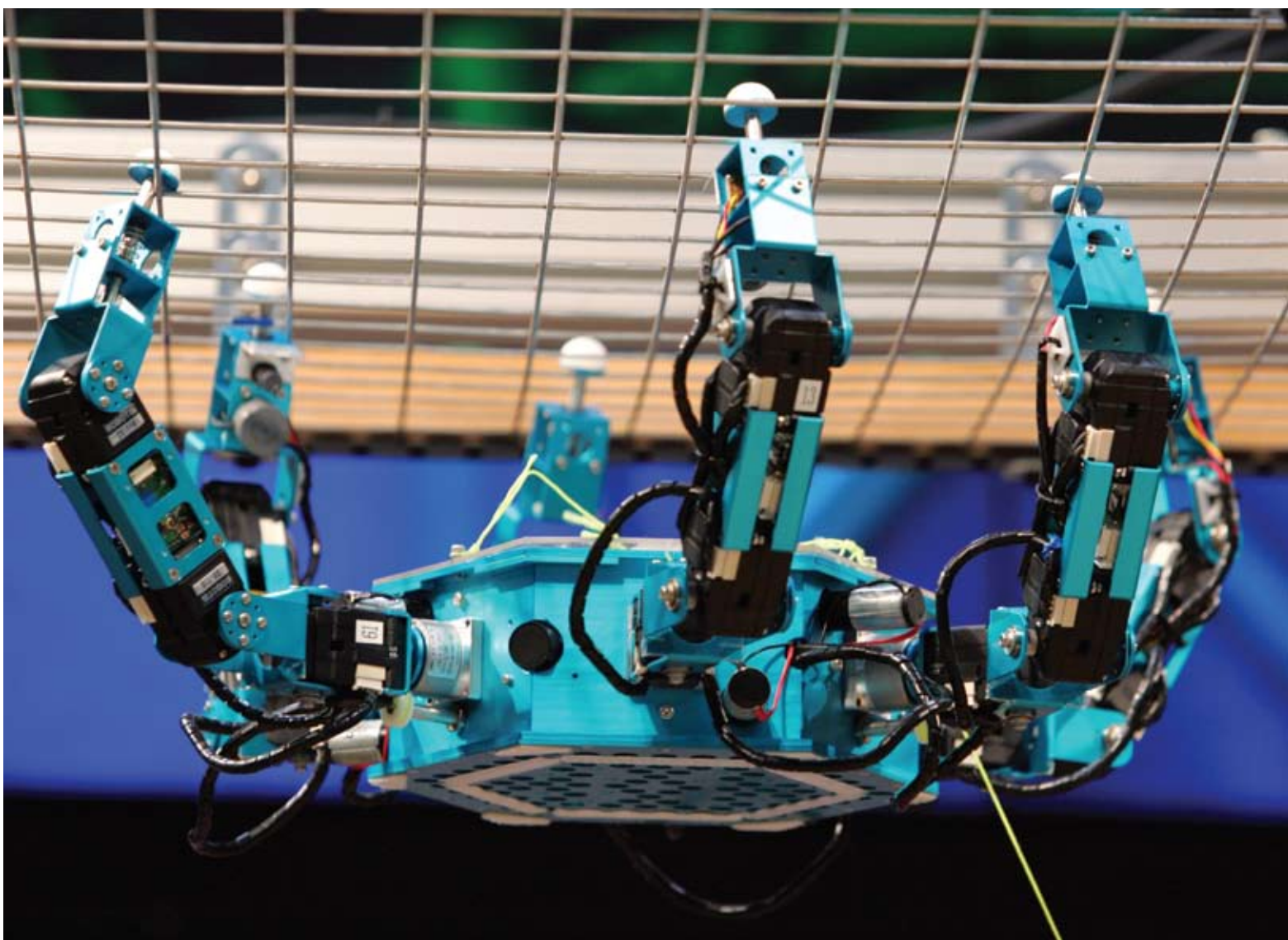


Putting IFRS in motion*

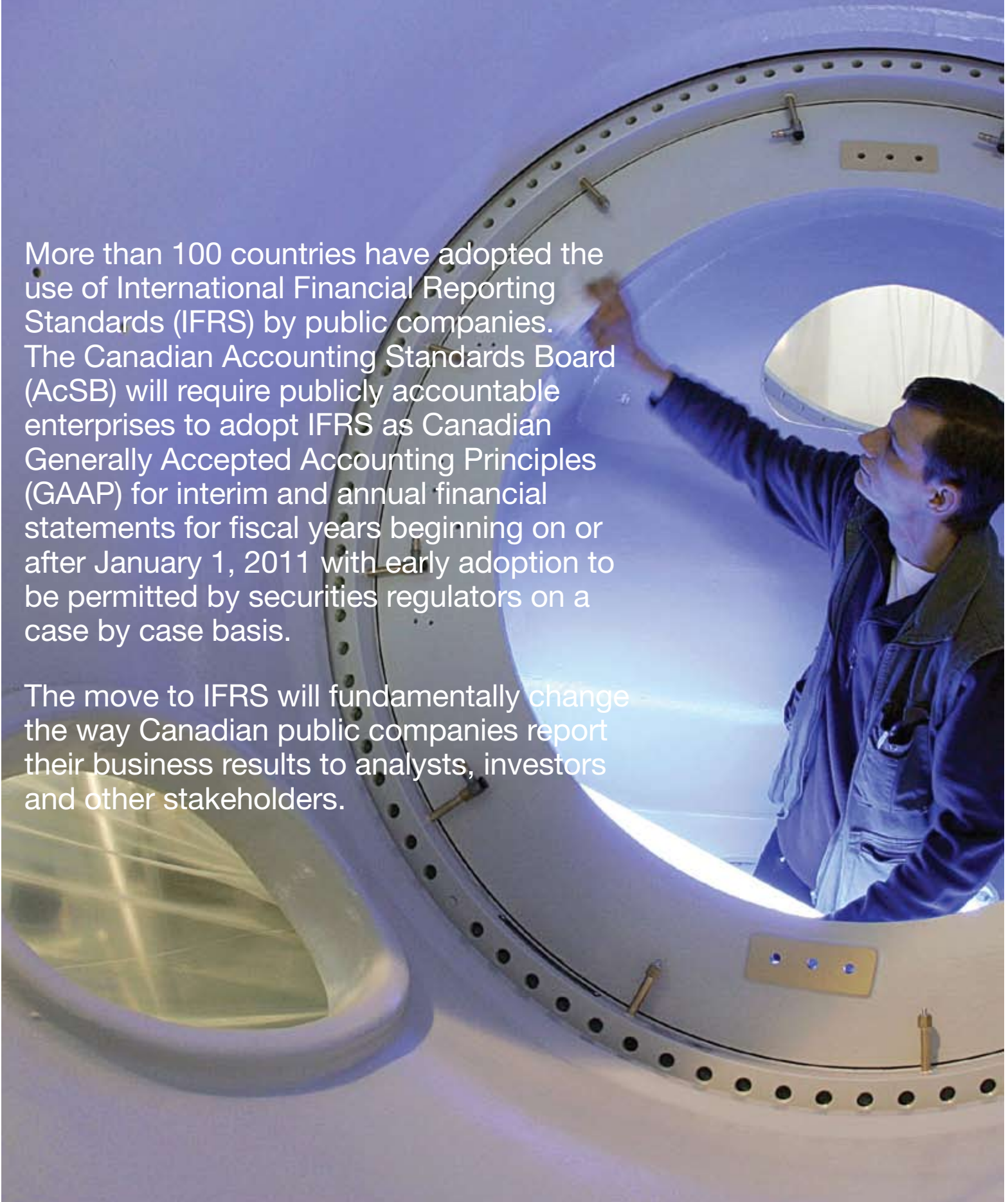
The potential impact of International Financial Reporting Standards (IFRS) on the Canadian Technology sector



