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Canadian Investor Relations Institute
CIRI
Institut canadien des relations avec les investisseurs

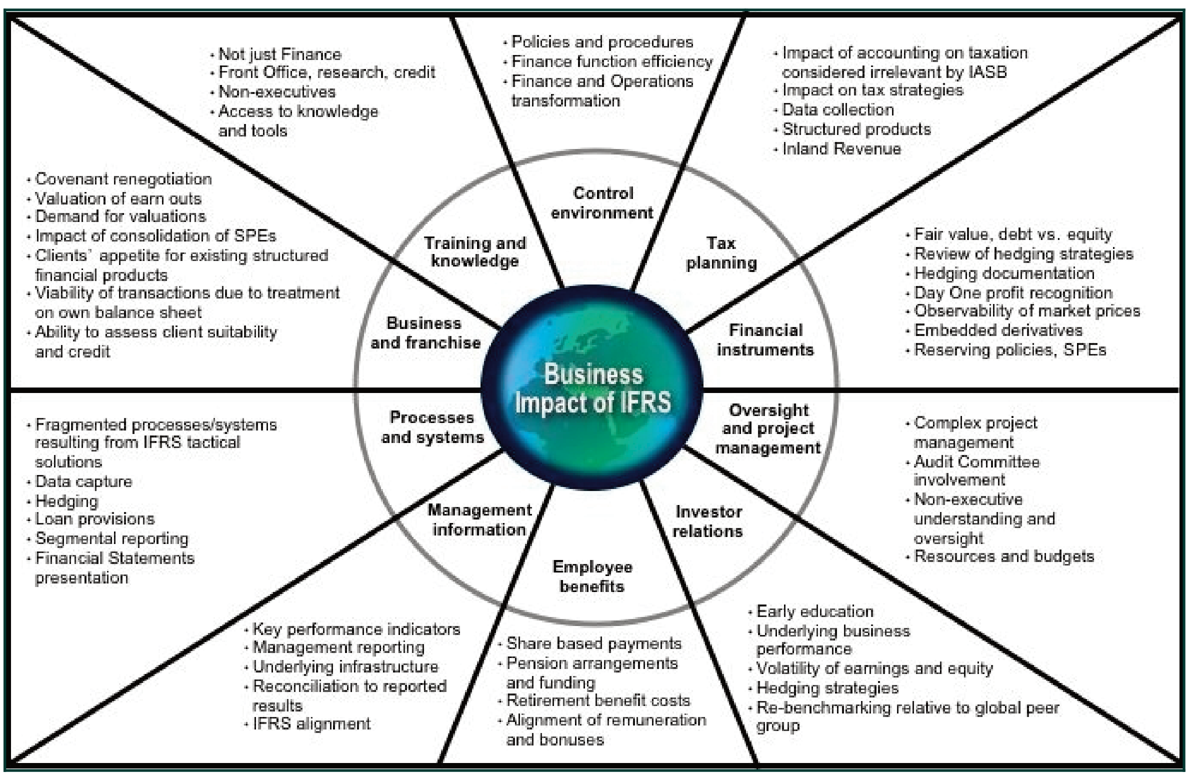
IR FOCUS

IFRS CONVERSION CREATES IR OPPORTUNITY

Let's face it, right now many countries just don't speak the same financial language – leading to frustration for financial statement users attempting to compare corporate results. Beginning in 2011, however, all "publicly accountable enterprises" in Canada will begin reporting under international financial reporting standards (IFRS) – joining more than 100 countries that have already adopted or permit the use of these global standards. Consistency of financial reporting will enhance the worldwide competitiveness of Canadian companies and simplify international mergers and acquisitions. The graphic below, courtesy of Ernst & Young LLP, shows the conversion to IFRS will have wide-ranging business impacts beyond accounting issues. For Canadian IROs, the transition represents an unprecedented communications opportunity.

The IR team needs to be involved from the beginning in order to develop a communications plan.

The IFRS learning curve is steep, with an overwhelming amount of information to absorb. A wealth of educational material is available to help IROs understand IFRS (see "Where to Get More Information" for links to some key resources) but the best way for IROs to proceed is to join their companies' IFRS transition project teams and take part in internal training. If this is not possible, find out what the financial reporting group is doing to get ready for IFRS; if the process is not underway, you have identified a big red flag.



IRO ESSENTIALS

While companies' circumstances differ, certain aspects of IFRS will concern all IROs:

- The financial statements will look different under IFRS. IROs will need to help users of their companies' financial statements understand the new line items. It may be necessary to review the statements line by line to explain the differences.
- Reported earnings may be more volatile under IFRS, as fair value measurements will vary from period to period.
- IFRS will necessitate additional disclosure in MD&A (written in plain language – see s. 1.5 of the Companion Policy to National Instrument 51-102) and notes to the financial statements.
- The choices available under IFRS 1 (First-time Adoption), could lead to divergent practices, affecting the comparability of companies' results. It is important to understand the impact of these one-time elections and to monitor the activities of industry working groups that will provide guidance and establish Canadian benchmarks for industry-specific issues. Consider industry consistency and comparability before making elections that differ from the norm.
- Adoption of IFRS (and one-time elections under IFRS 1) will likely result in modifications to the elements comprising financial ratios, key metrics and performance indicators (some of which are non-GAAP measures), and even financial covenants. As these measures are useful in making investment decisions, explaining the changes to investors (and rating agencies, if applicable) is vital to help them recognize variances that are due to the conversion to IFRS versus changes in company performance.

