

# Countdown

Deloitte Canada's IFRS transition newsletter



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## IFRS — In or out?

Welcome to our April 2008 edition of **Countdown**. Earlier this month, the Accounting Standards Board (AcSB) released an Omnibus Exposure Draft (ED), *Adopting IFRSs in Canada*, which addresses several transition issues including the definition of Publicly Accountable Enterprises (PAEs). This definition is important since it determines which Canadian enterprises are required to apply IFRS on and after January 1, 2011.

In this issue of **Countdown** we will look a little more closely at this definition in order to help you answer the question of whether you are “in or out” of IFRS!

We also provide a commentary on certain legal implications to enterprises transitioning to IFRS, as well as a current events update.

Please communicate with your Deloitte contact if you have questions on the topics discussed in this issue or on IFRS in general.

We welcome direct feedback from you including ideas for articles you would like to see in future issues of **Countdown**. Please submit any ideas to [deloitteifrs@deloitte.ca](mailto:deloitteifrs@deloitte.ca) and see you in our next issue of **Countdown**!

## PAE - To be or not to be?

In February, the AcSB announced that PAEs are required to adopt IFRS for years beginning on or after January 1, 2011. The ED provides proposals on the scope of the major types of enterprises that will be PAEs and therefore will be required to adopt IFRS. Certain types of enterprises (e.g. publicly-listed companies) are clearly scoped in. But for other types of enterprises, the applicability of IFRS may be less clear cut.

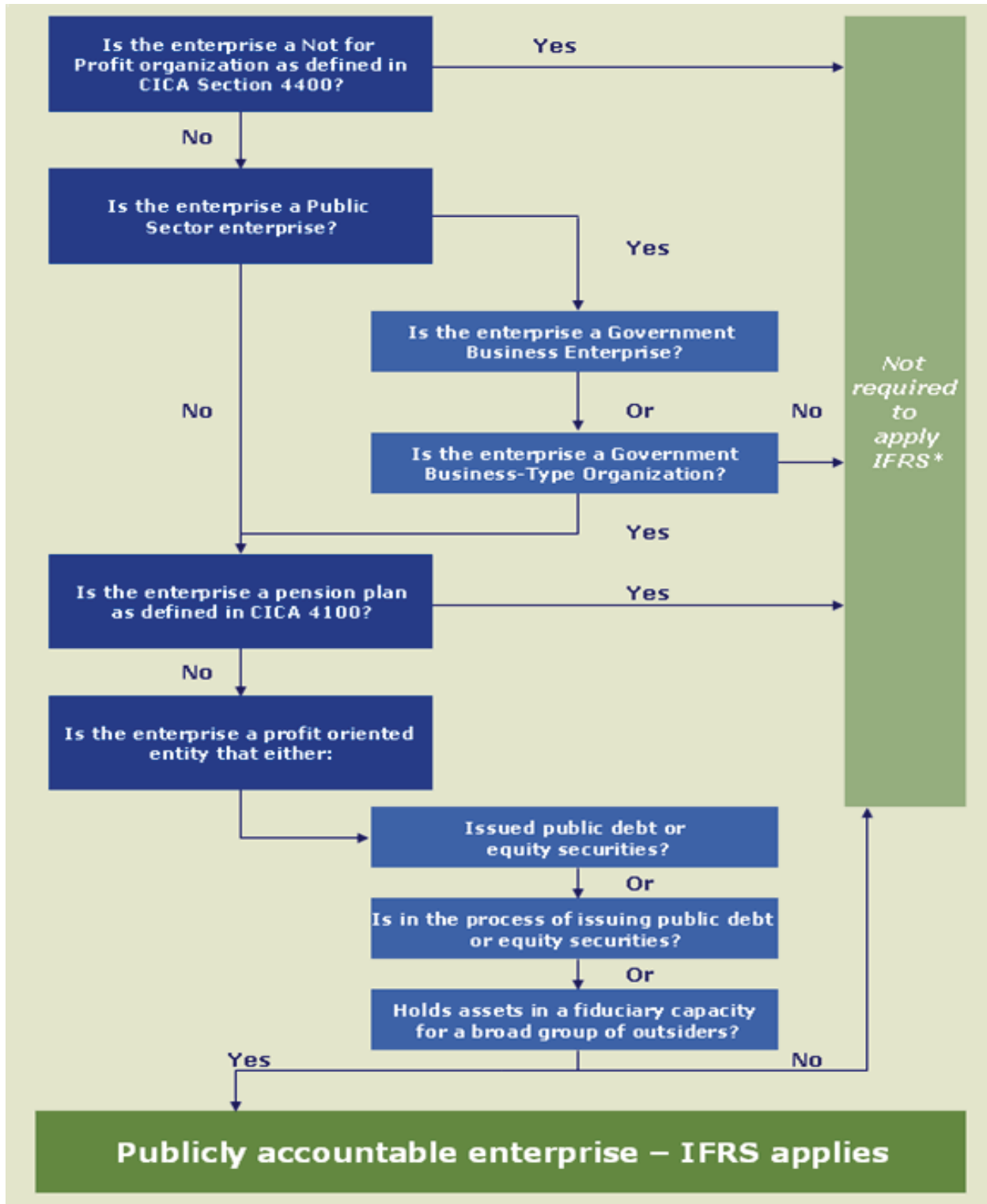
In this newsletter, we provide our initial analysis to assist you with the PAE question; however, we believe there will be further clarification about the application of the PAE definition over the next few months. This newsletter is not a substitute for reading the ED, but here are our observations.

