THE COST OF IFRS TRANSITION IN CANADA

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EXECUTIVE SUMMARY

Overall, the costs of implementing International Financial Reporting Standards (IFRS) in Canada were broadly in line with those planned for and expected. Costs were significant but manageable. The majority of respondents to an online survey by the Canadian Financial Executives Research Foundation (CFERF) said that out of a dozen cost categories, such as planning, training and having financial results audited, transition costs ultimately turned out to be about the same or less than budgeted for in most categories. The study also shows that, for about half of respondents, the costs of preparing and auditing financial statements under IFRS are about the same as under Canadian generally accepted accounting principles (GAAP), and others found some savings. Others found it more costly.

To obtain data for this report, *The cost of IFRS transition in Canada*, CFERF, the research arm of FEI Canada, polled its members as well as a selection of preparers of financial statements across Canada through an online survey conducted in January, 2013. IFRS formally took effect in Canada on January 1, 2011.

The report summarizes the quantitative data on the costs of the transition by more than 100 publicly accountable enterprises and other organizations in Canada. The study combines the data gathered from 105 financial executives whose organizations had adopted IFRS. The data was combined with insights gathered at a roundtable held in Toronto on February 21, 2013. The roundtable featured 14 preparers of financial statements, representing a cross-section of industries, and reflected the diverse nature of those polled in the survey. Financial support for the project was provided by the IFRS Foundation and Canada's Accounting Standards Oversight Council.

The impact of the transition to IFRS, in terms of cost and difficulty, on Canadian organizations depended on various factors including the size and nature of their operations:

- Most companies found the transition to IFRS to be a time-consuming compliance exercise.
- Many preparers did a line by line comparison to identify and prioritize differences between IFRS and Canadian GAAP, finding that the "devil was in the details."
- Many smaller-sized companies found the transition to IFRS was generally straight-forward.

- Many larger-sized corporations managed the complexity of the challenge well by planning early and devoting considerable resources to the task.
- Other entities fell somewhere in between. Depending on the volume of their revenues, the complexity of their transactions, or how early they started planning, they reported a variety of experiences, such as finding unexpected matters they had to address.

Canada's largest corporations found cost savings by eliminating U.S. GAAP reconciliations and reducing the number of different accounting frameworks applied in their global operations.

COSTS OF TRANSITION

Actual costs incurred by survey respondents to prepare their first set of financial statements varied according to revenues:

- For smaller-sized companies, defined throughout this report as organizations with revenues of CDN$99 million or less, the average total cost was $154,804. Transition costs in the category ranged from $10,000, spent by a municipal organization with revenues of about $6.03 million, to $506,000, spent by a private company with revenues of $49 million or less. Costs as a percentage of revenues were 0.17% for the lowest spending company and about 1% of revenue for the highest spender in the category.
- For medium-sized companies, defined as organizations with revenues of CDN$100 million to $999 million, the average total cost was $512,812. The lowest cost was $75,000 spent by a municipally-operated not-for-profit organization with revenues of about $147.7 million. The highest cost in the category was $2,611,300, spent by a public utility with revenues of about $990 million. Costs as a percentage of revenues were 0.05% for the lowest spender and 0.26% for the highest.
- For larger-sized companies, defined as organizations with revenues of CDN$1 billion or more, the average total cost was $4,041,177. The lowest spent by a large company was $80,000, by a financial services company with revenues of more than $1.28 billion. The highest cost in the category was $25.5 million, spent by a financial services company with revenues of $30 billion. Costs as a percentage of revenues were 0.006% for the lowest spender and 0.08% for the highest spender in the category.

KEY DRIVERS OF COSTS

Although many financial executives found the IFRS transition process to be challenging, those who had started planning well in advance reported that they were in a better position to control costs by employing a variety of strategies. For instance, a company which had the foresight to hire a finance employee well-versed in IFRS was less dependent on third-party consultants.

Respondents were polled on a dozen categories of transition costs including training, planning, resolving technical accounting issues, contract changes and so on. In most categories, the majority of respondents said costs were the same as budgeted for. (Unless otherwise indicated, all percentages refer to all respondents, rather than a selected subgroup.)

Experiences by category of cost included:

- 76% of all respondents said planning costs were about **the same** as budgeted for. Costs were also the same as budgeted for in the following areas: training (75% of all respondents), contract changes (70%), changing accounting policies (65%), general documentation of all considerations and areas assessed (62%), quantifying effects of differences identified (58%), preparing the disclosures regarding the changeover to IFRS (57%), having financial results audited (55%), and preparing the notes to the financial statements, other than the disclosures regarding the changeover to IFRS (54%).
- 48% of all respondents said their costs were **less than expected** when it came to changing IT systems and processes. Costs were also less than expected in the following areas: contract changes (30% of all respondents), training (20%) and changing accounting policies (19%).
- 40% of all respondents reported costs to resolve technical accounting issues were **higher than expected**. Costs were also higher than expected to: prepare the notes to the financial statements, other than the disclosures regarding the changeover to IFRS (38% of all respondents), have the financial results audited (37%) and prepare the disclosures regarding the changeover to IFRS (34%).

Some companies found their overall transition costs to be more than anticipated:

- 44% of respondents who said their overall total transition costs were **higher** than their total budgets said this was because more issues were identified than anticipated.
- 41% of those who found their total transition costs exceeded allocations said the **higher** costs were due to the time required to resolve differing technical interpretations of IFRS between various parties, partly because there were delays while seeking resolution between differing interpretations of the standards.

Some companies found their overall transition costs to be less than anticipated:

- 43% of those who found their overall transition costs to be **lower** than anticipated attributed the savings to the use of IFRS materials and checklists developed by accounting firms, accounting standard setters and others.
- 40% of those who found their overall transition costs to be **lower** than anticipated attributed the savings to the fact that there were fewer differences between IFRS and Canadian GAAP than they had anticipated.
- 36% of those who found their overall transition costs to be **lower** than anticipated said they identified fewer issues than they expected.

The size of companies was a factor in how organizations approached differences between IFRS and Canadian GAAP. Medium-sized companies found the process more demanding and were somewhat more likely to grapple with resolving differences between the two sets of accounting standards than anticipated (36% of medium-sized companies compared to 14% of larger-sized companies and 30% of smaller-sized companies).

Hiring and integrating external experts as permanent staff was a method employed in a bid to control consulting fees, at least for those who could afford to either add staff or re-assign existing internal staff. The survey results showed that the largest companies attributed a greater proportion of their costs to internal staff time, while smaller-sized companies were more likely to have a greater proportion of their costs allocated to third parties. External parties hired included IFRS and IT consultants as well as accounting and administrative support.

There were some areas where the impact was less than had been expected. For instance, the transition to IFRS did not have a significant effect on existing contracts, according to almost all survey participants. 96% of respondents said IFRS transition required few or no changes in their contracts, such as sales, purchases, vendor, payroll, banking and finance arrangements. 3% reported making significant changes and incurring significant costs to change existing contracts.

As well, three-quarters of respondents did not have to make significant changes to their IT infrastructure. Many discovered that their systems were more flexible than had been thought. In particular, smaller-sized companies were unlikely to have to make changes to IT systems, with few to no changes required (84% of smaller-sized companies surveyed compared to 74% of medium-sized companies and 65% of larger-sized companies).

RECURRING COSTS OF IFRS REPORTING

When survey respondents were asked how IFRS had helped them reduce the costs of financial reporting, nearly half said their costs were about **the same**. A more precise breakdown follows:

- 47% of all organizations reported that their financial reporting costs were **the same** following the IFRS transition. The majority of medium-sized companies with revenues under $1B said this (56% of organizations with revenues of $100-$249 million, 71% of organizations with revenues of $250-$499 million and 63% of organizations with revenues of $500-$999 million).
- 38% of all respondents said their financial reporting costs were **higher** under IFRS. This included some smaller-sized companies (50% of those with revenues of $50-$99 million) and larger-sized companies (more than half of companies with revenues of $1 billion to $9 billion).
- About 15% of all respondents reported savings post-transition. In particular some of Canada's largest companies (75% of organizations with revenues of $10-$19 billion and 67% of those with revenues of $20 billion or more) said that their reporting costs **decreased** from not having to prepare U.S. GAAP reconciliations.
- 72% of all respondents said that the costs to prepare interim financial statements were **the same** as they had been under pre-changeover Canadian GAAP (when the cost of preparing the first set of financial statements was excluded).

Survey respondents and roundtable participants reported that costs arose from more technical issues emerging than had been anticipated. They also reported delays while seeking resolution between differing interpretations of standards, hiring external consultants and other parties, and an increase in required disclosures.

On average, respondents said that the following expenses were non-recurring:

- 69% of the total cost of internal staff time spent on the transition including finance and IT;
- 65% of external auditor fees, such as for incremental work to audit comparative information, interim and annual reports in the first year of adoption;
- 57% of the costs of external accounting and clerical support; and
- 46% of the tab for external IFRS technical experts.

In short, costs were significant but manageable.

INTRODUCTION

Before publicly accountable Canadian companies formally adopted IFRS as issued by the IASB on January 1, 2011, preparers of financial statements in this country found themselves working with a unique set of accounting practices (at least from a global perspective).

While Canadian GAAP was principles-based overall, preparers found themselves for some topics applying more detailed guidance that had been based on the rules-based approach in U.S. GAAP. From following a dual strategy of harmonizing with U.S. GAAP while working to support international convergence, there had been a shift towards adopting IFRS given the evolution of IFRS and the U.S.'s continuing commitment to improve and harmonize accounting standards globally. This was a transition which had been evolving for some time, as in the area of accounting standards for financial instruments, for which Canadian GAAP was converged with IFRS guidance. However, there were still differences in aspects of guidance when pre-changeover standards were compared to IFRS. It should be noted that before the IFRS transition, there was recognition that accounting changes and costs would have likely been incurred regardless, as new developments in accounting are made.

