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IFRS Readiness in Canada: 2009

CFERF Executive Research Report

October 2009

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Acknowledgements

We gratefully acknowledge the efforts of our survey respondents and our forum participants who took valuable time away from their day jobs to participate in this work. It is also our good fortune to have benefitted from consultations with the FEI Canada Committee on Corporate Reporting (CCR) and more specifically, the Sub-Committee on International Financial Reporting Standards (IFRS), as well as the invaluable and ongoing input of Diane Kazarian, PricewaterhouseCoopers (PwC) Canada Partner and IFRS Practice Leader. We would also like to make special mention of the valued participation at the CFERF Executive Research Forum of Dr. Barry Gorman, Forum Chair and Chairman of the Board of CFERF as well as Karen McCardle, Principal, Accounting Standards, CICA; Cameron McInnis, Chief Accountant, Ontario Securities Commission and Marion Kirsh, Associate Chief Accountant, Ontario Securities Commission. Last but not least, we are particularly grateful to our research partner, PwC Canada, without whom this study would not have been possible.

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Executive Summary

In January of 2011, Canada will join more than 100 countries from around the world in the change to IFRS. The purpose of this survey was to determine the state of IFRS readiness in companies across Canada and to provide a benchmark to all organizations that are planning on converting to IFRS in 2011.

We asked senior financial executives at both public and private companies who were adopting IFRS, to tell us how far along they were in the conversion, what challenges they were facing, and what strategies they were using.

The results of the research show that, for most companies, there is still a lot of work to do, and that the scope of the changes will be pervasive, affecting many aspects of business operations, systems and IFRS transition procedures.

The state of readiness for the transition varies widely. The vast majority of organizations—many of them large and established—have completed the diagnostic stage of their conversion process. However, some companies—including more than one in 10 publicly accountable enterprises —have barely started. Compared to public companies, a greater proportion of private companies had not started, although there is less urgency for private companies as they are not required to adopt IFRS but may choose to.

There are many reasons provided by those who were behind the curve even on their initial assessments. The most common responses were that they had other, higher priorities, a desire to defer conversion costs, they foresee a limited difference between Canadian Generally Accepted Accounting Principles (GAAP) and IFRS, and that there may be a possible extension of the conversion deadline—even though Canada's Accounting Standards Board (AcSB) confirmed on May 8, 2009 that it plans to keep to its IFRS implementation schedule.

Most companies agreed that they could not embark on such a massive undertaking alone and are seeking or are planning to obtain an advisor's help with the IFRS conversion. Most also have internal conversion teams with usually one to two full-time equivalents, although larger companies, with revenues of $1 billion or more, generally have teams of up to ten.

The higher an organization's revenues, the more funds it was likely to allocate to the conversion budget. According to the survey, the lion's share of the spending will occur in 2010, implying that there is still much work to be done between now and the end of 2010. While most companies expected their IFRS budget to be under $500,000, several finance executives pointed out the potentially large opportunity costs resulting from the diversion of internal human resources. At the same time, they noted that obtaining resources required the buy-in of the CEO and the board—often a challenge.

While it may be easy to dismiss the transition to IFRS as an issue solely for accountants and finance teams, the reality is the changes will affect everyone in the capital markets, from CEOs to analysts and investors. The scale of the transition means there are decisions that should have already been made and those who have planned ahead will likely be those who ensure a smooth transition and a more efficient business structure going forward.

Introduction

The deadline for the transition for publicly accountable enterprises to convert from Canadian GAAP to IFRS is January 1, 2011. There is generally broad support from business and industry for the changeover, which will harmonize Canadian financial reporting with much of the rest of the world. While there has been lobbying for a delay by some preparers of financial statements and other observers who are concerned about implementing change during the economic downturn, the AcSB has emphasized that the benefits of staying on track far outweigh any perceived advantages of a delay, and Canada must not put at risk the significant progress made so far, by so many.

EXCERPT FROM ACSB NEWS RELEASE MAY 2009

"Starting from January 1, 2011, publicly accountable profit-oriented enterprises in Canada will follow International Financial Reporting Standards.

The Accounting Standards Board (AcSB) received strong support from stakeholders for the decision to move to IFRSs. Investors, preparers and others indicated that businesses that need to operate and compete in global capital markets cannot afford to retain a "made in Canada" set of reporting standards.

The current economic situation only underlines the problems that arise from multiple sets of accounting standards and reinforces the need to continue to follow the longstanding strategic direction to move to IFRSs.

IFRSs are rapidly becoming the global language of accounting. The changeover in 2011 poses challenges for corporate Canada, but it is necessary to achieve the most useful and cost effective financial reporting system in the long run.

The AcSB went through a lengthy and thorough process in 2004 and 2005 before it decided to change over to IFRSs. It gave interested parties sufficient time to become familiar with IFRSs – more time than either Europe or Australia had to prepare for their transition. And, in the case of most European jurisdictions, the degree of difference between national financial reporting regimes and IFRSs was greater than that between Canadian GAAP and IFRSs.

In March 2007, the AcSB issued an implementation plan for moving from Canadian standards to IFRSs. In February 2008, it released its final report on progress in preparing for the changeover. The report concluded that, while there were challenges in meeting the January 2011 date, a firm date was necessary to drive the transition and provide certainty to investors and corporate Canada. The lack of a firm date introduced more uncertainty than those affected by financial reporting standards were prepared to tolerate."

This *IFRS Readiness in Canada: 2009 Executive Research Report*—prepared by the CFERF and sponsored by PwC Canada—attempts, through a wide range of questions, to determine how prepared Canadian companies are for IFRS transition.

This report examines how much has been budgeted for the changeover, who is in charge of the exercise, team sizes, how much training has been done (for finance and non-finance staff as well as the board and audit committee), and whether the economic downturn has caused a delay.

The report also attempts to determine to what extent companies expect the new standards to affect a number of areas including: financial instruments, pension liabilities, costs of capital, goodwill, asset values, cost of sales, expenses and revenue. Companies were further asked about the potential implications for IT systems, taxes, investor relations, treasury management, control certification, management compensation and information including budgeting and debt covenants. Since all these issues affect the bottom line in one way or another, external stakeholders including analysts, bankers, institutional investors and individual shareholders must all be walked through the impacts of IFRS.

As the survey's initial findings show, the state of readiness for the transition varies widely. The vast majority of organizations—many of them large and established—have completed the diagnostic stage of their conversion process. Others—including more than one in 10 publicly accountable enterprises—have barely started. That said, the AcSB is maintaining a positive attitude, arguing Canada is "on track" in terms of its progress towards the adoption of IFRS.

Research Methodology

The *IFRS Readiness in Canada: 2009 Executive Research Report* was prepared by the CFERF and sponsored by PricewaterhouseCoopers Canada. It encompasses both the results of a survey of senior financial executives from public and private companies across Canada that will be adopting IFRS and the insights obtained through an Executive Research Forum held in Toronto on June 9, 2009. The intent of the survey was to provide a wide view as to the state of IFRS readiness in Canada as of early 2009. Responses were obtained over a period of two weeks, from March 30 to April 14, 2009. Survey results were compiled and analyzed on the basis of industry classification, whether the company was private or public, and size based on revenue. Respondents were also categorized by position title.

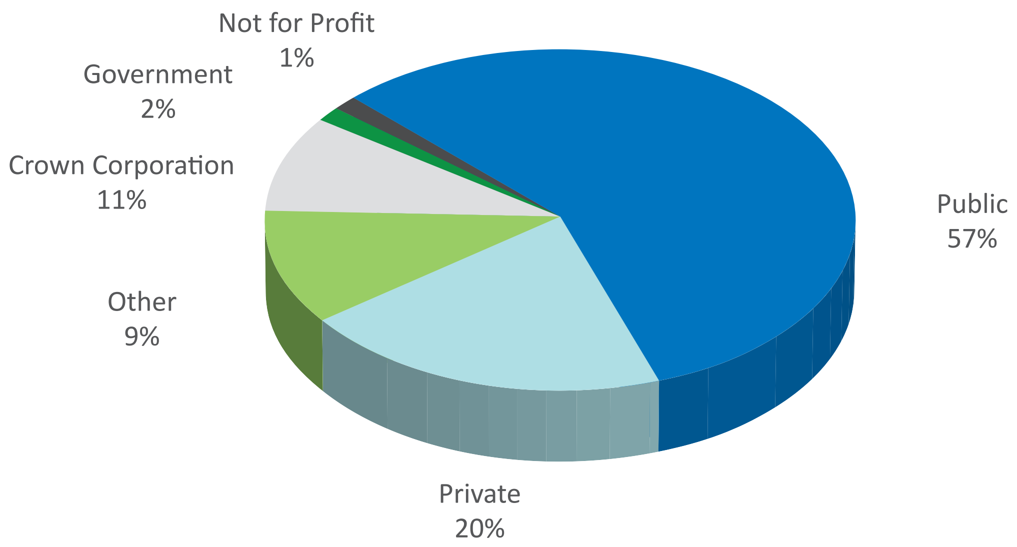
The second phase of the research methodology included capturing the feedback from senior financial executives who took part in the half-day executive research forum. The purpose of the forum was to allow for a free-flowing dialogue between company experts who were provided with specific questions in advance. A broad cross-section of Canadian industry was represented including: food processing, media, insurance and financial services, natural resource extraction, energy, consumer electronics, investment management, aerospace manufacturing, and pharmaceuticals.

