

October 12, 2007

# IFRS in Canada

Updates on changing accounting standards for Canadian public and private companies

## CICA Financial Reporting & Accounting Conference

- Target date remains 2011 (public companies)
- Expect disclosure requirements in 2008
- Security regulators considering early adoption alternatives

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## Updates from the CICA conference

The CICA held its annual Financial Reporting & Accounting Conference in mid-September. As might be expected, the IFRS transition for public companies comprised a significant portion of the discussions.

This issue of **IFRS in Canada** includes a brief overview of comments made by standard setters during the conference.

### AcSB

There was no indication that we should expect a delay in the transition to IFRS for public companies; the target date remains 2011. The preliminary timeline for public companies is on page 4.

It was also confirmed that the AcSB has no intention to “tinker” with IFRS - we should not expect Canadian exceptions or additions to the international standards.

A progress review is underway to assess the readiness of Canada’s public companies and determine whether there have been any significant changes in the global financial reporting environment. The results of the progress review will be released by March 2008, at which time the change-over date will be confirmed.

The AcSB will release an “omnibus exposure draft” in the first half of 2008 that will include the entire contents of IFRS. At about 2,500 pages, this was referred to as “the brick.” Paul Cherry (AcSB Chair), commented that the purpose of the exposure draft was not to review the decision to adopt IFRS, but to provide an opportunity for comment on specific Canadian issues that may not be fully addressed in the current IFRS.

Included in the exposure draft will be the proposed definition of public accountable entities (PAEs). Companies that fall under the definition of PAEs will be subject to the transition to IFRS.

The International Accounting Standards Board (IASB) has an active project to address standards for extractive industries, but a final standard is thought to be unlikely in the “foreseeable future”. We can expect much debate in this area in the coming months, due to some significant differences between current Canadian GAAP and IFRS. More discussion on the specific issues for Canadian extractive industries will be included in a future installment of **IFRS in Canada**.

### Security Regulations

A representative from the OSC spoke about some key issues related to IFRS being examined by the Canadian Securities Administrators (CSA).

- Will early adoption of IFRS be permitted
- Will Canadian issuers be allowed to file US GAAP statements
- Should the CSA relax existing filing requirements to accommodate the transition to IFRS (timing, content)
- What note disclosure will be required and when

Further information on these issues is expected in early 2008. It was commented that assuming the change-over date remains at 2011, companies should plan for disclosure requirements in 2008.



## 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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If Canadian listed companies that are also SEC registrants continue to have the option to adopt US GAAP, these companies could choose to file only US GAAP statements, avoiding issues associated with a change from Canadian GAAP to IFRS. Attendees were advised by several speakers to make this decision carefully, considering all the implications, and to keep in mind that US GAAP is changing: FASB's stated long-term goal is international convergence (see also SEC registrants in the What's New section, page 4).

Also to be considered:

- The SEC has proposed a rule to allow foreign issuers to file IFRS-compliant financial statements without a reconciliation to US GAAP as early as 2009.
- It is entirely possible that Canadian securities regulators will remove the option to file US GAAP statements, especially if the SEC allows the filing of IFRS statements without a reconciliation.

### CICA

Representatives from the CICA discussed IFRS planning strategies for public companies. Although it was emphasized that each company must make its own evaluation, they encouraged a planning process that focuses first on the

areas in which there are significant differences to Canadian GAAP and there are unlikely to be significant changes to current IFRS before the change-over date. These items include:

- The standard applied to the first-time adoption of IFRS (IFRS 1).
- Standards related to impairment, securitizations, agriculture, extractive industries, rate-regulated operations, and revaluations.

Future issues of **IFRS in Canada** will provide more information on differences between Canadian GAAP and IFRS.

### Globally

Reports from Europe and Australia indicate that their transitions to IFRS have gone reasonably well. The most commonly reported lessons learned from these transitions seem to be i) do not underestimate the amount of effort required for the transition, and ii) start the planning process early.

New countries announcing plans to move to IFRS include China, India, and Japan; all are planning to adopt IFRS in 2011.

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If there was one consistent message for public companies throughout the conference, it was the importance of starting preparation for the transition now.

