

The IFRS Changeover


A Guide for Users
of Financial Reports

A Canadian Performance Reporting Board Publication

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PREFACE

This guide is published by the Canadian Performance Reporting Board (CPRB) of the Canadian Institute of Chartered Accountants. Its purpose is to provide a perspective for users of external financial reports on matters arising from Canada's imminent change in accounting standards for public companies. Members of audit committees and preparers may also find this guide a useful reference.

For fiscal years commencing in 2011 and thereafter, Canadian GAAP for most public companies will transition to International Financial Reporting Standards (IFRSs). These global accounting standards should improve international financial reporting comparability in an increasingly global business environment.

The conversion to IFRSs will potentially result in a myriad of changes in an entity's financial statements, and, therefore, its performance metrics. In some cases these changes will have no material consequences. In others, however, the changeover will have a material impact on the majority of commonly used performance metrics.

Users of financial reports need to be able to distinguish reported performance changes caused by the transition to IFRSs from those caused by changes in the business. While an entity's first IFRS reports will be accompanied by extensive reconciliations to old Canadian GAAP, they will generally provide reconciliations of amounts rather than explanations of their significance for users. The CPRB has previously published guidance suggesting how Management's Discussion & Analysis might be utilized to summarize and highlight important aspects of the

changeover¹. In *The IFRS Changeover – A Guide for Users of Financial Reports*, the CPRB focuses on raising awareness in the user community about the effect of the changeover by reviewing its potential impact on performance metrics and financial statements.

The differences set out in this material have been compiled after comparing Canadian GAAP as it exists in 2010 with IFRSs at the same date and after considering a sample of companies' expectations of the nature and effects of major changes. It should be recognized, however, that differences will vary from entity to entity, even within the same industry. Accordingly, the examples of differences in the accompanying material do not purport to represent an exhaustive list of all the changes that may be encountered.

The CPRB takes this opportunity to thank Peter Chant, FCA, a partner with Deloitte, and Anthony Scilipoti, CA, Executive Vice-President of Veritas Investment Research for their extensive commitment of time and effort to the production of this guidance.

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¹ *Pre-2011 Communications About IFRS Conversion, October 2008, and Transition to IFRSs – Communicating the Impact of the Changeover, November 2009.*

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PART 1 - GENERAL

1. INTRODUCTION

REASON FOR TRANSITION TO IFRSs

Businesses and investors are increasingly making decisions in a global context, resulting in the need for improved financial reporting comparability between similar entities in different jurisdictions. International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB), are high quality, global accounting standards that provide transparent and comparable information in financial statements.

JURISDICTIONS USING IFRSs

IFRSs are now required or permitted in over one hundred countries, including the European Union and much of the Pacific Rim. India, Japan and Brazil have announced plans to adopt or converge with IFRSs. In the United States, the SEC has reaffirmed its longstanding commitment to the goal of a single set of high-quality global accounting standards and has acknowledged that the IASB is best positioned to serve that role. The SEC has recently stated that it will make a decision in 2011 about incorporating IFRSs into the financial reporting system for US issuers.

TRANSITION TO IFRSs IN CANADA

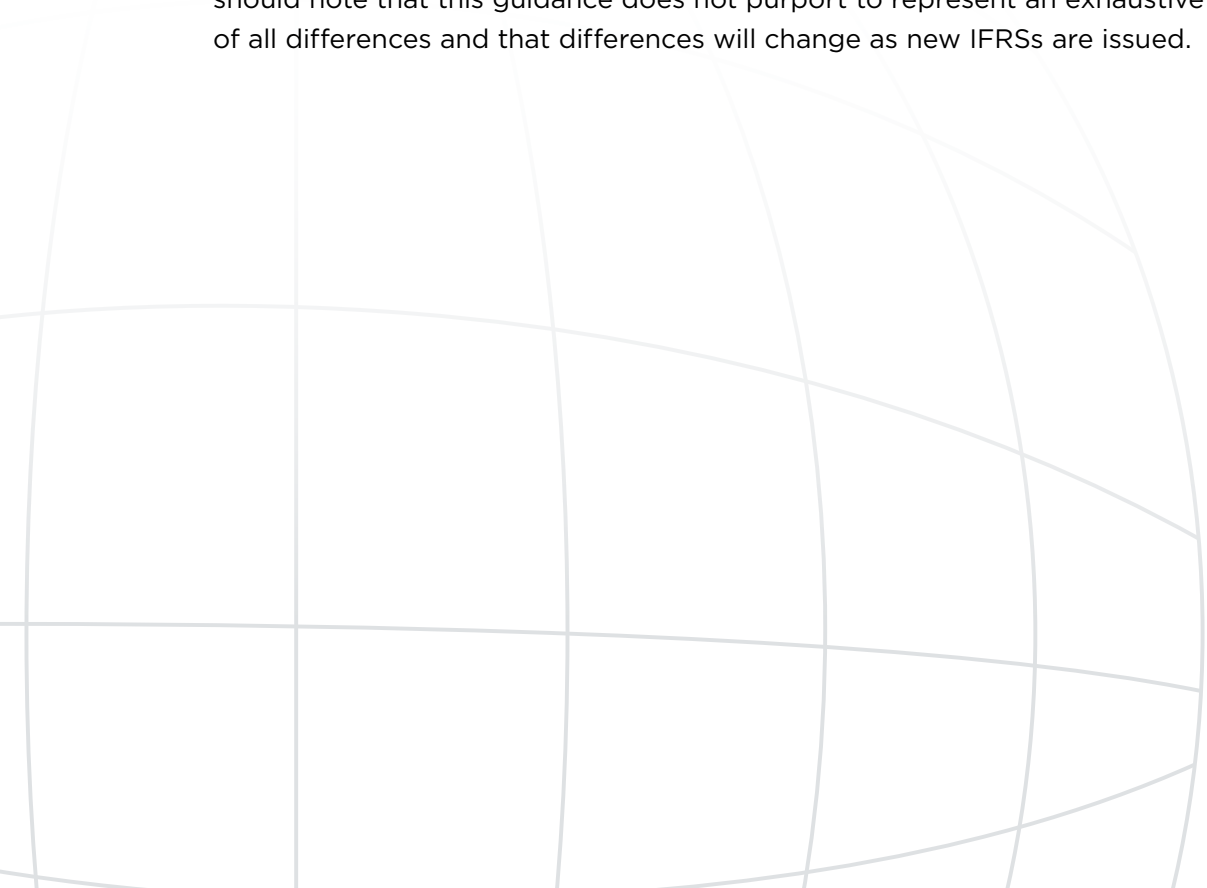
In Canada, for fiscal years commencing in 2011 and thereafter, Canadian GAAP for publicly accountable enterprises (PAEs) will convert to IFRSs. In general, PAEs are those that trade their debt or equity in a public market or that hold assets in a fiduciary capacity for a broad group of outsiders. An exception to this general rule exists for PAEs that are also SEC issuers where the Canadian Securities Administrators (CSA) have proposed that financial statements prepared in accordance with US GAAP would continue to be acceptable, without

any reconciliation to IFRSs. It should also be noted that the Canadian Accounting Standards Board and the Public Sector Accounting Board will continue to issue and maintain separate accounting standards for private enterprises, not-for-profit organizations, and public sector organizations.