Survey Demographics

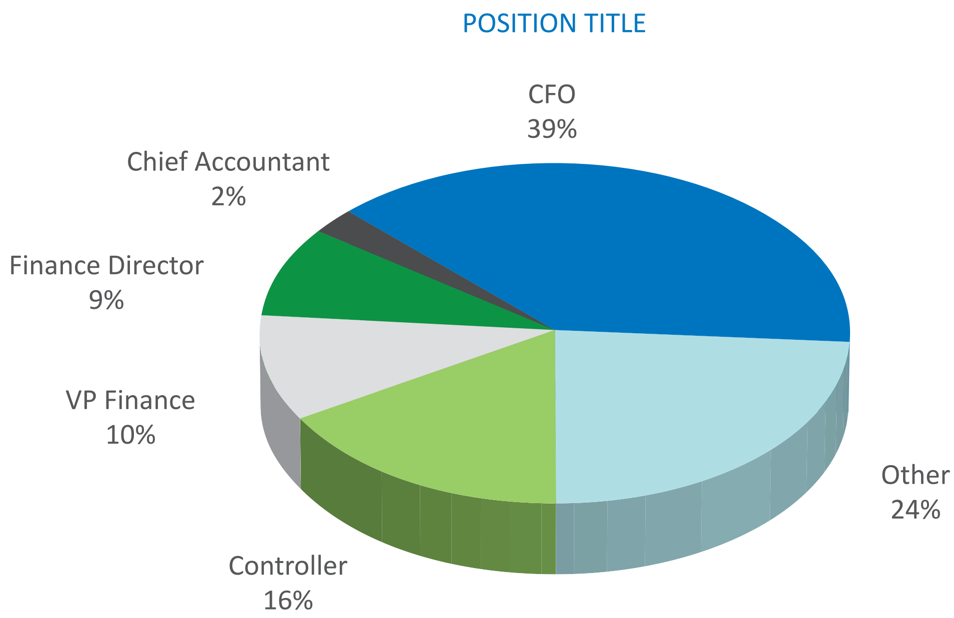
The results of this research to a large extent reflect the views of CFOs from smaller public companies with revenues less than $250 million. This mirrors the general Canadian business landscape where smaller public companies prevail. Mining, oil and gas companies are disproportionately represented in this sample and, therefore, the results must be interpreted with this in mind. Comparisons between industry groups are presented throughout the report wherever possible.

A total of 256 surveys were completed by finance executives who worked for Canadian companies intending to adopt IFRS. About 57% were from publicly-accountable enterprises and 20% were privately held. The remainder represented Crown corporations, governments, not-for-profit and others not otherwise defined. The majority were Canadian domestic companies (86%). The remaining companies were subsidiaries of U.S. or other foreign corporations.

CORPORATE STRUCTURE

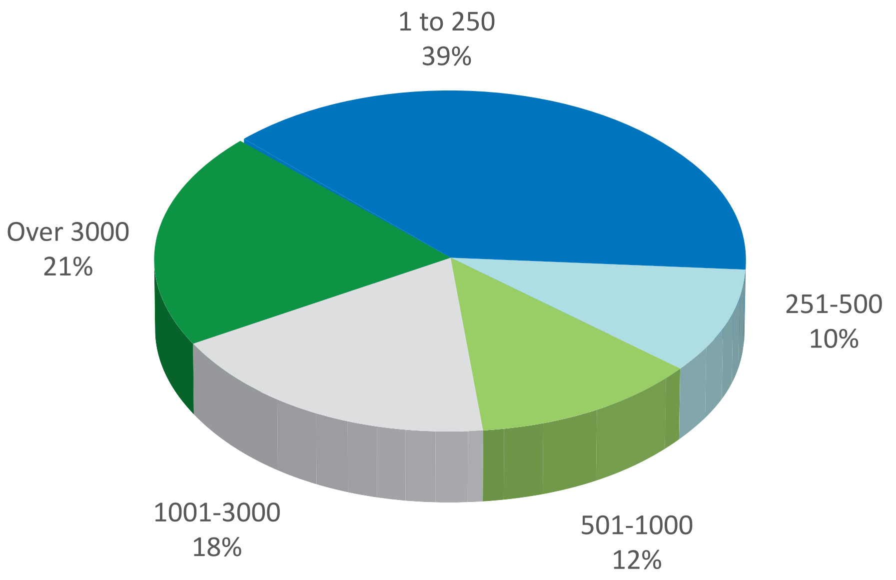


The largest group of respondents were CFOs (39%), followed by Controllers (16%). About one in 10 were Vice Presidents, Finance (10%). The survey respondents represented companies of all sizes. However, 39% represented companies with 250 or fewer employees.



About one in five respondents (21%) represented companies with more than 3,000 employees, 18% had 1001 to 3,000 workers, and 12% had 501 to 1000. The smallest number of respondents, about one in 10 of those surveyed, had 251 to 500 employees.

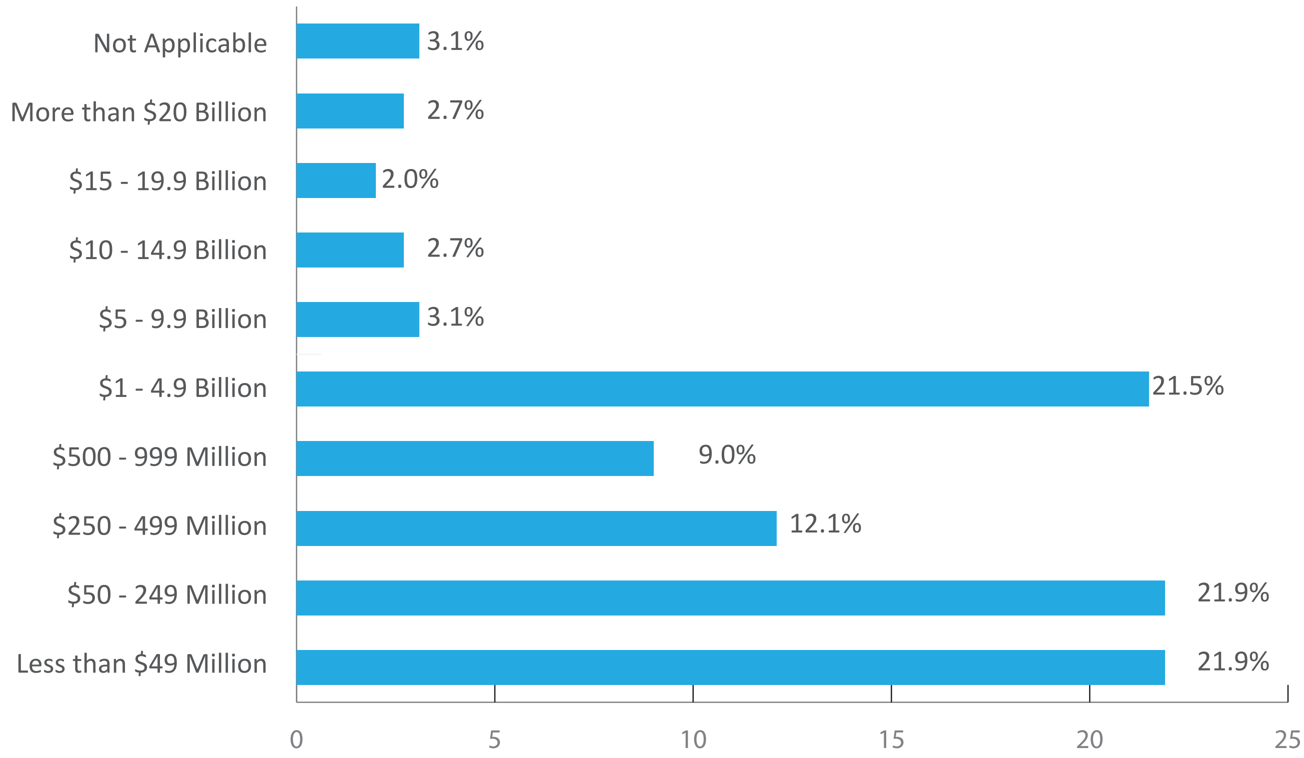
NUMBER OF EMPLOYEES



Similarly, the largest number of respondents (nearly 44%) reported having revenues of less than $250 million. This compares to one in five executives who represented companies with annual revenues of between $1 and $5 billion. Seven respondents (2.7%) were from Canada's largest companies with more than $20 billion in annual revenue.

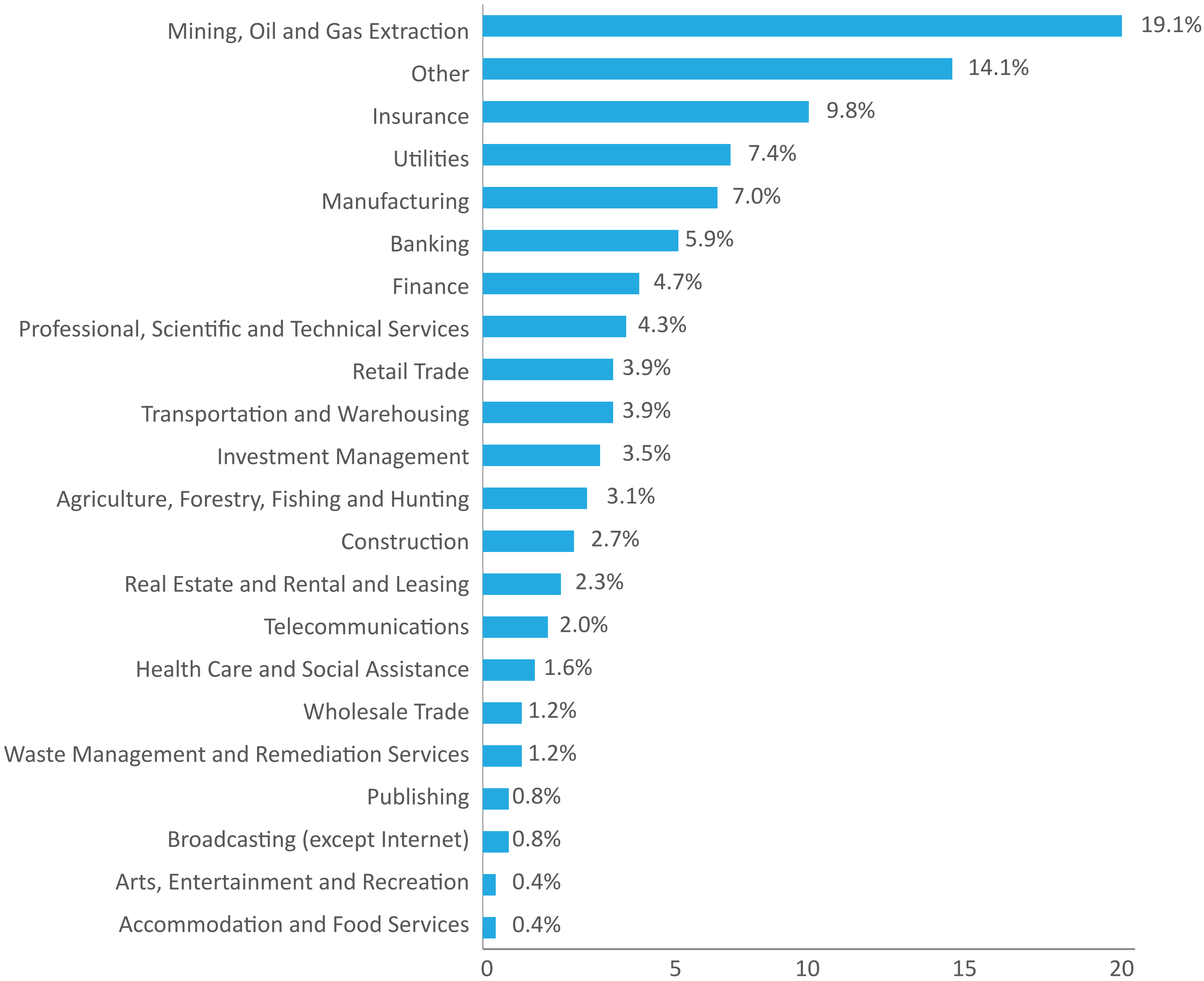
Not surprisingly, as revenues increased, companies were more likely to be publicly held. Of the 82 companies in the sample whose revenues exceeded $1 billion, the majority, 64, were public versus five that were private (the remaining were categorized as Crown corporations, government, not applicable, or other).

