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## 1 hot issues

### IFRS – International Financial Reporting Standards and Investor Relations

#### Update on Adoption of IFRS in Canada

On May 21, 2009, the Canadian Securities Administrators (**CSA**) issued Staff Notice 52-324 – *Issues Relating to Changeover to International Financial Reporting Standards*, an update on the changeover to international financial reporting standards (**IFRS**) in Canada. Canadian publicly accountable enterprises (**PAEs**) will be required to adopt IFRS, the international accounting standards issued by the International Accounting Standards Board (**IASB**), in lieu of Canadian GAAP, for fiscal years beginning on or after **January 1, 2011** (the “**changeover date**”).

The Notice provides an update on:

- adoption of IFRS by domestic issuers for periods beginning prior to the changeover date
- interim financial statement requirements in the year of IFRS adoption
- use of references to IFRS and Canadian GAAP
- proposed exemptive relief in respect of straddle period financial statements and late initial IFRS filings

#### EARLY ADOPTION OF IFRS

Domestic issuers who wish to prepare their financial statements in accordance with IFRS prior to the changeover date must apply for exemptive relief.<sup>[1]</sup> CSA staff have previously indicated that they are prepared to recommend exemptive relief for early adoption of IFRS on a case-by-case basis. Where a domestic issuer has filed interim financial statements in the year that it proposes early adoption of IFRS, such relief will be conditioned on the issuer filing revised IFRS interim financial statements, revised management discussion and analysis and new interim officer certificates.

The CSA cautions issuers who are considering adopting IFRS prior to the changeover date to carefully assess whether their staff, board of directors, audit committee, auditors, investors and other market participants are ready and able to deal with early adoption. Issuers are further advised to consider how such adoption affects their obligations under securities legislation, including in respect of continuous disclosure requirements, offering documents and previously released material forward-looking information.

#### INTERIM FINANCIAL STATEMENTS IN THE YEAR OF IFRS ADOPTION

The CSA proposes that in the first financial year that an issuer reports using IFRS, such issuer be required to:

- disclose compliance with IAS Standard 34 – International Financial Reporting (which standard prescribes the contents of, and principles and recognition and measurement for, interim financial reports) in its interim financial statements; and
- file an IFRS-compliant balance sheet as at the issuer’s “transition date” in its first interim financial statement, to assist readers in understanding the impact of the changeover to IFRS.

An issuer’s transition date is the beginning of the earliest comparative period presented in the IFRS financial statements, i.e., an issuer with a calendar year-end will have a transition date of **January 1, 2010**. Transition-date balance sheets will be subject to the current requirements regarding auditor review imposed by securities legislation, namely, if an auditor has not reviewed such statements, a notice stating this fact must accompany the interim financial statements, but the statements will not have to be audited.

#### REFERRING TO IFRS AND CANADIAN GAAP

The Canadian Accounting Standards Board (**AcSB**) plans to incorporate IFRS into the *CICA Handbook – Accounting* (the **Handbook**) in the second half of 2009. Thereafter, Part I of the Handbook will set out IFRS, which will be effective for PAEs after the official changeover to IFRS, and Part IV of the Handbook will set out the existing Canadian GAAP standards, which are effective for PAEs prior to such changeover.

Following consultation with various stakeholders, and contrary to an earlier proposal, the CSA now propose to give two options for referring to accounting principles in a domestic issuer’s financial statements and accompanying audit report:

- refer only to IFRS as issued by the IASB, or
- refer to both IFRS as issued by the IASB and Canadian GAAP for PAEs.

Accordingly, after the official conversion to IFRS, a reference to “Canadian GAAP for publicly accountable enterprises” in financial statements and audit reports will mean the accounting principles contained in Part I of the Handbook, which accounting principles will be IFRS as issued by the IASB. This change in approach will permit domestic issuers to continue to meet existing statutory requirements and contractual commitments that require the preparation or delivery of financial statements in accordance with “Canadian GAAP”.

### RELIEF FOR STRADDLE PERIOD AND FILING DEADLINE FOR FIRST IFRS INTERIM FINANCIAL STATEMENTS

Securities law requires financial statements to be prepared in accordance with the same accounting principles for all periods presented in the financial statements. The CSA propose to provide relief from this requirement in respect of financial periods that straddle a domestic issuer’s adoption of IFRS. The proposed relief will allow a domestic issuer to present information in certain securities offerings and continuous disclosure documents in accordance with Canadian GAAP alongside IFRS financial information.

The CSA acknowledge that issuers are facing many challenges in meeting the requirement to convert to IFRS. In particular, the staff notice indicates that the CSA are looking at proposals to help issuers meet the conversion challenges, **including possibly extending the filing deadline for the first IFRS interim filings after the changeover date. Issuers should note that CSA staff have suggested that any such relief is not expected to provide a filing extension of more than 30 days.**

### IFRS AND INVESTOR RELATIONS

In summary, IFRS presents financial information in a different format than Canadian GAAP. For example in the Income Statement, expenses are classified by **nature** or by **function** based on which method gives information that is more relevant. To classify by “nature”, expenses are grouped by their nature in the income statement (i.e. depreciation, transportation costs, materials that were purchased, employee benefits, and advertising costs); and are not reallocated among functions within the entity. Some accountants argue that this is easier to apply because allocations of expenses to functional classifications are not necessary. Alternatively, classification by “function” aggregates expenses according to the function to which they relate.

Most Canadian companies present income statement expenses using a mix of nature and function, which is not allowed under IFRS. The appropriate choice between the use of function or nature will depend on historical and industry factors. Investor relations professionals should contribute to the decision by being aware of what competitors are doing in Canada and even around the globe. Sometimes an industry group might have adopted one type of format over another.

**In countries where IFRS has already been adopted, the presentation of expenses is as follows:**

- **Retail companies by nature**
- **Manufacturing companies by function**

If gross profit is a key performance measure that analysts use to track your company, then presenting your expenses by function could be favourable.

Investor Relations professionals should also understand the differences of IFRS on the MD&A and the Balance Sheet.

**Most companies will begin preparing comparative statements beginning with the first interim statements in 2010.**

For more information, please refer to Equicom’s website, under News & Publications:

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