PURPOSE OF GUIDANCE

Users of financial reports need to be able to distinguish reported performance changes caused by the transition to IFRSs from those caused by changes in the business. This guidance has been prepared to raise awareness about the changeover to IFRSs within the user community and to inform users about some of the more common differences and their potential effect on performance metrics. As well, we believe preparers will find this guidance a useful supplement to two earlier CICA publications: *Pre-2011 Communications About IFRS Conversion* and *Transition to IFRSs – Communicating the Impact of the Changeover*.

Readers should be aware that the effect of a difference can change materially from entity to entity, even for entities in the same industry. As well, readers should note that this guidance does not purport to represent an exhaustive list of all differences and that differences will change as new IFRSs are issued.



2. INFORMATION SOURCES ABOUT THE CHANGEOVER

CANADIAN SECURITIES ADMINISTRATORS GUIDANCE

The CSA published Staff Notice 52-320 to provide issuers with guidance about disclosure of expected changes in accounting policies related to the changeover to IFRSs. That material requires issuers to report in their MD&A increasingly detailed information in the three years leading up to the changeover, including, in the year prior to the changeover, information about key decisions and changes made or to be made. As well, if available, quantified information about the key financial statement line items should be reported in the year prior to the changeover. Accordingly, users should read the MD&A discussion of progress towards the changeover to be aware of the types of accounting changes a specific entity faces, including any choices that may be available to it.

TIMING FOR REPORTING QUANTIFIED INFORMATION ABOUT THE TRANSITION

While entities should report quantified information about the impact of the changeover on the key financial statement line items as soon as it becomes available, we anticipate that circumstances will often prevent such communication until late 2010 or early 2011. For example, an entity may need to respond to economic factors prevailing at the time of its changeover, precluding finalizing the effects of the changeover until early 2011.

FINANCIAL STATEMENTS IN THE YEAR OF THE CHANGEOVER

In the year of the changeover, entities will report a significant amount of information. The first quarterly financial statements (March 31, 2011 for entities with calendar year ends), will include an opening statement of financial position as

of the date of transition (January 1, 2010 for calendar year ends). In addition, these financial statements will provide several reconciliations to old Canadian GAAP, including equity at December 31, 2010, March 31, 2010, and December 31, 2009, and comprehensive income for the three months ended March 31, 2010 and the year ended December 31, 2010. As well, the first quarterly financial statements should explain material adjustments to the cash flow statements for those periods. It should be noted, however, that the reconciliations relate to comparative information originally prepared under old Canadian GAAP and that reconciliations are not required for post changeover periods. Old Canadian GAAP will effectively cease to exist after the changeover, systems will have been converted to capture and accumulate data in accordance with IFRSs, and entities are unlikely to produce redundant data.

FINANCIAL REPORTS OF INDUSTRY PEERS

Another source of information about the impact of the changeover that users may wish to consult is financial reports of industry peers that have already converted to IFRSs. Such reports may be from Canadian entities that decided to early adopt IFRSs or from foreign entities that converted earlier. In the latter case, while the end-point will provide a view of how the financial reports appear under IFRSs, the differences on the changeover are unlikely to be meaningful because of the different GAAP starting point. In this regard, readers may wish to consult the CICA publication *Financial Reporting in Canada Under IFRS*.

3. EFFECT OF CHANGEOVER ON PERFORMANCE METRICS

Part II of this guide indicates which frequently used performance metrics may be affected by the more common accounting differences. It should be noted that most of these metrics have no standard definition. Accordingly, the impact of the changeover may vary according to the components of the metric.

In many cases, the differences resulting from the changeover to IFRSs will have no significant impact on an entity's performance metrics. When a difference is material, however, it will often impact several performance metrics. Consider the example of a change in revenue recognition due to aggregating or disaggregating some multiple element arrangements in sale of goods contracts. In that case, virtually all performance metrics change, including revenue, gross margin, EBITDA, earnings per share, return on equity, and receivables and inventory turnover. Equally as well, some accounting changes may have no impact on certain metrics. For example, a difference in depreciating property, plant and equipment may have a material effect on net income but none on EBITDA.

4. IMPACT OF CHANGES ON FINANCIAL STATEMENTS AND KEY ACCOUNTING ISSUES TO CONSIDER

To understand how performance metrics may differ on the changeover to IFRSs, it is necessary to consider the nature of the various accounting changes and their impact on financial statements. Part III of this guide sets out a description of some of the more common differences between GAAP and IFRSs, their effect on financial statements, and some matters that users may wish to think about when considering the entities they follow.

UNDERSTANDING AN ENTITY'S BUSINESS

The transition to IFRSs represents a different way of reporting the outcome of various business activities that have not changed. The transition emphasizes the need for users to understand the entity's business in order to understand its financial reporting. For example, describing a change in the method of recognizing revenue will not be useful for a user unless he or she understands the entity's revenue model.

SIMILARITIES BETWEEN OLD CANADIAN GAAP AND IFRSs

In many respects, old Canadian GAAP and IFRSs are very similar. Both regimes require statements of income and other comprehensive income, a balance sheet (statement of financial position), statement of cash flows, and notes to the financial statements. They both set out requirements for recognizing, measuring, presenting and disclosing items in financial statements through a combination of principles and more detailed rules. While the principles and rules are very similar and for the most part address the same topics, there are many differences in detail that for any one topic can involve one or more recognition, measurement, presentation, or disclosure issues.

For some entities there may be many changes that overall have no material effect on reported performance, financial position and cash flow. In other circumstances, there may be material differences in nearly every financial statement line item, for example when IFRSs require consolidation of an entity that was accounted for at cost under old Canadian GAAP. Also, it should be noted that generally there will be more disclosures under IFRSs than under old Canadian GAAP as IFRSs often require more disclosures about assumptions and estimates and often demand reconciliations of balance sheet items from one year to the next.

LOSS OF TREND INFORMATION

When an entity first reports under IFRSs, information for the immediately comparative period will be presented in accordance with IFRSs. However, no older information is required to be presented in accordance with IFRSs and it is highly unlikely that such information would be available. Accordingly, trends in performance metrics such as revenue growth may not be comparable, with two periods presented in accordance with IFRSs and any other periods presented in accordance with old Canadian GAAP. This loss of trend information is not a new issue, however, arising in various other circumstances, such as mergers or acquisitions. When circumstances diminish trend comparability, for whatever reason, preparers may wish to provide additional information to help users understand the trend. For example, the absence of sales trend information may be compensated for by expanded discussion in the MD&A about units of sales, unit selling prices, and the effects of foreign exchange on sales.

