

Countdown

Deloitte Canada's IFRS transition newsletter



With the focus still very much on current economic conditions and the business environment in general, as companies emerge from the year-end financial reporting process, IFRS activities are increasing in pace. The past month has also seen some increased activities from the International Accounting Standards Board (IASB) with the release of two exposure drafts (dealing with income taxes and derecognition) as well as the release of the 2009 annual improvements to IFRSs.

With this in mind, we continue to include in Countdown articles and information to enable you to focus on an efficient and effective transition to IFRS. This month's topics include consideration of the role of Internal Audit and our views on the IASB's exposure draft relating to Income Taxes. As for "Lightyear", the focus in April is on business combinations – past and present.

We want to continue to understand and meet your needs, so please submit ideas regarding matters that you wish us to address to deloitteifrs@deloitte.ca.

In addition, don't forget to complete our IFRS [transition survey](#) in order to enable us to benchmark progress and make comparisons regarding IFRS choices made by companies across Canada.

See you in May!



Don Newell
National Leader - IFRS services

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The Role of Internal Audit in IFRS Implementation



While Internal Audit's role and involvement can differ from one entity to another, the incorporation of this function in your IFRS implementation can have considerable benefits from a risk management, internal controls and change management perspective.

Deloitte Partner **Steen Skorstengaard** brings firsthand perspective on the Internal Audit impacts of IFRS conversion. Before moving to Canada from Denmark in 2006, Steen guided numerous clients through IFRS conversion, which took effect throughout the European Union (EU) in 2005. He discusses four key areas of risk, and Internal Audit's potential role in managing those risks. This list is not exhaustive and only highlights some of the key risk areas.

Risk	Role of Internal Audit
Project management: Managing project risks	
<p>Common project management pitfalls include:</p> <ul style="list-style-type: none"> • underestimating resource needs • not understanding the impact of IFRS on Information Technology (IT) and Finance • ineffective organizational structure and clear communication • poorly defining roles, responsibilities and accountabilities • poorly defining requirements, priorities and deadlines 	<p>The first step is for management (owners of the IFRS project) to sit down with Internal Audit to review and assess the implementation strategy and plan, giving Internal Audit a clearly defined mandate to uphold strong project management principles. To ensure the project stays on track Internal Audit could attend IFRS steering committee meetings as an observer, and should perform periodic reviews aligned with major phases of the project. Internal Audit needs to look at the IFRS project from all perspectives – accounting, IT, people and processes – and take into account other related factors, such as resources, skills and knowledge.</p>
Enterprise risk assessment: Understanding the risks to your company's bottom line	
<p>IFRS conversion can significantly change an organization's risk profile. IFRS utilizes a principles-based approach and puts a renewed focus on the need for professional judgment. The use of fair value measurements is also more prominent in IFRS and accordingly both measurement and the related disclosures need to be carefully monitored. In terms of impact on the bottom line results and equity, the impacts varied in the EU but there were some significant swings in both upwards and downwards directions – a factor of first-time adoption decisions and the policy choices made under IFRS relative to the predecessor generally accepted accounting principles (GAAP).</p>	<p>Internal Audit should monitor progress to determine whether management has fully identified the impact of these new risks on the organization, and assess the risk management procedures in place to manage and mitigate the business risks.</p>

Risk	Role of Internal Audit
Data and systems conversion: Tracking how IFRS principles are built into source data	
<p>Certain functionalities, data fields and reporting required under IFRS may not exist in current financial systems. To rectify this, some companies will need to make modifications to financial systems, while others may opt for manual workarounds. Companies may also need to change general ledger, sub-ledger and consolidation structures. These changes – resulting in increased data volumes, and new information and report generation requirements – can cause system performance declines, and potentially limit the capabilities of databases and hardware.</p>	<p>Internal Audit should review the data conversion strategy and plan, paying particular attention to: control procedures over data cleansing; mapping of converted data; handling of data exceptions or invalid data; and reconciliation and timing of the conversion. It's also advisable to perform some independent testing in order to re-perform reconciliations, testing critical functionalities and calculations, and testing for completeness and accuracy of new or converted data.</p>
Internal control over financial reporting (ICFR): Updating process documentation	
<p>With specific disclosure requirements in the MD&A for 2008 through 2010, the disclosure process becomes more prominent. In addition, the financial statement disclosures under IFRS, once adopted, are more robust than under Canadian GAAP. The risk also includes how to handle the conversion and assure that the ICFR in place covers conversion data.</p>	<p>To address these risks, Internal Audit will need to ensure existing process documentation for ICFR is updated, and consider any resulting process risks – for example, disclosure procedures and controls; property, plant and equipment; and financial reporting. Internal Audit should work with their ICFR certification team to identify the new processes and controls and evaluate the design and operating effectiveness of the controls.</p>



