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First interim IFRS financial statements in the year of adoption

Frequently asked questions

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Introduction

The Canadian Accounting Standards Board (AcSB) requires publicly accountable enterprises that prepare interim financial statements to prepare them in accordance with IFRSs for interim and annual periods beginning on or after January 1, 2011. Consequently, calendar-year Canadian public companies will be preparing first interim IFRS financial statements for Q1 2011. The purpose of this document is to provide guidance as to the disclosure requirements for these first IFRS interim financial statements and to answer some frequently asked questions arising from the challenge of preparing interim statements that also include the opening IFRS balance sheet and related transition adjustments.

Some of the complexities involved in the preparation of the first-time adoption interim financial statements come from having to produce interim financial statements that are compliant with both IAS 34 *Interim Financial Reporting* (IAS 34) and IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1). IAS 34 applies to entities that prepare interim financial statements in accordance with IFRSs and it defines the minimum content of interim financial statements, including disclosures, and identifies the recognition and measurement principles that should be applied in preparing interim financial statements. IAS 34 is similar to CICA HB Section 1751, *Interim Financial Statements*, but differs in some respects. IFRS 1 requires entities to include reconciliations and adjustments that reconcile previously reported annual and interim financial information with the opening IFRS financial statement balances in the first IFRS financial statements.

In addition to the minimum disclosure requirements in IAS 34,¹ IFRS 1 requires a first-time adopter who prepared its most recent annual financial statements in accordance with previous GAAP to disclose information material to an understanding of the current interim period [IFRS 1.33]. In the absence of IFRS annual financial statements for the prior year, a first-time adopter will need to consider carefully what additional information should be disclosed in its first interim IFRS financial statements. Determining what constitutes information material to an understanding of the period is an area where significant judgement is required by management, as items may be considered material both because of their nature and because of their size. The differences in recognition, measurement and disclosure requirements between previous Canadian GAAP and IFRSs will be relevant to determining what additional information should be included. This publication lays out some considerations relevant to making this assessment for a selection of financial statement captions and IFRS disclosures.

Interim IFRS financial statements prepared in the year of adoption will require more extensive disclosure than what would generally be included in condensed interim financial statements, as these statements will include the required reconciliations from previous Canadian GAAP to IFRSs, explanations of significant transition adjustments², significant IFRS accounting policies³, as well as incremental disclosures that may be necessary to provide a sufficient understanding of the interim period.

¹ Refer to KPMG's *IFRS Disclosure checklist (2010)*, which includes the minimum disclosure requirements of IAS 34 and IFRS 1.

² For an illustrative example of typical Canadian first-time adoption transition adjustments and annual reconciliations, please refer to our publication *IFRS Illustrative Financial Statements: Canadian First-time Adopters* (May 2010).

³ In our view, when a first-time adopter prepares interim financial statements that claim compliance with IAS 34, these first interim IFRS financial statements should include a complete set of significant accounting policies [*Insights*,6.1.1680.60].

About this document

This document focuses on issues specific to the first set of interim financial statements and, for the most part, does not address general issues related to the preparation of interim financial statements in accordance with IAS 34 (e.g. recognition and measurement in interim financial statements). Under IAS 34, an entity may prepare condensed interim financial statements or, alternatively, an entity may prepare a complete set of financial statements covering the interim period. This document assumes that the first interim IFRS financial statements will be a condensed set of interim financial statements.

Section A of this document sets out a series of frequently asked questions and responses designed to help with the preparation of the first condensed interim IFRS financial statements. This section is followed by a table that outlines some financial statement captions and disclosures where differences between Canadian GAAP and IFRS may drive additional disclosure in the first interim IFRS financial statements if the item is material to an entity. Each caption or disclosure identified is accompanied by a list of considerations designed to help entities determine whether additional disclosure in the first interim IFRS financial statements is necessary.

This publication is based on standards and interpretations that have been issued by the International Accounting Standards Board (IASB) by December 31, 2010, and that are effective for a first-time adopter with a first annual IFRS reporting date of December 31, 2011 (“currently effective” requirements).

When preparing condensed interim financial statements in accordance with IAS 34, an entity should have regard to its local legal and regulatory requirements.

The principles of preparing interim financial statements for first-time adopters

Since a first-time adopter of IFRSs has not previously prepared and presented annual IFRS financial statements, the minimum disclosures prescribed by IAS 34 may be insufficient to provide an understanding of the current interim period. The Basis for Conclusions on IFRS 1 acknowledges that "...an entity's interim financial report in accordance with IAS 34 is less helpful to users if the entity's latest annual financial statements were prepared using previous GAAP than if they were prepared in accordance with IFRSs." [IFRS 1 BC 96] Therefore, in addition to the minimum disclosures in IAS 34, IFRS 1.33 requires a first-time adopter who prepared its most recent annual financial statements in accordance with previous GAAP to disclose information material to an understanding of the current interim period.

