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IFRS Readiness in Canada: 2010

CFERF Executive Research Report

August 2010

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Acknowledgements

We gratefully acknowledge the efforts of our survey respondents and our forum participants who took valuable time away from their day jobs to participate in this work. It is also our good fortune to have benefitted from consultations with the FEI Canada Committee on Corporate Reporting (CCR) and more specifically, the Sub-Committee on International Financial Reporting Standards (IFRS), as well as the invaluable and ongoing input of Diane Kazarian, PricewaterhouseCoopers (PwC) Canada Partner and IFRS Practice Leader. We would also like to make special mention of the valued participation at the CFERF Executive Research Forum of Tricia O'Malley and Peter Martin, respectively Chair and Director – Accounting Standards of the Canadian Accounting Standards Board; and Cameron McInnis and Marion Kirsh, respectively Chief Accountant and Associate Chief Accountant of the Ontario Securities Commission. Last but not least, we are particularly grateful to our research partner, PwC Canada, without whom this study would not have been possible.

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Executive Summary

The *IFRS Readiness in Canada: 2010 – Executive Research Report* was prepared by the Canadian Financial Executives Research Foundation (CFERF) and was sponsored by PricewaterhouseCoopers. It comprises the results of a survey of senior financial executives from across Canada and the insights obtained through an Executive Research Forum held in Toronto on April 22, 2010. The study is the third in the series covering conversion activities in Canada, beginning in 2008.

PURPOSE

The primary intent of the survey was to determine where Canadian companies of different types and sizes are in their IFRS transition process as well as to learn of particular strategies, practices, and challenges for companies along the way from the perspective of senior finance executives within their firms. The results are based upon responses from 146 individuals who completed the survey in the 18-day period from Thursday, March 25, 2010 to Monday, April 12, 2010.

Of these, 138 indicated that their company planned to convert to IFRS, and eight were undecided. Survey results were compiled and analyzed on the basis of industry classification (i.e. large standard industry classification groups), corporate structure, and company size based on revenues. Respondents were also categorized by position title. Eighty-six respondents were from public companies and 30 were from private companies. The remainder were from government enterprises, not for profits and "others."

REASONS FOR ADOPTING IFRS

Most individuals responding to our survey indicated that their company was converting because they were publicly accountable, and therefore it was mandatory (79%). However, a further 8% were converting because the company was a subsidiary of a company that was already using IFRS. Others stated that they were adopting IFRS because it was a preferable reporting framework (6%); that they were adopting for competitive reasons (4%); that it was mandated by lenders (1%); that the company was planning to go public (1%); or for other reasons (1%).

STATE OF CONVERSION

The vast majority of survey respondents (77%) said they were at least 40% along the conversion path. More than half (54%) said their status of completion was 60% or higher. However, as expected, public companies are further along their conversion path than private companies. Of the 86 executives responding from public companies, more than half (53%) said their status of completion was 60% or higher. In comparison, only one-third, or 33%, of private companies had completed 60% or more of the transition process.

However, our data also reveals that for some companies, the conversion process is not necessarily a linear one. Of the 146 survey respondents, 45 (or roughly 31%) said they had not yet completed an initial diagnostic assessment. Of this subgroup, 14 respondents said they planned to complete their initial diagnostic by the end of the second quarter of 2010; two said Q3 and three said 2011.

SIZE MATTERS

Significant differences exist between the state of readiness of small and large companies. Survey results show that larger public companies are likely to be further along the conversion path than smaller companies or private companies, largely because these companies started early and have more resources to devote to the process.

IFRS conversion is often the responsibility of CFOs in small companies who are also charged with most other issues related to financial management in their firms, whereas CFOs of large companies are more likely to be backed with adequate resources and staff devoted to the conversion. Similarly, managers in public companies tend to be more aware of the significant amount of work required in the transition, again having devoted more time and resources to the process.

We see this evidenced in the differences in the state of completion between large and small companies. For example, all the companies responding to our survey that had annual revenues of more than $20 billion reported that they had completed more than 60% of their conversion process. Similarly, 80% of companies with revenues between $15 and $20 billion said that the conversion was more than 60% complete. This compares to 41% in the $50-$249 million range that had achieved rates of completion of 60% or more. Only one-third of private companies had completed 60% or more of the transition process.

The higher a company's revenues, the more likely it was to have sufficient resources for conversion. For example, 100% of companies with revenues from $5 billion to more than $20 billion said they had the resources available. In comparison, only 71% of companies with revenues of less than $49 million said they had the resources they required to implement the conversion and 29% said they did not have adequate resources.

The conversion will be made at considerable cost to Canadian companies. Thirty-two percent of respondents will spend between $100,000 and $500,000 while 36% will spend under $100,000. Not surprisingly, the conversion costs increase depending on the size, industry and complexity of the company. The study shows that 43% of companies with revenues between $1 billion and $5 billion will spend between $500,000 and $5 million in transitioning to IFRS.

COMPLETION BY INDUSTRY

Differences in state of conversion are also dependent upon industry, with the leaders typically found in the rate-regulated sector where companies may have to report the impacts of conversion to provincial governments well in advance, particularly with respect to revenues and resulting impacts on utility pricing. Out of the top four industries responding to the survey (mining and oil and gas extraction, manufacturing, utilities and insurance), utilities seemed to be furthest ahead, with 73% stating they were more than 60% through their conversion, and 100% showing a completion rate of more than 40%. This was followed by the insurance sector, with 62% stating they were more than 60% complete. This compares to 50% of mining and oil and gas extraction companies that were more than 60% complete. Similarly, nearly half, or 46% of manufacturing respondents, stated they were at a 60% or more rate of completion.

OPENING BALANCES

The majority of finance executives (61%) expect their IFRS opening balance sheet (as at January 1, 2010 for calendar year companies) to be complete by the end of the second quarter of their 2010 fiscal year. Differences in the state of conversion between private companies (which will eventually convert) and public companies are also reflected in the state of their opening balances. Seventy percent of public company finance executives say their IFRS opening balance sheet will be ready by the end of the second quarter of the 2010 fiscal year, compared to 37% of private companies. Additionally, 73% of all companies said they will be asking their auditors to audit the opening balance sheet on January 1, 2010 in advance of their year-end 2011 audit.

SPREADSHEETS AND CONTROLS

The survey indicates that close to two-thirds of respondents believe that the IFRS conversion will leverage End-User Computing (EUC) solutions (i.e. spreadsheets). Spreadsheets are widely used tools in most organizations, due to their flexibility, functionality and low cost of implementation. In the short term, however, these advantages can be accompanied by risks to organizations. Companies that place excessive reliance on spreadsheets for managing their financial reporting and the close process under IFRS may find themselves being exposed to additional risks since the level of control over spreadsheets may not mirror organizations' controls over their core technology environment.

Respondents were also asked about control certifications and where they are with respect to considering impacts on the control environment resulting from IFRS conversion. Almost 50% of respondents stated that their management teams were extremely or generally aware of the IFRS implementation impact on controls. However, almost 27% said their management team was either somewhat or not at all aware of the potential implications of IFRS, which shows that more communication and work in this area is required.

LENDERS AS KEY STAKEHOLDERS

Lenders are a key stakeholder group to be communicated with as companies convert to IFRS due to the importance of financial statements, management reports and key metrics, which impact lending arrangements and related debt covenants. The survey showed that only 6% of respondents did not have awareness of IFRS implications on their debt covenants. Thirty-one percent of respondents said they were extremely aware of the impacts, and 32% were generally aware, showing a good knowledge of how IFRS can impact this key external stakeholder group.

PARALLEL ACCOUNTING SYSTEMS AND IT

Seventy-two percent of companies were planning to run parallel IFRS and Canadian GAAP accounting systems during the 2010 financial year, while 23% said they were not (the remainder didn't know). Public companies were far more likely to run parallel systems (84%) than their private counterparts (40%). Again, of the four largest industry groups represented in the survey, relatively more utility companies would be running parallel systems (87%), than mining and oil and gas extraction, (72%) , insurance (7%) or manufacturing (40%).

Companies with higher annual revenues were also more likely to be planning technology changes/upgrades that could be streamlined to incorporate IFRS change requirements than companies with lower annual revenues. For instance, 39% of companies with revenues from $1 billion to more than $20 billion were planning upgrades, while 23% of companies with revenues less than $1 billion were planning upgrades.

IMPACTS ON REPORTED VALUES

Adopting IFRS is expected to result in an increase in asset values in 29% of responding companies and a decrease in asset values in 22% of companies. At the same time, 28% of companies anticipate a decrease in the reported value of net income, 22% expect earnings per share to fall, and 28% expect an increase in pension liabilities.

Companies with higher revenues were more likely to have begun to plan for the potential tax impacts of IFRS than smaller companies. For example, all companies with revenues greater than $15 billion had started their Canadian income tax planning process, compared to 48% in companies with revenues between $50 and $250 million, and 24% in companies with revenues less than $49 million. In addition, 25% of all companies have considered foreign income tax compliance, 39% have discussed tax planning and 23% considered transfer pricing.

TRAINING

Ninety-three percent of companies have begun IFRS training for their finance staff and 80% have started training for its audit committee. Board training lags behind at 65% as some companies may be waiting to first provide training to their management teams. There is clearly improvement from last year's survey results although continued efforts and communication with boards are required, as the impacts of IFRS will be more fully understood during the remainder of 2010.

DISCLOSURE

Seventy-two percent of public companies disclosed a qualitative assessment of the impacts of the IFRS conversion in their 2009 financial statements, while 5% of public companies had disclosed both qualitative and quantitative assessments of the impacts. In comparison, 37% of private companies had disclosed qualitative assessments of the impacts (no private companies did both).

Disclosures, both qualitative and quantitative, should be a continued area of focus for companies throughout the remainder of 2010.

Introduction

From January 2011, all Canadian publicly accountable enterprises with fiscal years ending December 31 will be required to report their financial results using International Financial Reporting Standards. This includes publicly listed companies, enterprises with fiduciary responsibilities such as banks, insurance companies, credit unions, securities firms, crown corporations and other government business enterprises.

As we have reported in earlier studies of IFRS adoption in Canada, converting to the new accounting standard will not only impact the financial statements, but it will also have wide reaching implications for systems, resources, planning, communication, executive compensation, debt covenants, tax and audit.

The purpose of this report is to determine how prepared adopting companies are (both Canadian public and private) in their IFRS conversion efforts and what the impacts have been across their organizations. The study examines to what extent companies expect the new standards to affect the reported values of financial instruments, pension liabilities, costs of capital, goodwill, asset values, cost of sales, expenses and revenues.

Research methodology and survey demographics

The *IFRS Readiness in Canada: 2010 – Executive Research Report* was prepared by the Canadian Financial Executives Research Foundation (CFERF) and was sponsored by PricewaterhouseCoopers. It comprises the results of a survey of senior financial executives across Canada and the insights obtained through an Executive Research Forum held in Toronto on April 22, 2010. The analysis is based upon responses from 146 individuals who completed the survey in the 18-day period from Thursday, March 25, 2010 to Monday, April 12, 2010. Of these, 138 indicated they planned to convert to IFRS, and eight were undecided. Survey results were compiled and analyzed on the basis of industry classification, (i.e. large standard industry classification groups), whether the company was public or private, and company size based on revenues. Respondents were also categorized by position title.

