CFERF Executive Research Report sponsored by
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IFRS Readiness in Canada: 2009

Survey Highlights

Please find attached the highlights of our *IFRS Readiness in Canada 2009 Executive Research Report*, prepared by the Canadian Financial Executives Research Foundation (CFERF).

With the deadline for Canadian companies' transition to International Financial Reporting Standards (IFRS) looming on the horizon I am pleased to provide you with a new survey, sponsored by PricewaterhouseCoopers that shows that the state of readiness for the transition varies widely. Some companies have barely started, while others—many of the large, established public companies—are well on their way to meeting the 2011 deadline.

Many challenges exist for both public companies and those private companies that are choosing to convert, not least of which is the current economic climate. However, while we noted in the research that the vast majority of companies didn't blame the conversion delay on the economy, many did note they were putting off the work to defer costs.

Further, with cost constraints on their minds, many companies have opted to hire very limited resources to help with the conversion, putting more and more pressure on existing staff to work on the conversion in addition to their day-to-day responsibilities. This includes not only figuring out the complex conversion issues for finance but the conversion team must broaden to comprise of IT, HR, investor relations, the front line businesses, internal audit, legal, treasury and risk. All these stakeholders will be affected by the decisions you make.

Now is not the time to delay. With Canada moving to a January 1, 2011 deadline for conversion—a date recently reaffirmed by the Accounting Standards Board—companies must continue to vigorously examine all parts of the extent of the work to be done and work towards a smooth transition with all parts of the business, advisors and the business community.

The results of the survey are summarized here for your review. This is a preview of data results soon to be widely released. The full report will be published this summer and we look forward to sharing it with you.

Regards,

Diane

Diane Kazarian
National IFRS Leader
PricewaterhouseCoopers LLP

R. Dzinkowski

Ramona Dzinkowski
Executive Director
Canadian Financial Executives Research Foundation (CFERF)

cferf
canadian financial executives
research foundation
fondation de recherche des dirigeants financiers du canada

PricewaterhouseCoopers

The deadline for the switch to IFRS for publicly accountable enterprises in Canada is January 1, 2011. This *IFRS Readiness – Executive Research Report*—prepared by the Canadian Financial Executives Research Foundation (CFERF) and sponsored by PricewaterhouseCoopers—attempts, through a wide range of questions, to determine how prepared Canadian companies are for IFRS transition.

The report encompasses the results of a survey of senior financial executives from both public and private companies across Canada, which took place over a period of two weeks, from March 30 to April 14, 2009. All 256 organizations included in the study, whether public, private, government or other organizations, intended to adopt IFRS. Of the 256 respondents, 147 were publicly-accountable enterprises. Fifty-one respondents were private companies and 28 were Crown corporations. The remaining 30 were comprised of not-for-profit, government or other types of organizations.

Highlights of the survey include:

