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# *Keeping your head above water*

## Recent issues in financial reporting

*Financial Reporting Release*

*January 2018*

pwc

# In this issue

***"The problem with the future is that it keeps turning into the present."***
**– Bill Watterson**

Just before the world rang in the New Year Donald Trump signed major US tax reforms into law. The accounting world exploded as a result, given that companies having a US tax presence will have to consider the impact of the reforms on their December 31, 2017 annual financial statements. How far reaching are the effects? How do you deal with the very significant uncertainties surrounding the law's interpretation and application? We have some thoughts.

The US tax changes have been getting all the headlines, but there are other financial reporting to worry about as well. We're talking, of course, about the new revenue and financial instruments standards, both of which are effective for Q1. We review the latest developments and gossip about their expected effects.

Also, you can't forget about the new leasing standard, which is effective next year. Its implementation is proving to be much more challenging than expected. Is it likely that the IASB is going to defer the standard's effective date, or at least lighten the load by softening the transition relief requirements? Read on to find out.

Now that the IASB has finally finished its program to improve its standards for recognition and measurement, what's it going to do now? Nothing, you say? Shame on you. The Board's now bent on revamping the form and structure of the primary financial statements and changing preparer attitudes towards footnote disclosures. The goal is to improve the communications value of IFRS financial statements and, not coincidentally, kill dead the alternative world of non-GAAP reporting. It's discussing the possibility of moving in some pretty radical directions.

Finally, Canadian authorities are on the verge of introducing international auditing requirements that will mean that the standard auditor's opinion on your financial statements is about to change. Big time. We explain when and how.

And there you have it. All you needed to know about financial reporting developments in a few easy pages. Could life get any better? Wait, don't answer that.


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# US Income Tax Reform

***"I have an attention span as long as it has to be."***
**– Donald Trump**

It was just before the clock ran out…

On December 22 of last year, President Trump signed into law the Tax Cuts and Jobs Act, which significantly changes the US tax system. The changes include:

- A reduction in the US corporate tax rate from 35% to 21%, effective January 1, 2018;
- The transition to a largely "territorial" tax regime designed to prevent the erosion of the US tax basis (e.g., by the transfer of intangible assets to low rate tax jurisdictions), accompanied by an immediate "toll" on previously undistributed earnings of foreign corporations owned by US parents;
- A number of business tax reform proposals including significant changes to the way losses are carried forward and recovered, and immediate expensing of certain capital expenditures; and
- Greater limitations on the deductibility of interest.

Notwithstanding that most of the changes are effective only in 2018, they have all been enacted in 2017. As a consequence, IFRS companies with a US tax presence will have to reflect them in December 31, 2017 financial statements. The changes may affect not only current and deferred income tax assets and liabilities, but also other areas such as equity accounting, asset impairment tests (including goodwill), hedging, fair value estimates, and business combinations. They also may have wider implications such as going concern assessments, and debt covenant compliance.

How are you supposed to identify and calculate the adjustments to be made to the year-end financial statements given the available time and the very significant uncertainties that exist about how the new law should be interpreted and applied?

The SEC has issued guidance which describes an accounting model that could be applied under US GAAP. When an impact isn't known with certainty, the model generally requires companies to adjust year-end financial statements based on their best estimate. However, it contemplates that a company might fall back to its accounting under the repealed US tax law when it's not possible to make a reasonable estimate of the new law's effect. Although the SEC guidance also states that the staff wouldn't object to a foreign private issuer reporting under IFRS applying the same model, there's nothing in IFRS that specifically permits falling back to measurements based on the old tax law. Rather, the presumption appears to be that the reasonable estimates should always be made based on the new law. Neither the IASB nor the IFRS Interpretations Committee has addressed the SEC guidance, and we understand that they have no plans to. We understand that the Canadian regulators' preliminary view is that companies always need to make reasonable estimates for complex areas. IFRS companies that are considering relying on the SEC guidance to continue measurements based on the old tax law should consult with their accounting advisors and auditors.

Is any guidance expected on how the unique aspects of the new law should be applied? The FASB has decided on a number of issues under US GAAP, including the use of discounting, and whether aspects of the requirements are subject to deferred tax accounting. Keep in mind, however, that income tax accounting requirements under IFRS differ from US GAAP in certain key respects, and the answers under the latter may not work under the former.

**PwC observation.** Audit committees and management teams should pay attention. Enactment of US tax reform is one of the most significant policy developments in many years and brings with it complex financial reporting implications. Interpretations are evolving daily (or hourly), so be sure to keep up to date with changes.