Under IAS 34, interim financial statements are in some areas an update from the most recent previous annual IFRS statements and hence it permits the disclosure requirements for annual financial statements to be condensed on the assumption that users of the interim financial report have access to the most recent annual financial statements. Since a first-time adopter does not have any previous annual IFRS financial statements, the interim financial statements cannot be seen as simply an update. An entity may publish condensed interim financial statements in accordance with IAS 34 even if it has not published IFRS annual financial statements for the prior period. However, the minimum disclosures prescribed by IAS 34 would be insufficient to provide an understanding of the interim period and therefore further disclosure is required to achieve the overriding goal of IAS 34, i.e. to include all the information that is relevant to an understanding of the current interim period. In making these decisions, materiality is assessed based on interim period data; some items, such as related party transactions, may be considered material because of their nature rather than their size. This is an area where significant judgement is required by management.

The requirement to provide additional disclosures to bridge the previously reported Canadian GAAP annual financial statements and the first interim IFRS financial statements will be an area of significant judgement that will depend on the significance of those disclosures to an understanding of the financial statements as a whole. When considering what additional disclosures to provide, entities should consider the extent of the recognition and measurement differences between Canadian GAAP and IFRSs, as well as the differences in the disclosure requirements of the two financial reporting frameworks.

IAS 34 assumes that a user of an entity's interim report also has access to its most recent *annual* financial statements under IFRSs, and IFRS 1.33 requires an entity to consider enhancing disclosures that otherwise would have been provided in the most recent annual financial statements had they been prepared under IFRSs. Consequently, KPMG believes that a useful approach may be for the additional disclosures provided in the first interim IFRS financial statements to focus on the comparative annual period. For example, if an entity chooses to disclose a reconciliation of the cost of property, plant and equipment (PP&E) and the accumulated depreciation thereon, such reconciliation could be provided from the date of transition, being January 1, 2010, to the end of the comparative annual period, being December 31, 2010. If an entity provides the reconciliation from the date of transition to the end of the comparative annual period, it may not need to provide a reconciliation for Q1 2011 (December 31, 2010, to March 31, 2011), if movements in the schedule are not considered material to an understanding of the Q1 2011 interim period.

There is no guidance in IFRSs on the format of additional disclosures that would be provided in the first interim IFRS financial statements and different formats will be seen in practice. One format that entities may find beneficial is to include a separate note that includes the additional annual disclosures that are being provided in the first interim IFRS financial statements. For example, if an entity provides a reconciliation of property, plant and equipment from the date of transition to the end of the comparative annual period, then this could be provided in the “2010 annual disclosures” note, which would be separate from any disclosures of property, plant and equipment that are provided in respect of Q1 2011.

A. Frequently asked questions

1. What are the public company filing deadlines for the first interim IFRS financial statements?
2. Is an entity required to provide all of the relevant disclosures necessary in annual IFRS financial statements in its first interim IFRS financial statements?
3. What are the minimum requirements that must be complied with in the first interim IFRS financial statements?
4. Are all accounting policies required to be included in the first interim IFRS financial statements?
5. What headings, sub-totals and line items are required in the first interim IFRS financial statements?
6. What statement of compliance is required to be disclosed in interim financial statements in the year of adoption?
7. If a significant event or transaction (e.g. goodwill impairment) occurred during the 2010 comparative period, is a note disclosure required in the first interim IFRS financial statements in the year of adoption?
8. If a business combination occurred during the 2010 comparative period, is disclosure required in the first interim IFRS financial statements in the year of adoption?
9. Does an entity need to present a roll-forward of provisions or PP&E since this was not required by Canadian GAAP?
10. Are full IAS 36 notes required in the first interim IFRS financial statements since the disclosures were not required by Canadian GAAP?
11. Some first interim IFRS financial statements in other jurisdictions included commentary in the basis of a preparation note that if there are any subsequent changes to IFRS that affect the first annual IFRS financial statements the interims may have to be restated. Is this commentary necessary?
12. Given that key management personnel compensation disclosures were not required in the financial statements under previous Canadian GAAP, does this information need to be disclosed in the first interim IFRS financial statements?
13. How similar is CICA HB 1751 to IAS 34? Are there any measurement and recognition differences that an entity needs to consider when preparing the first interims in 2011?

Answers

1. What are the public company filing deadlines for the first interim IFRS financial statements?

Under Canadian securities regulations, most calendar year-end reporting issuers have 90 days from the December 31, 2010 reporting date to file their last annual Canadian GAAP financial statements. These reporting issuers then have 45 days from the interim reporting date of March 31, 2011 to file their first interim IFRS financial statements; this cumulative period from January 1, 2011, to May 15, 2011, sometimes is referred to as the “135-day crunch.”

However, recognizing the effort to comply with the onerous disclosure requirements of IFRS 1, the Canadian Securities Administrators (CSA) amended National Instrument 51-102 (NI 51-102) *Continuous Disclosure Obligations* to provide a 30-day extension to the deadline for filing the *first interim* IFRS financial statements that are prepared for an interim period beginning on or after January 1, 2011. A calendar year-end non-venture issuer therefore will have until June 14, 2011, to file its first interim IFRS financial statements, and a venture issuer with the same year-end will have until June 29, 2011. This extension is automatic and reporting issuers do not have to apply for it. Note that the extension does not apply to an initial public offering prospectus filed in 2011.