To further complicate the Canadian financial reporting framework, Canadian publicly accountable enterprises had also undertaken compliance with Sarbanes-Oxley. These transition projects had already consumed significant resources for many companies, in some cases requiring the creation of transition teams at major companies such as TD Bank Financial Group, Manulife Financial, BCE Inc. and Canadian Tire Corp.

All these changes were taking place (and continue to) within the pressures of working within a quarterly reporting structure.

To be clear, the technical aspects of the shift to IFRS are not the subject of this research. The purpose of this study is not to examine the differences between Canadian GAAP and IFRS, nor is it to assess the actual impact on financial statements of the changeover as reported in IFRS disclosures. This undertaking aims to assess the costs of the shift, in time and money, of the IFRS transition for a wide cross-section of publicly accountable enterprises required to adopt IFRS and other Canadian organizations that adopted IFRS voluntarily, and to identify some key drivers behind those costs.

METHODOLOGY AND DEMOGRAPHICS

METHODOLOGY

A voluntary web-based survey was completed online by 139 senior financial executives between January 14, 2013, and February 13, 2013. Of all the respondents, 105 had adopted IFRS. The results of the online survey were combined with the insights of 14 experienced preparers of financial statements from a wide range of sectors (see **Appendix D**), who attended a half-day roundtable discussion in Toronto on February 21, 2013. Nearly all of the financial executives at the roundtable had led the IFRS transition project at their organizations, either in current or past positions.

Those 34 respondents that had not adopted IFRS were currently using either Accounting Standards for Private Enterprises, Accounting Standards for Not-for-Profit Organizations, Accounting Standards for Pension Plans or U.S. GAAP at the time of the survey. Two other organizations were still using Pre-changeover Accounting Standards.[1] After answering two questions, the non-IFRS adopters were directed to exit the survey.

Of the remaining 105, whose data formed the basis of this study, 103 respondents had previously been using Canadian GAAP (or the pre-changeover national standards). Of those, 97 had been using Canadian GAAP only, while six had been using both Canadian GAAP and U.S. GAAP. (Four of the six reconciled their results to U.S. GAAP and two prepared full sets of U.S. GAAP financial statements.) Only one respondent had been using Accounting Standards for Private Enterprises before IFRS transition, and one had been using U.S. GAAP only.

DEMOGRAPHICS

Most (62%) of the survey participants worked at public companies. Nearly one in five (18%) worked at private companies which had elected to adopt IFRS, and 12% at Crown corporations.[2] The remaining respondents worked at other organizations including not- for-profit and pension plans.

[1] Canadian GAAP now includes five different accounting frameworks:

1. IFRS, as issued by the IASB;
2. Accounting Standards for Private Enterprises;
3. Accounting Standards for Not-for-Profit Organizations;
4. Accounting Standards for Pension Plans; and
5. Pre-changeover Accounting Standards.

Qualifying investment companies and segregated accounts of life insurance enterprises and entities with rate-regulated activities are able to defer their changeover to IFRS by three and four years, respectively, and are able to continue to use the Pre-changeover Accounting Standards to file.

[2] Government business enterprises, such as the Liquor Control Board of Ontario, a roundtable participant in this study, were required to adopt IFRS in accordance with the Public Sector Accounting Standards.

One in five (21%) executives were from the sectors of mining, quarrying and oil and gas extraction, and the second-largest industry group was financial services, when various sub-sectors in the financial services industry were combined. A wide range of sectors were represented including manufacturing, transportation, agriculture and professional services (see **Appendix E** for further demographic information).

Forty-seven percent were Canadian domestic companies or Canadian subsidiaries of Canadian companies. Thirty-four percent were Canadian companies with subsidiaries in other jurisdictions. Six percent were subsidiaries of non-U.S. parents and 4% were subsidiaries of U.S. parents. The remainder fell into other categories such as government agencies, Crown corporations and not-for-profit organizations.

Twelve percent of all respondents had filed IFRS in another country before Canada. Those that had filed abroad had done so in the United Kingdom, France, Germany and elsewhere in Europe, Chile, Argentina, Malta, Singapore, China and the Caribbean.

Ninety-three percent of respondents said their companies had completed at least their first annual financial statements. Sixty-two percent of all respondents worked for companies which had completed their first annual IFRS financial statements and had filed interim IFRS financial statements in the second year, and 31% had filed their first annual financial statements only. The remainder were still at the transition stage.

TRANSITION

BUDGET

A majority of companies (62%) budgeted under $500,000 for their IFRS transition project: 30% of all respondents budgeted less than $100,000 and 32% of all respondents budgeted $100,000-$499,999. See **Appendix A** for further insight on how much companies in various revenue categories allocated for their transition budgets.

Most costs came in on or under budget. When asked to compare budgeted amounts against actual costs incurred, the majority of respondents said costs ultimately turned out to be about the same or less than budgeted for most categories, such as planning, training and having financial results audited (see **Chart 3**).

Nearly half (48%) said IT systems turned out to be less costly than expected, and 30% said contract changes also came in under budget.

WHAT WAS YOUR ORIGINAL OVERALL TRANSITION BUDGET, BASED ON YOUR FORECASTS?

CHART 1 – ORIGINAL OVERALL TRANSITION BUDGETS (IN CDN$)

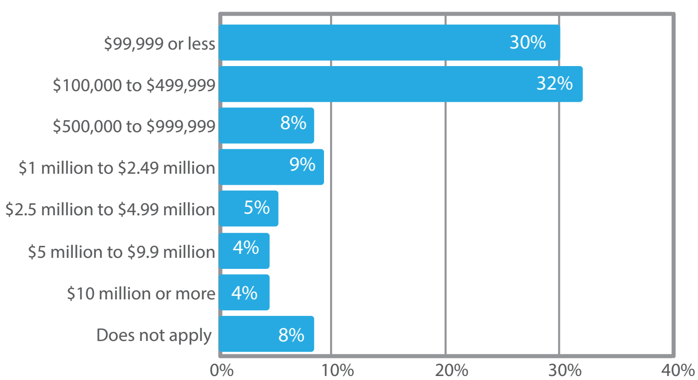
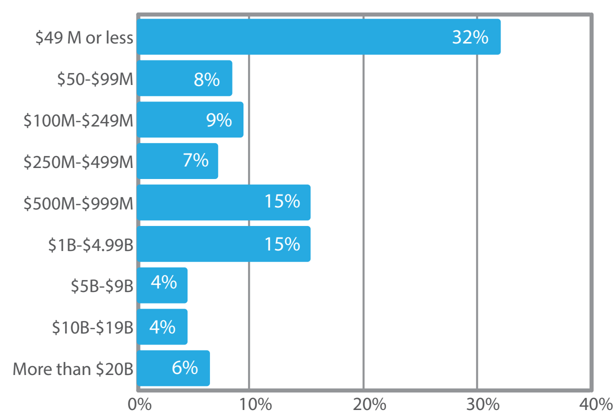
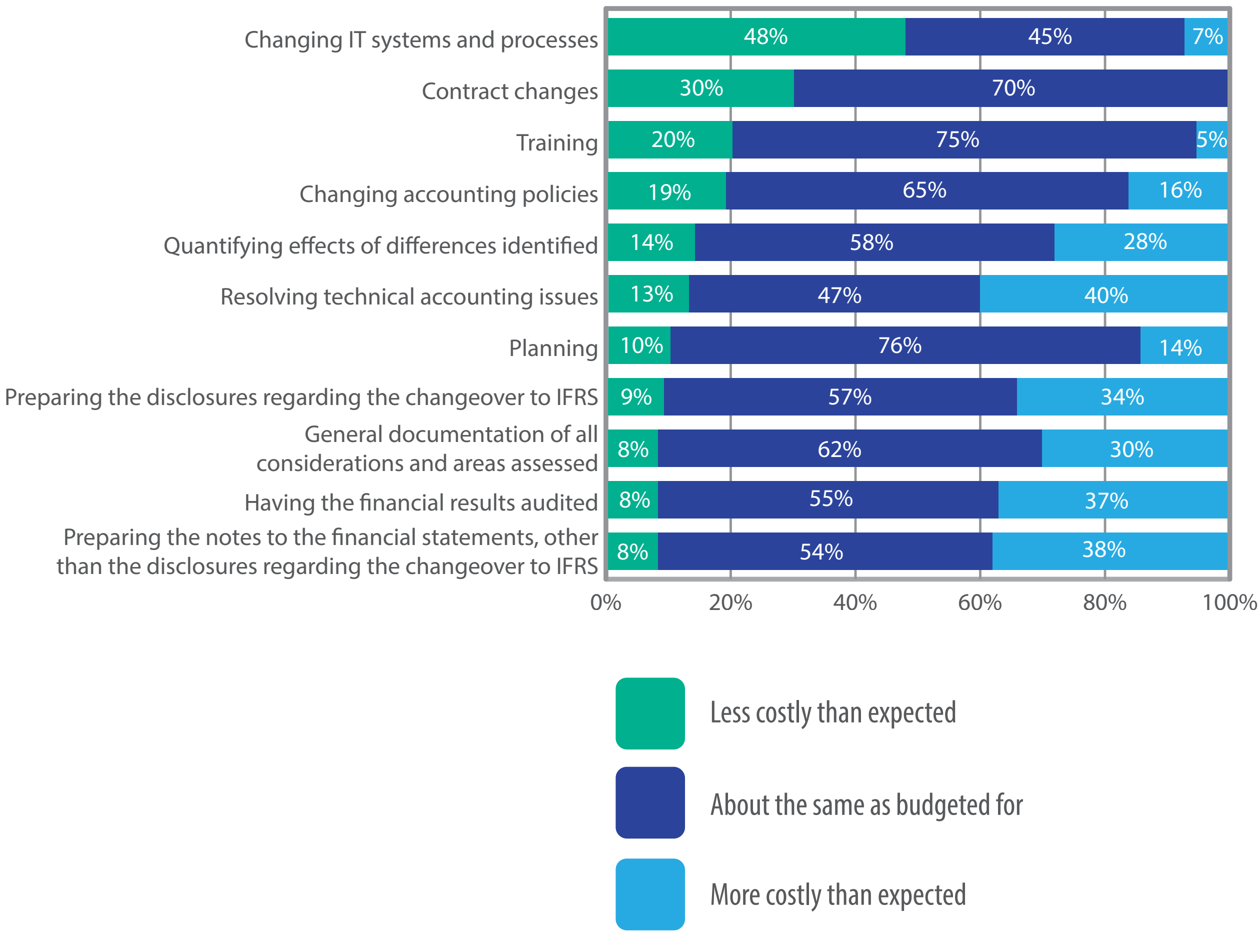