MANDATORY AND OPTIONAL CHANGES

Accounting changes between old Canadian GAAP and IFRSs mostly arise by virtue of different requirements in the relevant standards. In some circumstances, however, entities may have a choice of accounting policies under IFRSs, or a choice under old Canadian GAAP may no longer be available under IFRSs. As well, to facilitate the changeover, the IFRSs provide some exemptions that an entity may elect to follow at the date of transition, for example transferring unrecognized actuarial gains and losses in defined benefit pension plans to opening retained earnings. When accounting policy choices and/or exemptions are identified, these should be disclosed in the MD&A's review of progress towards the changeover to IFRSs. Users may wish to read such reviews and be alert to changes that may impact intercompany comparability at the time of the changeover. As well, when accounting policy choices and exemptions are available, users may wish to contemplate the motivation for the path taken.

IMPACT ON CASH FLOWS

It should be noted that most differences between IFRSs and old Canadian GAAP will not affect cash flows, although there may be differences within a section of the statement of cash flows. For example, a change in revenue recognition would not usually affect the IFRS measure of cash flows from operating activities but may impact the non-GAAP measure of cash flows from operations that excludes changes in working capital.

CHANGE IN MANAGEMENT PHILOSOPHY

While most changes from old Canadian GAAP to IFRSs are unlikely to trigger a change in management's philosophy about an issue, this may not always be the case. For example, under IFRSs, impairments of many assets are reversed if circumstances change. This could mean that when reporting under IFRSs management would be more interested in remediation measures on distressed or underperforming assets rather than selling them.

IFRSs ARE IN A STATE OF TRANSITION

IFRSs themselves are constantly being revised. Several new and revised standards are expected to be published in time for early adoption in 2011 but with mandatory adoption only in 2013. The differences in this guidance have been prepared based on mandatory standards for 2011. The new and revised standards that might be available for early adoption in 2011 include those dealing with defined benefit pension plans, discontinued operations, securitized receivables, joint ventures, leases, consolidations, and rate regulated entities.

HIGHLIGHTS OF SOME OF THE MORE LIKELY CHANGES

As noted, differences will often not have a significant impact on reported performance. Even when significant differences do arise, they may vary between entities in the same industry. That said, there are some differences that are more likely to have a material impact on particular types of business.

Industry	Potentially Significant Issues	# in Part III
Financial institutions/ services	Securizations are more likely to be treated as collateralized borrowings under IFRSs.	3
	Variable interest entities not consolidated under old Canadian GAAP may be consolidated as special purpose entities and vice versa.	8
	Stock compensation programs are likely to be treated differently under IFRSs, potentially affecting income, liabilities, and equity.	38-43
Hi Tech	Multiple element arrangements in sale of goods contracts may be determined differently.	14
	Stock compensation programs are likely to be treated differently under IFRSs, potentially affecting income, liabilities, and equity.	38-43
Manufacturing & other capital intensive	Operating leases are more likely to be capitalized under IFRSs.	17
	Fair value of property plant and equipment may be used as the deemed cost at the date of transition.	30
	Depreciation may change as a result of additional emphasis on depreciation of components under IFRSs.	31
	Capitalization of costs ceases and expensing and depreciation commences at a potentially earlier point in time under IFRSs.	32
	Borrowing costs related to qualifying assets must be capitalized under IFRSs. This was allowed but not required under old Canadian GAAP.	35
Mining	The functional currency may be different under IFRSs.	6
	Variable interest entities not consolidated under old Canadian GAAP may be consolidated as special purpose entities and vice versa.	8
	Some contracts with provisional pricing arrangements may be viewed as a firm delivered price and a price adjustment clause that constitutes a derivative, potentially changing revenue.	15
	Stock compensation programs are likely to be treated differently under IFRSs, potentially affecting income, liabilities, and equity.	38-43
Oil & gas	Variable interest entities not consolidated under old Canadian GAAP may be consolidated as special purpose entities and vice versa.	8
	Some contracts with provisional pricing arrangements may be viewed as a firm delivered price and a price adjustment clause that constitutes a derivative, potentially changing revenue.	15
	Depreciation of oil & gas properties may change. These properties are likely to be grouped into smaller units under IFRSs. As well, depreciation calculations may be based on both proved and probable reserves.	33
	Impairment of oil & gas properties will likely be based on smaller asset pools under IFRSs.	37
Rate regulated	Under IFRSs, there is no special accounting treatment to defer gains and losses and capitalize certain costs.	24

Industry	Potentially Significant Issues	# in Part III
Real estate investment	Trust units may be viewed as liabilities rather than equity under IFRSs.	5
	Joint ventures may be accounted for using the equity method, rather than the proportionate consolidation method required under old Canadian GAAP.	11
	In a business acquisition involving a building, the value of any operating lease is included as part of the value of the building when the acquirer is the lessor.	18
	Investment properties have the option of being valued at fair value under IFRSs.	34
Retail	Franchisees are more likely to be consolidated under IFRSs as special purpose entities.	8
	Revenue from customer loyalty programs, where practice varies under old Canadian GAAP, is deferred under IFRSs.	13
	Leases are more likely to be capitalized under IFRSs.	17
Companies with defined benefit pension plans	Actuarial gains and losses can be reported in other comprehensive income under IFRSs.	26
	Unrecognized actuarial gains and losses at the date of transition may be recognized in opening retained earnings.	27

5. OTHER MATTERS TO CONSIDER

INFORMATION SYSTEMS

An entity's IFRS changeover project needs to ensure that controls and procedures are revised to deal with system changes necessary to capture and process IFRS information. Some of these controls and procedures, for non-venture issuers, will be addressed by the CEO and CFO certifications of the design and evaluation of effectiveness of internal control over financial reporting and disclosure controls and procedures. Systems affected by the changeover, however, extend beyond those addressed by the certification process, including, for example those that deal with matters such as planning and budgeting.

AGREEMENTS AFFECTED BY THE CHANGEOVER

Information derived from the financial statements is often used in agreements, for example debt covenants in loan agreements, and management compensation arrangements. As well, the changeover may straddle periods in employee incentive contracts and long-term contracts that use financial information. Users may wish to consider the impact of the changeover on such arrangements and whether an entity has changed any agreements as a result of the transition.

6. CONCLUSION

The transition to IFRSs should result in improved comparability of financial reporting in an increasingly international business environment. Post changeover, while some aspects of financial reporting will differ from old Canadian GAAP, entities' reports should provide more transparent and comparable information. In the year of the changeover, however, users will need to be alert to the effects of changes in financial reporting, including the accounting choices available to preparers. Hopefully, during the transition entities will provide more information about the components that comprise an entity's key performance indicators to compensate for any distortions in trends.

