IFRS in motion*

Keeping on track

*connectedthinking

PRICEWATERHOUSECOOPERS

Contents

Introduction

In the midst of one of the most challenging economic environments in recent memory, most Canadian public companies have completed their 2008 financial statement filings and are now preparing to dive into their International Financial Reporting Standards (IFRS) conversion. For many companies, this means shifting focus from awareness of the differences between Canadian GAAP and IFRS at a high level to developing a much deeper understanding of these differences and wider implications of IFRS for their business. This starts by establishing a robust conversion plan, securing the right resources, engaging the organization at large and developing a detailed roadmap to completion.

There are fewer than 10 months remaining for those companies that aim to run parallel Canadian GAAP and IFRS financial information in 2010 to capture the data required to support the IFRS comparative statements. Whether you are one of these companies or just commencing your IFRS journey, the deadlines are quickly approaching.

As your company moves deeper into its conversion, you will identify many questions and issues which need to be addressed and incorporated into your project plans early. These key questions may include:

- Do we have the right people engaged in the project;
- How rigorously do we manage the IFRS project;
- What new data and system requirements does IFRS create;
- What changes do we need to make to processes and controls to report under IFRS; and
- Who internally and externally needs to understand IFRS and how will we ensure they receive the appropriate training and communication?

How well you address these questions now will directly impact the success of your conversion to IFRS. Our experience working with companies in the more than 100 countries that have already converted to IFRS has taught us valuable lessons about the process. Although each conversion is unique, many of the pitfalls are very common. This publication provides an overview of the key strategies common among companies that have successfully converted to IFRS.

Experience shows the companies that established cross-functional conversion teams covering the full spectrum of the organization were most successful in achieving their conversion objectives.

Assembling the right conversion team

If your IFRS conversion team is confined to the Finance department, you are likely not engaging all of the critical stakeholders in your organization required to achieve a successful conversion.

Experience shows the companies that established cross-functional conversion teams covering the full spectrum of the organization were most successful in achieving their conversion objectives. Your conversion team should extend well beyond Finance and include Information Technology (IT), Human Resources (HR), Investor Relations (IR), the front-line businesses, Internal Audit, Treasury and Risk, and Legal. These stakeholders will all be affected by the decisions you make. Including them in the project from its onset, and ensuring they have adequate time to devote to the project, will help ensure you understand the IFRS implications to the organization as a whole and make better decisions. This will also enable you to:

- Improve the efficiency and reduce the cost of the overall conversion;
- Secure the support and buy-in from key stakeholders across the organization;
- Understand and take opportunities to assess and improve processes and systems;
- Be proactive in negotiations relating to legal contracts, debt agreements and covenants;
- Communicate with confidence to external stakeholders and educate the analyst community;
- Provide proper and robust updates to the Board of Directors and Audit Committee;
- Anticipate impacts on your key performance indicators, compensation and pension plans; and
- Address changes proactively prior to the IFRS conversion deadline.

Given the current economic environment, many companies are examining their costs prudently. As with any key initiative, it is important to ensure you have sufficient dedicated resources with the right knowledge and skills for your project. Experience shows that trying to reduce costs by using a skeleton IFRS team often results in higher overall costs down the road. IFRS specialist resources will become scarce as the conversion date approaches. Establishing a broad IFRS team early in the conversion will reduce your dependence on key individuals and increase the effectiveness of knowledge transfer and communication throughout the conversion process.

As the date of conversion approaches, effective project management is critical to controlling conversion costs without compromising quality.

Getting to the finish line with effective project management

All long-term projects are managed within the constraints of time, cost and quality. The time to implement IFRS is fixed and resources are often constrained. Consequently, as the date of conversion approaches, effective project management is critical to controlling conversion costs without compromising quality.

