

January 21, 2008

IFRS in Canada

Updates on changing accounting standards for Canadian public and private companies

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What's New

Public Companies

It now seems very likely that 2011 will be confirmed as the IFRS changeover date within the next month or two.

The AcSB say they expect to consult with the Accounting Standards Oversight Council in early February 2008, after which it will finalize the changeover date.

Last October, the AcSB issued a preliminary report* on the IFRS transition Progress Review.

The preliminary report highlighted several challenges with respect to Canada's preparation for the changeover, including:

- Uncertainty regarding the availability of training and skilled resources
- Challenges with training and education
- Questions related to disclosure requirements through the transition and the potential for early adoption
- Industry-specific concerns from oil & gas companies and entities with rate-regulated operations that the application of IFRS may have a significant impact on current accounting practices

The AcSB commented in the report that (with respect to the readiness of Canada's infrastructure) "none of these challenges are unexpected ... nor do they suggest a need for a delay of the changeover date [from 2011]."

A summary of the findings related to international experience with IFRS adoption and the continuing quality of standards developed by the IASB is also available in the preliminary report.* With respect to these issues, there were no comments made as definitive as those related to the readiness of Canada's infrastructure (see above). However, there do not appear to be any significant issues discovered as yet that would warrant extending the changeover date beyond 2011.

Also in early 2008, the AcSB is expected to finalize the definition of Publicly Accountable Enterprises.

Canadian Securities Regulators

Once the changeover date is confirmed, we can expect to hear from the Canadian Securities Administrators (CSA) on a number of issues, including:

- Will early adoption of IFRS be permitted?
- Should the CSA relax the existing timing and content of filing requirements to accommodate the transition to IFRS?
- What note disclosure will be required, and when?

Assuming the changeover date remains at 2011, companies should expect to have disclosure requirements related to the IFRS transition in 2008.

* Links to these documents are available at www.IFRSinCanada.com

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Upcoming Topics

- Significant differences between Canadian GAAP and IFRS
- Planning for a successful transition
- Changes to expect 2008 - 2011
- Interviews with industry professionals involved in IFRS planning

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SEC Registrants

The SEC has eliminated the requirement for a reconciliation to US GAAP for foreign filers using IFRS, effective immediately.

Once cross-border listed Canadian companies are in compliance with IFRS, they will no longer be required to provide the reconciliation to US GAAP.

In response to the ruling, we expect some Canadian companies to increase their calls for regulators to allow early adoption of IFRS. Rulings on this and disclosure issues related to the transition to IFRS are expected after the AcSB confirms the changeover date.

In the final rule issued in December, the SEC also extended indefinitely the accommodation allowing foreign filers who are first-time adopters of IFRS to include only one year of comparative information with their statements of income, equity and cash flows (in their first year of adoption).

Private Companies

Definitions for private companies have become clearer.

The AcSB confirmed there would be no "size test" to exclude companies of a certain size from applying the standards being developed for private companies (and therefore being required to adopt full IFRS along with public companies).

As contemplated in the AcSB Strategic Plan, the focus is whether a private company has significant external users of its financial statements.

Companies that do not have significant external users may find the complexities of GAAP excessive to their needs, but they do not currently have other alternatives.

Significant External Users

The AcSB is currently considering responses to its Invitation to Comment (ITC)* on the strategy for developing the accounting standards for private companies with significant external users.

Companies can expect to hear AcSB's decisions on the approach to be adopted for developing GAAP for private companies in mid-2008.

No Significant External Users

While companies without significant external users may not need GAAP, there is currently no alternative for simpler but consistent accounting guidance.

The CICA has released for comment a new accounting framework for "owner-managed" companies. The framework will not be GAAP; it is intended to be simpler guidance for private businesses without significant external users. A link to the draft framework is available on our resources page:

www.IFRSinCanada.com/resources.html.

(scroll down to CICA section)

Not-for-Profit Organizations

An ITC on the future direction for setting accounting standards applicable to NFPOs is expected in mid-2008.