# Revenue

## *“In the book of life, the answers aren’t in the back.”* – Charlie Brown

Recall that the FASB and IASB undertook to develop a common revenue standard as part of their joint initiative to harmonize their respective GAAPs, preparatory to the US eventually adopting IFRS (hah!). The standard they eventually came up with, after ten years or so of trying, doesn’t so much change the basic principles for recognizing revenue (and deferring related costs), as it formalizes and standardizes the mechanics of their application. For companies adopting the standard, it is sort of like getting a new 50 page recipe for something that they’ve been baking for years; it’s possible that what comes out of the oven might taste rather different than what you’ve been dishing out up till now. Or even a lot. Companies in some industries, such as the Technology and Telecommunications sectors, are warning that this is likely for some aspects of their reporting. On the other hand…

Surveys consistently show that a very high percentage of companies in other industries aren’t anticipating much if any change to their top lines. According to a recent study, for example, at the end of the third quarter last year almost 60% of Fortune 500 companies disclosed that they were expecting that the standard wouldn’t have a material impact on their statements (a significant number of companies were still evaluating the standard’s impact then, so you can’t presume that it’s necessarily material for the other 40%). In another survey, participants ranked changes in the timing of their recognition of revenue sixth in terms of the standard’s impact. Disclosure was first, by a long shot.

Most recently, securities regulators have been highlighting the degree of judgment implementing the standard requires. For instance, a company has to decide whether any of its various performance obligations in its sales contracts are “distinct”. If they are, it has to recognize the related revenue separately from the rest of the contract when performing that obligation. This often means having to make another judgment as to how to allocate the total price of the contract to its components. At a conference in December, SEC staff emphasized that it was prepared to accept reasonable judgments, but that companies need to have a robust process in place that enables them to reach a sound conclusion that’s supported by an understanding of the facts and circumstances and a thoughtful consideration of alternatives. After all, as a member of staff warned, just because the standard requires significant judgment doesn’t mean that it permits optional approaches.

**PwC observation.** We encourage audit committees to take the time to understand and consider the key judgments management has made in applying the standard, and what impact they have on the company’s recognition and measurement of revenue and related costs. Remember, too, that judgments have to be explained in the financial statements and MDA. Even if there are no measurement changes, disclosures will be significantly impacted.

# Financial Instruments

***"When all is said and done, more is said than done."***
**– Lou Holtz, Notre Dame football coach**

Like revenue, the new standard on financial instruments is effective in Q1, 2018. Double the pleasure, double the fun (or, for the more pessimistic, double, double, toil and trouble). Some thoughts on its likely impact.

**Fair value versus cost**

The standard introduces a new model for classifying equity instruments. Any notion of accounting for equity instruments at cost is gone, and entities now have to choose between a rock and a hard place in electing whether to have equity movements go through other comprehensive income or profit or loss. If the choice is the former, watch out – other than dividends nothing goes through the P&L even if such investments are sold above their initial cost.

If the asset isn't an equity instrument, deciding whether fair value accounting applies now depends on how weird its payment terms are compared to plain vanilla interest and principal payments, and whether your business model for realizing this type of asset involves or could involve selling them. While applying these new criteria often won't change the way you're measuring things under existing IFRS, all roads don't necessarily lead to Rome. For example, if you're separately accounting for a derivative embedded in another asset you'll have to almost certainly measure the entire asset at fair value – it's a guilt by association thing.

**Impairment in trade receivables and loans**

The biggest buzz about the standard is its new so-called "expected credit loss" model for recognizing impairments in trade receivables and loans. As defined, expected credit losses represent the sum of possible future credit losses weighted by the probability of their occurrence (the IASB is using the term "expected" in its statistical or mathematical sense here, not the common every day meaning of the term; rather predictably, this has produced mass confusion in the streets).

Quantifying expected credit losses can be a terrifying process – just ask any bank (see the next page) – but there are practical expedients designed to make life easier. For example, for trade receivables you can calculate the allowance by applying historical loss experience ratios to your existing receivables, appropriately aged (assuming you think history is a good predictor of the future). While this approach or a variant of it might form the basis of what you're doing now, one conceptual difference is that under the new model you'll always have to set up an allowance for receivables even when they aren't overdue.

**Hedge accounting**

Some companies leaped to early adopt the standard to take advantage of the greater flexibility that the new standard affords. Others, primarily banks, have elected to postpone adopting this aspect of the standard pending the IASB finishing a project on macro hedging.