A successful project manager will seek to understand the impact of IFRS across the organization and keep an eye on the big picture to ensure the project achieves its objectives. A strong project manager will also facilitate communications between all parties involved in the conversion to ensure that dependencies are considered, risks are mitigated, issues resolved and assumptions validated. It is the combination of reporting on and controlling the project, managing interdependencies, and understanding the internal and external impacts of IFRS in the widest sense that will ensure you achieve success.

As the accounting and reporting standards continue to evolve between now and the conversion date, it is important that your project manager works closely with Finance to be able to quickly understand the implications of the changes and make the necessary revisions to the plan. Furthermore, because IFRS is not just a technical accounting exercise, your project manager needs to be able to manage dependencies between a variety of different departments including IT, which may need to make system changes; Internal Audit, which may need to consider changes to processes and controls; HR, which may need to make pension and compensation changes; and Communications and Training, which need to help all stakeholders understand the extent and business impact of changes. The project will only be successful if all these groups and deliverables are included in your conversion plan and the various work-streams are managed to ensure everyone gets to the finish line together.

While there are differing opinions on the degree of complexity and formality required in an IFRS conversion project plan, our experience suggests that with inadequate formalization of processes and controls around the project itself, the project will be at risk of failure due to:

- Insufficient definition of the desired outcomes and project scope, leading to confusion over what the project is expected to achieve;
- Lack of communication with stakeholders and interested parties, leading to the development of unnecessary products or deliverables;
- Inadequate definition and lack of acceptance of project management roles and responsibilities, leading to lack of direction and poor decision-making;
- Insufficient measurement against key milestones, lack of control over progress, or a failure to report on both historical and forward-looking items; and
- Increased conversion costs resulting from project inefficiencies, resource constraints, insufficient depth of analysis and increased costs associated with knowledge management and training.

Whether your project manager is a technical accountant or a professional project manager, having a robust plan and process in place will go a long way to ensuring these pitfalls are avoided and that you meet your IFRS conversion objectives.

By embedding IFRS data change requirements in the IT system, you may be able to eliminate manual processes and automate a number of steps, saving you time and money in the long run and contributing to improved controls and data quality.

Do you know where your new IFRS data currently resides?

Once you've completed an assessment of the differences between Canadian GAAP and IFRS, you will need to analyze your accounting and reporting differences to understand any data gaps.

A key question to ask at this stage is: What data will be needed to produce the opening IFRS balances and report under IFRS thereafter? Key considerations include data source, availability and integrity. You will also need to quickly determine whether you will need to make changes to the way data is inputted, processed and reported in order to report under IFRS. With this understanding, you can design optimal and cost-effective solutions to capture the underlying data and process it through your systems in a controlled manner to meet your IFRS reporting objectives.

IFRS standards will continue to evolve just as they did in Europe between 2003 and 2005. These ongoing changes will add to the complexity of the implementation and make the deadline a moving target. As a result, when it came to actually implementing IFRS changes, many European companies had only one viable option—get it done fast. In subsequent years, many of these companies had to go back to fix these temporary solutions and embed the change in the underlying process and IT systems.

Reviewing where the data is captured and stored (e.g. in multiple spreadsheets or databases) may also reveal opportunities to make improvements. By embedding IFRS data change requirements in the IT system, you may be able to eliminate manual processes and automate a number of steps, saving you time and money in the long run and contributing to improved controls and data quality. This is an area where a truly strategic conversion can add real value to an organization.

Another IFRS conversion consideration closely tied to data requirements is the need to capture both Canadian GAAP and IFRS data during the transition year. There are a number of strategies and options for achieving multi-GAAP reporting, some of which are provided through enterprise resource planning (ERP) specific functionality. In order to collect data for both Canadian GAAP and IFRS during the transition year, and in order to report on an IFRS basis thereafter, changes will need to be made to the chart of accounts. Both multi-GAAP reporting and chart of account modifications provide further complexities for finance processes and systems, which should be included in the IFRS conversion plan from the start.