April 9, 2009: Tricia O'Malley will chair AcSB

Patricia (Tricia) O'Malley has been appointed Chair of the Accounting Standards Board of Canada (AcSB) effective in mid-June 2009. At the conclusion of her term on the IASB in June 2007, she became the IASB's Director of Implementation Activities, managing International Financial Reporting Interpretations Committee (IFRIC) interpretations and improvements projects.

IASB Income Taxes Exposure Draft:

Considerations for Canadian Companies

In late March, the IASB issued an exposure draft (ED) proposing amendments to accounting for income taxes. The comment deadline is July 31, 2009, with a final standard expected to be issued in 2010. This exposure draft is the culmination of a number of years of work on the part of IASB and the United States Financial Accounting Standards Board (FASB). The FASB has indicated that it will issue the IASB's ED as an invitation to comment and, depending on comments received, may undertake a project to make similar amendments to US GAAP.

The issue, and the effective dates, of this new standard are important for Canadian companies looking

ahead to IFRS implementation. Under the transitional rules of IFRS 1 *First-time Adoption of IFRSs*, a first time adopter is required to adopt the IFRSs that are in effect at the end of the year of adoption. Accordingly, a calendar year Canadian company that is not early adopting would look to the IFRSs that are expected to be in effect as of December 31, 2011. Depending on when the income taxes standard is released and effective, a Canadian company may be required to adopt the new standards or may have a choice of adopting the current version of IAS 12 *Income Taxes* and then changing to the new standard.

Important features of the ED for Canadian companies

Canadian GAAP, US GAAP and IFRS all follow the asset and liability method of accounting for income taxes. The differences in the three standards are at a fairly detailed level; this will continue to be the case. The ED will create some new differences for Canadian companies converting to IFRS, but some differences will actually be eliminated.

Exceptions to the recognition of deferred taxes

North American guidance and IFRS all have certain exceptions to the recognition of deferred taxes. The proposed amendments to IAS 12 seek to remove or modify some of those exceptions. For example, under IAS 12, deferred taxes would not be recognized on initial acquisition of an asset or liability, unless the asset or liability was acquired in a business combination. The IFRS exposure draft proposes to remove this exemption for acquisitions outside a business combination. Under the proposed new IFRS rules, deferred taxes would be recorded for temporary differences that arise when assets and liabilities are acquired other than through a business combination, in addition to those items acquired through business combinations. This change would bring IFRS closer to Canadian GAAP.

IFRS currently has an exemption that allows companies not to record deferred taxes related to their investments in foreign and domestic subsidiaries, branches, associates and joint ventures in certain circumstances; Canadian GAAP has a similar exemption for investments in foreign and domestic subsidiaries and joint ventures. Under the proposed new standard, this exemption would be limited to investments in foreign subsidiaries, branches and joint ventures that are permanent in duration. This change, if adopted, would mean that Canadian companies will have to consider deferred taxes on their investments in Canadian subsidiaries and joint ventures where the recognition of deferred taxes may have previously been exempted under Canadian GAAP.

In addition, there are a couple of exceptions that currently exist in Canadian GAAP but do not exist in IAS 12. No changes are proposed to add these exceptions to IFRS accounting for income taxes. The Canadian GAAP exceptions that will not exist under IFRS income tax accounting relate to intercompany transfers of assets that remain in the consolidated group and deferred taxes related to foreign non-monetary assets and liabilities. Canadian companies



adopting IFRS should be aware that these differences between Canadian GAAP and IFRS will persist under the new proposed income tax guidance.

Uncertain tax positions and other measurement issues

IAS 12 is currently silent on accounting for uncertain tax positions. The proposed new standard includes guidance indicating that current and deferred taxes should be recognized assuming a probability weighted average amount of possible outcomes. Canadian companies that follow US GAAP guidance in FASB Interpretation NO. 48 *Accounting for uncertainty in Income Taxes* or other approaches to accounting for uncertain tax positions should note that the new IFRS approach may have different results.