**Modifications of long-term debt**

Finally, a reminder that, in a late Grinch-like move, the IASB has announced that predominate practice on accounting for modifications of long-term debt and other liabilities in practice smelled pretty bad under old IFRS, and the odour doesn't improve under the new standard. If your practice has been to defer and amortize any cost or benefit from a modification, you will have to change this retrospectively.

**PwC observation.** When all is said and done, a company often may expect that neither the revenue nor the financial instruments standards will produce material changes to their IFRS financial statements at transition. Nevertheless, presumptions can be fatal. You've always got to check and don't forget that disclosures may need to be significantly updated!

# Loan Impairment Banks

***"Experience is something you don't get until just after you need it."***
**– Steven Wright**

Let's face it, the IASB developed the expected credit loss model we discussed on the preceding page with banks in mind. The objective of the model is to accelerate the recognition of credit losses on loans and other receivables compared to the old "incurred loss" approach. Explaining what expected credit losses represent, other than by reference to the manner of their calculation, is a bit of a challenge but essentially the focus is on the loan's credit risk – in concept, if a loan's credit risk goes up during the period, provisions go up, and if the risk goes down, provisions go down.

How will banks be affected at transition? It's difficult to say. Early warning disclosures by the Canadian banks about the standard's overall impact range from an after tax reduction of shareholders' equity of $600 million to an increase of $65 million, but the impact on the allowance for credit losses often was not split out. We expect that banks in other capital markets will be reporting similarly dispersed results.

**PwC observation.** A key issue for banks – in fact, the issue – has been setting up systems, processes and controls to develop the models, assumptions and inputs necessary for estimating expected credit losses. Now that initial estimates have been made, we expect that banks will be refining their controls and processes based on the lessons learned from their initial experience. However, the more immediate challenge banks will have to experience is disclosure. Because, by definition, expected credit losses represent management's projections about the future, and thus can't be independently confirmed, inter-bank comparisons by investors, analysts, regulators and others necessarily will involve comparing the inputs, judgments and assumptions that banks make in estimating losses. Clear, concise but nevertheless comprehensive transparent disclosure thus is a priority. This will be a daunting challenge considering the standards' inherent complexity. Audit committees beware.

# Leases

***"Include me out."***
**– Samuel Goldwyn**

Even as companies cope with initial reporting of revenue and financial instruments, they've got an earworm nagging away in their heads… Leases, Leases, Leases… It's a catchy little tune.

A quick recap. Starting in 2019, lessees under both IFRS and US GAAP will have to recognize substantially all of their leases, (even operating leases) on their balance sheets, as "right of use" assets and lease liabilities. A mere $3.4 trillion, or so, according to one estimate. Under the IASB's version of the standard, you have to amortize the asset and recognize interest expense on the lease liabilities, consistent with the balance sheet treatment. Under the FASB version, by contrast, you have to expense the full rental payment on operating leases the same way you've always done it. (Just as in physics where light beams are particles and waves at the same time, in the FASB's world, leases are both on and off the balance sheet depending on which statement you're looking at.) Lessors are subject to new requirements, too, but they continue to account for leases the old way, as operating or finance leases on both the balance sheet and the income statement.

What are the major implementation challenges? Here's what we've been hearing.

- Systems implications;
- Abstracting and entering lease data;
- Locating contracts – particularly for decentralized operations;
- Establishing appropriate assumptions and inputs, such as the likelihood of renewal, and discount rates;
- Determining the treatment of executory costs in calculating the initial leasing liability;
- Identifying leases that are part of other contracts; and
- Defining lease contracts.

If you've been holding out a faint hope that the Boards will be deferring the effective date of the standard in light of implementation issues, give it up, there's no sign of this happening. Indeed, the FASB took the unusual step of announcing in December that the transition date won't change. Responding to concerns from preparers about the complexity and burden of implementation, however, it did simplify its transition requirements. One change is to give companies the option of not restating comparatives, which converges US GAAP with IFRS. The other two changes produce divergence – under US GAAP lessees no longer have to consider whether certain pre-existing land easements are leases if they've never previously made that assessment, and lessors no longer have to account separately for the lease and non-lease components of a contract if splitting them would only affect presentation and disclosure in the financial statements. You still do under IFRS.

**PwC observation.** Significant interpretative and application issues are coming out of the woodwork and companies should be keeping their ears close to the ground for possible clarifications or other developments, including from Canada's IFRS Discussion Group. What are the chances of the IASB amending its transition rules to conform to the US initiatives? Not good.