PART II - PERFORMANCE METRICS LIKELY TO BE IMPACTED BY COMMON ACCOUNTING CHANGES ON TRANSITION TO IFRSs

PERFORMANCE METRIC	CHANGE IN ACCOUNTING								
	Financial Instruments (including hedging and securitization)	Foreign currency	Scope of financial statements	Related parties	Revenue	Leases	Business combinations	Discontinued operations	Provisions
REVENUE CHANGE	■	■	■	■	■			■	
GROSS MARGIN	■	■	■	■	■	■		■	■
SG&A TO SALES	■	■	■	■	■	■	■	■	■
EBITDA	■	■	■	■	■	■	■	■	■
NET INCOME	■	■	■	■	■	■	■		■
INTEREST COVERAGE	■	■	■	■	■	■	■		■
EARNINGS PER SHARE	■	■	■	■	■	■	■	■	■
RETURN ON EQUITY	■	■	■	■	■	■	■		■
RETURN ON INVESTED CAPITAL	■	■	■	■	■	■	■		■
RETURN ON CAPITAL EMPLOYED	■	■	■	■	■	■	■		■
INVENTORY TURNOVER	■	■	■	■	■			■	
RECEIVABLES TURNOVER	■	■	■	■	■			■	
ASSET TURNOVER	■	■	■	■	■	■	■	■	
QUICK OR CURRENT RATIOS	■	■	■	■	■		■	■	■
DEBT TO EQUITY	■	■	■	■	■	■	■	■	■
ASSETS TO LIABILITIES	■	■	■	■	■	■	■	■	■
OPERATING CASH FLOW	■	■	■	■		■	■	■	
FREE CASH FLOW	■	■	■	■		■	■	■	
ENTERPRISE VALUE	■	■	■	■		■	■		

Notes:

Whether the above noted accounting differences will impact these performance metrics will depend on the exact nature of the difference and on the components of the performance metrics that for the most part have no generally agreed definition.

■ =metric more likely to be affected by the change in accounting.

PART III - IMPACT OF CHANGEOVER TO IFRSs ON FINANCIAL STATEMENTS AND MATTERS TO CONSIDER

Note: The below-noted changes in accounting represent frequently encountered differences between IFRSs and old Canadian GAAP. They do not represent an exhaustive list of all changes, however. As well, the frequency and materiality of changes and the related financial statement impacts will vary significantly according to entity-specific circumstances.

#	Change in accounting	Type of entity impacted	Description of change	Impact on financial statements	Matters to consider
FINANCIAL INSTRUMENTS					
1	Classification changes (IAS 32)	All	Various fact patterns exist where IFRSs force different classifications compared to old Canadian GAAP. For example, warrants with an exercise price denominated in a foreign currency may be presented in equity under old Canadian GAAP, but are treated as liabilities under IFRSs (because IFRSs place a different emphasis on the variability associated with the foreign currency).	Such reclassifications will change the presentation of the financial statements and create greater volatility in income.	Assess the underlying reasons for any classification changes and consider what these say about the entity's financing strategies and the associated risks.
2	Hedge accounting (IAS 39)	All	Old Canadian GAAP allows using "short cut" methods of assessing hedge effectiveness in various circumstances, whereas IFRSs require formal (quantitative) effectiveness testing in all cases. An entity making the transition to IFRSs cannot "back date" its way into hedge accounting for transactions where the appropriate documentation was not in place at the time.	Hedge arrangements in place under Canadian GAAP may be discontinued under IFRSs, resulting in greater income volatility (although no change in cash flows).	Understand that failing (or choosing not) to meet the hedge accounting criteria does not mean an absence of effective risk mitigation strategies. Consider the sources of risk and how they are managed, and the reasons for any additional income statement volatility relating to financial instrument measurement.
3	Securitized receivables (IAS 39)	All	Securitized receivables are more likely to be treated as collateralized borrowings than sales under IFRSs, where the focus is more on transferring the risks and rewards of ownership and less on control.	Securitized receivables are less likely to be removed from the balance sheet, resulting in higher accounts receivable and higher liabilities. This may also result in reduced income when a gain on disposition was previously recognized. Cash flows from operations will change if the proceeds from the securitization are treated as a financing activity.	Understand the entity's strategy for securitizing receivables and the nature of the program, including the nature of the risks retained.

#	Change in accounting	Type of entity impacted	Description of change	Impact on financial statements	Matters to consider
4	Transition (IAS 39)	All	Since IFRSs lack “grandfathering” provisions that were included in old Canadian GAAP, contracts that commenced prior to March 31, 2004 may need to separately account for any embedded derivatives.	Any additional embedded derivatives will be measured in the income statement at fair value, resulting in greater income volatility.	Understand the reasons for any such changes and what they communicate about the substance of the “host” contract.
5	Trust units/ Puttable instruments (IAS 32)	Trust & investment funds	Trust units and similar instruments categorized as equity under old Canadian GAAP may be classified as liabilities under IFRSs, on the basis that they impose on the issuer a contractual obligation to deliver cash to the holder.	Instruments may be reclassified from equity to liabilities, with a potentially dramatic impact on overall financial statement presentation and a greater volatility in income. Alternatively, entities may renegotiate the terms of these instruments to prevent this impact.	Regardless of how they are classified in the financial statements, understand the various entitlements and participation rights of holders of the various units issued by the entity.
FOREIGN CURRENCY					
6	Functional currency (IAS 21)	All	Under IFRSs, two primary indicators generally determine a functional currency: the currency that mainly influences sales prices and the currency that mainly influences labour, material, and other costs of providing goods and services. This is a different approach from that under old Canadian GAAP where the translation method depends on whether the foreign operation is assessed to be integrated or self-sustaining.	Many financial statement amounts may change, including cash flows. Former foreign exchange gains and losses could reverse.	Understand the currency that the entity believes is its functional currency. If this is different from that used under old Canadian GAAP, understand the impact on key balance sheet and income statement items. As well, understand what the functional currency communicates about an entity’s risk profile and economic exposures.
7	CTA balance (IFRS 1)	Entities with a foreign subsidiary	The cumulative translation amount (CTA) balance is the accumulated balance of foreign exchange gains and losses recognized in other comprehensive income. A transition provision enables an entity to elect to eliminate the CTA balance on transition to IFRSs.	When elected, there will be no immediate effect, but deferred gains and losses on transition will be excluded from income on the investment’s subsequent disposition. There will be no change in cash flows.	Review the entity’s MD&A discussion about IFRS conversion to understand its plan for any CTA balance on transition.