Introduction

More than 100 countries have adopted the use of International Financial Reporting Standards (IFRS) by public companies. The Canadian Accounting Standards Board (AcSB) will require publicly accountable enterprises to adopt IFRS as Canadian Generally Accepted Accounting Principles (GAAP) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011 with early adoption to be permitted by securities regulators on a case by case basis.

The move to IFRS will fundamentally change the way Canadian public companies report their business results to analysts, investors and other stakeholders.



For some organizations, implementing IFRS may not be very complicated, but for others it will be a highly complex process that goes well beyond the finance and accounting functions. Other business operations such as human resources, investor relations, business development and information technology (IT) departments will likely be involved in the IFRS conversion plan.

Our experience in assisting global companies that have already adopted IFRS shows that for some, full conversion and adoption can take anywhere from 18 to 30 months, depending on the complexity of the organization. Are you on track?

Certain industries have a long and complex conversion process because significant accounting policy changes are required. It is often extremely difficult to extract the historical information necessary to make these changes and the accounting processes and systems have to be modified on a go forward basis.

One of the most significant challenges in converting from Canadian GAAP to IFRS is determining which GAAP differences will impact the organization. The background and context behind the decision to adopt IFRS and the key strategic issues you will face in converting to IFRS are outlined in our publication, *Putting IFRS in motion – Are you on track?* To obtain a copy, contact a PwC professional or visit www.pwcifrs.ca.

Companies that have already implemented IFRS understand that the new standards may place a sizeable responsibility on management to be able to communicate effectively to the market in the new IFRS language.

Accounting under IFRS

The transition to IFRS may look like a straightforward accounting exercise. However, experience has shown that companies that think ahead with a clear and well-defined implementation plan are those that will manage the transition most effectively and efficiently and are best placed to manage stakeholder expectations throughout the transition process.

Many technology sector companies throughout Europe and Australia have completed their transition to IFRS and have been applying IFRS since January 1, 2005. The transition to IFRS for technology companies in these countries has shown there are some interpretation and application challenges unique to technology companies. This publication aims to highlight some of the significant differences between Canadian GAAP and IFRS that will specifically impact the technology sector.

Some key characteristics unique to the industry include the following:

- The variety and complexity of sales contracts and arrangements in the industry present some key IFRS reporting issues for the technology sector.
- The technology sector is characterized by the need for significant up front investment in research and development to commercialize a technology, often with great uncertainty about outcomes over the long-term.
- The value of technology companies often lies in internally generated intangibles such as know-how and product development, which can take many years to generate revenue and positive cash flows.
- To support the need for cash flows in the early stages, compensate consultants and vendors and retain key employees involved in the development of know-how, technology sector companies often issue complex equity instruments.

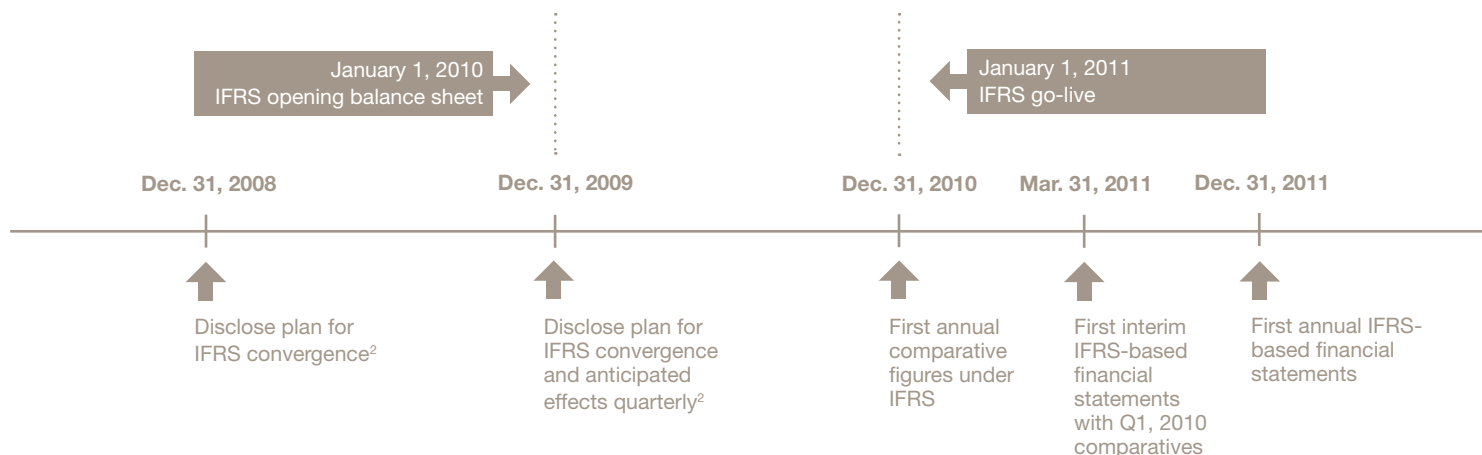
These business aspects of a technology sector company can mean that the transition to IFRS requires some complex judgments to implement the new standards. One of the challenges of working with “principles based” standards is that, without a rulebook, management needs to spend more time explaining the judgments it has made to apply the principles.