RESPONSES BY ANNUAL REVENUE



In order to determine if there were any differences in the state of IFRS readiness between industries, respondents were asked to identify their companies according to twenty large Standard Industrial Classification (SIC) groupings. The largest number of respondents were from the mining, oil and gas extraction sector (19.1%), insurance (9.8%), utilities (7.4%) manufacturing (7%), and banking (5.9%). The remainder of the respondents were from a wide range of industry groups.

INDUSTRY CLASSIFICATION



The Transition to IFRS: A Progress Report

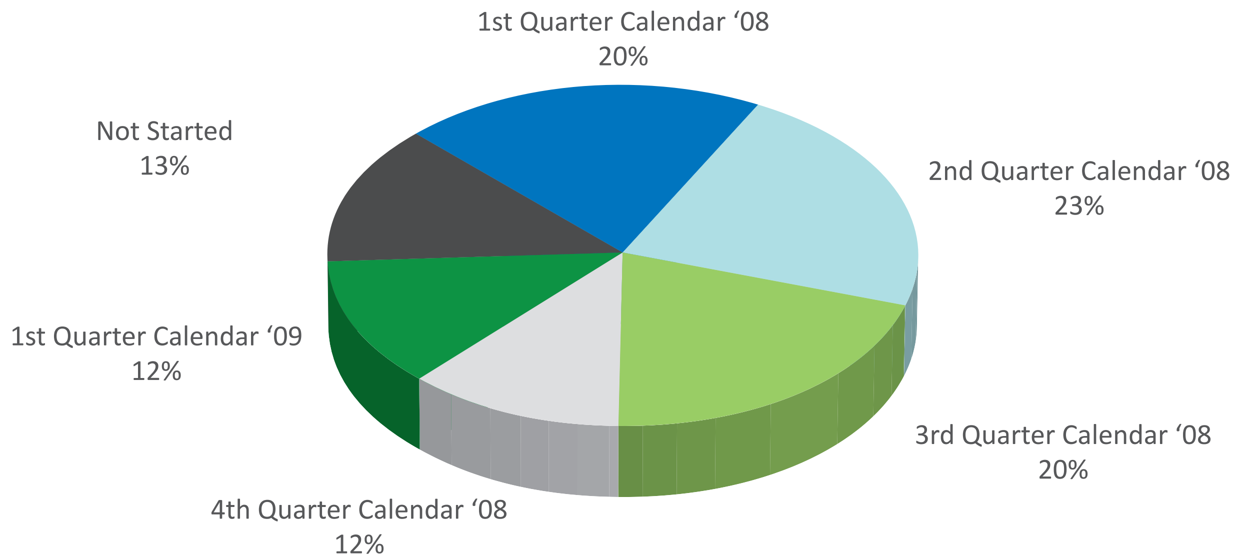
INITIAL DIAGNOSTICS

Seventy percent of all companies that responded to the survey had completed the initial diagnostic phase of IFRS conversion. More public companies indicated that they had finished this phase, compared to private companies. As expected, smaller companies were less likely to have completed the initial diagnostic than larger ones. Resource constraints and other priorities help explain this difference. Companies in the utilities, finance and insurance sector were more likely to have completed the diagnostic phase of the work than the other large sectors represented in this study. Of those companies that had not completed this phase of their conversion project, just over one third expect to have it finished by the end of Q2 2009 and one quarter said it will be complete in Q3 2009.

Roughly 87% of executives responding to the survey said that their company had started the initial diagnostic phase of converting to IFRS and 71% reported completing it. Most companies (63%) began the assessment of the differences between Canadian GAAP and IFRS during the first three quarters of 2008 while another 12% had started in Q4 2008 and 12% had started in Q1 2009.

Roughly 76% of public companies, versus 53% of private companies, had completed an initial analysis of the difference between GAAP and IFRS. With few exceptions, the more revenue the company generated, the more likely it was to have completed its initial assessment of the differences between the two standards.

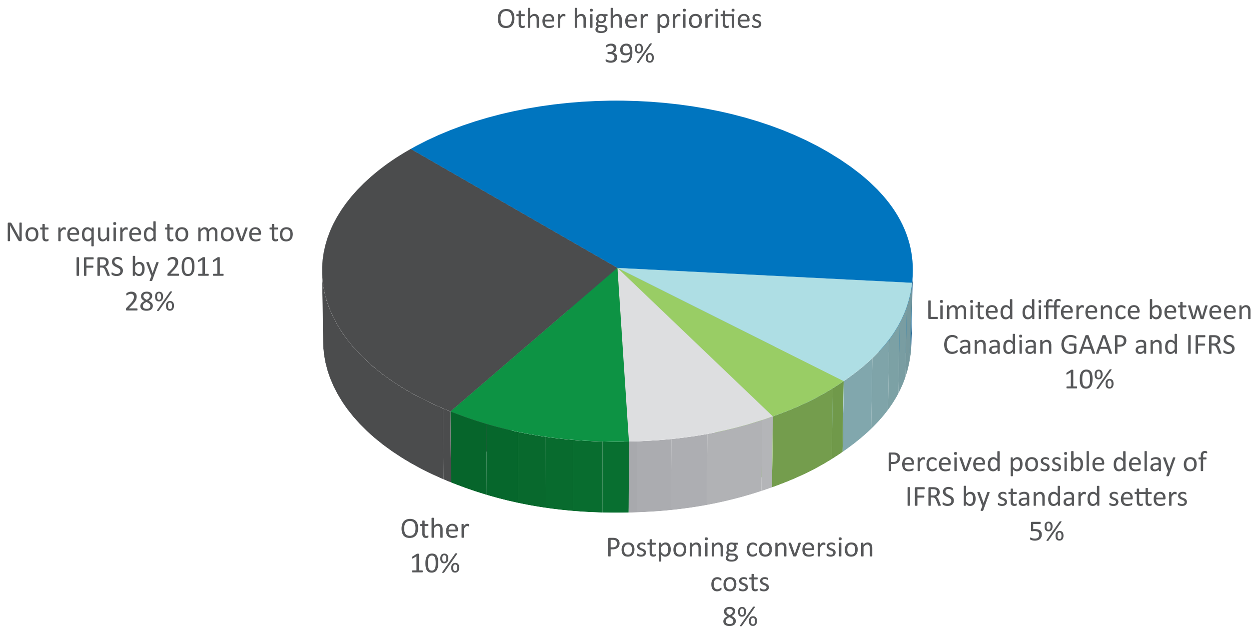
WHEN DID YOUR DIAGNOSTIC ASSESSMENT BEGIN?



Those companies that had not yet started the conversion process (nine public and seven private) stated that other higher priorities were postponing the initiative. Others reported they were not required to move to IFRS (or were not bound by the January 1, 2011 deadline. For example, public companies with a fiscal year ending October 31, 2011, have a 10-month reprieve). Other reasons cited included: postponing conversion costs, limited differences between Canadian GAAP and IFRS and a perceived possible delay of IFRS by standard setters.

It should be noted that nine of the companies that hadn't started their initial diagnostic evaluation were from the mining and oil and gas industries, representing roughly one in five companies surveyed from those sectors. Of those, five cited "other higher priorities" as the reason. For oil and gas companies in particular, the conversion will be more complex since they are moving from a full-cost accounting system, which is not compatible with IFRS and will, therefore, have the most changes to make. The mining industry also may not be as accustomed as companies in other sectors—manufacturing, for example—to breaking down assets into smaller components, as may be required under IFRS. Finally, the standards for those groups are still evolving, and many companies are taking a wait and see approach in hopes of landing on a steady state.

IF YOU HAVE NOT STARTED THE CONVERSION TO IFRS, WHAT IS THE REASON?

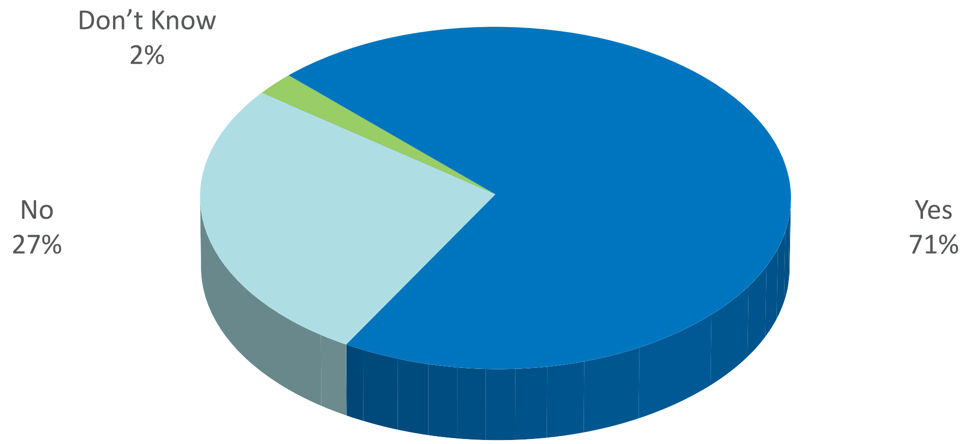


With few exceptions, the more revenue the company generated, the more likely it was to have completed its initial assessment of the differences between Canadian GAAP and IFRS. Only one company with revenue between $5 billion and $9.9 billion and one company with revenues of more than $20 billion indicated they had not completed the initial diagnostic. Meanwhile, all 12 companies responding to the survey with revenues between $10 billion and $19.9 billion had completed their initial assessments.

