

March 26, 2009

IFRS in Canada

Practical updates on accounting standards for
Canadian public and private companies

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The Economy, Rumours of Delays & Information Overload

Observations

Interesting how quickly things can change. Since the confirmation of the 2011 changeover date last February, the interest in all things IFRS grew very quickly through 2008, but over the past few months I have sensed a distinct lull in IFRS transition activity.

I believe there are a number of reasons for this decrease in activity, beyond the obvious that those with calendar year-end have been buried in their annual filings.

Economic Conditions

It can be a challenge in today's uncertain economic environment for CFOs to convince other executives (and possibly themselves) of the need for expenditures on non-revenue producing activities.

This is an age-old challenge, even in good economic times. However, like it or not, the transition to IFRS is a current reality that comes with being a public company, and these types of projects usually get more expensive and increase in risk the longer they are left. Poor economic times emphasize the need to find a practical approach to dealing with the transition and, fortunately, there are ways to make the process manageable and cost-effective.

Changeover Delay?

Rumours seem to persist of a possible delay in the Canadian 2011 changeover date, due to the economic environment and/or the talk of delays in the US.

This appears to be wishful thinking by those hoping for a delay. There have been no indications that a change to the implementation date is likely. In fact, the AcSB has reconfirmed the 2011 date several times in the past months, including the following statement from the most recent IFRS Exposure Draft (March '09):

"The AcSB has considered the implications...of recent events including the current financial market uncertainty. The AcSB found no reason to change its proposed mandatory effective date for the adoption of IFRSs."

I spoke with Mark Walsh, Principal with the AcSB, and he confirmed this view: "The date for adoption of IFRSs is 2011 and the AcSB is not considering any change to this. Many companies are already well along with their conversion process so as to be ready to adopt IFRSs in 2011 or, in some cases, earlier."

Lack of Clarity

A lack of specific information about what is involved in an IFRS transition is preventing some from taking definitive action on the next steps. This lack of clarity can come from information overload, analysis paralysis, or from hearing too many "doomsday" scenarios.

There are many good seminars and other resources to help bring clarity to an IFRS transition effort, but there are just as many that cause anxiety and confusion by either being too ambiguous or over-complicating the issue. This is a natural result of trying to speak to or apply definitive or inflexible "methodologies" to all organizations.

This is not to say that the scope of an IFRS transition is not significant, but it is important to remember that an effective IFRS transition will look very different for different organizations, depending on their internal culture and complexities. The key is to find a practical approach that is most effective for your company to identify, and begin resolving, the relevant issues.

Again, there are effective ways to make a transition to IFRS manageable.

Gordon Heard, Principal Advisor
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What's New

PUBLIC COMPANIES (PAEs)

New IFRS Exposure Draft

During March, the AcSB released the second IFRS Exposure Draft (ED), *Adopting IFRSs in Canada, II*.^{*} The document includes the following proposals and information:

PAE Definition

The PAE definition has been amended, but this will not affect how it is applied for the vast majority of organizations.

The definition still includes all public companies, and now provides some extra guidance on the definition of a "public market."

The reference to companies that "hold assets in a fiduciary capacity" has been narrowed somewhat and now reads "holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses."

We have included a link to the amended definition at the top of the public company [resources section](#) of our website.

Most private companies and all not-for-profit organizations are still excluded, but do have the option to adopt IFRS. Please refer to page 3 of this newsletter for information on pension plans.

Governments and other entities in the public sector are still directed to the Public Sector Accounting Handbook. However, the PSAB has issued an Invitation to Comment, *Financial Reporting by Government Organizations*,^{*} which includes proposals regarding which types of government organizations may be required to adopt IFRS.

2011 Changeover Date

The ED reconfirms the 2011 changeover date, stating "The AcSB has considered the implications...of recent events including the current financial market uncertainty.

The AcSB found no reason to change its proposed mandatory effective date for the adoption of IFRSs."

The ED also confirms the intention that PAEs will be required to adopt IFRS for interim periods in the year of adoption (as opposed to delaying to the annual financial statements).

EIC Abstracts

The AcSB confirmed its general intention not to issue any Canadian-specific guidance on IASB Standards. The ED also states that "The AcSB has decided to withdraw all EIC Abstracts [in 2011]." Some of the principles within the current EIC Abstracts may be retained within the new accounting standards for private companies or not-for-profit organizations.

Identifying any EIC Abstracts that a PAE currently relies on for its accounting policies is one important step in identifying potential relevant differences between Canadian GAAP and IFRS.

Changes to IFRS & 2008 Bound Volume

The ED includes a summary of the changes to IFRS since the January 2007 version of IFRS that was included in the previous Exposure Draft. Keep in mind that this only includes changes to January 2008, and is likely only relevant if you are familiar with the details of the previously released January 2007 version of IFRS. We advise conducting detailed analyses with the most current version of the standards.

The ED also provides a link to the IFRS standards as at January 2008 (2008 Bound Volume). Since there have been changes to IFRS since that date, we recommend that this *not* be used for detailed analysis. It should also be noted that this version of the IFRS standards excludes bases for conclusions and other material that might be useful for detailed analyses.