Throughout this publication we address some of the issues that impact technology sector companies as a result of the key characteristics noted above. Other areas likely to impact companies in the technology sector that will also need to be considered through the transition to IFRS include:

- First-time adoption of IFRS (IFRS 1)
- Business combinations
- Consolidation (including variable interest entities)
- Taxation

Even though the Canadian changeover to IFRS is scheduled for 2011, the scale of the transition means there are decisions to be made today.

The Canadian IFRS conversion timeline: Key dates and milestones¹



¹ The table assumes a calendar year in which a company first reports under IFRS in 2011 and presents a single year of comparatives as well as an opening IFRS balance sheet as at the date of transition to IFRS.

² Canadian Securities Administrators Staff Notice 52-320 requires quarterly disclosures in Management's Discussion and Analysis starting in 2008 on the plan for IFRS convergence and, starting in 2009, the expected impact of the adoption of IFRS. Quantification of the impact of adoption of IFRS will be required in 2010 in the annual Management's Discussion and Analysis at the latest.

Early identification of decisions to be made and exemptions available on conversion to IFRS along with the impact of these on the financial statements and key performance measures will allow the best prepared companies to make optimal decisions on how elections should be applied.

First-time adoption of IFRS (IFRS 1)

Under IFRS 1, the underlying principle on adoption of IFRS is the retrospective application of all IFRS standards (with certain mandatory exceptions and optional exemptions) at the beginning of the earliest period for which comparative financial statements are presented (date of transition). Where differences exist and there is no exemption available, companies may have to put in significant effort to investigate various historical transactions to assess recognition, measurement and presentation of assets and liabilities in the opening balance sheet. Early identification of GAAP differences and consideration of the exemptions and alternatives are very important for a successful conversion.

Revenue recognition

Revenue recognition can be a complex issue for technology sector companies. The range of approaches for revenue recognition for these companies reflects both the complexity of the industry environment and the business practices used by such companies. The revenue arrangements entered into by technology sector companies can include multiple deliverables (e.g. free future upgrades, products and maintenance), ongoing obligations, complex acceptance clauses, refund and discount clauses.

The future of revenue recognition under IFRS

In analyzing the impact of IFRS on technology sector companies in Canada, we need to take a closer look at the current framework under Canadian GAAP addressing revenue recognition. Canadian GAAP includes general principles on revenue recognition augmented by various interpretations issued in accounting guidelines and by the Emerging Issues Committee. Many of these interpretations have been based on US generally accepted accounting principles (US GAAP). Specific industry guidance under Canadian GAAP that addresses revenue recognition is limited and many Canadian technology sector companies have looked to US GAAP which provides detailed and often very specific revenue recognition guidance. The overall result of this highly prescriptive approach has been to leave little room to exercise judgment.

IFRS does not have specific industry guidance addressing revenue recognition. The revenue standard is accompanied by examples that outline how the principles are considered to apply to particular aspects of a transaction such as the development of customized software. This difference in approach will require companies to apply more judgment than may have been required under Canadian GAAP.

In the following sections we have identified some potential issues related to revenue recognition that will warrant consideration by technology companies when they convert from Canadian GAAP to IFRS.

Basic conditions for revenue recognition

Both Canadian and US GAAP require that persuasive evidence of an arrangement exists before revenue can be recognized. This generally means that a signed contract or other customary practice of entering into an arrangement such as purchase orders should be received before revenue can be recognized.

IFRS does not have such an explicit condition. IFRS implicitly requires that all terms and conditions of the arrangement be known before revenue can be recognized. It is, therefore, conceivable under IFRS that revenue may be recognized if an agreement has been reached even if the final contract is yet to be signed.

Canadian and US GAAP permit recognition of revenue under bill and hold arrangements if certain stringent criteria are met. While IFRS also has certain requirements for bill and hold transactions, these requirements are not as extensive as those under Canadian and US GAAP. Companies may, therefore, wish to re-evaluate their accounting policies for bill and hold transactions on adoption of IFRS.

Multiple elements and the treatment of future obligations

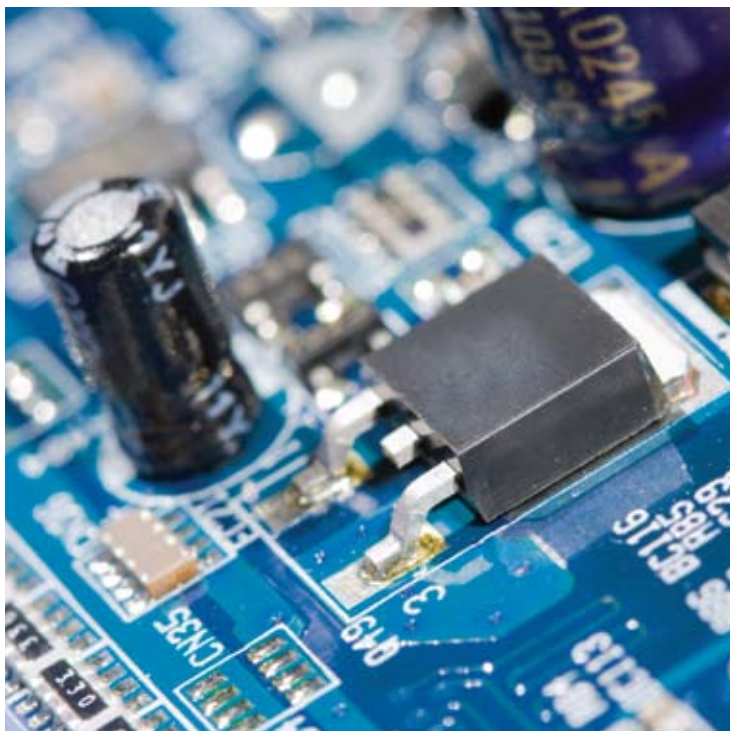
Entities in the technology sector rarely sell products and services on a stand-alone basis. In one contract or sales agreement you might find different elements such as software, hardware, upgrades, maintenance and services for example. Also, the price of the arrangement is often negotiated as a package rather than individually.

