Countdown

Deloitte Canada's IFRS transition newsletter

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Welcome to our August 2008 edition of **Countdown**. August in Canada may traditionally be a slower month in many ways, but things are definitely picking up on the IFRS transition front. More and more companies are now realizing that the need to plan for the transition is real, and that January 1, 2011 in practical terms is closer than it seems.

At the same time, the landscape continues to evolve, with new developments both in Canada and internationally. If some Canadian companies are enjoying an IFRS-free summer, it will be hard for them not to think about it in the fall!

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.

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www.DeloitteIFRS.ca

IFRS Disclosure in MD&A

In our June edition of Countdown, we described the Canadian Securities Administrators (CSA) Staff Notice 52-320 *Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards,* which provides guidance on annual and interim management discussion and analysis (MD&A) disclosure leading up to the conversion to IFRS. An important aspect of the disclosure is the progress of the changeover plan, which includes not only an analysis of accounting policies but of surrounding and supporting matters such as information technology, internal controls and the impact on other business activities. Generally, disclosures to date by Canadian public companies have indicated the progress towards the development of detailed changeover plans, with a few enterprises expanding their disclosure to provide progress to date on execution of their plans. We expect that the extent of disclosure will generally continue to expand throughout 2008 and into 2009, as more enterprises complete the planning stages and move into the design and implementation.

Experience from other jurisdictions that have already adopted IFRS tells us it is easy to underestimate both the extent of these "collateral" impacts and the time necessary to work through them. For example, the staff notice briefly mentions "compensation arrangements" as a matter that may be influenced by generally accepted accounting principles (GAAP) measures. Indeed, the great majority of management compensation arrangements include some portion of performance-related pay, usually driven at least in part by financial measures derived from the entity's financial statements. If the underlying formulae were left unexamined, for instance, any greater income statement volatility flowing from IFRSs might flow directly into the compensation calculations. This may or may not be acceptable, but certainly it is something to be identified and thought through well in advance, allowing time to restructure the arrangements if necessary.

There are other reasons to focus on this area. The CSA's long-awaited enhancements to the current executive compensation disclosure regime (contained in the management information circular and set out in Form 51-102F6 *Statement of Executive Compensation*) are expected to be finalized during the next few months and to be effective for December 31, 2008 year-ends. Among other things, the new rules (similar to those already in place in the United States for SEC registrants) will require disclosing a single dollar value for total compensation for each named executive officer, and will require a Compensation Discussion and Analysis providing much more detail about the rationale for the entity's compensation decisions. They will also require more detail about such matters as pension entitlements and termination and change of control provisions.

We believe that these new rules may well provide a basis for greater scrutiny of compensation arrangements by investors and the media, perhaps providing in turn a base for greater investor activism in matters such as advisory "say on pay" votes. This can already be seen developing in the US since the Securities and Exchange Commission (SEC) adopted its enhanced disclosure rules two years ago.

Keep in mind too that IAS 24 *Related Party Disclosures* requires that certain management compensation information be included in the notes to the financial statements, and therefore included for the first time within the scope of the auditors' report. These requirements are not the same as the CSA's requirements and raise additional interpretation issues; the resulting disclosure could be quite extensive for some companies.

In conclusion, several different spotlights are simultaneously turning toward the management compensation area. This makes a compelling case for companies to take steps now to ensure that they have a rigorous and adaptable compensation structure in place. In particular, this is an excellent time for companies to think about how they fundamentally define "performance" for compensation purposes. This exercise should mesh very well with an entity's broader thinking about how its key performance indicators and overall communication strategy will need to change in an IFRS world.

Publicly Accountable Enterprises Update

In our April edition of Countdown we introduced a series of articles about the impact of the Accounting Standards Board's (AcSB) proposed definition of a Publicly Accountable Enterprise (PAE) on various sectors. The proposed definition is incorporated within the AcSB's Omnibus Exposure Draft (ED) *Adopting IFRSs in Canada*. The comment period for this ED closed on July 31, 2008. The AcSB is planning on issuing another ED in October 2008. This ED will include the most recent IFRSs and will also address any follow up clarifications required from the first ED. In previous editions of Countdown we addressed the impact of the definition on the Public Sector and the Financial Institutions Sector. In this edition of Countdown we will provide a brief update on the following sectors:

1. Profit-oriented non-publicly accountable enterprises (Private enterprises)
2. Not-for-profit Organizations (NPOs)
3. Pension plans

Given that the AcSB is currently in the process of reviewing responses to the Omnibus ED, the comments below are reflective of current views only and may change pending due consideration by the AcSB of the comments received on the proposed definition of a PAE.

Private enterprises

The AcSB has been pursuing separate strategies for publicly accountable and private enterprises. Based on the specific needs of private enterprises, the AcSB has decided to develop a separate set of standards for this sector, based on the existing Canadian Institute of Chartered Accountants (CICA) Accounting Handbook (CICA Handbook).

