Agenda

Federal tax update – Linda Paredes

Other tax matters – Dan Bilenki

Current economic environment and year-end accounting considerations – Stephanie Pankratz

Understanding Alberta’s climate leadership plan – Sander Jansen

ASC Corporate Finance Disclosure Report – Trevor Hammond

US regulatory update – Petre Kotev

Increasing value in supply chain management and procurement – Mary Hemmingsen & Mark Woods
Federal tax update

Linda Paredes
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Agenda

- Federal tax update
- Combined top marginal tax rates
- Planning opportunities
Federal tax update

Personal tax

• Rate changes effective January 1, 2016
  - Reduction in the federal tax rate for income between $45,283 and $90,563 to 20.5% (from 22%)
  - Increase of 4% in the tax rate for income over $200,000 to 33% (from 29%)
  - As a result of these tax rate changes and the indexation of tax brackets for 2016, the federal tax rates and brackets for 2016 will be as follows:

<table>
<thead>
<tr>
<th>Federal Income Tax Rates and Brackets for 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax rates</strong></td>
</tr>
<tr>
<td>----</td>
</tr>
<tr>
<td>15%</td>
</tr>
<tr>
<td>20.5%</td>
</tr>
<tr>
<td>26%</td>
</tr>
<tr>
<td>29%</td>
</tr>
<tr>
<td>33%</td>
</tr>
</tbody>
</table>
Federal tax update

Personal tax

• Tax-Free Savings Accounts (TFSAs)
  – The annual contribution limit will be reduced to $5,500 per year (from $10,000 per year) starting in 2016.
  – If you have made no contributions to date and you are 25 or older in 2016, you are able to contribute a total of $46,500 before the end of 2016.

• Income splitting
  – The government has announced that it will introduce legislation “at an early opportunity” to repeal income splitting for families with children (but not pension income splitting), starting in 2016.

• Charitable donations
  – The charitable donation tax credit will increase from 29% to 33% for gifts over $200 to the extent that an individual has income that is subject to the new 33% tax rate.
Corporate tax

• Investment income – Effective January 1, 2016
  – Refundable tax on CCPC investment income increased to 10.67% from 6.67%
  – Refundable dividend tax on hand (RDTOH) increased to 30.67% from 26.67% of aggregate investment income
  – Dividend refund rate increased to 38.33% from 33.33%
  – Prorate the tax rates above for straddling year-ends

• Investment income – Effective tax year-ends after 2015
  – Part IV Tax increased to 38.33% from 33.33% for assessable dividends received by corporations after 2015 (not prorated for straddling year-ends)
## Combined top marginal tax rates 2016 vs 2015

### Salary

<table>
<thead>
<tr>
<th>Province</th>
<th>Salary 2016</th>
<th>Salary 2015</th>
<th>Increase*</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Columbia</td>
<td>47.70%</td>
<td>45.80%</td>
<td>1.90%</td>
</tr>
<tr>
<td>Alberta</td>
<td>48.00%</td>
<td>40.25%</td>
<td>7.75%</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>48.00%</td>
<td>44.00%</td>
<td>4.00%</td>
</tr>
<tr>
<td>Manitoba</td>
<td>50.40%</td>
<td>46.40%</td>
<td>4.00%</td>
</tr>
<tr>
<td>Ontario</td>
<td>53.53%</td>
<td>49.53%</td>
<td>4.00%</td>
</tr>
<tr>
<td>Quebec</td>
<td>53.31%</td>
<td>49.97%</td>
<td>3.34%</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>58.75%</td>
<td>54.75%</td>
<td>4.00%</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>54.00%</td>
<td>50.00%</td>
<td>4.00%</td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>51.37%</td>
<td>47.37%</td>
<td>4.00%</td>
</tr>
<tr>
<td>Newfoundland</td>
<td>48.30%</td>
<td>43.30%</td>
<td>5.00%</td>
</tr>
</tbody>
</table>

*Potential tax savings for income accelerated into 2015.*
## Capital gains

<table>
<thead>
<tr>
<th>Province</th>
<th>Capital Gains</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
</tr>
<tr>
<td>British Columbia</td>
<td>23.85%</td>
</tr>
<tr>
<td>Alberta</td>
<td>24.00%</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>24.00%</td>
</tr>
<tr>
<td>Manitoba</td>
<td>25.20%</td>
</tr>
<tr>
<td>Ontario</td>
<td>26.76%</td>
</tr>
<tr>
<td>Quebec</td>
<td>26.65%</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>29.38%</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>27.00%</td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>25.69%</td>
</tr>
<tr>
<td>Newfoundland</td>
<td>24.15%</td>
</tr>
</tbody>
</table>
### Eligible dividends

