



Canada's Move to IFRS — *How are you affected?*

FEI Winnipeg Chapter

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Agenda

- 1. Accounting standards for private business**
- 2. Recent developments in Canada's move to IFRS**
- 3. How are you progressing in your conversion plan?**



Accounting Standards for Private Business

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Private Business in Canada

- **2.2 million private businesses**
- **CICA estimates that 85% of private businesses do not require general purpose financial statements**
- **There is currently no accounting model other than generally accepted accounting principles (GAAP) for these businesses**



Accounting Standards Today

- **Both public and private companies follow GAAP when preparing general purpose financial statements**
- **With unanimous shareholder consent, private companies can elect differential reporting options to simplify the preparation of their financial statements**
- **Private businesses that do not require general purpose financial statements often elect to prepare their financial statements on a Notice to Reader basis which allows departures from GAAP at the preparer's option**



Standards in Evolution

- **Publicly accountable enterprises will be required to adopt International Financial Reporting Standards by 2011**
- **Both International and Canadian accounting standard setters are considering a simplified version of IFRS for private companies**
 - the timeline for development and deployment is uncertain
 - such a model could parallel full IFRS
- **Canadian AcSB 2007 Invitation to Comment had proposed three options for private companies:**
 - IFRS with differential reporting options
 - IFRS – SME
 - Made in Canada solution
- **Canadian AcSB is closely monitoring development of IFRS for SME's**

A Unique Canadian Accounting Initiative for Private Companies

- **Meanwhile...the CICA released a white paper proposing an accounting Framework for Owner Managed Enterprises (FOME)**
 - a non-GAAP framework where general purpose financial statements are not required
- **FOME is a simplified financial reporting model based on existing Canadian GAAP**

Framework for Owner Managed Enterprises (FOME)

- **Still a “comprehensive” framework**
- **No requirement to consolidate subsidiaries; consolidation is an option**
- **Very few requirements to use fair value measures; stand-alone derivatives would be accounted for at fair value**
- **Traditional historic cost accounting bases are maintained**
- **Significantly modified or reduced financial statement disclosure requirements**
- **Simplified accounting for employee future benefit plans and stock-based compensation**



Stay Tuned!

- **CICA and AcSB have analyzed the responses to both the white paper and the Invitation to Comment:**
 - Considerable support for the need for simplified GAAP for private enterprises
 - Desire to avoid multiple GAAP solutions for various sectors of non publicly accountable enterprises.
- **AcSB has decided to discuss a possible simplified form of GAAP for all non-publicly accountable enterprises**
- **AcSB has indicated it will consider the comments received on FOME as part of this process**
- **AcSB is separately planning to release an Invitation to Comment on accounting framework for not-for-profit enterprises**



Stay Tuned!

- **CICA believes the ideal solution is an approach that allows for two reporting models**
 - IFRS for PAE'S
 - A comprehensive and self-contained simplified framework for all non publicly accountable entities, potentially including not-for-profits.
- **The NPAE model, while likely initially based on existing Canadian GAAP, is expected to evolve to something similar to IFRS-SMEs**

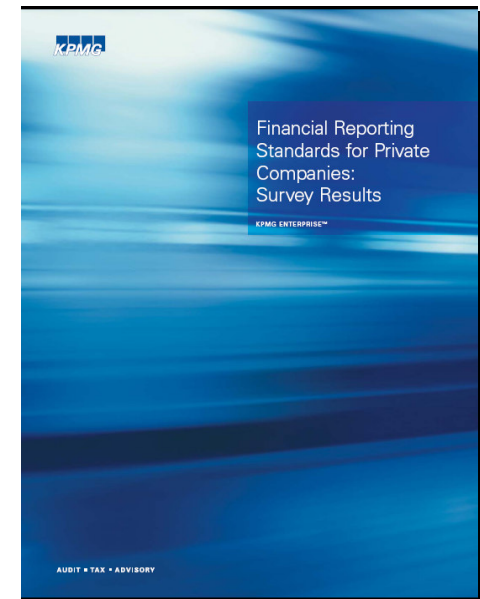


What You Should Do

- **Talk to the users of your financial statements about their information needs and ask if a simplified model would suffice**
- **Start planning for the implications a new accounting model will have on your business:**
 - Compliance with debt covenants
 - Employee bonus or profit sharing plans, etc.
- **IFRS based model – 2 general themes:**
 - Potential for additional volatility
 - Increased disclosures