While the effort required for IFRS systems conversion will vary from one company to the next, all companies must properly involve the Chief Information Officer in the conversion project. Making IFRS-related data changes and changes to the way data is processed and reported can be challenging because the impact of these changes can span across systems and business units. This challenge is particularly difficult for companies that have a systems environment that has been developed over many years. In these situations, you may find it easier to tackle the issue on a component-by-component basis.

For example, in a large company with a typical IT architecture of numerous sub-systems, multiple instances of ERPs, spreadsheets and a financial consolidation system, you should consider and evaluate a number of different options including:

- Embedding the changes at the lowest level of detail, or the transactional layer;
- Reflecting the changes at the financial consolidation and reporting layer; or
- Developing a creative hybrid approach.

Each of these options will have an impact on data flow and data management. To work through these issues and develop the best solution, you will need a strong and collaborative working relationship between your Finance and IT groups.

IFRS provides a rare opportunity to look ahead to the requirements of the business and design a conversion plan that embeds change throughout the organization, standardizes processes, controls and accounting policies, and creates a more efficient business structure.

Don’t forget about your internal controls

IFRS-related changes to data, processes and systems will require companies to take a look at their financial reporting risks and controls, and update their internal controls certification program accordingly.

In some cases, controls will need to be modified to reflect changes in source data or key judgments. In others, new accounting and disclosure requirements will mean that new controls will need to be designed and implemented. In either case, a focused top-down and risk-based approach will help ensure that risks are adequately mitigated in a cost-effective manner.

For example, as you assess your current key controls as part of the IFRS implementation, you may identify opportunities to reduce the current number of process-level controls by relying on company-level controls or automated controls, which could help you drive further rationalization and cost savings.

Canadian public companies have the one-time opportunity to consider a variety of options. While some may intend to just meet the deadline, others will take advantage of the transition as a rare opportunity to look ahead to the requirements of the business and design a conversion plan that embeds change throughout the organization, standardizes processes, controls and accounting policies, and creates a more efficient business structure.

In some circumstances, the IFRS conversion may also shine a light on how well IT systems, processes and controls are functioning and provide the opportunity to assess whether an organization can achieve greater operational and controls efficiencies. For example, many European and Australian companies used the opportunity presented by the conversion to address related systems changes, such as updating their charts of accounts to create uniformity and better reporting. Addressing multiple changes simultaneously can help companies make improvements and save time and money in the long run.

IFRS is the new language of financial reporting. Not only do you need to comprehend and speak the new language, you also need to ensure that your internal and external stakeholders understand it.

Who needs to be IFRS literate?

IFRS represents not only a substantial change for the financial statements of an organization but also a significant change in the roles and responsibilities of the people who work within that organization. Educating your organization's staff, management and directors is essential to the successful implementation of IFRS.

As the effects of IFRS are far-reaching and do not solely concern the Finance team, it is important that others within the organization understand the impact of IFRS on the whole organization. For example, those who work in IR need to be able to explain the impact of IFRS to analysts, the HR team must understand the impact of IFRS on any profit-related pay or stock-based compensation, and the Executive needs a deep understanding of the impacts so they can adequately explain them to shareholders and other external stakeholders. Those responsible for learning and education will need to identify these groups, assess their needs and use this information to develop tailored training programs.

Individuals gain most of their knowledge through on-the-job learning; however, you should also consider including formal learning opportunities such as presentations, practical workshops, peer group learning and e-learning in your training plans. Experience has shown that, regardless of which format you use, the more tailored the learning solution is to the needs of each stakeholder group, the more effective it is.

Training should not be a one-time event but instead it should be offered to significant user groups as the standards evolve throughout the life of your conversion project. The learning plan should also take into account the many changes to IFRS expected between 2011 and 2014 and the training needs of new recruits to your organization.

IFRS is the new language of financial reporting. Not only do you need to comprehend and speak the new language, you also need to ensure that your internal and external stakeholders understand it. Just as with learning any new language, this process can take time. Each of your stakeholder groups will have different communication needs; therefore, it is important that your communications address the needs of different stakeholders at different phases of the project.