2. Is an entity required to provide all of the relevant disclosures necessary in annual IFRS financial statements in its first interim IFRS financial statements?

No. While the first interim IFRS financial statements in the year of adoption will be more extensive than previous interim financial statements prepared in accordance with Canadian GAAP, there is no requirement that the first condensed interim financial statements include all of the disclosures required in annual IFRS financial statements. Judgement will be required in determining what additional disclosures will be necessary in the first interim IFRS financial statements in the year of adoption. The annual disclosure requirements in the relevant IFRSs may be useful when considering which additional disclosures should be provided. [Refer to Section B, below.]

3. What are the minimum requirements that must be complied with in the first interim IFRS financial statements?

The minimum requirements in the first interim IFRS financial statements can be broken down into three categories: (i) required financial statements, (ii) required reconciliations from Canadian GAAP to IFRSs, and (iii) minimum required disclosures. Each is discussed below.

(i) Required financial statements

The following financial statements are required to be presented in the first condensed interim IFRS financial statements for a calendar year-end entity:

- a condensed balance sheet at December 31, 2010, and March 31, 2011;
- a condensed statement of comprehensive income for the 3 months ended March 31, 2011 and 2010;⁴

⁴ IAS 1.81 (b) permits entities to present items of income and expense in either a single statement (i.e. a condensed statement of comprehensive income) or in two statements, in which case the entity would prepare a condensed income statement and a condensed statement of comprehensive income for the 3 months ended March 31, 2011 and 2010.

- a condensed statement of changes in equity for the 3 months ended March 31, 2011 and 2010; and
- a condensed statement of cash flows for the 3 months ended March 31, 2011 and 2010.

Unlike for the first IFRS annual financial statements or complete interim set, IFRSs are not explicit as to whether an opening balance sheet should be presented in the first interim IFRS financial statements as a primary financial statement or in the notes.⁵ National Instrument 52-107 (NI 52-107) *Acceptable Accounting Principles and Auditing Standards* requires that an opening balance sheet be presented as a primary financial statement for the interim period.

(ii) Required reconciliations

IFRS 1 requires the first interim IFRS financial statements to contain certain reconciliations to the most recent annual Canadian GAAP financial statements, which for a calendar year-end entity will be for the annual period ended December 31, 2010. The required reconciliations include:

Reconciliations of equity under Canadian GAAP to equity under IFRSs at:

- the date of transition, being January 1, 2010;
- the end of the comparative interim period, being March 31, 2010; and
- the end of the comparative annual period, being December 31, 2010.

Reconciliations of total comprehensive income under Canadian GAAP to total comprehensive income under IFRSs for:

- the comparative interim period, being the 3 months ended March 31, 2010; and
- the comparative annual period ended December 31, 2010.

In addition, an entity that presented a statement of cash flows under Canadian GAAP is also required to explain any material adjustments as compared to its IFRS statement of cash flows for the same periods noted above.

IFRS 1 does not specify the format of the required reconciliations; rather, the reconciliations should disclose the material adjustments made to amounts reported under Canadian GAAP in order to determine the corresponding amounts presented under IFRSs, together with sufficient explanations of the reconciling items.

At the time of publishing, the CSA has not specified the format of required reconciliations and different formats may be seen in practice.

The Implementation Guidance to IFRS 1 illustrates that one way to satisfy the requirements of the standard is to use a three-column approach, i.e. the reconciliation starts with the Canadian GAAP amounts in the left column, the effect of the transition to IFRSs in the middle column and the IFRS amounts in the right column.

⁵In order to comply with IAS 1, IFRS 1.21 requires an entity to include three balance sheets in its first IFRS financial statements. IAS 1.39 requires an entity to present a third balance sheet (i.e. at the beginning of the earliest comparative period) when it applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements.

KPMG's publication *Illustrative financial statements: Canadian first-time adopters (May 2010)*, illustrates the reconciliations from the end of the comparative annual period to the date of transition using the three-column approach, which we consider to be a "best practice" example of a possible format and structure of the reconciliations. The publication also includes some of the common adjustments a company that previously reported under Canadian GAAP may expect to see. Our three-column illustration is consistent with the illustrative example of an equity reconciliation that the Ontario Securities Commission (OSC) believes would provide transparent disclosure of the material adjustments between Canadian GAAP and IFRSs.⁶

Some entities may find it useful to include a four-column approach, with one "IFRS column" showing the effect of reclassifications in the financial statements (e.g. a reclassification from property, plant and equipment to investment property) and a separate column showing other adjustments (e.g. recognition, derecognition and remeasurement of assets and liabilities).

Alternatively, entities may also consider presenting reconciliations of total equity and total comprehensive income under Canadian GAAP to the totals presented under IFRSs.

The format of the required reconciliations will require judgement based on an entity's specific facts and circumstances, considering the extent and significance of adjustments.

(iii) Minimum required disclosures

As noted above, IAS 34 permits the disclosure requirements for annual financial statements to be condensed on the assumption that users of the interim financial statements have access to the most recent annual financial statements. IAS 34.15 requires an entity to include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period.

