

Countdown

Deloitte Canada's IFRS transition newsletter



Table of contents

Early Adoption – A Viable Option?	2
The Revised IASB Work Plan and Implications for Canadian Companies	3
Current IFRS Transition Milestones in Canada	5
IFRS – A moving target? How to cope with changes in changeover!	5
International Round-up: Updates and News from the IASB	6
Contact information	8

Visit us at

www.DeloitteIFRS.ca

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services.



Welcome to the July 2008 issue of **Countdown**. The last few weeks have seen a number of developments from standard-setters and regulators, with the issuance of additional guidance, an accelerated International Accounting Standards Board (IASB) project plan and confirmation by the Canadian Securities Administrators (CSA) of early adoption possibilities.

This illustrates the need for your IFRS (International Financial Reporting Standards) implementation plan to anticipate and contemplate potential changes and be able to effectively respond to such changes if they occur. In this issue of Countdown, we address the practical and technical aspects of these developments in the IFRS environment.

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 Implementation Leader

Early Adoption – A Viable Option?

On June 27, 2008, the CSA confirmed, through the release of [CSA Staff Notice 52-321 - Early Adoption of International Financial Reporting Standards, Use of US GAAP and Reference to IFRS-IASB](#) - that early adoption of IFRS will be permitted for domestic issuers. The Notice effectively states that as an exception to the mandatory adoption date of January 1, 2011, exemptive relief – to report under IFRS at an earlier date – may be granted on a case-by-case basis. Such relief will be granted on the expectation that the issuer has completed a comprehensive readiness assessment and on the condition that the issuer files revised interim reporting documents under IFRS in the year of adoption where Canadian or US Generally Accepted Accounting Principles (GAAP) documents have previously been filed.

Following this announcement, some organizations are assessing the practical issues associated with early adoption. Is it preferable to “get it done” now or wait until the mandatory changeover date in 2011? There is no single right answer to this question and ultimately the decision will be based on both an assessment of the hurdles which must be overcome to be ready for early adoption and the specific business operations of each organization. If you don’t have the necessary information requirements and controls processes in place, that fact will limit (or preclude) the ability to early adopt. In addition, the needs of your stakeholders will be critical in making a decision. So, what sort of issues should you consider if you are thinking about early adoption? Here are some considerations that may be applicable for enterprises assessing the feasibility of early adoption:

- Early adoption is not automatic and **exemptive relief must be requested** from the CSA Staff in order to adopt IFRS prior to 2011. This relief will be granted (or not) on a case-by-case basis.
- Early adoption **may not be an option**. Regulatory or other requirements may preclude your ability to make the move to IFRS early.
- Complete a **comprehensive IFRS readiness assessment** before you go too far down this route. This is an expectation identified by the CSA and in reality, a necessity, for an effective IFRS transition.
- **Be realistic**. Unless you have already done a lot of work around IFRS transition, then it would be difficult to “pass” an IFRS readiness assessment for adoption of IFRS in 2009.
- Assess the **“pros” and “cons” of early adoption** for your business. No entity is unique but there will be costs and benefits associated with this decision. Remember to consider the all encompassing implications of a change of this nature and ensure that plans are in place to appropriately deal with them.
- **First-time adoption choices**. The current list of IFRS 1 *First-time Adoption of IFRS* exemptions may be expanded a year from now with the IASB deliberating requests for additional options put forward by the Canadian Accounting Standards Board (AcSB). These include possible additional exemptions for oil and gas and rate-regulated entities which may significantly alleviate the first-time adoption work effort *if* they ultimately result in an amendment to IFRS 1.
- **Incorporation of IFRS into Canadian GAAP**: The current expectation of the Canadian Accounting Standards Board (AcSB) is that IFRSs will not be incorporated into the CICA handbook – and therefore considered to be Canadian GAAP – by January 1, 2009. What does this mean for early adopters? Financial statements that have been prepared in accordance with IFRS-IASB will not automatically be compliant with Canadian GAAP until IFRSs have been incorporated into the CICA handbook. Accordingly a statement that “financial statements have been prepared in accordance with IFRSs and Canadian GAAP” may not be made until later in the year if an entity elects to early adopt in 2009. This will be something to monitor over the course of 2009 and the AcSB currently expects that IFRS will be incorporated into Canadian GAAP no later than the second quarter of 2009. Additional details on the status and progress of this position will follow shortly and we recommend you monitor the AcSB official website and [iasplus.com](#) to follow this issue.

