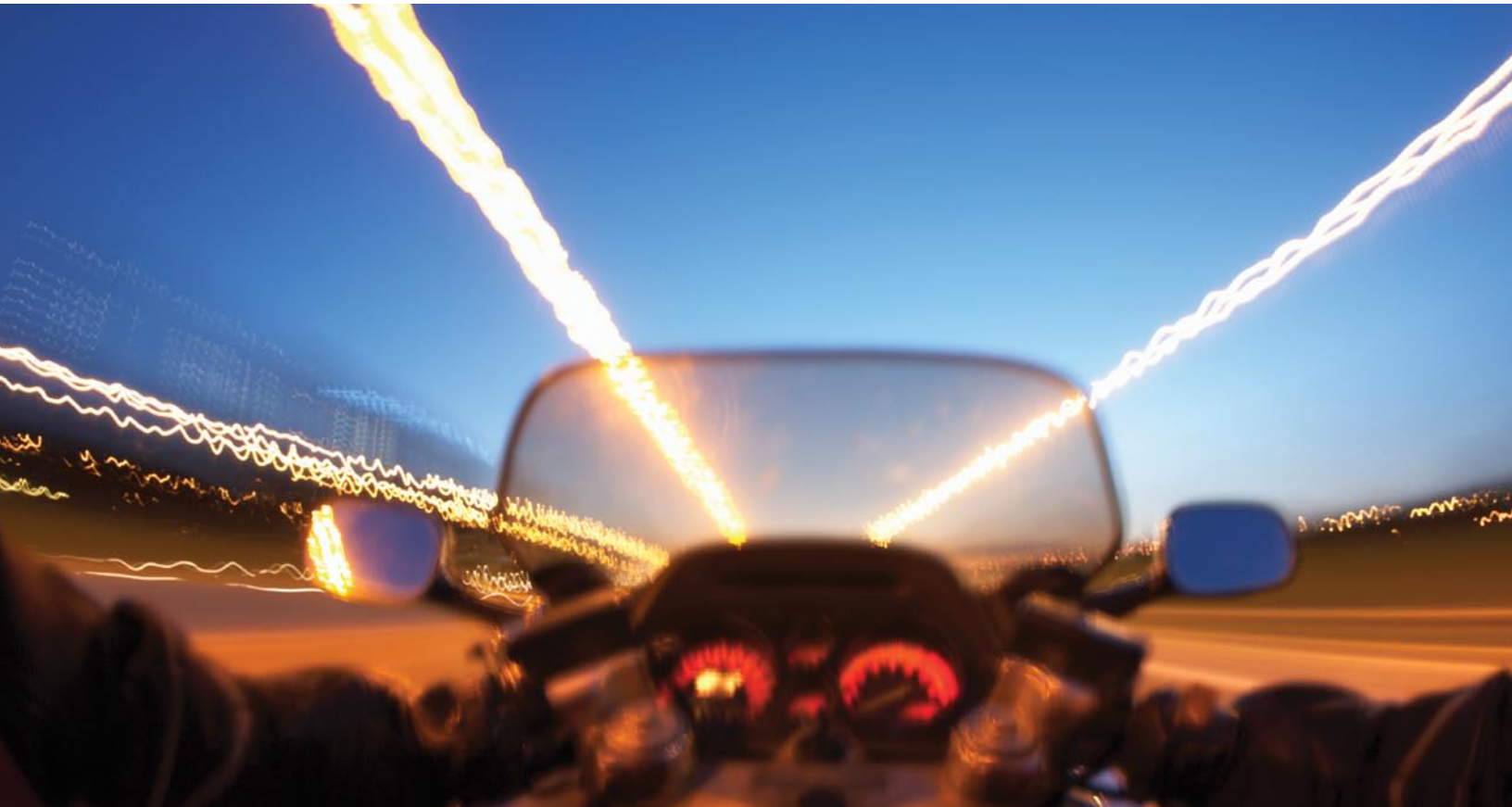


Putting IFRS in Motion



International Financial Reporting Standards (IFRS)
and their impact on Canadian public companies



Putting IFRS in Motion—Background

More than 70 countries have mandated the use of International Financial Reporting Standards (IFRS) by public companies. While European public companies have been applying these standards since January 1, 2005, in Canada, the Accounting Standards Board (AcSB) has proposed that Canadian GAAP for publicly accountable enterprises will migrate to IFRS over a transition period in the next five years. The move to IFRS will change the way Canadian companies present their business results to analysts, investors and other stakeholders. The size and complexity of the implementation effort can be managed if companies plan ahead for the move to IFRS.