CHART 2 – REVENUES OF SURVEY RESPONDENTS (IN CDN$)



TRANSITION: BUDGET

CHART 3 – WERE THE FOLLOWING MORE OR LESS COSTLY THAN EXPECTED, OR ABOUT THE SAME AS HAD BEEN BUDGETED FOR?



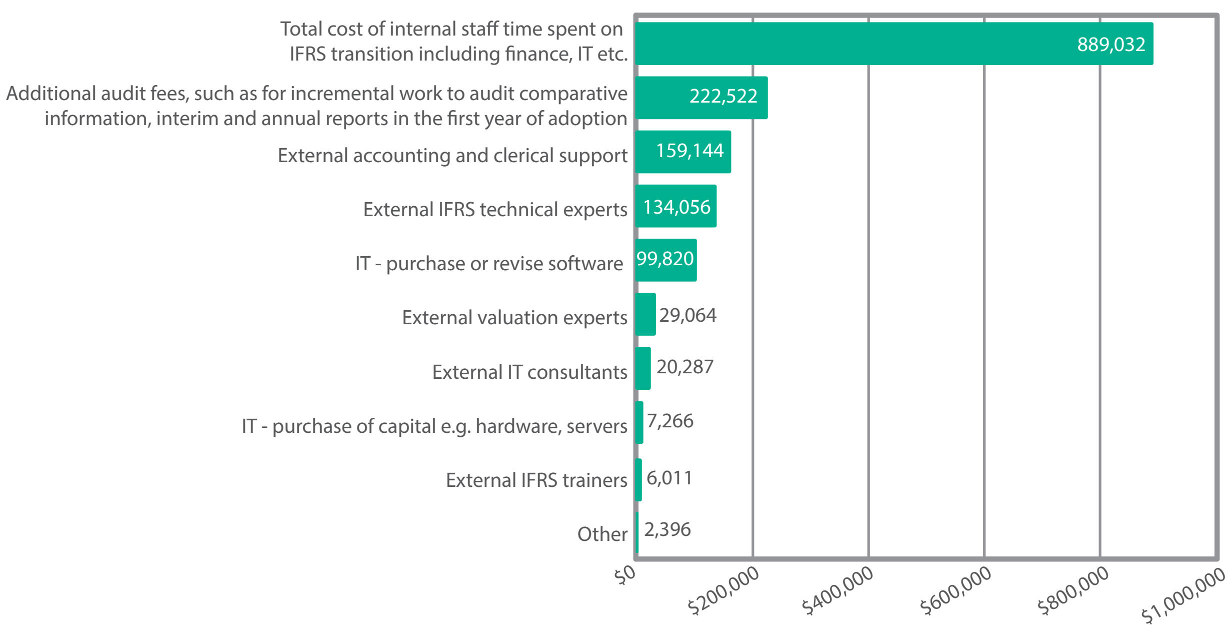
TYPES OF COSTS

"Over half the costs of our transition to IFRS related to the audit of the opening balance sheet and the retrospective application of IFRS. Despite other countries adopting IFRS ahead of Canada, it was surprising the extent of interpretation that still remained. Given that IFRS was new for Canada there was a general reluctancy for audit firms to provide early interpretations of application of IFRS to Canadian companies without consultations with their global offices for consistency and comparability - increasing the time and cost of adoption. The challenge and complexity of external auditor enforcement of the consistent global application of IFRS across their client base was by far our biggest external spend during transition."

Tim Deacon – Senior Vice President and CFO, Investment Division, Manulife Financial

Companies were asked to detail their total transition costs, broken down by category. **Chart 4** outlines the average costs per category for all respondents who tracked their costs. For instance, respondents spent an average of $889,032 on internal staff time. For a detailed breakdown of average costs according to revenue size, see **Table A** and **Appendix B**.

CHART 4 – WHAT IS THE TOTAL OF THE COSTS INCURRED TO PREPARE YOUR FIRST SET OF IFRS FINANCIAL STATEMENTS?*



*Average or mean figures in each cost category, for all respondents who tracked costs or said they could reasonably approximate the costs.

TABLE A – AVERAGE COSTS INCURRED BY ACTIVITY TO PREPARE FIRST SET OF IFRS FINANCIAL STATEMENTS BY SIZE OF COMPANY

IFRS transition activities	Smaller-sized companies (Revenues of $99 million or less)	Medium-sized companies (Revenues of $100M-$999M)	Larger-sized companies (Revenues of $1B or more)
Cost category	Average spent (CDN)		
Internal staff time spent on IFRS implementation including finance, IT etc.	$44,857	$198,520	$2,423,720
Additional audit fees (audit comparative information, interim or annual reports in the first year of adoption	$29,750	$92,000	$545,815
External accounting and clerical support	$45,929	$62,800	$368,702
IT - purchase or revise software	$5,714	$5,400	$288,345
External technical experts	$12,411	$114,572	$275,185
External valuation experts	$4,357	$15,760	$67,074
External IT consultants	$ 9,286	$17,760	$33,815
IT - purchase of capital (e.g., hardware, servers)	$1,429	0	$20,370
External IFRS trainers	$1,071	$6,000	$10,963
Other	0	0	$7,188
TOTAL	**$154,804**	**$512,812**	**$4,041,177**
Largest amount spent by a single organization	$506,000	$2,611,300	$25,500,000
Revenue of highest spending company	<$49,000,000*	$990,000,000	$30,000,000,000
Cost as % of revenue	1%	0.26%	0.08%
Smallest amount spent by a single organization	$10,000	$75,000	$80,000
Revenue of lowest spending company	$6,036,457	$147,662,624	$1,280,390,000
Cost as % of revenue	0.17%	0.05%	0.006%

The analysis of the costs for organizations to prepare their first set of financial statements using IFRS was enhanced by examining these costs according to company revenue. Those who tracked costs or could reasonably approximate their costs represented 84 of 105 respondents, or 80%. This breakdown offered some useful insights (see **Table A**).

*Private company exact revenues not available.

SMALLER-SIZED COMPANIES

A higher proportion of costs incurred by smaller-sized companies were external. Their costs for external accounting and clerical support were the greatest compared to other costs incurred and relative to their size. Smaller-sized companies spent an average of:

- $45,929 for external accounting and clerical support (29.7% of costs for smaller-sized organizations);
- $44,857 on internal staff time (29.0% of costs);
- $29,750 for additional audit fees (19.2% of costs); and
- $12,411 for external IFRS technical experts (8.0% of costs).

Costs were lower in some areas, such as contracts and IT, than had been budgeted for, but higher in others, such as resolving technical accounting issues.

> “There were significant indirect costs as well, in terms of the diversion of intellectual capital from far more productive uses. Senior finance staff, instead of addressing make vs. buy decisions, potential acquisition analysis, re-financing opportunities and other value added activities, were instead searching for embedded derivatives, componentizing fixed assets and word-smithing excessive disclosures, not exactly shareholder value building exercises. The time of senior operational management, audit committees and boards was also similarly diverted, so the indirect cost of the IFRS conversion could well have matched or exceeded the direct costs for most organizations. Fortunately, everyone was in the same boat, so most were not at a competitive disadvantage while undertaking this exercise.”
>
> **Brian Fiedler – CFO, Give and Go Prepared Foods Corp. (former Vice President of Canadian Tire Corp.)**

MEDIUM-SIZED AND LARGER-SIZED COMPANIES

Medium-sized and larger-sized companies also spent a lower proportion of fees in the areas of audit fees, external accounting and clerical support, IT purchase or revise software, external IT consultants and IT purchase of capital than smaller-sized companies (see **Appendix B**).

Medium-sized companies spent more, relative to their size and overall budgets, on external expertise than the largest companies, in particular for external IFRS technical experts (22.3% compared to 6.8% for larger-sized companies).

> “My experience in Europe assisting companies with their transition to IFRS was that there was a much higher dependency on external advisors to facilitate the initial adoption. As a result, IFRS didn’t initially get embedded throughout the organization the way it needed to be - the focus was more on getting across the finish line on time. We took our cues from those experiences and sought to build up our internal IFRS expertise from the beginning. There were a few pockets where very specialized supplemental technical accounting knowledge was required, in particular on derivatives and hedge accounting, but for the most part we did it internally. In the end, this paid off as we now have an expansive network of IFRS experts within our organization.”
>
> **Tim Deacon – Senior Vice President and CFO, Investment Division, Manulife Financial**

Costs for larger-sized companies were mostly consumed by internal staff time and internal resources, an average of 60% of actual costs (see **Appendix B**). Larger companies had higher internal costs, since they had and were able to utilize more internal resources.