Early Adoption – A Viable Option? (cont'd)

The need to state compliance with other bases of financial reporting, such as legislative requirements to state compliance with Canadian GAAP should be considered in conjunction with any exemption requested from securities regulators to adopt IFRS prior to the mandatory changeover date. CSA Notice 52-321 indicates that references to both Canadian GAAP and IFRS-IASB are still under consideration and accordingly, if requesting to early adopt IFRS, we recommend specifically discussing this matter with the securities regulators to ensure that there is agreement and understanding of how an entity plans to deal with this in their regulatory filings.

- Whatever you decide, remember that early adoption is entity-specific. **The ultimate decision rests with you!**

While early adoption is arguably the most significant issue for many that is addressed in the Staff Notice, two other IFRS changeover issuers are also discussed.

- **Domestic issuers' use of US GAAP:** CSA Concept Paper 52-402 discussed the possibility of phasing out the use of US GAAP over a number of years, meaning that ultimately dual registrants would, consistent with other domestic issuers, be required to file IFRS financial statements in Canada even though they may be required to file US GAAP for US filing purposes. The Staff Notice no longer discusses this intention and simply proposes that the existing ability for a domestic issuer that is also an United States Securities Exchange Commission (SEC) issuer to use US GAAP be retained.
- **Reference to IFRS-IASB instead of Canadian GAAP:** The CSA staff have concluded that it is preferable to require domestic issuers who prepare financial statements in accordance with IFRS as issued by the IASB (IFRS-IASB) to refer to those standards instead of to Canadian GAAP. Accordingly, reports by Management and the Independent Auditors, filed publicly, would refer to IFRS-IASB. The CSA staff continue to deliberate whether or not they will permit a company to explicitly state that statements comply with IFRS-IASB and Canadian GAAP or just IFRS-IASB. Note also our earlier comments on the implications of this requirement for early adopters.

The Revised IASB Work Plan and Implications for Canadian Companies

The [IASB issued a revised work plan](#) as of June 30, 2008 which outlines the status of the major projects relating to new or amended standards as well as the multi-phased conceptual framework project. The work plan is ambitious, and therefore certainly adds to the IFRS learning curve, but it also presents Canadian companies planning to adopt IFRS with potential opportunities. There are currently 24 projects (revised standards or clarifications to a specific element of an existing standard) scheduled to result in the issuance of a final IFRS, some as early as 2009. Here are the statistics to digest:

	2009	2010	2011	To be determined
Number of new or amended standards expected to be released (excluding conceptual framework)	8	4	6	6

The effective dates of the proposed standards are generally not yet known but the effective date and transitional provisions will be as critical to first-time adopter's as the issuance date in itself. The reason? A first-time adopters' accounting policies are required to comply with IFRSs which are effective in the first IFRS reporting period. This means that standards which have a mandatory effective date of 2011 are required to be applied to the 2010 opening balance sheet date and 2010 comparative data. The IASB has a general policy of setting effective dates no earlier than 12 or 18 months after publication of a standard.

The Revised IASB Work Plan and Implications for Canadian Companies (cont'd)

Hopefully, many standards issued in 2010 and 2011 will provide both an early adoption alternative and a delayed mandatory effective date. This would then allow Canadian publicly-accountable enterprises to choose to either:

- a. Adopt the new or revised standards in conjunction with first-time adoption of IFRS; or
- b. Adopt the new or revised standards in a subsequent year, thereby staggering the impact (and effort required) of first-time adoption.

Organizations should plan ahead during their IFRS conversion activities to determine which proposed standards will have a significant future impact on the operations and/or financial results and plan accordingly. The table below summarizes the proposed timelines for selected projects we believe are of particular significance. We encourage you to refer to the IASB workplan itself, or contact your local Deloitte IFRS professional, for the full list of projects.

