IFRS Services September 2008

Countdown

Deloitte Canada's IFRS transition newsletter

Table of contents

Welcome to our September 2008 edition of **Countdown**. As summer comes to an end, many Canadian publicly accountable enterprises are in the process of, or have already completed, their initial diagnostic assessments of the impact IFRS will have on their business and are beginning to look forward to putting the final touches on implementation plans, with a view to acting on these plans in the near future.

With the move slowly taking place from the diagnostic stage to the first steps down the road to implementation, a key focus of this month's newsletter is on project management. Project management will be critical as enterprises work through the various steps of their implementation plans over the coming years and we hope to provide some insight in ways of minimizing risk and achieving an efficient and effective IFRS conversion.

The International Accounting Standards Board (IASB) has just issued an exposure draft on proposed amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards, and we have provided the highlights of the potential changes to exemptions for your information. These proposed amendments reflect comments received from the Canadian marketplace and illustrate the importance of responding to invitations to comment, to influence changes to standards to consider Canadian circumstances.

We have also included a discussion of some of the key consideration points for IFRS 1. This important standard will require careful thought and planning as you embark on the IFRS conversion journey.

We encourage you to contact your local Deloitte office to find out more about recent IFRS events and how to effectively address them in your IFRS transition plan.

As always, we welcome direct feedback from you, including ideas for articles you would like to see in future issues of Countdown. Please submit your ideas and suggestions to deloitteifrs@deloitte.ca.

Don Newell
IFRS National Services Leader

Visit us at
www.DeloitteIFRS.ca

Exposure Draft Alert

On September 25, 2008, the International Accounting Standards Board (IASB) issued the long awaited exposure draft to propose amendments to IFRS 1: *First time adoption of International Financial Reporting Standards* (IFRS 1 ED) in response to suggestions from the Canadian Accounting Standards Board. These proposals are still subject to the normal exposure draft comment period and therefore there is no certainty that the proposals will be approved in their entirety or as currently drafted. The comment period for the IFRS 1 ED ends on January 23, 2009. Please follow this link to download the exposure draft.

We summarize the most important proposals below and will explore them in more detail in the October newsletter:

Deemed Cost for Oil and Gas Assets

- If an entity used full cost accounting under its previous GAAP it may elect, at the date of transition to IFRSs, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP and to measure oil and gas assets in the development or production phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date.

Deemed cost for operations subject to rate regulation

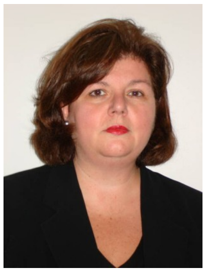
- An entity with operations subject to rate regulation could elect to use the carrying amount of items of property, plant and equipment held, or previously held, for use in such operations as their deemed cost at the date of transition to IFRSs if both retrospective restatement and using fair value as deemed cost are impracticable (as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*)

Leases

- If a first-time adopter made the same determination under previous GAAP as that required by IFRIC 4 Determining whether an Arrangement contains a Lease but at a date other than that required by IFRIC 4, the first-time adopter need not reassess that determination when it adopts IFRSs.
  Editors note: This exemption will require careful analysis as IFRIC 4 does not include any grandfathering provisions for such contracts; however, the equivalent Canadian standard, Emerging Issues Committee Abstract Number 150: Determining whether an Arrangement contains a Lease did provide specific grandfathering relief for contracts issued or acquired prior to a certain date so any previously grandfathered contracts may not be eligible for this proposed IFRS 1 exemption.

IFRS Project Management – A key success factor for your implementation *(Anna Pesme, Associate Partner, Enterprise Risk Services)*

IFRS Project Management – A key success factor for your implementation



The issuance of your first IFRS financial statements is the ultimate destination at the end of your IFRS implementation journey, with a major milestone along the way being the completion of your opening IFRS balance sheet. As you plan for this journey, you should expect to encounter a few speed bumps and detours along the way from both internal factors, largely within your control, and external factors which are generally outside of your control such as the timing and content of proposed changes to IFRSs. One overriding message we hear from our global colleagues about successful IFRS implementations is that strong project management principles are an essential travel companion.

An early commitment to strong project management principles will ensure the project is planned and executed successfully and within regulatory or other established deadlines. Given the potentially pervasive nature of IFRS implementation across organizations, planning and executing with consistent project standards, processes and practices can reduce the risk of non-compliance and expensive and time-consuming roadblocks or detours. The commitment to a robust project management approach to your IFRS implementation project will help address the following questions:

1. Completeness – How will you ensure that you have considered all implications from all the applicable standards for your organization?