(See Appendix A for further details on survey demographics)

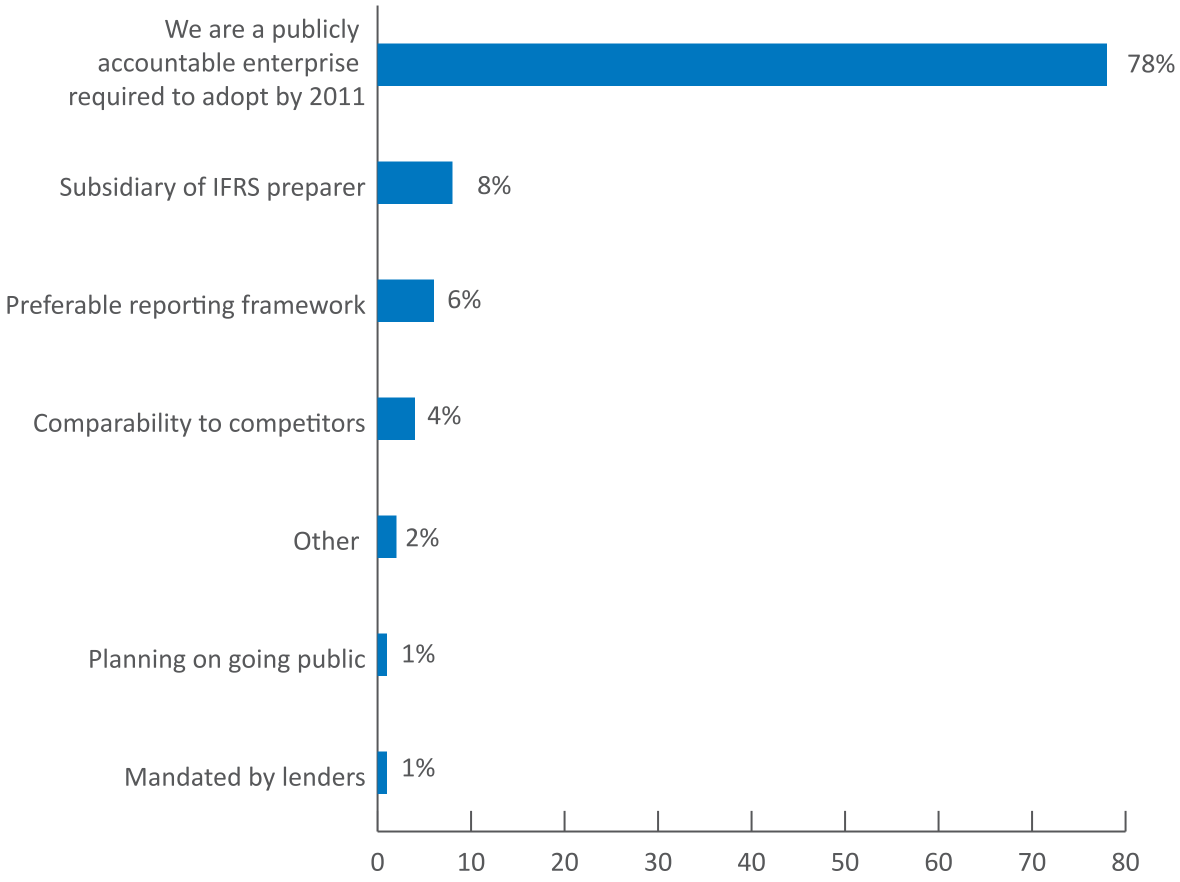
The second phase of the research methodology captured the feedback from senior financial executives who took part in a three-hour Executive Research Forum in April 2010. The purpose of the forum was to allow for a free flowing dialogue between company experts who were provided with specific questions in advance. A fairly broad cross section of Canadian industry was represented, including: manufacturing; transportation; agriculture; financial services; energy; mining; private equity; entertainment; health and real estate.

(The companies participating in the forum component of this research are identified in Appendix B.)

Reasons for adopting IFRS

Of the 146 finance executives who responded to the survey, the vast majority said their companies were planning to adopt IFRS (about 96%). The remainder were undecided. The primary reason cited for conversion was that the company was a publicly accountable enterprise (78%). Another 8% stated their company was a subsidiary of a company already using IFRS. Others stated that IFRS is a preferable reporting framework (6%); for competitive reasons (4%); was mandated by lenders (1%); the company was planning to go public (1%); or for other reasons.

MAIN REASON FOR ADOPTING IFRS



Status of Conversion

HOW COMPANIES SAY THEY ARE PROGRESSING

The vast majority of survey respondents (77%) said they were at least 40% along the conversion path. More than half (54%) said their status of completion was 60% or higher. Of 86 public companies, roughly 53% said their status of completion was 60% or more. This compares to 33% of private companies that were 60% or more through their conversion process. Larger companies were further ahead of the smaller ones. For instance, 100% of companies with revenues of $20 billion or more were 60% or more complete, and 80% of companies with revenues between $15 and 20 billion, were 60% or more complete in their conversion process. Of the smaller companies represented in our sample with revenues of less than $49 million, only 14% were 60-80% complete, while only 40% of companies in the $50-$249 million range had achieved rates of completion of 80% or more. However, it's important to note that half of the companies in the smallest revenues category were private and therefore not required to adopt IFRS in January of 2011.

Of the top four industries responding to the survey (mining and oil and gas extraction, manufacturing, utilities and insurance), utilities were the furthest in their conversion process, with 73% of utilities stating they were 60% or more complete, and 100% stating they were 40% or more complete. This was followed by insurance (62% between 60% or more complete), mining and oil and gas extraction industry (50% between 60% or more complete), and manufacturing (46% between 60% or more complete).

WHERE ARE YOU IN YOUR CONVERSION?

We are on schedule with our plan for the project. Finalization of the opening IFRS balance sheet and dual reporting for 2010 is well underway. We are well advanced in our training and feel good about the level of knowledge at Barrick Gold about IFRS. We have also done significant work creating awareness at our executive level.

—Toni Ferrari, Senior Director, Financial Governance, Barrick Gold Corp.

When we did our GAAP analysis on what needs to be changed for the conversion to IFRS we decided to do accounting policy papers on each one of these items ..so we did about 40 position papers, and part of doing the position papers was drafting the notes as well. So we did our mock statements as we went along, and now they're almost there without the numbers.

—Donald Lewtas, Chief Financial Officer, Onex Corp.

We're where we'd like to be in terms of the conversion process. We basically fully documented the high and low priority issues and also pushed those through our auditors to make sure that there's alignment between ourselves and them and we're not going to have any surprises. Some of the mid-level items we've documented, but we still need to work with our auditor to ensure that the interpretations that we have are consistent with theirs as well.

—Jason Boyd, Corporate Controller, Greater Toronto Airports Authority

IFRS CONVERSION BUDGETS

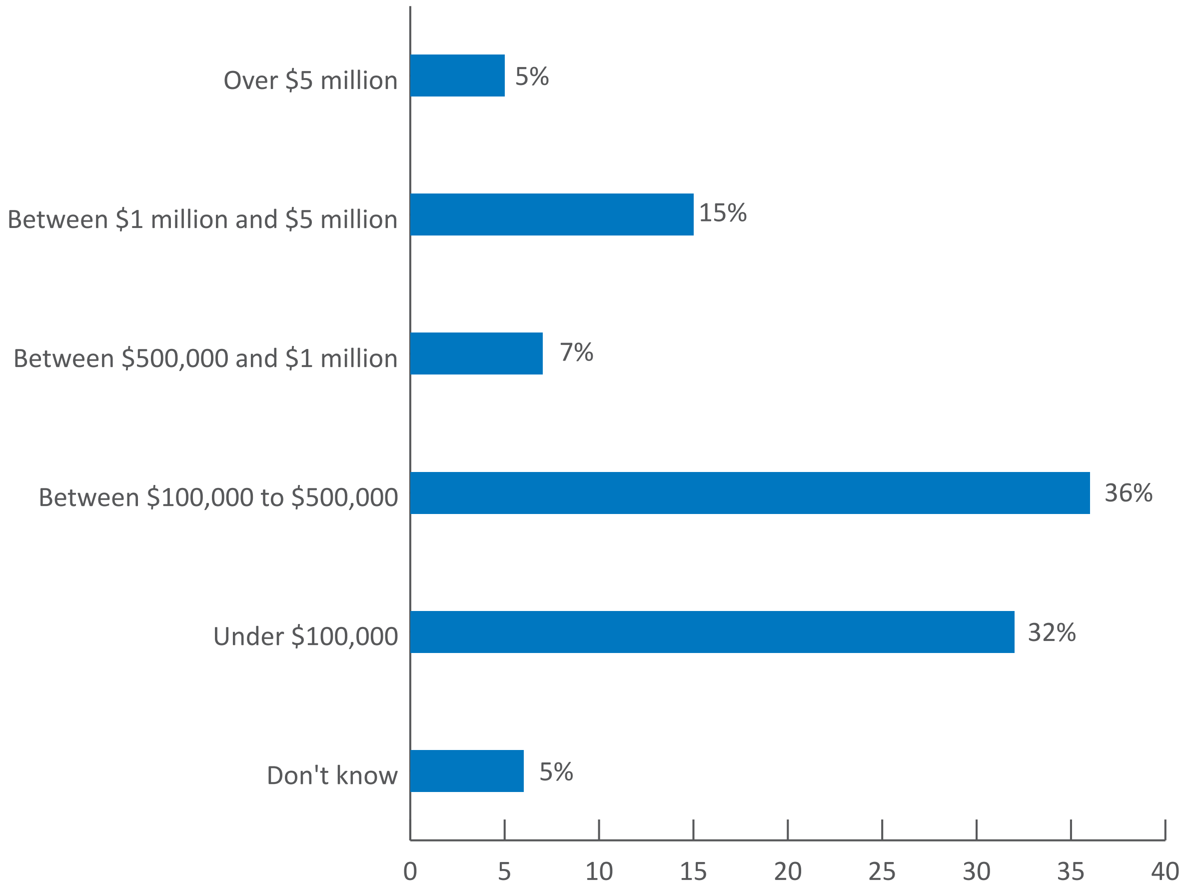
The majority of respondents (68%) had budgeted $500,000 or less for the conversion in Canada; 36% planned to spend between $100,000 and $500,000, and 32% planned to spend less than $100,000. Another 15% had reserved between $1 million and $5 million for the transition, while about 7% had budgeted between $500,000 and $1 million. A small minority (5%) had budgeted more than $5 million, and the remainder did not have a cost estimate.

COSTS

The effect hasn't so much been on third-party costs ... there's a tendency to underestimate the effect on senior management time. And that doesn't directly necessarily show up in your budget, but companies should not underestimate the amount of time required for senior managers to understand the effect on compensation plans, agreements, and the effect on how we measure our business.

—John Todd, Vice President and Chief Accounting Officer, First Capital Realty Inc.

WHAT IS YOUR OVERALL CONVERSION BUDGET FOR CANADA?



RESOURCES AND STAFFING

Most companies have engaged their auditing firm to assist with their IFRS conversion, while 41% hired another accounting firm other than their auditor.