KEY COST DRIVERS

Some respondents found their costs were higher than expected for two major reasons:

- 44% of those with higher costs identified more issues than anticipated (see **Table B**); and
- 41% had to resolve differing interpretations of IFRS (e.g., there could be differences in interpretation between two different consulting firms, or even between a parent and a subsidiary).

"The options under IFRS were not as straightforward as we had expected. We found a number of situations where it was done one way and then for another country it was done another way. Sometimes the direction didn't make sense and then with more investigation we would find examples of alternative treatments. At the end of the day a lot more time was spent as there was more than one answer – which is something that you don't come across with U.S. GAAP."

Survey respondent – larger-sized company, revenues of more than $1 billion

Reasons cited for why 41% of respondents said the transition activities took more time than expected included:

- More detailed disclosures were required;
- Notes to the financial statements were complex and took more time to prepare;
- Areas of accounting requiring significant judgment were time consuming;
- Detailed work required, such as testing different accounting choices;
- Steep learning curve; and
- Even areas where IFRS did not apply had to be documented.

TABLE B – IF IFRS TRANSITION ACTIVITIES WERE MORE COSTLY OR REQUIRED MORE EFFORT TO IMPLEMENT, WHY WAS THIS? (SELECT ALL THAT APPLY)*

Identified more issues to address than anticipated	44%
Resolving differing interpretations of IFRS between different parties (e.g., preparers, consultants, advisors, etc.)	41%
Took more time (see bullet points above)	41%
Differences between IFRS and Canadian GAAP were more than anticipated	26%
Other	14%
IT hardware and software cost more than anticipated	6%

*Percentages represent percentage of respondents who found IFRS transition to be more costly than anticipated

Of all respondents who said transition activities were less costly than expected, 36% indicated it was because there were fewer issues to address than anticipated while fewer differences between IFRS and Canadian GAAP were mentioned by 40% of this group (see **Table C**). Forty-three percent of the same group said that they were able to utilize IFRS materials and checklists prepared by others to speed the process along. Other reasons mentioned:

- Used internal staff who knew more about business than external consultants.
- Impact on IT systems less than anticipated.
- Cooperated with CFOs from other public companies in same industry.
- Detailed advance planning reduced issues with auditor.

TABLE C – IF IFRS TRANSITION ACTIVITIES WERE LESS COSTLY OR REQUIRED LESS EFFORT TO IMPLEMENT, WHY WAS THIS? (SELECT ALL THAT APPLY)

Used IFRS materials and checklists developed by accounting firms, accounting standard setters and others	43%*
Differences between IFRS and Canadian GAAP were less than anticipated	40%
Identified fewer issues to address than anticipated	36%
Other (see bullet points above)	30%
Leverage off IFRS knowledge and work done by subsidiaries or parents that have already adopted IFRS	9%

*Percentages represent percentage of respondents who found IFRS transition to be less costly than anticipated

> “We initially did hire one of the big four firms to be our advisor, but what we found out fairly quickly was that they really didn’t know any more than we did about IFRS. And the other thing was, they didn’t understand our business. So we stopped using them and started doing the work ourselves.”
>
> **Richard McCabe – Vice President & Controller, AltaLink**

Another roundtable participant expressed concern over the fees her organization was charged. The financial executive negotiated a reduction on the bill, arguing the company should not have to pay for the consultant's training and learning time.

It emerged that many organizations, recognizing the importance of retaining the newly acquired knowledge of IFRS internally, sought to avoid reliance on external consultants. Many hired staff and sought to integrate the newfound expertise within their organizations. Some organizations reported that they looked overseas to hire internal staff. Roundtable participants described how they sponsored an employee to come from England and another from Australia. Several roundtable participants created teams or dedicated one or two people to lead their IFRS projects.

Roundtable participants said they generally received support and funding (to hire extra staff or consultants) from senior management and audit committees, not surprising given that the changeover was a necessary compliance exercise. "We had no idea what we were facing," recalled Karyn Brooks, Senior Vice-President and Controller, BCE Inc. and Bell Canada. "So it was an annual budgeting exercise. And the good news was that it was mandatory capital, as we call it at BCE, so it was simpler to get funding." Brooks said she reassigned an existing team of internal staff to IFRS – she moved the implementation team from Sarbanes-Oxley compliance to the IFRS transition work. (BCE Inc. reported revenues of just under $20 billion in 2012.)

"With respect to cost, one thing that took an inordinate amount of time was the fact that you had to apply IFRS retrospectively. There was a lot of time spent on the Opening Balance Sheet and the prior year comparative, in terms of restating the past and having to apply exemptions and elections. Probably one-third of the total effort was undertaking this – a cost that would have been avoided if IFRS could have been applied prospectively as of the transition date (post a re-set for fair value restatement). A single year's worth of comparative data was really not worth the effort."

Brian Fiedler – CFO, Give and Go Prepared Foods Corp. and former Vice President, Canadian Tire Corp.

IFRS was not seen as useful for at least one Canadian domestic company. One survey respondent from a smaller-sized construction company stated bluntly: "IFRS was a complete waste of time for most reporting issuers that operate solely within North America." In contrast, another smaller-sized company in mining stated IFRS transition was "far less painful than we expected." Yet another survey respondent from a smaller-sized company in manufacturing stated that IFRS transition was "not as hard as people think. Benefits are greater than costs."

Some significant costs were non-recurring, including the costs of staff time for the transition, external auditor fees, external accounting and clerical support and external consultants for the transition.

Some found actual transition costs to be less than they had planned.
Why costs were lower than expected (in the words of survey respondents):

- IT systems were flexible and differences in calculation of major items were small.
- Used internal dedicated staff, who were very knowledgeable about our business (as opposed to external consultants who did not know our business), and put a very good project management process in place.
- Impacts to systems were less than anticipated.
- Planned the transition in a high level of detail to reduce issues with our auditor.
- Worked with CFOs from other public companies in our industry to save costs or split the costs.

On the other hand, some found actual transition costs to be more than they had planned.
Why costs were higher than expected (in words of survey respondents):

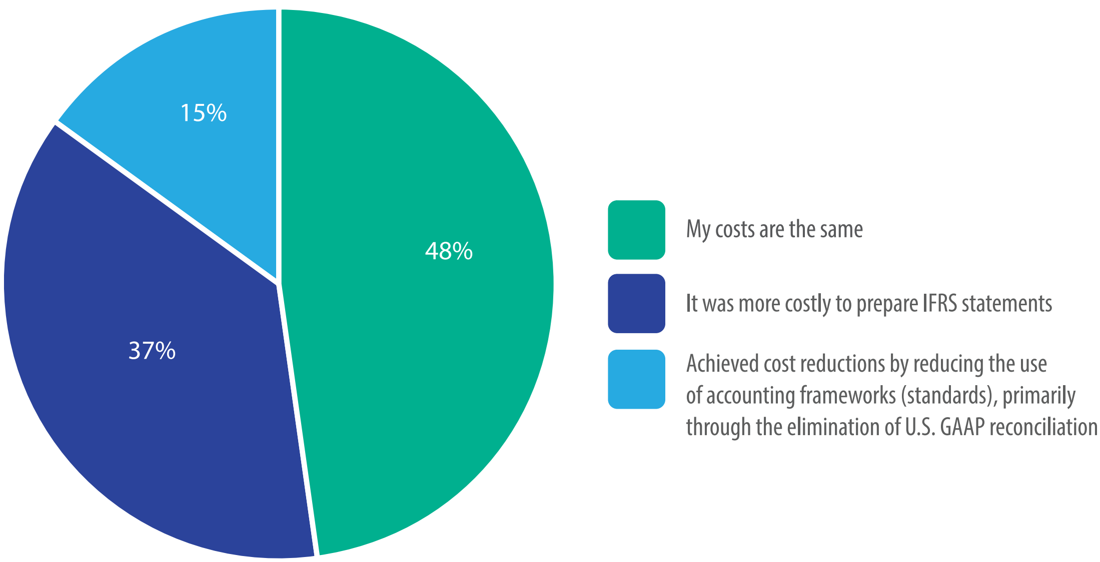
- We converted from an income trust at the same time and that impacted the timing of our financials.
- Addressing the details – for us it was a very detailed fixed assets review.
- Discovered some issues with application of pre-IFRS GAAP and had to resolve.
- Devil was in the details. On the surface did not look difficult, but external advisors wanted much more detail.
- The administration of all the entries (by month, by plan and in dual books and with appropriate controls) took longer than anticipated.

RECURRING COSTS

PREPARING IFRS ANNUAL FINANCIAL STATEMENTS

When survey respondents were asked how IFRS had helped them reduce the costs of financial reporting, nearly half (48%) said their costs were about the same. Another group of respondents (15%) noted cost savings such as not having to reconcile their financial statements with U.S. GAAP, reducing the number of accounting frameworks the organization had to apply, as well as other reductions. A significant percentage (37%) said financial reporting in IFRS proved to be more costly (see **Chart 5**).

CHART 5 – IN WHAT WAYS HAS ADOPTING IFRS REDUCED YOUR FINANCIAL REPORTING COSTS?



INTERIM FINANCIAL REPORTING

Compared to preparing interim financial reports under Canadian GAAP, survey respondents were asked if it is more or less costly to prepare interim financial reports under IFRS, other than the first interim financial report prepared.

- 72% said it costs the same to prepare interim financial reports under IFRS.
- 25% said it was more costly.
- 2% said it was significantly more costly.
- 1% said it was less costly.

IMPACT ON SYSTEMS AND IT

The transition did not result in significant information technology costs for most survey respondents as the impact on process and infrastructure was less than they had anticipated. 73% said IFRS transition resulted in few to no changes to their IT systems, while 21% reported some changes. Only 6% said the transition necessitated significant changes to IT systems.

