



IFRS in Canada Are we ready?

25 April 2008

Today's objectives

- ▶ Examine the state of readiness in Canada.
- ▶ Explore the road to readiness.
- ▶ Get your feedback on where you are now in the process.

IFRS readiness in Canada

**Survey says:
We're not quite there yet.**

CFERF survey methodology

- ▶ 510 financial executives surveyed online across Canada before AcSB confirmation
- ▶ Executive Research Forum in Toronto, 15 February, for qualitative input
- ▶ Results compiled and analyzed based on:
 - ▶ Industry classification
 - ▶ Industry size based on revenue
 - ▶ Public or private enterprises

Highlights

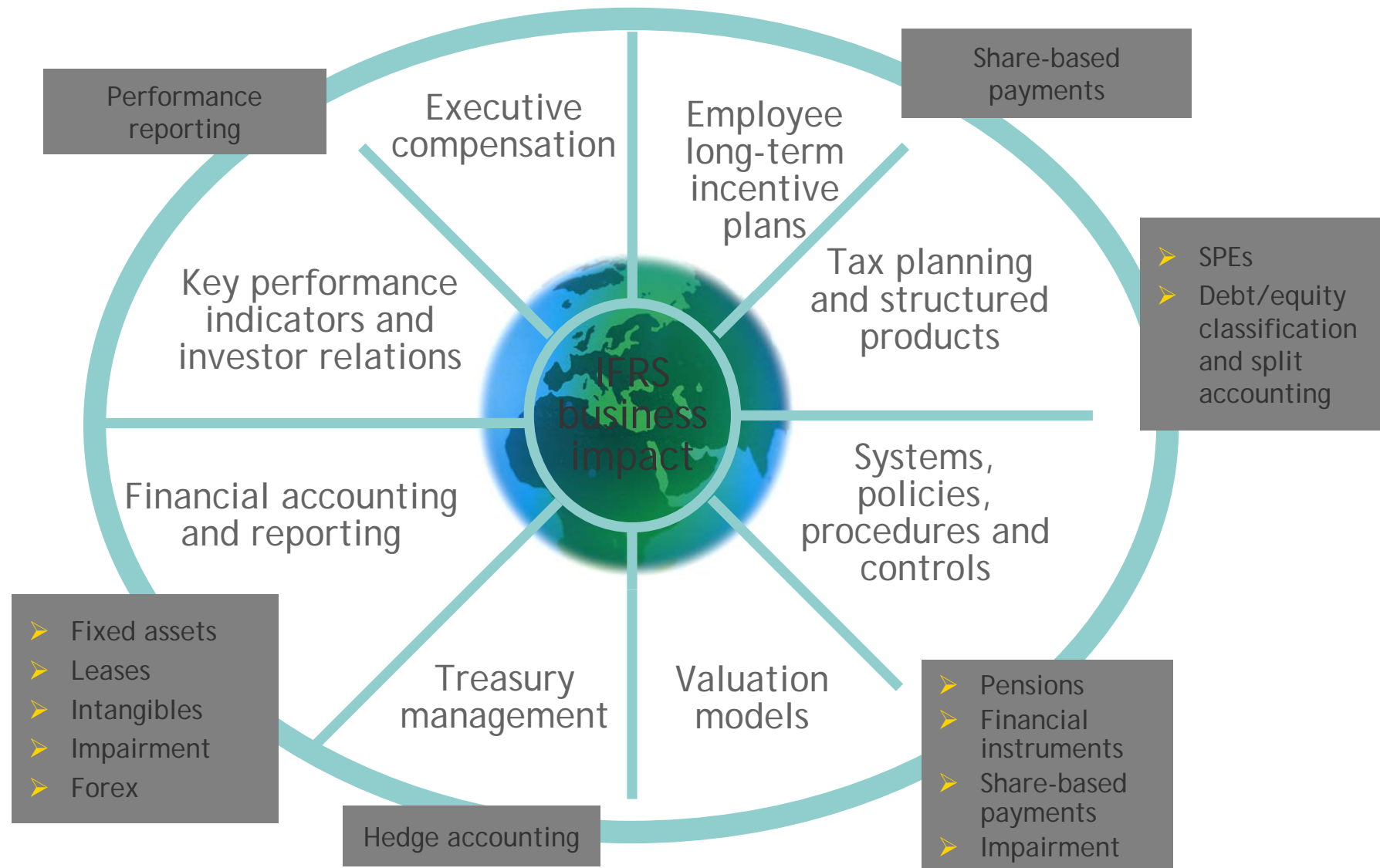
Level of progress

- ▶ Half of all companies polled say they've started to evaluate the impact of IFRS.
- ▶ Of those thinking about conversion: 50% plan to do impact assessment in house, 26% with internal audit, 15.7% with external auditor.