#	Change in accounting	Type of entity impacted	Description of change	Impact on financial statements	Matters to consider
SCOPE OF FINANCIAL STATEMENTS					
8	SPEs & VIEs (SIC-12)	All, but especially mining, oil & gas, & retail	Under IFRSs, special purpose entities (SPEs) are consolidated when the substance of the relationship indicates control. Under old Canadian GAAP, for variable interest entities (VIEs), this assessment focuses on whether the reporting entity will absorb a majority of the VIE's losses, or receive a majority of its expected residual returns. This difference is expected to result in some non-consolidated VIEs being consolidated as SPEs and in others consolidated VIEs being de-consolidated. Examples of the former may include some employee share ownership plans and some franchisee operations.	A change in the treatment of a VIE will result in higher or lower values of assets, liabilities, revenue, expenses, and cash flows.	Review the MD&A and financial statement disclosures about any off-balance sheet entity. Understand the purpose for the relationship and the business model. When the entity controls the venture, consolidation will be necessary, even though the entity may own little or no equity in the venture.
9	Control (IAS 27)	All	Under both old Canadian GAAP and IFRSs the requirement to consolidate is based on control. However, under IFRSs, control is defined as the power to govern the financial and operating policies of the entity to obtain benefits. This is in contrast to old Canadian GAAP that defines control as the continuing power to determine strategic, operating, investing and financing policies without the co-operation of others. This difference may result in more emphasis being placed on potential voting rights etc.	The IFRS definition of control will likely produce more consolidations, resulting in higher values of assets, liabilities, revenue, expenses, and cash flows.	Understand the extent of any unconsolidated entities and their relationship to the reporting entity.
10	Significant influence (IAS 28)	All	Under IFRSs, in determining significant influence, consideration is given to potential as well as current voting rights. No such consideration is required under old Canadian GAAP. This may result in investments being accounted for under the equity method under IFRSs that were accounted for at cost under old Canadian GAAP and vice versa.	This change has the potential to impact income, investments, and equity, although it should not affect cash flows.	Understand the potential for the entity's share of an investment to be altered by both its voting rights and those of other investors.

#	Change in accounting	Type of entity impacted	Description of change	Impact on financial statements	Matters to consider
11	Joint ventures (IAS 31)	Real estate	IFRSs permit some joint ventures to be accounted for by the equity method or by proportionate consolidation (an IFRS exposure draft proposes to prohibit proportionate consolidation for jointly controlled entities). Old Canadian GAAP requires proportionate consolidation of joint ventures.	If equity accounting is used instead of proportionate consolidation, there will be lower values of assets, liabilities, revenues and expenses. Under equity accounting, the share of the venture's net income and the investment in the joint venture will appear as line items in the income statement and the statement of financial position, respectively. Cash flows from operating activities are likely to be different under equity accounting unless all venture earnings are distributed to the entity.	Determine the impact of the proportionate consolidation method on the entity's income statement, cash flows, and balance sheet. Determine how the entity expects to account for these investments under IFRSs.
RELATED PARTIES					
12	Measurement & disclosure (IAS 24)	All	IFRSs do not provide any measurement requirements directed specifically at related party transactions. They are measured in accordance with any IFRS requirement applicable in the circumstances. Old Canadian GAAP specifies that such transactions be measured at carrying amount, or in certain circumstances at exchange amount. Differences that may result include, for example, a property previously transferred at book value being remeasured at fair value under IFRSs. In addition, IFRSs require disclosure of key management personnel compensation that is not required under old Canadian GAAP.	This change can result in significant differences in net income and financial position.	Read the MD&A and understand the basis of measurement of related party transactions and the economic impact of the transactions.

#	Change in accounting	Type of entity impacted	Description of change	Impact on financial statements	Matters to consider
REVENUE					
13	Loyalty programs (IFRIC 13)	Retail	Revenue generated in conjunction with a customer loyalty program is divided into two parts: the sale transaction and future sale transaction resulting from the award. Revenue related to the award is deferred, which may be a change in policy from old Canadian GAAP where no detailed guidance exists and practice varies.	A change may result in deferral of sales, gross margin and net income, and increase in deferred revenue. There should be no change in cash flows.	Understand the entity's strategy for and management of loyalty programs. If managed internally, consider the time period between the granting of a reward and its redemption, as well as cash collection and revenue recognition. When reviewing performance, engage with deferred revenue as well as revenue.
14	Sale of goods contracts (IAS 18)	High tech.	Less detailed guidance under IFRSs could result in a different determination of multiple element arrangements in sale of goods contracts, for example bundled products.	A change may accelerate or decelerate recognition of revenue, gross margin, net income, accounts receivable, deferred revenue, and inventory. There should be no change in cash flows.	Understand the sales model and review the financial statement notes that discuss revenue recognition and deferred revenue. Determine each component of a sales package, and the timing for its recognition.
15	Provisional pricing arrangements (IAS 39)	Mining, oil & gas, real estate	Under IFRSs, some contracts with provisional pricing arrangements may be viewed as a firm delivered price and a price adjustment clause that constitutes a derivative. The requirements under old Canadian GAAP are slightly different.	These circumstances will result in a change in revenue because the difference between the fair value at the date of delivery and the final price is treated as a gain or loss on a derivative. There should be no change to net income or cash flows.	Understand the pricing conditions and the time period involved for provisional pricing contracts.
16	Percentage completion (IFRIC 15)	Real estate	<p>Under IFRSs, in real estate construction, the percentage completion method can only be used when:</p> <ul style="list-style-type: none"> the agreement meets the definition of a contract (i.e. the buyer is able to specify major structural elements of the design); the agreement is limited to rendering services; or the agreement is for the sale of goods and the contractor transfers control and significant risks of ownership as the contract progresses. <p>It should also be noted that the completed contract basis is not permitted under IFRSs.</p>	Circumstances where percentage of completion is no longer permitted will delay recognition of revenue, gross margin, and net income, and increase work-in-process and deferred revenue. There should be no change in cash flows.	Understand the contractor's business model. Consider how cash flows relate to revenues.