<table>
<thead>
<tr>
<th>Province</th>
<th>Eligible Dividends</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
</tr>
<tr>
<td>British Columbia</td>
<td>31.30%</td>
</tr>
<tr>
<td>Alberta*</td>
<td>31.71%</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>30.33%</td>
</tr>
<tr>
<td>Manitoba</td>
<td>37.78%</td>
</tr>
<tr>
<td>Ontario</td>
<td>39.34%</td>
</tr>
<tr>
<td>Quebec</td>
<td>39.83%</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>43.79%</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>41.58%</td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>34.22%</td>
</tr>
<tr>
<td>Newfoundland</td>
<td>38.47%</td>
</tr>
</tbody>
</table>

*The 2016 rates do not reflect potential changes Alberta may make to the taxation of eligible dividends for 2016 subject to its review.*
## Combined top marginal tax rates 2016 vs 2015

### Non-eligible dividends

<table>
<thead>
<tr>
<th>Province</th>
<th>Non-eligible Dividends</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
</tr>
<tr>
<td>British Columbia</td>
<td>40.61%</td>
</tr>
<tr>
<td>Alberta</td>
<td>40.24%</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>40.06%</td>
</tr>
<tr>
<td>Manitoba</td>
<td>45.69%</td>
</tr>
<tr>
<td>Ontario</td>
<td>45.30%</td>
</tr>
<tr>
<td>Quebec</td>
<td>44.23%</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>51.75%</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>46.97%</td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>43.87%</td>
</tr>
<tr>
<td>Newfoundland</td>
<td>39.40%</td>
</tr>
</tbody>
</table>
Planning opportunities

Retention of corporate profits

• Advantageous to keep corporate profits within corporation if cash is not needed personally
  – Increase of deferral in 2016 (other than BC and Quebec)

• Reduce shareholder loan balances instead of paying dividends or bonuses

• Repay PUC (paid up capital) to shareholders

• Pay out the CDA (capital dividend account) – tax-free dividend to shareholders
Planning opportunities

Family income splitting

• Family trusts
  – Consider establishing a trust to shift income to family members in lower tax brackets

• Dividends to family members
  – Consider having family members as shareholders and paying dividends to reduce overall family tax bill (watch kiddie tax)

• Salaries out of family businesses to family members
  – Make sure that amounts paid are commensurate with work contributed

• Spousal loans
  – Loan funds at prescribed rate (still at 1%) to lower income spouse (watch attribution rules and pay interest by Jan 30 of each year)
Planning opportunities

Other

• **Re-characterization of income**
  - It is more advantageous to earn business income, rather than property income, through a corporation.

• **Restructuring of corporate group**
  - Amalgamations with LossCo’s

• **Sell assets with capital gains**
  - Take advantage of CDA
Other tax matters

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Latest from CRA on inter-corporate dividends

- **General rule:** Taxable dividends received by one Canadian corporation from another Canadian corporation is not subject to corporate income tax.

- **Purpose:** Prevent taxation of the same income at multiple stages when it is passed through two or more corporations before distribution to individuals.
  - Subs. 112(1) of the Income Tax Act

- **Exceptions:**
  - Part IV tax on private corporations (was 33\(\frac{1}{3}\)%%, now 38\(\frac{1}{3}\)%%) that is fully refundable when the dividend is passed through.
  - A dividend can be taxed as if it were a capital gain in certain circumstances:
    - Where a dividend is used to strip a corporation of value prior to a sale of shares, to reduce or avoid income tax on a capital gain that would otherwise arise.
Background: S. 55 before 2015 legislative changes

Section 55 – before April 21, 2015:

- Holdco receives a taxable dividend deductible under subs. 112(1);

  AND

- The PURPOSE of the dividend is to reduce a capital gain on sale of the shares of any corporation

  AND

- The dividend exceeds available “safe income” – conceptually, taxed retained earnings – Safe Income is “OK” to strip

  AND

- There is a sale of any share to an arm’s length person (“Buyer”) as part of the series of transactions or events

- This rule applies even to a “significant” increase in the interest of an arm’s length party in a target corporation
Background: 2015 amendments to S. 55