In addition, the proposed new standard includes guidance indicating that substantively enacted tax rates and laws are to be used to measure income taxes. The guidance clarifies what is meant by "substantive enactment", indicating that it is the point in the enactment process when future steps in the process will not change the outcome. This guidance should be consistent with current Canadian GAAP guidance.

The proposed standard also includes guidance on the impact on the accounting of the expected manner of recovery or settlement of an asset or a liability and of shareholder distributions and use of the distributed or undistributed rate to measure income taxes. These topics are covered in a bit more detail than what we currently see under Canadian GAAP. As a result, there may be differences between IFRS and Canadian GAAP on these matters in certain circumstances.

Other matters

The proposed section also includes some new or changed definitions, including a definition of tax basis. The proposals include a definition of tax credits but do not include much guidance on how they should be accounted for.

With respect to measurement of deferred tax assets, the new guidance requires that such assets be recognized in full, along with a valuation allowance to reduce the net carrying amount to the amount that is more likely than not to be realized. This is a change from IAS 12, which refers to recognizing tax assets when it is probable that they will be realized, that brings the proposed standard closer to the recognition terminology used in Canadian and US GAAP.



The ED also includes some proposals that relate to classification of deferred taxes between current and long term which would bring IFRS in line with classification standards under Canadian GAAP. Also in the ED is some guidance proposed to be added to IFRS 1, which will be of interested to Canadian companies if they adopt the new tax standards on their initial adoption of IFRS.

The new proposals cover all aspects of recognition, measurement, presentation and disclosure of income taxes that will, if approved, replace IAS 12 in its entirety. Canadian companies are encouraged to review this ED carefully as they look ahead to adoption of IFRS and consider the impacts on their tax accounting.

The Real Deal

Business combinations

Lightyear continues working through IFRS implementation building on prior progress in areas such as financial instruments and defined benefits plans. This month the focus is on business combinations – past and present.



What's the Deal?

1940: A small business, "Daylight", commences local operations.

1949: Daylight is incorporated and becomes a Company

1950: Daylight enters into a transaction with another company, "Buzz" to form a combined company, Lightyear. The transaction is treated as a merger.

1950-2007: Lightyear completes a number of acquisitions over this time period and undergoes significant expansion. The employee base, location and financial reporting systems undergo dramatic change over this time period. In 1970, Lightyear upgrades from a primarily manual system to more advanced financial reporting technology.

2008: Acquisition of Jones Ltd.

2008: Goodwill impairment recognized from prior transactions.

In addition to the above, Lightyear is contemplating an acquisition in 2010 of a Company called Quinlan.

Lightyear is debating a couple of issues on implementation of IFRS:

- What are the options regarding the past acquisitions? Lightyear is concerned about the prospect of restating these transactions as the data is not readily available for many of these transactions.
- How different are the business combinations rules under IFRSs? Lightyear is interested to know this given it expects to continue to undertake acquisitions in the future.

Keeping it Real

First-time adoption considerations

IFRS 1 allows a first-time adopter to:

- A. Restate all prior business combinations to comply with IFRSs;
- B. Restate all business combinations after a specified chosen date (e.g. all transactions from January 1, 2008 onwards); or,
- C. Do not restate any business combinations.

Lightyear's advisor is keen to point out to Lightyear that even if option "C" is taken, certain steps are still necessary (i.e. it is not a "do nothing" option). These include a review of the carrying amount of goodwill and an assessment of whether amounts acquired in a transaction qualify for recognition under IFRS. These are outlined in more detail in Appendix C (Para C4) of IFRS 1 (amended November 2008). In addition, from the date of transition onwards, irrespective of the first time adoption election all new business combinations must be accounted for under IFRS 3 *Business Combinations* (IFRS 3).

The good news for Lightyear is that there are options for business combinations completed until the date of transition. So, how different is IFRS from current Canadian GAAP regarding business combinations?