Thus, nearly half (48%) said IT costs were less than expected, and 45% said the costs were about the same as budgeted for. Only 7% said IT costs were greater than expected.

"Helpful to have eliminated the U.S. GAAP reconciliation requirement. Pointless otherwise – only differences from Canadian GAAP are accounting theory aspects that are little used in evaluating our company."

– Survey respondent from mining company with revenues of $50-$99 million

TIME

LEAD TIME

The advance notice period of three to five years preceding the IFRS changeover date was helpful, according to 87% of respondents. A significant contingent of respondents took advantage of this notice. Of all respondents, 44% started doing early planning more than 24 months in advance, and an additional 13% began 18-24 months ahead. In addition to these early planners, 22% started 12-18 months in advance (see **Chart 6**). Eleven percent started early planning only six to 12 months before filing their first interim statements and an additional 10% started less than six months before.

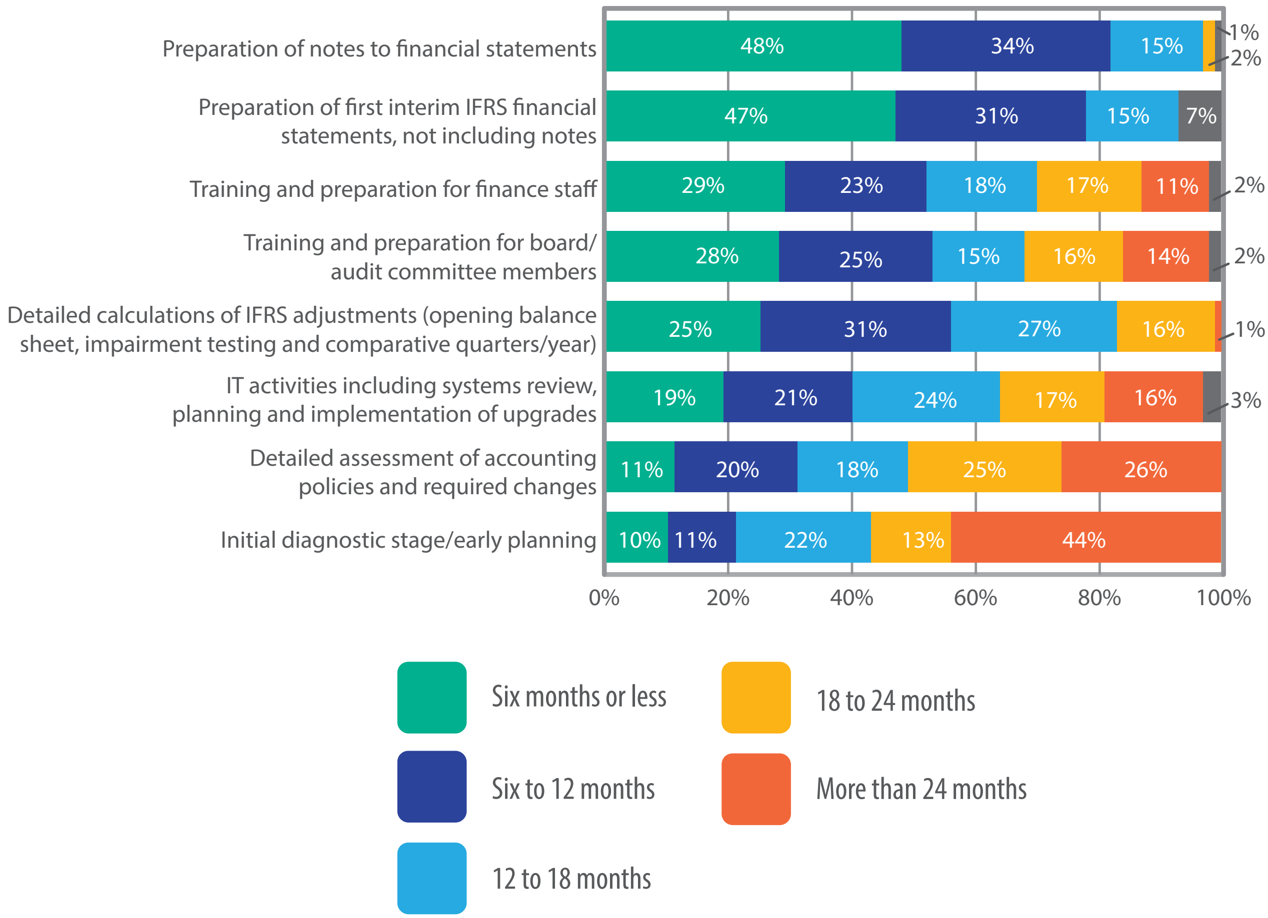
"In terms of advice to another company or jurisdiction, it would merely be: 'Give yourself enough time.' It's going to take longer than you think."

Karyn Brooks – Senior Vice President & Controller, BCE Inc. and Bell Canada

"While the transition was painful and time consuming, detailed planning and upfront preparations allowed us to perform the transition with relatively few issues."

– Survey respondent, from retail trade company with revenues of more than $1 billion

CHART 6 – HOW MANY MONTHS IN ADVANCE OF FILING YOUR FIRST INTERIM FINANCIAL STATEMENTS DID YOU BEGIN THE FOLLOWING ACTIVITIES?



Larger-sized public companies started planning much earlier compared to medium-sized and smaller-sized organizations (see **Table D**). The table indicates that on average, the larger the size of the company, the earlier it started to prepare in advance of filing its first set of interim financial statements. The detailed assessment of accounting policies and required changes was identified as a particularly time-consuming activity.

TABLE D – HOW MANY MONTHS IN ADVANCE OF FILING YOUR FIRST INTERIM FINANCIAL STATEMENTS DID YOU BEGIN THE FOLLOWING ACTIVITIES?

IFRS transition activities	Smaller-sized companies (Revenues of $99 million or less)	Medium-sized companies (Revenues of $100M-$999M)	Larger-sized companies (Revenues of $1B or more)
Category	Average lead time		
Initial diagnostic stage/early planning	12 to 18 months	18 to 24 months	More than 24 months
Detailed assessment of accounting policies and required changes	12 to 18 months	18 to 24 months	18 to 24 months
IT activities including systems review, planning and implementation of upgrades	12 to 18 months	12 to 18 months	18 to 24 months
Detailed calculations of IFRS adjustments (opening balance sheet, impairment testing and comparative quarters/year)	6 to 12 months	12 to 18 months	12 to 18 months
Preparation of first interim IFRS financial statements, not including notes	6 to 12 months	6 to 12 months	6 to 12 months
Preparation of notes to financial statements	6 months or less	6 to 12 months	Six to 12 months
Training and preparation for finance staff	6 to 12 months	12 to 18 months	12 to 18 months
Training and preparation for board/audit committee members	6 to 12 months	12 to 18 months	12 to 18 months

Another survey respondent from a smaller-sized organization stated that the long lead time prolonged debates about how to interpret and apply the accounting standards, which continued to evolve during the advance notice period: "There were too many uncertainties and changes occurring during the notice period (particularly in comparing the standards to the interpretive guidance)."

"Cineplex didn't wait for the Accounting Standards Board to come out and say yes, we're going to do this. We knew it was coming. We knew it was going to happen so we decided we would use internal resources. So I actually hired a staff member in the fall of 2007 who was to be my IFRS Project Manager."

Susan Campbell – Vice President Finance, Cineplex

"Given the global presence, size and complexity of our operations, we acknowledged very early on that we couldn't wait for a final decision on whether Canada would adopt IFRS and to get a head start on understanding the implications in moving to IFRS. Equally, given the evolving standards for financial instruments and insurance Manulife decided to take a very proactive leadership role in helping to influence and shape the development of future standards."

Tim Deacon – Senior Vice President and CFO, Investment Division, Manulife

TIME SPENT ON TRANSITION ACTIVITIES

Larger-sized companies (defined as organizations with revenues of $1 billion to $20 billion or more) spent more time than medium-sized or smaller companies in most areas of the IFRS transition (see **Appendix C**). For instance, 17% of larger-sized companies spent more than 24 months on the detailed assessment of accounting policies and required changes, compared to 10% of medium-sized companies and only 2% of smaller-sized companies. Time-consuming activities cited by larger-sized companies included valuation, componentization of fixed assets and defining cash generating units.

Conversely, smaller-sized companies (defined as organizations with revenues of $99 million or less) spent relatively little time on transition activities. In fact, the majority of smaller-sized companies spent only one to three months completing each IFRS transition related activity. For instance:

- 62% of smaller-sized companies spent one to three months on the initial diagnostic and early planning stage, compared to 55% of medium-sized companies and 35% of larger-sized companies.
- 79% completed IT activities including systems review, planning and implementation of upgrades in one to three months, compared to 65% of medium-sized companies and 26% of larger-sized companies.
- 64% completed the detailed assessment of accounting policies and required changes in one to three months, compared to 19% of medium-sized companies and 9% of larger-sized companies.
- 64% completed the detailed calculations of IFRS adjustments (opening balance sheet, impairment testing and comparative quarters/year) in one to three months, compared to 35% of medium-sized companies and 22% of larger-sized companies.
- 79% completed the notes to the financial statements in one to three months, compared to 58% of medium-sized companies and 35% of larger-sized companies.