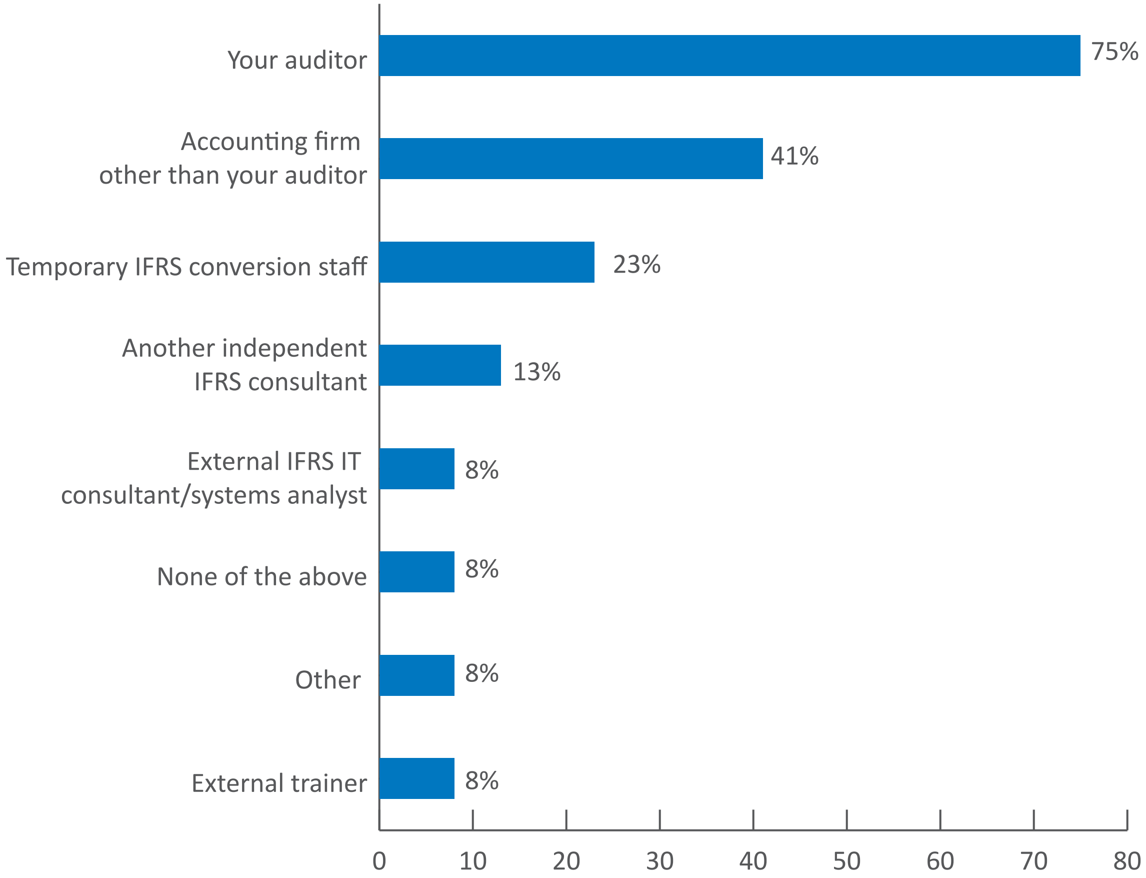
The vast majority of finance executives surveyed said that their companies had adequate resources devoted to the IFRS conversion (88%), compared to 9% that didn't. The vast majority (75%) also said they had engaged the company's auditor to help with the conversion and (41%) said they also hired an accounting firm other than their auditor. Roughly one in four, or 23%, said they were hiring temporary IFRS conversion staff. Only 13% hired another independent IFRS consultant and 8% had hired an external IFRS IT consultant/systems analyst, while 8% had engaged an external trainer.

RESOURCES

We put the best and the brightest on this project. The people involved have certainly gained a knowledge level about the operations, because you really have to get down to the operations to understand the impacts. And the knowledge level that those people have developed, both of accounting standards under IFRS and of the operations, is phenomenal.

—Donald Lewtas, Chief Financial Officer, Onex Corp.

WHO ARE YOU ENGAGING IN THE IFRS CONVERSION? (CHOOSE ALL THAT APPLY)



INVOLVEMENT OF INTERNAL CONSTITUENTS, OTHER BUSINESS UNITS

Representation on IFRS conversion teams varied widely amongst companies, however, most had the equivalent of at least one full-time finance and accounting staff. IT was also represented on more than one in three teams (36%), and about one in four teams included representatives from internal audit (27%), tax (25%) and treasury (23%). Other teams included staff from risk management (16%), investor relations (14%), legal (8%), HR (8%), marketing and communications (4%) and other areas (5%).

ENGAGING OTHER BUSINESS UNITS

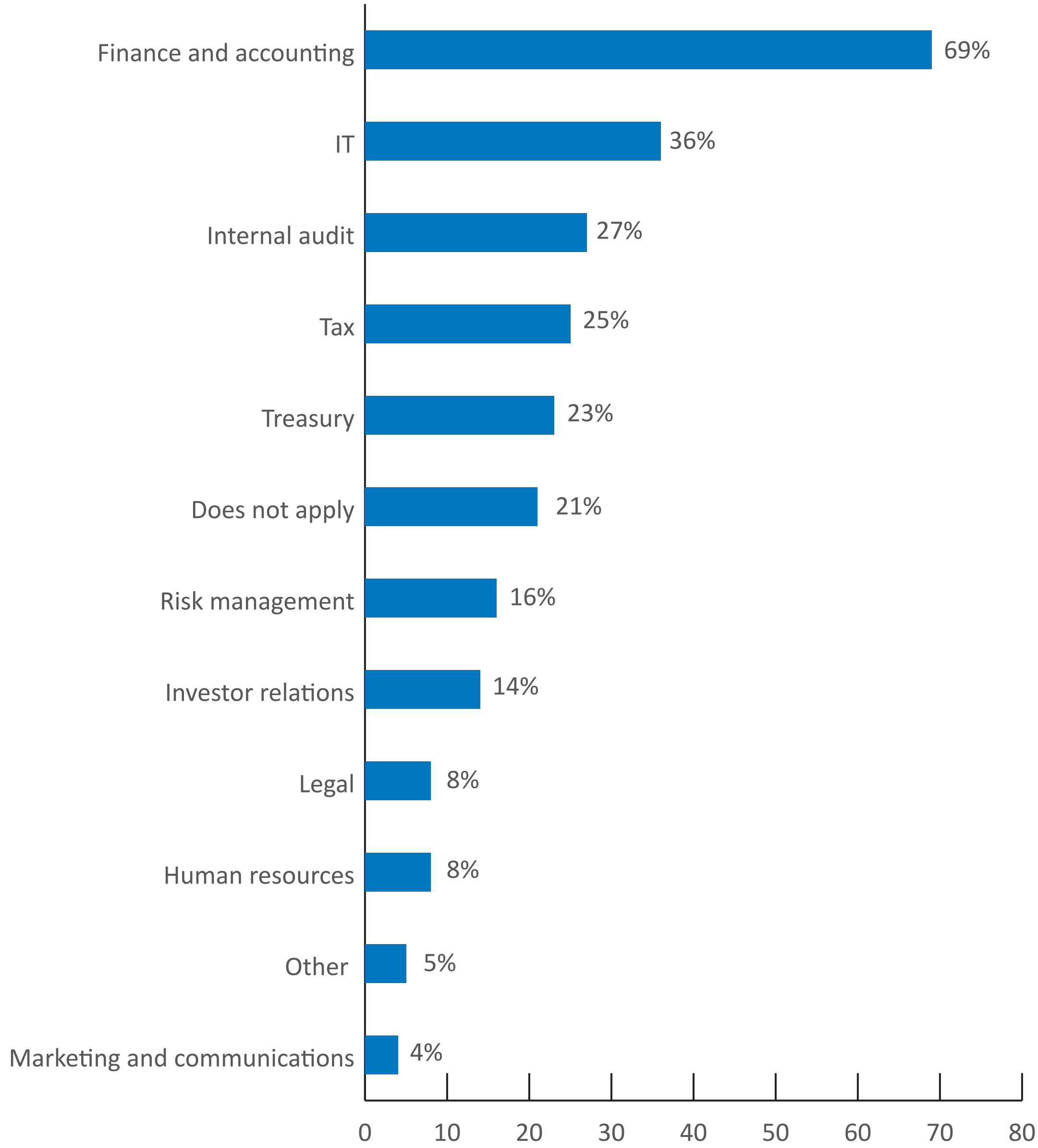
Two years ago, we established our IFRS Steering Committee, which was a cross functional group ... We had a recent acquisition in 2005 where we doubled in size and were working with some legacy systems, so the IFRS project gave us the opportunity to really enhance the internal systems. We used IFRS as an opportunity to staff up in the IT area and the finance area ... I actually think that the economic conditions of ’08 and ’09 have helped us in our IFRS implementation project. Looking back to the Bill 198 and the SOX compliance projects, external resources and internal resources were jumping ship as opportunities became available. There has been more stability in our IFRS resources through this recent project. This has made the project run a lot more smoothly than I had initially expected.

—Gord Nelson, Chief Financial Officer, Cineplex Entertainment LP

From early in our implementation project, we have had various internal groups engaged in the assessment process, such as operations personnel for some of our asset related issues and the HR group for employee benefits related issues. As we’re getting closer to our adoption date, other groups are becoming more involved, such as our investor relations, legal and IT groups.

—Greg Nightingale, Manager, International Reporting, PotashCorp

IF YOU HAVE A DEDICATED IFRS CONVERSION TEAM, WHAT AREAS OF THE ORGANIZATION ARE REPRESENTED ON THAT TEAM? (CHOOSE ALL THAT APPLY)



COMPLETION OF THE OPENING BALANCE SHEET

The majority of finance executives (61%) expected their IFRS opening balance sheet to be substantially complete by the end of the second quarter of the 2010 fiscal year. Roughly one in five (19%) expect this completed by the end of Q3, while 6% stated it would be done in the fourth quarter of 2010; 6% said it would be done in Q1 of 2011 and about 9% said either they didn't know or it would be done at another time.

When private and public company results are compared, slightly more private companies than public expect to have their opening balance sheets substantially complete by the end of the first quarter of the 2010 fiscal year (24% versus 21%, respectively). However, the picture changes considerably as an additional 49% of public companies state they will have the balance sheet substantially complete by the end of the second quarter of the 2010 fiscal year.

Companies with higher revenues were generally somewhat more optimistic about their plans to have their opening balance sheet completed than the smaller companies. The companies with the least revenues (i.e. less than $250 million) were among the least likely to expect their IFRS opening balance sheet to be completed by the end of the first quarter of 2010.

Among the four largest industry groups represented in the survey, insurance companies anticipate having their IFRS opening balance sheet ready earlier than other sectors: 71% expect to have it ready by the end of the second quarter of 2010 compared with 67% of utilities, 56% of mining and oil and gas extraction companies, and 47% of manufacturing companies.

THE OPENING BALANCE SHEET

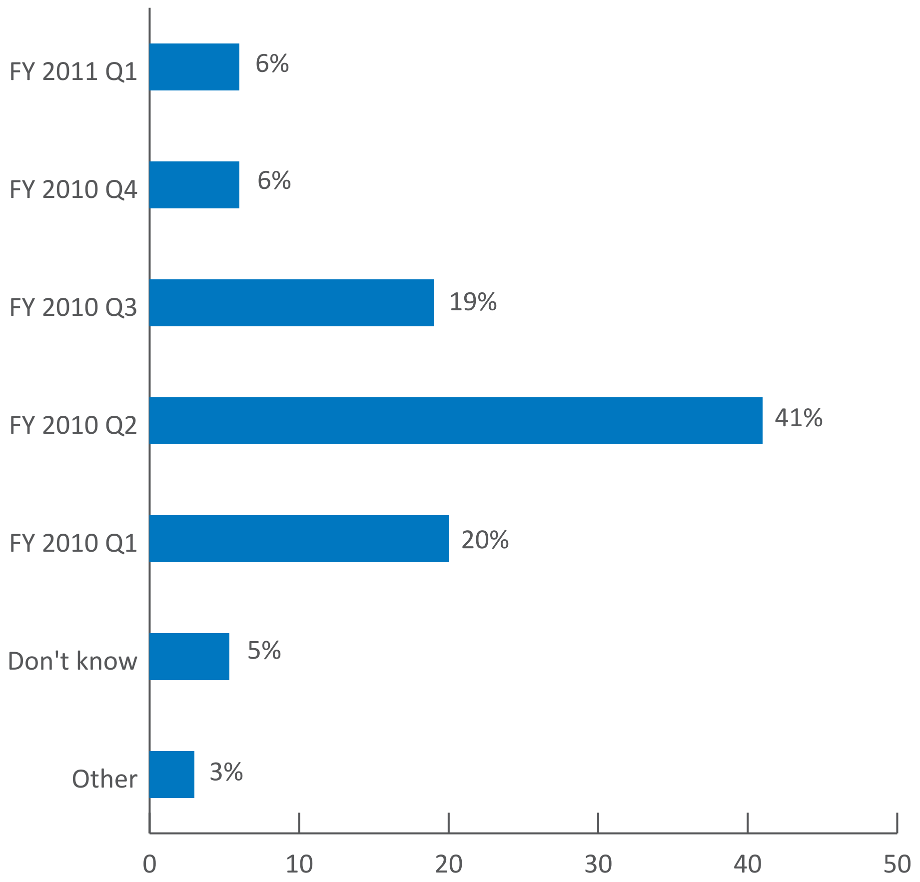
Within our group, we have a few entities that operate in the rate-regulated environment and this creates for us a concern because there is no standard at the moment and there is quite a significant difference in the opening balances and during the dual reporting period between Canadian GAAP and IFRS.