# Rate Regulated Accounting

***"I put a dollar in a change machine. Nothing changed."***
**– George Carlin**

A brief report on the status of this project, which has been lost in the weeds for a while.

First, a reminder. The project is supposed to resolve, once and for all, whether rate regulation can result in assets and liabilities that should be recognized under IFRS. Canada and the US say of course it does. Europe and other regions historically have been equally adamant that it doesn't. Hence the IASB's decision to resolve the issue. Although the Board was supposed to resolve the matter on an urgent basis, its most recent efforts to find a lasting peace are now in their fifth year (not counting the time spent to develop an optional temporary standard allowing for a separate "below the line" reporting for rate regulation that hasn't won much favour among Canadian companies).

So where do things stand now? We have good news and we have bad news. The good news is that, despite threatening last year to walk away from the project altogether, the Board's now actively considering a model that would require recognition of rate regulated assets and liabilities in qualifying circumstances (albeit not on the same basis as existing US GAAP). The bad news is that the Board's latest work plan calls for publication of a Discussion Memorandum, or an Exposure Draft of a proposed standard, sometime in 2019. There's thus no prospect of significant change happening anytime soon. There's also no guarantee that IFRS will become any more hospitable to rate regulated accounting than it is now.

**PwC observation.** When IFRS came to Canada, most Canadian rate regulated enterprises (RREs) preserved their existing accounting for rate regulation by shifting to US GAAP instead. They did this by taking advantage of special transitional relief provided by the Canadian Securities Administrators. This relief expires soon, but the betting is that it'll be extended for at least until the Board finishes the project. When that happens, RREs will have two choices – becoming an SEC registrant and thereby obtaining the right to continue to prepare their financial statements using US GAAP under Canadian securities regulations, or adopting whatever solution the IASB comes up with.

# *The Future of IFRS*

***"You have brains in your head. You have feet in your shoes. You can steer yourself any direction you choose."***

**– Dr. Seuss**

It's kind of strange. The IASB and FASB aren't working together anymore, their relationship having become more than a little frosty after a hectic decade or so of joint activities. Nevertheless, they've developed new strategic plans whose common objectives makes you wonder whether they're still the best of buddies. Each are now promising to:

- Improve the communications value and decision usefulness of the primary financial statements, the income statement in particular;
- Encourage more effective disclosures;
- Simplify, clarify, and interpret standards as necessary to help companies apply them; and
- Provide a period of accounting calm.

Providing "a period of accounting calm" means that the Boards have sworn to refrain for a while from introducing major new standards that have the potential of turning your income statement or balance sheet upside down. (That's a promise that the IASB should find easy to keep considering that any such projects, such as distinguishing liabilities and equity, that might have this effect are in the embryonic stage.)

Needless to say (but we will anyway) you can still expect a steady diet of narrow scope amendments and improvements to existing standards; it's not as if the Boards are going on an extended vacation or anything. In another curious coincidence, the Chairs of both Boards chose to joke about this in recent speeches. Left unreported was whether the audiences' reaction was relief or disappointment.

**PwC observation.** Survey after survey shows that investors rely far more on the alternative world of non-GAAP financial reporting for making investment decisions than IFRS financial statements, that investors increasingly are looking for non-financial information about intangible assets that GAAP financial statements aren't capable of providing, and that preparers are fed up with the complexity and cost of preparing financial statements. The pressure's on for a more meaningful, concise, and relevant set of financial statements. It's not surprising that both Boards have decided to respond in a way that addresses these concerns. As you'll see on the following page, this is leading to the IASB considering some rather innovative solutions.

# *The Primary Financial Statements*

***"It's tough to make predictions, especially about the future."***
**– Yogi Berra**

Given our discussion on the previous page, it should come as no surprise that improving the primary financial statements is a major priority for the IASB. Although the Board's chief focus is on the income statement, it's got other objectives as well. These include revisiting principles for aggregation and disaggregation, permitting alternative EPS numbers, making targeted improvements to the statement of cash flow, and renaming other comprehensive income and its constituent elements in the desperate hope that somebody, anybody, will actually pay attention to what's in it.

Exactly how is the Board thinking about improving the income statement? By recasting it to require the presentation of more standardized earnings performance measures. As Hans Hoogervorst, the Chair of the IASB, has so often observed, existing IFRS requires companies to show revenue and net income, but not much else in between. The new measures the Board is considering adding are:

- Income from operations (or some other descriptor). This is a catchall representing the income or loss from all sources excluding income/expense from investments, interest and income taxes;
- Income/expense from investments, including equity income from associates and joint ventures; and
- Earnings before interest and income taxes, i.e., EBIT.