Canadian Securities Administrators have issued guidance (see CSA Staff Notice 52-320, May 9, 2008) outlining an "incremental approach to disclosure" in interim and annual MD&A during the three years leading up to adoption of IFRS. However, lessons learned from those who have already adopted IFRS suggest that disclosure in MD&A alone may not sufficiently smooth the transition. The U.K.-based Investor Relations Society, drawing on the experiences of its members following the adoption of IFRS in the European Union, recommends that companies "communicate early, communicate directly, communicate comprehensively, and manage expectations."

COMMUNICATIONS PLANNING TIPS

IROs should be developing an integrated communications plan to prepare investors and other stakeholders for the coming changes. In its publication, "Pre-2011 Communications about Conversion to IFRS", the Canadian Performance Reporting Board recommends best practices, including the following communications:

1. Outline the company's changeover plan, identify key milestones, and report on ongoing progress relative to the plan;
2. Identify and discuss conversion issues, including possible effects on key performance indicators; and
3. Discuss the factors involved in determining the timing and choice of conversion options, including the rationale for and effect of selecting one policy over another.

WHERE TO GET MORE INFORMATION:

Canadian Securities Administrators. (May 9, 2008). **CSA Staff Notice 52-320 – Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards**
www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part5/csa_20080509_52-320_fin-rpt-standards.pdf

Canadian Institute of Chartered Accountants

- IFRS Transition Resources.
rmx.cica.ca/ifrs/ifrs-transition-resources/index.aspx
- CICA and Deloitte. (March 26, 2009). **IFRS-related disclosures in December 31, 2008 MD&A of Canadian companies – selected examples, background and commentary.**
www.cica.ca/download.cfm?ci_id=50702&la_id=1&re_id=0
- Canadian Performance Reporting Board. (October 2008). **Pre-2011 Communications About IFRS Conversion**.
rmx.cica.ca/ifrs/ifrs-transition-resources/docs-&-files/item2797.pdf
- Industry Specific Issues.
rmx.cica.ca/ifrs/ifrs-transition-resources/item2492.aspx
- Greiss, Rafik and Sharp, Simon. (February 2008). **20 Questions Directors and Audit Committees Should Ask About IFRS Conversion**
www.cica.ca/index.cfm/ci_id/43008/la_id/1
- CICA eLearning Portal: **Introduction to IFRS – Implications for Canadian Businesses**.
67.192.106.170/CICA_init/

Additional Accounting Resources

- International Accounting Standards Board.
www.iasb.org.
- Canadian Accounting Standards Board.
www.acsbcanada.org/index.cfm/ci_id/185/la_id/1.htm
- Deloitte and Touche LLP.
www.corpgov.deloitte.com/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/CanEng/Page%20Copy/Financial%20Reporting/IFRS/IFRS%20Resources.html
- Deloitte IFRS website and e-Learning portal.
www.iasplus.com/index.htm
- Ernst & Young LLP.
www.ey.com/CA/en/Issues/Governance-and-reporting/IFRS/IFRS
- KPMG LLP.
www.kpmg.ca/ifrs/
- PricewaterhouseCoopers.
www.pwc.com/ca/eng/ifrs/main/index.html

Don't jump the gun. While it is important to inform investors about the changeover plan (#1 above), it is premature to communicate details (#2 and #3) externally until the company completes its assessment and makes policy choices. Therefore, most of the details will not be broadly communicated until 2010. However, if management has determined that the conversion to IFRS will have a material impact on the company's financial statements or financial position, this must be disclosed, even if the impact cannot yet be quantified.

Use reconciliations to Canadian GAAP to identify the differences you will need to explain. As the conversion project progresses, reconciliations will be used internally to assess the financial impact of accounting differences. IROs can use these reconciliations to develop a communications plan. As well, the 2011 interim and annual financials must provide reconciliations of certain comparative information previously reported under Canadian GAAP. IROs should ensure that explanations of these reconciliations are clearly conveyed. Bear in mind that, after conversion to IFRS, most companies will no longer have systems in place to reconcile to Canadian GAAP. Therefore the effects of conversion must be communicated in advance.

Tailor information for different audiences. Audiences' information needs will vary. For example, it may be necessary to communicate changes in coverage ratios to fixed income investors and rating agencies.

Employ multiple communications vehicles. In addition to MD&A disclosure, consider IFRS tutorials (either standalone or as part of an investor day). Create backgrounders and PowerPoint presentations and post these on the company website.

IROs who effectively and proactively communicate the effects of IFRS will be recognized as leaders, earning the respect and appreciation of analysts, investors and other stakeholders.

ABOUT IR FOCUS

EDITOR
Jo Mira Clodman
Clodman Hecht Communications Inc.

WRITER
Tracy Lutz
Keystone Investor Relations Inc.

LEGAL ADVISORS
Dawn Whittaker
Ogilvy Renault LLP

Grant A. Zawalsky
Burnet, Duckworth & Palmer LLP

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For information about *IR Focus* or membership in CIRI, contact:

Canadian Investor Relations Institute
201, 1470 Hurontario Street
Mississauga, Ontario L5G 3H4
Tel. (905) 274-1639 www.ciri.org