

Canadian Accounting Standards

IFRSs IN CANADA: CLEARED FOR TAKE-OFF

International Financial Reporting Standards (IFRSs) will become Canadian accounting standards for publicly accountable enterprises on January 1, 2011. This was widely expected. Now we are hearing people say, "Let's get on with it."

Who?

IFRSs will be Canadian GAAP for publicly accountable enterprises. These are profit-oriented enterprises that have responsibilities to a large or diverse group of stakeholders.

They include:

- s Publicly listed companies
- s Enterprises with fiduciary responsibilities, such as banks, insurance companies, credit unions, securities firms, mutual funds and investment banks
- s Crown corporations and other government business enterprises.

Private companies and not-for profit organizations are not included, but can adopt IFRSs if they choose to. Accounting principles for these organizations are still under consideration.

The AcSB has consulted widely with stakeholders about the change. The independent Accounting Standards Oversight Council reviewed the work of the AcSB in order to assess Canada's state of readiness, and the Council supports the AcSB's timetable. The AcSB is also in continuing communication with the Canadian Securities Adminis-

trators on regulatory policies affecting the accounting changes.

When?

For Canadian publicly accountable enterprises, changeover is for fiscal years beginning on or after January 1, 2011.

Some might choose to adopt IFRSs earlier, if possible. These would include Canadian companies that are subsidiaries of parents already using IFRSs and Canadian parents with extensive foreign operations using IFRSs. Canadian companies that are cross-listed in the United States might also be interested in early adoption since the US Securities and Exchange Commission (SEC) no longer requires reconciliation with US GAAP for non-US public companies listed on US exchanges, as long as their financial statements are fully in accordance with IFRSs.

In February 2008, the Canadian Securities Administrators issued for comment Concept Paper 52-402, which includes a proposal that Canadian-listed companies could adopt IFRSs for

financial years beginning in 2009. The decision is pending and, if approved, could make early adoption possible.

Look for the Omnibus Exposure Draft

Within two months, the AcSB will post an Omnibus Exposure Draft, **Adopting IFRSs in Canada**, that contains all IFRSs as at January 1, 2007. This document, in English and French, will be freely available for download from our web site.

The Highlights to the Omnibus will address the Canadian situation and will include a proposed formal definition of publicly accountable enterprises. The Appendix will provide valuable guidance on how to approach the document, to save time and resources by focusing on the standards that will affect your business and identifying those standards which are expected to change before 2011—there are relatively few of them.

Those responding to the Omnibus Exposure Draft will be asked to identify particular difficulties in applying IFRSs to Canadian situations and making the transition. However, the intention is to adopt IFRSs in full, without modification. The experience of other countries has indicated that country-specific variation is counterproductive.

Is your industry working on this?

Some forward-looking industry associations are already working on the details of practical implementation.

For example, in Canada's oil and gas industry, the full cost accounting method used by a great many, usually smaller, companies is not compatible with IFRSs. A Canadian industry group is working to reach solutions.

Another example is the real estate industry, which is working on the issue of fair value accounting for investment properties.

Regulated utilities, banks, investment funds and credit unions are also addressing their industry issues well in advance of the IFRSs changeover date.

Dealing with the change-over: the views from 35,000 feet and on the ground

Senior business people have heard a lot about IFRSs, so the high altitude awareness is certainly there. But how will the reality play out on the ground?

These changes will present significant opportunities and risks, which can be taken advantage of or managed if planning starts early enough. Boards of directors and senior management need to ensure that there is a team responsible for tailoring the applications of IFRSs to their particular organization and operations. In light of the new financial reporting requirements, enterprises should review manage-

ment reporting, the treasury function, systems and internal control, risk management, and education and training. Issues to be dealt with also include the basis for determining stock options and executive bonuses. Will there be an effect on agreements and covenants? Implementation teams should also keep a weather eye on the IASB's web site for new developments.

An important consideration will be the messages that senior management want to send out before and with the first set of IFRSs statements. Experience in the European Union when it changed over indicated that disclosure considerations tended to come at the end of the process. The result was a lot of boilerplate and some difficulties communicating with investors and analysts.

Because they are principles-based, IFRSs often require an explanation of the choices and judgments management has made. Some of the supporting data behind these need to be collected throughout the period, not after the fact. The management discussion and analysis and other supplementary disclosures need to communicate clearly the company's perspectives in the context of the new financial statement information.

The world is changing

The countries of the European Union and a number in the Pacific Rim adopted IFRSs in 2005. Newer major

economies, such as India and China, will be adopting IFRSs on about the same timeline as Canada. Japan, Brazil, Korea and Israel are also gearing up for the change.

As for Canada's largest trading partner, six months ago many thought that the United States would always keep US GAAP. Now, relief is being offered to non-US public companies in US capital markets. The IASB and the FASB are working together on a number of high priority projects to bring their standards closer together. The SEC is seriously considering the possibility of greater use of IFRSs by US companies. The SEC Chair, and others, have recently called for the development of a detailed plan for a possible move in the US to IFRSs.

The benefits of IFRSs for large, international enterprises are considerable: better access to capital, to international markets, and greater mobility of financial resources and expertise. The benefits for smaller or strictly local enterprises are indirect but basically in the same direction. Even if you operate in just one Canadian centre, if you are in the financial markets at all, you are, today, subject to the movements of international markets and labour and concerns about international credit.

Canada is very much a part of the global economy. Our accounting system will reflect that and allow us to operate more effectively in our changing world.

CICA and IASB Host International Conference in Toronto

April 23 – 25, 2008, the International Accounting Standards Committee Foundation is joining the CICA in presenting an international conference. Hear the perspectives of the Chairs of the IASB, AcSB and FASB, the plans for IFRSs-US GAAP convergence, and progress on technical topics. Pre-conference sessions will include industry specific material. (<https://secure.inorbital.com/IFRSConference2008/overview.asp>)



For more information on IFRSs:

On the web: <http://www.cica.ca/3/9/1/6/6/index1.shtml>

www.acsbcanda.org www.iasb.org

Or email: Paul.Cherry@cica.ca or Peter.Martin@cica.ca

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.acsbcanda.org/index.cfm/ci_id/33030/la_id/1.htm.