The applicable guidance under IFRS is IFRS 3. In fact, the new Canadian GAAP guidance on business combinations Canadian Institute of Chartered Accountants (CICA) 1582 *Business Combinations* is harmonized with IFRS 3 and although effective on a mandatory basis for acquisitions in the first annual reporting period commencing from January 1, 2011 onwards, may be adopted at an earlier date. The new Canadian guidance specifies that it is worth considering adopting on January 1, 2010 to minimize transitional issues.

The key principles of IFRS 3 are focused on the acquisition method – i.e. no pooling of interests, one party is always identified as the purchaser – and fair value accounting. In contrast to CICA 1581 *Business Combinations*, IFRS 3 requires:

- Consideration consisting of publicly traded shares to be measured at the acquisition date (vs. announcement/agreement date under CICA 1581).

- Acquisition costs to be expensed as incurred.
- Contingent consideration to be recorded at fair value on transaction date and for subsequent periods.
- Restructuring costs (generally) to be expensed.

Note – this is not a complete list of differences but some of those that are most relevant to Lightyear.

Lightyear has accounted for these past acquisitions under Canadian GAAP (CICA 1581). Part of evaluating IFRS for Business Combinations includes the consideration of available exemptions that are applicable to first-time adopters which are contained in IFRS 1. Lightyear has identified the "business combinations exemption" available to them under IFRS 1 as an alternative to consider but is unsure what the potential benefits or downfalls of this option might be on transition and going forward.



Implementing IFRS

On consideration of the guidance and discussion with its advisors, Lightyear decides upon the following:

Transaction	Details	Apply IFRS 1 exemption?
Buzz	1950 Merger transaction; no records. Application of IFRS 3 retrospectively would be close to impossible even if records were available due to completely different basis of accounting under IFRS 3 as mergers are not permitted under IFRS 3.	Yes
1950-2008 transactions	Lightyear has reasonable records for some of these transactions but sees limited benefits in the time and cost required to retrospectively restate.	Yes
Jones Ltd.	2008 transaction. The transaction was a share deal for which the value was determined at the agreement/announcement date under current Canadian GAAP. Due to the economic downturn that followed, the share price had significantly decreased at the acquisition date. The total purchase price under IFRS would be significantly lower.	Possibly – Lightyear has the data to do this and will assess the pros and cons through a financial analysis of the impacts. Lightyear is aware that if it restates, all transactions after this date, must also be restated.
Quinlan Ltd.	As this transaction is being contemplated for 2010, which is after the date of transition (January 1, 2010), IFRS 3 must be applied. Quinlan should consider whether or not to early adopt CICA 1582 (effective January 1, 2011). This would alleviate financial reporting in 2010 when Lightyear is required to report under Canadian GAAP publicly but maintain IFRS records to meet IFRS 1 reconciliation and comparative requirements for its 2011 financial statements.	N/A

Next Steps: The implementation team at Lightyear has discussed the implications of the IFRS 1 exemption and has decided that they would like to take the exemption for all business combinations prior to their transition date of January 1, 2010. This includes the acquisition of Jones Ltd. after a financial analysis is prepared and discussed. Lightyear is proposing to early adopt CICA 1582 as of January 1, 2010 to minimize reconciling items between Canadian GAAP and IFRS in the 2011 financial statements. The implementation team will now be taking these recommendations to the audit committee to get their approval before their decisions are finalized.

Next Month for Lightyear: Impairment – an important issue with the current economic downturn!!

Deloitte IFRS publications and events

A comprehensive summary of Deloitte IFRS 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.

iGAAP 2008 IFRS for Canada - Online version now available

Deloitte has developed iGAAP IFRS for Canada, a comprehensive reference book on the convergence of Canadian GAAP with IFRS. It can be purchased through www.cch.ca/product.aspx?WebID=2424. For more details see www.cch.ca/ifrscda.

Beyond compliance: Strategic choices on the conversion to IFRS.

Entities undertaking the IFRS conversion process have strategic choices to make throughout the process. This new publication is intended to provide insights on ten significant issues our clients are telling us are the most important to them. [Click here](#) for the publication ([login](#) required).

Webinar - Introduction to IFRS 1 First-time Adoption of IFRSs

Karen Higgins, Partner, and Clair Grindley, Senior Manager, hosted a webinar on IFRS 1 *First-time Adoption of IFRSs* in conjunction with the CICA. The webinar will move beyond the initial overview of the theory behind IFRS 1 and into the practical application of the IFRS rules, options and requirements. The webinar, which took place on April 27, 2009, can be accessed through [this link](#).