There's more. The Board is even toying with the possibility of requiring or permitting the separate presentation of earnings before unusual or infrequently occurring items and (are you sitting down?) the reporting in the primary statements of entity specific, non-GAAP earnings subtotals that management uses to explain their results (e.g., EBITDA or adjusted EBITDA). The latter might be presented on the face of the income statement when it fits naturally into the flow of the standardized earnings measures the Board is considering, or a separate statement that reconciles the non-GAAP subtotal to EBIT when it doesn't.

**PwC observation.** As communicated by staff, the objective behind the income statement initiatives is to provide more transparent, consistent and comparable reporting of earnings measures among companies and industries, inject more discipline in the reporting of infrequent or unusual items, and to give non-GAAP measures more context and subject them to audit. That's the official version, anyway. The unofficial one is to reassert the primacy of IFRS financial statements and, if possible, mortally wound independent non-GAAP reporting. The Board is considering these options notwithstanding long-standing views that there's no one measure of operating income that's meaningful for all industries (a concern that caused the FASB to back away from launching its own project), that establishing principles for identifying unusual or infrequently occurring items has been tried before and found not to be feasible, and that importing non-GAAP measures into IFRS financial statements will undermine and even sometimes contradict the principles on which IFRS are based. Others are much more supportive about the changes. You can bet that whichever way the Board moves is going to produce a strong reaction from somebody. It's really hard to see how this one is going to shake out.

# *Non-GAAP Reporting*

***"If you can't beat them, beat them."***
**– Anonymous**

Speaking about non-GAAP reporting…

You might remember that this time last year Canadian Securities Administrators and the SEC were up in arms about the liberties companies were taking in reporting non-GAAP measures in earnings calls, press releases, MDA, marketing materials, and the like. How good is the reporting now? That depends very much on which country you're talking about. At a conference last December, SEC staff reported that non-GAAP measures was the topic receiving the highest number of comments in its reviews of company filings in 2017, but that the volume's declining as companies respond and improve their practices. Staff isn't about to declare the war on non-GAAP reporting over or anything, but it's pretty positive that the SEC is winning.

In Canada, attitudes are different. For example, staff of the Ontario Securities Commission observed late last year that non-GAAP reporting continues to be a significant issue. Recurring problems the staff flagged include:

- Non-GAAP measures getting undue prominence in management communications;
- Earnings measures being identified as one thing when in fact they're something else; e.g., labelling something as EBITDA that includes other adjustments;
- A lack of transparency over exactly what adjustments to the GAAP numbers companies are making in coming up with their non-GAAP numbers, and how they're calculated; and
- Misleading or inappropriate reporting (e.g., excluding loan loss provisions from earnings and EPS measures, and defining adjustments as one-time when in fact they happen every year).

Late last year an independent survey of non-GAAP reporting practices of the TSX 60 was published. It found that the percentage of companies reporting non-GAAP earnings in regulatory filings is higher here than in the US, echoed the OSC's perspective that significant problems in non-GAAP reporting continue to exist, and observed that in some cases companies are reporting non-GAAP earnings metrics to investors that are different than those they used in determining senior management compensation. Following the release of that survey, the OSC Chief Accountant announced that Canadian Securities Administrators will be upgrading the authority of their guidance on non-GAAP reporting this spring. Thus rearmed, OSC staff has promised to attack non-GAAP reporting with renewed vigour this year.

**PwC observation.** This is an area that both management and the audit committee should continue to focus on and be prepared to respond to if (or more likely when) comment letters are received from a regulator.

# The Disclosure Initiative

***"I hate sandwiches at New York delis. Too much meat on the sandwich. It's like a cow with a cracker on either side."***

**– Mitch Hedberg**

The IASB's Disclosure Initiative project has an ambitious goal – to address complaints by preparers about disclosure overload, claims by investors that companies don't provide enough relevant information, and charges by regulators that companies aren't sufficiently discriminating in the disclosures they do make. A mighty task indeed.

