

Countdown

Deloitte Canada's IFRS transition newsletter



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Welcome to the November edition of Countdown.

With 2008 drawing to an end, we take a look this month at interim and annual disclosure requirements in Management's Discussion and Analysis (MD&A) regarding IFRS transition. **John Hughes**, Deloitte partner and formerly with the Ontario Securities Commission, provides his views on the level of disclosures that we have seen so far with respect to IFRS, complying with the annual requirements in 2008 and how to build on this as IFRS changeover draws closer.

In this edition we also take a look at the tax accounting implications of IFRS and provide an update on events over the last month, including the recent publication of the proposed United States Securities and Exchange Commission (SEC) IFRS Roadmap.

Countdown is issued specifically to address your IFRS transition needs. Accordingly, in this month's edition we have included a [feedback survey](#) to obtain your views for our 2009 editions. We also invite you to participate in an [IFRS Transition benchmarking study](#) designed to enable confidential information sharing of key IFRS decisions and actions being taken by other Canadian companies. Results of the IFRS Transition benchmarking study will be included in future editions of Countdown.

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Survey—Each month approximately 15,000 people receive Countdown, a real testimony to the high interest level around IFRS transition. We would like to hear from you to ensure that we continue to provide you with the information you need to support your changeover plan. Please take a few minutes to complete this [online survey](#), your feedback is important.

How much is enough? IFRS Disclosure in MD&A



In *Countdown's* June 2008 edition, we wrote about CSA Staff Notice 52-320 *Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards (CSN 52-320)*. The Notice sets out Canadian regulators' expectations for what reporting issuers should disclose in interim and annual MD&A, from now to the changeover, about their progress towards implementing IFRS. In this issue, John Hughes, shares his perspective on how to effectively communicate about IFRS changeover in your MD&A.

So far, the information in MD&A disclosures reflects the early stages of the IFRS planning process. For example, many companies have stated in general terms that they are monitoring external developments and developing a plan (without providing much further specificity). There are some exceptions to this general observation, however, with some companies describing with a fair degree of detail the different components of their IFRS transition plan.

The required degree of detailed disclosure about IFRS will necessarily escalate over the next couple of years, starting for calendar-year issuers with their MD&A for the approaching 2008 year-end. We think companies should prepare these disclosures with two main audiences in mind. Firstly, the regulators themselves will no doubt be monitoring the quality of the disclosure provided. They could potentially choose to raise issues about MD&A that does not meet their expectations. For example, if a particular company's MD&A contains only minimal "boilerplate" about progress toward implementing IFRS, regulators might compel management to refile the document, amended to provide greater clarity about the steps taken. In a case like this, the fact of being compelled to refile might of course be more visible and concerning to interested investors than the progress report's actual content.

Secondly, even if investors are not primarily focused on IFRS as of now, this will necessarily evolve between now and 2011. For calendar-year companies, the first mandatory filing under IFRS will be for the first quarter of 2011. This will contain IFRS-compliant information on a comparative basis, as well as reconciliations for that quarter and as at the transition date. Companies should try to put themselves in the shoes of interested analysts and other users, receiving this new-basis financial reporting more or less at the same time from all the year-end reporters being tracked, at what is likely already an immensely busy time of year (with, perhaps, its own specific economic or other challenges yet to come). This suggests a challenge – to lay the groundwork so that the users' focus on the initial filings can remain as much as possible on the substance of the business, its performance, risks, and so on, without being confused or overly distracted by the mechanics of IFRS implementation.

Not many of the IFRS disclosures in MD&A filed to date reflect this philosophy, but then, it is still early days. For now, companies should at least go carefully through the key areas specified in CSN 52-320 and think not just about what they should say *now*, but about what they hope to be able to say ultimately, and about their plan to get there.

We have all heard comments that some European companies may have relied excessively on "quick fix" solutions in their IFRS conversions, rather than investing fully in converting their internal control over financial reporting (ICFR) systems. Any non-venture Canadian issuer planning on a similar approach should consider the requirements of National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* for reporting on ICFR effectiveness, including reporting on material weaknesses in ICFR. This may provide much greater external visibility in Canada about such sub-optimal control solutions, compared to jurisdictions that previously went through IFRS conversion.