• Applies to all dividends received by corporations after April 20, 2015
• Legislative response to *D & D Livestock Ltd. v. R.*
• The changes address that decision, and go further
  – Significant expansion to scope of s. 55
  – Two new broad purpose tests
  – Significant narrowing of non-arm’s length exception
  – Significant narrowing of other exceptions:
    • “Safe income” exception – excepted dividends that can be shown to have been paid out of after-tax retained earnings on hand and attributable to the shares while held
    • Dividends subject to Part IV tax not refunded as part of the series of transactions or events
    • Stock dividends paid with High FMV Low paid-up-capital shares
Background: 2015 amendments to S. 55

Proposed new rules for all dividends received after April 20, 2015:

- Dividend taxed as a capital gain – if any one of the following purposes is met:
  - A significant reduction in a capital gain or if result of a deemed dividend is to reduce capital gain – as before; OR
  - New: A significant reduction in the fair market value of a share, OR
  - New: A significant increase in the cost of properties to the dividend recipient

- Related party exception (para. 55(3)(a)) now limited to only deemed dividends arising on shares redeemed, acquired or cancelled by the corporate payer
  - Eliminates exception for inter-corporate dividends paid within non-arm's length groups

- Part IV Tax exception no longer applies if dividend recipient receives a dividend refund by paying a dividend to any person (including individuals)

- New rules for stock dividends received by corporations
  - Deemed to be greater of fair market value & paid up capital of the new shares
  - Intended to prevent misalignment between share basis and share value

- Safe Income exception – now only where Safe Income contributes to a gain on shares
  - This exception is eliminated if adjusted cost base of shares exceeds FMV
The Latest: CRA comments at the CTF conference

• Canada Revenue Agency on Nov. 24, 2015 comments were of limited clarification
  – The purpose tests and the meaning of “significant” are both “questions of fact”
  – Inviting requests for comments and “rulings”
  – Recommends more frequent computations of “Safe Income”

• Creditor-proofing arrangements:
  – Typically use inter-corporate dividends
  – e.g., a corporate parent receives dividends from subsidiaries and lends the funds back
  – The non-arm’s length exception previously applied

• Dividend could be re-characterized as a capital gain if:
  – There is insufficient Safe Income
  – Even with safe income, the shares on which dividends are paid have a cost > FMV

• Any “lumpy” inter-corporate dividend could be re-characterized
  – Canada Revenue Agency offered limited clarity on so-called “ordinary course dividends”
  – Not all corporate groups have “well established” (internal) dividend policies
  – “Reasonable dividend returns on equity” are not always readily determinable

• CRA could apply the “GAAR” to share redemptions in lieu of dividends
  – For example, creditor-proofing dividends paid with a redemption of shares

• Dividends on preferred shares in loss consolidation plans may still be OK
  – CRA agrees that the “purpose” test has not been met
Employee share option plans

- **Election campaign promise:** Limit the 50% deduction to taxpayers enjoying no more than $100,000 of taxable benefits per annum

- **Details:** Still no legislation
  - Government announced on Nov. 20, 2015 that potential measures on stock options will only take effect once changes are announced
  - Effective date – January 1, 2016, or date of announcement of details?
  - Applies to all benefits if the limit is exceeded, or to only the excess?
  - Grandfathering applies to what?
    - Options exercised
    - Accelerating vesting
    - Implementation of new plans
  - Application to employees of CCPC’s?
  - Allow an employer deduction from income where the 50% deduction is denied?

- **What to do now?**
  - Possibly still able to implement or exercise with grandfathering
  - Impact of significant push-back from the community?
Share option grandfathering might still be possible

Employees could still exercise, or exercise and sell, early

• Prepay tax?
• Employers’ withholding tax applies
• Too late to avoid 2016 personal tax rate increases
• Sell early and forfeit growth or hang on?
• Subsequent capital loss cannot offset taxable benefit from employment

Employers could still accelerate grant and vesting dates, or implement new plans

• Changes to plans triggering taxable benefits?
• Impact on financial reporting?
• Employer deduction?