#	Change in accounting	Type of entity impacted	Description of change	Impact on financial statements	Matters to consider
LEASES					
17	Capitalization criteria (IAS 17)	All	IFRSs provide less detailed guidance for capitalization of leases than old Canadian GAAP (for example, there are no bright-line numerical tests). Accordingly, leases are more likely to meet capitalization criteria under IFRSs.	Increased capitalization will result in higher values of property, plant & equipment and long-term debt. In these circumstances, operating lease costs under old Canadian GAAP, recorded within operating costs, will be replaced with additional depreciation and interest costs. In most cases, this should increase EBITDA and operating cash flows.	<p>Review the property, plant & equipment and financing discussions in the MD&A and the property plant & equipment and commitments notes in the financial statements and consider the extent to which the entity utilizes capital assets and how these are financed. Consider the entity's historical reliance on lease financing. Are renewals or extensions commonplace? Are the average terms (including renewals & extensions) close to the expected life of the underlying assets? The more like debt financing a lease appears to be, the more likely it will be classified as a finance lease under IFRSs.</p> <p>Consider the entity's financing strategy and how debt to equity ratios might change if operating leases were reclassified as finance leases.</p>

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BUSINESS COMBINATIONS					
18	Fair value exchange (IFRS 3)	All	<p>Overall, IFRSs have a greater emphasis on reflecting a business combination as a distinct fair value exchange. This means, among other things:</p> <ul style="list-style-type: none"> • Acquisition costs and intended costs of restructuring the acquiree are expensed as incurred and not included in the purchase equation. • Contingent consideration is measured at its fair value on the acquisition date; any subsequent changes in fair value are generally recognized in profit or loss. Under old Canadian GAAP, contingent consideration is reflected by subsequently adjusting the purchase equation as the contingencies are resolved. • In an acquisition involving a building or patent subject to an operating lease where the acquirer is the lessor, the acquirer does not recognize a separate asset or liability when the value of the lease is at variance with market terms, • Non-controlling interests are measured either at fair value or at the proportionate share of the identifiable net assets reflected in the purchase equation, not at the acquiree's carrying value as under Canadian GAAP. (As well, non-controlling interests are presented as part of equity under IFRSs, as opposed to a separate categorization between liabilities and equity under old Canadian GAAP.) <p>Also, the definition of a business is broader under IFRSs, potentially capturing transactions treated as asset acquisitions under Canadian GAAP (possibly requiring recognition of goodwill and different treatments for transaction costs).</p>	<p>Often, under IFRSs, profit will be lower in periods containing or preceding an acquisition than it would be under Canadian GAAP because of expensed acquisition costs. Profit will also be more volatile in subsequent periods depending on the fair value measurement of contingent consideration. These differences may also cause goodwill to differ from old Canadian GAAP.</p>	<p>Understand the impact on income of expensed acquisition, restructuring and similar costs related to long-term investments, and of contingent consideration and other adjustments relating to previous transactions. Consider how the stricter fair value-based approach under IFRSs may more clearly sum up the core transaction (e.g. consideration is measured on the actual acquisition date, rather than being based on prices around the time it was agreed to and announced, as under Canadian GAAP).</p> <p>In the period of an acquisition, non-GAAP measures of "normalized income" are more likely to be reported.</p>

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DISCONTINUED OPERATIONS					
19	Definition (IFRS 5)	All	IFRSs and old Canadian GAAP have different criteria for determining whether a component should be presented as discontinued operations. Accordingly, some items presented as discontinued operations under old Canadian GAAP would not meet the test under IFRSs, and vice versa.	The income statement may not separately identify the same operations of business units that are discontinued or held for disposal.	Understand the nature of the various business units that constitute the entity and how these contribute to the entity's profitability. Consider how discontinued operations have affected net income. Ascertain the extent to which the MD&A will continue to discuss the performance of business units held for disposal.
PROVISIONS					
20	Probability threshold (IAS 37)	All	A lower probability threshold and more specificity about the requirements under IFRSs may result in the earlier recognition of liabilities of uncertain timing or amount. IFRSs also require measuring these at their best estimate at each balance sheet date (including discounting where appropriate).	These changes may accelerate recognition of expenses and liabilities and result in more volatility, but there will be no change to cash flows.	<p>Consider the nature of the business and nature of liabilities that may be less certain either because of quantification issues or timing issues. Review the contingency note disclosure in the financial statements and the risk and uncertainties section of the MD&A.</p> <p>Understand the assumptions and the range of estimates for provisions and uncertainties related to the timing for their payment.</p> <p>The accounting treatment under IFRSs should produce a better estimate of the expense sooner, but will result in greater variances between income and cash flows.</p>

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21	Onerous contracts (IAS 37)	All	A provision is made for the present obligation arising under an onerous contract. An onerous contract is one where the unavoidable costs of meeting its obligations exceed its expected benefits. Old Canadian GAAP has no equivalent requirement except in situations of construction contracts & leases in a restructuring.	Recognizing the present obligation of onerous contracts may accelerate expense and liability recognition but should not affect cash flows.	Review the MD&A performance discussion and the financial statement commitments note and consider whether any contracts exist where the unavoidable costs of meeting the contract exceed its benefits. Understand the timing for payment of such contracts. The IFRS policy should produce a better estimate of the expense sooner, but will result in greater variances between income & cash flows. Where an onerous contract does exist, consider the circumstances that gave rise to it.
22	Restructuring (IAS 37)	All	Under IFRSs, provisions for restructurings are recognized once a detailed formal plan exists and the entity has raised a valid expectation that the plan will be executed. This will often be earlier than the timing for recognition under old Canadian GAAP.	This change may accelerate recognition of expenses and liabilities but will not change cash flows.	Costs of restructuring may be recognized sooner.
23	Decommissioning liabilities [asset retirement obligations] (IAS 37)	Capital intensive business	<p>Under IFRSs, asset retirement obligations are recognized when there is a constructive obligation, as opposed to old Canadian GAAP where such an obligation is only recognized when there is a legal obligation. As well, under IFRSs, the obligation is more likely to be re-measured than under old Canadian GAAP.</p> <p>Accretion expense under old Canadian GAAP is reflected as interest expense under IFRSs.</p> <p>Also see provisions above.</p>	For asset retirement obligations, the changeover to IFRSs may result in higher values of property, plant and equipment and additional liabilities, and higher interest expense. There should be no change to cash flows.	Read the MD&A and the financial statements. Consider the nature of the entity's tangible capital assets, the likelihood that costs will be incurred to retire them, and the extent to which the entity has already established asset retirement obligations. IFRS financial statements should reflect a more complete measure of amounts expected to be incurred to retire capital assets.

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RATE REGULATION					
24	No special rules	Rate regulated entities	Unlike old Canadian GAAP, IFRSs do not contemplate a mechanism that provides a rate regulated entity with the ability to defer gains and losses and capitalize certain costs.	This change is likely to result in more volatility in income and expenses of rate regulated entities.	Understand the extent to which revenue and expenses have been deferred as a consequence of rate regulation accounting under old Canadian GAAP.
BIOLOGICAL ASSETS					
25	Measurement (IAS 41)	Forestry Agriculture	IFRSs require measuring biological assets, such as timber holdings of forestry companies, at fair value less costs to sell at each balance sheet date. There is no specific accounting standard or guidance under old Canadian GAAP.	Measuring biological assets at fair value will change the timing for the recognition of income and may increase its volatility. This change should not impact cash flows.	Consider the impact of measuring biological assets at fair value less costs to sell on the way in which the entity recognizes profit (including how it determines the elements that comprise gross margin). Understand the factors underlying the calculation of fair value less costs to sell and the degree of volatility involved.
DEFINED BENEFIT PENSION PLAN					
26	Actuarial gains & losses (IAS 19)	Entities with defined benefit pension plans	Under IFRSs, entities have the option of reflecting actuarial gains and losses in other comprehensive income as they occur. This is not permitted under old Canadian GAAP that requires entities to reflect such gains and losses in income, recognizing at least a minimum using the "corridor approach", also permissible under IFRSs.	This option transfers recognition of actuarial gains and losses from a gradual impact in net income to an immediate impact in other comprehensive income.	Review the entity's MD&A discussion about IFRS conversion to understand its plan for dealing with post transition actuarial gains and losses. Consider the entity's experience with expected versus actual investment returns.