IAS 34.15B provides a non-exhaustive list of events and transactions for which disclosures would be required if they are significant (i.e. disclosure is required of significant events and transactions; for example, the write down of inventories to net realizable value).

IAS 34.16A includes a list of other information that is required to be disclosed, unless it is immaterial. A further list of examples of items that may be material to an understanding of the interim period is provided in Insights 5.9.60.70.

IFRS 1 also includes a list of disclosures that must be provided in the first annual IFRS financial statements. A number of these disclosures also would be provided in the first interim IFRS financial statements when relevant, including, for example:

- Disclosures for financial assets or financial liabilities designated as at fair value through profit or loss or available for sale (see IFRS 1.29).
- Disclosures for PP&E, investment property and intangible assets to which the fair value as deemed cost exemption has been applied (see IFRS 1.30).
- Disclosures for assets to which the deemed cost for oil and gas assets exemption was applied (see IFRS 1.31A).

⁶ Refer to the publication *Ontario Securities Commission Issuer Guide: TOP 10 TIPS FOR PUBLIC COMPANIES FILING THEIR FIRST IFRS INTERIM FINANCIAL REPORT (November 2010)*.

- Disclosures for assets to which the deemed cost for rate regulated operations exemption was applied (see IFRS 1.31B).

In addition, IFRS 1.33 explicitly requires a first-time adopter to disclose information material to an understanding of the current interim period if that information has not been disclosed in the most recent annual financial statements prepared in accordance with Canadian GAAP. Significant judgement often will be necessary to determine areas that may require additional disclosures. [Refer to Section B below for further discussion.]

4. Are all accounting policies required to be included in the first interim IFRS financial statements?

Yes. In our view, when a first-time adopter prepares its first interim IFRS financial statements that claim compliance with IAS 34, these financial statements should include a complete set of significant accounting policies (see Insights 6.1.1680.60). Refer to our publication, *Illustrative financial statements: Canadian first-time adopters*, for one example of a complete set of IFRS accounting policies.

5. What headings, sub-totals and line items are required in the first interim IFRS financial statements?

If a first-time adopter publishes a set of condensed interim financial statements in accordance with IFRSs, then these financial statements contain, as a minimum, each of the headings and sub-totals that were included in its most recent annual financial statements. In our view, a first-time adopter applies this requirement by including at least all of the headings and sub-totals that are expected to be included in its first annual IFRS financial statements (see Insights 6.1.1680.10).

6. What statement of compliance is required to be disclosed in interim IFRS financial statements in the year of adoption?

The CSA has confirmed in NI 52-107 that domestic issuers are required to disclose compliance with IAS 34 in any interim IFRS financial statements, including those prepared in the year of adoption and in subsequent reporting periods.

In the first interim IFRS financial statements, reference generally will be made to the fact that these are the entity's first interim IFRS financial statements and that IFRS 1 has been applied. An example of a statement of compliance in the first interim IFRS financial statements is as follows:

"These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These are the Company's first IFRS condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note [X]. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under previous Canadian GAAP to those reported for those periods and at the date of transition under IFRSs."

7. If a significant event or transaction (e.g. goodwill impairment) occurred during the 2010 comparative period, is a note disclosure required in the first interim IFRS financial statements in the year of adoption?

A significant transaction or event may have occurred in the 2010 comparative period for the first IFRS financial statements in the year of adoption for which disclosure requirements under previous Canadian GAAP may have differed from the disclosures that would have been provided under IFRSs. For example, assume a significant impairment of property, plant and equipment was recognized in accordance with IAS 36 *Impairment of Assets* in the second quarter of 2010, whereas, due to the differences in the impairment testing requirements, no impairment was recognized under Canadian GAAP in Q2 2010. As a result, no relevant disclosures were necessary under Canadian GAAP in Q2 2010. The required IAS 36 disclosures would have been provided in the 2010 annual financial statements had they been prepared in accordance with IFRSs.

In the first interim IFRS financial statements, the impairment of PP&E would be discussed in the 2010 annual reconciliations of Canadian GAAP to IFRSs (equity reconciliation at December 31, 2010, and reconciliation of comprehensive income for the year ended December 31, 2010), because an adjustment would be necessary to reflect the impairment in accordance with IFRSs.

In the first interim IFRS financial statements, the Q2 2010 impairment charge does not directly affect the balance sheet during the period between January 1, 2011, and March 31, 2011, or comprehensive income for the 3 months ended March 31, 2011 and 2010. However, the impairment impacts the depreciation expense for PP&E for Q1 2011 relative to Q1 2010. If this impact is considered material to the interim financial statements, then disclosure of the impairment loss that occurred in Q2 2010 may be considered necessary for an understanding of the first interim IFRS financial statements for Q1 2011. The entity would consider which "annual" disclosures in IAS 36 should be provided in the first interim IFRS financial statements. As the impairment does not directly impact the Q1 2011 IFRS financial statements, it may be useful to provide some of the annual IAS 36 disclosures in a separate note to the interim financial statements.

8. If a business combination occurred during the 2010 comparative period is disclosure required in the first interim IFRS financial statements in the year of adoption?