Deloitte Update Webcasts

May 7, 2009 - IFRS - Moving beyond the initial scoping work - [Click here to register](#)

May 21, 2009: Getting Started - Cost effective IFRS conversion strategies - [Click her to register](#)



IFRS for the Canadian Oil and Gas Sectors

Deloitte is working with the Institute of Chartered Accountants of Alberta, together with IASeminars, to provide practical and relevant IFRS information to the Canadian Oil and Gas sector.

To that end, we are pleased to inform you about a two-day workshop, being offered on May 12-13, 2009 or June 16-17, 2009, that has been specifically developed for Canadian public accountable enterprises in the Oil and Gas sector, in order to assist them with the transition from Canadian GAAP to IFRS. For more information please [click here](#).

Our Deloitte professionals will also be speaking at the following conferences. Contact us to find out more.

Toronto

- May 26 – 27: Acumen - [IFRS in Canada – Business Issues and Conversion Strategies](#)
- May 28 – 29: Institute of Chartered Accountants of Alberta - [Reporting for Natural Resources](#)

Calgary

- May 5 – 6: Infonex: [Advanced Issues in IFRS](#)

IAS Plus Newsletters

Deloitte has issued four special-edition IAS Plus Newsletters this month summarizing and providing our views on recent standard-setting activity and other developments:

- [G20: Implications for IFRSs](#)
- [Lease discussion paper](#)
- [Derecognition exposure draft](#)
- [Improvements to IFRSs 2009](#)

International Round-up

Updates and news from the IASB

March 31, 2009 - IASB issues derecognition exposure draft

The IASB has invited comments on an exposure draft (ED) of proposals to improve the IAS 39 *Financial Instruments: Recognition and Measurement* requirements for derecognition of financial instruments. The IASB is also proposing to enhance the disclosures currently in IFRS 7 *Financial Instruments: Disclosures*. Comments on the derecognition ED are due by July 31, 2009. [Click here](#) for the IASB Press Release.

March 31, 2009 - IASB proposes a new income tax standard

The IASB has invited comments on an ED of proposals to replace IAS 12 *Income Taxes* with a new standard. Refer to our article entitled "IASB Income Taxes exposure draft: considerations for Canadian companies".

April 3, 2009: IFRS model financial statements in French

Deloitte (Canada) has published Model IFRS Financial Statements for 2007 in the French language. Although several new Standards and Interpretations were issued during 2008, none are effective for December 2008 year ends. For this reason, these 2007 model statements remain a relevant reference for 2008. [Click here for IFRS Model Financial Statements for 2007](#) in the French Language.

April 3, 2009: IASCF releases 2009 XBRL IFRS Taxonomy

The International Accounting Standards Committee (IASC) Foundation has issued the final IFRS Taxonomy 2009. This translates IFRSs into XBRL (eXtensible Business Reporting Language) and allows companies, regulators, investors, analysts and others to benefit from easier filing, improved access to, and comparison of financial data. The 2009 taxonomy [may be downloaded](#) without charge from the IASB's Website



April 6, 2009: IFRS checklists in French

Deloitte (Canada) has published French language translations of the 2008 IFRS Presentation and Disclosure Checklist for 2008 and the IFRS Compliance Questionnaire for 2008:

- [Questionnaire](#) sur la conformité aux Normes internationales d'information financière
- [Liste de contrôle](#) sur la présentation et les informations à fournir relativement aux Normes internationales d'information financière

April 16, 2009: IFRS amends 12 IFRSs

The IASB has issued Improvements to IFRSs – a collection of amendments to twelve IFRSs – as part of its program of annual improvements to its standards. The IASB uses the annual improvements project to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of another major project. Most of the amendments are effective for annual periods beginning on or after 1 January 2010, although entities are permitted to adopt them earlier. [Click here for the IASB Press Release.](#)

April 20, 2009: Free access to basic IFRSs

The IASB has begun making available on its website, without charge, access to the latest available versions of IFRSs (including interpretations) and the application guidance that is an integral part of those standards. [Free registration is required.](#) The illustrative examples, implementation guidance, and bases for conclusions that accompany, but are not part of, the standards are available only to subscribers. The free standards are available in several languages.

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