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What's New

PUBLIC COMPANIES (cont'd)

Oil & Gas

CAPP and SEPAC have released their IFRS Information Guide.* The guide is a comprehensive review of IFRS adoption and implementation issues for Canadian Oil & Gas companies, including E&E expenditures, componentization, cash generating units, impairment testing, and asset retirement obligations. Joint Arrangements will be addressed after the IASB releases the new standard later this year.

The IASB Exposure Draft, *Additional Exemptions for First-time Adopters**, proposes to provide an additional exemption under IFRS 1 for organizations using full cost accounting. The document proposes that the carrying value of Oil and Gas Assets accounted for under full cost be used as the opening cost under IFRS (but still tested for impairment). This would apply to both exploration and evaluation assets as well as assets in the development or production phases.

Pension Plans

The recent IFRS Exposure Draft states: "the primary standard applicable to pension plans will continue to be PENSION PLANS, Section 4100." A footnote in the Exposure Draft adds that the AcSB is considering whether changes are required to 4100 and if additional guidance beyond 4100 will be required after 2011.

Our understanding is that consideration is being given to whether 4100, with any potential changes, would be sufficient as a "stand-alone" standard for pension plans and, if not, what standards (IFRS or otherwise) pension plans should refer to for issues outside the scope of 4100.

The AcSB expects to issue a separate Exposure Draft on the issue of financial statements for pension plans.

Rate Regulation

After IFRIC (International Financial Reporting Committee) decided in November not to address accounting issues associated with rate regulation, the IASB announced it would be adding the issue to its agenda. An Exposure Draft is expected in Q2 of this year.

The IASB has announced a tentative decision regarding the criteria that will define the rate-regulated activities to be included in the scope of the potential new standard. These are:

- "an authorized body is empowered to establish rates that bind customers; and
- the rate regulation takes the form of a cost-of-service regulation. In such regulation, the rates are designed to recover the specific entity's costs of providing the goods and services."

More information is provided on page 3 of the Feb '09 IASB Update.

Also, organizations subject to rate regulation are reminded of the IASB Exposure Draft, *Additional Exemptions for First-time Adopters**. These organizations may have items of PP&E whose carrying value under the rate regulated accounting of a previous GAAP includes amounts that could not be capitalized under IFRS. The Exposure Draft proposes to allow the use of the current carrying value as the deemed opening cost under IFRS, but only if it is otherwise impractical to meet the requirements of IFRS.

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What's New

PRIVATE COMPANIES

New GAAP for Private Companies

As discussed in previous issues, the AcSB is in the process of developing a draft "New GAAP" intended for Canadian private companies (private companies always have the option to adopt IFRS).

To develop the new standards, the AcSB is starting with the existing CICA Handbook (Accounting), and reconsidering sections that are not relevant to private companies, or that have caused significant concerns for private companies in the past. The intention is to consider requirements on a cost/benefit basis, resulting in simplified standards where possible. Disclosure requirements are also being re-evaluated, which is expected to result in significantly fewer disclosure requirements.

The AcSB has been releasing tentative decisions regarding these new standards since last fall, including information on issues such as financial instruments, leases, employee future benefits, business combinations and income taxes.

We have compiled these tentative decisions in one document that is available in the private company [resources section](#) of our website.

The standards may be available for optional use starting with calendar year 2009, and expected to officially replace the existing Canadian GAAP for private companies in 2011.

A full draft of the proposed standards is expected to be released for comment in April 2009.

Simplified GAAP = Easy Transition?

Since the current Handbook was used as the starting point, a transition to the new GAAP will be significantly less complex than a transition to IFRS.

However, private companies should remember that many of the standards that are changing will require retrospective

application, including the restatement of the comparative figures in the first year. The AcSB expects to develop a standard similar to IFRS 1 (First-time Adoption) that will address the requirements for these transitions issues.

NOT-FOR-PROFIT ORGANIZATIONS

New GAAP for NFPOs

The accounting standards for NFPOs controlled by a government are under the authority of the Public Sector Accounting Standards Board (PSAB). However, the PSAB currently directs these organizations to the same standards used by private sector NFPOs in the CICA Handbook, which includes the NFPO-specific 4400 series of sections.

The AcSB and the PSAB have jointly issued an Exposure Draft (ED), *Financial Reporting by Not-for-Profit Organizations*. The ED discusses alternatives for determining which accounting standards should apply to public and private sector NFPOs.

Tentative conclusions of the alternatives for *public* sector NFPOs are:

- public sector standards alone, or
- public sector standards supplemented by the 4400 series of HB sections.

Tentative conclusions of the alternatives for *private* sector NFPOs are:

- IFRS, or
- the "new GAAP" for private companies supplemented by the 4400 series of HB sections.

The ED also tentatively rules out the option of developing a new, stand-alone set of standards.

Comments are requested by the end of June 2009. It is not clear yet when any changes would be implemented, however it would seem necessary to do so before the current Canadian HB is withdrawn in 2011.

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