discussed, please feel free to contact any member of ACS, or your PwC engagement leader. This newsletter is available from the PwC Canada web site, which is located at <https://www.pwc.com/ca/en/services/accounting-advisory-services.html>.

The partners and managers in National Accounting Consulting Services are:

Carolyn Anthony	416 815 5266	carloyn.anthony@pwc.com	Toronto
Scott Bandura	403 509 6659	scott.bandura@pwc.com	Calgary
Vadym Bilishuk	416 687 8641	vadym.bilishuk@pwc.com	Toronto
Martin Boucher	514 205 5415	martin.boucher@pwc.com	Montreal
Sean Cable	416 814 5831	sean.c.cable@pwc.com	Toronto
Michel Charbonneau	514 205 5127	michel.a.charbonneau@pwc.com	Montreal
David Clément	514 205 5122	david.clement@pwc.com	Montreal
Elana Du Plessis	416 687 9191	elana.duplessis@pwc.com	Toronto
Lucy Durocher	416 869 2311	lucy.durocher@pwc.com	Toronto
Larissa Dyomina	613-755-8741	larissa.dyomina@pwc.com	Ottawa
Will Foster	604 806 7183	will.foster@pwc.com	Vancouver
Natalia Karpova	416 687 8005	natalia.x.karpova@pwc.com	Toronto
Vicki Kovacs	416 941 8363	vicki.kovacs@pwc.com	Toronto
Deanna Louth	403 441 6208	deanna.d.louth@pwc.com	Calgary
Robert Marsh	604 806 7765	robert.marsh@pwc.com	Vancouver
Celeste Murphy	403 509 6680	celeste.k.murphy@pwc.com	Calgary
Michael Walke	416 815 5011	michael.walke@pwc.com	Toronto

Capital Markets Accounting Advisory Services

At PwC, our Capital Markets Accounting Advisory Services team offers a wide range of experience and expertise in technical accounting issues. We provide a wide variety of services to both audit and non-audit clients, **tailored to accommodate each client's unique circumstances and needs.**

Our team of highly experienced accounting professionals, subject matter specialists and local resources across Canada are **ready to help you address your most pressing business issues.**

Complex Mergers and Acquisitions

- Carve-out financial statements
- Pro-forma financial information
- Accounting function integration

Regulatory Issues and Restatements

- Assistance with offering documents
- Support in responding to regulatory comments and requests
- Advice on alternatives

Accounting Standard Adoption

- Adoption of new standards under IFRS, U.S. GAAP and Canadian GAAP for Private Enterprises
- Diagnostic summary of key impacts on adoption
- Evaluation and development of accounting policies
- Training development and implementation
- Support in analyzing and documenting technical accounting issues

IPOs and Capital Market Transactions

- Readiness assessments for public reporting
- Advice on regulatory and exchange requirements
- Assistance with financial statements, prospectus and other documents
- Assistance with due diligence process
- Advice on alternatives

GAAP / IFRS Interpretation and Conversions

- Diagnostic summary of key impacts on transition
- Evaluation and development of accounting policies
- Training development
- Support in analyzing and documenting technical accounting issues

Other Services and Products

- On-site assistance / expert secondment
- Quantitative analysis and model development
- Tax Accounting Services
- Comperio
- Automated Disclosure Checklists
- PwC IFRS Manual of Accounting

CMAAS contacts

Calgary

David Whiteley

403 509 6653

david.c.whiteley@pwc.com

Matthew Fuller

403 509 7341

matthew.s.fuller@pwc.com

Toronto

Paul Feetham

416 365 8161

paul.j.feetham@pwc.com

Geoff Leverton

416 815 5053

geoff.m.leverton@pwc.com

Christopher Wood

416 365 8227

christopher.r.wood@pwc.com

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. It does not take into account any objectives, financial situation or needs of any recipient; any recipient should not act upon the information contained in this publication without obtaining independent professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2021 PricewaterhouseCoopers LLP, an Ontario limited liability partnership. All rights reserved.

PwC refers to the Canadian member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity.
Please see www.pwc.com/structure for further details. **835889** 0121 VN