

IFRS Services

Special Edition/April 2008

Special Edition

Countdown

Deloitte Canada's IFRS transition newsletter

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Comments from Paul Cherry, FCA, Chair of the Canadian Accounting Standards Board (AcSB)



The incorporation of IFRSs into Canadian GAAP is a significant milestone. Exposing the standards several years prior to the mandatory changeover provides the financial reporting community with the opportunity to become familiar with the new rules. It also gives the AcSB the opportunity to obtain additional perspectives and respond to issues identified by parties impacted by the

The [Omnibus Exposure Draft](#) reflects part of our continued efforts to clearly communicate our IFRS changeover plans and provide Canadians with the ability to leverage off lessons learned globally and plan effectively for the change. We look forward to continuing to work closely with the financial reporting community on the changeover and becoming a leading example of a country that has worked to maximize the benefits, and minimize the costs associated with the IFRS transition.

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Just released – Adopting IFRSs in Canada

April 7 2008 — The Canadian Accounting Standards Board (AcSB) has released the Omnibus Exposure Draft (ED), [Adopting IFRSs in Canada](#). This marks another significant step in Canada's transition to International Financial Reporting Standards (IFRSs) and covers:

- The incorporation of IFRS into the Canadian Institute of Chartered Accountants (CICA) Handbook
- The full text of IFRSs as at January 1, 2007
- An overview of the importance of adopting IFRSs as issued by the IASB
- The scope of Canadian entities required to adopt IFRSs
- A suggested approach to reviewing the IFRSs

A summary of each significant issue addressed by the ED is included in this newsletter. The ED has a four-month comment period and the IFRSs in the ED are expected to be incorporated in the CICA Handbook in early 2009. Changes to IFRSs over and above those in the ED will be addressed in a series of subsequent exposure drafts, as required, during the period of IFRS changeover.

Incorporation of the full text of IFRSs into the CICA Handbook

The ED includes an electronic version of the 2007 Bound Volume of IFRSs, being all IFRSs issued as at January 1, 2007. The 2007 version of the text is used to allow for bilingual exposure.

The issuance of the ED satisfies several objectives:

1. Provides financial statement preparers and users with an opportunity to review the IFRSs prior to changeover.
2. Encourages communication of implementation issues. For example, the need for any continuing application guidance to be issued.
3. Follows due process for exposing accounting standards in Canada.

IFRS as issued by the IASB

The AcSB has proposed that IFRSs, without modification, will replace Canadian Generally Accepted Accounting Principles (GAAP) for profit-oriented Publicly-Accountable Enterprises (PAEs). The adaptation of IFRS for country-specific needs has not generally worked well in practice and defeats the objective of global harmonization. In addition, should Canada modify IFRS for Canadian specific circumstances this will deviate from the official International Accounting Standards Board (IASB) issued IFRSs. The official IFRSs are the only IFRSs accepted by the United States Securities and Exchange Commission for foreign private issuers and the Canadian Securities Administrators (CSA) are also proposing only to accept financial statements compliant with IFRSs as issued by the IASB.

The IASB-issued IFRSs are also required under IFRS 1 – First-time adoption of IFRS. In short, significant issues may arise with modifying IFRSs and accordingly it appears unlikely that the AcSB will deviate from the intent to adopt IFRS without modification.

Just released – Adopting IFRSs in Canada (cont'd)

The scope of Canadian enterprises required to adopt IFRSs

PAEs are required to adopt IFRSs starting on January 1, 2011. The definition of a PAE incorporates the IASB proposed definition of a SME or Small-and Medium-Sized Entity, and is effectively an “except for” definition. This means that IFRSs apply to ***all entities other than*** those that fall into one of the following groups.

Group A	Group B	Group C
<ul style="list-style-type: none">• Profit-oriented enterprises that<ol style="list-style-type: none">i. do not have public debt instruments or equity securities; andii. are not in the process of issuing public equity or debt; andiii. do not hold assets in a fiduciary capacity for a broad group of outsiders.	<ul style="list-style-type: none">• Not-for-profit organizations.	<ul style="list-style-type: none">• Public sector entities to which the Public Sector Handbook (PS HB) applies.
<ul style="list-style-type: none">• Enterprises with fiduciary responsibility specifically scopes in – banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.	<ul style="list-style-type: none">• Based on the definition in Handbook Section 4400 – Financial Statement Presentation by Not-for-profit Organizations.	<ul style="list-style-type: none">• The PS HB states that government business enterprises and government business type organizations are deemed to be PAEs. Accordingly, this sub-section of public sector entities <i>is required to adopt IFRSs.</i>

