

Energy Survey Quarterly Update **IFRS**



IFRS holds unique challenges for the oil and gas industry

Until now, it has been relatively easy for the oil and gas sector to find itself distracted when it comes to IFRS (International Financial Reporting Standards). For those who are new to the concept of IFRS, they are the accounting standards which will replace Canadian GAAP in 2011. The Canadian Accounting Standards Board (AcSB) has decided that Canada will be joining almost 100 countries which have already moved to IFRS, including all of the European Union, Australia, New Zealand and South Africa.

The move to IFRS means special challenges for oil and gas companies. IFRS is described as “principles-based,” meaning it provides companies more choices when it comes to accounting policies. While Canadian GAAP contains very detailed guidance for the extractive industries, IFRS does not. This leaves companies in unfamiliar territory, having to closely consider their accounting standards and policies and be prepared to justify their choices, as opposed to just sticking to the guidance.

Specifically, IFRS does not support full-cost accounting, a method used by virtually all of Canada’s independent oil and gas exploration and production

companies. Conversion to IFRS, as it’s currently published, would require most Canadian public companies in this sector to recreate detailed historic records under IFRS for the transition date, a process that would be extraordinarily costly if not impossible. On behalf of the industry, The Canadian Association of Petroleum Producers (CAPP) and Small Explorers and Producers Association of Canada (SEPAC), have proposed amendments to IFRS which would make the transition more workable for Canadian companies.

The AcSB and the International Accounting Standards Board have expressed support for these proposed amendments, and CAPP and SEPAC seem cautiously optimistic that the proposal will be successful. However, whether it is or it isn’t accepted, it still leaves the industry with a lot of work to do in order to get prepared.

There are some important milestones looming; by the end of fiscal 2008, companies must disclose their plans for IFRS transition and the expected impact on their financial statements. By the end of fiscal 2009, companies must provide a detailed implementation plan and quantify the impact on financial statements in a more precise way.

Migration to IFRS is likely to require a significant training program for many within the organization. Investor relations, internal audit, legal and marketing personnel will need to know about IFRS and its implications in order to function in their roles. Business units may need to provide new or different information in order to comply with IFRS, and they will need to understand how IFRS can and should affect their decision-making and business strategies.

IFRS compliance may also demand that companies report new and additional data, which can have a direct impact on IT systems and processes. Companies which need additional staff, particularly personnel with specialized skills and experience to assist in the transition, may find themselves fighting their competitors in a very tight labour market.

The trickledown effect of IFRS has been easy to underestimate up to now, but its influence inside the organization will be far-reaching. Budgets, forecasts, bonus structures, debt covenants, key performance indicators – anything which hinges on accounting results may change when the accounting standards change.

In order to have a smooth adoption and conversion process, organizations must prepare for these fundamental changes. With the 2008 and 2009 deadlines imminent, the industry can't afford to underestimate the time it will need to implement the changes.

For companies which are just beginning to contemplate what IFRS will mean for them, PricewaterhouseCoopers recommends a three-phased approach.

1. Begin a diagnostic review to reveal key differences between Canadian GAAP and IFRS and to determine the anticipated effect on your company's financial reporting;
2. Develop a culture of awareness, so staff and management have the resources and motivation to stay on top of transition issues and determine the impact of changes; and
3. Assign appropriate resources, particularly human resources, to IFRS-conversion projects, including training for executives and board members on impact and changes under IFRS.

Viable IFRS conversion approaches vary from one organization to another, but the Canadian oil and gas sector faces a unique set of challenges. A well-planned, skilled implementation is what will set certain companies apart. For companies which have just begun to address IFRS and all related issues, now's the time to put together a project team, gather the necessary resources and start the conversion plan. Ready or not, IFRS is coming.

PricewaterhouseCoopers LLP can help. We have extensive experience assisting many clients through the conversion.

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