CCPC employers

• Exercise and sell and accelerate tax?
• Can the shares be sold?
• No withholding tax
Current economic environment and year-end accounting considerations

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Current economic environment and challenges

- **Continued challenges from Q3 2015**
  - Global oil and gas supply/demand uncertainty
  - Low price environment for both oil and gas production
  - Buyers market
  - Limited capital availability
  - Limited transactions

- **Ongoing restructuring activity**
Year-end accounting and disclosure considerations

• **Assessment of indicators of impairment**
  - Consideration of: Impairment triggers identified in Q3

• **ASC Corporate Finance Disclosure Report comments in impairment disclosure**
  - Assessing triggering events and timing of impairments.
  - Impairment disclosures – necessary disclosures around key assumptions
  - No impairment but significant judgments – IAS 1 disclosure requirements likely to be applicable
Year-end accounting and disclosure considerations

• **Going concern assessment**
  - Disclosure of “close call” judgments area of regulator focus

• **Debt**
  - Consideration of classification and related disclosures in cases of covenant default
  - ASC disclosure comments on MD&A disclosure for covenants:
    - **Financial covenants** – consider whether it is necessary to disclose the calculation of the covenant
    - **Non-financial covenants** – milestones or other conditions being met?
    - **Disclosures of breaches** – timeliness and details of disclosure

• **Liquidity**
  - ASC disclosure comments on MD&A disclosure for liquidity and capital resources (consistent with prior year):
    - Steps taken to address this risk
    - Don’t simply repeat what is already in the financial statements
Understanding Alberta’s climate leadership plan

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### Key recommendations of the climate leadership plan

| **Economy wide price on carbon** | • Economy wide increase in carbon price from $15 per tonne today, to $20 per tonne in 2017 and $30 per tonne in 2018 – plus a 2% increase per year thereafter.  
  • Large Final Emitters (facilities with emissions >100,000 tonne/year) will experience an accelerated price increase, reaching $20 in 2016 and $30 in 2017. However, they’ll also receive an “output” subsidy per unit of production.  
    - Smaller, similar facilities have the option to “opt-in” to the Large Final Emitter treatment.  
  • Emissions from on-site combustion by conventional oil & gas producers will be exempt from carbon pricing until 2023.  
  • Emissions from transportation and heating fuels will be priced at the distributor and importer stage. |
|-------------------------------|--------------------------------------------------------------------------------------------------|
| **Phase out coal by 2030**    | • Reduce greenhouse gas emissions from coal-fired electricity to zero by 2030.  
  • Replace 2/3 of retired coal power with renewables (primarily wind) and 1/3 with natural gas. |
| **Cap on oil sands emissions** | • Cap on total emissions from oil sands at 100 megatonnes per year, with provisions for new upgrading / co-generation. |
| **Reducing methane emissions** | • Reduce methane emissions (from venting, flaring, leaks) by 45% by 2025, by:  
    - Imposing regulatory requirements on management of emissions;  
    - Providing incentives to encourage early upgrades / replacement of devices. |
Where will we see the greatest impacts?

<table>
<thead>
<tr>
<th>Category</th>
<th>Impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Final Emitters</td>
<td>• Material increase in carbon price.</td>
</tr>
<tr>
<td></td>
<td>• “Winners” and “losers” depending on carbon performance.</td>
</tr>
<tr>
<td>Facilities with emissions &lt;100,000</td>
<td>• Subject to carbon price (=new).</td>
</tr>
<tr>
<td>(e.g. midsize / smaller oil &amp; gas</td>
<td>• Facilities similar to LFEs may opt-in by aggregating emissions</td>
</tr>
<tr>
<td>production and natural gas</td>
<td>from wells/batteries/gas processing facilities:</td>
</tr>
<tr>
<td>processing facilities)</td>
<td>+ receive “output” subsidies;</td>
</tr>
<tr>
<td></td>
<td>- additional reporting and verification costs.</td>
</tr>
<tr>
<td>Coal generating units</td>
<td>• Material increase in the costs of coal fired power generation.</td>
</tr>
<tr>
<td></td>
<td>• Shortening of lifespans of some coal-fired plants / pressure to retrofit.</td>
</tr>
<tr>
<td>Pipeline companies</td>
<td>• Price on emissions from flaring and venting.</td>
</tr>
<tr>
<td></td>
<td>• Additional measures to drive fugitive emissions down.</td>
</tr>
<tr>
<td>Households</td>
<td>• Increase in fuel prices (e.g. gasoline approx. +6-7 cents per liter;</td>
</tr>
<tr>
<td></td>
<td>natural gas approx. +$1.50 per GJ; electricity prices +2 cents per kWh).</td>
</tr>
<tr>
<td></td>
<td>• Rebates for low and lower-middle income households.</td>
</tr>
</tbody>
</table>
ASC Corporate Finance Disclosure Report

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ASC Corporate Finance Disclosure Report

In December 2015, the ASC released its Corporate Finance Disclosure Report for their year ended November 30, 2015.