—Antonello Dessanti, IFRS Project Manager, AltaGas Income Trust

One company that is on target to have its balance sheet ready is Honda Financial Services, says Jeff Baker, the company's accounting and reporting supervisor: "In terms of the opening balance sheet again, we have identified all areas that will be impacted," says Baker. "We're well on our way in terms of quantifying what those amounts will be. Training, measurement and documentation are in good shape. So I think overall we're comfortable."

Most respondents (73%) said they expect to be asking their auditors to audit the opening balance sheet (dated January 1, 2010) by March 31, 2011 (83% public companies, 53% private companies).

WHEN DO YOU EXPECT YOUR IFRS OPENING BALANCE SHEET TO BE COMPLETED?



Implementation Issues

IMPACT OF FUTURE MOVEMENT IN IFRS ON CURRENT CONVERSIONS

While the vast majority of finance executives (84%) say they are monitoring future changes to IFRS past the January 1, 2011 transition, over half indicated that anticipated future changes to IFRS would have no immediate impact on company conversion plans. This compares to 21% who said the future changes were slowing current transition plans. One area that's being impacted is accounting systems. According to Jason Boggs, a partner in the Capital Markets Group at PricewaterhouseCoopers, the wide range of changes to IFRS expected in 2013 may prolong the use of interim solutions until the new standards are finalized, making it more difficult to monitor and test internal controls over financial reporting.

> If you look at the projects that are under way jointly between the FASB and the IASB, they're going to fundamentally impact the entire financial statements. If you look at consolidation, revenue recognition, financial statement presentation, leases, and financial instruments — all of those new policies are pervasive on our financial statements and those new policies are coming out over the next two years. So we'll adopt for January 2011 and then we will subsequently have to change much of it. I'm not sure how that's good for financial reporting or the users. There will be inconsistencies and restatements for the two to three years following January 2011 and that doesn't benefit the users of financial statements.
>
> —Donald Lewtas, Chief Financial Officer, Onex Corp.

PARALLEL SYSTEMS

The vast majority of respondents indicate that their companies were planning to run parallel IFRS and Canadian GAAP accounting systems during the 2010 financial year, while 23% said they were not. Of those who were, the majority (75%) said they planned to do this for the full 12 months; 18% said they would run parallel systems for six months and 7% said they would run parallel information for three months. Public companies were far more likely to be expecting to be running parallel systems than their private counterparts (84% of public companies were planning this compared to 40% of private companies). Of the four largest industry groups represented in the survey, the sector most likely to be planning to run parallel systems was the utilities sector (87%), followed by 72% of mining and oil and gas extraction, 71% of insurance and 40% of manufacturing.

PARALLEL TRACKING IN 2010: GAAP AND IFRS

We're going to have dual reporting under IFRS and another GAAP basis for some time, whether it's for tax reasons or where we have businesses that have to continue to report in U.S. GAAP, or for purposes of complying with financial covenants that are based upon GAAP at that time. What will be the challenge going forward is for people to remember that they have to keep doing that...why that information has been identified and what the uses are.

—Donald Lewtas, Chief Financial Officer, Onex Corp.

From a systems perspective, we have made some small adjustments, particularly on our fixed assets, which is where the larger impact is, and we are now basically running parallel results. So our expectation is that we're going to be reporting to our audit committee quarterly parallel statements. And that by Q3 of this year we will have had our auditors sign off on each quarter up to that point in time, so that we're good to go and don't have those issues next year. So we're in a fairly good position.

—Jason Boyd, Corporate Controller, Greater Toronto Airports Authority

As far as 2010 tracking on a parallel basis goes, we intend to do it, but on a three to four month lag. Once our Q2 Canadian GAAP quarterly reviews are done, we will have our auditors come in the summer and look at our Q1 2010 IFRS comparative numbers. We do not plan to go through quarterly reviews for each of the quarters in 2010 but just the first quarter, just to set the tone in terms of where we stand.

—Narin Kishinchandani, Director, Finance and Control, Enbridge Gas Distribution

IMPLICATIONS FOR YOUR SYSTEMS AND DATA GATHERING PROCESSES

The vast majority of survey respondents (77%) have assessed the systems or data implications of their IFRS conversion and forty-five percent expect the conversion to only have a low impact on their IT systems within finance. This compares to 35% who thought there would be a medium impact and 19% who expected a high impact. However, public companies were far more likely to say the IFRS conversion would have a medium or high impact (61% combined) compared to private companies (27% expected a medium or high impact). The impact on IT systems outside finance was not expected to be significant, with 73% expecting a low impact (same result for both public and private companies) and 18% expecting a medium impact.

At the same time, roughly 45% of executives said their organization was planning technology changes or upgrades that could be streamlined to incorporate IFRS change requirements, or would be planning such changes in the future. Companies with higher revenues were more likely to be planning upgrades than companies with lower revenues. For instance, 39% of companies with revenues between $1 billion and $20 billion were planning upgrades, compared to 23% of companies with revenues under $1 billion. According to Geoff Leverton, Canadian Leader, Capital Markets Group at PricewaterhouseCoopers, systems changes were not as pervasive as expected, as many have found other ways, like using spreadsheets to manage dual reporting through their comparative period. However, he says, “Since these short-term fixes were just applicable for the transition year, it’s critical to ensure that post-transition, the finance department is left with the most streamlined solution possible from an ongoing reporting perspective.”

IMPACT ON IT

Our initial feel was that the system impacts would be pretty significant ... but as we went into the various aspects of the change, we realized there was potentially a less onerous solution. With a few business process changes, we figured we could moderate some of the more significant and sizeable system change aspects.

—Narin Kishinchandani, Director, Finance and Control, Enbridge Gas Distribution

We had amended our credit facilities in 2007 and they were based on the concept of “GAAP at the time”. We needed a system that was flexible enough to continue to produce IFRS as well as Canadian GAAP financial statements. We spent a lot of time working with our general ledger (GL) to be able to produce dual book code statements. We spent a lot of time on modifying journal entry processes and reviewing other processes to ensure the correct posting to the Canadian GAAP or IFRS book codes. We’ve probably spent about one year just getting the GL set up in order to allow us to not just implement IFRS on day one, but to be able to run these dual book codes going forward. Although a lot of the processes and the feeders into the systems may not have changed a lot, the GL itself has changed dramatically.

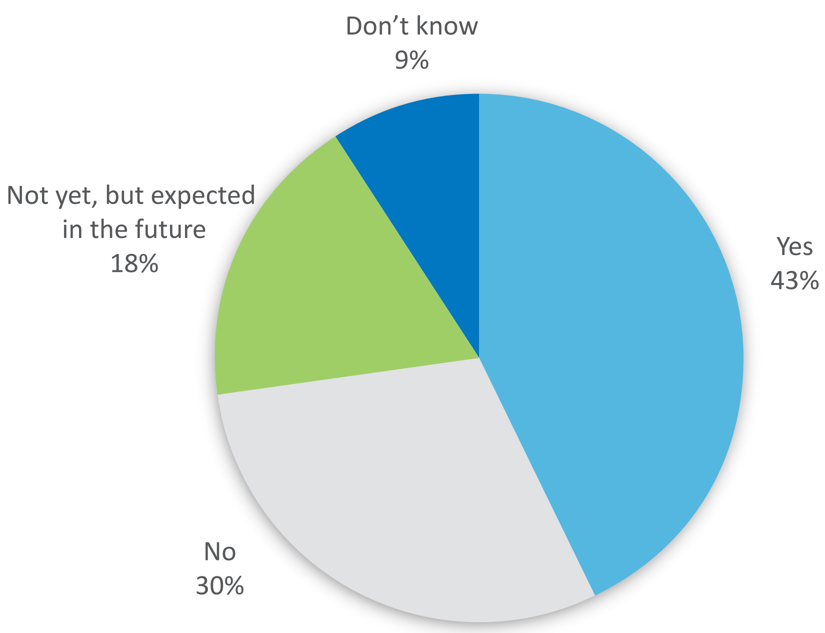
—Gord Nelson, Chief Financial Officer, Cineplex Entertainment LP

CHANGES IN ACCOUNTING PROCESSES DURING CONVERSIONS

The majority of respondents (64%) did not expect IFRS–driven changes to erode efficiencies built into their financial close process, compared to 26% that did. Ten percent didn't know.

In the transition to IFRS, 43% of respondents said the conversion had required increased use of End User Computing (EUC) solutions, such as spreadsheets, while 18% said they expected this in the future.

HAS IFRS CONVERSION REQUIRED THE INCREASED USE OF END USER COMPUTING (EUC) SOLUTIONS (I.E. SPREADSHEETS)?

