

Countdown

Deloitte Canada's IFRS transition newsletter



Welcome to the June 2009 edition of Countdown! In the latter half of this year, we are expecting to see increased levels of effort by publicly accountable entities (PAEs) towards preparing for the 2010 opening balance sheet and planning on how to address any dual recording requirements or modifications to systems and processes that may be necessary. This is a

time-sensitive and critical decision, if benefits from a controls and efficiency perspective are to be obtained. Our lead article on technology discusses several relevant considerations on this subject, and the "Lightyear" implementation team's focus this month is dual year reporting: what they will need to do and how they will accomplish this for 2010, their year of dual reporting

We want to continue to understand your concerns and meet your needs, so please submit ideas regarding matters that you would like to see us address in Countdown 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 entities across Canada.

Until July....!

Don Newell
National Leader - IFRS services

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Using technology to manage accounting and control changes driven by IFRS changeover



Accurate data is a cornerstone of financial reporting. As **Steve McCaughey, a Partner in Deloitte's Consulting practice**, points out, "some of the changes to financial reporting under IFRS are so intrinsic to how you collect data, that it's not just

about adjusting a few numbers here and there. Every time you change a number, it can cause a ripple effect that spreads throughout the organization. By building IFRS into the source of the numbers, you avoid long-term risks associated with manual workarounds – for example, placing a layer of IFRS filtering over existing spreadsheet-based financial reports".

To understand these risks requires understanding how accounting processes and technology systems are linked together. For example, under IFRS, various accounting calculations and disclosures may change. This change may become part of the bottom-line profit calculation, which is then used to calculate incentive-based compensation. Multiply this example by the thousands of individual pieces of data stored in your systems, and it doesn't take much to envision the interaction and impacts of multiple IFRS-related changes.

"If your company uses a central enterprise resource planning (ERP) system – like SAP, Oracle, PeopleSoft or JD Edwards – to account for, consolidate, manage and report on finances, you will need to revisit your information, processes and systems," confirms Steve.

Embedding IFRS at the data source controls the domino effect

With this understanding, it becomes clear that generating IFRS-compliant financial reports will require more than a slight tweaking of a handful of Canadian generally accepted accounting principles (GAAP)-based numbers, especially once the enhanced disclosures required under IFRS are considered. IFRS may potentially impact every corner of an enterprise's operations, so organizations will generally need to look at several systems-based deliverables. These can include:

- Making changes to the General Ledger and Chart of Accounts;

- Enhancing transparency of reporting and disclosure (considering both management and external reporting);
- Ensuring that data warehouses – which draw data from several systems or sources – are able to reliably consolidate financial information from multiple financial systems and ledgers;
- Evaluating any changes to forecasting and budgeting processes;
- Building additional IFRS-required data capture into source systems; and
- Identifying system performance issues early in the process.

IFRS is an opportunity to strengthen systems and manage risks

For organizations with robust ERP systems designed to adapt to ongoing changes, IFRS conversion may require just basic – but still comprehensive – systems modifications. But for organizations with fragile, aging, highly manual or inflexible systems, a systems replacement may be the most risk intelligent option.

Organizations that don't leave adequate time to build and test source data systems, notes Steve, run the risk of steep secondary accounting and audit costs to track the source and compilation of numbers, potential non-compliance with Sarbanes-Oxley or Bill 198 certification requirements, and the possibility of restatements and the resulting general damage to the enterprise's reputation. In already turbulent economic times, these are definitely risk exposures organizations want to – and can – manage.

Technology professionals need a spot at the table

"Whether your organization chooses to handle the technology aspects of conversion internally, or opts to outsource to a provider like Deloitte, it's vital that technology professionals work in tandem with the rest of the IFRS conversion team," advises Steve.

"The bottom line is that a successful IFRS conversion approach involves financial reporting, tax, processes and systems, risks and controls, training and project management professionals who understand the interconnected, organization-wide impacts of IFRS conversion".

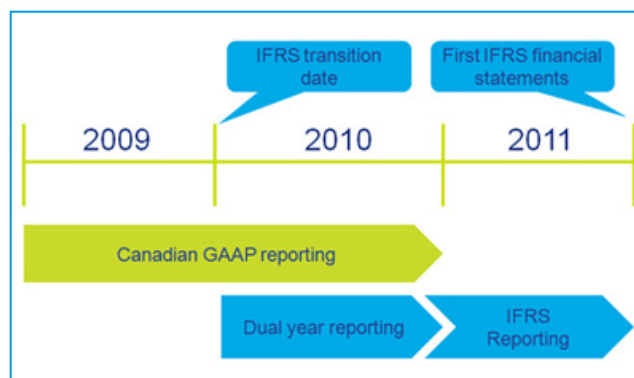
The Real Deal

Dual Year Reporting



It's now mid-way through 2009, and Lightyear is starting to think harder about the opening IFRS statement of financial position as of January 1, 2010 and what other IFRS-compliant data it will need to generate from this date forward. The Lightyear team is aware that there are certain requirements relating to the preparation of interim and annual financial statements including comparative data and certain reconciliations and is starting to contemplate matters such as:

- What comparative data (what information and for what periods) is required under IFRS?
- Which reconciliations will Lightyear need to prepare and when will these need to be disclosed?
- Will Lightyear be required to maintain two sets of data concurrently and, if so, how will this data be captured and reported reliably?
- What possibilities are there to minimize differences between IFRS and Canadian GAAP before and during 2010?
- How will Lightyear's systems and processes need to be adapted in order to achieve IFRS compliance?



What's the Deal?

Reconciliation and Disclosure Requirements

IFRS 1 – First-time Adoption of IFRSs provides guidance on the first annual and interim IFRS financial statements that Lightyear will need to prepare and the nature of any reconciliations or disclosure items required. For Canadian reporting issuers, such as Lightyear, the IFRS 1 requirements are supplemented by regulatory requirements applicable to public companies. In this instance, Canadian Securities Administrators (CSA) Staff Notice 52-324 "Issues relating to changeover to International Financial Reporting Standards" is of particular relevance and contains proposed requirements around the interim financial statements to be filed in the year of adoption.

The IFRS 1 and CSA (proposed) requirements are summarized in the table below:

Item	IFRS 1 Requirement	
	Interim	Annual
Opening Statement of Financial Position (OSFP)	IFRS 1 requires entities to prepare an OSFP at the date of transition to IFRSs. The proposed guidance in CSA 52-324 requires this be presented in the first interim financial statements in its financial year beginning on or after January 1, 2011.	IFRS 1 requires entities to prepare an OSFP as at the date of transition to IFRSs and present the OSFP in the financial statements.

Item	IFRS 1 Requirement	
	Interim	Annual
Comparative data	<p>CSA 52-324 proposes that the first interim financial statements in 2011 comply with IAS 34 – Interim financial statements. Entities will need to determine the level of IFRS comparative data that will meet these requirements pending further guidance but will include the transition date OSFP along with a comparative IFRS statement of financial position as at the end of its last Canadian GAAP annual reporting period (e.g. December 31, 2010). Any information for prior years other than the comparative period (and OSFP) is not required to be restated but must be clearly labeled as not being IFRS compliant information.</p> <p>Consideration will also need to be given to restated comparative information in the MD&A for the same period.</p>	<p>IFRS 1 requires that full comparative data be included in the first IFRS financial statements. Accordingly, entities will need to ensure that a process is in place to generate this information reliably and within the required timeline.</p>
Reconciliations: Equity Comprehensive Income		<p>Requires a reconciliation of equity reported in accordance with previous GAAP to equity in accordance with IFRS at the date of transition, and at the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP.</p> <p>Requires a reconciliation to its total comprehensive income in accordance with IFRSs for the latest period in the entity's most recent annual financial statements.</p>

Dealing with Changes in the Changeover

Lightyear will also need to consider standards that have been converged or that will be converged and those with an option to early adopt under Canadian GAAP, such as: CICA Handbook Sections 1582 Business Combinations, 1601 Consolidated Financial Statements, 1602 Non-Controlling Interests and 3064 Goodwill and Intangible Assets.

How will information requirements be captured?

Another major consideration for 2010 and moving forward is the system requirements. Do Lightyear's current systems allow them to run both IFRS and Canadian GAAP statements for the same year? There will likely be some additional source data required for the new and ongoing disclosure requirements, so can the current systems handle that? The structure of the general ledger and consolidation may also need to be revised.

Keeping it Real

Reconciliation and Disclosure Requirements

As Lightyear is a Canadian reporting issuer, and is adopting IFRS for its December 31, 2011 annual reporting period, it needs to consider both the requirements of IFRS 1 and the CSA Staff Notice. Lightyear will be monitoring any additional guidance that may be issued over the balance of the year in connection with the proposed CSA requirements but is planning financial reporting changeovers based on all available information to date. For Lightyear, this means careful planning and resources will need to be in place to ensure that the requirements for the first IFRS interim and annual financial statements are in place. Lightyear is considering these requirements and planning for as much work to be done ahead of time as it believes it will otherwise be at risk of not meeting its regulatory filing deadline for the first quarter of 2011.

