



# Prepare for IFRS Now: It provides for more accounting policy choices

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KPMG LLP

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It provides for more accounting policy choices



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Hard times have led many businesses across Canada to make difficult choices this year. Senior managers have had to reprioritize in key operational areas involving spending, financing and other matters.

Hence, it is understandable that many public companies, particularly smaller entities challenged for resources, feel that they need more time to prepare for their 2011 conversion to International Financial Reporting Standards (IFRS).

Nevertheless, those who have fallen behind in IFRS planning and execution must catch up quickly. Canadian public companies need to be up and running with IFRS by the first day of their new fiscal year beginning on or after January 1, 2011, and this deadline is firm.

The clock is ticking and there is lots of work to be done. IFRS provides for more accounting policy choices. Many IFRS standards differ from and require additional professional judgment compared to Canadian generally accepted accounting principles. Senior financial officers at public companies must identify, analyze and determine their accounting options.

Several key differences exist under IFRS. These include a fundamentally different approach to impairment testing of assets; a new way of recognizing certain provisions, such as asset retirement

obligations, and additional options with respect to fair-value accounting, among others.

The finance team also needs to study certain irrevocable accounting policy choices available under IFRS as well as elective exemptions. Certain of these accounting policy choices may present a unique, one-time opportunity to make favourable long-term changes. While the elective exemptions available on first time adoption of IFRS can ease the burden of implementing IFRS, the tradeoff is that they can significantly impact reported equity and post changeover earnings.

While IFRS financial reporting won't go live until 2011, entities need to begin preparing IFRS draft statements, so they have comparable year-over-year IFRS figures available when the switchover officially takes place.

By May 15, 2011, most reporting issuers will be required to issue their first IFRS interim financial statements, complete with complex, voluminous adoption disclosures. This follows quickly after companies have completed filing their 2010 annual statements earlier in the spring.

So hitting the ground running is mandatory, not an option.

The IFRS conversion approach taken by various organizations and industries will invariably differ in certain areas. However, it has been widely shown in companies that have already successfully undergone IFRS conversions that this effort, while led by the chief financial officer, requires organization-wide buy-in. The involvement of information technology officers, for example, is crucial since the organization's data flows are intimately connected to its financial reporting. In some cases, the conversion to IFRS might even present a golden opportunity for entities to upgrade their IT systems.

Public companies must also be careful to safeguard internal control over financial reporting during the conversion process. Changes to a company's financial reporting framework could affect underlying processes and controls, increasing the risk of error, thereby requiring extra attention.

Diligence with respect to internal controls is even more important in light of Canadian Securities Administrators Certification of Disclosure in issuers' annual and interim filings in Canada, which requires both the chief executive officer and chief financial officer of non-venture publicly listed domestic companies to evaluate the effectiveness of the internal controls which produce their financial statements.

In fact, Canada will be the first country converting to IFRS where public companies are subject to this control certification requirement. CEOs must therefore be kept in the loop about conversion developments; furthermore, their active involvement and promotion of this exercise can help set the right tone at the top, increasing their company's odds of success.

The involvement of treasury personnel is also important, because financial reporting changes under IFRS might affect various financial debt covenants, capital requirements, loan and other contractual arrangements.

Effective communication is another essential ingredient for success. Internally, a company's board of directors, and particularly its audit committee, must be kept fully informed and updated on accounting choices and elections made and key milestones during the conversion process. Staff training must be planned and executed.

External stakeholders also need to be considered. Existing and potential future shareholders, market analysts, creditors and other interested parties need to understand prior to the IFRS go-live date how a company's financial statements might change under IFRS. This could affect critical investment and other decisions they make.

Approximately 100 countries around the world are either in the process of converting to IFRS or have already done so, like members of the European Union, and Australia.

Shortly, Canada will join this group.

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