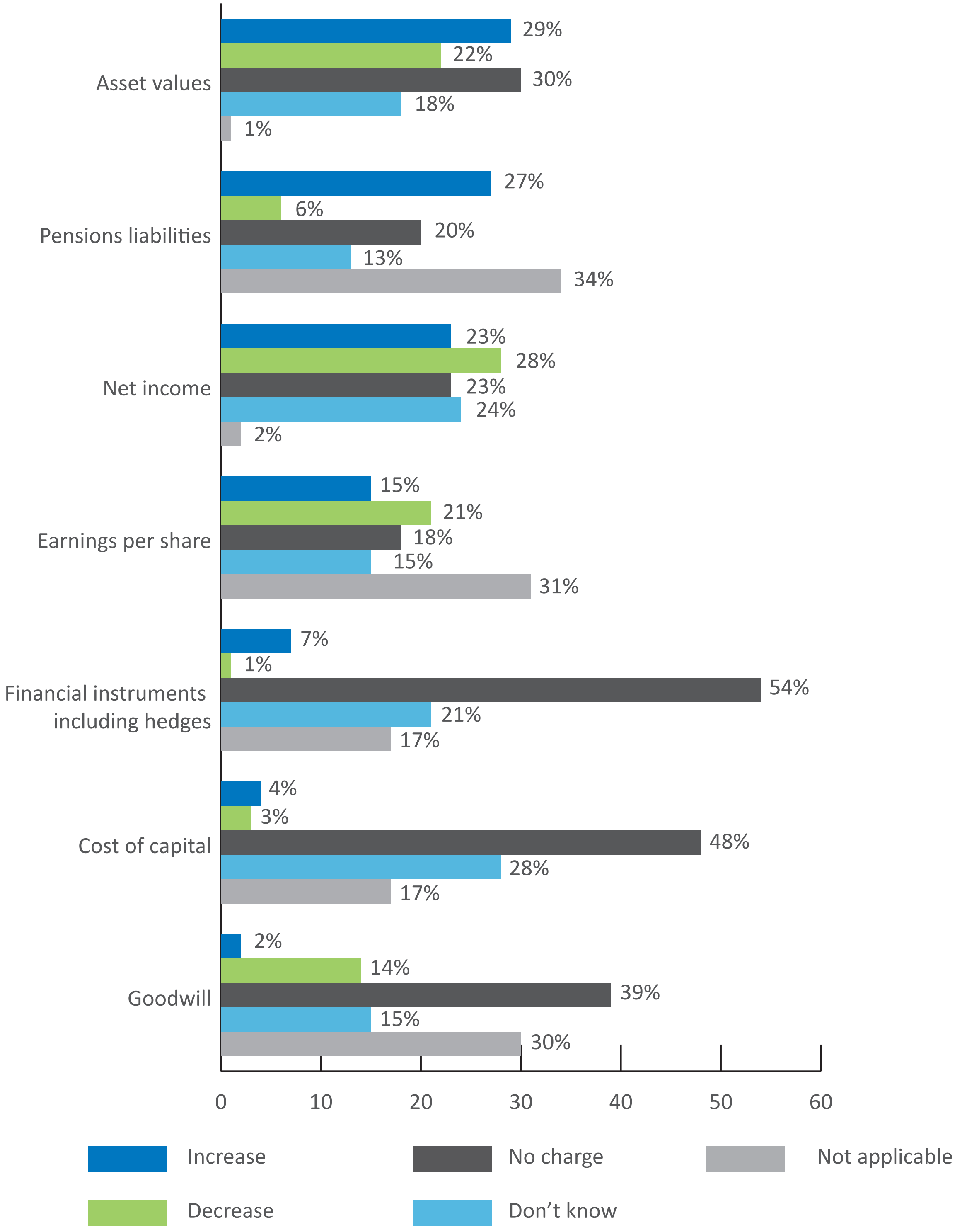


Business and Internal Impacts

MAJOR ACCOUNTING, MANAGEMENT AND REPORTING, AND AUDITING IMPLICATIONS OF ADOPTING IFRS

Adopting IFRS will not only have an impact on processes and systems within companies but for many it will change the reported values in their financial statements. For example, adopting IFRS is expected to result in an increase in reported asset values in 29% of companies responding to this survey, 27% say they expect an increase in pension liabilities, 23% expect reported values of net income to rise, and earnings per share are expected to increase in 15% of responding companies. Only 7% expect increases in the reported values of financial instruments, including hedges, while 4% expect an increase in the value of the cost of capital. The smallest increase was seen in goodwill, with only 2% expecting an increase. At the same time, reported values of net income are expected to fall in 28% of responding companies, followed by a decrease in asset values (22%), earnings per share (21%), goodwill (14%), pension liabilities (6%), cost of capital (3%) and financial instruments including hedges (1%).

IMPACT OF IFRS ON REPORTED VALUES



Some companies are seeing categories of assets that are new to them as a result of the adoption of IFRS. Leases will be the biggest item to impact the Cineplex chain of movie theatres, says Gord Nelson, Chief Financial Officer of Cineplex Entertainment LP. “There is a delayed adoption of new lease accounting pronouncements under IFRS, so this will be one of our challenges,” says Nelson. “The income fund structure will create a potential issue in how our equity is treated, and leases could have a massive impact going forward. We’re looking for clarity on these two major items.”

In the real estate management business, the impact is most profoundly felt in the evaluation of investment properties due to fair value accounting, according to John Todd, Vice President and Chief Accounting Officer, First Capital Realty Inc. Todd notes that a shortage of appraisers in Canada’s small market has kept them in high demand, and thus more costly to hire.

In mining, challenges at Barrick Gold Corp. include the proposed changes to IAS 37 on provisions, and other proposed changes specific to the extractive industry, specifically on production phase stripping costs which may change current calculations and models. The accounting model for post-production waste stripping has attracted a lot of interest and there are differing views in the industry on the appropriate approach to use, according to Barrick’s Toni Ferrari, Senior Director, Financial Governance.

At the Greater Toronto Airports Authority, the biggest changes were in fixed assets moving to componentization. “As an asset rich business, the fact that you’re taking a building and you’re breaking it into windows and roofs means that there is going to be a significant impact in terms of the opening entry. So that was one area of significant impact for us,” notes Corporate Controller Jason Boyd. Another key issue, says Boyd, is the changes that financial statements will undergo. “We have an interesting hybrid financial statement that’s kind of quasi-fund accounting, and that basically disappears under IFRS. So we have to change the look and feel of our financial statements to the new requirements. So we’re going through the exercise now.”

IMPAIRMENTS: IMPACTS ON REPORTED VALUES AT POTASHCORP

For net income, in the employee benefits area...we’re looking at moving to the option of recognizing actuarial gains and losses directly in equity rather than the current amortization approach. That will reduce our volatility in net income going forward but will increase the volatility on our balance sheet. That’s probably one of our largest dollar value transition impacts. On the flip side, in the area of provisions — the measurement of our asset retirement obligations, we see that as increasing our volatility and net income going forward as a result of the requirement to have to re-measure it at the current discount rate each period rather than historical discount rates. The requirement to reverse any impairments going forward could also lead to more volatility in net income. In the area of income taxes, particularly regarding our stock-based compensation in the U.S., the timing of when we recognize the tax deductions will have an impact on net income as well. It might be less volatile but certainly the point where it’s recognized would be different than what we’ve been doing thus far.

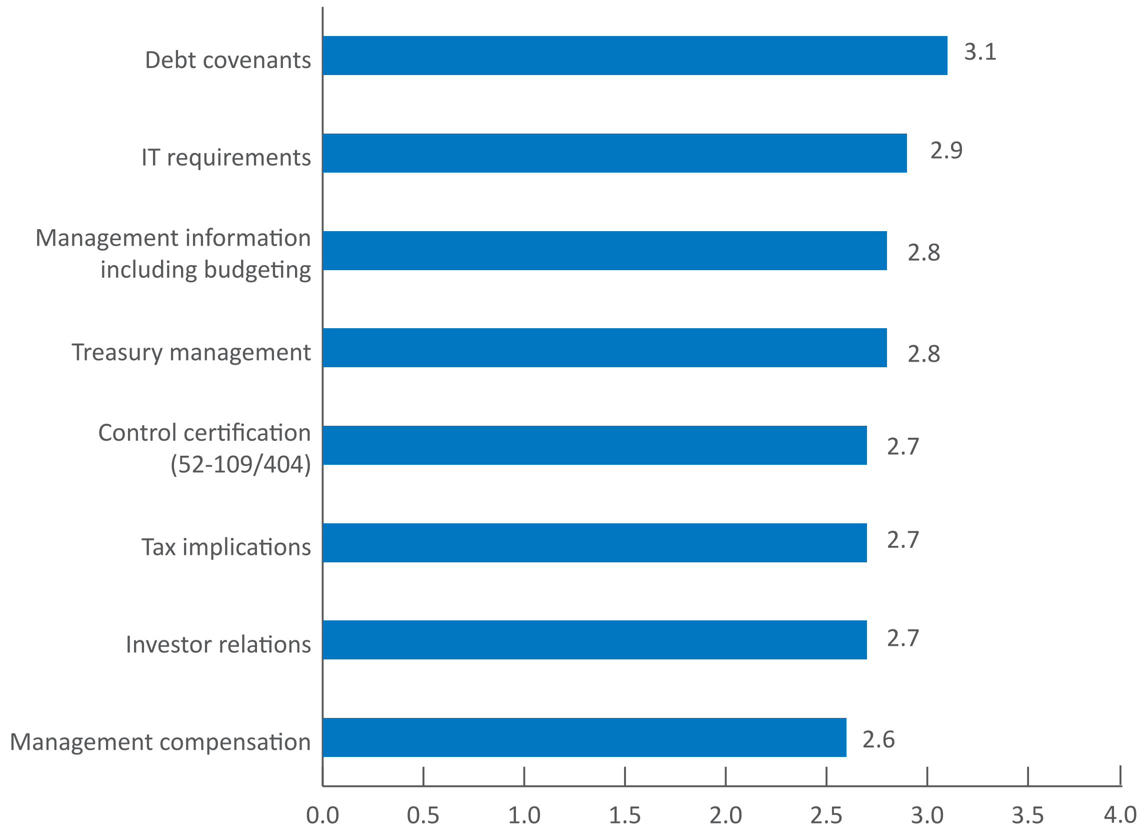
—Greg Nightingale, Manager, International Reporting, PotashCorp

IMPACT AWARENESS

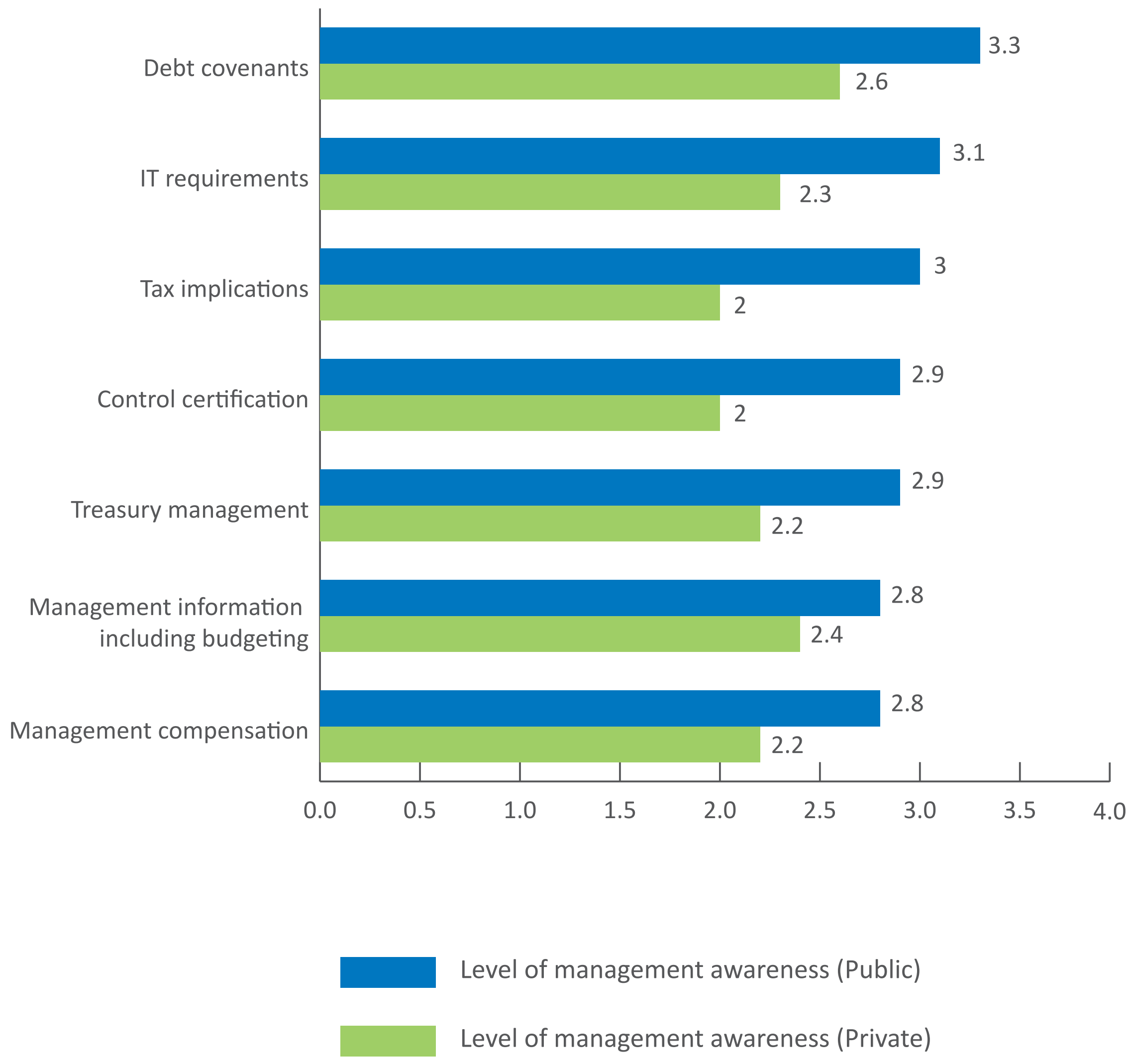
The extent to which the impacts of IFRS were known depended upon how immediate the effects were likely to be. For example, management teams were more aware of the implications for changes to debt covenants than other areas, followed by potential IT requirements, treasury implications, and management information requirements. Management teams knew the least about the implications for management compensation.