Both Canadian and US GAAP have very specific criteria for assessing whether elements within an arrangement are to be accounted for separately and for allocating revenue to those elements.

To account for components of an arrangement separately, Canadian GAAP requires that the company be able to determine the fair value of any future deliverables and allocate the consideration based on fair values. Canadian GAAP permits use of vendor-specific objective evidence of fair value (VSOE) or estimates of fair value based on selling prices for similar products or services sold by the company or others. If the fair value of future deliverables cannot be determined, revenue recognition is delayed.

IFRS requires the revenue recognition criteria be applied to separately identifiable components of a single transaction to reflect the substance of the transaction. This may require companies to apply more judgment in determining which elements are separate units of accounting.

IFRS does not provide specific guidance on the determination of fair value. Under IFRS, it is possible to determine fair value using VSOE, selling prices of similar products or services or costs of supplying the product or service plus a reasonable profit. This may result in a lower threshold of evidence under IFRS to unbundle separate elements than required under Canadian GAAP.



IFRS requires consideration as to whether the company has retained significant risks of ownership such as an installation obligation that is a significant part of a contract. Under IFRS, the assessment of future deliverables or obligations is seen as a matter of judgment, whether the obligation is specifically stated in the contract or to some extent implied. On adoption of IFRS, companies may need to reassess their accounting for arrangements with multiple deliverables, which could result in different timing for revenue recognition.

Time-based licences

Some companies enter into arrangements that allow the customer to license its software or intellectual property over a period of time.

Canadian GAAP states that revenue related to licences cannot be recognized until the customer has the right to use the licensed property. In addition, under US GAAP, there are specific pronouncements dealing with time-based licences for software, which may require the licence fee to be recognized over the term of the licence.

IFRS indicates that fees and royalties to use an entity's assets (such as software) are normally recognized in accordance with the substance of the agreement, generally on a straight-line basis over the life of the agreement. However, under IFRS, a licensing agreement for a fixed fee that allows the customer to exploit the rights freely and, where the company has no remaining obligations, is recognized as a sale on delivery of the licence.

Companies need to carefully consider the substance of their arrangements, which may result in different accounting approaches for time-based licences.

Accounting for services and long-term contracts

Under Canadian GAAP, revenue from services and long-term contracts are recognized using the percentage of completion or completed contract method. Canadian GAAP directs companies to US GAAP for additional guidance on applying contract accounting. Under IFRS, the completed contract method is prohibited and such revenue is recognized on the percentage of completion basis.

Under IFRS, when the outcome of a contract cannot be estimated reliably, until the uncertainties no longer exist, revenue is recognized only to the extent of costs incurred that are expected to be recoverable. If it is not probable that cost incurred will be recovered, the costs are recognized as expense and revenue is deferred until the uncertainties no longer exist.

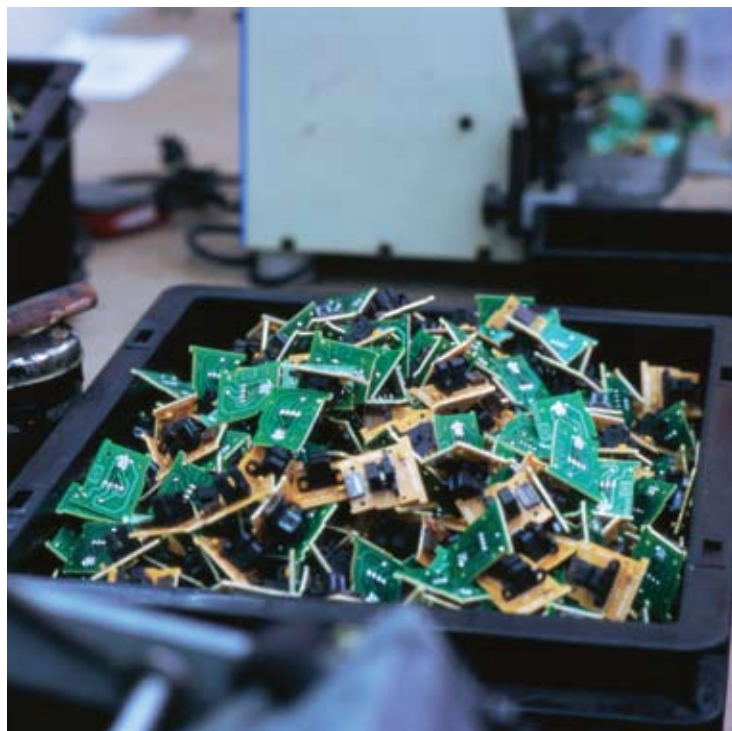
As a result, certain companies may have to reconsider their accounting for service arrangements and long-term contracts, requiring earlier revenue recognition, possibly with no profit.

Revenue recognition summary

Canadian companies should beware of assuming that compliance with the more detailed and onerous requirements of Canadian or US GAAP ensures compliance with IFRS, as this may not be the case. Companies would be well advised to take the time to understand the possible implications on revenue transactions of adopting IFRS. Proper planning and review of key arrangements will help to identify those implications and to identify potential opportunities that may be available.

The International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) are conducting a joint project on revenue recognition, which is expected to be finalized in mid 2011. The boards have tentatively agreed on a revenue model. The proposed model could represent significant change in certain areas, primarily related to percentage-of-completion accounting and accounting for multiple element arrangements.

As the revenue recognition framework evolves, Canadian companies should continue to watch closely as industry leaders around the world adapt to these changes and new practices emerge. Not only will Canadian companies be faced with preparing for existing IFRS revenue recognition rules upon adoption of IFRS on January 1, 2011 but will also be faced with rules that continue to change.