It depends. A business combination presented in accordance with previous Canadian GAAP (HB 1581) may have occurred in the 2010 comparative period of the first interim IFRS financial statements. While differences between IFRS 3 and CICA HB 1581 would have been captured in the transition adjustments, a question arises as to whether full IFRS 3 disclosures must be provided in the first interim IFRS financial statements.

IAS 34 does not specifically detail what comparative information should be included in the selected explanatory notes. In our experience, entities generally include both quantitative and narrative comparative information in the explanatory notes because the disclosure is of continuing relevance to the current interim period. Management should exercise judgement to decide what comparative information should be included in the explanatory notes. Both IAS 34 and IFRS 1 state that certain information may need to be disclosed if necessary for the understanding of the current interim period.

Consideration would need to be given to whether the differences arising from adopting IFRS 3 materially affect the first interim period. If a material charge for contingent consideration affects the first interim IFRS income statement, then one would consider disclosing information in IFRS 3.B64-

B67. If there are multiple adjustments on the transition to IFRS in relation to the business combination that in aggregate are significant, again it may be worthwhile to include the IFRS 3 note as at December 31, 2010, as an additional annual disclosure for the first interim IFRS financial statements.

For a business combination that occurred during the current interim period, IFRS 3.B64(q) requires an entity to disclose the amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period, and the revenue and profit or loss of the combined entity for the current reporting period, as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. While judgement will need to be exercised to determine how significant the 2010 business combination is to an understanding of the first interim IFRS financial statements, entities are strongly encouraged to disclose this information, as it will not have been presented in the previous Canadian annual or interim financial statements.

9. Does an entity need to present a roll-forward of provisions or PP&E since this was not required by Canadian GAAP?

IAS 34 does not specifically detail what comparative information should be included in the selected explanatory notes. In our experience, entities generally include both quantitative and narrative comparative information in the explanatory notes because the disclosure is of continuing relevance to the current interim period. Management should exercise judgement to decide what comparative information should be included in the explanatory notes. Both IAS 34 and IFRS 1 state that certain information may need to be disclosed if necessary for the understanding of the current interim period. Refer to the additional disclosure considerations in Section B to help determine if a roll-forward is necessary.

10. Are full IAS 36 notes required in the first interim IFRS financial statements since the disclosures were not required by Canadian GAAP?

IAS 34 does not specifically detail what comparative information should be included in the selected explanatory notes. In our experience, entities generally include both quantitative and narrative comparative information in the explanatory notes because the disclosure is of continuing relevance to the current interim period. Management should exercise judgement to decide what comparative information should be included in the explanatory notes. Both IAS 34 and IFRS 1 state that certain information may need to be disclosed if necessary for the understanding of the current interim period. Refer to the additional disclosure considerations in Section B to help determine if additional disclosures are necessary.

11. Some first interim IFRS financial statements in other jurisdictions included commentary in the basis of preparation note that if there are any subsequent changes to IFRS that affect the first annual IFRS financial statements the interims may have to be restated. Is this commentary necessary?

No. There is no requirement to alert users that the interim financial statements may need to be restated if a policy adopted in the preparation of the first annual IFRS financial statements differs from the policies used to prepare the interim financial statements of that same annual period. However, there is also nothing that prohibits this disclosure.

For the first wave of first-time IFRS adopters in 2005, this disclosure may have been more visible because of the greater number of accounting standards that were expected to be finalized before the end of the year. While this is not the case for fiscal year-end Canadian companies with a transition date of January 1, 2010, entities may choose to include this disclosure in the statements. An example of wording that may be used is: “The policies applied in these condensed interim consolidated financial statements are based on IFRSs issued and effective as of [xx/xx/xxxx], the date the Board of Directors approved the statements. Any subsequent changes to IFRSs that become effective and are adopted for the December 31, 2011 annual financial statements could result in revisions to accounting policies applied in these interim financial statements, and if applicable, the opening balance sheet and reconciliations included herein.”

12. Given that key management personnel compensation disclosures were not required in the financial statements under previous Canadian GAAP, does this information need to be disclosed in the first interim IFRS financial statements?

In respect of related party transactions, care should be taken in determining the level of disclosure that is necessary in condensed interim financial statements. Entities will need to evaluate how significant transactions with key management are to an understanding of the first interim IFRS financial statements by considering the amount and nature of the compensation.

13. How similar is CICA HB 1751 to IAS 34? Are there any measurement and recognition differences that an entity needs to consider when preparing the first interims in 2011?

While HB 1751 and IAS 34 are largely consistent, two areas of difference with respect to measurement are 1) inventory cost variances and 2) previously unrecognized prior year income tax assets. In addition, a presentation difference exists with respect to the condensed statement of cash flows. We believe that entities wishing to present an additional condensed cash flow statement for the current interim period, as previously required under Canadian GAAP, should do so outside the interim IFRS financial statements. Please refer to Chapter 5.9 of our publication [IFRS compared to Canadian GAAP: An Overview – Third Edition 2010](#) for more detail.