Across the board, public companies generally were more aware of the potential business impacts of adopting IFRS than private companies.

MANAGEMENT TEAM AWARENESS OF IFRS IMPACT (4 = EXTREMELY AWARE, 1 = NOT AT ALL AWARE)



MANAGEMENT AWARENESS: PRIVATE/PUBLIC (4 = EXTREMELY AWARE, 1 = NOT AT ALL AWARE)

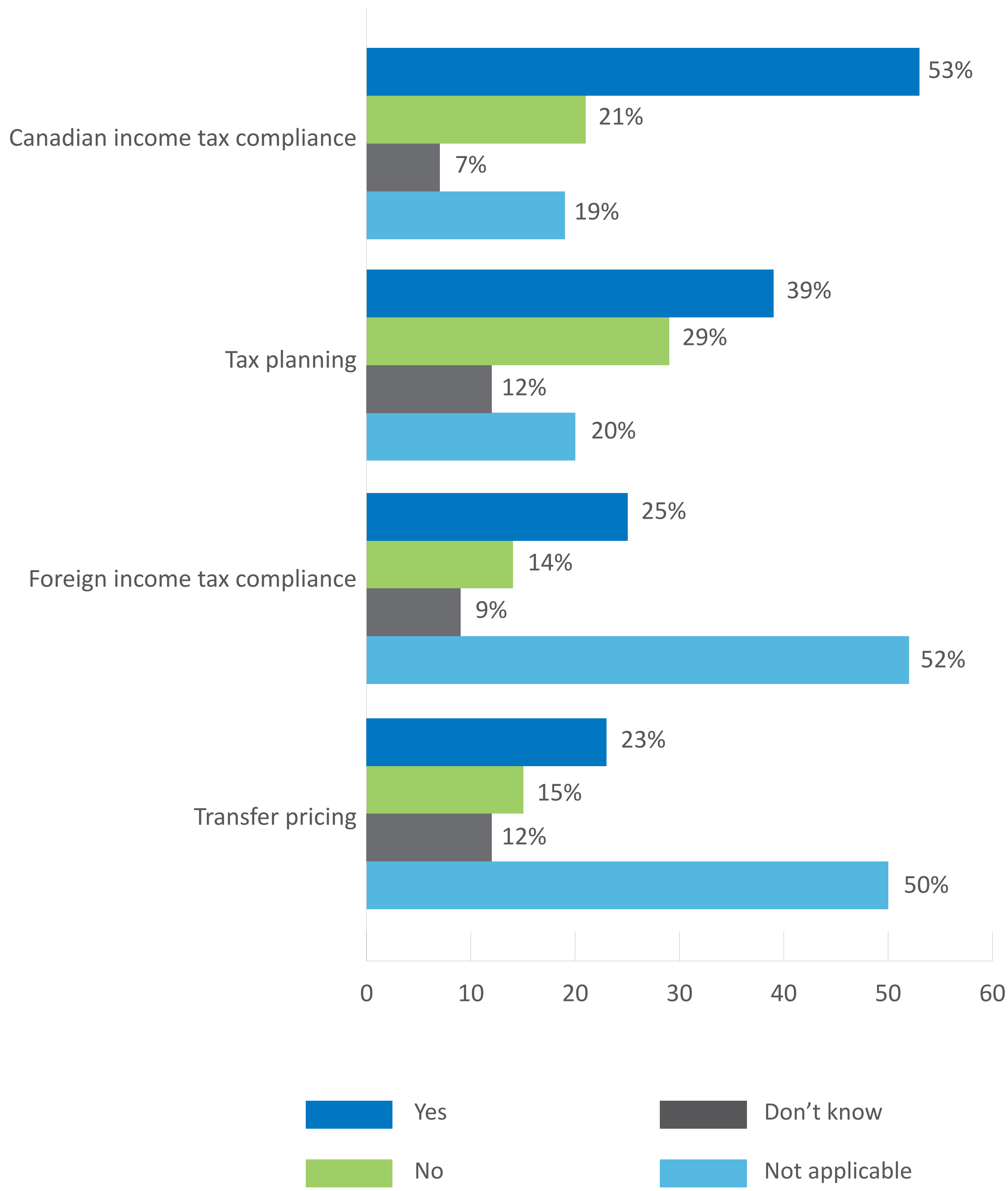


TAX ISSUES

Although the level of awareness of the impact of IFRS on corporate taxation was fairly high, only just over half of companies (53%) considered what the conversion might mean for income tax compliance. Even fewer (39%) factored this into their planning process. Again, public companies were more likely, across the board, to have considered the impact of IFRS conversion on tax issues than private companies. For instance, 67% of public companies said their tax department had begun to consider the impact on Canadian income tax conversion, compared to 40% of private companies.

Similarly, companies with higher revenues were more likely to have begun to plan for the potential tax impacts of IFRS than smaller companies. For example, 24% of companies with revenues of $49 million or less had begun this, and 48% of companies with $50-$249 million had started the process, compared to 100% of companies with revenues of $15 billion to more than $20 billion.

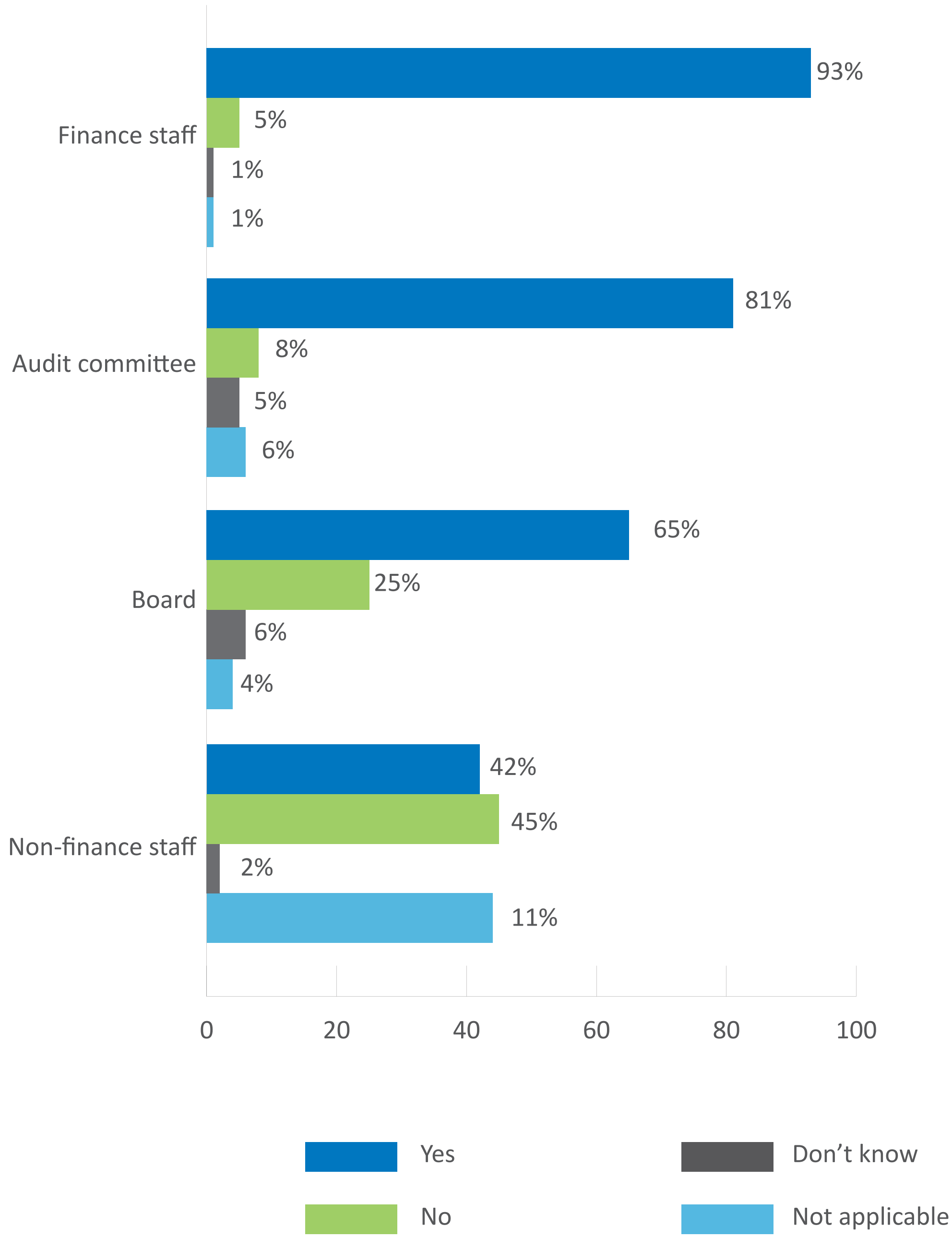
HAS YOUR TAX DEPARTMENT BEGUN TO CONSIDER POTENTIAL IMPACTS OF IFRS CONVERSION ON:



TRAINING

Training finance staff on IFRS has already begun for almost all companies (93%) and 43% indicated this also extended to non-finance staff. At the board level, 81% of audit committee members had undergone executive training, compared to other board members (65%).

HAVE YOU BEGUN IFRS TRAINING FOR THE FOLLOWING



We're conducting a multi-tiered approach to training where we've had ongoing awareness presentations to different forums since the commencement of the project. As we approach our adoption date, we are rolling out detailed topic-specific training for staff with roles relating to a particular area of IFRS. We will also be conducting both detailed and high-level group training sessions for staff that are directly involved in the finance and accounting functions and for those that are not directly involved but require an understanding of the main implications of the transition to IFRS.

—Greg Nightingale, Manager, International Reporting, PotashCorp

AUDIT COMMITTEE AND BOARD AWARENESS

We've had IFRS as an audit agenda item for about the last year and a half and it's a standing item where they really want to understand the overall status of the project. We laid out the project plan. They want an update on that at each point that we meet. But then at each session we also go pick a number — bite size pieces — of topics that we can go through with them and we've gone through the election options and given them management's recommendation. The audit committee is also taking a lot of comfort in knowing that we're working very closely with our auditor, so I think in their minds that's a big piece they want to see fall into place. And as long as there's a head nodding from the auditors, then I think they're comfortable that the right recommendations are being carried forth.

—Jason Boyd, Corporate Controller, Greater Toronto Airports Authority

External Stakeholder Impacts

DIALOGUE WITH EXTERNAL STAKEHOLDERS

The majority of companies have not been actively engaging external stakeholders on the potential impacts of conversion to IFRS. More specifically, only 44% of respondents said they have begun to talk to shareholders about the issue, and fewer (39%) had started to speak with lenders. Fewer still (29%) had started a dialogue with regulators, and less than one in four (23%) had started to talk to analysts.

ANALYST AWARENESS

We're finding the analysts are very set in their ways. And so the challenge will be that regardless of what you've done for your financial statements, your MD&As require a lot of rework. Not only are your financial statements going to expand, but your MD&As are going to really have to be expanded as well to give everybody what they need. Everybody looks at it a different way and the more we change our accounting standards, the more I think the MD&A has to evolve as well. Analysts were fairly confident management would give them the information they wanted, but the biggest thing they were concerned about is the cost of implementing IFRS and the effect that would have on our results more than anything else.

—John Todd, Vice President and Chief Accounting Officer, First Capital Realty Inc.