To ensure the effectiveness of your stakeholder communications you need to focus on the following activities:

- *Develop a communications strategy:* Consider when you will release information and how your stakeholders will respond—both to your information and the information released by your competitors. Being among the first to release information within a competitive environment has its advantages. Each company will need to assess its strategy accordingly and decide when to disclose an opening balance sheet under IFRS.
- *Provide clear, concise communication of the changes at your earliest opportunity:* As a result of releasing confusing or contradictory information, companies have been negatively impacted. Clear communication will help to minimize individual interpretations and eliminate misunderstanding.
- *Present accurate information:* It is important to ensure that the information provided is accurate, robust and supportable. Ensure you have completed a sufficient level of due diligence. You do not want to find yourself needing to restate your IFRS numbers.
- *Demonstrate in-depth knowledge of IFRS:* Effective communication means more than simply listing the differences. It is important to demonstrate that you understand how and why the adjustments are recorded and provide transparency to the decision-making process, especially when you have made your elections under IFRS 1 *First-time Adoption of International Financial Reporting Standards*. To build your stakeholders' confidence, your key people need to demonstrate a deep understanding of IFRS.
- *Describe the wider implications of IFRS:* Because stakeholders have different information needs it is important that you clearly explain the extent and business impact of changes to remuneration packages, systems, taxation, dividends and strategy of the underlying business.
- *Explain the impact on key performance indicators (KPIs):* Because stakeholders are familiar with your existing KPIs, it is important that you discuss the impact of IFRS on these metrics. Consider reconciling new KPIs to old KPIs to show you are not shifting the goal.

There are fewer than 10 months remaining for those companies that aim to run parallel Canadian GAAP and IFRS financial information in 2010. Whether you are one of these companies or just commencing your IFRS journey, the deadlines are quickly approaching.

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 has taught us valuable lessons that will help Canadian companies with their own conversion process.

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

PwC's Transition*IFRS* Methodology

While compliance with 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.

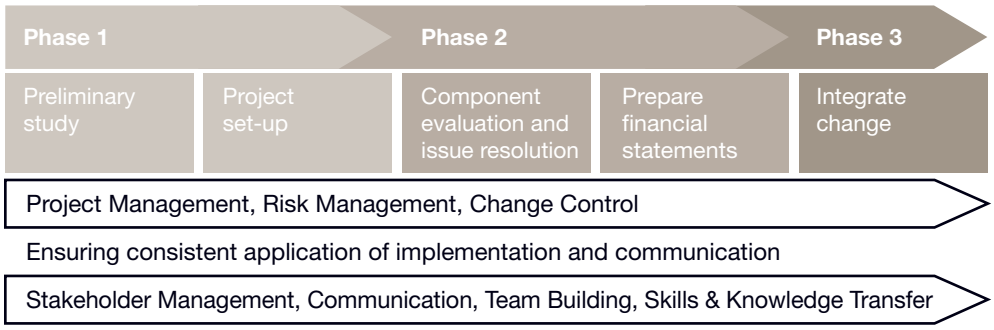
Typically, each IFRS transition project consists of three phases. In Phase 1, the diagnostic stage, we carry out an initial impact analysis and plan the later phases. Phase 2 consists of the detailed steps necessary to prepare the first complete IFRS financial statements. In Phase 3, we take the information, 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 listed on page 20 of this publication.

PwC professionals can help keep you on track

- 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
- Assistance with communication strategies and change management
- Assessment of your requirements for data, process, systems and controls
- Advice on process and system solutions to embed IFRS
- Competitor benchmarking
- Mergers and acquisitions target accounting conversion assistance
- Valuation advice under IFRS fair value and impairment models
- Tax planning considerations on conversion to IFRS



IFRS conversion is a complex and multi-faceted process. There are many issues to consider at each stage from project planning onward. To help you assess your readiness, we've prepared a list of questions for you to consider.