B. Considerations for incremental annual disclosures for the first interim IFRS financial statements

As discussed, a first-time adopter should apply judgement in determining what areas may require more extensive disclosure than the minimum requirements for condensed interim financial statements. We outline below some considerations for areas where entities may consider providing additional disclosures to help determine whether this additional disclosure may be material to an understanding of the first-time adoption interim period. The areas identified below are not necessarily significant for every entity, nor are other disclosures omitted unnecessary. Judgement must be used to determine what disclosure requirements are necessary for each particular entity based on its facts and circumstances.

In general, disclosures in the first interim IFRS financial statements in addition to the minimum disclosure requirements in IAS 34 and IFRS 1 will arise because of one or more of the following:

1. The disclosure is required under IFRS and has never been required to be disclosed under Canadian GAAP.
2. The balance has changed significantly under IFRS (e.g. the measurement basis has changed under IFRS, there are different recognition or derecognition criteria under IFRS).

<i>Significant judgements made in applying accounting policies and key sources of estimation uncertainty</i>	
<i>Disclosures</i>	<i>Considerations</i>
<i>Critical accounting estimates and judgements.</i>	<ul style="list-style-type: none"> • Consider whether there are any estimates and judgements not made under previous Canadian GAAP that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year [IAS1.125]. Examples of areas that may trigger this disclosure include: <ul style="list-style-type: none"> ➤ Elections to revalue/ fair value PP&E, intangibles or investment property ➤ Impairment losses or reversals recognized under IFRS ➤ Tax exposures ➤ Financial instruments carried at fair value under IFRS; consider whether any new elections have been made to account for instruments at fair value on transition ➤ Provisions (e.g. asset retirement obligations)

Biological Assets	
Disclosures	Considerations
<i>Disclosure of balance of biological assets on the face of the balance sheet and a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period in the notes.</i>	<ul style="list-style-type: none"> If biological assets are a significant balance, consider including a reconciliation (roll-forward) of the carrying amount from January 1, 2010, to December 31, 2010, in accordance with IAS 41.50(e). Note: A reconciliation (roll-forward) from January 1, 2011, to March 31, 2011, generally would not be provided.
<i>An entity shall disclose the methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets.</i>	<ul style="list-style-type: none"> If biological assets and/or agriculture produce are significant to an understanding of the interim financial statements, consider the additional disclosures required in IAS 41.40-50.
<i>Description of biological assets measured at cost less any accumulated depreciation/impairment because their fair value cannot be estimated reliably, and an explanation of why their fair value cannot be measured reliably.</i>	<ul style="list-style-type: none"> If significant biological assets are not measured at fair value, consider disclosing this fact as required by IAS 41.54-56.
Employee benefits	
Disclosures	Considerations
<i>Reconciliation of opening and closing balances of the defined benefit obligation (DBO), the fair value of plan assets and of the present value of the DBO and the fair value of plan assets to the balance sheet amount.</i>	<ul style="list-style-type: none"> If there are significant transitional adjustments to post-employment defined benefit plans (e.g. change in accounting policy for recognition of actuarial gains and losses (AGL) and/or past service cost, change in attribution, change in measurement date, etc.), consider including a reconciliation of opening and closing balance of the DBO (IAS 19.120A(c)), the fair value of plan assets (IAS 19.120A(e)) and of the present value of the DBO and the fair value of plan assets to the balance sheet amount (IAS 19.120(e)) for the period from January 1, 2010, to December 31, 2010
<i>Total amounts recognized in other comprehensive income (OCI)</i>	<ul style="list-style-type: none"> If AGL are recognized in OCI, consider disclosing the amount recognized in OCI for AGL and the effect of the asset ceiling, if any (IAS 19.120(h)) in the comparative annual period

<p><i>Multi-employer pensions plans (MEPPs).</i></p>	<ul style="list-style-type: none"> • If participating in a DB MEPP, for which there is insufficient information to apply DB accounting, consider disclosing the information in IAS 19.30 for the comparative period (e.g. the fact that the plan is a DB plan, the reason why there is insufficient information, etc.). <p>If participating in a DP MEPP and accounting for a proportionate share of the DBO, plan assets and associated costs, consider disclosing the information in IAS 19.120A in respect of the plan (IAS 19.29(b)).</p>
<p><i>Group plans (DB plans that share risks between entities under common control).</i></p>	<ul style="list-style-type: none"> • If participating in a group plan (e.g. a subsidiary participates in a DB plan with its parent and prepares its own consolidated financial statements), consider disclosing the information in IAS 19.34B(a) and (b). <p>If accounting for an allocation of the net defined benefit cost under a stated policy or contractual arrangement, consider disclosing information about the plan as a whole in accordance with IAS 19.120-121 (IAS 19.34B(c)).</p> <p>If accounting for the contribution payable during the period, consider disclosing information about the plan as a whole in accordance with IAS 19.120A(b)-(e), (j), (n), (o), (q) and 121 (IAS 19.34B(d)).</p>
<p>Financial Instruments</p>	
<p>Disclosures</p>	<p>Considerations</p>
<p><i>Nature and extent of risks arising from financial instruments.</i></p>	<ul style="list-style-type: none"> • If there are significant changes in the basis of measurement of financial assets and liabilities due to elections on transition to IFRS, consider whether the market risk disclosures as previously provided in the Canadian GAAP annual 2010 financial statements need to be updated in the Q1 2011 IFRS interim financial statements.
<p><i>Fair value hierarchy.</i></p>	<ul style="list-style-type: none"> • If as a result of IFRS first-time adoption elections or classification differences under IFRS, financial assets and liabilities are now measured at fair value, consider disclosing the level in the fair value hierarchy within which the fair value measurement is categorized as per IFRS 7.27B. <p>For example, an entity may have classified an AFS investment at cost under Canadian GAAP that is now required to be carried at fair value under IFRS. If this instrument is material, an entity should consider</p>