2. Timeliness – How will you determine and manage the amount of time required to make the necessary accounting decisions and implement the changes across your organization?

3. Efficiency – How will you ensure that you are aware of issues, such as project costs or time overruns, which are not being resolved in a timely manner?

4. Communications – Who are your key stakeholders, what information do they need and when do they need it? If your organization is a global organization with multiple subsidiaries, equity method investees or joint ventures, how will you ensure consistency throughout the organization?

5. Change management – Have you established appropriate training, education and other change management activities to ensure that your IFRS implementation plan is sustainable and is supported by appropriate internal control mechanisms?

Planning, more planning and then validating the planning will help to reduce the risk associated with your project!

Key Considerations

Some of the key project management considerations for organizations include the following:

Governance – establishing the appropriate level of oversight and organizational structure confirms senior management's commitment to the project. This includes defining clear roles and responsibilities from both a responsibility and accountability perspective and ensuring all relevant stakeholders have been identified and are engaged in the project.

IFRS Project Management – A key success factor for your implementation (cont'd)

Project Planning – establishing the scope of the project – what it will include and what it will not include. Develop and establish a change management process to handle changes to project scope which may result from changes in standards, new issues being identified, system limitations or cost overruns. Best practices for IFRS implementation project plans would indicate that a plan should include the following information:

- Identification of major workstreams (geographic, IFRS standard specific, legal entity specific or any combination thereof)
- Key tasks by workstream
- Budgeted hours, actual hours and forecast time to complete
- Responsible person(s) and other resources allocated to each task

Project plan(s) should also identify key milestones and potential interdependencies. Consider the planning efforts of other areas of the organization including human resources, legal, information technology/systems, tax, investor relations, treasury, internal audit and internal control compliance personnel.

Reporting – develop and establish standard reporting to assist in the tracking and monitoring of the conversion project. Consider how the status reporting will be used to update project progress for reporting to stakeholders including, for instance, the Audit Committee and Board of Directors as well as to comply with the Canadian Securities Administrators disclosure requirements in Management's Discussion & Analysis.

Issue and Risk Management – during the course of the conversion project there will be many issues both technical accounting and non-technical that will be identified and which will require resolution. Consider implementing a standard issue management process to ensure that all issues are captured and addressed in a timely and efficient manner.

Training, Communication and Knowledge Transfer – consider the number of people across the organization that will require IFRS training. Who needs to be trained? When and how will the training be delivered? How will the organization address the knowledge transfer between the IFRS project team members and the operational units?

Quality and Document Management – there will be an array of documentation created as part of the IFRS implementation project such as issue resolution templates, internal control documentation, revised accounting policies and procedures, global reporting templates and much more. Develop and implement standard approval requirements, quality and document management (format, handling, storage, retention, etc.) standards so that documents can be located and retrieved in a timely and efficient manner. Developing these standards will ensure consistency of documentation across all departments, entities and individuals contributing to your IFRS implementation project.

IFRS Project Management – A key success factor for your implementation (cont'd)

Consider these best practices to increase the success of your IFRS implementation project

Governance	Approach
• Sponsoring organization should commit and hold Senior Executives accountable • Major business transformations need strong executive leadership and project management • As much as possible, establish clear link between company goals and compliance requirements • Implement change leadership processes, build understanding and buy-in within the organization • Implement a strong overall project reporting processes to provide an effective means to quickly assess the progress, timeframe and risk profile	• Scope the effort appropriately – during the impact assessment phase confirm high risk areas • Be comprehensive... Do not forget the processes, the controls, etc., and do not forget IT • Implement an efficient scope management process • Iterative and agile process to improve team's response time to changes • Select and follow a formal methodology, and standards tools and structure • Determine level of participation required from various areas of the organizaiton
Planning	**People**
• IFRS will be in place in 2011... but there are impacts as early as 2008... • Start early and plan ahead! Once set, the deadlines are unlikely to change • Implement adequate timelines monitoring processes • Plan for additional changes in for those standards that are expected to change prior to 2011 • Plan for impact on other business, IT and compliance requirements	• Engage the key stakeholders and end-users early on, and throughout the conversion effort • Train the people appropriately • Manage fatigue effect that can occur due to workload or successive regulatory changes • Manage change and resistance to changes • Communicate on a regular basis the progress of the conversion project

Tips on Applying IFRS 1: *A focus on First-time Adoption of International Financial Reporting Standards*

IFRS 1 requires a first-time adopter of IFRSs to apply the IFRSs which are effective on the reporting date (year end date) for its first IFRS financial statements issued in the year of adoption. For a calendar year end entity that reports quarterly, the first IFRS financial statements would be the March 31 interim financial statements issued in the year of adoption.