- The definition of a PAE is effectively an **"except for"** definition, meaning that IFRSs apply to all enterprises unless they qualify for a scope exclusion.
- The **onus is on management** to demonstrate that the enterprise falls within one of the scope exclusions in order to be exempt from mandatory adoption of IFRS. Management may consider consulting their external auditors or advisors where judgment is required.
- Enterprises may wish to request clarification from the AcSB for their specific fact pattern in response to the AcSB's request for comments on the ED.
- When determining whether or not an enterprise is in or out of IFRS you will need to apply specific considerations which vary according to whether you are:
  1. A not-for-profit organization (NFP)
  2. A public sector entity
  3. A profit oriented entity
- There may be some overlaps in the above application. For example, what if the enterprise is a public sector entity that is also profit oriented?
- Pension plans are discussed separately. It is *currently* proposed that they continue to apply **Pension Plans, Section 4100** for the foreseeable future.
- Certain types of entities are not specifically addressed in the proposals (for example, pension funds and co-operative organizations). You should consider seeking guidance from your auditors or advisors or providing comments to the AcSB in response to the ED.
- Private enterprises and NFPs may voluntarily adopt IFRS once the standards are fully incorporated into the Canadian Institute of Chartered Accountants (CICA) Handbook.

Other regulatory bodies may have additional requirements relating to the ED proposals. For example, the Office of the Superintendent of Financial Institutions (OSFI) has provided additional guidance as detailed later in this newsletter.

## PAE - to be or not to be? (cont'd)

### PAE decision tree: An interpretation of the proposed scope of IFRS



\* The above diagram is for information only and is based on the proposals in the AcSB omnibus ED dated April 7, 2008. While not required to adopt IFRS certain enterprises are still permitted to voluntarily apply IFRS subject to regulatory approval by any regulatory bodies that oversee the enterprise. The above diagram is intended to assist, not replace, a full analysis of the PAE definition by an enterprise.

## PAE - To be or not to be? (cont'd)

The feedback and questions during our April 14, 2008 [IFRS webcast](#) indicated that there has been some debate regarding the PAE definition since the issuance of the ED.

To respond to your interest, we will be including a series of articles throughout the comment period designed to help you interpret and respond to the ED.

### Spotlight on the public sector



In this edition we asked Paula Jesty<sup>1</sup>, a Partner in the Deloitte public sector practice who recently completed a four-year term on the CICA Public Sector Accounting Board (PSAB), about her personal views regarding the application of IFRS to the public sector.

#### **What does IFRS mean to the public sector?**

Essentially, specific types of government organizations (organizations controlled by the government) which are currently directed by PSAB to follow the CICA Handbook – Accounting, will be required to adopt IFRS in accordance with the IFRS conversion timelines (effective for years beginning on or after January 1, 2011). The application of CICA public sector accounting standards (the “PS Handbook”) will continue to apply for the summary financial statements of governments in Canada as well as for certain other government organizations.

#### **What’s the history behind this decision?**

PSAB amended the PS Handbook in the latter part of 2007 in contemplation of the proposed scope of IFRS. The Introduction to the PS Handbook was amended to clarify that Government Business Enterprises (GBEs) and Government Business Type Organizations (GBTOs) are publicly accountable and are subject to standards applicable to PAEs. Accordingly, when the IFRS transition was confirmed, these specific types of government organizations were included within the scope of IFRS.