Conversion checklist

Project set-up and management

How will you manage and govern your project to ensure its success?

Have you considered:

- ☐ The use of a steering group — oversight and operation
- ☐ Dedicating a project manager with IFRS expertise plus a broader commercial understanding
- ☐ The cross-business involvement from all affected functions to ensure you meet deadlines

Project governance

Are your board of directors and audit committee fully committed, involved and knowledgeable about the implications of IFRS conversion?

Have you considered the role of:

- ☐ Senior management — awareness of options, strategic decision-making
- ☐ The audit committee — reporting structures and timings
- ☐ Internal audit — role in risk management, involvement from the outset

Resource levels and training

Do you have the right people with the right skills to complete the transition and embed the changes within your company?

Have you considered:

- ☐ Your people — number required, skill levels, other commitments
- ☐ Training — strategy, functional areas, delivery, support tools
- ☐ Recruitment and retention — implications for remuneration structures and career plans

Project progress — business unit level

When and how will you involve your business units to ensure local ownership of the IFRS numbers?

Have you considered:

- ☐ Business unit commitment — essential to success of transition, how to secure it
- ☐ Communications — on required data and project plan
- ☐ Changing business unit processes and procedures — most IFRS information is generated at a business unit level

Conversion checklist

High-level business impact

What are the high-level effects on performance measures and financial ratios?

Have you considered:

- ☐ The board's awareness of strategic implications — volatility of reported performance measures
- ☐ The impact of IFRS on specific covenants or ratios that are important to your business
- ☐ The implications for your remuneration packages, including bonuses and profit-sharing arrangements

IFRS financial statements, consolidation pack, data dictionary and subsidiary accounts

Do you understand what your financial statements will look like under IFRS?

Have you considered:

- ☐ High-level differences — impact on the income statement and balance sheet
- ☐ Managing multiple GAAPs within the group, e.g. IFRS, US, other
- ☐ Non-mandatory standards and disclosure requirements

Investor relations and market expectations

When, what and how will you report to the external market?

Have you considered:

- ☐ External reporting — publishing information for analysts and your shareholders
- ☐ Market information — quantity, type and auditing
- ☐ Dealing with uncertainty over future developments in IFRS

Value reporting

Will you enhance the information you provide to your shareholders to ensure it is useful and clear?

Have you considered:

- ☐ Reporting and communications — strength relative to your competitors
- ☐ Corporate reports — including additional information to aid clarity
- ☐ Opportunities for improved financial reporting

Management information and internal communications

How will you update your internal communications and management information (MI)?

Have you considered:

- ☐ The need for MI to follow IFRS — impact on your business
- ☐ International consistency — need for IFRS accounting manual and reporting pack

Data modelling and requirements

How will you collect the required data and ensure that there are adequate controls in place?

Have you considered:

- ☐ Data and information — your knowledge of additional requirements under IFRS
- ☐ Tactical or embedded methods of data collection
- ☐ Continuation data capture — methods and processes
- ☐ New data — controls are accurate

System enhancements and developments

Will you need to enhance your current systems or develop new ones to meet your IFRS obligations?

Have you considered:

- ☐ The identification of financial information systems and processes — at group and business unit level
- ☐ Your chart of accounts — need for change/overhaul
- ☐ Your systems, people and processes — adequacy for the new reporting regime
- ☐ Possible synergies and cost-saving strategies — leverage existing processes and systems

Internal control environment, process development and other initiatives, including Sarbanes-Oxley

How is your IFRS conversion project integrated with other initiatives, and have you identified all interdependencies?

Have you considered:

- ☐ Integrating your IFRS project with other changes in the business
- ☐ Process changes and controls — documentation compliant with corporate governance requirements

Accounting/technical issues and implications

Do you know where the key differences will be and their implications?