KPMG's Invitation to the Marketplace to Comment

- **KPMG distributed a national online survey to seek input on accounting standards for private business**
- **Over 150 responses were received from private business leaders**
- **Responses helped to shape KPMG's formal response to the AcSB**





Clearing the Path to IFRS in 2011 – *Recent developments*

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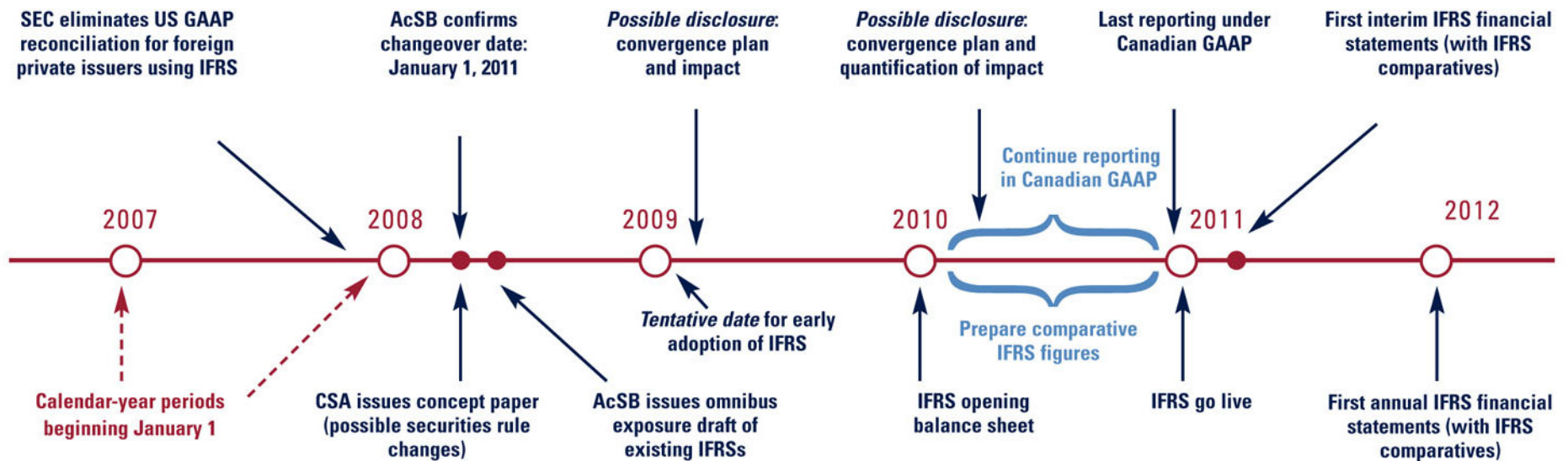


Will You Be Adopting IFRS?

- **All “profit-oriented” enterprises that have issued debt or equity to the public**
- **Certain other publicly accountable enterprises that hold assets in a fiduciary capacity for large or diverse groups of users**
- **Includes government business enterprises and business-type organizations**
- **Pension Plans will continue to follow HB 4100 for now**

Gaining Momentum

Timeline for Canada's adoption of IFRS





CSA Developments

- **Concept release tentatively concluding early adoption as early as Jan 1, 2009 will be permitted**
- **Discussions with AcSB regarding disclosures of transition plans in 2008 and 2009 annual filings**
 - Encourages companies to move on transition plans
 - Assist F/S users in preparing for coming changes



US Developments

- **In late 2007, the SEC decided to accept IFRS financial statements from foreign private issuers without reconciliation to US GAAP.**
- **In December 2007, the SEC held roundtable discussions on the use of IFRS for US domestic companies**
 - SEC asked by participants to establish a timetable for adoption by US public companies.



