

# Converting to IFRS

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## Background

In July 2002 the European Commission issued a regulation that required publicly listed entities in European Union member states to adopt International Financial Reporting Standards (“IFRS”) for their consolidated financial statements for year ends that began on or after January 1, 2005. It is estimated that over 7,000 entities were affected by this regulation. In January 2006, the Accounting Standard Board (AcSB) called for all publically accountable enterprises in Canada to adopt IFRS. The AcSB has recently confirmed the changeover date for replacing Canadian generally accepted accounting principles (“GAAP”) with IFRS for interim and annual financial statements will be January 1, 2011. Notably IFRS will only currently apply to publically accountable enterprises which exclude (A) privately held companies that (i) have not issued equity or debt in the public market or (ii) do not hold assets in a fiduciary capacity, (B) non-for-profits organizations, and (C) public sector entities. The Securities and Exchange Commission (“SEC”) announced in April 2005 that it was setting out steps to eliminate the need for a US GAAP to IFRS reconciliation by 2009.

## Potential Impacts

**Accounting** – the standards have changed and so has the presentation and reporting of the financial results. You need to assess the impact of the changes on the financial results and consider the entity’s options under IFRS 1. IFRS 1 provides transitional guidance and relief for entities converting from their current GAAP on certain items, and is relevant when you reach the point of selecting the new accounting policies. If you plan to issue using IFRS for 2011, you’ll need to start accumulating comparative information for the 2010 period. If the entity is also a SEC registrant, you may need to have two years of comparative financial results which means starting in 2009.

**Business** – a review of the remuneration scheme of the entity may be required if performance metrics are linked to specific profit measurements that will have changed due to adoption of IFRS. Furthermore, changes in profits may result in changes to regulatory reserves as equity may be impacted, and/or the dividend policy may need to be revisited. Generally more details will be required for segmented reporting purposes and entities will have to be able to discuss this information with investors and analysts.

**People** – the success of the conversion rest primarily with the people involved in its implementation. You must have visible and strong support from the top tier of your entity. You will need to invest in your resources by supplying education and hands-on training in IFRS. You will likely also need to hire addition resources to complete the conversion on time. Consider whether external resources have the experience and training in IFRS to provide value and can train you internal resources through the conversion.

**Technology** – the changes in the accounting standards, primarily the changes in the manner in which assets/liabilities are measured may require changes to software and hardware. If everyone has the same deadline, securing a vendor to meet implementation dates may become a challenge.

## Steps to preparing for the conversion

1. Get your team together.
  - a. What functional business line will be responsible for the assessment stage and the implementation stage?
  - b. Gather your members; include senior sponsors, accounting and finance, technology, investor relations and human resources.
  - c. Form the Steering Committee.
  - d. Appoint a project manager and a minimum core team; communications lead, technical accounting and policy lead, process re-engineering lead, technology lead, and training lead.
2. Learn about IFRS.
  - a. Who on the team needs in-depth training on IFRS?
  - b. Will the training come via external courses or will you get more “bang for your buck” by developing an “in-house” solution which could be used during the pilot and entity implementation?
3. Prepare a comparison of existing GAAP treatment to IFRS (this in itself is a mini-project).
  - a. Determine effect of IFRS on key internal and external metrics.
  - b. Understand impact on technology requirements.
  - c. Define change management implications.
  - d. Assess options under IFRS 1, as options available for the transition year many not survive past this year. Use scenarios to assess impact on year two.
  - e. Refine project scope, deliverables and time frame.
  - f. Decide on area which will be subject for pilot.
4. Align IFRS efforts with other on-going initiatives such as CEO/CFO certification compliance as internal controls over financial reporting may be changing.
5. Finalise IFRS implementation plan
  - a. New policies, procedures, processes need to be documented.
  - b. Changes to chart of accounts need to be mapped and tested.
  - c. Technology changes to be implemented.
  - d. Establish data migration parameters and run parallel tests and reconciliations.
  - e. Plan and compete potential restatement of results.
  - f. Communications strategy completed – training for staff, create internal support/help desk and material/discussion for analysts and investors.

## The Claret Partners Limited

The conversion to IFRS is a large project for any entity; we can assist you in the following ways.

- Preparation of the comparison of existing GAAP to IFRS for your entity,
- Assessing whether changes to technology are required,
- Assessing the entity’s options under IFRS 1 and running scenario analysis for year two onwards,
- Development and delivery of IFRS training,
- Assisting in redefining the scope, time table and resources required for implementation,
- Preparing the implementation plan,
- Assisting in vendor selection for any technology changes required,
- Preparation/documentation of accounting policies, procedures and processes, and
- Implementing the pilot and entity conversion.

*The Claret Partners Limited is a consulting firm dedicated to providing the best in regulatory compliance, tax, risk and governance services as consultants and project managers creating workable and practical solutions. **For more information please contact us at [contact@theclaretpartners.com](mailto:contact@theclaretpartners.com).***