	<p>disclosing the level in the fair value hierarchy within which it resides.</p> <p>Also consider whether any new fair value estimates require disclosure as a critical accounting estimate, discussed above.</p>
Impairment of non-financial assets	
Disclosures	Considerations
<p><i>Description of the asset or CGU and the events and circumstances that led to a material impairment loss recognized or reversed during the period, including whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs to sell or its value in use, and the basis used to determine these values.</i></p>	<ul style="list-style-type: none"> • Impairments of non-financial assets at the date of transition to IFRS will be reflected as adjustments to the opening balance sheet. Entities should make the required IAS 36 disclosures for these impairment losses. If estimates are made to calculate the impairment loss and the charge is significant, consider whether the estimate constitutes a key source of estimation uncertainty that requires disclosure, as discussed above. <p>Consider also impairment charges booked in 2010 where previous disclosure is not IAS 36 compliant. For impairments in 2010 that are significant to both the ending balance of the 2010 annual financial statements presented in accordance with previous Canadian GAAP and to the Q1 2011 interim financial statements, consider disclosing information in IAS 36.130-133 in the first interim IFRS financial statements.</p>
Income taxes	
Disclosures	Considerations
<p><i>Effective tax rate.</i></p>	<ul style="list-style-type: none"> • Consider whether the effective tax rate under IFRS is significantly different from that under previous Canadian GAAP. This may be the case if an entity is subject to the initial recognition exemption.
<p><i>Rate used to effect temporary differences.</i></p>	<ul style="list-style-type: none"> • Consider whether the rate used to effect temporary differences under IFRS is significantly different than under previous Canadian GAAP. This may be the case for entities that conclude that they will need to use the tax rate associated with undistributed profits to tax effect their temporary differences.
<p><i>The amount of a deferred tax asset and the nature of the evidence</i></p>	<ul style="list-style-type: none"> • Consider whether there are any other annual IFRS disclosure requirements in IAS 12.81-82 that may provide greater clarity to understanding the current

<p><i>supporting its recognition.</i></p>	<p>interim period. For example, there are some explicit disclosure requirements under IFRS surrounding business combinations and, additionally, entities are required to describe the nature of deferred tax assets.</p>
<p>Investments in associates and joint ventures</p>	
<p>Disclosures</p>	<p>Considerations</p>
<p><i>Summarized financial information of associates, including the aggregated amount of assets, liabilities, revenues and profit or loss.</i></p>	<ul style="list-style-type: none"> • If there are numerous and/or significant investments in associates and/or joint ventures or new acquisitions thereof in the interim period, consider disclosing the summary of financial information required by IAS 28.37(b) and IAS 31.56. These disclosures were not required under previous Canadian GAAP and entities will need to consider whether they are relevant to an understanding of the first interim financial statements.
<p>Investment property</p>	
<p>Disclosures</p>	<p>Considerations</p>
<p><i>Whether the investment property has been measured using the cost or fair value model and a reconciliation between the carrying amounts of investment property at the beginning and end of the period.</i></p>	<ul style="list-style-type: none"> • If there are significant reclassifications of PP&E to investment property on transition to IFRS, consider including a reconciliation (roll-forward) of the carrying amount from January 1, 2010, to December 31, 2010, in accordance with IAS 40.76 or 79. <p>Note: A reconciliation (roll-forward) from January 1, 2011, to March 31, 2011, generally would not be provided.</p>
<p><i>The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors.</i></p> <p><i>The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer.</i></p>	<ul style="list-style-type: none"> • If the fair value method is used, consider whether there were any critical estimates made that should be disclosed in accordance with IAS 1.125 (discussed above) and consider disclosing the information in IAS 40.75(d).