The financial reporting team at Lightyear are preparing internal mock financial statements in the fourth quarter of 2010 to ensure there is agreement, and appropriate planning, on the format and disclosures to be included in the Q1 2011 financial statements. Lightyear is also proposing to present a draft OSFP to its Audit Committee in Q3 of 2010 and is meeting with its auditors to discuss the timing of the audit of this draft OSFP in order to advance some of the work effort required and ensure that it can meet all of its deadlines and fulfill all disclosure requirements.

Dealing with Changes in the Changeover Period

When Lightyear commences its IFRS reporting in 2011, it will need to present an opening statement of financial position, and IFRS-compliant comparatives for all quarterly and annual statements for the dual reporting year ended December 31, 2010. In order to be able to meet these requirements, Lightyear will need information to be able to prepare all of its statements under both IFRS and Canadian GAAP for the relevant periods in the year ending December 31, 2010. The Lightyear implementation team will now use the remaining months of 2009 to ensure that they finalize as many decisions as



possible related to the IFRS implementation and in doing so they can avoid having to make unnecessary changes during 2010 or 2011 while keeping their options open until they commence reporting by the issuance of their first IFRS interim financial statements for the three months ended March 31, 2011.

Lightyear's implementation team will continue to monitor the status of various standards, exposure drafts and discussion papers and will consult with their advisors as necessary in order to ensure that they are up to date and aware of all ongoing convergence projects. Additionally, they will focus on standards that will be finalized in 2010 and 2011 that will be applicable on or before December 31, 2011 and which must be applied consistently throughout the opening statement of financial position onwards. This continuous monitoring will ensure they are prepared to act upon the issuance of any new IFRSs which will be required to be reflected in 2011. Flexibility will be key!

How will information requirements be captured?

Lightyear's IT department, along with its IFRS implementation team, will be going through the company's system design to determine whether their current systems are capable of running parallel systems, changing / revisiting their GL and consolidation accounts, and providing various new data required for the significantly increased disclosure requirements under IFRS.

Next Steps: The implementation team at Lightyear has considered and investigated their systems and they have determined that their current systems are capable of recording the necessary data under both Canadian GAAP and IFRS during 2010. Additional data that will be required to comply with IFRS disclosure requirements will be adjusted with the assistance of their IT function to ensure that the appropriate data required is available for disclosures. Last but not least, as more and more IFRS data starts to become available and policy choices are made, Lightyear will be assessing whether it needs to provide any related disclosures in its Management Discussion & Analysis in connection with its IFRS changeover disclosure requirements.

Watch next month's edition of Countdown for more on Lightyear's IFRS transition!

Private enterprise strategy

IFRS or private company GAAP

Private Enterprises, (defined as “profit oriented enterprises that have not issued and are not in the process of issuing, debt or equity that are, or will be, outstanding and traded in a public market and do not hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses”), have the option to adopt IFRSs but the question that has been repeatedly asked, absent such a decision, is what does the future hold for Private Enterprise GAAP? This was clarified earlier this year when the Canadian Accounting Standards Board (AcSB) issued an [exposure draft](#) (ED) on *Generally Accepted Accounting Principles for Private Enterprises*.



The main objectives of the exposure draft are to provide private enterprises with a reduced level of disclosure and complexity in financial reporting. Unlike differential reporting, these new standards will **stand alone** with no requirement to refer to standards applicable to publicly accountable enterprises. Note that this is in contrast, and should not be confused with, the current International Accounting Standards Board (IASB) project on Private Entities – it is unclear what the interplay, if any, between Private Enterprise GAAP and IFRS for Private Entities will be but the AcSB chose not to move in the IASB’s direction for the time being due to timing and other considerations.

As well as providing an overall framework for Private Enterprises, the ED sets out a number of proposed changes based on current Canadian GAAP. These are intended to result in a simpler, more relevant and less cumbersome basis of financial reporting applicable to the user needs of these types of enterprises.

So what are some of the key changes proposed in the ED? They include:

•	Asset Retirement Obligations (AROs) – which will adopt the measurement aspects of IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> .
•	Consolidation – companies may account for subsidiaries by consolidating them or using either the cost or equity methods.
•	Employee Future Benefits – will permit companies to apply a simplified approach to account for its defined benefit plans, where the only members are the controlling owner, their spouse or both.
•	Financial Instruments – proposed section will cover all aspects of accounting for all financial instruments. It will eliminate most choices required in the current standards.
•	Future Income Taxes – will permit the taxes payable method or the future income taxes method.
•	Goodwill and Other Intangibles – will require companies to test goodwill and other intangibles not subject to amortization on an ‘events and circumstances’ basis rather than annually.
•	Internally Generated Intangible Assets – will provide a choice to capitalize or expense development costs incurred or internally developed intangible assets.
•	Stock-Based Compensation – will replace the minimum value method with the calculated value method.
•	Disclosures – reduced amount of specific disclosure requirements. The focus of the disclosures will be on accounting policies, risks, uncertainties and unusual events rather than detailed breakdowns of numbers and reconciliations.