The picture changes for companies with revenues between the $50 million to $999 million range, with three quarters indicating that the diagnostic phase was ongoing. Considerably fewer small companies (46%) with revenues of less than $50 million had completed this phase of the work.

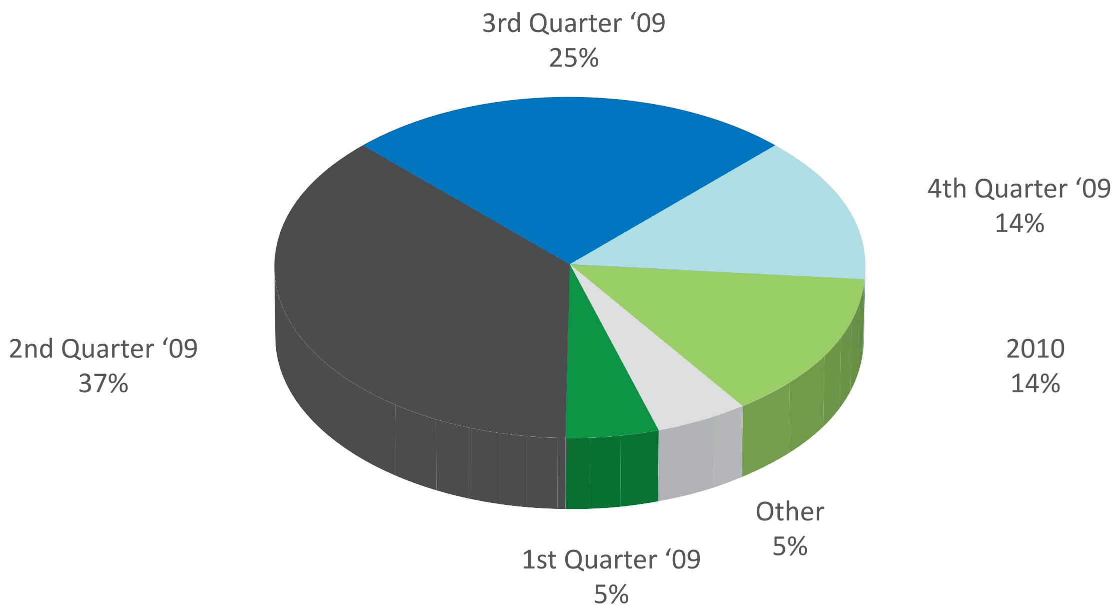
The companies that were most likely to be finished with the initial diagnostic were from the utilities sector (95%), banking (93%) and insurance (80%). A large sector lagging somewhat behind included mining, oil and gas extraction—only 63% had completed the initial assessment.

HAS YOUR COMPANY COMPLETED AN INITIAL DIAGNOSTIC?



Of those companies that had not yet completed the diagnostic, a little more than one third (37%) expect to have done so by the second quarter of 2009. Another 21 respondents (25%) expected to have it completed by Q3 of 2009. An additional 14% did not expect to have it done by the fourth quarter of 2009, while another 14% were forecasting a completion date in 2010.

IF INITIAL DIAGNOSTIC IS NOT COMPLETE, WHEN DO YOU PROJECT THAT IT WILL BE COMPLETED?

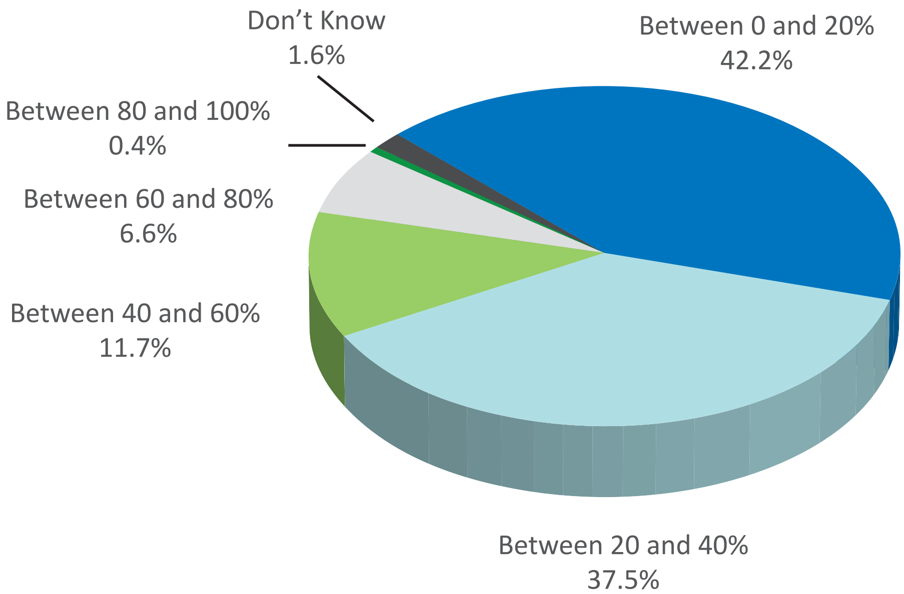


STATUS OF CONVERSION PROJECT

At the beginning of the second quarter of 2009 most companies were less than half way through their conversion projects. While much work lies ahead, the majority of companies are right where they expected to be in the process.

Of the 256 companies surveyed, 42% were less than one fifth of the way into their conversion project. A further 38% stated their changeover was between 20 and 40% complete. Two-thirds of the companies stated they were at the point they had intended to be so far (66%), while 27% stated they had not yet reached that stage. The remainder did not know.

STATUS OF CONVERSION COMPLETION



In general, the study found private companies lagged behind their publicly-traded counterparts in the overall conversion process. Twenty-one percent of private companies had not yet started the initial diagnostic, compared to 12% of public companies. This is not unexpected, as private companies tend to be smaller and have fewer resources to devote to the task. In addition, they are not required to convert at all, although the private companies who responded to the survey intend to convert to IFRS. Publicly-held companies also started the process earlier than privately-held organizations.

SIZE MATTERS

With few exceptions, companies with higher revenues were more likely to be further ahead in the conversion process. Companies with $1 billion or more in annual revenue generally reported that they had completed between 20 and 40% of the conversion. Of the five organizations reporting revenues of $15 to $19.9 billion, two said they were 20 to 40% complete, two said they were 40 to 60% done, and one said their conversion was 60 to 80% finished. In comparison, 63% of companies with revenues of less than $49 million said they were 0 to 20% complete. Only 27% reported being 20 to 40% complete.

NEXT STEPS

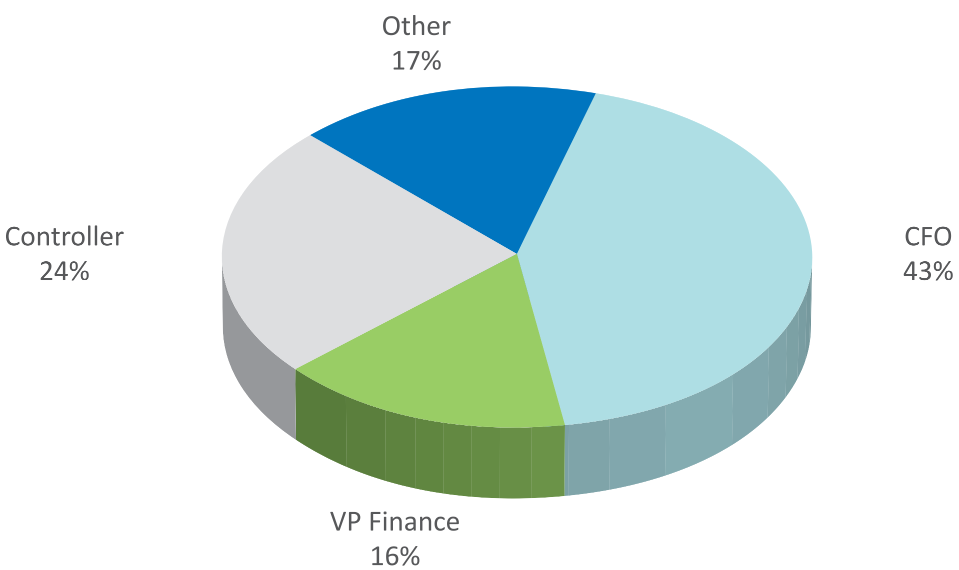
While many companies are still early in the conversion process, the vast majority of companies (80%) have started to consider what steps they must take following the initial diagnostic. Again, more companies in the higher revenue categories had progressed in their planning process versus those with lower annual revenues. The impact of the changeover had been considered by less than half of the companies responding to the survey, however, a further 43% reported this was in the planning phase.

New Brunswick's McCain Foods has decided to take a "next step" by incorporating some IFRS changes early into its GAAP reporting. "On the financial instruments side of things in our treasury centre, we're changing systems early," said Richard Burton, McCain's Toronto-based Vice-President and Corporate Controller. "The choices they're making in the systems that they're putting in now for IFRS are also generally acceptable for Canadian GAAP. The same thing we found in looking at PP&E, [property, plant and equipment]—if you change your level of components, you can treat that as a change in estimates and use that for your Canadian statement as well. We're trying to push as many of the changes that we're doing for IFRS through the Canadian statements as possible. We don't see, in our industry, too many changes at a transaction level. So we've been able to handle it that way."

Accountability for Conversion

The CFO was leading the conversion at 43% of the organizations responding to the survey. The CFO was less likely to be heading up the conversion project at a public company (41%) than at a private organization (49%) or Crown corporation (46%). In terms of the initial IFRS conversion diagnostic work, the person most likely to be responsible at both private and public companies was the Controller, with one-quarter of respondents reporting this. Controllers were leading the analysis at 25% of public companies and 20% of private companies. After that, CFOs and senior accountants were most likely to be in charge of diagnostic work (19% and 17% of all organizations surveyed, respectively).

WHO IS LEADING THE IFRS CONVERSION?



Project owners with titles such as “IFRS Project Manager,” “IFRS Project Leader,” and “Director, IFRS Initiative” were also commonly responsible for various stages of the conversion, if not in its entirety. Some companies, particularly in large organizations, also designated project leads from systems and operations. For example, “Since IFRS will have a major impact on our IT systems, Canadian Natural Resources Limited assigned the day-to-day leadership of our overall IFRS conversion project to our ERP Manager to ensure our IT considerations are being addressed on a timely basis,” explained Murray Harris, the Calgary-based company’s financial controller.

THE TEAM

Slightly more than half of public companies (54%) surveyed reported having a conversion team of one to two full time equivalents (FTEs). A further 19% of public companies had a team of three to five, and 8% had a team of six to 10. Relatively more private companies than public were likely to have smaller teams, with 67% reporting having allocated one to two FTEs to the conversion.