Review process is to assess reporting issuer compliance with securities regulations by focusing on whether continuous disclosure documents (financial statements, MD&A, info circs, news releases, AIF’s, BARs, etc…) are compliant with regulatory requirements and to provide direct feedback on how to improve disclosures.

“We have often suggested over the years that the best disclosure is not the longest. Market participants will continue to trust and value the most clear and forthright disclosure.” ASC Director, Corporate Finance

“In our view, on the whole, RIs and their advisors have been extremely responsible and responsive to the evolving landscape and the extraordinary market conditions.” ASC Director, Corporate Finance
Financial statements and related disclosures:

• Impairments

• Goodwill
  – Disclosures about impairment testing for each CGU required when goodwill is significant in comparison to total goodwill

• Credit risk
  – Increased aging and concentration of credit risk from specific counterparties

• Nature of expenditures
  – Additional disclosures when P&L presented by function (e.g. depreciation and employee benefits and others as appropriate)

• Functional currency
  – Significant judgment disclosures
MD&A Disclosure:

• Liquidity and capital resources (consistent with prior year)
• Covenants
• Variation analysis:
  – Completeness of variance analysis
• Quarterly Highlights:
  – Reminder of new venture rules for quarterly highlights rather than full interim MD&A
Other areas:

- Venture amendments
  - Executive compensation
  - Significant Acquisition Threshold – increase from 40% to 100% to file a BAR
  - Audit committee composition – 3 members, majority must be independent

- Prospectuses:
  - Use of proceeds for “general corporate purposes” is not generally sufficient detail

- Reclamation costs

- Forward looking information
  - Requirements for updated disclosures when withdrawing FLI
  - FLI equally important for acquisitions and dispositions

- Promotional disclosure
  - Balanced disclosure about positive and negative matters

- Non-GAAP
What areas of focus can be expected in future reviews?

- Impairment
- Liquidity
- Emerging financing structures
- Impacts of changing government policy – climate policy, royalty regime, others…
- Non-GAAP measures – assessing consistency in portrayal of results
- Timing of disclosures – bad news is difficult to disclose but rarely gets better with time.

“When the markets turn, trustworthy and accurate continuous disclosure, absent of surprise, will be the platform on which RIs can take advantage of capital raising windows in a timely and efficient manner.” ASC Director, Corporate Finance
US regulatory update

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US regulatory update: Agenda

2015 SEC Staff Focus Areas and Financial Reporting Reminders

- **SEC Staff Focus Areas**
  - Non-GAAP financial measures common issues
  - Income tax disclosure
  - Oil and gas price declines

- **PCAOB Focus Area**
  - PCAOB Auditing Standard No. 18, Related parties

- **Financial Reporting Reminders**
  - Changes to Accounting for Discontinued Operations

2016 Financial Reporting Matters considerations

- Changes to the Revenue Standard
- Reminders about New Consolidation Guidance
- New Classification of all Deferred Taxes as Noncurrent
- Simplifying Measurement-period Adjustments

Beyond 2016 – Looking Ahead
US regulatory update: SEC staff focus areas

- **Non-GAAP financial measures common issues:**
  - Unclear labeling of non-GAAP financial measures, their underlying components, and how each adjustment is calculated;
  - Non-GAAP financial measures to smooth earnings or adjust for “non-recurring” items that regularly recur;
  - Non-GAAP financial measures that are more prominent than the corresponding GAAP measures;
  - Accounting terms that do not conform to an accounting definition;
  - Failure to disclose changes in how a non-GAAP financial measure is calculated year-to-year; and,
  - Boilerplate disclosures.
US regulatory update: SEC staff focus areas

Income tax disclosure

• Examples of insufficient disclosures:
  - Insufficient details describing the foreign tax rate differential, especially when many foreign tax jurisdictions are grouped together.
  - Aggregation of individually significant tax transactions or outcomes with recurring transactions in rate reconciliation line items, such as a non-deductible goodwill impairment charge.
  - Unclear linkage between amounts in the qualitative discussion and the information in the rate reconciliation.
  - Use of boilerplate disclosure to describe changes in tax estimates, such as changes in valuation allowances or reinvestment decisions.
  - Unclear description of what is included in Other.