Impacts to functional areas

- ▶ 40% unaware of IT systems implications
- ▶ 33.3% unaware or somewhat aware of potential impact on compensation, IT, treasury management, tax, investor relations
- ▶ 43.3% believe revenue recognition will not be significantly affected
- ▶ 45% unaware of potential impact on unrecognized assets
- ▶ 50% don't know impact on pensions and benefits liabilities
- ▶ 72% don't know if current systems can run parallel sets of books in 2010

NOT just a technical accounting exercise



Conversion team and dedicated resources

- ▶ 72.9% don't have dedicated team in place.
- ▶ 57.1% don't believe their staff is prepared to conduct implementation.

Scope and complexity should not be underestimated...

- ▶ **Training** – learning IFRS
- ▶ Technical **accounting changes** – adoption and convergence to IFRS
- ▶ Updating **accounting policy procedures and manuals**
- ▶ Updating **training** for personnel
- ▶ Modifications to **internal controls** and impact on 52-109 certifications
- ▶ Changes to **internal audit plans**
- ▶ **System changes** for capturing and reporting data
- ▶ **Management reporting** updates
- ▶ **Audit support** – accounting records support application of IFRS
- ▶ **Communication** to capital markets

Audit committee involvement

- ▶ About 50% yet to brief audit committee on key impacts
- ▶ 59.8% say conversion is not a standing item on audit committee agenda

20 Questions

Directors and Audit Committees Should Ask about
IFRS Conversions

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Broad accounting issues

Canadian GAAP and IFRS comparison – overview

- ▶ 43 standards have slight differences. ^{1,2}
- ▶ 38 remaining standards have more than slight differences. ^{1,2}
 - ▶ Differential reporting
 - ▶ Measurement uncertainty
 - ▶ Current assets and liabilities
 - ▶ Business combinations
 - ▶ Consolidated financial statements
 - ▶ Comprehensive revaluations
 - ▶ Foreign currency translation
 - ▶ Segment disclosures
 - ▶ Unincorporated businesses
 - ▶ Impaired loans
 - ▶ Inventories
 - ▶ Investments
 - ▶ Impairment tests for PP&E
 - ▶ Goodwill and intangibles
 - ▶ Impairment tests for long-lived assets
 - ▶ Asset retirement obligations
 - ▶ Revenues
 - ▶ Employee future benefits
 - ▶ Income taxes
 - ▶ Extraordinary items
 - ▶ Government assistance
 - ▶ Non-monetary transactions
 - ▶ Interest capitalized
 - ▶ Financial instruments
 - ▶ Stock-based compensation
 - ▶ Life insurance enterprises
 - ▶ Property and casualty companies
 - ▶ Development stage enterprises
 - ▶ Transfers of receivables
 - ▶ Disclosure of guarantees
 - ▶ VIEs
 - ▶ New adoption issues
 - ▶ Agriculture enterprises

Can a slight difference lead to a material difference?

¹ Certain IFRS will be converged to CDN GAAP prior to 2011.
Certain IFRS may remain un-adopted as at 2011.

² Based on AcSB comparison of Canadian and IFRS as at March 2006.

Survey – key accounting differences identified

- ▶ Impact on tax
- ▶ Determining opening balance sheet
- ▶ Componentization/asset valuations
- ▶ Fair value
- ▶ Impact of restating historical information
- ▶ Alignment with foreign parents