Transition case study: TD Bank Financial Group

Senior management buy-in for the IFRS transition project was key to the success of transition, according to Wilfred Au, AVP Finance, Chief Accountant's Department, TD Bank Financial Group. The project was led by a steering committee composed of segment CFOs and other senior finance executives. "Everyone took this quite seriously. That was key to the success. We bulked up the Chief Accountant's department at the bank in anticipation of IFRS transition and brought on additional technical accountants and assigned them to specific segments." After doing an initial diagnostic to identify the main IFRS differences, according to Au, Chief Accountant Department leads were assigned to specific segments to help with the transition. This was followed by white paper accounting analysis documentation and auditor consultations. After that, TD ran parallel systems to quantify the differences, the P&L impacts, balance sheet impacts, and some forecasting of IFRS results. This was followed by communication with the bank's audit committee, stakeholders and analysts.

Transition case study: Manulife Financial

"Why did it take three years to interpret and implement these new accounting standards? The phrase often cited that epitomizes Canada's adoption of IFRS is that 'the devil is in the details.' And the details were many...pension accounting, lease accounting, consolidation and hedge accounting, to name a few for the financial services industry. There was a lot of ambiguity and complexity, despite seemingly similar accounting standards in Canada and internationally. In the end, we opted to include to the audited opening IFRS balance sheet within our last set of financial statements under Canadian GAAP ahead of the transition date as an added lever to force the resolution of any open accounting interpretation issues. The more timely audited results also provided additional comfort and transparency to users of our financial statements of the actual impacts of the initial adoption of IFRS ahead of the transition date."

Tim Deacon – Senior Vice President and CFO, Investment Division, Manulife

CONCLUSION

The impact of the IFRS transition on Canadian organizations, in terms of cost and difficulty, depended on various factors including the size and nature of their operations.

For many smaller-sized companies, the transition to IFRS was straightforward. One respondent noted that they were "too small a company (for the new standards) to have a major impact."

At the other end of the spectrum, larger-sized corporations managed the challenge well by planning early and devoting considerable resources to the task. As a larger-sized company with revenues of more than $1 billion noted, the advance notice period allowed it to plan for and adequately handle the transition in-house instead of hiring consultants. Another larger-sized company observed that the lead time allowed the costs to be spread out over a number of years.

"We are a junior exploration company and costs of compliance outside of reconciliations and new presentation were minimal."

– Survey respondent, smaller-sized company in the mining, quarrying and oil and gas sector, with revenues of $49 million or less

"The transition was not that bad. It presented very little impact to the company. Most changes made perfect sense."

– Survey respondent, medium-sized company in the transportation and warehousing sector, with revenues of more than $100 million and less than $1 billion

"We had a detailed plan and executed it on time and on budget."

– Survey respondent, larger-sized company with revenues of more than $1 billion

"We are a micro-cap and the transition was really just identifying and adopting the required changes that resulted in minimal changes (changes related to additional disclosures of matters and amounts that we already captured internally). This involved work but it was just process. As we already prepared IFRS financial statements for certain European subsidiaries, we had a pretty good handle on the differences way before the mandated transition date."

– Survey respondent, smaller-sized company in the arts, entertainment and recreation sector, with revenues of $49 million or less

Medium-sized entities reported a wide range and variety of experiences. On the upside, one medium-sized company stated: “The notice period allowed us to properly plan the phases of our IFRS transition project and minimize the incremental costs to our company. We were successfully able to conduct this in-house rather than contracting [for the] resources. A huge benefit of this approach was that we were able to minimize our transition costs while at the same time gain the IFRS knowledge in-house. This would not have been possible without the advance notice.” On the other hand, another medium-sized company was not able to take advantage of the opportunity given to prepare and “left it to the last minute anyway.”

Overall, however, most organizations surveyed (87%) reported that the advance notice helped them manage the transition. As one respondent noted: “We found it helpful in managing the process, which in turn led to managing the costs.” In terms of costs, depending on the volume of revenues or the complexity of the organizations’ transactions, they reported a variety of experiences. While some organizations reported surprises and identified new matters to address, some others said they didn’t identify any new issues. Post-transition, half of all organizations surveyed found their costs to prepare financial statements in IFRS remained the same.

Some companies stated there were fewer issues to address and fewer differences between IFRS and Canadian GAAP than they had expected. Meanwhile, larger-sized companies reported that the impacts to their systems were less than anticipated, and they were able to rely on internal resources, resulting in the transition being less costly than expected. Other larger-sized companies reported time-consuming activities including valuation, componentization of fixed assets and defining cash generating units.

Many mentioned disagreements between experts as a cause of delays, and thus higher costs. As a respondent from a larger-sized company noted, “IFRS standards are not prescriptive and require the application of judgment in certain situations. Our external auditors took a long time to agree/disagree with our positions.”

“The costs of adoption of IFRS are largely dependent on the ability of any individual organization to utilize internal resources versus external contractors. In addition, IFRS is more easily accepted by dual-listed entities in Canada, who got to stop reconciling to U.S. GAAP for U.S. filings. Canadian public entities who were TSX registrants only saw no benefit to adopting IFRS and have been vocal about that. For our organization, the discipline we used to implement IFRS and educate our finance group is resulting in a much more disciplined approach on an ongoing basis, and a much better educated finance group in total.”

– Survey respondent, Larger-sized company in the financial services sector

“It was a tremendous effort. On the plus side, some rules under U.S. GAAP which were passed into Canadian GAAP have finally been eliminated. We are back to an environment where some professional judgment is finally allowed. It was tiring explaining some of the revenue recognition rules to internal management and external stakeholders when they made no sense.”

– Survey respondent, Larger-sized company in the professional scientific and technical services sector

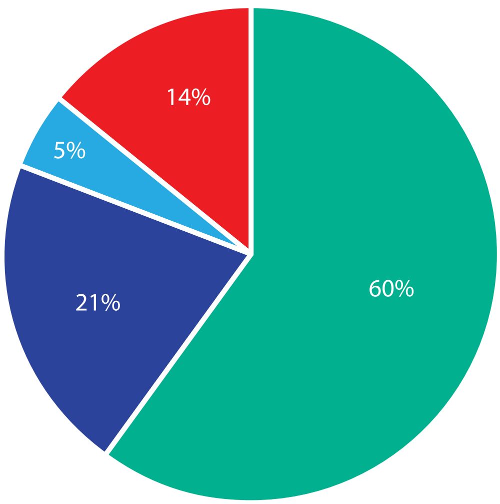
“While this was a compliance exercise that increased costs and provided few benefits to us, I do have to admit that it did not seem to make sense to have a made-in-Canada solution to external financial reporting. In the long-run I think it does make sense to have one set of global accounting standards.”

– Survey respondent, Larger-sized company in the insurance sector

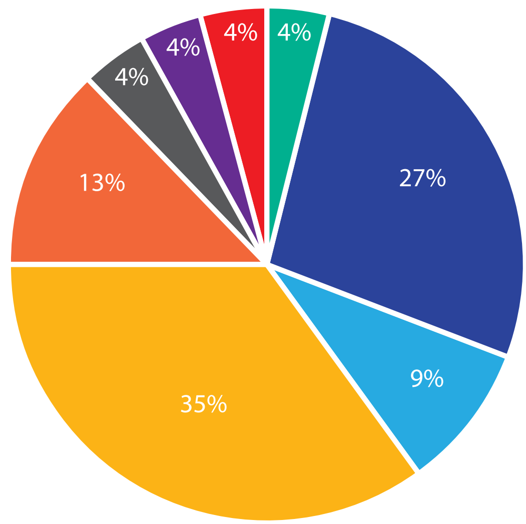
APPENDIX A: BUDGET

OVERALL TRANSITION BUDGETS (BASED ON FORECASTS) BY COMPANY SIZE

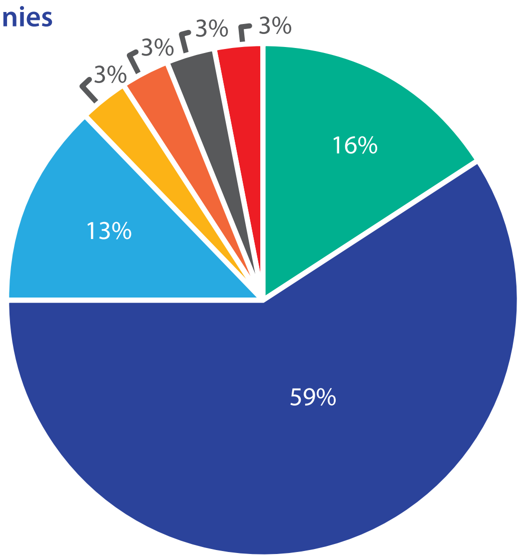
Small companies with revenues of $99 million or less