New or Amended Standard	Discussion Paper		Exposure Draft			Final Standard ¹		
	Issued	2008	2008	2009	2010	2009	2010	2011
Consolidations ²			√					
Fair Value Measurement Guidance ³	√			√			√	
Income taxes			√				√	
Insurance contracts	√			√				√
First time adoption of IFRSs (IFRS 1): additional exemptions ⁴			√	√				
Leases		√			√			√
Liabilities							√	
Revenue recognition		√		√				√
Post-employment Benefits (including pensions)	√			√				√
Joint ventures						√		

1. This is the date the IASB proposes to issue the final standard; however, the effective date of the standard is not yet known.
2. The consolidations project has been fast-tracked by the IASB. The guidance currently included in SIC-12 *Special Purpose Entities* is expected to be superseded as a result of this project.
3. The fair value measurement guidance project is based on the Financial Accounting Standards Board standard SFAS 157 *Fair Value Measurements*.
4. The Accounting Standards Board made several recommendations to the IASB for additional exemptions to address issues identified in Canada for specific industries (oil & gas and rate-regulated utilities) or circumstances. The IASB has agreed to issue an exposure draft for some of these items.

Current IFRS Transition Milestones in Canada

Below are some of the recent IFRS milestones which are of specific relevance to Canadian companies preparing for IFRS changeover. Later in this newsletter is an international round-up of IFRS activities across the globe.

June 27, 2008: [*CSA Staff Notice 52-321 Early Adoption of International Financial Reporting Standards, Use of US GAAP and Reference to IFRS-IASB*](#). This notice (the subject of our lead article) addresses the adoption of IFRS by a domestic issuer prior to January 1, 2011, the use of US GAAP by a domestic issuer that is an SEC issuer and the reference to IFRS-IASB instead of Canadian GAAP.

June 30, 2008: The IASB published a revised work plan of IFRS projects that are currently either in progress or being researched. While not specifically an IFRS transition issue, this is a key milestone for IFRS transition in Canada since the expected and revised timing of a number of new standards will impact the number of new standards which are expected to change prior to or during 2011. See the preceding article for more on this work plan.

IFRS – A moving target? How to cope with changes in changeover!

When the IFRS changeover was mandated by the AcSB earlier this year, this provided a seal of approval of a change that had been proposed in the strategic plan previously announced by the AcSB in 2006. Like the changeover itself, the details surrounding IFRS adoption are also subject, at times, to a process which takes time and which leaves matters open to confirmation at a later date. From a practical implementation standpoint, this can result in uncertainty about how and when to deal with unresolved matters. This will require an assessment, and monitoring, of those items which are “subject to change” and a decision about the level and nature of flexibility your IFRS implementation plan should include. Here are some of our practical tips on coping with changes in changeover:

1. **Fixed vs. Variable:** IFRS changeover includes many matters which are largely fixed, and certain other matters which are subject to change between now and 2011. Your IFRS implementation plan should distinguish between the two and an appropriate level of flexibility incorporated into your plan to monitor and respond to the variable elements in your IFRS plan. An example of a fixed item would be the mandatory changeover of IFRS from January 1, 2011 for Publicly Accountable Enterprises or PAEs. An example of a variable item would be one of the IFRSs which is currently subject to amendment under the IASB work plan.
2. **In or Out of Control?:** Variable elements of your IFRS plan are those elements which may change. In some instances, the change may be broad and outside of the control of your specific implementation plan, such as, for example, the planned issuance of new guidance prior to 2011 on consolidation and special purpose entities. However, there are also some variable items which you can choose to make “fixed” in your implementation plan. An oxymoron? Not necessarily. For example, the ability to early adopt **may have been** (or may even still be) subject to question prior to the recent CSA Staff Notice discussed earlier in this issue. This thereby granted a choice to an entity. Accordingly, you can make this component of your IFRS implementation fixed and decide not to early adopt (irrespective of a *possible* ability to do so) or keep things flexible by monitoring and responding to the ultimate decision of the CSA.