Non-current assets held for sale and discontinued operations	
Disclosures	Considerations
<i>Non-current assets classified as held for sale and the assets/liabilities of a disposal group separately from other assets/liabilities in the balance sheet.</i>	<ul style="list-style-type: none"> Although not required by IAS 34, in our view non-current assets or the assets of a disposal group classified as held for sale at the end of the interim reporting period are presented separately from other assets and liabilities in the condensed interim financial statements [Refer to Insights 5.9.40.20, IFRS 5.38]. <p>Note that comparatives are not restated to reflect classification as held for sale at the end of the reporting period [IFRS 5.40].</p> <p>Consider whether non-current assets (disposal groups) classified as held for sale are classified as current given they are expected to be realized within 12 months after classification as held for sale.</p>
Leases	
Disclosures	Considerations
<i>A reconciliation between the gross investment in the lease (lessor) or future minimum lease payments (lessee) at the end of the reporting period, and the present value of minimum lease payments receivable (lessor) or payable (lessees) at the end of the reporting period.</i>	<ul style="list-style-type: none"> Consider whether there are significant reclassifications of leases from operating to financing, and vice versa, on transition to IFRS. If so, consider disclosing the reconciliation required by IAS 17.31(b) or IAS 17.47(a) for newly recognized finance leases or, alternatively, IAS 17.35 or IAS 17.56 for operating leases.
<i>Gross finance lease obligations disclosed in the IFRS 7 maturity analyses.</i>	<ul style="list-style-type: none"> For newly recognized finance leases, consider whether the additional disclosures required by IFRS 7 are material to understanding the interim financial statements.
Operating segments	
Disclosures	Considerations
<i>Segment information.</i>	<ul style="list-style-type: none"> The disclosure requirements in IAS 34.16(g) are incremental disclosures that assume that interim financial statement users have access to previously reported annual segment disclosures. HB 1701 and IFRS 8 are substantially converged, so operating segment reporting in previous Canadian GAAP annual

	<p>financial statements should be similar to the requirements under IFRS.</p> <p>However, if there are significant transition adjustments that affect amounts disclosed in the operating segment note, consider whether the previous annual operating segment disclosure provides all of the necessary information relevant to understanding the interim financial statements.</p>
Property, plant and equipment	
Disclosures	Considerations
<i>Reconciliation (roll-forward) of carrying amount of PP&E.</i>	<ul style="list-style-type: none"> If there are significant adjustments to PP&E (e.g. impairment across various classes, reclassification of PP&E under previous Canadian GAAP to investment property, significant adjustments to depreciation due to componentization, etc.), consider including a reconciliation (roll-forward) of the carrying amount from January 1, 2010, to December 31, 2010, in accordance with IAS 16.73(e). <p>Note: A reconciliation (roll-forward) from January 1, 2011, to March 31, 2011, generally would not be provided.</p>
<i>Impairment losses and reversals of impairment losses.</i>	<ul style="list-style-type: none"> If there was a material impairment of PP&E in the comparative annual period, or a material reversal of an impairment, consider disclosing certain information required by IAS 36 (see <i>Impairment of non-financial assets</i>).
<i>Capitalized borrowing costs.</i>	<ul style="list-style-type: none"> If significant borrowing costs are capitalized in the comparative annual period, consider disclosing the information required under IAS 23.26, being the amounts capitalized during the comparative annual period and the capitalization rate used.
<i>Revaluation of PP&E.</i>	<ul style="list-style-type: none"> If PP&E is measured using the revaluation model, consider disclosing the information required by IAS 16.73 (e.g. the effective date of the revaluation, whether an independent valuations expert was involved, etc.).
Provisions and contingencies	
Disclosures	Considerations
<i>Reconciliation (roll-forward) of</i>	<ul style="list-style-type: none"> If there are significant transitional adjustments to

<i>carrying amount of provisions.</i>	<p>provisions (e.g. recognition of additional provisions for onerous contracts), consider including a reconciliation (roll-forward) of the carrying amount from January 1, 2010, to December 31, 2010 (IAS 37.84).</p> <p>Note: A reconciliation (roll-forward) from January 1, 2011, to March 31, 2011, generally would not be provided.</p>
<i>Description of provisions and timing of outflows.</i>	<ul style="list-style-type: none"> • If significant additional provisions are recognized under IAS 37 on transition, consider including a brief description of the nature of the provision and expected timing of outflows (IAS 37.85(a)) and an indication of the uncertainties about the amount or timing of the outflows (IAS 37.85(b)).
<i>Reimbursements.</i>	<ul style="list-style-type: none"> • If material reimbursement assets are recognized under IAS 37 on transition, consider disclosing the expected amount of the reimbursement and the amount of the asset recognized (IAS 37.85(c)).
<i>Contingent liabilities within scope of IAS 37.</i>	<ul style="list-style-type: none"> • If material contingent liabilities still exist in the interim period, for each class, consider disclosing an indication of the uncertainties relating to the amount or timing of outflow (IAS 37.86(b)) and the possibility of any reimbursement (IAS 37.86(c)).
<i>Contingencies addressed by other standards.</i>	<ul style="list-style-type: none"> • If material contingencies still exist in the interim period and are addressed by other standards, consider disclosing: <ul style="list-style-type: none"> ➤ Contingencies related to revenue arrangements (IAS 11.45, IAS 18.36) ➤ Tax-related contingent assets and liabilities (IAS 12.88) ➤ Contingent liabilities arising from employee termination benefits where there is uncertainty about the number of employees that will accept the offer (IAS 19.141) ➤ Contingent liabilities arising from post-employment benefit obligations (IAS 19.125) ➤ Contingent liabilities recognized in a business combination (IFRS 3.B67(c)) ➤ Contingent consideration in a business combination (IFRS 3.B67(b)).

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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