> *For example, a Canadian calendar year end entity which adopts IFRS on January 1, 2011 would be required to **apply all IFRSs that will be effective on December 31, 2011** to the first quarter financial statements for the 3 months ended March 31, 2011, to the restated comparative interim financial statements for the three months ended March 31, 2010, and to determine the opening balance sheet adjustments as of January 1, 2010*

An entity planning on adopting IFRS should monitor the status of the International Accounting Standards Board's (IASB) standard setting process and consider the following:

- Assess whether any standards issued but not yet effective on the transition date should be considered for early adoption at the same time as the transition to IFRSs to minimize future reporting changes;

- Ensure that data requirements of new IFRSs which are issued or about to be issued are incorporated into the IFRS conversion plan so the relevant financial information, systems and processes are in place when the IFRS is effective; and,

Tips on Applying IFRS 1: *A focus on First-time Adoption of International Financial Reporting Standards* (cont'd)

- Monitor proposed changes to existing IFRSs when selecting accounting policies to determine which policy choice, if any, will minimize future changes that may result when the final IFRS is issued or effective subsequent to the IFRS adoption date.

To ease dual generally accepted accounting principles (GAAP) requirements in 2010, Canadian enterprises may choose to consider the planned issuance and effective dates of any new standards issued by the Canadian Accounting Standards Board. A number of mirror standards are planned to be issued during 2009 and 2010. Early adoption provisions, if available, should be considered to reduce the restatement requirements upon IFRS transition or, at a minimum, to stagger the transition effort.

The IFRS Transition Journey: Where are we now?

Milestones – Past and present

September 16, 2008: Heads Up on updated FASB-IASB Memorandum of Understanding (MoU)

On September 11, 2008, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) jointly published an update of their 2006 Memorandum of Understanding (MoU). The MoU describes the priorities and milestones related to the two boards' completion of major joint projects by 2011. The IASB's timing to comply with the MoU requirements will create uncertainty with respect to the impact of IFRS to Canadian companies as certain IFRSs will undergo significant changes during and immediately after adoption in Canada.

Deloitte has published the *Heads Up* Newsletter (PDF 158k) discussing the updated MoU. An excerpt:

> *There are two reasons why it is important to complete the projects by 2011. First, a number of countries, such as Canada, India, Japan, and Korea, have announced plans to adopt or converge with IFRSs beginning in 2011. If the projects are completed by 2011, those countries will avoid having to adopt new standards shortly after making the transition to IFRSs. Second, in accordance with its proposed IFRS Roadmap, the SEC will determine in 2011 whether to require mandatory adoption of IFRSs for all US issuers starting in 2014. In doing so, it will evaluate the progress of the various milestones included in that roadmap, one of which is improvements to IFRSs.*