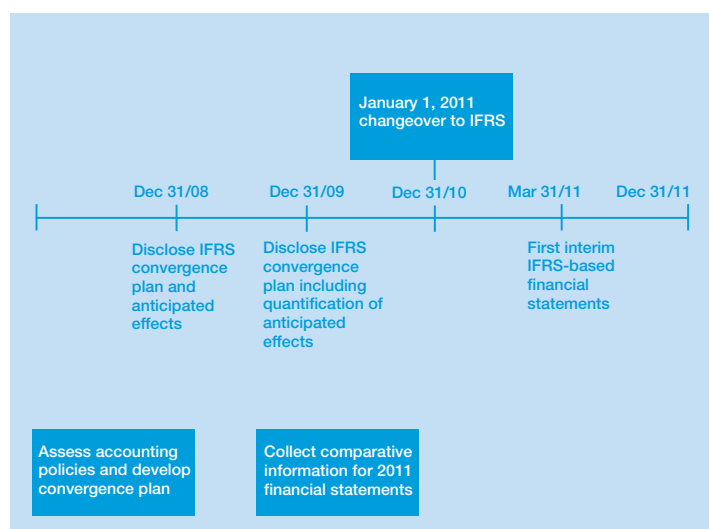
Moving to IFRS—Key Considerations

For many organizations, implementing IFRS may be a complex process that goes well beyond a simple technical exercise for the finance or accounting function. Other business areas such as human resources, investor relations, and business development and IT departments will likely be involved in the IFRS conversion plan. Companies that have already implemented IFRS know that the new standards place a sizeable responsibility on management to be able to communicate effectively to the market in the new language. Below we highlight several key considerations for those moving towards implementation.

Transition and Timing

The Canadian AcSB IFRS Implementation Plan's (the Plan) objective is to migrate Canadian GAAP to IFRS through a five-year transition period. There are a number of areas in the Plan that may cause uncertainty for adopters, including the new accounting standards based on IFRS equivalents that the Plan proposes should be introduced in Canada during the transition period. The exact changeover date to IFRS will not be formalized until 2008, although the changeover date being considered is for fiscal years ended 2011. The uncertainty of the timing for implementation will impact project timelines and work effort as companies will need to stay on top of new and future accounting pronouncements. On the proposed timeline, companies will be required to have comparative figures for 2010 and an opening balance sheet at the beginning of 2010 to comply with IFRS reporting standards.

PwC Observation: Audit committees should understand who is responsible within their organization for the implementation of IFRS and understand the company's implementation timetable vis-à-vis the AcSB proposal.



Our experience in assisting numerous global companies that have already adopted IFRS shows that, for some, full conversion and adoption can take anywhere from two to five years, depending on the complexity of the organization. Smaller companies with few geographic locations and the requirement of limited systems changes will tend to have a shorter implementation period. Larger multinational organizations with decentralized operations around the world, old legacy IT systems and numerous business platforms will typically have longer implementation periods. In addition, our experience shows that certain industries, such as banking, insurance, forestry and full-cost oil and gas industries typically have the longest and most complex conversion process.

Technical Implications

One of the most significant challenges in converting from Canadian GAAP to IFRS is determining which GAAP differences will impact the organization. These differences will have varying levels of impact depending on the accounting policy choices made to date. The AcSB intends to work towards eliminating existing differences between Canadian GAAP and IFRS over the transition period by adopting new IFRS that will continue to emerge as a result of global accounting standard setters' (including the US) desire to harmonize frameworks. Organizations will need to be nimble to take these changes into account in their project plans.

Significant accounting differences between IFRS and Canadian GAAP often reside in the details, causing recognition,



measurement and/or presentation differences. Careful planning and proper use of certain options available under IFRS, however, can eliminate some of these GAAP differences.

Some of the accounting areas where the more significant differences arise between Canadian GAAP and IFRS include:

- Financial instruments (derecognition of assets and liabilities);
- Full-cost accounting oil and gas;
- New insurance accounting model;
- Fair value of biological assets (i.e. forestry);
- Hedge accounting;
- Consolidation of special purpose entities (SPEs); and
- Impairment of non-financial assets.