• To remediate these problems:
  - The Staff encourages companies to use a disaggregated, tabular rate reconciliation by country. While this tabular reconciliation is not required, companies may find it useful because the table can describe the tax outcomes that occurred and allow the narrative to provide a qualitative discussion about why the outcomes occurred and how they may change.
Oil and gas price declines – areas of focus due to the continued actual and expected low prices of oil

- Effects on oil and gas reserve estimates for companies that are involved in oil and gas producing activities;
- Potential impairment of assets that are significantly affected by oil and gas price changes;
- Disclosure of potential material uncertainties when a company has concluded it has no impairment, or when reported results may not be indicative of future results;
- Disclosure of significant estimates and assumptions that address the effects that may result from a range of potential outcomes; and
- Boilerplate disclosures that do not address the unique effects on the company.

Companies should also consider disclosing the operational effect of distressed oil prices, including whether lower prices affect a company’s growth plan.
US regulatory update: PCAOB focus area

PCAOB focus area: PCAOB Auditing Standard No. 18, related parties

- Top five takeaways from AS 18 and the related amendments include requirements that auditors:
  - Perform expanded inquiries of management and at the board level;
  - Obtain an understanding of the company’s processes and controls associated with related parties and significant unusual transactions;
  - Test and conclude as to whether related party and significant unusual transactions have been identified completely and have been accounted for and disclosed appropriately by management;
  - Communicate findings to the Audit Committee, including whether the auditor identified any related parties or relationships or transactions with related parties that were not identified and/or disclosed to the auditor by management; and,
  - Obtain additional management representations about the completeness of, and access to, information about related parties.
Changes to accounting for discontinued operations

- The changes to the definition of discontinued operations generally will reduce the number of dispositions that result in presentation as discontinued operations.

- The amended requirements for accounting for discontinued operations effective for 2015 year-ends:
  - Define discontinued operations as disposed components (or components held for sale) that represent a strategic shift that has (or will have) a major effect on operations and financial results;
  - Eliminate the requirement to evaluate continuing involvement with the disposed component to conclude on discontinued operations presentation;
  - Expand the disclosures about discontinued operations; and
  - Introduce new disclosures about disposals of individually significant components that do not qualify as discontinued operations.
US regulatory update: 2016 financial reporting matters considerations

Changes to the revenue standard

• Deferral of effective date – January 1, 2018 for public companies with calendar year-end

• Licenses and performance obligations – FASB expects to issue final standard in early 2016 that would:
  - Clarify the timing of revenue recognition from licenses of intellectual property;
  - Clarify the application of the requirements for sales- and usage-based royalties;
  - Amend the criteria and add examples for determining whether goods or services are performance obligations;
  - Specify that an entity is not required to identify as a performance obligation goods or services that are immaterial in the context of the contract; and
  - Add a policy election that would allow shipping and handling services provided after control of the goods transfers to the customer to be accounted for as a fulfillment activity.

• Principal/Agent considerations – proposed amendments include (final standard 1H of 2016):
  - Clarify that entities must identify the nature of the specified good or service provided to the customer;
  - Clarify that the principal versus agent analysis is based on the control principle of the standard;
  - Re-frame indicators to provide evidence of when an entity controls a specified good or service before it is transferred to the customer; and provide additional examples.
Reminders about new consolidation guidance

• The new guidance is affective January 1, 2016 and includes:
  − Changes how a company evaluates whether limited partnerships (and similar legal entities) are variable interest entities (VIEs);
  − Eliminates the presumption that the general partner of a limited partnership that is not a VIE should consolidate that partnership; and
  − Changes the analysis for determining when fees paid to a decision maker (or service provider) represent a variable interest in a VIE and how interests of related parties affect the primary beneficiary determination.

• Companies generally will need to reconsider and re-document their previous consolidation conclusions because the bases for those conclusions are likely to change, even if the conclusions themselves do not (which also may affect disclosure requirements).
New classification of all deferred taxes as noncurrent

- The FASB recently simplified the presentation of deferred taxes by eliminating the requirement to present current and noncurrent deferred taxes separately. The new standard requires companies to offset all deferred tax assets and liabilities (and valuation allowances) for each tax-paying jurisdiction within each tax-paying component and present the net deferred tax as a single noncurrent amount.

- Companies can elect either prospective or retrospective transition.

- Effective date for public entities with calendar year-end is January 1, 2017.

