

Canadian Accounting Standards

ADOPTING IFRSs: NEXT STEPS — OURS AND YOURS

Progress is definitely on track for the adoption of International Financial Reporting Standards (IFRSs) by Canadian publicly accountable enterprises, starting January 1, 2011.

As with any complicated journey, progress reports and check points are needed. This Bulletin #5 covers the next steps for Canada's Accounting Standards Board (AcSB) and points to the advance planning decisions that publicly accountable enterprises should take. Planning in many cases will be industry-specific.

Boards of directors and senior management will need to monitor their planning — strategic and operational — for the changeover.

Who's affected?

Canadian adoption of IFRSs is directed to publicly accountable enterprises: listed companies and other organizations that are responsible to large or diverse groups of stakeholders. These include financial institutions (listed and non-listed), securities dealers and many co-operative enterprises. As a rule of thumb, if you think your business is publicly accountable, consider that it is.

The AcSB is exploring the benefits of a different strategy for private businesses, in light of their usually limited accountability. However, private companies can adopt IFRSs if they choose to. This may, for example, be useful for private companies that are subsidiaries of listed companies or are considering going public.

The needs of not-for-profit organizations will also be addressed separately.

Our progress to date on IFRSs

Canada's standard-setters have been working with the IASB and its predecessors for many years. The AcSB's strategic plan to adopt IFRSs in Canada was published in 2006.

In March 2007, we issued the updated *Implementation Plan for Incorporating IFRSs into Canadian GAAP*. This includes a chart on the convergence of individual accounting standards.

(Web links to this and other major documents are listed at the end of this *Bulletin*.)

Throughout the transitional period, the AcSB is monitoring, among other things, Canada's progress, IASB activities, acceptance of IFRSs and any difficulties with their implementation in the international community.

An important consideration is the readiness of the Canadian investor and business communities to deal with IFRSs and the resulting changes in capital market communications. We have been in contact with a number of industry associations and groups.

Looking at the position of public companies as a whole, we will also assess the preparedness of professional disciplinary and inspection systems, education programs, and market regulation. The AcSB has been consulting with the Canadian Securities Administrators and other regulators.

The Accounting Standards Oversight Council, an independent body responsible for seeing that the AcSB's work serves the public interest, will be an integral part of the process. The Council has already invited enterprises to present the challenges they anticipate during the transition period and the factors that the AcSB should be monitoring to gauge Canada's state of readiness. Further information is available on the Council's website.

We will issue a report on these activities early in 2008, which will indicate if it is necessary to fine-tune Canada's strategy and timing.

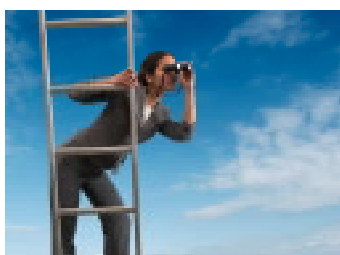
You are asked to check our web site as information becomes available and to give us, and others, your insights.

The destination: Full adoption of IFRSs

Subject to the progress review, we anticipate at this point that Canadian GAAP will be the same as IFRSs for years beginning on or after January 1, 2011.

There are a number of reasons for across-the-board adoption.

- IFRSs will reduce the cost of and enhance the access to capital. This is particularly important for Canada. Many countries worldwide have now adopted IFRSs, and the large emerging economies of China and India, as well as Japan, have signalled very clearly that they are on track to do so. In the US, the Securities and Exchange Commission has issued a proposed rule change to accept filings from foreign issuers that comply fully with IFRSs, without the need for reconciliation to US GAAP, and is even considering the possibility of allowing US companies to choose to adopt IFRSs.
- It will be more efficient for preparers, regulators, auditors and users if they do not have to cross-check for variations that a standard-setter might want to incorporate into IFRSs. Indeed, the experience of some countries that have already adopted IFRSs but incorporated their own minor differences, indicates that the results were not worth the expense and trouble.
- IFRSs offer considerable relief on first-time adoption of IFRSs, provided those entities comply with the entire body of standards.



Making your own progress checklist

Plan early and check the plan often.

What will affect you?

The *Implementation Plan for Incorporating IFRSs into Canadian GAAP*, referred to earlier, is an excellent place to start.

An aid—and a challenge—for many will be the Omnibus Exposure Draft, expected to be issued in the first half of 2008 as a step in incorporating IFRSs into the Canadian *Handbook*. We emphasize that this will be a very large document. The bulk of it is technical standards. To make it manageable, we recommend that you use it selectively and zero in on the proposed changes that will have the greatest impact on your particular operations.

The changes will not necessarily be dramatic. However, as we have said before, the devil is in the details.

The transition will be, to an extent, phased. Leading up to 2011, the AcSB is preparing to make a very few changes to current Canadian GAAP to minimize differences from globally accepted standards. These include treatment of inventories, business combinations, and possibly joint ventures. IFRSs will continue to be a living body of work and some standards will still be under development at the end of 2010. These include leases, revenue and employee benefits. Some IFRSs, such as those for impairments and securitizations, will be very different from current Canadian requirements.

Make your choices and assess the impact

IFRSs will provide accounting choices that differ from those in Canadian GAAP. These will require your judgment calls. So your organization needs to:

- identify which IFRSs it will be subject to,

- assess what choices are available within those standards,
- determine the effect of those choices on your financial statements, and
- establish what new or different data will be required.

You may find that your debt covenants or bonus calculations are affected by which options you choose.

Boards and management will need to make both strategic and technical decisions that will serve the users of their financial information in the long term. They should ensure that the enterprise has the technical analysis to back up the judgment calls and their outcomes. The AcSB and other organizations are making technical resources available.

Short-term fixes will not serve and will very likely put excessive strain on financial reporting systems. Your organization needs to plan far enough ahead to ensure necessary system changes are embedded when they are needed. Leaving system changes for later and, say, relying on temporary spreadsheets may throw up difficulties in signing off on your internal controls.

Those responsible for overall financial reporting should ask for reports and checklists on company-specific issues, readiness and progress on a regular basis.

Communications with investors

Management, through its own communications and investor relations, should help users understand an enterprise's particular adoption of IFRSs and the results. More narrative disclosure may be helpful.

For competitive and strategic reasons, boards should vet and perhaps help shape this information. There needs to be a consistent approach to the message from the senior group, now and up to the 2011 reports.

For more information:

Accounting Standards in Canada: New Directions (www.acsb.org/index.cfm/ci_id/30520/la_id/1.htm)
Implementation Plan for Incorporating IFRSs into Canadian GAAP:
(www.cica.ca/index.cfm/ci_id/32735/la_id/1.htm)

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Further *Bulletins* in this series are available at www.acsbcanada.org/index.cfm/ci_id/33030/la_id/1.htm.