

The background of the entire page is a photograph of a server room aisle. The aisle is lined with rows of server racks on both sides. The racks are filled with various electronic components, including circuit boards and cooling fans. The floor is made of light-colored square tiles. In the foreground, a dark blue leather briefcase with a silver latch and a shoulder strap sits on the floor. The lighting is bright and even, creating a clean, professional atmosphere.

Managing the Transition to IFRS:  
Clearing the Path  
for Canadian Private  
Companies

KPMG ENTERPRISE

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# Clearing the path to IFRS in 2011

Canada's move to IFRS is gaining momentum. Regulators and standard setters are resolving some potential obstacles and uncertainties. If you plan to adopt IFRS on the same timeline as Canada's public companies, are you keeping up to date and moving forward on the transition?

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Canadian private companies that produce general-purpose financial statements are permitted, but not required, to adopt IFRS. When Canada's Accounting Standards Board (AcSB) first announced that Canada would be moving to IFRS, many aspects of the proposed transition were still unclear. While we have additional clarity in many areas, new questions are being raised. What are some of the recent significant clarifications?

Most importantly, the AcSB has confirmed that all public companies will be required to report under International Financial Reporting Standards (IFRS) for fiscal periods beginning on or after January 1, 2011. In addition, for companies now contemplating their accounting policy changes, the AcSB's plan for a phased transition appears to be less pronounced than initially expected. Canadian private companies that plan to adopt IFRS in 2011 are recognizing how much work is required to make a successful changeover to IFRS. Although 2 years remain until IFRS goes live in Canada, private companies planning to tread the IFRS road may find that investors and other stakeholders will want information about the company's progress much sooner than 2011.

As a further complication, the path to IFRS is neither straight nor smooth. Most companies are travelling a route with intersections that offer choices for reaching the final destination, as well as stretches of road that are still under construction. Many of your public company counterparts will be establishing their preliminary opening IFRS balance sheets as at January 1, —less than a year away. Given the potential enterprise-wide impacts of adopting IFRS, how effectively are you making progress towards your changeover to IFRS?

# How will today's Canadian GAAP transition into IFRS?

The AcSB's initial plans called for a phased transition, with certain GAAP standards converging with IFRS before the changeover date. International delays in issuing some of these standards may create some interim relief for financial reporting departments, but will leave more standards to be adopted as a "big bang" in 2011.

The AcSB continues to make conforming changes to Canadian GAAP in an attempt to reduce some of its differences from IFRS prior to the 2011 changeover date. These conforming changes are not, however, as significant as the AcSB had originally anticipated. Delays in issuing certain internationally converged standards—business combinations, income taxes, and joint ventures—have in part contributed to fewer Canadian GAAP standards converging with IFRS prior to the changeover date.

The AcSB acknowledges that companies need time to prepare for adopting IFRS. Accordingly, to alleviate some of the strain on financial reporting departments, it will mandate only certain changes to Canadian GAAP. Of course, the trade-off for this interim relief for overburdened financial reporting departments will be a somewhat bigger bang in 2011, when companies need to adopt these major standards on their conversion to IFRS.

## Omnibus Exposure Draft

The AcSB's omnibus Exposure Draft released in April 2008 (to be updated in 2009) represents a significant milestone in incorporating IFRS into Canadian GAAP. This document gives the financial reporting community an opportunity to become familiar with the newer standards and also invites them to provide input on what

issues they believe may arise on first time adoption.

Several KPMG resources may be helpful as you work to understand these standards. Our publication, *IFRS compared to Canadian GAAP: An overview*, is designed to assist you in gaining a high level understanding of the differences between IFRS and Canadian GAAP. At a much more detailed level, *Insights into IFRS: Practical Guide to IFRS* emphasizes the application of the standards in practice and explains KPMG's views on many interpretive issues.

## Which Canadian GAAP standards are moving towards early convergence with IFRS?

As outlined below, some standards will be converging with IFRS before 2011. As you read the omnibus Exposure Draft, remember to give priority to those IFRSs that currently differ from Canadian GAAP or those that will be changing.

### *Intangible assets*

The AcSB has finalized a new standard on intangible assets, largely to provide guidance on accounting for those assets acquired outside a business combination and to discontinue the deferral of certain pre-operating costs. These new requirements are effective for fiscal years beginning on or after October 1, 2008.