Until the strategy has been developed and the new standards implemented, the existing CICA Handbook will be retained for NFPOs.

Comments?

Please contact us at info@IFRSinCanada.com

Suggestions for future topics are always welcome

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IFRS in Canada

Trying to Get Started?

Are you trying to get started with your planning for the transition to IFRS?

Our **IFRS Impact Assessment Service** will provide you with a comprehensive overview of issues specific to your organization, and

- alert you to critical issues across the business that require your attention
- provide a foundation for an effective IFRS implementation plan
- serve as a basis for 2008 disclosure

We will provide an analysis of your financial statements based on the current differences between Canadian GAAP and IFRS, as well as any expected changes in standards before the changeover date.

Line-by-line through your financial statements and notes, the analysis will recommend action plans to address issues specific to your company. Guidance goes beyond financial reporting and includes such issues as loan agreements, incentive compensation, investor relations and communication plans.

Please contact us to discuss:

Email info@IFRSinCanada.com

Phone (519) 498-2590

Interview: Paul Cherry

The Finance Group met with Paul Cherry, Chairman of the AcSB, to discuss the significant changes underway for Canadian public and private companies.

Public Companies

You have been talking to a lot of people through the IFRS transition progress review. What have you been hearing?

We started last September and have been trying hard not to reach conclusions as we go along. What we have been seeking out are things that we didn't expect, anything that might suggest that 2011 [the proposed changeover date] is too ambitious.

Overall, the results are quite positive. The hardest part was making people aware of the strategy; I think we have succeeded pretty well in that regard. Now we need to move beyond the general conversations; it is time to get more technical. We are encouraging industry-based efforts to understand the issues that are important to them in implementing IFRS.

Right now we haven't heard anything we didn't take into account when we proposed the 2011 date.

What has the response been to the proposed transition timeline?

Well, it cuts both ways; some companies would like to see it happen sooner, which may surprise some people. Other people think the timeline is too short, but we aimed from the beginning to give 5 years; that's more than Europe and Australia had, and significantly more time than China and India will have. We are looking at a much more stable platform [of IFRS standards] than Europe and Australia faced and our starting point is much closer to IFRS, although there are still important differences.



“Right now, we haven't heard anything we didn't take into account when we proposed the 2011 date.”

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“We need to move beyond the general conversations; it is time to get more technical.”

Interview: Paul Cherry (continued)

Members of the public were invited to make their views known directly to our Accounting Standards Oversight Council last fall, and three groups did. Each of them identified certain issues and concerns. For example, Financial Executives International Canada proposed that a year be added to the timeline unless certain important implementation issues can be clarified in the next few months.

Requirements relating to certification, internal controls and auditing also need to be taken into account. There is only so much that companies can cope with in the next few years. However, that's not coming through as such a large obstacle as some might have thought.

We've also been very sensitive to how things went in Europe. A number of studies have been done, and the results are very favourable. Some of us were worried that new problems would surface in the second year [2006], but that is not the case.

The AcSB is reviewing the definition of Publicly Accountable Entities. What kind of changes could companies expect? Could they be significant?

Well, obviously it's significant if you are a borderline case and it makes a difference between being "in" or "out." The core of companies affected by the IFRS changeover have known who they are right from the outset; public companies, all financial institutions and insurance companies. There are other types of organizations where it is less clear. The Board's view is that the changeover to IFRS in 2011 should apply to all profit-oriented enterprises unless two conditions are met: (i) the entity does not have securities listed for public trading, and (ii) the entity does not hold funds in a fiduciary capacity for a broad group of outsiders. We will put that definition out in exposure in early 2008. Also, the mandatory changeover to IFRS in 2011 does not apply to not-for-profit organizations.