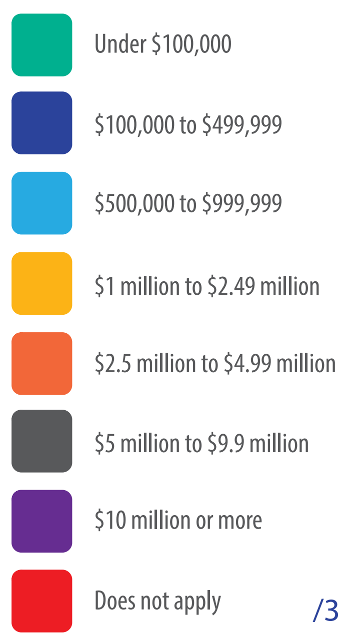


Medium-sized companies with revenues of $100 million-$999 million



Larger-sized companies with revenues of $1 billion or more

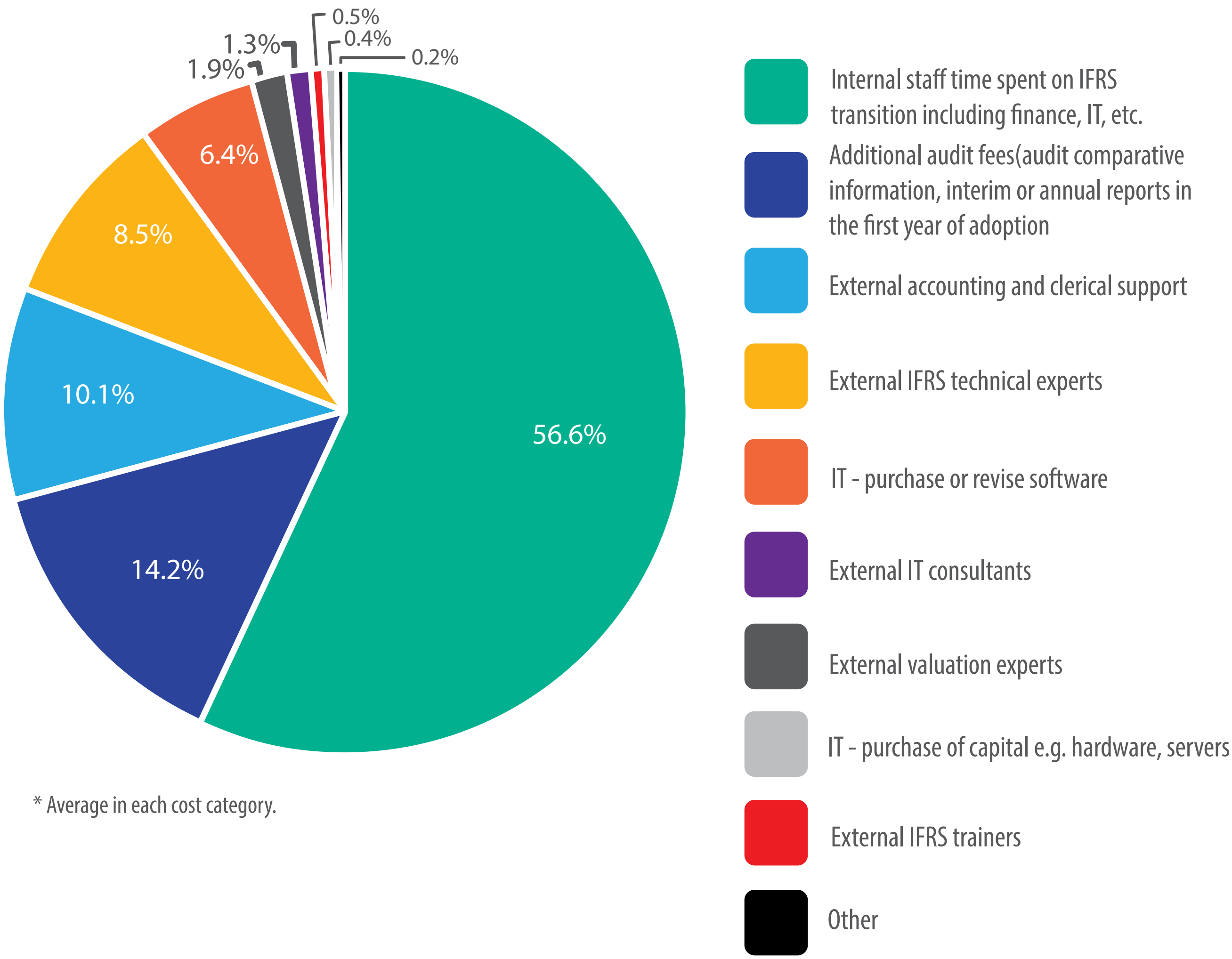




APPENDIX B: COSTS

COSTS FOR ALL RESPONDENTS

Total costs in each category spent by all respondents*

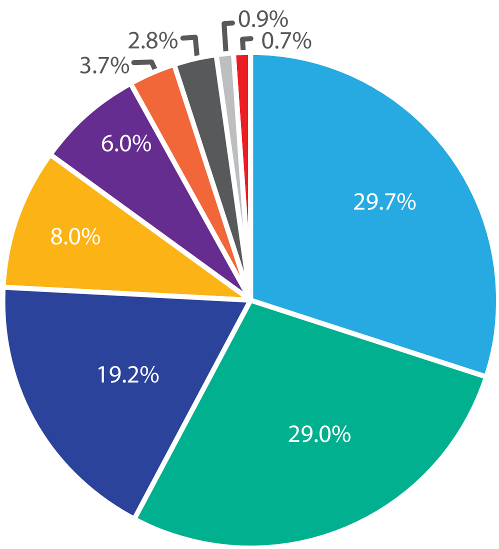


* Average in each cost category.

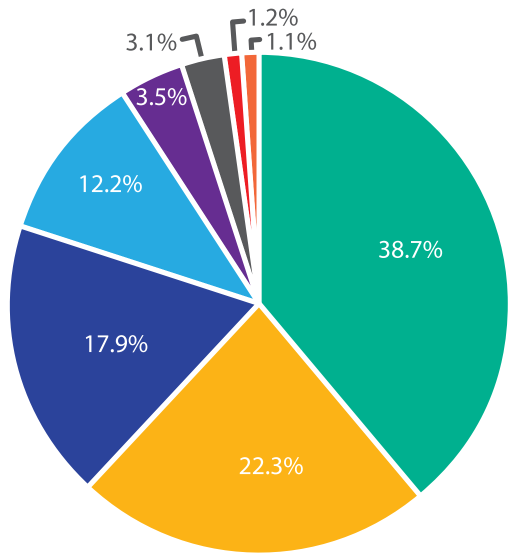
COSTS BY REVENUE SUBCATEGORIES

Total cost to prepare first set of financial statement in IFRS:

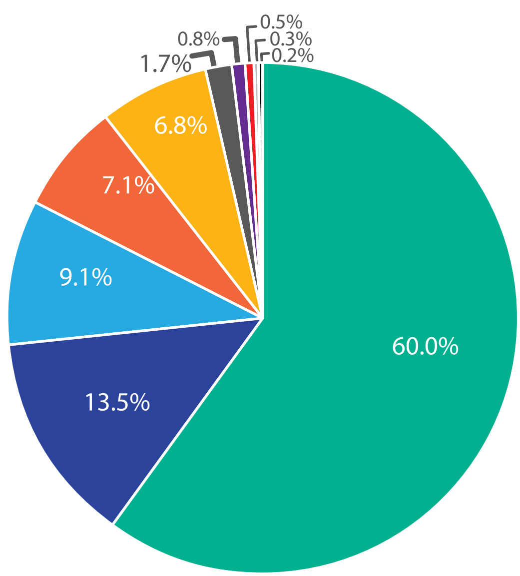
Small companies with revenues of $99 million or less



Medium-sized companies with revenues of $100 million-$999 million



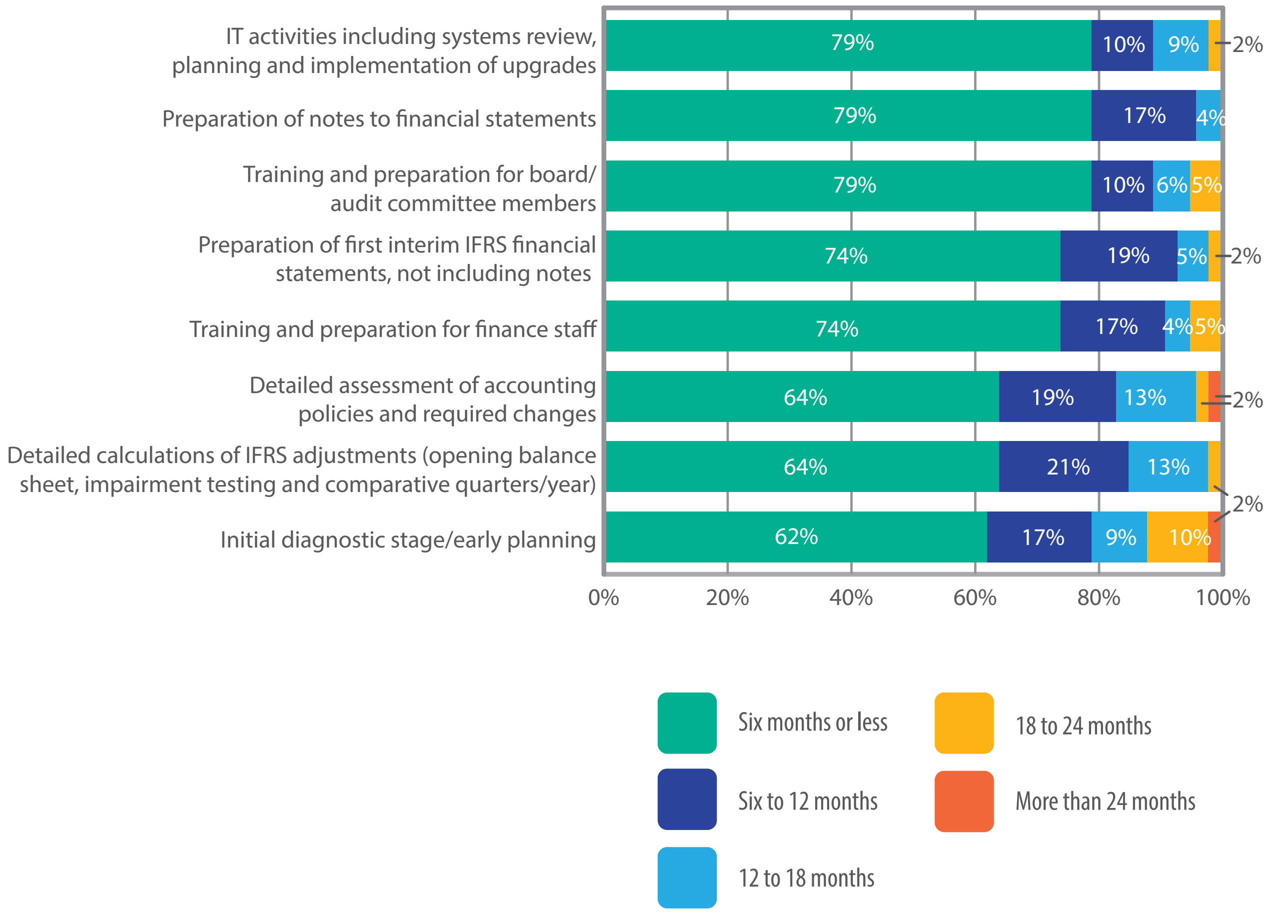
Larger-sized companies with revenues of $1 billion or more