August 28,2008: SEC proposes a 'roadmap' to IFRSs for domestic US registrants

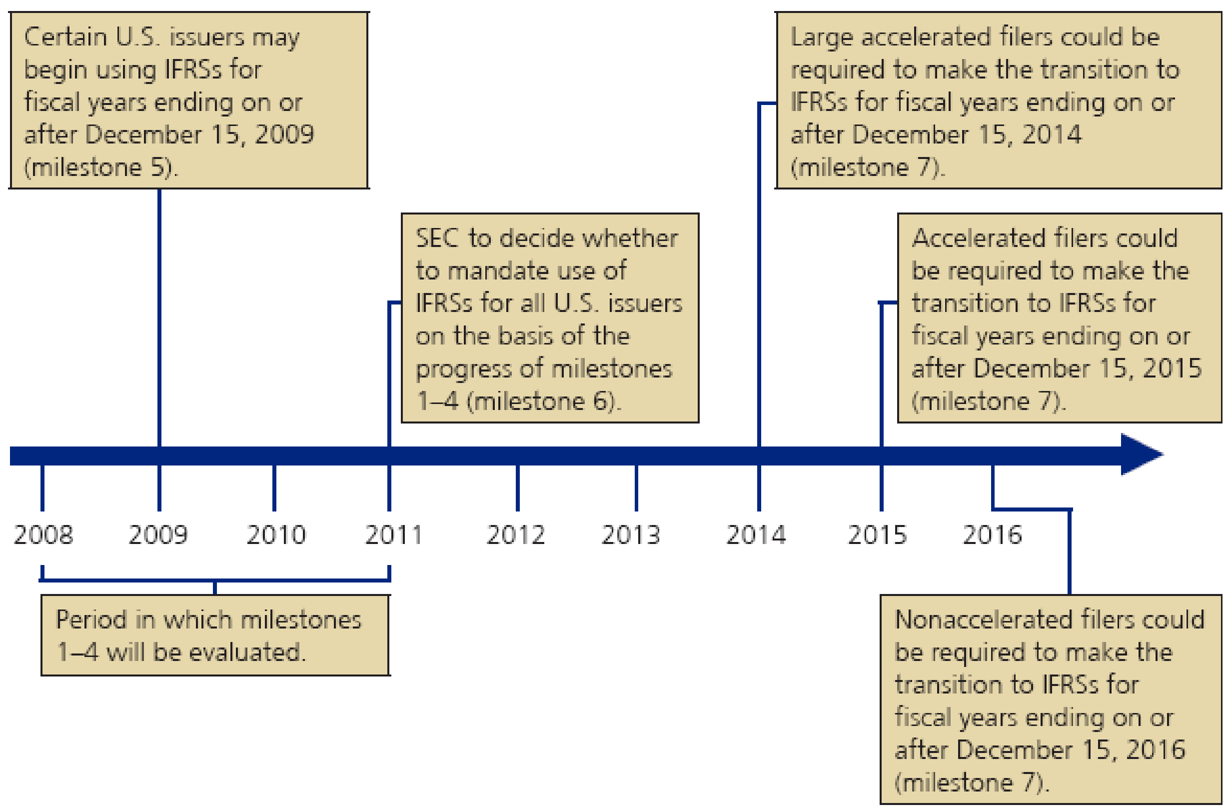
On August 27, 2008, the US Securities and Exchange Commission (SEC) voted to publish for public comment a proposed 'roadmap' that could lead to the use of IFRSs by US issuers beginning in 2014. Currently, US issuers must use US GAAP, though foreign registrants (of which there are around 1,100 from 52 jurisdictions) may elect to use IFRSs. The proposal suggests mandatory adoption by US registrants could be phased in from 2014 to 2016 depending on company size:

- Large accelerated filers in 2014
- Accelerated filers in 2015
- Non-accelerated filers in 2016

The IFRS Transition Journey: Where are we now? (cont'd)

The proposal also would permit voluntary early adoption for a limited group of large US registrants (based on industry and size) for periods ending after 15 December 2009 (filings in 2010). However, mandatory IFRS adoption starting in 2014 would not be automatic. In 2011, the Commission would evaluate the progress of IFRSs against certain defined milestones and make a decision on whether to go ahead with adoption starting in 2014, later, or not at all. Here is the SEC Press Release (PDF 30k). The SEC is expected to post the full text of the proposal on its website shortly. There will be a 60-day comment period that begins when the roadmap proposal is published in the *Federal Register*. Financial Executives International has issued a Press Release (PDF 37k) stating that "FEI supports the SEC's decision today to propose a Roadmap for US issuers for filings of financial statements prepared in accordance with IFRS."

Proposed Timeline in Roadmap



Canadian companies that have been historically preparing their financial statements in US GAAP and have not been focused on the transition of Canadian GAAP to IFRS will now need to begin considering where they might fit on this roadmap and when they need to consider planning for implementation of IFRS.

International Round-up: Updates and News from the IASB

August 14, 2008: IFRS and the mining industry

Although every company is unique and will encounter their own, company specific, IFRS conversion issues, many companies will experience similar accounting issues as those companies operating in the same industry. With this in mind, Deloitte has published a document which provides viewpoints on the top ten accounting issues for Canadian mining companies.

Click here to access the publication.