- **Getting started:** Despite the fast-approaching conversion deadline, more than 12% of the 147 public companies surveyed had not yet taken the first step of starting their initial diagnostic assessments. Furthermore, roughly one in five private companies that intend to convert to IFRS stated they had also not yet started. (Private companies are not required to adopt the new standards and may adopt after January 1, 2011). Several reasons for their delay were provided, with about 41% of public companies and 54% of private companies stating they had other higher priorities. Some cited a limited difference between Canadian GAAP and IFRS, some were deferring conversion costs, and some cited a perceived possible delay of IFRS by standard setters. It should be noted that nine of the companies that had not yet started their initial diagnostic evaluation were from the mining, oil and gas industries, representing roughly one in five companies surveyed from those sectors. Of those nine, five cited "other higher priorities" as the reason for not having started yet. Meanwhile given the nature of their business it is the mining and oil and gas companies that will face some of the most complex conversions. (Some issues these kinds of companies will be grappling with include: the valuation of mineral properties in business combinations; and commodity price hedging programs; impairment of assets and specific standards such as IAS 16, 36 and 37.)
- **Completing step one:** Public companies were ahead of their private peers in this area. Although 88% of public companies and 78% of private companies had begun the diagnostic process, relatively more public companies had completed the process. Roughly 76% of public companies versus 53% of private companies had completed an initial analysis of the differences between GAAP and IFRS. With few exceptions, the more revenue the company generated, the more likely a company was to have completed its initial assessment.
- **Status of conversion project:** About 80% of public companies remain short of the half way mark in their overall conversion process. Of the 147 public companies, roughly four in 10 were 0-20% complete, and about the same proportion were 20-40% complete. A further 13% were 40-60% complete, 5% were 60-80% complete and one company was 80-100% complete. Again, private companies surveyed were lagging somewhat behind public companies, with 51% of them only 0-20% complete. One-third, or 33% of private companies were 20-40% complete, and 4% were 40-60% done. Only four were 60-80% done and none were nearing completion at 80-100%.
- **The team:** The most commonly reported conversion team size was the equivalent of one or two full-time staff. Slightly more than half of public companies (54%) surveyed reported having a team of this size. A further 19% had a team of three to five, and 8% had a team of six to 10. Private companies were more likely to have smaller teams, with two-thirds of private companies reporting teams of one or two FTE, and 14% reported teams of three to five. Roughly one-quarter of all respondents – about 60 public and private organizations – said their transition team consisted of three to five FTEs. Of these, 24 had $1-4.9 billion in revenue and 15 had revenue of $50-$249 million. Fourteen of the 15 companies with an IFRS team of six to ten had revenues of $1 billion or more. However, there was one company with a team of this size that reported revenue of less than $49 million.
- **The players:** The majority of the time, the CFO is leading the IFRS conversion (43%), while nearly one-quarter (24%) of companies had put the corporate controller in charge. The CFO was less likely to be heading up the conversion project at a public company (41%) than at a private organization (49%) or Crown corporation (46%).
- **The advisors:** Just over 69% are seeking or are planning to obtain their auditor's help with the IFRS conversion. The remainder are looking to or are using a third party provider which would include other auditing firms, specialty consultants and others.
- **The budgets:** 35 of the 256 companies intending to adopt IFRS stated they didn't know what their overall conversion budget would be. Most companies expected the budget to be under $500,000, with nearly 40% of the 256 companies surveyed planning for a budget under $100,000. A further 27% were planning to spend between $100,000 and $500,000. A much smaller proportion (37 companies) had

budgeted $1 million to $5 million. Five companies reported their IFRS budget was more than $5 million. The higher an organization's revenues, the more money it was likely to budget for the conversion. For example, 80% of companies with revenues of less than $49 million had budgeted under $100,000. In comparison, 86% of companies with revenue of $10 billion to $14.9 billion had budgeted between $1 million and $5 million for the conversion. Public companies were more likely to have a higher budget than private companies: 79% of private companies had budgeted less than $500,000, compared to 63% of public companies. Notably, nearly one-fifth (18%) of public companies were spending $1-5 million, and 3% were spending more than $5 million, while no private companies had budgets in either category, and only 2% of private companies were spending $500,000 to $1 million.

