

September 7, 2007

# IFRS in Canada

## AcSB Strategic Plan

- “One size does not (necessarily) fit all”
- Canadian GAAP to be replaced with IFRS for public companies
- Consultation underway to determine plans for private companies

## Upcoming Topics

- Significant differences between Canadian GAAP and IFRS
- Planning for a successful transition
- Changes to expect 2008 - 2011

## Background

In this first issue of **IFRS in Canada**, we provide a broad overview of recent changes in the direction of Canadian accounting standards.

Those of you who have been following the events and discussions will be familiar with the information in this issue of the newsletter. Consider this a refresher and a chance for others to catch up.

### A change in direction

After considerable public consultation, the Accounting Standards Board of Canada (AcSB) adopted a new strategic plan in early 2006 entitled “Accounting Standards in Canada: New Directions.” \*

The two most significant elements of the plan are:

- The decision to pursue separate strategies for 3 separate categories of organizations: publicly accountable enterprises, non-publicly accountable enterprises, and not-for-profit organizations.
- Canadian GAAP for publicly accountable enterprises will converge with International Financial Reporting Standards (IFRS). Effectively, all standards and guidance under current Canadian GAAP will be replaced with IFRS.

A preliminary timeline and implementation plan\* have been developed for the transition to IFRS for publicly accountable enterprises.

Further consultation is planned or underway to consider strategies for non-publicly accountable enterprises and not-for-profit organizations.

## The Basics

### Public Companies

Or, more accurately, publicly accountable enterprises (PAEs). PAEs include:

- public companies, and
- some other organizations that have large or diverse classes of financial statement users.

Organizations that fall into the second category as currently defined are likely to know who they are from the existing Differential Reporting Standards. (generally, financial institutions and insurance companies). The AcSB is expected to review the definition of publicly accountable enterprises in the coming months.

The preliminary timeline indicates a change-over date (full convergence with IFRS) in 2011, at which time a separate and distinct Canadian GAAP will cease to exist for publicly accountable enterprises.

The AcSB has published the “Implementation Plan for Incorporating IFRS into Canadian GAAP” \* (subject to review and revision through the transition). Between now and 2011, we can expect the evolution of Canadian GAAP to include

- Adoption of any new IFRS that have been converged with US GAAP
- Possible adoption of new IFRS that do not significantly conflict with US GAAP
- Remaining IFRS adopted at the changeover date

Further details on which standards are expected to be adopted prior to the change-over date will be covered in upcoming issues.

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

## Comments?

info@IFRSinCanada.com

Suggestions for future topics are always welcome

**“The AcSB is on track for adoption of IFRS as Canadian GAAP for publicly accountable enterprises in 2011.”**

*AcSB, July 2007*

### Public Companies *(continued)*

The AcSB is conducting a progress review to be released in early 2008. The review will assess if there have been any changes in the global financial reporting environment that would impair the suitability of IFRS (this is unlikely), and the progress in Canada in addressing IFRS implementation issues. In addition, the change-over date will be finalized no later than March 2008.

Assuming the change-over date is confirmed as 2011, PAEs should expect to be required to disclose information on the anticipated impact of adopting IFRS and their transition plans in 2008 and 2009. Financial statement information based on IFRS will need to be collected during 2010 and an opening IFRS 2010 balance sheet established, each to be used as comparative information in 2011.

## 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

Based on the AcSB's consistent communications regarding timelines, it seems unlikely there will be any significant delay in the expected transition date of 2011.

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.

### Private Companies

The strategic plan provides for the possibility of a completely separate set of accounting standards for private companies who are not publicly accountable enterprises (see discussion under public companies). The term “possibility” is important however, as the AcSB has committed to pursuing a separate strategy for non-publicly

accountable enterprises, but has commented that the outcome of the strategy may be the same as or similar to that for public companies.

Regardless of the result, private companies will have the option to apply the standards applicable to public companies. →

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## Private Companies *(continued)*

An Invitation to Comment \* was issued in May 2007, seeking input to determine the best approach for accounting standards for Canadian private companies. Comments must be received by October 31, 2007.

The invitation identifies three viable approaches:

- i) standards based on IFRS, but allowing for certain differences (similar to current differential reporting model)
- ii) adoption of the IFRS for small to medium-sized entities (a completely separate set of standards currently in exposure draft\*)
- iii) an independently developed set of standards (unique to Canada)

Until the new strategy is implemented, the current differential reporting model will be maintained, along with the potential of additional alternatives through the existing process.