Stock-based compensation

Accounting for stock-based compensation under IFRS and Canadian GAAP follow broadly consistent principles. The fair value based method (usually using option pricing models) is used for most awards under Canadian GAAP and for all awards under IFRS. The following are some of the differences that do currently exist between Canadian GAAP and IFRS:

- Canadian GAAP permits an intrinsic value model for measuring cash settled awards at grant date, whereas IFRS requires fair value to be used.
- IFRS does not allow the use of the straight-line method for graded-vesting awards with service conditions; whereas, Canadian GAAP may permit either the straight-line method or the graded-vesting attribution method in certain circumstances.
- IFRS requires forfeitures to be estimated on the date of grant and adjusted on a continuous basis so that the actual expense recognized is not more than the awards that eventually vest. Under Canadian GAAP, forfeitures could either be an estimate or could be accounted for on an actual basis.
- Certain stock-based compensation arrangements permit settlement in either shares or cash. Under IFRS, if the employee or counterparty has the right to choose the form of settlement, the award is considered to be a compound instrument with a debt and equity component. Under Canadian GAAP, such an award would be considered to be a liability.

Property, plant and equipment

Accounting for property, plant and equipment (PP&E) may at first glance seem to be an area of less significance to technology sector companies. However, most, if not all, companies have PP&E of some kind and there are decisions to be made on adopting IFRS. Some of the key differences are highlighted below, but the impact on each company will be different and this is an area that should be high on the list of areas to be assessed by all companies in their transition plans.

Adoption of IFRS

One of the elections available to companies on adoption of IFRS allows for PP&E to be assessed on an asset by asset basis and recorded on the date of adoption of IFRS at either their fair value or depreciated cost, determined in accordance with IFRS. Any change in value as a result of applying the fair value approach will be charged to opening retained earnings in the opening IFRS balance sheet.

Componentization

IFRS requires individual components of PP&E to be recorded and depreciated separately if they have different useful lives. One challenge that Canadian companies are faced with is determining the degree to which existing PP&E classification and componentization complies with the requirements of IFRS. It may be necessary to further break down material assets that have differing useful lives and have previously been grouped for Canadian reporting purposes.

With a potential increase in the components being tracked and assessed for impairment there may be a need to consider system enhancements to track this additional data.

PP&E might seem like an unusual area for technology sector companies to worry about. However, there are a number of IFRS adoption decisions to be made and GAAP differences to be dealt with that can potentially make this a tricky area of transition if not planned for and dealt with carefully. With increased data points for tracking asset components and enhanced disclosures, the impact on systems requirements should be considered early in the transition process.

Measurement after recognition

After adoption of IFRS or initial recognition of an item of PP&E, a company must choose either the cost model or the revaluation model for accounting for PP&E. This choice must be applied to an entire class of PP&E.

For assets carried at a revalued amount, valuations are required to be performed on a regular basis to ensure that the carrying value is not materially different to the fair value at the balance sheet date.

The frequency of revaluation will depend on the volatility in values of the particular asset class. This might result in valuations being performed in a range from annual valuations for assets whose value is very volatile, to every three to five years for assets with more stable values.

In general, revaluation increases in asset value are taken directly to equity, under the heading revaluation surplus, and decreases in asset value are taken to income. However, to the extent that an increase reverses a previous decrease in value or a decrease reverses a previous increase in value then the amounts previously recorded are first reversed before the remaining amount is taken to either revaluation surplus for increases in value or against income for decreases in value.

When the revalued amount is selected as the method for carrying assets, disclosure is still required of the amount that would have been recognized had the asset been carried under the cost method.

Goodwill and intangible assets

Recognition of intangible assets

For fiscal years beginning on or after October 1, 2008, the recognition and measurement standards under Canadian GAAP for intangible assets separately acquired or internally generated will be converged with IFRS. Accordingly, we would not expect a significant change in this area on transition to IFRS.

Intangible assets may include intellectual property, software, patents, copyrights, customer or supplier relationships and marketing rights. Intangible assets may be acquired separately, in a business combination, contributed by governments or internally generated.

Canadian companies have often applied the existing deferral standard on a conservative basis, resulting in closer alignment with US GAAP under which research and development costs are expensed as incurred.

Under IFRS, assets arising from development can be recognized if certain criteria are met as internally generated intangible assets.

Deferral of start-up, training, advertising, promotional, relocation and reorganization costs is not permitted by IFRS.

When Canadian technology sector companies are compared to technology sector companies applying IFRS, it is noted that Canadian companies tend to capitalize fewer intangible assets, largely due to the US GAAP influence and therefore, Canadian companies may wish to reassess their judgments with the introduction of the new Canadian standards prior to the adoption of IFRS.

Measurement subsequent to initial recognition

Similar to PP&E, IFRS requires a company to carry intangible assets either using the cost model or revaluation model unless there is no active market for such assets. This choice does not apply to goodwill.

Impairment of long-lived assets

PP&E and intangible assets

Under IFRS and Canadian GAAP, long-lived assets including intangible assets are to be assessed for potential impairment if events or changes in circumstances indicate that the carrying value of the assets may not be recoverable.

Canadian GAAP and IFRS require annual impairment tests for indefinite life intangible assets.

In performing an impairment assessment, IFRS requires a comparison of the carrying value of assets with their recoverable amount to identify and quantify any impairment.

Recoverable amount for IFRS purposes is the higher of fair value less costs to sell and value in use. The value in use calculation reflects management's best estimate of the future cash flows expected to be generated from the use of assets concerned, and *discounted* at appropriate rates.

Under Canadian GAAP, amortizable assets are tested for recoverability by comparing the *undiscounted* cash flows from use and eventual disposition of the assets to the carrying value. For indefinite life intangible assets, recoverability is based on comparing the fair value of the intangible asset to its carrying value.

The impairment charge recorded under Canadian GAAP is the excess of carrying value over fair value. Under Canadian GAAP fair value is not reduced by costs to sell, as is the case with IFRS.