#### **Are the terms GBE and GBTO defined?**

Yes. The terms GBE and GBTO are defined in PS 1300.28 and in paragraph 10 of the Introduction of the PS Handbook and are terms that are familiar to governments.

#### **What does the future hold for public sector entities?**

PSAB will continue to develop generally accepted accounting standards for the public sector in Canada for the foreseeable future. PSAB has no strategy in place with respect to convergence with IFRS and while PSAB continues to participate in projects with the International Public Sector Accounting Standards Board (IPSASB), there is currently no strategy in place to converge with international standards.

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<sup>1</sup> The views expressed by Paula Jesty are her own views and do not reflect the views of the Public Sector Accounting Standards Board (PSAB)

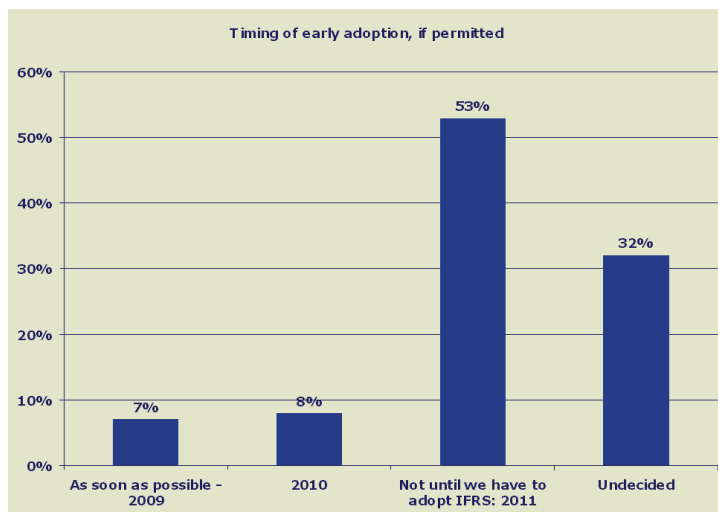
## Recent Deloitte IFRS activities

Deloitte hosted a cross-Canada [Directors' Series session](#) on April 10 featuring external speakers Guylaine Saucier and Paul Cantor, representing the director's view, and Philip Ryan, Executive VP and CFO of Power Corporation of Canada representing management's view. We also held a live national Webcast on April 14 featuring Ian Hague from the Accounting Standards Board and John Carchrae from the Ontario Securities Commission.

Access the session replay by following these links:

- [Directors' Series](#)
- [IFRS Webcast](#)

Each event was designed to assist participants in their personal assessment of the impact of IFRS on their enterprise. We had record attendance at both events, confirming that IFRS is a top priority for many of you. The events also provided some valuable insights and in this edition, and subsequent editions, we will share results from surveys and questions circulated at these events.



Our survey results indicate an overwhelming 53% of participants surveyed would NOT adopt IFRS until it becomes mandatory!

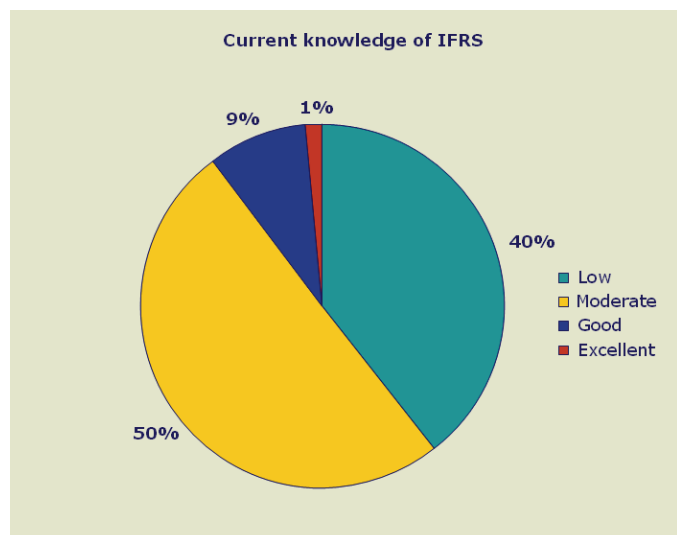
**If early adoption is permitted, when would you plan on adopting IFRS?**

[Add your voice](#)

Our survey results indicate that 90% of participants surveyed believe their IFRS knowledge level is low or moderate. How do you rank?