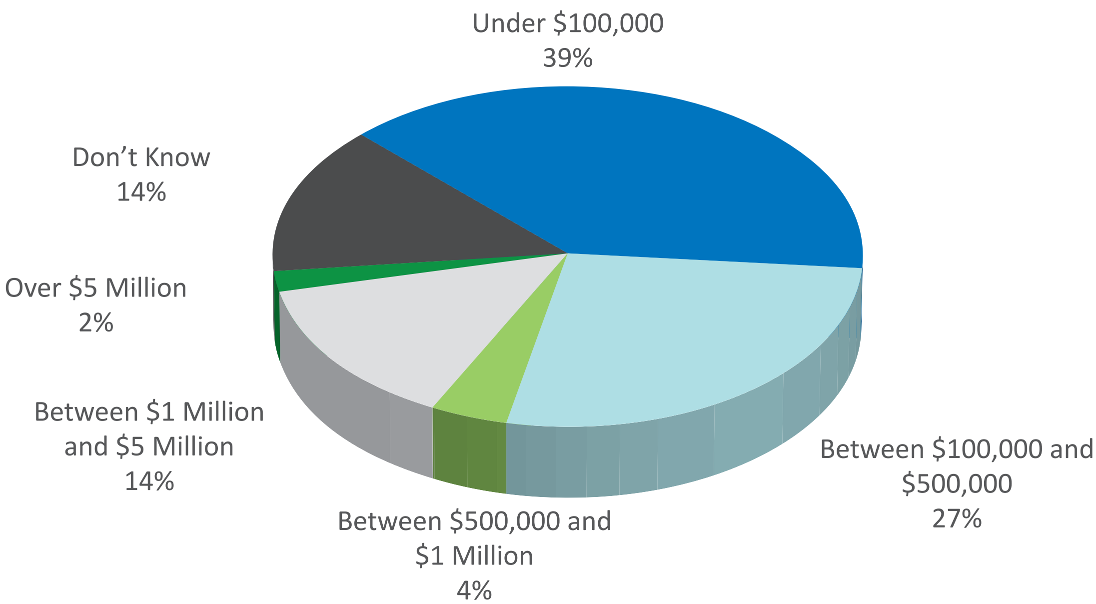
Although the majority of public companies had small teams, the largest internal transformation teams were generally found at public companies with high revenues. As expected, 14 of the 15 companies with an IFRS team of six to 10 had revenues of $1 billion or more. Of the 15 companies that had a team of six to 10 FTEs, 12 were public (of these 12, five were mining companies).

The IFRS conversion will impact a wide variety of stakeholders, affecting all aspects of corporate management. It is, therefore, not surprising that we see participation from a variety of different departments within the company on the conversion team. Seventy-three percent of all respondents reported the conversion team included members of their own finance and accounting departments. Three in 10 respondents (30%) said the IT department was represented on the transition team, nearly one-quarter said their internal audit group was part of the team, nearly one in five (19%) reported involvement by their tax department, a slightly smaller group (18%) said treasury departments were involved, and 31 companies (12%) said risk management was playing a role.

THE BUDGETS

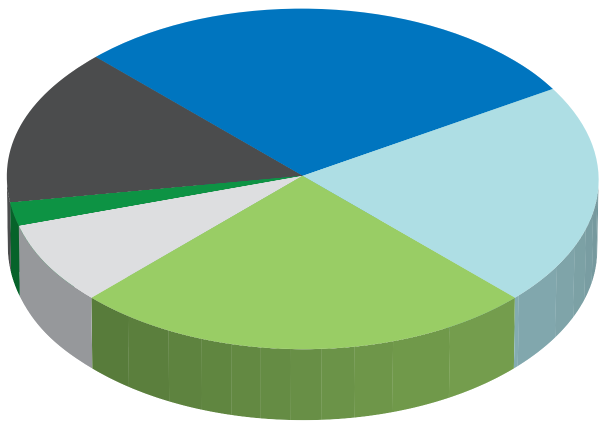
Most companies expected their conversion budget to be under $500,000. Twenty-seven percent of companies were planning to spend between $100,000 and $500,000 and nearly 40% planned for a budget of under $100,000. A much smaller proportion (37 companies, or 14% of all companies surveyed) had budgeted $1 million to $5 million. Five companies reported their IFRS budget was more than $5 million, the highest of all the revenue categories. Of these five, one was in mining, two were in banking, and two were in utilities.

OVERALL IFRS CONVERSION BUDGET



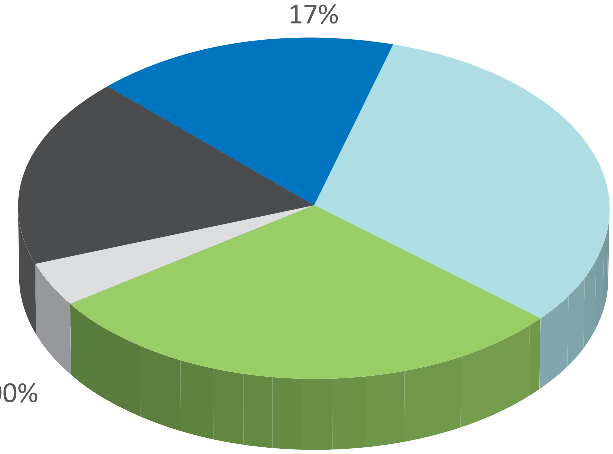
The expenditures for the transition will be spread over 2009 and 2010, with most companies stating they will not spend the lion's share of their budgets this year. While 29% had allocated less than 20% of the IFRS transition budget for 2009, 21% said they would spend 20 to 40% of their budgets this year. A quarter of respondents allocated 40 to 60% of their IFRS budget to 2009 and one in 10 would spend between 60 and 100% in 2009.

PERCENT OF IFRS BUDGET ALLOCATED TO 2009



While most companies have established their budgets, some pointed to the difficulty in determining the internal resource requirements and associated costs of getting the job done. The internal costs are difficult to quantify, agreed Bob Motz, CFO at Aeroquest International Ltd, a Mississauga-based publicly-traded mining exploration services company. "We're actually finding that we're ahead of where we expected to be," Motz said. "We believe that for the first fiscal year we're coming in under our planned cost. That being said, we're only addressing external costs. The internal costs are not addressed as we don't have an individual dedicated to IFRS and the opportunity cost factor is very difficult to quantify—and frankly we don't. In terms of the external costs though, we're ahead of plan."

PERCENT OF IFRS BUDGET ALLOCATED TO 2010



Continuous Disclosure

More than half of public companies (58%) reported they expected to be able to make at least a qualitative assessment of the impact of the IFRS conversion in their 2009 annual reports compared to roughly 30% of the private companies in the survey who indicated they will be adopting IFRS. One-quarter of public companies (26%) expected to be able to disclose both qualitative and quantitative impacts.

EXCERPT FROM CSA STAFF NOTICE 52-320 "DISCLOSURE OF EXPECTED CHANGES IN ACCOUNTING POLICIES RELATING TO CHANGEOVER TO INTERNATIONAL FINANCIAL REPORTING STANDARDS"

To comply with section 1.13 of the Management's Discussion and Analysis (MD&A) form, an issuer should discuss in its MD&A for the financial year beginning two years before an issuer's changeover date, the issuer's preparations for changeover to IFRS. Relevant details include those discussed in the preceding two sections. In addition, an issuer should describe the major identified differences between the issuer's current accounting policies and those the issuer is required or expects to apply in preparing IFRS financial statements. Such differences include any difference due to an expected change in accounting policy even though the issuer's existing policy under Canadian GAAP is permissible under IFRS. While such information may be narrative only at this stage, it should enable an investor to understand the key elements of the issuer's financial statements that will be affected by the changeover to IFRS. In identifying the accounting policies that an issuer is required or expects to apply under IFRS, an issuer should consider IFRS as they exist at the date the issuer prepares its MD&A. When an issuer believes it is also appropriate to consider the potential impact of projects that the International Accounting Standards Board currently has in process in identifying the accounting policies the issuer expects to apply on initial adoption of IFRS, the issuer should disclose any assumptions made about future changes to IFRS.[1]

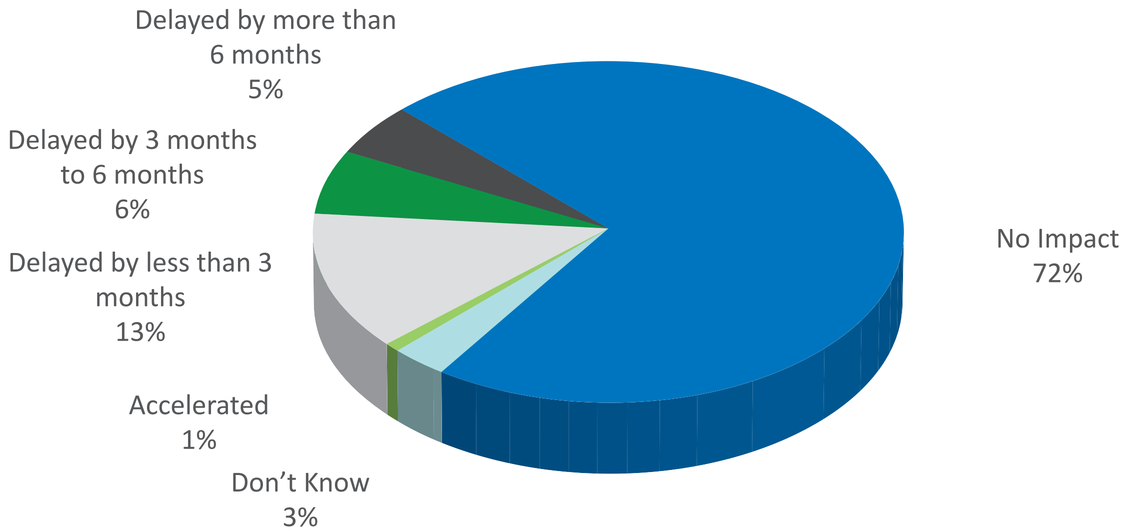
[1] http://www.osc.gov.on.ca/documents/en/Securities-Category5/csa_20080509_52-320_fin-rpt-standards.pdf

The Challenges

The majority of companies said the economic downturn had no impact on the progress of their conversion to IFRS. However, many also agreed that conversion was causing a strain on time and resources. For those that were experiencing a delay in the process, which were typically small to mid-sized firms, year-end pressures and other priorities were getting in the way.