- Early adoption is permitted in any annual or interim period.
Simplifying measurement-period adjustments

- The FASB recently eliminated the requirement for companies to retrospectively adjust prior-period financial statements for measurement period adjustments.
- Currently, when a company identifies a measurement-period adjustment, it recasts its acquisition accounting as of the acquisition date and revises its prior-period financial information. Under the simplified guidance, measurement period adjustments, including income statement effects, are recognized in the reporting period in which they are determined and prior-period financial information is not revised. The new guidance also requires companies to disclose the effect on each current-period income statement line item that relates to prior periods.
- Effective for public companies with calendar year-ends is January 1, 2016.
- Early adoption is permitted for interim or annual financial statements that have not been previously issued.
Presentation of debt issuance costs

- On adoption of the standard, companies will be required to present debt issuance costs as a reduction from the related debt liability, similar to presentation of debt discounts. Companies will continue to amortize these costs to interest expense using the effective interest method.
US regulatory update: Beyond 2016 – Looking ahead

- Leases
- Definition of a business
- New PCAOB Rules requiring Disclosure of the Engagement Partner and Other Accounting Firms Participating in an Audit
- Future of IFRS for U.S. domestic filers
**US regulatory update: Additional resources**

**Reading publications**

<table>
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<tr>
<th>Financial Reporting Quarterly Outlook: December 2015</th>
<th>Our Quarterly Outlook summarizes these and other accounting and financial reporting developments potentially affecting you in the current period or near term.</th>
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<tr>
<td>Issues In-Depth: December 2015</td>
<td>This edition provides a comprehensive account of the recent developments and initiatives in accounting, auditing, and financial reporting topics discussed at the 2015 AICPA Conference on December 9-11, 2015.</td>
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<tr>
<td>Defining Issues ®: These issues provide observations by KPMG from recently released accounting standards.</td>
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<tr>
<td>• FASB Sets 2019 Effective Date for New Leases Standard</td>
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<td>• FASB Changes Balance Sheet Classification of Deferred Taxes</td>
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<td>• FASB Proposes to Clarify the Definition of a Business</td>
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<td>• SEC May Consider Supplementary Reporting under IFRS in 2016</td>
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<td>• FASB and IASB Reaffirm Amendments to Principal-Agent Guidance in Revenue Standard</td>
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Increasing value in supply chain management and procurement

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Agenda

- Today’s supply chain
- Questions you should be asking
- Realizing latent supply chain value
- Applying structured approaches and enablers
- Organizational alignment and integration
- Challenges across the different industries
- Bringing it together
In today’s exceedingly demanding market supply chain is being used to increase profit and growth.

**Increasing Customer Demand:**
Quickly react to increasing demand for **customization** while balancing **shortened product life cycles**

**Risk Management:**
Optimize the risk allocation of a dynamic and globalized supply chain to drive value

**Increasing value (profit and growth):**
by using supply chain as competitive differentiator

**Globalization:**
Leverage an **expanding supplier network and customer base** to deliver higher margins

**Corporate, Environmental and Social Responsibility:**
Invest in **greener and cleaner supply chain** while meeting expectations for **environmental responsibility and transparency**
Three questions you should be asking to achieve supply chain value

1. Value Seeking and Benefit Tracked:
   - Is your Supply Chain organized to **generate, capture and protect optimal value** by focusing on value/performance outcomes rather than just cost or tactical activities?
   - Is there a consistent **benefits tracking framework that** captures, realizes and reports benefits?

2. Structured Approaches and Tools:
   - Are **category management** and **strategic sourcing** with **competitive sourcing** mandated?
   - Is **Supplier Relationship Management** active with performance managed, including strategic supplier identification, metrics setting and non-performance measurement and follow-up?
   - Does the Procurement function lead or is actively involved in **demand definition and management**?
   - Is **risk management an integrated part** of Supply Chain day-to-day operations, and contract management process? Are contract audits performed on a regular and rigorous basis?
   - Are Procurement processes **automated**? Is there a fully integrated e-Procurement solution?

3. Organization Alignment:
   - Are **key activities linked and organizational stakeholders fully engaged** in the development of Supply Chain strategy, and does this reflect the wider organizational strategy?
   - Is **policy used** as a mechanism **for driving behavioral change** throughout the organization?
Supply chain presents as a significant source of latent value in organizations

Focusing on category management and strategic sourcing allows an organisation to leverage greater value by driving lower prices, securing supply, ensuring quality and limiting risk.

Following post-purchase with contract management and performance tracking ensures that value is sustained in the tail end.

