

## IFRS requirements

## How Canadian GAAP differs

### IAS 17 – Leases

#### Lease classification

Under IAS 17, a lease arrangement is classified as a finance lease when substantially all risks and rewards incidental to ownership have been transferred. This general principle is assessed via a series of qualitative indicators.

Canadian GAAP has fewer qualitative indicators but also provides numeric thresholds that are used as bright lines in practice. It is likely that more leases will need to be capitalized under IFRS.

#### Other issues

IAS 17 has a series of requirements, including for:

- the discount rate to be used when determining the present value of minimum lease payments;
- leased items comprising both a land and a building component; and
- sale and leaseback transactions.

The differences between Canadian GAAP and IAS 17 requirements might be significant. The extent of those differences will depend on the specific lease arrangements.

*Suez presents in the notes the following information on its leases:*

- *accounting policy (note 1.4.8 on page 210);*
- *reconciliations and other information related to finance leases (note 22 on pages 289 and 290);*
- *reconciliations and other information related to operating leases (note 23 on pages 291 and 292).*

### IAS 18 – Revenues

IAS 18 provides general guidance; specific requirements on construction contracts are provided in IAS 11.

In general, revenue recognition principles in IFRS are consistent with Canadian GAAP. It may be appropriate to continue using the Canadian interpretation for multiple-element arrangements (EIC 142 — Revenue Arrangements With Multiple Deliverables). In certain circumstances, however, the Canadian interpretation related to delivery of goods (EIC 141 — Revenue Recognition) might be inappropriate; for example, when it is based more on legal considerations than on economic substance.

*Suez presents the following information on its revenues in its notes to the financial statements:*

- *accounting policy (various sources of revenues, including construction contracts; notes 1.4.13 and 1.4.16 on pages 214 to 216);*
- *details of amounts recognized (note 4.1 on page 227).*

### IAS 24 – Related party disclosures

IFRS does not contain specific requirements for the recognition and measurement of related party transactions.

Since IAS 24 addresses only disclosure issues of related party relationships and transactions, one could assume that the general recognition and measurement principles contained in other IFRS standards and interpretations would apply.

Generally, IFRS adoption may not create a change for most Canadian organizations when they record related party transactions at the “exchange amount” as defined in CICA Sec. 3840 — Related Party Transactions, because initial cost, in accordance with the measurement guidance in many IFRS standards, equals the exchange amount. However, significant differences might arise in other situations.

*Suez has two notes on related party transactions:*

- *Note 27 discloses transactions with joint ventures and associates (pages 301 and 302);*
- *Note 28 discloses executive compensation (page 302). Such a note is not required by Canadian GAAP.*