IFRS – A moving target? How to cope with changes in changeover! (cont'd)

3. **Provisions, Allowances and Contingencies?** The subject of a financial reporting standard (IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) but also a facet of your IFRS implementation plan. Any business allows for the possibility that things could change and there is usually a "Plan B." For the key elements of your IFRS changeover plan, have you provided for them (from both a time and monetary aspect), allowed for the fact that things may change and for the most critical elements, and considered whether a contingency plan is necessary if your optimal IFRS implementation plan does not, in fact, go as planned?
4. **Staying Informed:** Information and monitoring of potential changes should be high-priority in your plan; for example, the release of the revised IASB project plan contemplates various changes over years prior to 2011. Do you know what these are? Will a converged Canadian standard be introduced prior to 2011? Does the ability to early adopt a converged standard alleviate restating financial reporting records in 2010? Do you know the answers to these questions? If not, **Deloitte can help** you in order to stay abreast and avoid last-minute changes and unnecessary costs.

Earlier in this newsletter, we made reference to the IASB project plan which discusses upcoming changes in IFRS over the next few years. In our Deloitte International Round-up that follows we discuss other developments in the world of IFRS.

International Round-up: Updates and News from the IASB

In this session we focus on developments by the IASB. There has been a considerable amount of activity and it looks like this is set to continue over the period through transition. A summary of some of the latest activity is included below but you are encouraged to review www.iasplus.com for more details on specific items of interest to you and for a comprehensive update of all developments.

June 14, 2008: The Finance Ministers of the G8 countries met in Osaka, Japan, in preparation for the Summit of the G8 Heads of State. The Communiqué released by the Finance Ministers at the conclusion of the meeting addressed a wide range of issues around the financial system. With regard to financial reporting, the communiqué said:

"We call on the IASB to accelerate its reviews of accounting issues around off-balance sheet entities and valuation in illiquid markets."

A "credit crunch" page is included on www.iasplus.com and can be accessed [here](#). On a related note, the IASB work plan now contemplates an accelerated timeline for the IASB consolidation project (including variable-interest and special purpose entities).

June 15, 2008: US SEC Chairman, Christopher Cox, announced the SEC expects to propose rules, some time in the third quarter of 2008, concerning the use of IFRSs by domestic US SEC registrants. Chairman Cox discussed this topic in an address titled [Disclosure from the User's Perspective](#).

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

June 19, 2008: Release of Deloitte *iGAAP 2008 Financial Instruments: IAS 32, IAS 39 and IFRS 7 Explained* (Fourth Edition). This publication is an excellent guide for financial instruments accounting under IFRSs. Contact your local Deloitte specialist for details on how to obtain a copy.

June 30, 2008: Publication of revised IASB workplan. See earlier article in this issue of Countdown which provides a summary of this workplan and implications for Canadian companies.

July 5, 2008: IAS Plus Newsletters - Deloitte's IFRS Global Office has published special edition IAS Plus Newsletters on **IFRIC 15 and IFRIC 16** issued on July 3, 2008 by the International Financial Reporting Interpretations Committee:

[Special Edition Newsletter– IFRIC 16: IFRIC Issues Interpretation on Net Investment Hedging](#)

[Special Edition Newsletter– IFRIC 15: Accounting for Agreements for the Construction of Real Estate](#)

Links to the newsletters are included above and you can obtain automatic releases of further newsletters from Deloitte's IFRS Global Office by signing up for a [Free Subscription by Email](#).

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
rsimard@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

Rick MacKay
204-944-3633
rmackay@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

[Security](#) | [Legal](#) | [Privacy](#)

Audit. Tax. Consulting. Financial Advisory.

Deloitte, one of Canada's leading professional services firms, provides audit, tax, consulting, and financial advisory services through more than 7,600 people in 56 offices. Deloitte operates in Québec as Samson Bélair/Deloitte & Touche s.e.n.c.r.l. The firm is dedicated to helping its clients and its people excel. Deloitte is the Canadian member firm of Deloitte Touche Tohmatsu.

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, its member firms, and their respective subsidiaries and affiliates. As a Swiss Verein (association), neither Deloitte Touche Tohmatsu nor any of its member firms have any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," or other related names. Services are provided by the member firms or their subsidiaries or affiliates and not by the Deloitte Touche Tohmatsu Verein.



Member of
Deloitte Touche Tohmatsu