IFRS transition study - A chance to track how you are doing?

We have all heard or read some of the stories from the European and Australian IFRS conversions but the real question that many of you are asking is "**What are other Canadian companies doing with respect to IFRS Transition?**" Common questions stem from "Are other companies in my industry adopting a revaluation policy?" to the selection of the various elections that are available on first-time adoption.

In response to your needs, we invite you to participate in our IFRS transition study by [clicking on this link](#). It is confidential and will take only a few minutes to complete. The survey results will be shared via Deloitte publications such as *Countdown* and some of our live or web-based events. We will consider publishing further studies periodically as 2011 draws nearer.

We very much look forward to you participating and sharing the results with you in the future!

How much is enough? IFRS Disclosure in MD&A (con't)

This doesn't mean companies shouldn't take a pragmatic and cost-effective approach to conversion, but this will usually work best if they use the MD&A and other communications to define their approach for key constituents, encouraging feedback and questions and – again – putting themselves in the shoes of their users as much as possible. In our view, the MD&A will be a truly crucial document over coming reporting periods. Increased uncertainty and volatility introduce greater disclosure and regulatory risk, and the MD&A – as the key medium where the company's financial condition and performance is put in realistic perspective – is vital in managing this risk.

Beyond that, it will also be important in the expectations – management aspect of converting to IFRS. We expect much greater focus on this as companies become more aware of IFRS's capacity to cause surprises for investors and others, and start thinking through how to control that potential.

Tax Accounting in an IFRS Environment



By now, a clear picture is emerging that IFRS conversion will affect much more than financial reporting. **John Van Ogtrop**, a Deloitte Tax partner and IFRS specialist, is currently helping companies plan for the tax impacts the move to IFRS will trigger. "IFRS will change the way companies calculate many values and other attributes that will apply to such things as transfer pricing, equity-based compensation and inter-company transactions, as well as the basic computation of the tax provision," explains John. "As a result, tax departments need to be part of the overall IFRS implementation project planning and the tax consequences of each IFRS decision understood and addressed."

Four broad Tax considerations

According to John, the tax-related impacts of IFRS fall within four broad categories:

Accounting	When carrying amounts are recalculated under IFRS, companies will need to reconcile changes to temporary differences between previous Canadian generally accepted accounting principles (GAAP) values and new IFRS values – a process that will require both analysis and documentation. Furthermore, the introduction of IFRS may affect the "effective tax rate" – often a key metric for Publicly Accountable Enterprises (PAEs).
Processes	Many tax accounting and reporting processes and systems run independently of an enterprise resource planning system. IFRS implementation represents both a risk and opportunity to align these processes within the broader enterprise framework.
Compliance	Income as determined under GAAP is the starting point for computing taxable income in Canada. Changes to the accounting basis for many assets and liabilities will affect taxable income computations. Companies need to recognize the potential impacts on "cash" income tax obligations that may arise from introducing IFRS as the "new" Canadian GAAP.
Tax planning strategies	Canadian GAAP and IFRS differ in their approaches to tax strategies such as transfer pricing and international financing structures. As IFRS evolves, other differences will continue to emerge. Looking ahead, companies need to adapt current tax planning strategies, and capitalize on future opportunities.

Tune in to learn more

On November 25, John co-hosted a 90-minute webcast, "Tax accounting in an IFRS environment," with Deloitte colleagues Cindy Veinot, Andrew Oldham, Jay Chai and Arthur Driedger. Please see below for further details.

Deloitte IFRS publications and events

A comprehensive summary of Deloitte publications and events is [available here](#). (Please *first login, first time visitors will need to complete a short registration form*). Below we have included new publications and events most relevant to Canadian companies.

Winter IFRS Webcasts – don't forget to register

Canada: Deloitte Updates

Deloitte Updates are informative, interactive webcasts with discussion about financial reporting and regulatory developments. They also qualify towards Continuing Professional Development (CPD) or Continuing Professional Education (CPE) hours. Our most recent webcasts are as follows – for your convenience, they are recorded and may be viewed at another date up to 90 days after the live presentation.