#	Change in accounting	Type of entity impacted	Description of change	Impact on financial statements	Matters to consider
27	Unrecognized actuarial gains & losses at date of transition (IFRS 1)	Entities with defined benefit pension plans	At the date of transition to IFRSs, entities may elect a one-time transfer of unrecognized actuarial gains and losses to equity. Under old Canadian GAAP, entities would have continued to reflect such gains and losses in income using the “corridor approach”.	This one-time transfer eliminates the impact of such actuarial gains and losses from the income statement and has an immediate impact on equity. It does not change cash flows.	Understand the extent of unrecognized actuarial gains and losses. Review the entity’s MD&A discussion about IFRS conversion to understand its plan for dealing with unrecognized actuarial gains and losses at the date of transition. Consider the relationship of the pension plan expense and contributions to the amount required to be funded. Consider the status of the plan’s funding and contributions that may be expected to be required.
28	Interest element of expense (IAS 19)	Entities with defined benefit pension plans	Under IFRSs, entities may choose to present the interest element of pension expense as interest expense.	This presentation has no effect on net income but increases EBITDA. It may change operating cash flows, depending on how the entity deals with interest expense in the cash flows statement (see below).	Understand how the pension plan is funded and how the company plans to present interest costs.
29	Past service costs (IAS 19)	Entities with defined benefit pension plans	Under IFRSs, past service costs arising from the introduction of or changes to a plan are recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are vested immediately, past service costs should be expensed immediately. Such immediate recognition is not required under old Canadian GAAP.	This change may result in accelerated expenses but no change to the cash flows statement.	Understand the extent of past service costs involved and their vesting provisions.

#	Change in accounting	Type of entity impacted	Description of change	Impact on financial statements	Matters to consider
PROPERTY PLANT & EQUIPMENT (PP&E) AND INVESTMENT PROPERTIES					
30	Fair value at date of transition (IFRS 1)	Capital intensive business	The fair value of PP&E and/or investment properties may be used as deemed cost at the date of transition to IFRSs.	Using fair value as deemed cost will generally result in higher values of property, plant & equipment and increased equity, accompanied by reduced net income in the period and in the future due to higher depreciation expense. There should be no change to EBITDA or cash flows.	Review the entity's MD&A discussion about IFRS conversion to understand its plan for valuing property, plant & equipment on transition. It should be noted that similar entities may experience materially different impacts on the changeover to IFRSs by virtue of selecting different choices in matters such as this.
31	Depreciation of components (IAS 16)	Capital intensive business	Each separate significant component of an item of property, plant & equipment or investment property is depreciated separately under IFRSs when the cost model is selected. Under old Canadian GAAP separate depreciation of components occurs when it is practicable and when such estimates can be made.	Depreciating components will result in higher or lower amounts of depreciation and lower or higher values of property, plant & equipment, but no effect on EBITDA or cash flows.	Understand the nature of an entity's property, plant & equipment. Consider the extent to which assets are grouped into separate categories and the associated depreciation rates. Consider how well the depreciation charge relates to the amount and timing of the cash outflow to replace components of property, plant & equipment.
32	Capitalization of costs (IAS 16)	Capital intensive business	Under IFRSs, capitalization of costs ceases and expensing and depreciation commences when an item is in a condition and location for it to be capable of operating as intended. This is in contrast to old Canadian GAAP where depreciation commences when the asset is put into use.	This change will produce higher expenses, lower property, plant & equipment values, and lower depreciation in the future. While overall cash flows will not change, operating cash flows may be reduced, offset by an equivalent increase in investing cash flows.	Understand the entity's approach to the acquisition of property, plant & equipment.
33	Depreciation of oil & gas properties (IAS 16)	Oil & gas	Under IFRSs, for depreciation purposes, oil & gas properties are likely to be grouped into smaller units and depreciation calculations will be more likely to be based on both proved and probable reserves, rather than just proved reserves.	This change may result in higher or lower depreciation expense with a corresponding change in recorded value of oil & gas properties. It will not affect EBITDA or cash flows.	See above. Understand the basis for the depreciation calculation and determine whether this will result in an increase or decrease in depreciation expense. Consider how the change in depreciation relates to the life of the related asset.

#	Change in accounting	Type of entity impacted	Description of change	Impact on financial statements	Matters to consider
34	Investment property (IAS 40)	Real estate	Under IFRSs, entities have the option of valuing investment properties at fair value. If reported at depreciated cost, fair value must be disclosed. (As noted above, some entities may elect to deem the fair value of investment properties at the transition date to be cost at that date and then depreciate the property in subsequent periods.)	This fair value option will generally increase the value of investment properties and equity in the financial statements. Gains and losses resulting from changes to fair value will appear in income, replacing depreciation expense. There will be no change to cash flows.	Review the entity's MD&A discussion about IFRS conversion to understand its plan for valuing investment properties. Understand the entity's strategy for investing in real estate and the relevance of depreciation expense to revenue earned from a property. Consider how issues such as the age, location, and condition of investment properties and the entity's debt to equity ratio may factor into an entity's decision to use this election. When fair value is elected, recognize the building will not be amortized over its useful life.
BORROWING COSTS					
35	Capitalization (IAS 23)	Capital intensive business	Entities must capitalize borrowing costs that are directly attributable to the acquisition, construction, or production of an asset that necessarily takes a substantial period of time to get ready for intended use or sale. This is allowed but not required under old Canadian GAAP.	For those that currently expense all borrowing costs during the acquisition, construction, or production phase, the effect will be to reduce interest expense, increase net income, and increase property plant & equipment or other assets under construction in that period. Greater cash flows from operations will be offset by reduced cash flows from investing activities. Income in later periods will be lower than under old Canadian GAAP due to higher depreciation charges.	Understand the entity's process for generating assets for sale or use and its existing accounting policy for related borrowing costs. Understand the timing difference between interest being paid and being reflected in income and consider the impact of any change on ratios such as interest coverage. Recognize that once available for sale or use, the interest from that point will be expensed in the income statement.