So far the Board has amended its general presentation requirements to emphasize that disclosure requirements in individual standards aren't really requirements if they're not material. It also issued a Discussion Memorandum proposing principles for providing more effective disclosure (e.g., entity specific and tailored, simple and direct, highlight important matters, not duplicative, optimize comparability and appropriate format). Its most recent initiatives include issuance of:

- An Exposure Draft proposing to simplify, clarify, and standardize the definition of what's material in IFRS. The changes aren't intended to create new concepts or anything, but the new definition does propose to introduce the principle that obscuring material information is as mortal a sin as not disclosing it.
- A non-authoritative Practice Statement, *Making Materiality Judgments*, which provides insight into how companies should go about applying the materiality concept. Importantly, the Statement states that companies should be focusing on the information needs of existing and potential investors, lenders, and other creditors separately. Other financial statement users can go whistle.
- Six case studies of how companies in various industries around the world have improved, simplified and rationalized their disclosures – shining beacons of how it should be done.

"Small changes", emphasizes Hans Hoogervorst, the Chair of the Board, "can make big differences".

Uh, huh.

**PwC observation.** The IASB is hoping that these initiatives will discourage entities from treating IFRS disclosure requirements as a compliance checklist exercise, reduce boilerplate disclosures and redundant information, and help achieve the overarching goal of more effective communication. In short, the objective is to shrink disclosures down to something that both preparers and users can more easily sink their teeth into. The Initiative has had very mixed reactions, especially the proposed Discussion Memorandum for more effective disclosure. Our view, for instance, is that the Board shouldn't be worrying about issues that affect only paper financial statements and that are becoming less relevant in a digital world.

# Expanded Auditor Reporting, including Key Audit Matters

***"You can observe a lot by just watching."***
**– Yogi Berra**

Major changes to the form and content of Canadian auditor's reports are heading your way. Some you may not care much about. One, dealing with key audit matters, you most certainly will.

Key audit matters, KAM for short (though not to be confused with the luncheon meat of the same name) are the most significant matters the auditor discussed with the audit committee. Under KAM reporting, the auditor is obliged to include a summary of those matters in the audit report along with an explanation as to how they were addressed. Receiving this new report thus will be sort of like getting a report card from your kid's teacher that not only tells you whether the kid passed, but includes a section that highlights any major issues. Except that only you get to read your kid's report card. Anyone can read an auditor's report.

KAM reporting is part of a package of reforms designed to conform Canadian auditor's reports to international auditing standards. KAM reporting became inevitable in Canada last fall when the SEC endorsed similar requirements for US public companies issued by the Public Companies Accounting Oversight Board earlier that year. There are some narrow technical differences between the US and the international requirements, including that KAM are called critical audit matters, CAM, in the US. As a general rule, however, those things that are KAM in Canada will be CAM in the US, and vice versa. One possible exception relates to reporting on internal control deficiencies, which isn't part of CAM reporting, but is part of KAM's.

As we write the Canadian Assurance and Auditing Standards Board had yet to finalize the scope and timing of the KAM reporting requirements, but indications are that they'll apply to the 2020 audits of all TSX listed companies, large or small (earlier adoption is possible). However, the Board previously has indicated that it'll be conducting research on whether to extend KAM reporting to companies listed on other Canadian exchanges. In the US, CAM reporting is effective for opinions on the annual financial statements of large accelerated filers for years ending on or after June 30, 2019 and those of smaller ones for years ending on or after December 15, 2020 (there are some exemptions, e.g., emerging growth companies and brokers and dealers).

We mentioned that there are other Canadian auditor reporting reforms as well. These include reordering the report to put the "presents fairly…" opinion first (lest anyone have any trouble finding it), more detailed descriptions of the auditor's duties and responsibilities (including relating to its independence and whether the company is a going concern), and naming the audit partner responsible for the engagement. Another change, relating to the auditor's reporting on other information included in the annual report, may have implications for companies' work flows, as auditors now will have to state in their report whether they have read this information in its final form. In general, the changes apply to all companies regardless of whether they are listed on a Canadian exchange and are effective for audit opinions on financial statements for years ending on or after December 15, 2018 (an exception is naming the audit partner, which applies only to listed companies).

**PwC observation.** A major reason in choosing the expected initial 2020 reporting deadline for KAM reporting in Canada is to allow Canadian companies to benefit from the initial experience in the US, as well as from other jurisdictions such as the UK that have had this reporting for some years. Nevertheless, we encourage audit committees and management not to wait to begin discussions with their auditors about its implications. It can have ripple effects on the financial statements, MDA, and protocols with auditors.

# 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 www.pwc.com/ca/financialreportingrelease.

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# *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.***

### *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

### *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

### *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

### *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

### *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

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