PwC Observation: As a first step, management and audit committees should perform a diagnostic review to determine the GAAP differences which could be significant to the company’s financial reporting.

SEC registrants

The Plan contains some actions the AcSB plans to address, such as the US Securities and Exchange Commission (SEC) requirement

for two years of comparative financial statements in SEC filings. The AcSB will approach the SEC to request an exemption from this requirement in the year of transition for Canadian SEC registrants. If this request is not granted, Canadian SEC registrants will be required to have IFRS financial statements in fiscal 2011 presenting two years of comparative figures prepared using IFRS compared to one for non-SEC registrants.

Canadian securities regulators may continue to allow SEC registrants to use US GAAP. If they do, such companies will have to choose the basis of accounting they wish to follow—US GAAP or the Canadian version of IFRS.

Not Just a Technical Accounting Exercise

IFRS will present unique challenges for senior management, human resources, the treasury and taxation functions, IT and many other areas across the organization beyond the finance and accounting function. IFRS may impact existing management reporting including budgets, forecasts, performance measures, bonus structures, key performance indicators and debt covenants. Furthermore, new procedures should be considered to ensure IFRS implications are considered as part of the approval process for all new strategic investments.

IFRS Implementation by 2011 Disclosure by 2008		
Investor Relations <ul style="list-style-type: none"> • Preparing analysts for the impact of IFRS Management Reporting <ul style="list-style-type: none"> • Budgets, forecasts, management accounts and KPIs need to be on an IFRS basis Published Accounts under IFRS <ul style="list-style-type: none"> • Potential impact on tax planning of change in GAAP • Potential impact on distributable reserves of IAS 19 and IAS 27 • More onerous disclosure requirements for IFRS accounts 	Acquisitions <ul style="list-style-type: none"> • Need for IFRS figures for due diligence • Modes required for annual goodwill impairment tests Financing/Refinancing <ul style="list-style-type: none"> • Impact of IFRS or earnings, net assets or debt covenants • Implications of debt/equity distributions Remuneration <ul style="list-style-type: none"> • Impact of earnings volatility on profit based bonus plans SOX/ICOFR Certification <ul style="list-style-type: none"> • Process/control documentation updates 	Systems and Processes <ul style="list-style-type: none"> • Need for different/new data • New systems Implementation Resources <ul style="list-style-type: none"> • Need for resource over 12-18 months • Competing projects • Not just a finance issue Training and Education <ul style="list-style-type: none"> • All finance staff will need some training • Broader awareness of the issues • Other business professionals within organization • Executives need to be able to understand and explain the “new” numbers
Board of Directors / Audit Committee Governance		

Education, Awareness and Culture

The migration to IFRS may require a training program that transfers knowledge and addresses the required skills, attitudes and motivation. The entire organization, not just finance and accounting, will need to be trained in this area including investor relations, internal audit, legal and marketing. Building out from the finance and accounting groups, 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 creation strategies.

PwC Observation: Our experience has shown that early awareness and training for key executives and board members highlighting the important areas of impact and changes under IFRS will allow for a smooth adoption and conversion program. This will enable key stakeholders to be fully briefed on the new requirements and help drive a positive spirit of change management throughout the organization.

Communication

The financial statements of a Canadian 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 nature of, the differences to shareholders, board members, lenders and the general investing public. Organizations will need a detailed communication plan to educate stakeholders and to actively manage perceptions and, as previously indicated, is required by the AcSB to be disclosed in a Company's 2008 and quantified in their 2009 financial statements.

PwC Observation: Our experience in assisting public companies transition to IFRS around the world 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 key management, board members, investors and regulators to understand and get comfortable with financial results and their presentation.

Impact on Systems and Processes

IFRS compliance may require the realignment of reporting systems for new and additional data. PwC experience has shown that many of those who implement IFRS underestimate the time and resources needed for realigning systems and processes. This is particularly true for companies with existing management systems or legacy systems from historical acquisitions that have not been integrated and are not geared to provide sufficient or appropriate data for the new and increased disclosure requirements. For example:

- Expanding existing reporting templates and other checklists to incorporate supplementary data required for additional 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; and
- Obtaining IFRS information from significantly influenced investees and/or variable interest entities.

PwC Observation: Strategic decisions can be made with respect to IT infrastructure upgrades and/or modifications as part of the conversion to IFRS.