Resources

Bookmark our resources page for an up-to-date source of information on changes to accounting standards for public and private companies:

www.IFRSinCanada.com/resources.html

Our resources page includes links to

- AcSB Bulletins
- Financial Reporting by Private Enterprises
- IFRS - Canadian GAAP Comparison
- AcSB IFRS Implementation Plan
- CICA Transition to International Standards website
- Illustrative IFRS Financial Statements
- more

IFRS Seminars

In the coming months, **IFRS in Canada** will be holding **IFRS information seminars** in major cities across Canada.

The seminars will be relatively brief (perhaps breakfast seminars), covering:

- Status of the Canadian IFRS transition
- Significant issues with respect to accounting standards and disclosures
- Potential impacts on your business beyond financial reporting
- Planning strategies for your company's transition to IFRS

There is no charge for attendance.

Please email us, indicating your location and industry:

seminars@IFRSinCanada.com

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“Everyone seems to love principle-based standards ... but many people get very stressed out when their fact patterns are not specifically dealt with ...”

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Interview: Paul Cherry (continued)

Some industries have raised some concerns during your progress review. What is the process for industries that feel IFRS does not address their key accounting issues?

This is a very important issue. Everyone seems to love principle-based standards and to hate detailed rules. But then, many people get very stressed out when their fact patterns are not specifically dealt with in the standards. This is a learning curve we are going through; you can't have it both ways, and it will take time for people to become comfortable.

We are encouraging industries to see what the issues and concerns are. Everyone knows their important issues under Canadian GAAP; those same issues could also matter most to them under IFRS. We have been advising people to find out if IFRS deals with their situation. If the standards don't, it doesn't mean it is a "free for all," but it does mean there is room for experience and judgment. Canada has over half of the extractive industry public companies and a huge portion of the public oil & gas companies in the world. We have a strong culture of working with accounting standards and treating them as standards. We come from a very strong starting point. Why wouldn't our expertise be highly influential in interpreting and applying IFRS?

We are urging people to make the "Canadian view" known now. Europe, Australia and over 100 other countries are already using IFRS, and they have lots of mining, oil & gas and agriculture companies. Each time a set of IFRS financial statements is issued, anywhere in the world, it adds to the global data pool of views of what IFRS is all about [how IFRS is interpreted and applied].

We should be in there influencing those views now, not waiting until 2010 before deciding if our industries are comfortable. It is much harder to change views once they become entrenched.

What is the process for making these views known?

There is a strong desire in Canada to keep an active Canadian participation, both in the setting of the international standards and how they are interpreted and applied in practice. At present, our Emerging Issues Committee has the authority to issue interpretations that have the status of a standard. We can't do that in the future, because if each country that uses IFRS issued its own interpretations, it would be a nightmare. Part of the package deal is that countries adopting IFRS must not issue national interpretations.

We need discussion groups to promote an exchange of views. Often times when you do that you find you have consensus; and if you are comfortable that the consensus view complies with IFRS, you don't need anything more. If you think there is a problem with the standards, or if there still is some doubt how the standards should be interpreted, the matter should be referred to the IASB or its global interpretations committee based in London. →

Comments?

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Suggestions for future topics are always welcome

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“ ... at some point they must be prepared to rely on their professional judgment – and just do it.”

Interview: Paul Cherry (continued)

If a Canadian group determines there really is an issue that is not addressed in IFRS, is there any chance the changes could be made before 2011?

Yes, but the IASB receives requests from around the world, and there is a limit to how much they can do.

My point is that people want strong principles and want to avoid excessive rules, which are noble objectives. To achieve those objectives, people must accept that once they are satisfied that what they are doing is sensible and complies with the general requirements of IFRS, at some point they must be prepared to rely on their professional judgment - screw up their courage - and just do it.

Canada is well-regarded internationally, and I am urging people to make their views known. It's not good enough to say, "this is the way we have always done it in Canada," but if we do our homework and our analysis of the relevant international requirements supports a particular conclusion, we should make our views known.

If I can try to paraphrase part of what you said: For a particular industry, if they find they don't have the same rules under IFRS, you are encouraging people to look carefully at those standards. If they apply judgment along with those standards, they may find the answers they are looking for without more detailed rules or a change to IFRS. Is that correct?