November 25, 2008: Tax Accounting in an IFRS Environment

Following on from our tax focused article in this newsletter. A tax focused IFRS webcast was conducted earlier this week covering:

- An introduction to income tax accounting under IFRS
- Practical issues from a tax perspective; and
- Significant differences between Canadian GAAP and IFRS.

[Click here to access the archive for this webcast](#)

December 4, 2008: Fair Value Challenges in Financial Reporting

In light of the credit crisis, the determination of fair value remains under scrutiny. A topical discussion led by Toronto-based partners Karen Higgins and Richard Taylor will provide insights on such matter as:

- The impact of current standard setting in Canadian companies;
- Practical challenges
- Considerations when making estimates of fair value.

[Click here to register for this webcast](#)

IAS Plus Newsletters

Deloitte has issued three special-edition IAS Plus Newsletters this month summarizing and providing our views on recent standard-setting activity. You may subscribe to IAS Plus alerts and newsletters by [clicking here](#).

- [Newsletter on financial statement presentation Discussion Paper \(DP\)](#)
- [Updated newsletter on IAS 39 reclassifications](#)
- [Newsletter on proposed improvements to IFRS 7 Financial Instruments – Disclosures](#)

iGAAP 2008: IFRS for Canada



Deloitte has developed **iGAAP 2008: IFRS for Canada**, which has been published by CCH. It is a comprehensive reference book on the convergence of Canadian GAAP with IFRS. It is essential reading for accounting professionals, as well as others who need to understand the implications of Canada's IFRS conversion on their organisation. Written for Canadians by Canadian practitioners, the book provides a roadmap to help companies understand how to effectively transition from Canadian GAAP to IFRS. It can be purchased through www.cch.ca/product.aspx?WebID=2424.

International Round-up: Updates and news from the IASB

Breaking News: On November 14, 2008, the SEC issued the much anticipated proposed IFRS "Roadmap". The Roadmap outlines 7 milestones which if achieved could result in mandatory adoption of IFRS by U.S. Issuers in fiscal years ending on or after December 15, 2014. Also contemplated is allowing certain U.S. issuers the option to early adopt of IFRS for fiscal years ending on or after December 15, 2009. This early adoption provision would provide the SEC with information to assist it in making the ultimate decision as to whether to make IFRS mandatory. Comments on the proposed Roadmap are due in mid to late February (the exact due date is contingent on the publication of the proposed Roadmap in the Federal Register). Deloitte have published a helpful summary of the Roadmap which you can access to understand the proposals in more detail [by clicking here](#).

November 20, 2008 – AcSB reconfirms 2011 transition date for IFRS

Below is an extract from the Canadian Accounting Standards Board (AcSB) website relating to the current credit crisis and its reconfirmation of the 2011 transition date for IFRS:

"The AcSB reviewed recent developments internationally, including activities at the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) and, in particular, the upcoming meeting of leaders of G20 countries in Washington, DC. The AcSB reconfirmed that none of the recent developments should cause it to change its strategy to adopt IFRSs for publicly accountable enterprises in 2011.

The AcSB Chair and staff will continue to liaise closely with international colleagues and domestic stakeholders to consider any possible future actions. The AcSB Chair will participate in a public roundtable to identify financial reporting issues highlighted by the global financial crisis in Norwalk, Connecticut on November 25, 2008."

November 1, 2008: IASB publishes fair value guidance

The IASB has published [educational guidance](#) on the application of fair value measurement when markets become inactive. The guidance consists of a summary document prepared by IASB staff and the final report of the expert advisory panel established to consider the issue:

- The summary document sets out the context of the expert advisory panel report and highlights important issues associated with measuring the fair value of financial instruments when markets become inactive. It takes into consideration and is consistent with recent documents issued by the US FASB and the US SEC.
- The report of the expert advisory panel identifies practices that experts use for measuring the fair value of financial instruments when markets become inactive and practices for fair value disclosures in such situations. The report provides useful information and educational guidance about the processes used and judgments made when measuring and disclosing fair value.

October 31, 2008: The Revised IASB Work Plan and Implications for Canadian Companies

The IASB issued a [revised work plan](#) as of October 31, 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 29 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.

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