Effective Implementation, Organization and Resources

It is easy to underestimate the volume and complexity of the work involved with the implementation of IFRS. Communication and implementation across the various constituencies in a matrix organization will need careful planning and skilled resources. PwC experience in Europe and Asia has shown that companies transitioning to or applying IFRS for the first time will often try to make manual adjustments from local GAAP to IFRS using spreadsheets or similar tools. However, this "quick fix" conversion can often prove to be the more costly and operationally ineffective choice in the long run—especially as it can be prone to error, confusion and typically lacks the appropriate internal controls surrounding its preparation.

PwC Observation: Our experience has been that a more comprehensive approach to conversion with systems, processes, policies and procedures designed to embed IFRS into day-to-day operations, internal management information systems and the mindset of staff has proven to be a much more sustainable approach. Management should ensure sufficient and appropriate resources have been assigned to their IFRS conversion projects.

How Can PwC help?

The most viable approach to IFRS conversion will vary from one organization to another; however, our experience has shown that a critical success factor is early consideration and well-planned implementation.

PwC provides:

- Initial diagnostic of Canadian/IFRS accounting differences
- Advice on selection of appropriate accounting policies
- Development of IFRS implementation plan
- Communication strategies and change management
- IT and process improvements
- 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 Observation: PwC has unparalleled global experience helping many of the world's largest public companies adopt IFRS and has assisted with IFRS conversion projects for a wide range of public companies across all industries.

The benefits of using PwC are:

- A multi-discipline approach
- In-depth diversified experience
- A proven effective and efficient implementation methodology

We also have a significant number of well-trained IFRS specialists in Canada including people who focus on the banking, insurance, oil and gas, forestry and mining industries.

Global Capital Markets Group

Our Global Capital Markets Group specializes in GAAP conversions for a wide range of organizations—from large complex financial services institutions requiring detailed analysis to desktop reviews for local reporting requirements. Since its formation, the Group has dominated the financial services conversion markets for both IFRS and US GAAP.

Our Global Capital Markets Group has access to a team of IFRS conversion experts comprising over 80 partners and staff specializing in multi-GAAP environments and the related conversion implications. This team has worked almost exclusively on IFRS conversions over the last three years and has played a leading role in developing the firm's conversion methodology. The team is also able to draw on the firm's wider technical and industry resources.

If you would like to discuss any of the issues raised in this paper, please speak to your usual contact at PricewaterhouseCoopers, or any one of the following partners and managers:

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PricewaterhouseCoopers has published the following publications on International Financial Reporting Standards and corporate practices. They are available from your local PricewaterhouseCoopers office and can be found at www.pwc.com/ifrs.

- Acquisitions—Accounting and transparency under IFRS 3
- Adopting IFRS—A step-by-step illustration of the transition to IFRS
- Financial instruments under IFRS
- IAS 39—Achieving hedge accounting in practice
- IFRS Disclosure Checklist 2006
- IFRS Measurement Checklist 2006
- IFRS Pocket Guide
- IFRS News—Shedding light on the IASB’s activities
- IFRS Survey: The European investors’ view
- Illustrative Consolidated Financial Statements 2006—Banks
- Illustrative Consolidated Financial Statements 2006—Insurance
- Illustrative Corporate Consolidated Financial Statements 2006
- Illustrative Financial Statements 2006—Investment Funds
- Illustrative Interim Consolidated Financial Statements 2005— or first time adopters of IFRS.
- Making the Change to International Financial Reporting Standards
- Ready to take the plunge? IFRS readiness survey 2004
- Share-based Payment—A practical guide to applying IFRS 2
- SIC-12 and FIN 46 R, The substance of control
- Similarities and Differences—A comparison of IFRS and US GAAP
- Understanding IAS 29—Financial Reporting in Hyperinflationary Economies
- Reporting under the new regime: A survey of 2005 IFRS insurance annual reports
- Accounting for change: A survey of banks’ 2005 IFRS annual reports
- World Watch—Governance and Corporate Reporting
- Audit Committees—Good Practices for Meeting Market Expectations
- Building the European Capital Market—Common Principles for a Capital Market
- Applying IFRS—PwC’s authoritative guidance on the interpretation and application of IFRS. The interactive tool includes links to over 1,000 real-life solutions, as well as direct links to applicable text in the IFRS standards and interpretations.

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