It is intended that these standards will be available to all private enterprises and will be standalone guidance with no reference required to standards applicable to publicly accountable enterprises (as is the case currently with differential reporting). IFRS will remain an option, as is the case today, for private enterprises and indeed it is anticipated that certain private enterprises will choose to go down the IFRS route.

The AcSB has created an Advisory Committee to assist it in developing the standards for private enterprises. Based on current progress by the Advisory Committee the ED of the proposed private enterprise standards is expected in the first quarter of 2009.

Click here for further details of the AcSB's approach to private enterprises:

- Strategic planning for private companies
- Recent AcSB decisions re: Private companies standards

Not-for-profit Organizations (NPOs)

NPOs are currently scoped out of the proposed definition of a PAE. As with private enterprises, NPOs are not prohibited from adopting IFRSs. The Not-for-Profit Organizations Advisory Committee (AdCom) has recommended that the AcSB consider permitting NPOs to apply the standards applicable to private enterprises together with additional standards specifically relating to NPOs.

The AcSB intends to issue an Invitation to Comment in the latter part of 2008 considering the AcSB's strategy for setting standards in the NPO sector.

Publicly Accountable Enterprises Update (cont'd)

Pension plans

In the Omnibus ED, the AcSB proposed that pension plans, upon the adoption of IFRSs, should continue to apply CICA Handbook Section 4100 *Pension Plans* (Section 4100) in the preparation of their financial statements and not IAS 26 *Accounting and Reporting by Retirement Benefit Plans*. For matters not addressed in Section 4100, guidance would be sought in IFRSs other than IAS 26. Accordingly, it is proposed that pension plans would apply Section 4100, which may require further modifications prior to the adoption of IFRS, instead of IAS 26 and, to that extent, will not be fully 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.

As noted earlier, the above views are reflective of the information provided in the Omnibus ED and related material. The final strategies for each of the above enterprises may change and we will continue to provide further updates in future issues of Countdown.

The IFRS Transition Journey: Where are we now?

Milestones – Past and present

August 4, 2008: SEC Roundtable discussions on the performance of IFRSs and US GAAP in the recent period of market turmoil. Topics covered at the roundtable included panelists' experience with using IFRSs and US GAAP during the current financial crisis, the best way to develop stronger standards, and the direction of convergence efforts between the two sets of standards. Click here to download Deloitte's Heads Up newsletter summarizing the discussions at this roundtable.

International Round-up: Updates and News from the International Accounting Standards Board (IASB)

July 30, 2008: Amendment to IAS 39 for eligible hedged items

On July 30, 2008, the IASB published amendments to IAS 39 *Financial Instruments: Recognition and Measurement* to clarify two hedge accounting issues:

1. Inflation in a financial hedged item
2. A one-sided risk in a hedged item

The amendments are based on the September 2007 exposure draft *Exposures Qualifying for Hedge Accounting*, but focus more narrowly only on the two foregoing areas. The amendment does not address either (a) what can be designated as a hedged portion under IAS 39 or (b) the European carve-out option used by a few European companies. These issues will be addressed in a separate project. Click here for further details relating to these amendments

August 7, 2008: IASB proposes improvements to eight IFRSs

The IASB has issued an exposure draft (ED) of proposed amendments to eight IFRSs as part of its 2008 Annual Improvements Project. Most of the proposals would be effective for annual periods beginning on or after January 1, 2010, with earlier adoption permitted. However, the proposed effective date for those amendments arising from the revised IFRS 3 *Business Combinations* is July 1, 2009 (in line with the effective date of that standard and related changes to IAS 27 *Consolidated and Separate Financial Statements*).
For further details please see www.iasplus.com home page.

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

August 7, 2008: IASB proposes to amend IAS 33 Earnings per Share

The IASB has proposed to amend IAS 33 *Earnings per Share* (EPS) to simplify the calculation of EPS and to converge the international standard and US GAAP. The proposal is set out in an ED titled *Simplifying Earnings per Share*. Comments are requested by December 5, 2008. Concurrently, the US Financial Accounting Standards Board (FASB) has proposed to amend its EPS standard, SFAS 128 *Earnings per Share*. The IASB's proposal, if adopted, would supersede the version of IAS 33 issued in 2003 and amended in 2007 by IAS 1. The August Special Edition of the IAS Plus Newsletter summarized the proposed amendments.

August 7, 2008: IFRSs for US companies – planning for adoption

As full acceptance of IFRS in the United States becomes more likely, developing a plan for IFRS implementation is becoming increasingly important for US companies to effectively position themselves for the future. To help companies better understand the impact a move to IFRS will have on organisations, Deloitte has released the publication *International Financial Reporting Standards for US Companies: Planning for Adoption*. This publication provides an overview of key IFRS considerations, includes practical steps for US executives, and addresses key questions for US companies, including:

- How can company leaders – especially in finance – begin to plan properly for tomorrow's IFRS world?
- What impact will a transition to IFRS have on technical accounting, tax, process and statutory reporting, technology infrastructure, and organisational issues?
- What about timing considerations for IFRS conversion activities?

Click here to access the publication.

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