Under IFRS assets are tested at the smallest identifiable group of assets that generates cash flows that are largely independent of the cash flows from other assets or groups of assets. This may be an individual asset or group of assets, known as a Cash Generating Unit (CGU). Canadian GAAP requires assets to be grouped at the equivalent of a CGU, except that indefinite life intangible assets are required to be tested separately.

Unlike Canadian GAAP, reversals of impairment losses are required under IFRS when there is a change in economic conditions or in the expected use of the asset.

The difference in determination of recoverability between Canadian GAAP and IFRS may result in earlier impairments under IFRS.

Processes will need to be established to identify and track impairment indicators on a more frequent basis, as well as to track the original depreciated balances in the event of an impairment reversal. Consideration of appropriate stakeholder communication will be vital leading up to transition if there is an expectation of earlier recognition of impairment charges due to applying IFRS.

Goodwill

Similar to Canadian GAAP, IFRS requires goodwill to be tested for impairment when events or changes in circumstances indicate the carrying value of the goodwill is not recoverable and on an annual basis, with limited exceptions. Unlike Canadian GAAP, however, IFRS also requires that goodwill acquired in a business combination during the current annual period must also be tested for impairment before year-end.

Under IFRS, goodwill is required to be allocated to each CGU or groups of CGUs (collectively referred to as CGU Group). Under Canadian GAAP, goodwill is allocated to reporting units and these may not necessarily be an equivalent to a CGU or CGU group.

When performing an impairment test under IFRS, if the carrying amount of the net assets and goodwill allocated to the CGU Group exceeds the recoverable amount of the CGU Group, an impairment loss is required to be recognized.

Under Canadian GAAP a two-step impairment test is performed. Firstly, the carrying value of the net assets and goodwill allocated to the reporting unit is compared to the fair value of the reporting unit. If the carrying value exceeds fair value then a second step is required to determine the implied fair value of goodwill in a manner similar to which goodwill is determined in a business combination. If the carrying value of the goodwill exceeds its implied fair value, the goodwill is written down to its implied fair value.

Under both Canadian GAAP and IFRS, goodwill impairment losses cannot be reversed.

On adoption of IFRS, Canadian technology sector companies will need to carefully consider whether their reporting units would be equivalent to a CGU or CGU Group and whether the difference in the method of determining the amount of the loss will require any additional writedown of goodwill.

Business combinations

The IASB issued a revised standard on business combinations in January 2008 (IFRS 3R) effective for business combinations on or after the first annual reporting period on or after July 1, 2009. Earlier adoption is permitted. The AcSB had proposed to align Canadian GAAP with the new business combination standards issued by the IASB and FASB. The Canadian standard is to be effective for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted.

Until IFRS 3R is applicable, accounting for business combinations under Canadian GAAP and IFRS are highly similar except for the valuation of equity instruments traded in a market that are issued in a business combination. Under Canadian GAAP, such instruments are measured, based on the market price over a reasonable period before and after the date on which the terms of the business combinations are agreed to and announced (announcement date), whereas, under IFRS, they are measured at the exchange date.

Once IFRS 3R is applicable, there will be several major differences between Canadian GAAP and IFRS 3R, as follows:

- Transaction costs will be expensed when incurred under IFRS; whereas, under Canadian GAAP these costs are included in the cost of the purchase.
- Under IFRS, contingent consideration is required to be measured at fair value at the exchange date. Specific rules apply to the accounting for subsequent changes in the fair value of the contingent consideration recorded. This differs from Canadian GAAP, where the recognition and measurement of contingent consideration may be delayed until the contingency is resolved.

- Under IFRS, non-controlling interest may be measured at either fair value or the proportionate interest in the identifiable net assets of the acquired entity. Under Canadian GAAP, non-controlling interest in the acquired business may only be recognized at the proportionate interest in the identifiable net assets of the acquired business, with assets and liabilities of the acquired entity measured at a blend of historical costs and fair values.
- IFRS requires that restructuring costs that an acquirer expects to incur be accounted for separately from the business combination. Under Canadian GAAP, restructuring costs expected to be incurred, which meet certain specific criteria are accounted for as liabilities, on acquisition.
- Under IFRS, contingent liabilities are required to be recognized if there is a present obligation arising from past events and its fair value can be measured reliably, regardless of the probability of occurrence. Under Canadian GAAP, acquired contingencies are recognized if probable and reasonably estimable at the time of acquisition.

IFRS 3R also amended the accounting for deferred taxes related to the company's and acquiree's loss carry-forwards.

- The ability to recognize the company's loss carry-forwards as a result of an acquisition is no longer factored into the allocation of the cost of the purchase; and
- Subsequent recognition of the benefit of an acquiree's loss carry-forwards, subsequent to the purchase equation being closed, would no longer adjust intangible assets and goodwill.

In both of these cases, the benefits are recognized in income.



Canadian GAAP continues to require recognition of a company's loss carry-forwards expected to be utilized as a result of the acquisition as an adjustment of goodwill and adjustments to goodwill and intangible assets acquired if the acquired tax benefits become realizable.

Recognition and measurement criteria for liabilities and obligations differ between IFRS and Canadian GAAP and could result in differences in the timing and amounts that are recognized in a company's financial statements.

Provisions

IFRS has a specific standard (IAS 37), which covers various types of provisions including, but not limited to, warranties, environmental liabilities, asset retirement obligations, customer refunds and rebates, restructuring costs, disputes and legal claims and onerous contracts.

The general principles for recognizing such liabilities are similar between IFRS and Canadian GAAP; however, the application of the principles may be sufficiently different to warrant closer examination of the principles on conversion to IFRS.

IFRS has specific guidance on accounting for obligations related to electronic waste and other recycling programs, whereas, Canadian GAAP is silent on this issue.

The current IFRS standard for provisions is expected to be revised, which may result in certain changes in principles as well as the application of such principles.

Threshold for recognition

Under IFRS, provisions are recognized for present obligations from past events if an outflow of resources is probable and can be reliably estimated. Canadian GAAP also bases recognition on the concept of probable. However, the threshold for, probable under IFRS is considered to be "more likely than not" (i.e. 50%); whereas, under Canadian GAAP, the threshold is generally higher than "more likely than not" (i.e. 75%). This may result in recognizing certain provisions earlier under IFRS than under Canadian GAAP.