**Where would you rank your knowledge of IFRS at this point?**

[Add your voice](#)



## Beyond financial reporting – Keeping it legal!

The transition from Canadian GAAP to IFRS extends beyond the financial reporting process. Looking forward, IFRS will likely require the involvement and consideration of the legal department or legal advisors of an enterprise. Deloitte is working with members of the legal profession, and their clients, to facilitate a timely understanding of any contract law or similar issues which may arise upon the adoption of IFRS. Legal issues to consider? Here are some examples:

- **Contractual arrangements:** Consideration of amendments necessary due to impact of IFRS on royalty agreements, licensing arrangements, banking agreements and covenants, compensation plans and joint venture agreements, among others.
  - Do you have investments in joint ventures, partnerships or equity method investees who will have to provide IFRS-transition information and ongoing IFRS-compliant financial information to your enterprise?
    - If so, do your legal agreements that govern your investments provide you with the right to request the necessary IFRS information on a timely basis?
    - What are the implications if other investors have different IFRS transition dates or will not adopt IFRS at all?
  - Do you have contractual arrangements which require calculations in accordance with current Canadian GAAP? Questions to consider:
    - Will the adoption of IFRS as Canadian GAAP for publicly accountable entities have an impact on the basis for the calculations which should be addressed?
  - Determine whether the adoption of IFRS will have any impact on debt covenant compliance calculations either for the restated comparative information or for calculations for periods after the adoption date.
    - Consider whether the debt covenant calculations should be amended in the legal agreements to accommodate any changes to the ratios resulting from the adoption of IFRS which should be reflected in the calculations. For example if the enterprise is expecting significant adjustments to opening retained earnings upon adoption of IFRS, should these amounts be excluded from debt/equity ratios?
    - Enter into dialogue with your lenders early in the process if you expect your reported financial results to differ significantly under IFRS.
- **Merger and Acquisition Activity:** Consideration of new guidance on business combinations, impact of IFRS transition on existing arrangements (e.g., purchase price adjustments, earn out agreements, post-acquisition earnings)
- **Securities Law:** Disclosures in regulatory filings including material changes, risk factors and internal controls
- **Corporate governance:** Financial literacy of Corporate Directors, legal aspects of business issues resulting from IFRS

## Beyond financial reporting – Keeping it legal! (cont'd)

The impact of IFRS on contractual arrangements and the legal department is just one part of the overall picture. We recommend that you perform an inventory of key contracts if you have not already done so, and identify any legal or contractual issues which may arise from the adoption of IFRS. This should be included as a key part of any IFRS implementation plan and one which may require significant time to research and resolve any identified issues. As such, this should not be left to the end of the transition process! During that review, those same contracts should also be assessed to determine if there are any accounting or disclosure matters arising from those same contracts that should also be considered as part of the IFRS conversion.

## The IFRS transition journey: Where are we now?

### Milestones – Past and present

**February 22, 2008:** [Updated summary of changes](#) to Canadian generally accepted accounting principles (GAAP) expected to occur prior to the mandatory IFRS changeover date. These include intangible assets, rate regulated operations (both 2009), earnings per share (2010) and business combinations, income taxes and joint arrangements (all 2011 – in conjunction with the adoption of IFRS).

**March 4, 2008: U.S. Foreign Private Issuer Alert** - the American Institute of Certified Public Accountants (AICPA) Securities and Exchange Commission (SEC) Regulations Committee's International Practices Task Force (IPTF) provided implementation guidance regarding the SEC's December 21, 2007 final rule *Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with IFRS Without Reconciliation to U.S. GAAP*.

The December 21, 2007 final rule is the basis for entities that meet the definition of a Foreign Private Issuer to elect to file with the SEC financial statements that comply with IFRS as promulgated by the International Accounting Standards Board (IASB) **without** reconciliation to United States generally accepted accounting principles (U.S. GAAP).

A literal reading of the March 4, 2008 [IPTF implementation guidance](#) could potentially limit the ability of certain Canadian Foreign Private Issuers to elect to adopt IFRS for U.S. filing purposes. Specifically, the IPTF concluded that a Foreign Private Issuer that files its financial statements with the SEC using U.S. domestic forms, such as Form 10-K and Form 10-KSB, **is not eligible** to file its financial statements in accordance with IFRS without reconciliation to U.S. GAAP.

Based on this development in the reporting landscape, we would encourage Canadian companies meeting the SEC definition of a Foreign Private Issuer and currently reporting on Form 10-K or Form 10-KSB to talk with their securities counsel about this matter and, as considered necessary, the SEC and/or the appropriate Canadian securities regulators.