## *"Almost" IFRS ... but more changes required in 2011*

Although the new Canadian standards for inventories and intangible assets are based largely on comparable IFRS standards, not all differences between Canadian GAAP and IFRS have been eliminated. For example, measurement of inventories during interim periods and the treatment of certain intangible assets are not completely aligned.

Recognize this two-step timing in your conversion plans. Prioritize the areas requiring change in 2009, but do not lose sight of the additional changes in these areas that will still be required at your IFRS changeover date.

## **Which standards were expected to converge early but may be delayed to 2011?**

Other accounting standards originally anticipated to be part of the AcSB's phased transition include accounting for joint ventures and income taxes. According to current indications, these new Canadian standards will be effective January 1, 2011, but companies may be able to choose to adopt them prior to 2011, similar to the transition provisions for the recently released standard on business combinations.

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## How should you be tracking IFRS developments internationally?

Canada's private companies following the timelines of their public company counterparts will adopt IFRS effective for their 2011 financial statements. To help your conversion projects run smoothly, you should keep up to date on international standard-setting activity that could affect your company.

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### Changes to IFRS standards and interpretations

The International Accounting Standards Board (IASB) has a full work program. Many changes to IFRS may occur prior to 2011, developed by either the IASB or its interpretive body, the International Financial Reporting Interpretations Committee (IFRIC). For example, the IASB continues to deliberate the exposure draft on provisions. Remember as well that the AcSB's omnibus Exposure Draft covers only 2007 standards. Expect to see other IASB proposed standards and interpretations during the period leading up to 2011.

Every company should develop processes to monitor IASB and IFRIC activities, so that it can assess the impact of any changes on its financial reporting processes and its conversion plan. KPMG Enterprise™ can assist in keeping you abreast of changes. Refer to the section at the end of this publication for details on one source of this information—*IFRS in Brief*, KPMG International's monthly global newsletter on developments in IFRS.

# How is your transition to IFRS progressing?

Some Canadian companies are making major strides in planning their transition, while others have barely started. Be sure to invest time and effort early, and build momentum, focusing on your end goal of “IFRS—business as usual.”



While this change may sometimes appear overwhelming, always remember that others have gone through this process before us. Learn from the experiences of companies in Europe, Australia, and elsewhere. Some of the following “lessons learned” can help to strengthen your conversion process.

## Assessing the impact

It all begins with an assessment of where you are going—identifying those key differences between IFRS and Canadian GAAP for your company. From there, you can develop a sense of the complexities involved and time necessary to implement. The move to IFRS can affect all areas of the business and, often, new systems and processes are needed to cope with the change. By starting early, private companies can identify other priorities and initiatives planned or underway, such as the development and implementation of new enterprise reporting systems, and integrate the projects where appropriate.

## Senior management support

In many of the overseas conversion projects, support from senior management was a key success factor to profile the project and ensure support for securing necessary resources. Give high priority to two areas: making your initial assessment of the impact of IFRS and discussing the project milestones, timing, and resource requirements. Delaying these discussions can cost the company valuable time and resources and place a strain on the overall project—an experience shared by many of your overseas counterparts.

More accounting policy choices are available in IFRS. You have a one-time opportunity to rethink past accounting policies and practices. You also are able to use elective exemptions available in IFRS 1 to ease your conversion efforts. Among the more popular choices made by European and Australian companies were the exemptions around business combinations, actuarial gains and losses associated with defined benefit plans, cumulative translation adjustments, and share-based payments.

## Mobilizing the project team

A dedicated project team should be established and a formal project plan developed. Assessing whether there are current IFRS skills gaps in your team and how you will address these gaps should be key priorities for management. Your project plan should make effective use of your available IFRS resources while controlling the overall project cost.

European and Australian entities found that heavy investments in upfront impact assessments and planning activities were necessary components in a successful conversion. Others admit that they waited too long to get started and spent insufficient time in the upfront planning phase. Without the appropriate plans, the conversion initiative cannot get underway or critical elements may need to be repeated. Don't allow your private company to make the same mistake.

## How can KPMG Enterprise help?

KPMG Enterprise has developed a robust methodology that can systematically assist any private company through its IFRS conversion plans.



Our Global Conversion Services methodology starts with our diagnostic tool—Quick Scan. Carried out in a short timeframe, it provides a high-level analysis of those areas of IFRS that can have the biggest impact on a private company and how difficult it can be to implement IFRS. Quick Scan is a powerful and concise communications tool that can be used within the company to explain the impact of IFRS conversion in a clear and concise way. We can use this tool to bring companies through their initial assessment quickly and present findings to senior management to help mobilize the conversion efforts. From there, we can assist private companies throughout the remainder of the conversion project.