While both Canadian GAAP and IFRS require provisions for asset retirement obligations, the criteria for accrual of these obligations and capitalization of the related asset are more stringent under Canadian GAAP than under IFRS.

Measurement of provisions

IFRS requires the amount of provisions recognized be the best estimate required to settle the obligation at the balance sheet date. Cash flows are to be discounted if the effect would be material. If there is a range of estimates and no amount in the range is more likely than any other amount, the mid-point of the range must be used.

The measurement of provisions under Canadian GAAP is similar, except that when a range of estimates exists and no amount in the range is more likely than any other amount, the minimum amount of the range would be used.

Some requirements under Canadian GAAP prescribe that certain liabilities be recognized at fair value or using a discounted cash flow method; whereas, guidance for other liabilities is silent. Differences may arise on the determination of the fair value or discounted amount when applying IFRS.

Under IFRS, the discount rate used for asset retirement obligations is adjusted each reporting period; whereas, under Canadian GAAP the effective rate is used with current rates used solely for increases in the estimated cash outflow.

Conversion is not just a technical accounting exercise

IFRS will present unique challenges for senior management in the financial reporting function, the treasury function and many other areas across the organization. IFRS may impact existing management reporting, including budgets, forecasts, performance measures, reward schemes and bonus structures, key performance indicators and covenants. Furthermore, new procedures will need to be developed to ensure IFRS implications are considered as part of the approval process for all new strategic investments. Depending on the size and complexity of the organization, most technology sector companies will likely find that their human resources, IT, investor relations and business development departments will need to be involved in planning the transition to IFRS.

IFRS across the organization		
<p>Implementation Resources</p> <ul style="list-style-type: none"> • Need for resource over 12-18 months • Competing projects • Not just a finance issue <p>Training and Education</p> <ul style="list-style-type: none"> • All finance staff will need some training • Broader awareness of the issues • Other business professionals within the organization • Executives need to be able to understand and explain the “new” numbers 	<p>Acquisitions</p> <ul style="list-style-type: none"> • Need for IFRS figures for due diligence • Models required for annual goodwill impairment tests <p>Financing/Refinancing</p> <ul style="list-style-type: none"> • Impact of IFRS on earnings or asset-based debt covenants <p>Remuneration</p> <ul style="list-style-type: none"> • Impact of earnings volatility on profit-based bonus plans 	<p>Systems and Processes</p> <ul style="list-style-type: none"> • Need for different/new data • New systems <p>SOX/ICOFR Certification</p> <ul style="list-style-type: none"> • Process/control documentation updates <p>Investor Relations</p> <ul style="list-style-type: none"> • Preparing analysts for the impact of IFRS <p>Management Reporting</p> <ul style="list-style-type: none"> • Budgets, forecasts, management accounts and KPIs (Key Performance Indicators) need to be on an IFRS basis
Board of Directors / Audit Committee Governance		

Communication

The financial statements of a Canadian technology sector company will look different under IFRS than they currently do under Canadian GAAP. Senior executives need to be prepared to discuss the reasons for, and the nature of, the differences with board members, shareholders, the investment community and financial analysts. A detailed communication plan is necessary to educate stakeholders and actively manage perceptions.

There are a number of areas within IFRS that are subject to interpretation. While a primary aim of the IASB is to have a global set of standards applied consistently, the reality is that there are differences in the specific application of a particular accounting standard from one company to another. Communication of key policy choices, interpretations and accounting decisions in some detail may also be necessary to differentiate and explain a technology sector company's financial results under IFRS as compared to its peers.

Our experience with companies in Europe has shown that early communication, including the sharing of pro forma financial statements with preliminary figures and/or opening balance sheets under IFRS — in advance of transition date — has allowed investors and analysts to understand and get comfortable with financial results and their presentation. In contrast, late or absent dialogue with key stakeholders concerning the financial implications of the adoption of IFRS could result in a direct impact on share price.

Impact on systems and processes

IFRS compliance may require the realignment of reporting systems for new and additional data.

Our experience has shown that many companies implementing IFRS underestimate the time and resources needed to meet this challenge. This is especially true with existing management systems or legacy systems from past acquisitions that have never been updated and are not geared to provide sufficient or appropriate data for preparing new and increased disclosures. To make the best decisions on IT investment and achieve user engagement, it is important that company IT executives have sufficient time to perform systems realignment and are not forced to complete this work in a “fire-drill” environment.

Other process changes under the move to IFRS can be equally as important and may include the following:

- Revising existing reporting templates and other checklists to incorporate data required for disclosures under IFRS
- Rationalizing or expanding the chart of accounts to post additional measurement changes and/or collect additional disclosures under IFRS

- Reviewing period-end close procedures to achieve efficient close times
- Reviewing outsourced operations’ controls and capability in producing IFRS compliant information
- Obtaining IFRS information from significantly influenced investees and/or variable interest entities

Education, awareness and culture

The migration to IFRS may also require a training program that combines knowledge transfer with the ability to address skills, attitudes and motivation. The entire organization, not just finance and accounting, will need to be trained in this area (e.g. functions such as internal audit and investor relations). Training should focus on what information individual business units will need to provide in order to comply with IFRS and how IFRS will affect their decision-making and value creating strategies.

Early awareness training on the important impact areas and changes under IFRS will enable key stakeholders, including key executives and board members, to be fully briefed on the new requirements and help to drive a positive spirit of change management throughout the organization.

Regulatory requirements

The adoption of IFRS will require Canadian entities to consider various regulatory requirements.

Use of IFRS by Canadian SEC registrants

A significant benefit to a Canadian SEC registrant of adopting IFRS is that the entity will no longer have to reconcile its primary financial statements to US GAAP in SEC filings. The SEC has also extended an accommodation to first-time IFRS reporters, enabling them to present only a single year's comparative in their financial statements, rather than the two years it usually requires for companies not eligible to file under the multijurisdictional reporting system (MJDS). MJDS companies can file financial statements for the same periods as required by Canadian regulatory rules (which are the current year plus a comparative).

Until Canadian companies adopt IFRS, they will have to continue to provide a reconciliation between Canadian and US GAAP.