- **The delays:** Public companies were more likely to report a delay than private companies – 16% of public companies reported a delay of less than three months, compared to 10% of private companies; 8% of public companies said they were delayed three to six months, compared to 6% of private companies; and 7% of public companies reported delays of more than six months, compared to 4% of private companies. In particular, companies noted they were pre-occupied with year-end filing and other time-sensitive duties. Companies in the higher revenue categories were more likely to say the current economic downturn had no impact on the conversion timetable than companies with lower revenues. For instance, all 12 companies (100%) with revenues between $10 billion and $20 billion said the downturn had not affected their conversion schedule at all. In terms of sectors, the major Canadian industries affected by the current downturn—financial services, mining/oil and gas and manufacturing—were more likely to report delays as a direct result of the recession than other businesses. Some companies reported the conversion is causing a strain on time and resources, with one company noting in particular the challenge was exacerbated by the recession. Another stated: "This comes at a very bad time as we have many other challenges." A major concern was the lack of resources, when other priorities are perceived as being more pressing.
- **Disclosure:** More than half of public companies (58%) reported they expected to be able to make at least a qualitative assessment of the impact in their 2009 financial statements, while 29.4% of private companies said they expected to be able to do this. On the other hand, while only one-quarter of public companies (26%) expected to be able to disclose both qualitative and quantitative impacts, a good proportion (37%) of private companies said they would be able to make this disclosure. (Some preliminary description of expected impact is required for publicly accountable enterprises under the May 8, 2008 *CSA Staff Notice 52-320: Disclosure of expected changes in accounting policies relating to changeover to IFRS*.)
- **Information technology:** Nearly all respondents agreed that IFRS will have an impact on their financial IT systems. However, they were roughly divided in three major camps: the largest group of executives surveyed believed IFRS would have a low impact (36.7%); almost as many predicted a medium impact (35%); and a third, somewhat smaller, group representing nearly one-quarter of respondents, anticipated a high impact. Public companies were more likely to say there would be a medium or high impact (36% and 25% of public companies, respectively) than private companies (28% and 20% of private companies, respectively).
- **Parallel accounting systems:** 184 of the 256 respondents (72%), say they plan to run parallel IFRS and Canadian GAAP financial reporting systems during 2010. Of the 147 public companies 76% were planning to run parallel systems in 2010, (12% said no, and 12% didn't know). In comparison, only 67% of the private companies were planning to do this (20% said no, and 14% didn't know). Meanwhile, considering the impact on IT systems 43% had not yet addressed the systems implications of the changeover but were planning to, and 15% reported they had not done an assessment of the systems implications at all.
- **Training/education:** Most companies reported they had begun training their finance staff on IFRS. However, 82% of public companies had done this, compared to 63% of private companies. More public companies had also begun educating their audit committees on IFRS (59%), compared to 37% of private companies. Even fewer had started educating their boards, although 41% of public companies had started this, compared to 24% of private.
- **Management team awareness:** Executives were asked about overall management awareness of the potential impact of IFRS on various aspects of financial statements, including debt covenants, budgeting; management compensation, control certification, IT requirements, treasury management, tax implications and investor relations. The most common answer in six of these eight areas was that management teams were "generally aware" of the issues – this answer was given by an average of roughly one-third of the 256 respondents.

- **External stakeholder awareness:** When executives were asked which external stakeholders they had begun to talk to about the implications of IFRS, the most common answer was "none" (40%). However, nearly one-quarter (24%) had begun to communicate with shareholders, and roughly one in five (18%) were talking with regulators. Only about one in ten (11%) had been communicating with lenders, and slightly fewer (10%) had shared information with analysts.
- **Financial accounting challenges:** A wide range of financial accounting areas were identified as concerns in the survey. Results from private and public companies did not differ markedly. Most (60%) respondents thought the reported values of revenue would not be significantly affected by the conversion to IFRS. About half of the survey participants (51%) said they didn't think cost of sales would be significantly affected by IFRS. The adoption of IFRS was expected to have a significant impact on asset values by most respondents (57%). Nearly 40% of respondents expected that IFRS would not have a significant impact on reported values of goodwill. There were fewer strongly held views on the effects of IFRS on the cost of capital. While 39% thought there would not be any impact in this area, nearly as many respondents said they didn't know (34%). A much smaller group (15%) said the adoption of IFRS would affect cost of capital. The adoption of IFRS was not expected to have a significant impact on the valuation of financial instruments by 46% of those surveyed, but 52 respondents thought the conversion was likely to have this effect.

As the survey's findings show, the state of readiness for this transition varies widely, with the vast majority of organizations—many of them large, established, companies with high revenues, having completed the first diagnostic stage of their conversion process, and some companies—including more than one in 10 publicly accountable enterprises—having barely started.

As 2010 approaches rapidly and many other concerns stay on the minds of companies it is essential that the IFRS conversion gets the recognition and support it needs. Conversion is not an option anymore—indeed Canada's Accounting Standards Board reaffirmed on May 8 its commitment to the January 2011 deadline. Yet the results of this survey show there is much work to be done. While certainly complex, all stakeholders, internally and externally, must be engaged in the process to ensure a smooth transition. By 2011 Canada will join other world leaders in the change to an international accounting standard.

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