KPMG Enterprise's IFRS Conversion Services teams include internationally trained professionals, who are knowledgeable in IFRS and Canadian GAAP, and skilled in both converting to IFRS and integrating the financial reporting processes. The experience and extensive resources of our Conversion Services teams can provide benefits to companies of all sizes and partial or full-scope conversion projects.

The conversion to IFRS is a large change management project, but you need not fear—with proper planning and by starting early, the end goal of “IFRS—business as usual” is achievable.

KPMG Enterprise provides many materials to help Canadian private companies to understand the standards and their ongoing evolution, as well as to develop and refine their own plans for adopting IFRS. A few examples:

- *IFRS Compared to Canadian GAAP: An overview* can assist you in gaining a high-level understanding of the significant differences between IFRS and Canadian GAAP.
- Other publications in this series, such as *Managing the Transition to IFRS: The journey to 2011*, can help you to plan and implement your company's move to IFRS.
- For more detailed guidance on the application of IFRS in practice, you may want to refer to such sources as *Insights into IFRS: practical guide to IFRS*, *The Application of IFRS: Choices in Practice*, or our series of illustrative financial statements. These publications are available in electronic, searchable format through Accounting Research Online at [www.aro.kpmg.com](http://www.aro.kpmg.com). Take advantage of a free trial subscription.
- *IFRS in Brief/Briefing Sheets*, our global monthly newsletter and its supplements, can help you track IFRS developments internationally.

Visit our Web site, [www.kpmg.ca/ifrs](http://www.kpmg.ca/ifrs), for easy access to these and other KPMG Enterprise publications on IFRS.

Look to our people, our publications, and our microsite for information and assistance on moving to IFRS.

RAISE AWARENESS	ASSESS	DESIGN	IMPLEMENT
<b>Mobilize organization behind conversion</b>	<b>Assess impact and plan conversion</b>	<b>Learn and build tools</b>	<b>Rollout and parallel run</b>
<ul style="list-style-type: none"> <li>• Highlight impact on current financial reporting approach</li> <li>• Understand complexity of the conversion process</li> <li>• Communicate the rewards of successful completion</li> <li>• Identify and enlist key members of steering committee, project manager, and core group members, including, as appropriate, representatives from external advisers</li> </ul>	<ul style="list-style-type: none"> <li>• Identify major affected areas in the organization</li> <li>• Review mapping of financial information flows in key areas</li> <li>• Agree on timeline and determine priorities</li> <li>• Complete “gap analysis” of accounting standards and policies and procedures</li> <li>• Evaluate information requirements and demand on IT system</li> <li>• Develop master conversion plan and resource requirements</li> <li>• Use <i>Quick Scan</i> and <i>Complexity Meter</i></li> </ul>	<ul style="list-style-type: none"> <li>• Prepare and review detailed work plan by area</li> <li>• Develop templates for information gathering</li> <li>• Develop project database and status reporting</li> <li>• Plan necessary system changes</li> <li>• Develop training programs for financial staff</li> </ul>	<ul style="list-style-type: none"> <li>• Provide training</li> <li>• Develop accounting policies</li> <li>• Finalize GAAP differences, obtain sign-off from management and auditors</li> <li>• Prepare mock financial statements</li> <li>• Liaise with IT team to establish new IT systems and procedures to handle the new reporting requirements</li> <li>• Create and document new process flows and control procedures</li> <li>• Test the process using parallel run prior to formal reporting</li> </ul>

## Contact us

If you have questions or issues you would like to discuss, please get in touch with a member of your KPMG Enterprise team.



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## About KPMG Enterprise

KPMG Enterprise™ is a network of professionals devoted exclusively to serving private companies in Canada. Our business advisers care passionately about the success of their private company clients. As the primary point of contact, they take time to understand your business and help deliver value that is unique to your private company, bringing forward the right people and the right resources to serve your specific needs. Our service delivery goal is to provide relevant, timely advice and ideas in a way that is manageable and affordable, which can ultimately help you save time and money.



## About KPMG

KPMG LLP, a Canadian limited liability partnership established under the laws of Ontario, is the Canadian member firm affiliated with KPMG International, a global network of professional firms providing Audit, Tax, and Advisory services. Member firms operate in 144 countries and have more than 137,000 professionals working around the world.

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative. Each KPMG firm is a legally distinct and separate entity, and describes itself as such.