### Private Companies

Non-publicly accountable enterprises (NPAEs) were subject to less discussion as the strategy for determining their future accounting standards is currently subject to public consultation and an Invitation to Comment.\*

However, in early October, the CICA announced it would be developing an accounting framework for owner-managed businesses (see the What's New section, page 4).

The deadline for responses to the AcSB Invitation to Comment\* for private companies is October 31, 2007. Please see the previous issue of **IFRS in Canada** for a brief overview of the three "viable alternatives" for private companies on which the AcSB has asked for comments.

As comments are received by the AcSB, they are posted on their website.\*

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\* Links to these documents are available at [www.IFRSinCanada.com](http://www.IFRSinCanada.com).

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A note of caution, however: the definition of publicly accountable enterprises (PAEs) is under review. It is safe to assume that if the definition is amended, it will broaden the scope of companies included as PAEs, not restrict it. At the conference, representatives of the AcSB commented that if you think you have broad accountability, you are probably a PAE (and thus subject to the transition to IFRS along with public companies). It was also commented that if you have broad accountability but fall outside the technical definition of a PAE, you should seriously consider adopting the

standards as they apply to PAEs.

One of the alternatives in the Invitation to Comment\* is to adopt the proposed IFRS for small to medium-sized entities (SMEs). These standards are intended to be simpler and easier to adopt than the full IFRS. The reaction to the exposure draft for this separate set of accounting standards for SMEs has been mixed. Recently, officials from the European Union have publicly stated they could not support the standards as proposed, claiming they are too complex for the majority of SMEs to implement.

\* Links to these documents are available at [www.IFRSinCanada.com](http://www.IFRSinCanada.com).

## Trying to Get Started?

Are you trying to get started with your planning for the transition to IFRS? Contact us to talk about how we can help.

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 change-over date.

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

Please contact us to discuss:

**Email** [info@IFRSinCanada.com](mailto:info@IFRSinCanada.com)

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## 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](http://www.IFRSinCanada.com/resources.html)

Our resources page includes links to

- AcSB Bulletins
- Financial Reporting by Private Enterprises (Invitation to Comment)
- IFRS - Canadian GAAP Comparison
- AcSB IFRS Implementation Plan
- CICA Transition to International Standards website *{new}*
- Illustrative IFRS Financial Statements
- more

### Comments?

Please contact us at  
[info@IFRSinCanada.com](mailto:info@IFRSinCanada.com)

Suggestions for future topics  
are always welcome

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## What's New

### CICA Website

New resources are available on the CICA website, with comprehensive sections for

- IFRS (public companies)
- private companies
- ISA (international auditing standards)

To access, visit the CICA website and click on the Transition to International Standards button, or visit our resources page:

[www.IFRSinCanada.com/resources.html](http://www.IFRSinCanada.com/resources.html)

(scroll down to CICA section)

### SEC Registrants

Speaking at the Financial Executives International annual conference in late September, FASB Chairman Robert Herz said he is in favour of a single set of global accounting standards. This is not new for FASB, but the subtext of Herz's comments went further than previous discussions. Herz seemed to clearly indicate that he believed US companies should move off US GAAP to IFRS (as opposed converging the two standards with significant changes to IFRS). Herz did not give timelines, but FASB is looking to develop a national

plan for US companies to adopt IFRS.

Despite some push-back in the US regarding the proposal to eliminate the requirement for foreign issuers to reconcile to US GAAP, SEC Chairman Christopher Cox commented in October that "we're still very much on track to eliminating the reconciliation requirement by 2009."

### Owner-managed Businesses

Recognizing the unique requirements of owner-managed businesses, the CICA has announced it will develop a new accounting framework for private businesses without significant external users. This is being referred to as an accounting framework rather than GAAP, but will be incorporated into the CICA Handbook.

The CICA estimates there are 2.2 million private companies in Canada, of which 1.7 million are owner-managed.

The framework will be published for comment this fall. A link to the news release is available on our resources page:

[www.IFRSinCanada.com/resources.html](http://www.IFRSinCanada.com/resources.html)

(scroll down to CICA section)

## Timeline

### Preliminary timeline for IFRS transition (publicly accountable enterprises)

March 2008	AcSB progress review and finalization of change-over 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

At this time, there has been no indication of changes to this timeline or potential note disclosure requirements.

Also note that there will be significant 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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