## Not-for-profit Organizations

Similar to private companies, the plan envisions the possibility of a completely separate set of standards for not-for-profit organizations. The AcSB will also be seeking input on the implementation of strategies for this sector.

At the present time, **IFRS in Canada** is not intending to provide detailed information on standards for not-for-profit organizations. However we will certainly draw your attention to important announcements and include summary information on significant decisions and changes to standards.

### Comments?

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

Suggestions for future topics  
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## Just Thoughts *(not required reading)*

### “You can’t please all the people all the time”

A great truism, and especially true for standard setters in today’s regulatory environment.

However, the AcSB’s plan for convergence of Canadian GAAP with IFRS (for publicly accountable enterprises) seems to have pleased most of the people this time.

A strategy to participate in a global convergence of accounting standards is not new for Canada. The previous plan called for convergence with US standards which in turn were expected to participate in an international convergence. This strategy was intended to allow Canada to participate in the anticipated longer-term global convergence, while minimizing differences within North America in the interim.

For many in the profession, this started to move Canadian standards away from their comfort zone of principle-based standards toward a more rules-based US approach. But many others, especially

those accessing US capital markets, felt that the need to harmonize standards within North America was paramount.

However, through the late 1990s and into this decade, the US standards became increasingly detailed, complex and, some would argue, extreme in their reliance on a rules-based philosophy. With these changes, Canadian professionals became increasingly reluctant to adopt many aspects of the US standards.

As a result, Canadian GAAP was somewhat stalled between where it had been and where it was supposed to be going. Unpopular standards were being adopted, but in an effort to maintain a balance, significant differences to US standards remained. Many believed we were no better, or worse, off than when the process had started. It is probably safe to say that most thought that a change in direction was needed, whether that be an accelerated convergence with US standards, a return to more independent Canadian standards, or a more dramatic shift in strategy.



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## IFRS Impact Assessment

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## Just Thoughts *(continued from page 3)*

The AcSB recognized the changes in the financial reporting environment and initiated a process to revise the Canadian strategy.

The result was the AcSB Strategic Plan "Accounting Standards in Canada: New Directions," which included the convergence of Canadian GAAP with IFRS for publicly accountable enterprises (PAEs). With some exceptions, this new direction for PAEs has been well received.

Generally speaking, detractors fell into two groups:

- i) *Those who support a full convergence with US GAAP.* They point to the importance of consistent standards across North America to facilitate Canadian access to US capital markets. Differences in North American standards would be eliminated, and Canada could then follow the US through future global convergence.

Most supporters of this view are large companies with the resources to contend with US standards, many of whom already reconcile their results to US GAAP as part of US listing requirements. But it is unlikely that the appetite for adopting US GAAP extends far beyond these organizations, as many believe the reporting burden and related costs under US standards would be significantly higher. True or not, this is a very real concern for the small to mid-sized companies that comprise the vast majority of Canadian public companies.

With respect to following the US toward global convergence, the speed of change or even the extent to which differences between IFRS and US standards will be eliminated is far from certain. Close to 100 countries have adopted, or plan to adopt, IFRS, so IFRS may very well begin to be well understood and accepted throughout North America regardless of the direction of the US standards. It is also possible that in the relatively near future foreign issuers in the US will be able to file IFRS-compliant statements without a reconciliation to US GAAP.

- ii) *Those who object to the length of the transition period.* Concern has been expressed that a lengthy implementation timeline will create considerable confusion surrounding Canadian GAAP financial statements throughout the transition to IFRS.

A valid concern, but consideration must be given to smaller companies with limited resources, many of which would prefer more time to adjust and effect a smooth transition. In addition, it seems prudent to take the time needed to examine areas where IFRS may not fully address some aspects of Canadian industry (for example, the current standards for the natural resource sector are not as robust in IFRS as those in current Canadian GAAP). The issue of the transition timeline could be debated endlessly, but the current timeframe does not seem unreasonable, especially when you consider we are now almost 40% (measured by the calendar) of the way toward full convergence with IFRS.

Despite these and other concerns, few expressed any desire to maintain the status quo for Canadian GAAP.

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The change in direction for Canada's publicly accountable enterprises is certainly dramatic, but it has been well debated and considered. Given the relative size of most of our public companies, and the general Canadian preference for principle-based standards applied with a healthy dose of professional judgment, the strategy certainly seems to be the most appropriate of the alternatives.

TFG

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