

# Canadian Accounting Standards

## PUBLIC COMPANIES AND THE MOVE TO INTERNATIONAL ACCOUNTING: GETTING THERE FROM HERE

Over the next five years, public companies in Canada will move to financial reporting using International Financial Reporting Standards (IFRS). *Bulletin #1* of this series outlined the strategy and the reasoning for this change. This Bulletin offers suggestions and a tentative timetable to manage the process as Canadian accounting standards go global.

IFRS are to a great degree similar—in language, length and concepts—to current Canadian GAAP. However, the implementation of IFRS will involve changes in financial reporting, data management, and communication to stakeholders. The extent of the changes—and some could be very significant—will vary according to the circumstances of each company. The devil is in the details.

The Accounting Standards Board (AcSB) has recently published its implementation plan for incorporating IFRS into Canadian GAAP. It is available online—see below. What is really important, however, is your implementation plan. Management will need to assess their company's circumstances carefully. The Board of Directors—and particularly the Audit Committee—should be involved in the overall strategy for convergence and should monitor implementation throughout the period.

### Starting now: Determine what needs to be done

Public companies will need to learn about IFRS and how these accounting standards will affect them in order to set up the internal reporting, information systems and training to accommodate their particular circumstances.

A practical place to start is to establish an implementation team with responsibility to assess the implications for your company. The team can review the *Implementation Plan for Incorporating IFRS into Canadian GAAP* (avail-

able at [www.acsbcanada.org/index.cfm/ci\\_id/32735/la\\_id/1.htm](http://www.acsbcanada.org/index.cfm/ci_id/32735/la_id/1.htm)) and then go to the Appendix which outlines some significant differences between current Canadian GAAP and IFRS.

Accounting for such items as revenue, impairment of assets and financial instruments will affect most companies. The implementation team should assess the extent to which other differences between current Canadian GAAP and IFRS will affect your company. These include effects on, for example, debt covenants and employee incentive

programs.

The team should also assess the impact of probable changes in Canadian GAAP and IFRS during the transition period. A number of significant changes are likely to be made to Canadian GAAP with respect to, for example, business combinations, income taxes and financial statement presentation. These are outlined in the *Implementation Plan*.

In addition to assessing the likely changes to financial reporting, you should also consider how you will collect and assemble necessary new data.

### Definitely by 2008

In 2008, the definitive changeover timetable will be announced. By the end of that year, public companies should have completed the planning for transition to IFRS and assessed the anticipated effect on financial reporting.

A public company will want to be in a position to disclose its particular plans for the transition and the broad impact on its financial reporting and other communications. What will the users of your financial statements see that's different? In addition to those relying on required general purpose financial reporting, specific users of financial information, such as lenders and employees, should be informed of the impact of transition to IFRS.

## By 2009

By the end of 2009, public companies will need to quantify more precisely the impact of the move to IFRS in their particular circumstances.

You should consider the effects of applying IFRS 1, *First-time Adoption of International Financial Reporting Standards*, which was developed to provide some relief on initial adoption of IFRS. IFRS 1 contains a number of transitional options, generally based on cost/benefit considerations. For example, companies can elect not to apply IFRS to pre-transition business combinations—and avoid restating these transactions. In addition, there are some mandatory exemptions from retrospective restatement when management's judgments would be involved, with the benefit of hindsight, on such items as hedge accounting and estimates.

Canadian companies registered with the US Securities and Exchange Commission (SEC) will need to decide whether they prefer to adopt US GAAP as it stands at that time instead of IFRS (assuming that securities regulations in Canada continue to allow this option). With respect to the year of transition, we will approach the SEC for an exemption from their general requirement for comparative figures for two years.

## 2010

Assuming a January 1, 2011 effective date for reporting under IFRS, companies would begin to collect comparative information for inclusion in the IFRS-based 2011 financial statements.

## 2011

Again assuming a January 1, 2011 effective date, this year will mark the end of the transition period. You would need to prepare interim and annual financial statements using IFRS.

## 2006–2011: Training and education—ongoing

Training and education will be necessary throughout the changeover period. Canada has the benefit of adopting IFRS after the EU, Australia and other countries. In these countries some training materials are already available. These include courses and background research at the university level, preparatory courses for professional designations, and retraining resources for those who are already in the workforce.

## Getting there from here—our plan

The AcSB will continue to work to represent the Canadian perspective and to minimize the burden of changeover for Canadian public companies.

- We will monitor closely the acceptance and quality of IFRS in the global capital markets.
- We will strongly support the joint efforts of the International Accounting Standards Board and US Financial Accounting Standards Board and will consult with both Boards on ways to ease convergence. Both Boards are working together closely, and the differences between IFRS and US GAAP can be expected to diminish.
- We will liaise with regulators, who are very much involved in the global convergence of accounting standards. In August of this year, the SEC and the Committee of European Securities Regulators issued a joint work plan to reconcile regulatory requirements for companies reporting under IFRS.
- We will continue to look for guidance from Canada's Accounting Standards Oversight Council.
- We will have the benefit of the advice of a new advisory committee on the



technical aspects of the changeover. The technical advisory committee has begun its meetings. These are open to the public.

For specific details on all ongoing activities, please see our web site. We will revise and update the *Implementation Plan* and other information posted there as circumstances warrant. Comments are welcome.

We will publish for comment the complete set of IFRS in advance of implementation to see if additional guidance is required to deal with any circumstances particularly prevalent in Canadian public companies. At this time, however, we think it is very unlikely that we will change the strategic direction.

We are very aware that changes in accounting standards place a burden on all involved—preparers, auditors and users. Many are already stretched. We will work to ease the burden.

## Financial reporting changes for other entities

Following the "One size does not necessarily fit all" philosophy, accounting standards for public companies may, or may not, be suitable for other entities.

We are assessing the extent to which IFRS may be useful for private enterprises and not-for-profit organizations.



### For more information:

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Further *Bulletins* in this series will present more information on aspects of change involved in the transition to international financial reporting standards for publicly accountable enterprises and changes in the accounting standards for private companies and not-for-profit organizations. The series is available at [www.acsbcanada.org/index.cfm/ci\\_id/33030/la\\_id/1.htm](http://www.acsbcanada.org/index.cfm/ci_id/33030/la_id/1.htm).