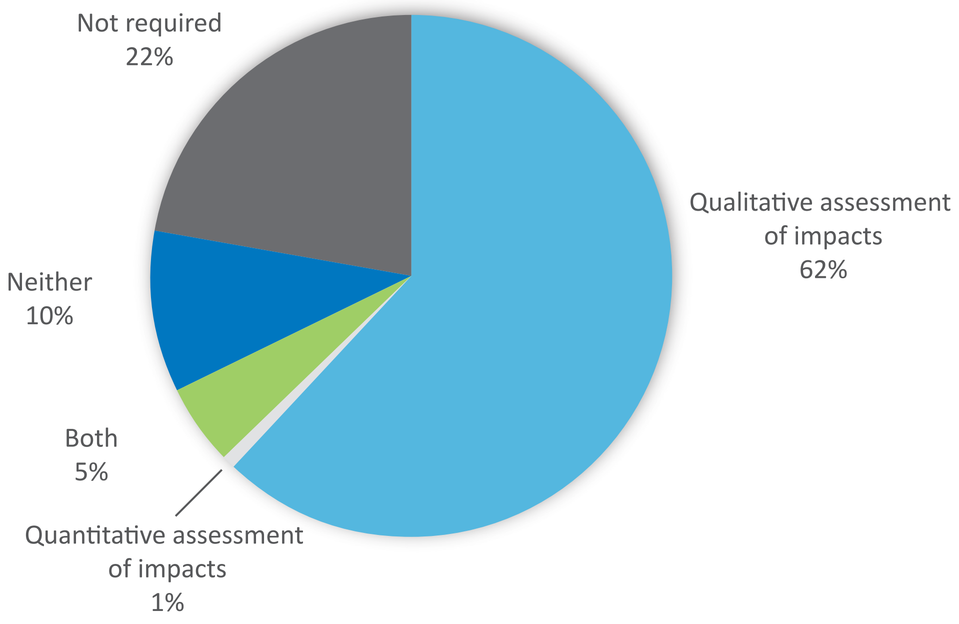
We put out an annual investor survey and this year we included some specific questions related to IFRS. The main message that came back is that, regardless of which accounting standards are used, investors want consistency from year to year.

—Greg Nightingale, Manager, International Reporting, PotashCorp

COMMUNICATING WITH YOUR INVESTORS AND QUANTIFYING OPENING BALANCE SHEET IMPACTS

Sixty-two percent of public companies disclosed a qualitative assessment of the impacts of the IFRS conversion in their 2009 financial statements, while 5% of public companies had disclosed both qualitative and quantitative assessments of the impacts. In comparison, 37% of private companies had disclosed qualitative assessments of the impacts (no private companies did both).

HAVE YOU DISCLOSED THE IMPACTS OF YOUR IFRS CONVERSION IN YOUR 2009 FINANCIAL STATEMENTS



Companies with higher revenues were likely to have disclosed the impact of the IFRS conversion on their 2009 financial statements. For instance, 80% of companies with revenues of $15 billion to $20 billion or more said they had done so compared to 38% of companies with revenues of $49 million or less had done and 52% of companies with revenues of $50-249 million had done this.

DISCLOSING IMPACTS OF IFRS ON FINANCIAL STATEMENTS

We have been evaluating the appropriate timing for disclosure, recognizing that the project has distinct phases and is subject to our internal governance processes. We also have to allow time for our auditors to conduct their audit and review procedures. We believe a more complete picture of the anticipated quantitative impacts of IFRS will be of greater use to investors than piecemeal information. Also affecting the timing and nature of our disclosure are the new IFRS under development, which could impact the transitional period, including opening balance sheet and 2010 information.

—Toni Ferrari, Senior Director, Financial Governance, Barrick Gold Corp

We have our plan as well to get things out there and have numbers published, but we're just not at that point right now. The other aspect of the disclosure is really giving stakeholders the comfort that you have a plan. So we update our disclosure every quarter and consequently you can get that level of comfort that things are moving ahead the way they should be moving ahead.

—Nathan Reeve, Vice President, Financial Services, Ontario Power Generation

We did not disclose any quantitative information in our MD&A until some of our key policy decisions had been discussed with the audit committee and we had a more completed picture of the impacts of the conversion. Given the status of our conversion project, we felt that it was reasonable to disclose in our 2009 annual MD&A, certain quantitative information for a number of key areas, while making clear that there were still areas for which impacts had not yet been quantified.

—Greg Nightingale, Manager, International Reporting, PotashCorp

Conclusion

> While larger companies are further along in the conversion process, smaller and medium-sized companies are feeling more pressure due to lack of dedicated personnel and resources. Without the proper support, they may have challenges in making the January 2011 deadline.
>
> — Diane Kazarian, IFRS Practice Leader, PwC Canada

The majority of large companies are generally making good progress on their path to IFRS conversion, have enough resources to meet their deadline and their accounting staff and audit committee will be well versed in IFRS by the New Year.

At the same time, small and medium-sized companies are not as far along in their conversions and indicate issues with resources and the lack of dedicated personnel who are available to focus on the transition. The survey shows that only a minority of these companies are at the 60% completion level. With less than five months remaining, these companies may be challenged to meet the impending January 2011 deadline and need to make IFRS a priority.

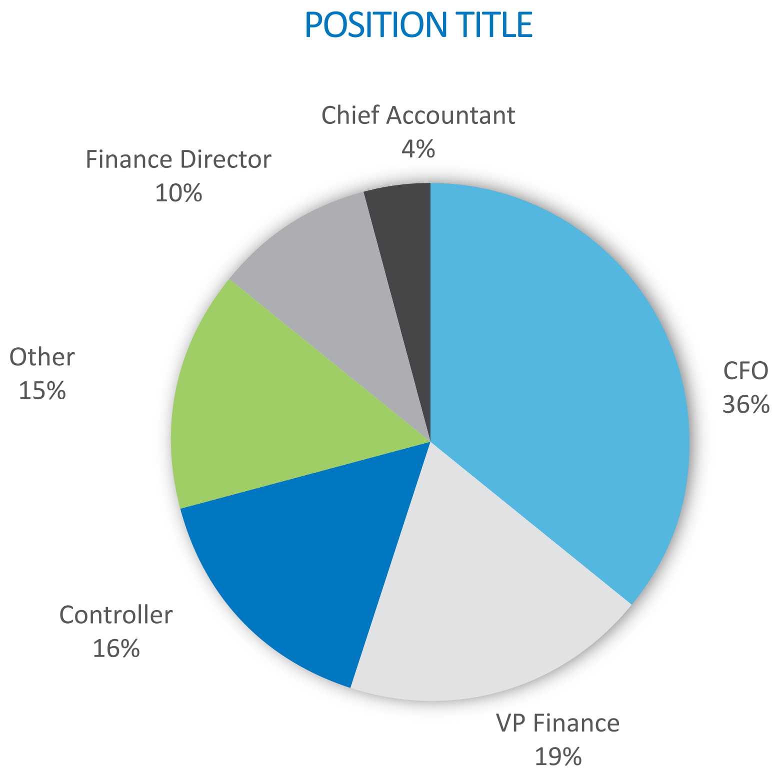
The survey also shows that different industries tend to be ahead of the curve, for multiple reasons, led by the utilities sector. However, insurance companies tend to be further ahead than other large sectors in terms of being ready to provide an opening balance sheet at the end of the Q1, 2010.

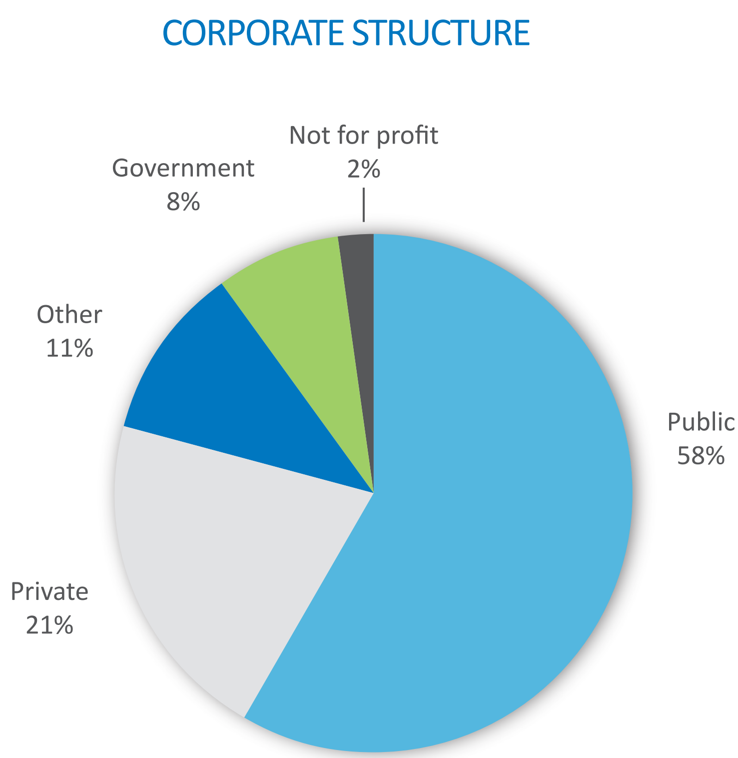
While the majority of companies are well aware of the potential impacts of IFRS adoption on their IT systems, many still see the need to run parallel IFRS and Canadian GAAP financial reporting systems using End User Computing solutions (i.e. spreadsheets). This might be the most expeditious interim solution. However, it could create challenges when trying to maintain and test internal controls over financial reporting. In the long run, it is recommended that companies consider an embedded solution. Company tax departments have begun to consider the potential impacts of IFRS on tax. The majority of respondents have reviewed implications on Canadian income tax compliance and over one-third have discussed tax planning. Not as many have looked at foreign income tax compliance and transfer pricing issues which will have to be addressed when the conversion takes place. Most companies have implemented IFRS training for their finance staff and audit committees. While board of director training lags behind, some companies are undoubtedly waiting to first provide training to their management teams. Continued effort and communication with boards are required as the impacts of IFRS are more fully understood during the remainder of 2010.

Many managers indicate that adopting IFRS will result in both increases and decreases in reported values of the balance sheet, and that this would have very specific implications about their need to communicate effectively with their stakeholders and in particular, the analyst community. At the same time, survey respondents were very or generally aware of the impact of IFRS on the terms of their debt, the implications for treasury management, management information requirements, as well as on the potential costs of implementing new accounting IT systems. What is less certain going forward is the impact of new and evolving IFRS on the financial statements, and its potential impact on management compensation.

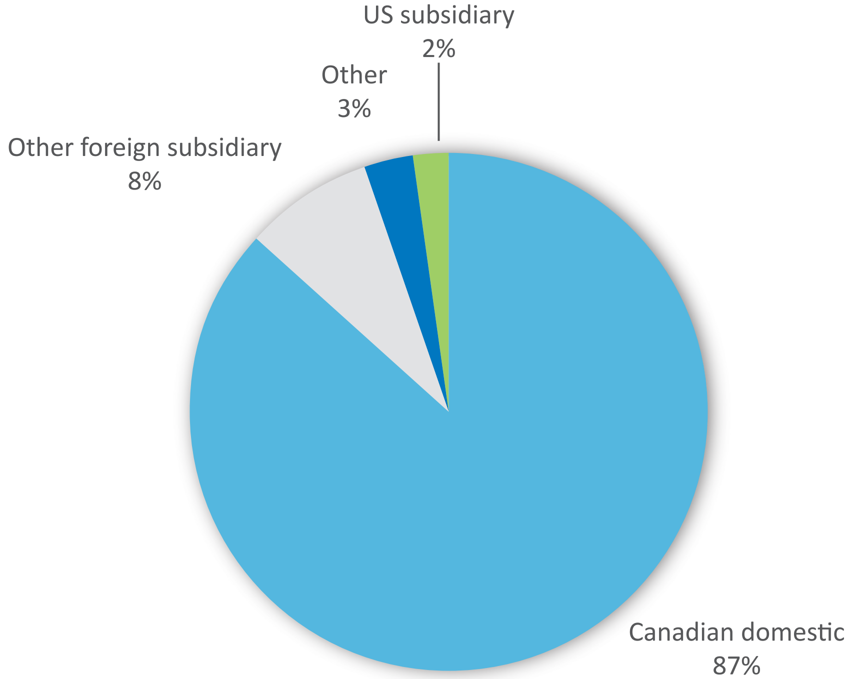
Overall, while there has been significant progress in the market working towards IFRS conversion, companies need to leave enough time in the transition to prepare for contingencies should they run into unanticipated issues as they complete the conversion. Enhanced communications with key internal and external stakeholders, backed by executable action steps with assigned resources and accountabilities are critical to reaching the finish line.