**April 7, 2008:** The AcSB released the Omnibus ED, [Adopting IFRSs in Canada](#). This ED was the subject of our special edition newsletter released last week and which [can be accessed here](#).

**May/June 2008:** The CSA is expected to provide further guidance clarifying the nature and form of 2008 IFRS disclosure requirements regarding an entity's adoption of IFRS. The CSA is working with the AcSB to determine the appropriate level of disclosures.

**April 21, 2008:** Just released! *IFRS in Your Pocket 2008* - a pocket-sized Deloitte publication providing a summary of the key features of each IFRS. An electronic version of this publication can be downloaded from [www.DeloitteIFRS.ca](http://www.DeloitteIFRS.ca).

## The IFRS transition journey: Where are we now? (cont'd)

**April 25, 2008:** OSFI released [a letter](#) addressed to all Federally Regulated Financial Institutions (FRFIs) regarding IFRS adoption. OSFI has closely monitored the AcSB's plan on moving to IFRS. This guidance addresses OSFI's views relating to the move to IFRS in 2011 and states the following:

1. All FRFIs are considered to have fiduciary responsibilities and are therefore publicly accountable. They must adopt IFRS as required in AcSB's plan for fiscal years beginning on or after January 1, 2011.
2. No early adoption will be allowed for FRFIs because of significant impacts to various areas of OSFI (e.g. systems changes).
3. All FRFIs must submit a semi-annual progress review on their plan to adopt IFRS to OSFI within 30 days of the end of the semi-annual period and commencing with the 2008 fiscal year-end. The progress review will include a discussion on the institution's assessment of its readiness to adopt IFRS in 2011, any challenges it envisions and steps it plans to take on resolving these issues.

In addition to the Concept Paper, the CSA is expected to issue disclosure requirements relating to the adoption of IFRS for filings leading up to the changeover date of January 1, 2011. OSFI expects to issue a separate letter to industry subsequent to CSA's publication on disclosures, requiring all FRFIs who are not subject to the CSA disclosure requirements to make the same disclosures in financial statements provided to OSFI along with any additional disclosures OSFI considers necessary.

## International round-up: Updates and news from the IASB

**Discussion Paper on employee benefits:** On March 27, 2008, the IASB published for comment a Discussion Paper (DP)<sup>2</sup> [Preliminary Views on Amendments to IAS 19 Employee Benefits](#). The DP represents the first step in a post-employment benefits project and covers:

- The deferred recognition of some gains and losses arising from defined benefit plans;
- Presentation of defined benefit liabilities;
- Accounting for benefits that are based on contributions and a promised return; and,
- Accounting for benefit promises with a 'higher of' option.

The IASB requests responses to the DP by September 26, 2008.

**Discussion Paper on financial instruments:** On March 20, 2008, the IASB published for comment a DP on [Reducing Complexity in Reporting Financial Instruments](#). The DP examines the main causes of complexity under IFRSs today – such as "many alternatives, bright lines, and exceptions that often obscure the underlying principles". The DP concludes that the long-term solution is a single measurement principle for all financial instruments within the scope of a standard, and explains why "fair value seems to be the only measurement attribute that provides relevant information for all types of financial instruments." However, many issues and concerns must be addressed before a general fair value measurement requirement could be introduced. Consequently, the paper suggests possible intermediate approaches that would improve and simplify measurement and hedge accounting requirements relatively quickly – including any or a combination of:

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<sup>2</sup> Discussion papers precede Exposure Drafts, have a comment period and often seek input into alternative views and directions being explored by the standard setter.



## International round-up: Updates and news from the IASB (cont'd)

- Amending the existing measurement requirements in IAS 39: *Financial Instruments Recognition and Measurement*, for instance, by reducing the number of categories of financial instruments;
- Replacing the existing IAS 39 measurement requirements with a fair value measurement principle and some optional exceptions to fair value measurement; and,
- Simplifying hedge accounting.

The DP is the first step in an IASB project that would replace IAS 39. The IASB requests responses to the DP by September 19, 2008.

### **Your comments matter!**

DP and ED requests for comment from the IASB are essentially the mechanism for Canadian enterprises to influence the future direction of Canadian GAAP and therefore we encourage you to review these documents and provide your input and comments to the IASB in accordance with the comment periods. It is not necessary to respond to every question or issue raised in the DP or ED if you do not have a view on all the issues.

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