It is proposed that **pension plans** continue to apply CICA Handbook Section 4100 – Pension Plans (Section 4100) and not IAS 26 – *Accounting and Reporting by Retirement Benefit Plans*. For matters not addressed in Section 4100, guidance should be sought in IFRSs other than IAS 26. Accordingly, pension plans will apply a modified version of Section 4100 instead of IAS 26 and, to that extent, will not be IFRS compliant. This approach is consistent with other countries that have continued to apply their pre-existing financial reporting guidance pending future improvements to pension plan accounting guidance under IFRSs.

Just released – Adopting IFRSs in Canada (cont'd)

A suggested approach to the review of IFRSs

The ED outlines a suggested approach for parties to review the IFRSs in a time effective manner. This approach, designed to focus on the questions posed in the ED, is as follows:

- Consult the AcSB comparisons of IFRS and Canadian GAAP.
- Review individual IFRSs focusing on those where:
 - a. Changes are not planned to the IFRS before 2011 and;
 - b. The IFRS is not yet converged with Canadian GAAP.

For example, the guidance on inventories is already converged and therefore less of an issue whereas the entire business combinations standard will be changed prior to changeover. Accordingly, neither of the above would be priority areas of the material contained in the ED (although you can now separately acquire a copy of the new business combinations standard).

IFRS 1—First-time Adoption of IFRS (IFRS 1)

The ED provides an overview of IFRS 1, which is the framework for the first IFRS financial statements of an entity. Salient points covered:

- IFRS 1 provides mandatory guidance for first-time adopters of IFRS
- IFRS 1 requirement for an opening statement of financial position
- Full retrospective application of IFRS is required subject to certain exemptions and exceptions
- The AcSB has asked the International Accounting Standards Board (IASB) to consider certain additions to the above exemptions and exceptions. The IASB is currently reviewing this request and may issue an exposure draft for any additions. Interested Canadian parties should provide their comments, if any, to the IASB upon the issuance of the exposure draft of amendments to IFRS 1.

Additional guidance on reviewing the material contained in the ED is included in our interview with Ian Hague in this special edition newsletter.

An interview with Ian Hague, CA, Principal, Canadian Accounting Standards Board

This must be the longest exposure draft we have seen! Why was there a need to expose all of the IFRSs for comment and do you anticipate people will read them?



When any new standard comes out, the due process followed by the AcSB is to expose the new standard for comment prior to incorporation into Canadian GAAP. We have not deviated from the process in this instance but, due to the magnitude of the change, and the number of new standards being introduced, the volume of the subject matter being exposed is significantly greater than in the normal course.

The expectation is that interested parties will review aspects of standards relevant to their particular needs. We have included, in the [exposure draft](#), a suggested approach to reviewing the IFRSs to facilitate a meaningful analysis. The most important reason for studying the standards in the exposure draft is to become familiar with them for purposes of Canadian adoption. Commenting on the exposure draft is a secondary objective.

The definition of a PAE is an item of particular interest for many entities. Entities scoped in include those that hold assets in a fiduciary capacity for a " broad group of outsiders". Where the answer is not obvious, how should an entity go about making this assessment?

The starting point is that an entity should assume, in the same way as our definition is written, that they are a PAE unless they can demonstrate that they fall into one of the scope exclusions in the proposed definition. For example, if an entity believes it does not have a fiduciary responsibility to a broad group of outsiders then it is up to the Management of the entity to demonstrate this. Clearly, judgment will be required in some instances and changes in circumstances could impact this assessment in the future.

In your view, what are the top three standards that an entity should read?

IFRS 1 would be at the top of the list for most if not all companies. Essentially, because it sets out the requirements for a first-time adopter and will be mandatory guidance on transition to IFRS. That said, some requirements of IFRS 1 will be difficult to put into context absent a review of the balance of the IFRS guidance. The next priorities will therefore really be entity-specific. Consider starting by looking at those standards that relate to your significant accounting policies and financial statement line items.

Lastly, based on your knowledge and experience of the standards, any final pieces of financial reporting advice for enterprises embarking on the transition to IFRS?