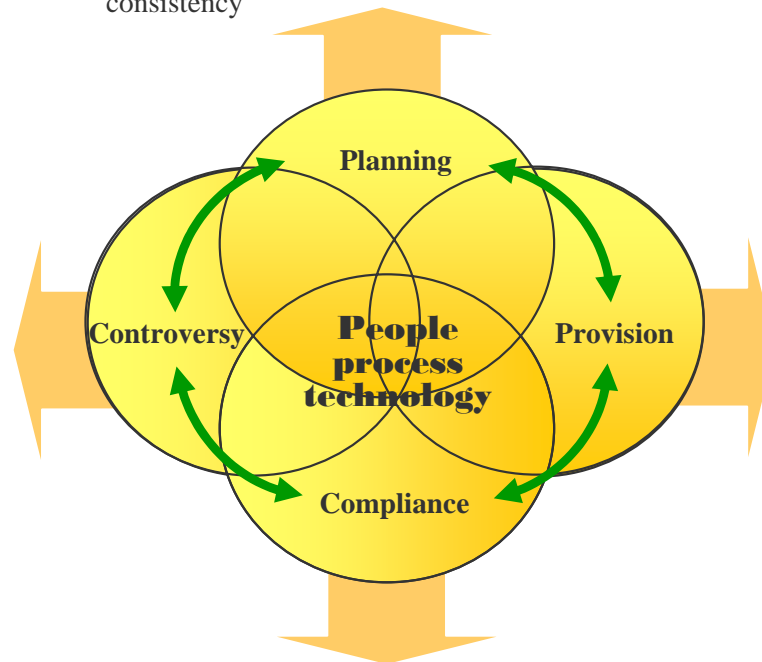
IFRS – tax implications of change

- ▶ **IFRS accounting standards will change accounting income and the balance sheet**
 - ▶ Will change deferred tax provision and balances
 - ▶ May change current tax provision
- ▶ **IAS 12 standards are different than CICA 3465 and SFAS 109**
 - ▶ Accounting for income tax – deferred taxes
 - ▶ Business combinations
 - ▶ Other non-routine related adjustments to deferred taxes
- ▶ **Impact of the adoption adjustment on the determination of corporate tax**
 - ▶ Retroactive adoption with comparative financial statements
 - ▶ Adoption adjustment considerations in filing tax returns
 - ▶ Tax effecting the adoption adjustments to retained earnings and comparative i/s
 - ▶ Creation of new temporary differences as a result of balance sheet changes
 - ▶ Re-computation of business combinations
- ▶ **Accounting for “tax uncertainties” will be on a different measurement basis**
- ▶ **Increased note disclosure and reconciliation**
- ▶ **Tax data information system implications of getting the right information**

IFRS – impact on the tax lifecycle

- ❑ Consider tax opportunities, drawbacks and alternatives in connection with transitional environment
- ❑ Evaluate existing and potential future tax-planning solutions
- ❑ Monitor financial communication and identify need for consistency

- ❑ Evaluate effect of adoption on current tax positions
- ❑ Identify specific actions necessary with respect to the tax authorities (e.g., to validate new tax treatment and similar tax related issues)



- ❑ Determine tax accounting adjustments in opening IFRS group and local balance sheets
- ❑ Evaluate IFRS group accounting policy in relation to potential tax impacts, on a country-by-country basis
- ❑ Monitor processes and controls for preparing tax provision and managing tax risk

- ❑ Utilize IFRS data to feed tax reporting, tax returns and other tax compliance requirements
- ❑ Identify and implement changes required to process, systems, and data gathering for tax reporting packages and tax returns preparation

What about tax? Errors to avoid.

- ▶ Not including tax in sufficient detail in diagnostic phase
- ▶ Insufficient resources and budget
- ▶ Insufficient lead time for managing change to tax processes
- ▶ Tax close failure and errors because of poor communication
- ▶ Focusing only on the financial reporting changes for tax and ignoring the underlying tax processes changes
- ▶ Ad hoc tax reviews in the post-implementation phase

Highlights by industry

Extractive – broad concerns

- ▶ Property, plant and equipment
- ▶ Lack of certainty with current IFRS guidance

By the numbers:

- ▶ 60.6% have started impact assessment
- ▶ Only 13.6% had dedicated project team
- ▶ 50% with revenues over 15 billion expect significant impact on revenues
- ▶ 50% expect significant impact on valuing recognized assets

Utility – broad concerns

- ▶ Property, plant and equipment
- ▶ Assets and liabilities

By the numbers:

- ▶ 90% have started impact assessment
- ▶ About 50% have project team in place
- ▶ 44.1% expect significant impact on revenue recognition
- ▶ 76.5% aware of potential impact on unrecognized assets

Financial services – broad concerns

- ▶ Lack of stable platform for valuing insurance contracts
- ▶ Securitization

By the numbers:

- ▶ 62.8% have started impact assessment
- ▶ 35% have project team in place
- ▶ 31.6% expect significant impact on revenue recognition
- ▶ About 40% aware of potential impact on unrecognized assets

Manufacturing, retail or distribution

- ▶ Least informed about IFRS
 - ▶ Accounting impacts
 - ▶ Impacts to functional areas

By the numbers:

- ▶ Survey results not meaningful

It's all about the plan

You need a well-defined process.
An ad hoc approach won't cut it.

Do not procrastinate any longer

- ▶ Less than three years left
- ▶ Far more complex and time consuming than they first appear
- ▶ Adoption of some major standards is imminent and more are planned each year right up to transition date
- ▶ Experience shows tendency to underestimate time and effort involved in conversion

Keys to success

- ▶ Complete a thorough diagnostic impact assessment
- ▶ Set up a program/project
- ▶ Build a core group of dedicated individuals (the best)
- ▶ Identify system impacts as early as possible
- ▶ Start an awareness program with the various stakeholders early in the process
- ▶ Organizational and accounting standards expertise amount to a sound combination

Questions?