Canada's Phased Transition

- **Omnibus exposure draft released recently**
 - See the CICA's "Reader's Guide"
- **Prioritize those standards that are converging early**
 - Inventories
 - Financial instruments disclosures
 - Intangible assets
- **Develop a process to monitor IASB and IFRIC activities, some standards are changing before 2011**



Adopting Early?

- **The IASB has a full work program, many changes may occur prior to 2011**
- **Consider potential amendments to transitional requirements under IFRS 1 (first-time adoption standard)**



How Are You Progressing in Your IFRS Conversion Plan?

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Preparing for IFRS

Firms that failed to prepare were caught off guard by the magnitude of the change required. “They were the companies that the auditors had to drag kicking and screaming to the finish line”

Nicola Davis, IFRS Partner, KPMG Australia

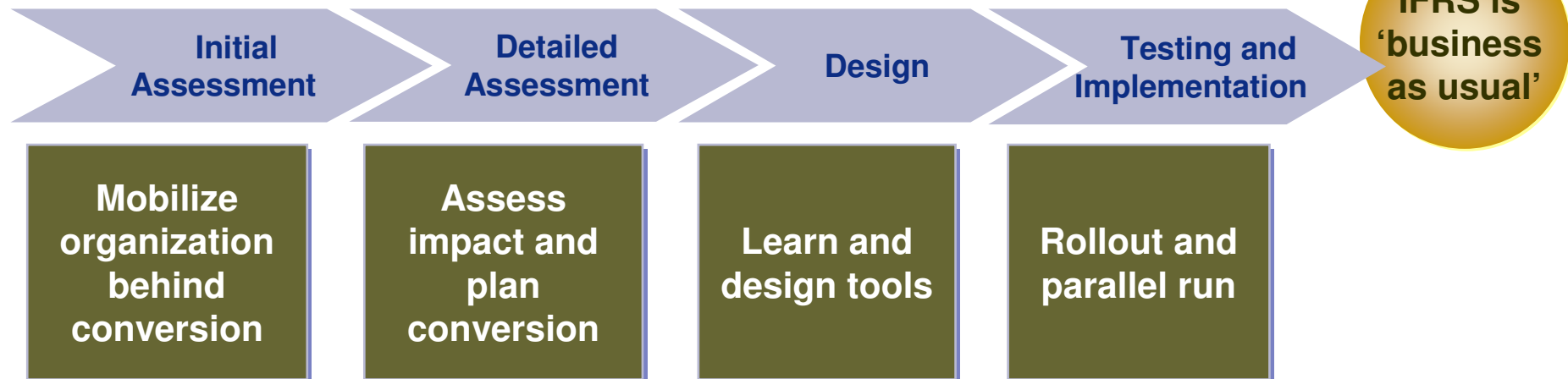
Globe and Mail, April 14, 2008

The Breadth and Complexity of IFRS Conversion...



Conversion Project in Phases

The Phased Approach – with clear timelines for key project activities





IT and System Issues

- **Changing your primary basis of accounting – major implications for your reporting and consolidation systems.**
- **Confirm early that your IT systems collect all information required under IFRS**
- **Be cognizant of the impact manual work-arounds will have on controls and ICFR compliance**
- **Integration with other projects**

IT and System Issues

- **Is the conversion to IFRS an opportunity to radically over-haul your end to end reporting process?**
- **Are financial reporting and feeder systems able to**
 - accommodate the transition to IFRS, including possible parallel run
 - handle changes required to accounting information
- **Need enhancement or overhaul?**
 - Does the fixed asset system capture the necessary information?
 - What is the impact on the consolidation spreadsheets?
- **Ensure the IFRS project is on the radar when the system spend budgets are established**

Multiple legacy systems can create challenges for conversion as reporting entities learn to convert from local GAAP to IFRS



How Much Work Will This Be?

- **Extent of GAAP differences**
- **Complexity and size of company**
- **Degree of standardization – IT systems and business processes**
- **Adaptability of IT systems and extent of change needed**
- **Impact on compensation programs/other contractual terms**
- **Extent of knowledgeable internal resources**
- **The European experience**



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