A large majority of respondents—including 68% of public and 75% of private companies—said that the current economic downturn had no effect on their conversion plans. Of the roughly 24% of companies that did report a delay, 13% said it was less than three months. Six percent reported a delay of three to six months, and 5% expected the delay to be more than six months. Public companies were more likely to report a delay than private companies—16% of public companies reported a delay of less than three months, compared to 10% of private companies. Eight percent of public companies said they were delayed three to six months, compared to 6% of private companies, and 7% of public companies reported delays of more than six months, compared to 4% of private companies. Some companies reported that the conversion is causing a strain on time and resources, which has been exacerbated during the current recession. A major concern was the ability to devote time and money to the process when other priorities are perceived as being more pressing. In particular, companies noted they were preoccupied with year-end filings and other time-sensitive duties.

IMPACT OF ECONOMIC DOWNTURN



For instance, Toronto-based Marsulex Inc., a TSX-listed industrial environmental service company, has annual revenues of $300 million and a small finance department. "We started our initial assessment before Christmas [2008]," said Lucio Milanovich, the company's Director, Finance. "We were gung ho and held kick off meetings and it just ground to a halt as we got into the year-end process. We've since picked it up again and started our kick-off meetings again throughout the organization. We have remote finance teams and our biggest focus is our plant. We've mobilized all of our divisional finance teams and engaged the plant management in the effort to address the implementation relating to the plant assets."

Others indicated that the initial diagnostic itself was much more time-consuming than originally expected. Several respondents noted that due to the downturn, the budget for conversion will be scrutinized more carefully and others commented that they would have to reduce their reliance on help from a third party.

Companies in the higher-revenue categories were more likely to say the current economic downturn has had no impact on the IFRS conversion timetable than companies with lower revenues. For instance, all 12 companies (100%) with revenues between $10 billion and $20 billion said the downturn had not affected their conversion schedule at all. In the highest revenue category of $20 billion or more, four of the six companies (57%) said this, while the remaining two said their conversion had been delayed by less than three months.

In comparison, companies in smaller and mid-sized revenue categories were more likely to say the recession was causing a delay. Among the most affected were companies with revenues of $500-999 million. Of the 23 companies in this category, nine reported that the slowing of the economy had caused a delay in their IFRS conversion timetable. 22% reported a delay of less than three months and 9% reported a delay of three to six months.

Notably, the major Canadian sectors affected by the current downturn—financial services, mining, oil and gas and manufacturing—were more likely to report delays than other sectors. For instance, a delay of three months was reported by banking (27%), finance (25%), insurance (20%), mining, oil and gas (14%) and manufacturing (11%).

In comparison, 95% of utility companies reported the downturn had no impact on their conversion timetable. Two companies—one in construction and one in transportation and warehousing—actually reported the downturn had resulted in an accelerated conversion timetable.

"If I put my project manager hat on, I'd say we are overall are on track but that it has been challenging. In a perfect world, I'd love to be done with the project six months from now when we do our first cut of our opening balance sheet in 2010. But given the current economic environment, it's put an immense amount of demand on our finance staff throughout the organization. The key people that I have involved in my project are also the go-to people for analysis for reporting, tax considerations and other transactions. Just when I think I have a nice window in between quarter-ends, something comes up with more immediate deadlines."

– Tim Deacon, Vice-President, International Accounting and Policy, Manulife Financial

GETTING ACCESS TO INFORMATION AND UPDATES

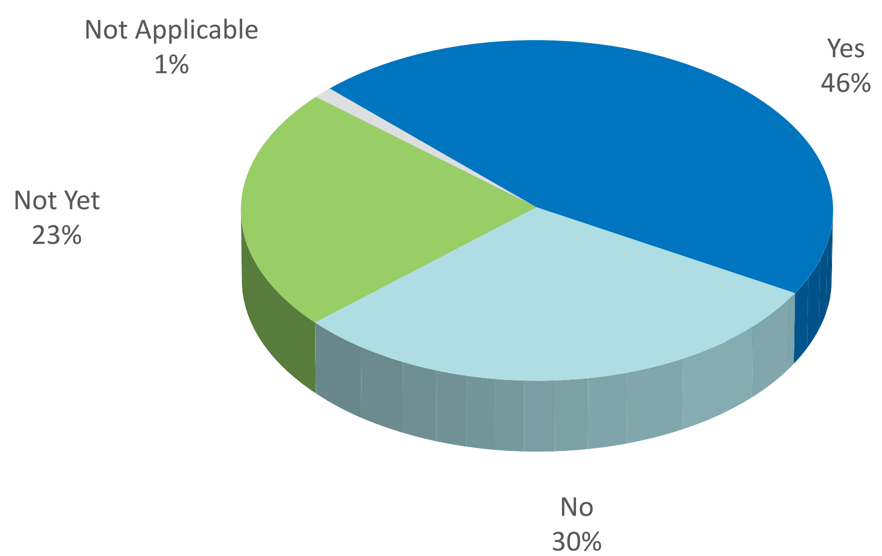
Many companies commented that there was a lack of clarity surrounding certain new IFRS accounting standards, and urged the accounting firms to provide more guidance on interpreting and applying the new rules. Others expressed concern about the evolutionary nature of certain standards, and the difficulty in applying what has often been referred to as "a moving target."

Most companies (71%) reported they were monitoring future changes to IFRS, keeping in mind how these would affect their organization following the January 1, 2011 transition. A significant number of respondents stated that future changes would have no effect on current conversion plans (41%). Nearly one in five respondents (19%) said that future changes to IFRS would likely lengthen the time horizon of the conversion.

GETTING HELP

Accounting firms have been at the forefront of the campaign to raise awareness of IFRS and, not surprisingly, the majority of respondents were seeking or planning to obtain their auditor's help with the process. Just under half had already engaged their auditor to help in their move to IFRS (46%), while a smaller group said they planned to but had not yet done so (23%).

ENGAGING YOUR AUDITOR



The likelihood a company would hire an accounting firm increased, for the most part, along with revenue. For instance, for mid-sized companies with $250 to 499 million in revenue, 52% had hired an accounting firm and an additional 19% were planning to. In comparison, six out of seven (86%) organizations with revenues of $10 to 14.9 billion had already engaged an accounting firm; four out of five (80%) organizations with revenues of $15 to 19.9 billion had done so, and five of seven (71%) organizations with revenues of more than $20 billion.

The companies most likely to hire an accounting firm were in the finance sector (75% had done so, and 25% of companies were planning to do so). Following closely was the utilities sector (74% had done so, and 11% of companies were planning to do so). In comparison, only 41% of mining, oil and gas companies surveyed had hired an advisor, yet 29% said this was in their future plans.

Ontario Power Generation made a decision not to hire the same firm to act as its conversion consultant and as its auditors, but has had its auditors involved from the beginning of the process, to ensure they are on the same page. "If you think about working through your conversion and trying to get to the end of your conversion, going back 16 to 18 months and going over positions that you've reached and then having the discussion with your auditors, it's a lot more challenging. Also you want to avoid any surprises. We've literally done it by project or technical area. We've put together an evaluation of a particular area, PP&E [property, plant and equipment], for example, we come out with a paper, we agree the positions taken with our auditors, and we move on. And we do that issue by issue."

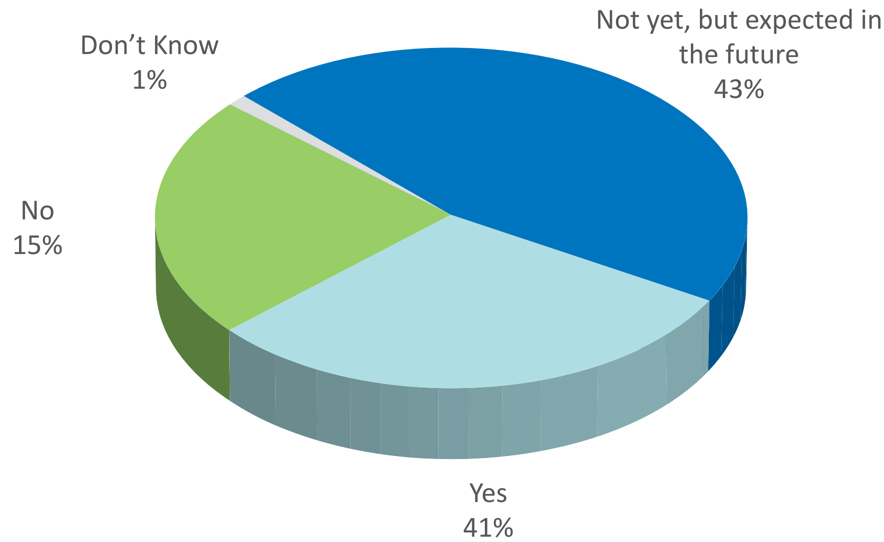
– Nathan Reeve, Vice-President, Financial Services, Ontario Power Generation

Impacts on Systems and Processes

Views on the extent of required changes to IT systems and internal processes as a result of IFRS adoption are mixed. For some there will be no change while others will be heavily impacted. Most of the impacts were expected to be contained within the finance function. At the same time, most organizations expected to see either a medium or high impact on accounting processes.

INFORMATION TECHNOLOGY

HAVE YOU ASSESSED SYSTEMS IMPLICATIONS OF YOUR IFRS CONVERSION?



Nearly all respondents agreed that IFRS will have an impact on their financial IT systems. However, they were roughly divided in three major camps: 37% believed IFRS would have a low impact, almost as many predicted a medium impact (35%), and a third, somewhat smaller group representing nearly 25% of respondents, anticipated a high impact. Public companies were more likely to say there would be a medium or high impact (36% and 25% of public companies, respectively) than private companies (28% and 20% of private companies, respectively). Although most companies anticipate to be running parallel accounting systems in 2010, only 41% indicated that they actually had assessed the system requirements of the conversion.

A large majority, 69%, indicated there would be a low impact on IT systems outside their finance departments. About 20% estimated a medium impact, and 9% didn't know. Only nine respondents (4%) anticipated a high impact on non-finance IT systems.

"The extent to which you need to upgrade systems or change your systems to accommodate an entirely new basis of financial reporting—obviously that can be a huge spend," said Tim Deacon, Vice-President, International Accounting and Policy at Manulife Financial. "We're fortunate in that we will not need to make substantial changes to our systems. We have numerous bases of accounting that we apply globally across all of our subsidiaries—many of which are live on real time, within our general ledger. It was a decision that the company made a long time ago to have a robust, multi-GAAP ledger, so thankfully we're benefitting from that upgrade."