Have you considered:

- ☐ Major accounting policy changes — industry best practices and global interpretations
- ☐ IFRS 1 — application and your choice of optional exemptions
- ☐ Canadian GAAP — current inconsistencies in its application

Taxation

Do you understand the impact of IFRS on your tax liability?

Have you considered:

- ☐ Your tax liability — impact of changing accounting rules
- ☐ Tax requirements in your markets — acceptability of/ requirements for IFRS
- ☐ Subsidiary-level implications — related to the GAAP chosen for financial reporting

Employee benefits (including pensions and share plans)

How will the different accounting rules for employee benefits affect your reward and remuneration schemes?

Have you considered:

- ☐ The impact of revised pension rules under IFRS — at group and subsidiary level
- ☐ The implications of the new share-based payments rules
- ☐ Remuneration plans throughout your business

Valuation, strategy and impairment

Have you considered potential valuation issues concerning your assets and liabilities?

Have you considered:

- ☐ The impact of IFRS on business combinations within your company
- ☐ Your ability to allocate fair value to all your assets
- ☐ The impact of IFRS transition on acquisitions

Industry issues

Have you identified all the industry-specific issues that may affect your company?

Have you considered:

- ☐ The identification of key sector issues relevant to your business
- ☐ The impact on your regulatory filings

Contacts

IFRS National Leader
Diane Kazarian
416 365 8228
diane.a.kazarian@ca.pwc.com

Capital Markets Group Leader
Geoff Leverton
416 815 5053
geoff.m.leverton@ca.pwc.com

Professional, Technical, Risk and Quality
Jim Saloman
416 941 8249
james.s.saloman@ca.pwc.com

Canadian IFRS Tax Leader
Spence McDonnell
416 869 2328
spence.n.mcdonnell@ca.pwc.com

Canadian IFRS Advisory Leader
Peter Hargitai
416 941 8464
peter.hargitai@ca.pwc.com

Project Management
Graeme McMillan
416 365 2733
graeme.mcmillan@ca.pwc.com

Margaret Neary
416 815 5088
margaret.o.neary@ca.pwc.com

Training, Education and Communication
Karen Burrows
416 815-5206
karen.burrows@ca.pwc.com

Processes and Controls
Peter Koch
416 814 5899
peter.koch@ca.pwc.com

Industry Specialists

Engineering and Construction
Sal Bianco
416 218 1392
sal.bianco@ca.pwc.com

Financial Services
Sandra Mundy
416 947 8951
sandra.d.mundy@ca.pwc.com

Jason Boggs
416 941 8311
jason.boggs@ca.pwc.com

Philippe Thieren
514 205 5377
philippe.thieren@ca.pwc.com

Forest and Paper
Kevin Bromley
604 806 7515
kevin.bromley@ca.pwc.com

Government and Public Sector
Carol Devenny
613 755 4366
carol.devenny@ca.pwc.com

Kenneth Jones
416 941 8202
kenneth.a.jones@ca.pwc.com

Manufacturing
Lorna Fraser
905 949 7309
lorna.fraser@ca.pwc.com

Mining
Dean Braunsteiner
416 869 8713
dean.braunsteiner@ca.pwc.com

Oil and Gas
Rob Hawley
403 509 7546
robert.j.hawley@ca.pwc.com

Ann-Marie Osinski
403 509 6698
annmarie.osinski@ca.pwc.com

Retail and Consumer
David Bromley
905 949 7597
david.bromley@ca.pwc.com

Real Estate
Frank Magliocco
416 228 4228
frank.magliocco@ca.pwc.com

Technology, InfoComm, Entertainment and Media
Lisa Coulman
416 869 8685
lisa.j.coulman@ca.pwc.com

Paul Feetham
416 365 8161
paul.feetham@ca.pwc.com

Utilities
Alistair Bryden
403 509 7354
alistair.e.bryden@ca.pwc.com

Eric Clarke
416 218 1414
eric.clarke@ca.pwc.com

www.pwcifrs.ca

5408-0209