Internal controls over financial reporting

Public companies will also need to consider Multilateral Instrument 52-109 (certification of disclosure in issuers' annual and interim filings) and Sarbanes-Oxley requirements (management assessment of internal controls over financial reporting) as they transition to IFRS. Specifically, entities will need to update their documentation on the internal controls over financial reporting and related evaluation procedures for processes and changes impacted by the IFRS migration.

Merger and acquisition implications

The move to IFRS may add increased complexity to merger and acquisition transactions in countries that have not yet adopted IFRS.

The main challenges will be the need to translate the target's historical and projected performance into IFRS to assess the accounting implications of the transaction and to understand the impact on the acquirer's earnings per share.

Complexities in IFRS accounting will lead to tougher due diligence requirements when evaluating targets in the technology sector, even if the target is already reporting under IFRS.

As discussed, there are a number of areas of IFRS requiring significant judgment that specifically affect technology sector companies. This will have a direct impact on the interpretation, comparability and consistency in the application of IFRS across countries and companies. As a result, acquirers may need to devote more time and resources to scrutinizing how a target's numbers have been produced and considering the impact of incorporating those numbers on a consistent basis into consolidated financial statements.

The potential cost of bringing the target's reporting systems up to the acquirer's standards and the time required to do this could significantly affect a company's ability to realize integration synergies, especially as the transition date approaches.

To the extent that a Canadian entity completes any acquisition of a target company not currently reporting under IFRS before 2011, it will need to include the target company in its IFRS conversion and readiness plan.

Our experience assisting companies with merger and acquisition transactions has shown that they have struggled to obtain the additional data and disclosure requirements of target companies under IFRS.

Planning an effective conversion

It is easy to underestimate the volume and complexity of the work involved with the implementation of IFRS.

Our experience in Europe and Australia has shown that some companies transitioning to or applying IFRS for the first time will try to make manual adjustments from local GAAP to IFRS using spreadsheets or similar tools. These quick fix conversions are often not the most cost-effective choice in the long run — especially, as these fixes can be prone to error, confusion and typically lack the appropriate internal controls surrounding their preparation.

To ensure sustainable and uniform application of IFRS throughout your organization, you will need to document your accounting policy selections and make sure they are consistently followed.

Each individual company will have unique circumstances that require sound judgment and expert advice. Advanced planning and an in-depth diagnostic of how IFRS will affect your company's financial reporting will reduce the risk associated with compliance and lower the overall cost of transition.

This publication does not provide a complete list of Canadian GAAP differences that Canadian technology sector companies need to consider on transition to IFRS.



How we can help

PricewaterhouseCoopers has unparalleled experience in helping many of the world's largest companies adopt IFRS. We have assisted with IFRS conversion projects in Canada and elsewhere for a wide range of companies across all industries. Our dedicated resources and experience in working with many of the more than 12,000 companies that have already made the transition to IFRS have taught us valuable lessons that will help Canadian technology sector companies with their own conversion process.

Our industry-focused teams specialize in IFRS/GAAP conversions for a wide range of organizations — from large, complex companies, requiring detailed analysis, to organizations with more straightforward requirements. These teams are supported by our Capital Markets Group, a global team of over 500 IFRS conversion experts, who specialize in multi-GAAP environments and the related conversion implications.

PwC professionals can help you plan and complete your transition to IFRS by providing:

- **An initial diagnostic of Canadian GAAP/IFRS accounting differences**
- **Advice on selection of appropriate accounting policies**
- **Advice on development of an IFRS implementation plan**
- **Training for all levels of your staff, including your board of directors**
- **IFRS trained and experienced people to supplement your IFRS team**
- **Project management support to your IFRS team**
- **Communication strategies and change management support**
- **Assessment of your requirements for data, processes, systems and controls**
- **Advice on process and system solutions to embed IFRS**
- **Competitor benchmarking**
- **M&A target accounting conversion assistance**
- **Valuation advice under IFRS fair value and impairment models**
- **Tax planning considerations on conversion to IFRS**

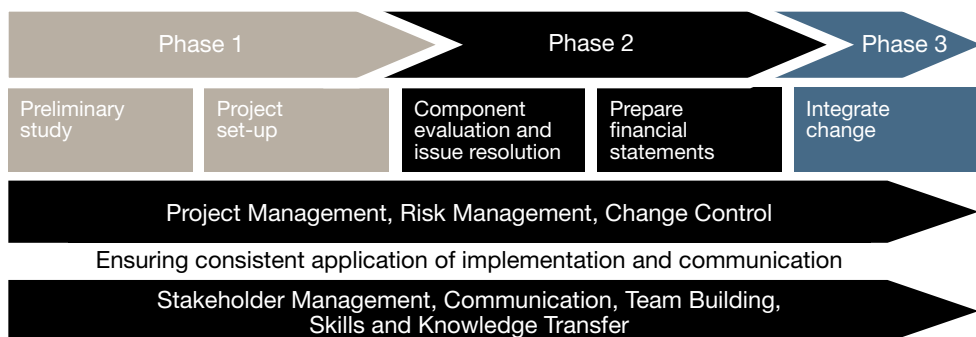
PwC's Transition/IFRS Methodology

While compliance with the new rules is the driver for IFRS projects, our experience indicates that a methodical approach to the conversion process can yield wider benefits. Our Transition/IFRS methodology is a robust, tried and tested framework that has an inherent flexibility, enabling us to adapt it to work most effectively within your organization and one that we would tailor to your needs and phases, as outlined below. This methodology has consistently delivered successful results.

Typically, each IFRS transition project consists of three phases. In Phase 1, the diagnostic stage, we carry out an initial impact analysis and plan the later phases. Phase 2 consists of the detailed steps necessary to prepare the first complete IFRS financial statements. In Phase 3, we take the information, issues and solutions gathered and integrate them into your underlying financial systems and processes.

Transition/IFRS acts as a springboard from which you can launch and control your conversion project, accessing the support and guidance you need as the implementation progresses.

We are ready to help you manage the conversion process with fewer headaches. To learn more about how we can help, visit our website at www.pwcifrs.ca or contact one of the IFRS professionals.



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For more information on IFRS and to view IFRS publications, visit our website at www.pwcifrs.ca.