– Tim Deacon, Vice-President, International Accounting and Policy, Manulife Financial

PROCESSES

Respondents expected processes inside finance departments to be more affected by the IFRS conversion than those outside. Nearly half of the executives predicted a medium impact on processes within finance (48%), while 29% were expecting a high impact. A smaller group, 20%, anticipated a low impact. In comparison, more than half (58%) reported they expected a low impact on processes outside finance, and 29% expected a medium impact. Only 5% anticipated a high impact on non-finance processes, while 9% said they did not know.

PARALLEL ACCOUNTING SYSTEMS

The survey also revealed that 184 of the 256 respondents (72%), say they plan to run parallel IFRS and Canadian GAAP financial reporting systems during 2010. Of the 147 public companies, 76% were planning to run parallel systems in 2010 (12% said no and 12% didn't know). In comparison, only 67% of the private companies were planning to do so (20% said no, and 14% didn't know).

"There is a general consensus that our comparative period will not be a parallel run. At the same time that we gather the Canadian GAAP data, we're just not able to, on a real time basis, gather the IFRS data, completely in that same system, and also vet that data at the same time to see how reliable it is. We will have a strategy and process in place to gather that data. It will be a combination of things. And we will likely use our GL system. We're not trying to do this in an Excel spreadsheet, given the size of our organization. We don't expect that it's going to be on a real time basis at all. It will be to gather the data, for subsequent disclosure purposes."

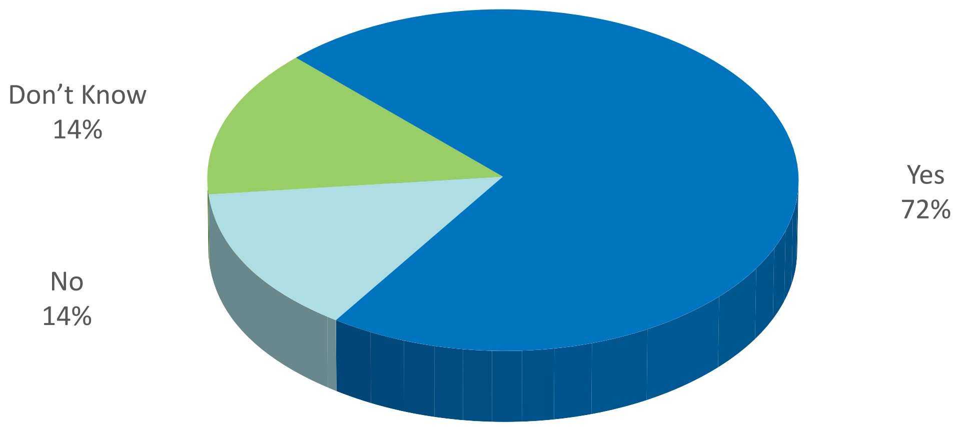
– Love Mital, Vice-President, Accounting Policies and Procedures, Scotiabank

Several companies said once they sat down to plan their parallel system, they realized it would be difficult, if not impossible, to do so. Marsulex Inc., a Toronto-based industrial environmental services company, plans to grapple with several key areas in parallel reporting, and do the rest offline in spreadsheets. “We’re hoping that doesn’t cause us too many problems,” said Lucio Milanovich, the company’s Director, Finance, noting that its biggest challenge will be grappling with its transaction-based systems as it impacts payables and capital assets. “Admittedly, we have not performed a test run, but again, I feel we’re tackling the area that’s most critical to us which is the transaction base for our capital assets. We also started out with the idea of trying to run a parallel set of books throughout 2010, but once we began assessing the need and the effort involved, I threw my hands up in the air and said, ‘I surrender, that isn’t going to happen.’ We’ll try to deal with the transaction-based system first, and then try to piece everything else together, as the year goes in preparation for the quarterly reporting in 2011.”

“We mocked up a set of financials at the end of last year, just to get a quick sense as to where the additional disclosures would be, and what would be removed. Not a whole lot would be removed, as the comment was made earlier, it’s more about providing supplemental disclosure. And then flowing the analysis of the additional disclosure requirements into the question of what are the other data requirements. If you are going to go down the path of dual reporting, you’ll want to be generating not just the underlying financial statements but the note disclosures as well.”

– Nathan Reeve, Vice President, Financial Services, Ontario Power Generation

DO YOU ANTICIPATE RUNNING PARALLEL IFRS AND CANADIAN GAAP FINANCIAL INFORMATION DURING FINANCIAL YEAR 2010?



Financial Accounting and Reporting Issues

The adoption of IFRS will have a significant impact on asset valuations for a relatively large number of companies in 2011. The most impacted will be those in the utilities sector, the manufacturing sector and the mining, oil and gas sector. Reported pension liabilities will also change significantly in one in four companies, with the utilities sector showing greater impact than in any other industry.

As companies complete their initial diagnostic of the differences between Canadian GAAP and IFRS, a picture emerges as to the expected impacts on specific financial reporting items in companies across industries. In order to identify these impacts, survey respondents were asked to evaluate the extent to which the following reported values would change in 2011: revenue, expenses, cost of sales, asset values, goodwill, cost of capital, pensions liabilities and financial instruments including hedges.

Over half of the financial executives in the study (57%) indicated that the adoption of IFRS would have a significant impact on reported asset values. More companies reported an impact on this area of financial reporting than any of the other areas. However, industry specific results show that relatively more executives in utilities companies, (84%), manufacturing (78%) and mining, oil and gas (67%) expect IFRS to have a material impact on these values. This compares to roughly 40% of companies in finance, insurance and banking who anticipated a significant change.

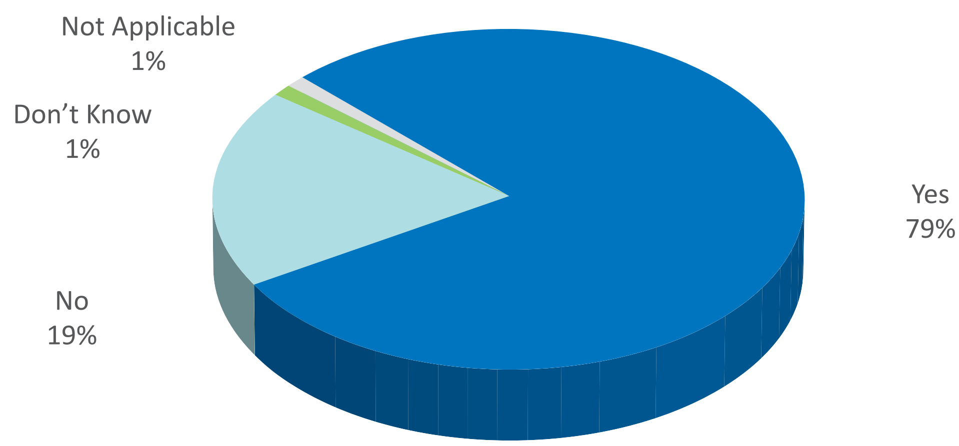
IFRS conversion will also have a significant impact on the reported value of pensions in 25% of companies. Again, this was more likely to affect the utilities sector than other industries, with over 50% expecting a substantial change in the value of their pensions liabilities after 2011. Similarly, roughly 20% of respondents saw the reported value of their financial instruments changing with the adoption of IFRS. This was also true of the reported value of revenues as well as goodwill. These views are consistent regardless of whether their company was privately held or publicly listed. However, executives in utilities, manufacturing, mining, oil and gas companies were more likely to report that they expected a significant impact on goodwill, with 63%, 56% and 44% respectively holding this view.

Finally, the cost of capital and sales is expected to change by the fewest number of respondents in the survey, with roughly 15% expecting a significant change in these areas in 2011.

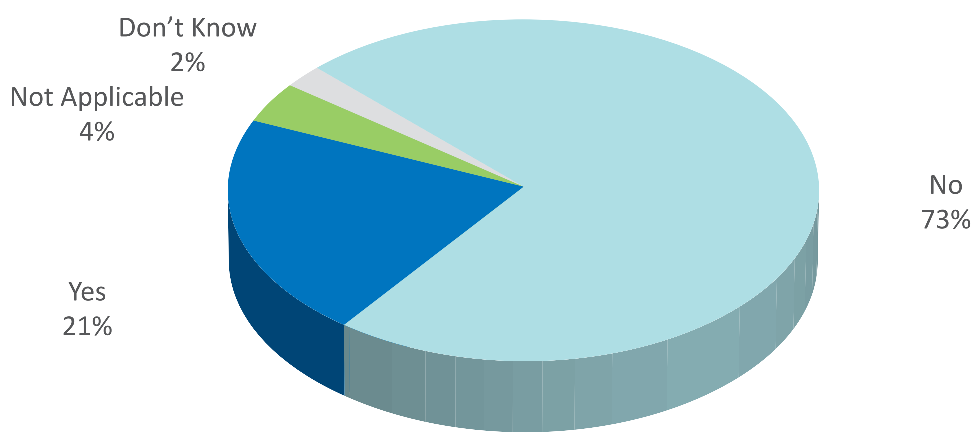
Training and Education

Most companies reported they had begun training their finance staff on IFRS (79%). However companies are behind on training of non-finance groups, as only 21% had begun to train non-finance staff. More than half of the companies in the survey indicated that they had also begun educating their audit committees (55%).