Anyone familiar with IFRS will see some similarities between this ED and both the Omnibus ED that dealt with Adopting IFRSs in Canada and IFRS 1. For example, just like IFRS 1, the ED includes a first-time adoption section which requires Private Enterprises to apply the private enterprise standards retrospectively and contains optional exemptions and exceptions.

Optional Exemptions	Mandatory Exceptions
Business combinations	Derecognition of financial assets and financial liabilities
Fair value	Hedge accounting
Employee future benefits	Estimates
Cumulative translation differences	Non-controlling interests
Financial instruments	
Share-based payment transactions	
Asset retirement obligations	
Related party transactions	

The comment period for this ED is open until July 31, 2009.

See also an archive of our [Deloitte webcast](#) on the New Canadian GAAP for Private Enterprises

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.

IFRS conversion: Who's managing risks on the road ahead?

Changing from Canadian GAAP to IFRS is going to pose widespread risks for Canadian publicly accountable enterprises. Getting from here to there with minimal disruption will require a risk intelligent approach. This new publication is intended to broaden the IFRS risk management perspective beyond finance. [Click here](#) to access the publication.



Deloitte Update Webcasts

Webcast Archives

Normes IFRS – Pour aller au-delà de l'évaluation initiale du travail à accomplir (in French only) - [Click here](#)

Calgary

September 15-16, 2009 (two-day workshop); IFRS for the Canadian Oil and Gas Sectors. For more information please [click here](#).

Vancouver

August 25 - 28, 2009: Infonex - IFRS Implementation for Mining

International Round-up

Updates and news from the IASB

May 28, 2009: IASB proposes to amend IFRIC 14

The IASB has published an exposure draft (ED) of proposed amendments to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, regarding prepayments of minimum funding requirements. The proposed amendments are aimed at correcting an unintended consequence of IFRIC 14. As a result of the interpretation, entities are in some circumstances not permitted to recognize as an asset some prepayments for minimum funding contributions. The ED proposes to correct the problem. Comments on the ED are due July 27, 2009. [Click here](#) for Press Release.

May 28, 2009: IASB exposure draft on fair value measurement

The IASB has published an ED of proposed guidance on how fair value should be measured where it is required by existing standards. The ED does not propose to extend the use of fair value measurements in any way. It would add disclosure requirements about how fair values were determined. If adopted, the proposals would replace fair value measurement guidance contained within individual IFRSs with a single, unified definition of fair value, as well as further authoritative guidance on the application of fair value measurement in inactive markets. The proposed definition of fair value (FV) is identical to the definition in *SFAS 157 Fair Value Measurements* and the supporting guidance is also largely consistent with US GAAP. Comment deadline is September 28, 2009. [Click here](#) for Press Release.

June 18, 2009: IASB issues discussion paper on 'own credit risk'

The IASB has published a discussion paper on the role of an entity's own credit risk in liability measurement. The discussion paper (DP/2009/2 *Credit Risk in Liability Measurement*) is accompanied by a staff paper that describes the most common arguments for and against including credit risk in measuring liabilities. The paper notes that IFRSs require profit or loss resulting from changes in 'own credit' to be booked when debt is fair valued, but that some see the outcome as counter-intuitive (gains recognized in



the face of deteriorating credit). The discussion paper addresses this concern and examines bases for liability measurement other than fair value. Comments are due by September 1, 2009. [Click here](#) for IASB Press Release.

June 19, 2009: IASB amends IFRS 2, withdraws IFRIC 8 and 11

The IASB has issued amendments to IFRS 2 *Share-based Payment* that clarify the accounting for group cash-settled share-based payment transactions. The amendments clarify how an individual subsidiary in a group should account for some share-based payment arrangements in its own financial statements.

The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2–Group and Treasury Share Transactions*. As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11. The amendments are effective for annual periods beginning on or after 1 January 2010 and must be applied retrospectively. Earlier application is permitted. [Click here](#) for IASB Press Release.

June 23, 2009: IASB proposes guidance on management commentary

The IASB has issued an ED of proposed non-mandatory guidance for preparing and presenting a 'management commentary' – sometimes called 'management discussion and analysis' or 'operating and financial review'. The IASB believes that providing non-mandatory guidance will improve the consistency and the comparability of management commentary across jurisdictions. The ED *Management Commentary* is open for comment until March 1, 2010. [Click here](#) for IASB Press Release.

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