Yes. The treatment currently required in Canada might also be acceptable under IFRS, but it might not be the only acceptable treatment under IFRS.

The more problematic case is where Canadian GAAP requires a certain treatment, but you conclude that is not acceptable under IFRS; you are going to have change. Those are the things we need to focus on. Do a reality check – are we unhappy because we don't like change, or do we really think our approach is superior to what the international standards require? If we are going to ask London to change their requirements, it needs to be done in the next 12 months if we want it in place for 2011.

Is there any advice you want to add for public company financial executives and their staff, or misconceptions you would like clear up?

The changeover to IFRS is going to happen. We will confirm the timing, but the support for moving to IFRS remains strong and it is time for people to accept that reality.

Private Companies

What have you heard in your discussions regarding the strategy for private companies?

There were sharply divided views when we started and some of those differences remain; many are philosophical in nature. The Invitation to Comment explores various approaches to financial reporting by private companies within GAAP. This important constraint was overlooked or underestimated by many people. GAAP is designed for general purpose financial statements to meet the needs of investors and other external parties. Many private companies don't fit this fact pattern and any GAAP-based system will likely be excessive to their requirements.

The CICA is developing a framework for owner-managed enterprises that produces appropriate, good-quality information for them. →

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“We need to develop fundamental accounting principles, which is the purpose of the CICA’s proposed framework.”

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Interview: Paul Cherry (continued)

Presumably there would be some form of assurance made available for companies using that accounting framework?

That has come up in just about every conversation. We hear time and time again that many companies are getting a Notice to Reader report. There is no indication of whether the basis of accounting complies with GAAP, which makes comparisons difficult. We need to develop fundamental accounting principles, which is the purpose of the CICA’s proposed framework.

For private companies with significant external users, or those that choose to use GAAP, when can they expect to hear back on the results of the Invitation to Comment?

We are analyzing the comments received, and will consult our Oversight Council early in 2008 with some preliminary conclusions on the appropriate model to pursue. We hope to make a final recommendation by June 2008.

What is the expected timing for the implementation of the new GAAP for private companies?

That depends on which option is selected. If the choice is to continue our differential reporting, that can be done fairly quickly; it would be a matter of taking IFRS and deciding which differential treatments we wanted.

If people prefer the “mini-handbook” based on the IASB proposal [IFRS for Small and Medium-sized Entities], that will take longer because the IASB needs to finalize the proposals. If we prefer the third option [start afresh from scratch], it could take several years.

Either way, it will need to be before 2011?

Hard to say. If the choice is the IASB proposal, 2011 is probably about right for mandatory use. To be continued....

Not-for-Profit Organizations

Last question: Not-for-profits, when is it their turn?

We are not as far along as I would have liked; we can not pursue the implications for our not-for-profits until we have a clearer sense where the private company strategy is going.

Clearly some of the not-for-profits are publicly accountable, and others that may not technically be publicly accountable may want to act as though they were. They know they are in the IFRS camp. There could be many others that don’t fall in that category, and the analysis will be very similar to what is being covered in the private company ITC.

We have an advisory committee that comes from the not-for-profit sector and they have been working on some changes to the current standards for not-for-profits that have been issued as an Exposure Draft. The committee has also begun working on an invitation to comment for the not-for-profit strategy.

TFG

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Timeline

Preliminary timeline for IFRS transition (**publicly accountable entities**)

Feb/Mar 2008	AcSB progress review and finalization of changeover date
2008	Note disclosure of transition plan and anticipated impact on financial reporting
2009	Note disclosure of transition plan and quantification of anticipated impact on financial reporting
2010	Collection of comparative information based on IFRS and establishment of an IFRS opening balance sheet
2011	Full IFRS financial reporting with comparatives

Also note that there will be changes to Canadian GAAP between now and 2011, as certain standards are expected to be converged as new IFRS are adopted. Future issues of **IFRS in Canada** will discuss these items.

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