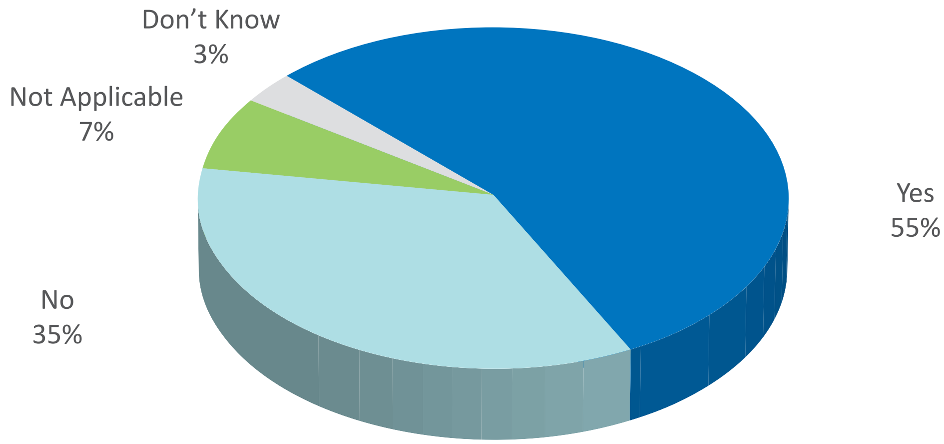
IFRS TRAINING OF FINANCIAL STAFF



IFRS TRAINING OF NON-FINANCIAL STAFF



IFRS TRAINING OF AUDIT COMMITTEE



GETTING PEOPLE READY FOR IFRS

One of Canada's major banks, who participated in the CFERF forum, has found getting staff motivated for training has not been a problem. "I would definitely say that in our organization people are mobilized, have been mobilized for a while, have been very positively interested in terms of the conversion and wanting to know the impact," said Love Mital, Vice-President, Accounting Policies and Procedures, Scotiabank. "It's been a very positive reaction from that point of view. Unlike other projects that we've had to do like SOX where you had to drag people in, the dragging part doesn't need to happen. That's been a good thing."

According to Mital, from a training perspective, the bank's focus has been demonstrating the impact to its own financial statements, and making sure all the stakeholders within the bank understand that. "We have shifted to training our credit officers who will have to understand from a customer point of view, as they get financial statements in on an IFRS basis, what that means to covenants. My main point here is that even from a bank side, we have to go through that learning curve for our credit officers to understand what that means from the credit valuation point of view. One of their first questions is going to be to ask the company themselves, "What do you think the impact of IFRS will be both in transition and on an ongoing basis?" We're going to offer training sessions through external sources to our credit officers that are involved with specific industries."

INFORMING THE BOARD

CFOs will be busy in the last few months of 2009 communicating the expected impacts of IFRS to their boards of directors. Companies will have different goals and objectives with respect to this process depending on corporate governance practices, organizational culture and the traditional involvement of the audit committee. The majority of companies expect to be able to educate their boards on the impacts of IFRS by the end of 2009. Most organizations (55%) indicated the process was to begin in the second half of the year, compared with one third (33%) who had already started. Roughly 30% will postpone board education of the impacts of IFRS until 2010.

EDUCATING THE BOARD/AUDIT COMMITTEE

The Canadian Broadcasting Corporation (CBC) has found training and educating board members, senior management and executives has made it easier to gain support for the conversion. "We find that if the rest of the business does not know what IFRS is about then it's difficult for them to buy in and to get excited about the project," said Johanne Charbonneau, former Vice-President and Chief Financial Officer at the CBC. "The more people that know about what it means for the business, the better chance that they will buy in to the project and help us accomplish what we need to accomplish."

At Ontario Power Generation, Nathan Reeve, the organization's Vice-President, Financial Services, has found it is helpful to take a two-pronged approach to educating the audit committee and the board. While on the one hand, it is important to create an awareness of what some of the IFRS impacts are, Reeve suggests it is equally important to give them comfort that the project is under control and the appropriate governance and controls are in place in terms of having external consultants and auditors involved; updating them on stakeholder communication; and updating them on the tracking of the project plan. "It's really a balance of the two. You have to figure out your relationship with the audit committee. Are they eager to learn, or do they need more encouragement? Pitch it accordingly. It's really getting a balance between training of the underlying technical aspects of IFRS and also giving them comfort as to how you're tracking against the project plan ."

Others have found it has been no trouble to attract the interest of the audit committee. "We have had good traction with our CEO and the audit committee which is key to any project," said Claude Plourde, Controller of Toronto-based Centerra Gold Inc. "We have a very active audit committee. They have shown great interest in being trained on IFRS and they're soaking it up which is a welcome surprise. I've never seen that much eagerness before, to this extent anyway."

INTERNAL AND EXTERNAL STAKEHOLDER AWARENESS

Since many organizations were not yet certain of the overall impacts of IFRS on their companies, neither were their broader management teams. Of the senior finance executives responding to the survey, only 32% indicated that their management teams were generally aware of the potential impacts of IFRS on various aspects of financial statements such as: debt covenants, budgeting, management compensation, control certification, IT requirements, treasury management, tax implications and investor relations.

When executives were asked which external stakeholders they had begun to talk to about the implications of IFRS, the most common answer was "none" (40%). However, nearly one-quarter (24%) had begun to communicate with shareholders, and roughly one in five (18%) were talking with regulators. Only about one in 10 (11%) had been communicating with lenders and slightly fewer (10%) had shared information with analysts.

"Awareness of IFRS among analysts who follow mining and in general, I would say, is low," said Claude Plourde, Controller at Centerra Gold, who is involved with a focus group on IFRS conversion in the mining industry. "We're contemplating doing something for the analysts previous to the cutover date, so that when the revised numbers come out they're not going to be at a loss. It's a bit of a difficult issue, because obviously there are rules to follow when it comes to providing guidance to analysts."

As a Canadian federally regulated financial institution, Manulife is regularly providing updates on the conversion to The Office of the Superintendent of Financial Institutions."One thing that I found quite early is the number of external stakeholders that we have who are interested and want to know about IFRS," said Tim Deacon. "Whether it's our regulators, external auditors, shareholders and investors through the MD&A disclosure requirements from the CSA [Canadian Securities Administrators] or the federal government in terms of tax, stakeholder communication is a big component of our IFRS implementation efforts. When it comes time to incorporating accounting standards changes into legislation, early communication is key. Sometimes even early action is not enough because making legislative changes is a political process. I think the insurance industry has very vivid memories from the adoption of the financial instruments accounting standard in terms of the amount of time that it takes to change tax law and how much of that process is outside of the industry's control."

Understanding financial reporting and other continuous disclosure requirements associated with the new IFRS standards continues to be an ongoing challenge for the Canadian oil and gas industry, according to Canadian Natural Resources Limited. "As we transition from our codified, industry-specific approach to IFRS-based general principles, we need to significantly re-design the way we gather, process, and analyze our core operating results at a more discrete level. We also need to educate our North American based stakeholders on the new differences created by IFRS," said Murray Harris, the company's financial controller. "Further, the expanded financial statement disclosures required under IFRS will overlap many of the disclosures currently contained in our other continuous disclosure documents, such as our MD&A. We encourage our Canadian accounting standard setters to work with securities regulators to streamline and integrate all of our regulatory disclosure requirements."

Conclusion

> **“Implementing IFRS takes careful planning and significant resources and shouldn’t be somebody’s night job. The support from the top to drive this change initiative is critical to securing the right level of resources from all parts of the organization.”**
>
> **Diane Kazarian, IFRS Practice Leader, PwC Canada**

This study has shown that while the majority of Canadian public companies are well on their way to completing the initial diagnostic phase of their conversion to IFRS, much work remains to be done on the road to 2011. Although most executives involved in this research believe that they are on schedule, the amount of work remaining isn’t clearly understood until they complete a detailed diagnostic assessment of the differences. Indeed as the survey showed most of the spending on the conversion is planned for in 2010, implying that there is still much work to be done between now and the end of 2010.

Clearly, larger companies are further down the conversion path than smaller ones, and this is mainly due to resource availability. Companies that have not progressed as far as expected cite competing priorities, such as quarter and year-ends, as the reason for delay. In addition, human resource constraints are another factor impeding the progress of conversion, as people are often pulled in too many directions in order to give the project due attention.

With respect to understanding the impacts of adopting IFRS on the company as a whole, not enough attention is being paid to systems issues, given the desire to run parallel accounting systems in 2010. While most CFOs agree there will be systems impacts with the conversion, at the time of this research, only 41% indicated that they had assessed the impacts on their information technology. Similarly, CFOs who are ultimately accountable for the transition to IFRS within their companies, have not yet made significant inroads into informing their boards, others on the senior management team, or external stakeholders on the potential impacts of IFRS on the bottom line. This is expected to be resolved by most companies by the end of 2009/early 2010, when they have a more concrete picture of what the financial impacts will be to the organization. Training is also an ongoing issue, and many CFOs are turning to external advisors/consultants for their expertise in IFRS implementation.

The bottom line is that all key drivers to conversion must be aligned, ranging from understanding the technical implications of IFRS accounting to assessing systems and processes required to drive new information and data, to robust communications with key stakeholders and training and education. It is paramount that these pillars, which are scalable to the size and complexity of each organization, work effectively together to ensure a successful IFRS transition.

Appendix A: Executive Research Forum Participants

Forum Chair: Barry Gorman – Board of Trustees Chair, CFERF

Moderators: Diane Kazarian – Partner, IFRS Practice Leader, PwC Canada
Ramona Dzinkowski – Executive Director, CFERF

FEI Canada: Michael Conway – Chief Executive and National President, FEI Canada
Line Trudeau – Chief Financial Officer, FEI Canada
Vic Wells – Chair of CCR (Committee on Corporate Reporting), FEI Canada
Laura Bobak – Senior Writer, FEI Canada
Melissa Gibson – Communications Associate, FEI Canada

Participants: Richard Burton – Vice President and Corporate Controller, McCain
Johanne Charbonneau – Former Vice President, Finance & Chief Financial Officer, CBC
Tim Deacon – Vice President, International Accounting & Policy, Manulife Financial
Murray Harris – Financial Controller, Canadian Natural Resources Limited
Gregory Henderson – Senior Vice President & Chief Financial Officer, AGF Management Limited
Marion Kirsh – Associate Chief Accountant, Ontario Securities Commission
Geoff Leverton – Canadian Leader, Capital Markets Group, PwC Canada
Karen McCardle – Principal, Accounting Standards Board
Cameron McInnis– Chief Accountant, Ontario Securities Commission
Lucio Milanovich – Director, Finance, Marsulex Inc.
Love Mital – VP Accounting Policies & Procedures, Scotiabank
Robert Motz – Chief Financial Officer, Aeroquest International
Fred Peters – Chief Financial Officer, Axiotron Corp.
Claude Plourde – Controller, Centerra Gold Inc.
Nathan Reeve – Vice President, Financial Services, OPG
Noeline Simon – Vice President, Tax Planning & Governance, Sun Life Assurance Company of Canada
Paul Van Damme – Chief Financial Officer, Bradmer Pharmaceuticals Inc.
Wilfred Au –Senior Accountant, Office of the Chief Accountant, Ontario Securities Commission

Observers: Lisa Coulman – Partner, PwC Canada
Carolyn Forest – Senior Manager, Media Relations, PwC Canada

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