Value obtained from Supply Chain activities

Significant gap between current resource effort versus value

Current Supply Chain resource focus

Supply Chain Lifecycle Activities

- Supply planning
- Business Requirements
- Specifications
- Business Engagement
- Supply Market Analysis
- Supply Market Engagement
- Strategic Sourcing
- Tendering
- Evaluations
- Contract Award
- Purchasing
- Contract Management
- Supplier Performance
- Supplier Improvements
- Materials Management
- Logistics
Applying structured approaches and enablers to supply chain management embeds sustainable value

<table>
<thead>
<tr>
<th>Generate the Value</th>
<th>Capture the Value</th>
<th>Protect the Value</th>
</tr>
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<tbody>
<tr>
<td><strong>Category Management / Strategic Sourcing</strong></td>
<td><strong>Materials Management, Logistics and Warehousing</strong></td>
<td><strong>Contract &amp; Supplier Relationship Management</strong></td>
</tr>
<tr>
<td>Leverage predictive purchasing and capture full efficiencies of scale of purchases</td>
<td>Minimize inventory and logistics costs, while maximizing service levels and preventing inventory stock-outs</td>
<td>Preserve savings and maximize supplier performance</td>
</tr>
<tr>
<td><strong>Savings:</strong> 4% to 20%</td>
<td><strong>Savings:</strong> 9% to 21%</td>
<td><strong>Savings:</strong> 5% to 10%</td>
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<tr>
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<td><strong>Procure-to-Pay (P2P) Excellence</strong></td>
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<td>Right contract/price for each product while avoiding fragmented routing and approvals; and most efficient process to support and pay</td>
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<tr>
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<td><strong>Savings:</strong> 4% to 7%</td>
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**Supply Chain Management Enablers**

**Master Data Management & Supply Chain Analytics**

‘One Source of Truth’ to support planning, forecasting, and other Supply Chain activities

**Savings:** 2% to 5%

**Technology Enablement**

The right systems and tools to support Supply Chain integration and efficiency

**Savings:** 4% to 20%
Key to the approach is organizational alignment and integration

Silo approach to supply chain activities

Disjointed manual silos and systems/tools that don’t talk to each other sub-optimise

Operational procurement includes requisitioning, purchase order, and receiving functions

Integrated approach using Master Data and Technology Enablers

An integrated end-to-end solution allows various business silos and systems/tools to work together and in alignment with your Business Strategy to provide insights that drive additional value

¹ Operational procurement includes requisitioning, purchase order, and receiving functions

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Different industries experience similar challenges across the supply chain

<table>
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<tr>
<th>Supply Chain Lever</th>
<th>Sample Industry Challenges</th>
<th>Solutions</th>
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<tr>
<td><strong>Energy</strong></td>
<td>Local suppliers used to reduce transportation costs, not realizing the cost savings from scale of consolidated purchases</td>
<td><strong>Develop and follow</strong> consistent category strategies with a view of <strong>Total Cost of Ownership</strong></td>
</tr>
</tbody>
</table>
| **Pharmaceuticals**         | Drug shortages lead to counterfeit, lost sales and threatening patient safety                | **Real time** demand and inventory forecasting  
**Optimizing** delivery and routing networks                                             |
| **Financial Services**      | Cost of deploying of cash across the ATM network                                            | **Establishing governance** regarding off contract spend  
**Incentivize / penalize** buyers for non-compliance                                           |
| **Health Care**             | Lack of governance of buyers lead to units using different supplies, causing challenges for nurses | **Ensure appropriate penalties and utilize incentives**  
Engage with contractors **early** to identify and resolve challenges                         |
| **Manufacturing**           | Lack of supplier collaboration for JIT                                                        | **Establish Master Data Management governance and practices** to establish ‘One Source of Truth’ to report on key information accurately and timely |
| **Retail**                  | Unreliability of pre-orders cause supplier frustration and misalignment of goals             |                                                                                               |
| **Master Data Management**  | Need to aggregate customer profiles                                                          |                                                                                               |
Bringing it all together!

Elevating supply chain to be a strategic player within the organization means moving from reactive to proactive, the tactical to the strategic and using supply chain capability as a competitive advantage.

In conclusion, the ABC’s of opportunity to unlock the supply chain value include:

- **Address** sub-optimal Supply Chains to focus on value in sourcing, capturing and protecting value.
- **Bolster** Supply Chain as tougher projects and global environmental challenges demand a more rigorous and innovative approach.
- **Collaborate** across the supply chain both internally and with suppliers.
- **Deploy** Supply Chain technology and data that can improve productivity and drive effective decision.
Thank You

For current and past presentations, go to kpmg.ca/quarterlyupdate
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