September 7, 2008: Notes from the September 2008 IFRIC meetings

The International Financial Reporting Interpretations Committee (IFRIC) met on September 4-5, 2008 and, among other items, discussed the following topics:

a. Distributions of non-cash assets to owners – mainly agreed to amend IFRIC D23 to state that the dividend payable be measured by reference to the fair value of the assets to be distributed and discussed the resulting accounting mismatch.

b. Customer contributions – a revised IFRIC D24 was presented with the purpose of simplifying the recognition of the contributed asset and whether it would be considered a lease.

c. Customer-related intangible assets – a request was made for additional guidance to be provided on determining whether a relationship is contractual or not. This determination is critical in the separate measurement of intangible assets and goodwill arising in a business combination. The IFRIC agreed to add this item to the agenda.

d. Valuation of restricted securities – a request was made for guidance on whether a discount should be applied to the quoted price of a security when there is a form of restriction that prevents the immediate sale of the security. The IFRIC decided not to add this item to the agenda as it felt the issue is adequately addressed in IAS 39, which suggests a market price should not be adjusted for entity specific restrictions.

e. Regulatory assets and liabilities – discussed questions raised regarding the appropriate application of IFRS by entities operating in a rate regulated environment where local GAAP requirements are different than IFRS. The IFRIC's initial point of view was that such non-IFRS accounting treatments were not consistent with IFRS.

Complete notes from these meetings can be found at www.iasplus.com.

September 17, 2008: IASB posts draft report of valuation experts for valuing financial instruments in an inactive market

The IASB has invited comment on the draft report of its expert advisory panel on valuing financial instruments when markets are no longer active. The report explores the practices that the experts use for measuring and disclosing such financial instruments. The IASB has invited comment on the draft report by October 3, 2008. When this document is finalized, the IASB intends to publish it as helpful guidance in making fair value estimates under the requirements of IFRSs.   Although this guidance is not final, it may provide very helpful guidance in determining the fair value of financial instruments given current market conditions.

Click to Download the Draft Report from IASB's Website.

International Round-up: Updates and News from the IASB (cont'd)

September 25, 2008: *IASB proposes revised definition of discontinued operations*

The IASB has issued an exposure draft of proposed amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The proposals are to revise the definition of discontinued operations and require additional disclosure about components of an entity that have been disposed of or are classified as held for sale. The proposals are the result of a joint project by the IASB and the US Financial Accounting Standards Board (FASB) to develop a common definition of discontinued operations and require common disclosures about them. The FASB is publishing parallel proposals to amend its standards. Download the exposure draft. The deadline for public comment is January 23, 2009.

Contact information

National
Don Newell
416-601-6189
dnewell@deloitte.ca

Robert Lefrançois
514-393-7086
rlefrancois@deloitte.ca

Karen Higgins
416-601-6238
khiggins@deloitte.ca

Clair Grindley
416-601-6034
clgrindley@deloitte.ca

Bryan Pinney
403-503-1401
bpinney@deloitte.ca

Delna Madon
416-874-4330
dmadon@deloitte.ca

Atlantic
André Vincent
902-496-1804
avincent@deloitte.ca

Jacklyn Mercer
902-496-1805
jamercer@deloitte.ca

Jonathan Calabrese
506-632-1214
jcalabrese@deloitte.ca

Québec
Nathalie Tessier
514-393-7871
ntessier@deloitte.ca

Marc Beaulieu
514-393-6509
mabeaulieu@deloitte.ca

Richard Simard
418-624-5364
risimard@deloitte.ca

Maryse Vendette
514-393-5163
mvendette@deloitte.ca

Ontario
Tony Ciciretto
416-601-6347
tciciretto@deloitte.ca

Kerry Danyluk
416-775-7183
kdanyluk@deloitte.ca

Steve Lawrenson
519-650-7729
slawrenson@deloitte.ca

Lynn Pratt
613-751-5344
lypratt@deloitte.ca

Éric Girard
613-751-5423
egirard@deloitte.ca

Manitoba
Susan McLean
204-944-3547
sumclean@deloitte.ca

Richard Olfert
204-944-3637
rolfert@deloitte.ca

Saskatchewan
Cathy Warner
306-565-5230
cwarner@deloitte.ca

Jamie Burgess
306-565-5209
jaburgess@deloitte.ca

Andrew Coutts
306-343-4466
ancoutts@deloitte.ca

Alberta
Steen Skorstengaard
403-503-1351
sskorstengaard@deloitte.ca

Anna Roux
403-503-1421
aroux@deloitte.ca

Paul Borrett
780-421-3655
paborrett@deloitte.ca

British Columbia
Dan Rollins
604-640-3212
drollins@deloitte.ca

Carol Warden
604-640-3271
cwarden@deloitte.ca

Scott Munro
604-640-4925
scmunro@deloitte.ca

Member of
Deloitte Touche Tohmatsu

Audit. Tax. Consulting. Financial Advisory.