Appendix A – Demographics

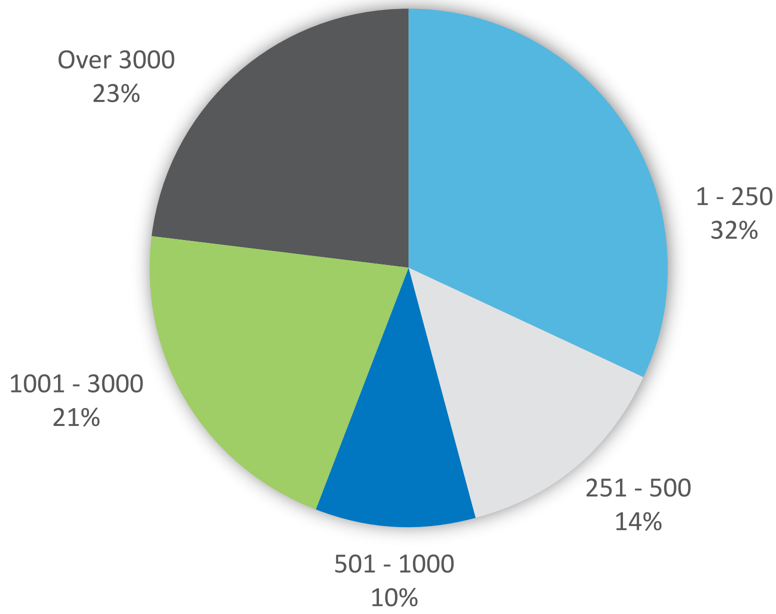




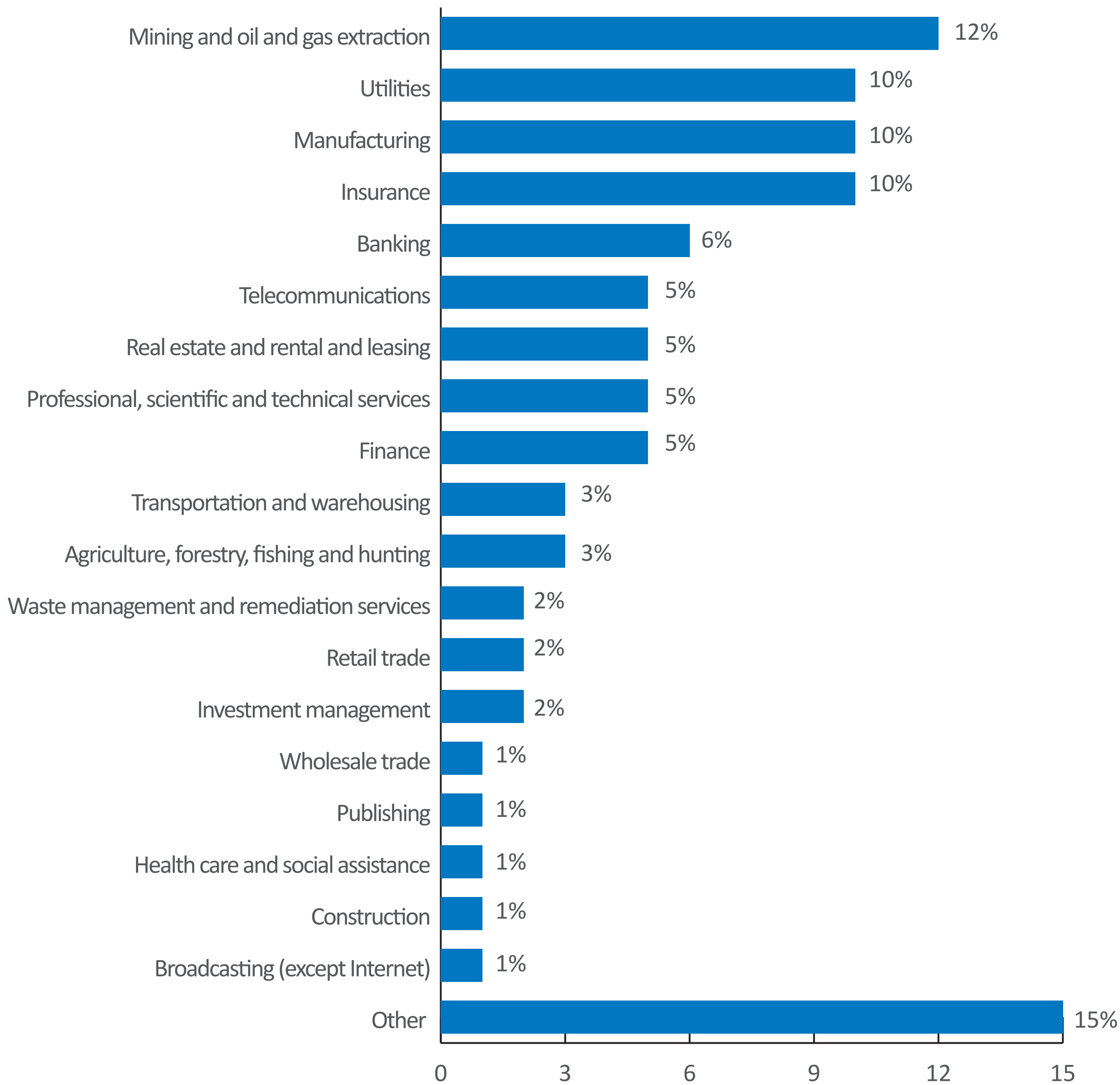
COMPANY OWNERSHIP



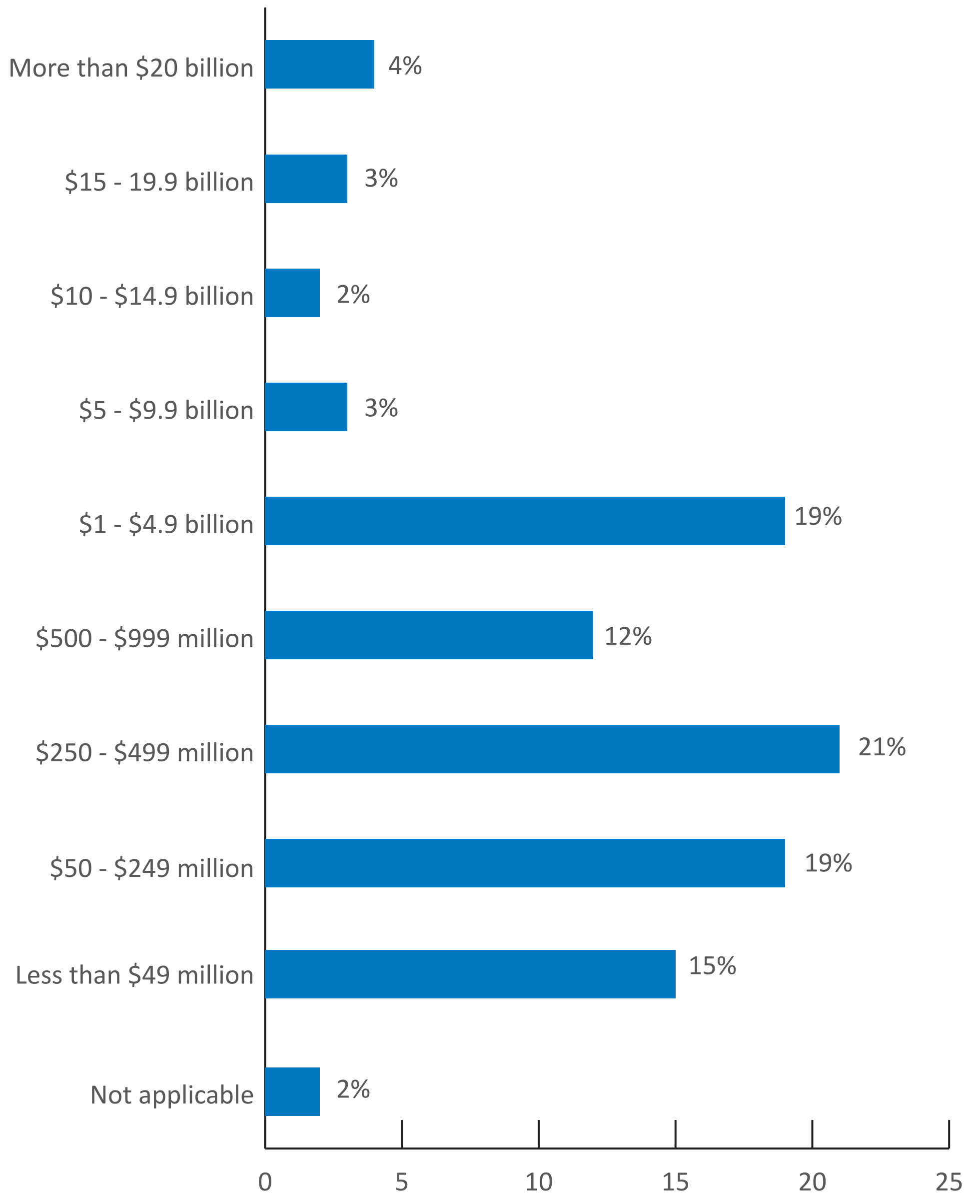
NUMBER OF EMPLOYEES



INDUSTRY CLASSIFICATION



ANNUAL REVENUES



Appendix B – Executive Research Forum Participants

Forum Chair:	Michael Conway – Chief Executive and National President, FEI Canada
Moderators:	Diane Kazarian – Partner, National IFRS Practice Leader, PricewaterhouseCoopers LLP Ramona Dzinkowski – Executive Director, CFERF
Participants:	Jeff Baker – Accounting & Reporting Supervisor, Honda Financial Services Jason Boyd – Corporate Controller, Greater Toronto Airports Authority John Crawford – SVP Financial Services, Pacific Blue Cross Antonello Dessanti – IFRS Project Manager, AltaGas Income Trust Toni Ferrari – Senior Director, Financial Governance, Barrick Gold Corporation Murray Harris – Controller, Canadian Natural Resources Limited Tara Whitney Hoeg – AVP, International Accounting, Manulife Financial Narin Kishinchandani – Director, Finance and Control, Enbridge Gas Distribution Inc. Donald Lewtas – Chief Financial Officer, Onex Corporation Gord Nelson – Chief Financial Officer, Cineplex Entertainment LP Greg Nightingale – Manager, International Reporting, PotashCorp Vicki Nishimura – Senior Director, Global Financial Reporting & Consolidations, MDS Inc. Nathan Reeve – Vice President, Financial Services, Ontario Power Generation John Todd – Vice President and Chief Accounting Officer, First Capital Realty Inc. Vlad Volodarski – Chief Financial Officer, Chartwell Seniors Housing REIT
Expert Observers:	Jason Boggs – Partner, Capital Markets Group, PricewaterhouseCoopers LLP Marion Kirsh – Associate Chief Accountant, Ontario Securities Commission Geoff Leverton – Canadian Leader, Capital Markets Group, PricewaterhouseCoopers LLP Peter Martin – Director, Accounting Standards, Accounting Standards Board Cameron McInnis – Chief Accountant, Ontario Securities Commission Tricia O'Malley – Chair, Accounting Standards Board
FEI Canada:	Laura Bobak – Senior Writer, FEI Canada Melissa Gibson – Communications and Research Coordinator, FEI Canada

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