#	Change in accounting	Type of entity impacted	Description of change	Impact on financial statements	Matters to consider
IMPAIRMENT OF ASSETS					
36	General (IAS 36)	All	<p>Four main changes impact impairments:</p> <ul style="list-style-type: none"> • a one-step approach to impairment does not involve an initial test based on undiscounted cash flows; • impairment is assessed against the greater of fair value less selling costs and value in use (a discounted cash flow measure); • reversals of impairment losses other than those related to goodwill are recognized immediately in income; and • assets will often be aggregated into smaller groups for impairment measurement. 	<p>Impairments may be more likely but smaller, resulting in more frequent reductions in income and carrying values of long-lived assets, but no effect on cash flows.</p>	<p>Understand the business' susceptibility to external forces that can trigger long-term asset impairment, for example regulatory intervention and technology changes. Consider the entity's internal processes that could also drive impairment, for example a history of cost overruns when developing assets. As well, consider the assets used in segments and business operations that are only marginally profitable.</p> <p>Smaller, more frequent impairments are potentially more timely.</p> <p>The ability to reverse impairments may mean that companies will be more likely to consider remediation measures for underperforming assets.</p> <p>In some circumstances, these changes and additional disclosures under IFRSs, such as those related to assumptions, should provide a better sense of the economics of the business.</p>
37	Oil & gas properties (IAS 36)	Oil & gas	<p>Oil & gas properties are likely to be grouped together in smaller units under IFRSs, in contrast to the country by country basis often used under Canadian GAAP.</p>	<p>Impairment will be more likely, resulting in reductions in income and values of long-lived assets. There should be no impact on cash flows.</p>	<p>Understand the way in which oil & gas properties will be grouped for impairment testing. Asset balances are more likely to approximate fair value.</p>

#	Change in accounting	Type of entity impacted	Description of change	Impact on financial statements	Matters to consider
STOCK COMPENSATION					
38	Cash-settled transactions (IFRS 2)	All	Cash-settled share-based transactions, such as stock appreciation rights, are initially valued at fair value under IFRSs, as opposed to the intrinsic value used under old Canadian GAAP.	While the final total cost of the transaction does not change, using fair value will result in higher pre-settlement valuations and more volatility in income. There is no impact on cash flows.	Understand the entity's compensation practices and the nature and extent of its share-based compensation program, including the extent to which share-based compensation is settled in cash. Consider the time period over which payment may be made.
39	Vesting in installments (IFRS 2)	All	When share-based payments vest in installments, each installment is treated as a separate arrangement. In certain circumstances, old Canadian GAAP allows these to be treated as a pool and expensed on a straight line basis.	When a change exists, it will result in an acceleration of the recognition of compensation expense and may also change the total cost, but will not impact cash flows.	Understand the vesting terms of stock compensation arrangements and the accounting policy followed under old Canadian GAAP for payments that vest in installments.
40	Non-vesting conditions (IFRS 2)	All	Under IFRSs, in equity settled share-based payment transactions, non-vesting conditions must be considered in determining the fair value of the equity instrument granted. A non-vesting condition is a condition other than a service condition or a performance condition (that might include a market condition). Non-vesting conditions are not specifically addressed under old Canadian GAAP.	The basis of the compensation accrual may vary significantly and may result in more or less volatility, although there will be no change to cash flows.	Understand the entity's old Canadian GAAP accounting policy for "non-vesting" conditions.
41	Choice of settlement offered to employees (IFRS 2)	All	Under IFRSs, awards that offer employees the choice of settlement in stock or cash should be bifurcated and treated as a compound instrument. Under old Canadian GAAP, such awards are generally classified as liabilities.	This change will increase equity and reduce liabilities. As well, it may change compensation expense.	Understand the terms of settlement of employee stock compensation awards.

#	Change in accounting	Type of entity impacted	Description of change	Impact on financial statements	Matters to consider
42	Non-employees (IFRS 2)	Companies with little cash flow	Equity-settled share-based payments to parties other than employees must generally be measured at the fair value of the goods or services delivered. Under old Canadian GAAP, these transactions are measured by reference to the fair value of the consideration received or the fair value of the equity instruments or liabilities incurred, whichever is more reliably measurable.	Using fair value of the goods or services will result in higher or lower income. There will be no change in cash flows.	Consider the extent of the share-based compensation program that relates to non-employees and the nature of the goods or services provided.
43	Forfeiture rates (IFRS 2)	All	Under IFRSs, forfeiture rates must be estimated. Under old Canadian GAAP, forfeitures can also be recognized at the time they occurred.	When there is a difference, the change should result in lower initial valuation of stock compensation and may result in increased volatility in expenses, particularly in smaller companies. There will be no change in cash flows.	Understand the size of the management team, terms for vesting, and the entity's history of forfeiture rates. Consider the assumptions being used and their effect on profitability.
INCOME TAXES					
44	General (IAS 12)	All; impact may be particularly material for entities with capital-intensive foreign operations	<p>Canadian GAAP does not recognize deferred tax assets or liabilities arising from the effect of exchange rate movements on the tax base of non-monetary assets or liabilities located overseas (such as plants or mining assets); these are all recognized under IFRSs.</p> <p>IFRSs also have a different approach to recognizing and measuring uncertain tax positions (falling within the approach set out for provisions above).</p> <p>Many other differences may arise in specific circumstances.</p>	Major new deferred tax assets and liabilities might be recognized on adopting IFRSs, increasing the complexity of the financial statements. The tax provision might also become more volatile because of the more active measurement of uncertain tax positions. These changes will not have an impact on cash flows.	Understand the distinction between changes representing the application of deferred tax accounting in a wider range of circumstances and those more closely linked to current tax liabilities.

#	Change in accounting	Type of entity impacted	Description of change	Impact on financial statements	Matters to consider
CASH FLOW – INTEREST ALLOCATION					
45	Presentation in statement of cash flows (IAS 7)	All	Under IFRSs, interest income and expense and dividends may be classified either as operating activities or as investing or financing activities. Under old Canadian GAAP, these are classified as operating activities except for dividends paid that are presented as financing activities.	Reclassification as an investing or financing activity will change cash flows from operations but have no effect on overall cash flows.	Understand how the company intends to report interest in the cash flows statement.
CURRENT/LONG-TERM DEBT					
46	Debt in breach of covenant (IAS 1)	All	Under IFRSs, long-term debt in breach of covenant at the reporting date but refinanced before the financial statements are authorized for release is presented as current, not long-term debt.	This change will result in increased current liabilities and reduced long-term debt.	Review the long-term debt and commitments notes in the financial statements and the liquidity discussion in the MD&A. Understand the entity's proximity to debt covenant triggers and its history of compliance with debt covenants. Consider the impact of a reclassification of long-term debt as current.







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