Several IFRSs are virtually identical to existing Canadian GAAP, including IAS 2, *Inventories*, IFRS 7, *Financial Instruments: Disclosures*, and large parts of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, and IAS 38, *Intangible Assets*. These should not need significant study. Other IFRSs, such as those dealing with joint ventures, and provisions, contingent liabilities and contingent assets, are expected to change before 2011. These should be set aside for now, but you should pay attention to forthcoming information from the IASB on these topics. The vast majority of IFRSs will, however, not change between now and 2011, so you can safely commence your preparation by studying those standards. In doing so, keep an eye, however, on future changes to IFRSs beyond 2011. You might be able to minimize a subsequent change in accounting policy in 2012 or 2013 by taking a particular approach in 2011. Bookmark the IASB web site at www.iasb.org, and pay attention to IASB activities in the same way that you monitor AcSB activities today.

Deloitte would like to thank Paul Cherry and Ian Hague for their contributions to this newsletter.

The CICA and the IASB are jointly presenting the 2008 North American IFRS Conference on April 24 and 25, 2008 (plus optional sessions on April 23). The conference features speakers from the AcSB and IASB, including Paul Cherry.

IFRS events

In connection with the release of the [Omnibus ED](#), Deloitte would like to invite you to the following IFRS events:

April 10, 2008: Directors' Series

This event focuses on IFRS business and financial reporting risks and how they can be effectively managed and monitored at the Board and Audit Committee level.

This interactive session will feature distinguished Deloitte and guest speakers:

- **Jim Goodfellow**, Corporate Governance Partner, Deloitte
- **Karen Higgins**, Partner, National Director of Accounting Services, Deloitte
- **Philip K. Ryan**, Executive Vice-President and Chief Financial Officer, Power Corporation Canada
- **Guylaine Saucier**, Corporate Director on several boards including Petro-Canada, Bank of Montreal and Axa Assurance Inc

[Register now](#)

April 14, 2008: Webcast

The webcast will cover topical issues including the ED as well as recent regulatory developments and how to effectively respond to the latest developments in your own IFRS transition.

This interactive session will feature distinguished Deloitte and guest speakers:

- **Ian Hague**, Principal, Accounting Standards Board
- **John Carchrae**, Chief Accountant, Ontario Securities Commission
- **Don Newell**, Partner, National Leader of IFRS Services, Deloitte
- **Karen Higgins**, Partner, National Director of Accounting Services, Deloitte
- **Clair Grindley**, Senior Manager, Deloitte

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Contact information

National Don Newell 416-601-6189 dnewell@deloitte.ca	Québec Nathalie Tessier 514-393-7871 ntessier@deloitte.ca	Manitoba Susan McLean 204-944-3547 sumclean@deloitte.ca	British Columbia Dan Rollins 604-640-3212 drollins@deloitte.ca
Robert Lefrançois 514-393-7086 rlefrancois@deloitte.ca	Marc Beaulieu 514-393-6509 mabeaulieu@deloitte.ca	Rick MacKay 204-944-3633 rmackay@deloitte.ca	Carol Warden 604-640-3271 cwarden@deloitte.ca
Karen Higgins 416-601-6238 khiggins@deloitte.ca	Richard Simard 418-624-5364 risimard@deloitte.ca	Saskatchewan Cathy Warner 306-565-5230 cwarner@deloitte.ca	
Clair Grindley 416-601-6034 cgrindley@deloitte.ca	Ontario Tony Ciciretto 416-601-6347 tciciretto@deloitte.ca	Jamie Burgess 306-565-5209 jaburgess@deloitte.ca	
Brian Pinney 403-503-1401 bpinney@deloitte.ca	Kerry Danyluk 416-775-7183 kdanyluk@deloitte.ca	Andrew Coutts 306-343-4466 ancoutts@deloitte.ca	
Atlantic André Vincent 902-496-1804 avincent@deloitte.ca	Steve Lawrenson 519-650-7729 slawrenson@deloitte.ca	Alberta Steen Skorstengaard 403-503-1351 sskorstengaard@deloitte.ca	
Jacklyn Mercer 902-496-1805 jamercer@deloitte.ca	Lynn Pratt 613-751-5344 lypratt@deloitte.ca	Anna Roux 403-503-1421 aroux@deloitte.ca	
Jonathan Calabrese 506-632-1214 jcalabrese@deloitte.ca	Éric Girard 613-751-5423 egirard@deloitte.ca	Paul Borrett 780-421-3655 paborrett@deloitte.ca	

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