APPENDIX C: TIME

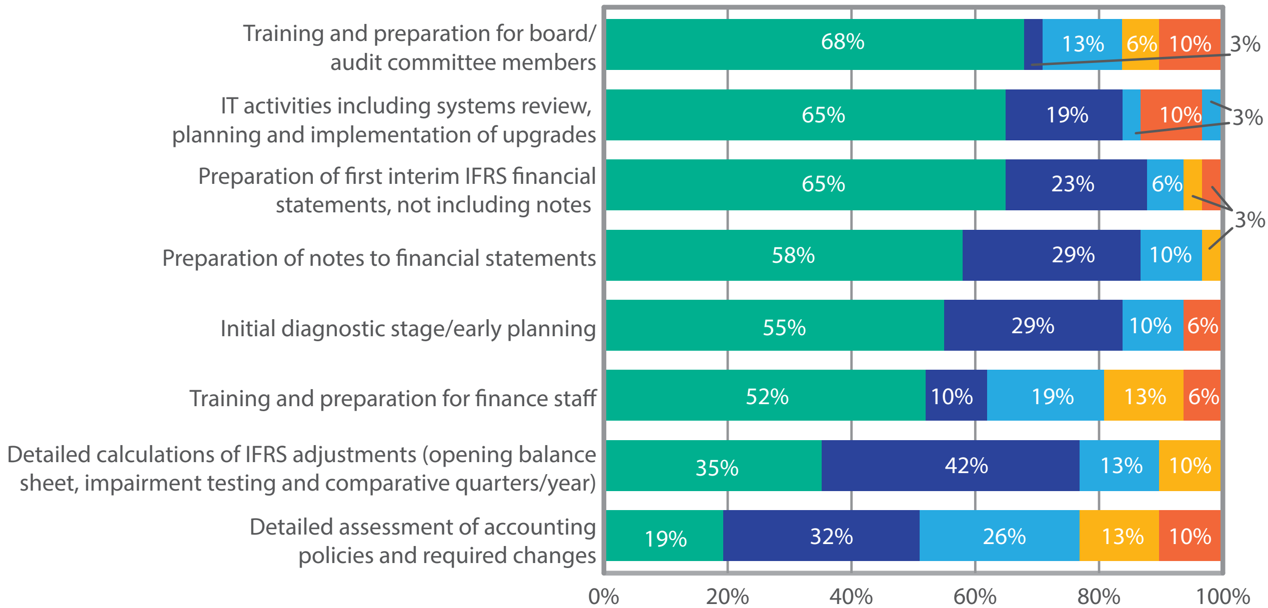
TOTAL TIME SPENT ON IFRS TRANSITION ACTIVITIES, IN MONTHS (BY COMPANY SIZE)

Small companies with revenues of $99 million or less

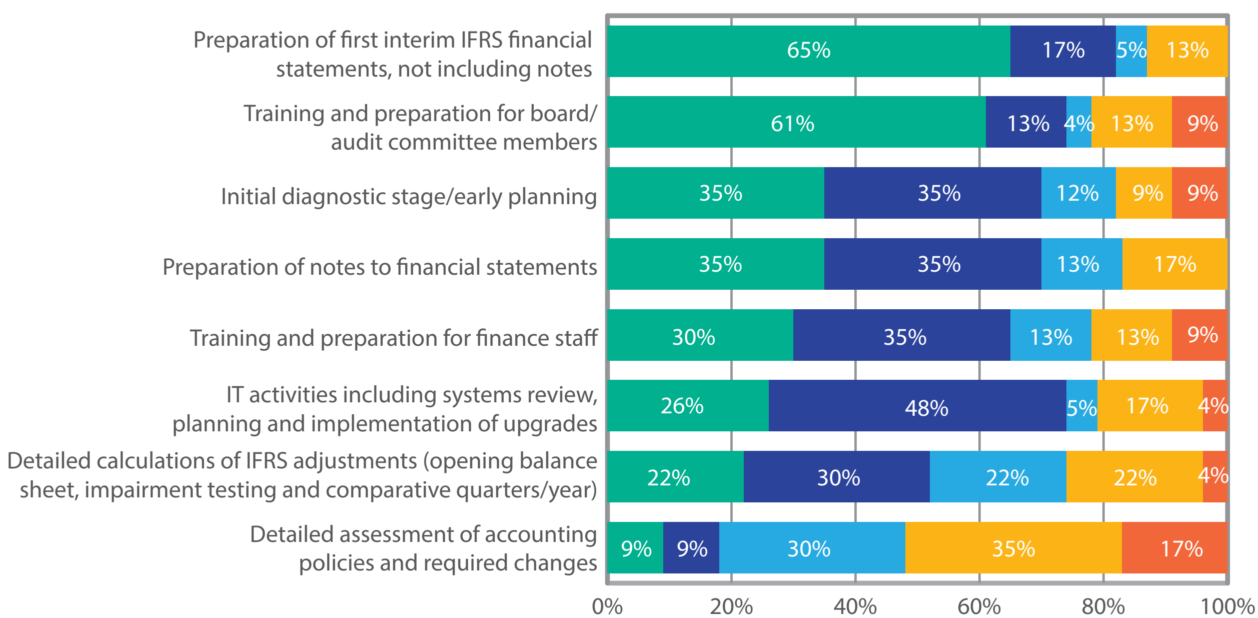


APPENDIX C: TIME

Medium-sized companies with revenues of $100 million-$999 million



Larger-sized companies with revenues of $1 billion or more



APPENDIX D: ROUNDTABLE PARTICIPANTS

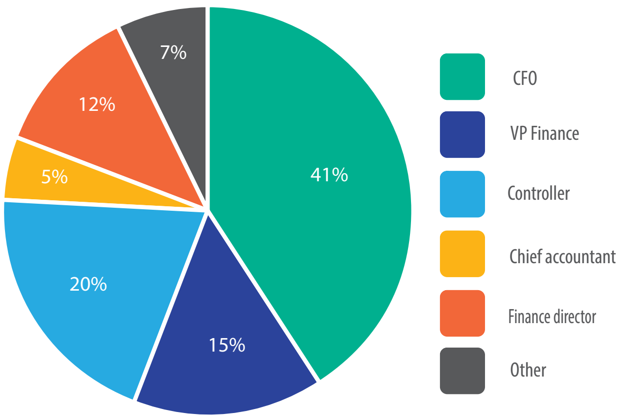
Roundtable Chair:	Michael Conway, Chief Executive and National President, FEI Canada
Moderators:	Linda Mezon – Chief Accountant, Royal Bank of Canada and Vice-Chair, Canadian Accounting Standards Board Christian Bellavance – VP, Research and Communications, FEI Canada
Participants:	Wilfred Au – AVP, Chief Accountant's Department, TD Bank Financial Group Francois Boulanger – Corporate Controller, CGI Karyn Brooks – SVP & Controller, BCE Inc. and Bell Canada Susan Campbell – VP Finance, Cineplex Tim Deacon – SVP and CFO, Investment Division, Manulife Brian Fiedler – CFO, Give and Go Prepared Foods Corp. and former VP, Canadian Tire Corp. Carol Lyons – Controller, LCBO Wei Huang – Treasurer, LS Travel Retail North America Richard McCabe – VP and Controller, AltaLink Karen Weaver – EVP and CFO, First Capital Realty
Phone participants:	Joanne Boyes – Senior Director, Corporate Reporting & Compliance, Potash Corp. Carolyn Graham – SVP & Chief Accountant, Canadian Western Bank

APPENDIX D: ROUNDTABLE PARTICIPANTS

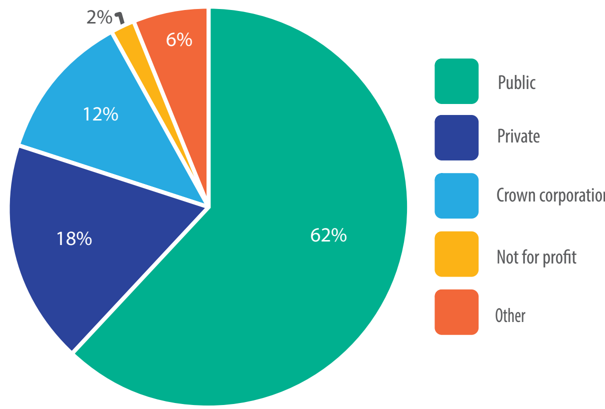
Expert observers:	Gord Fowler – Chair, Canadian Accounting Standards Board Sheila Fraser – IFRS Foundation Trustee and former Auditor General, Canada (2001-2011) Marion Kirsh – Associate Chief Accountant, Ontario Securities Commission Peter Martin – Director, Canadian Accounting Standards Board Ron Salole – VP, Standards, CICA Rebecca Villmann – Principal, Canadian Accounting Standards Board
FEI Canada:	Laura Bobak – Senior Writer, FEI Canada Melissa Gibson – Communications and Research Manager, FEI Canada Vic Wells – Chair, CFERF
Observer:	Daniella Girgenti – Communications Manager, Standards, CICA

APPENDIX E: DEMOGRAPHICS

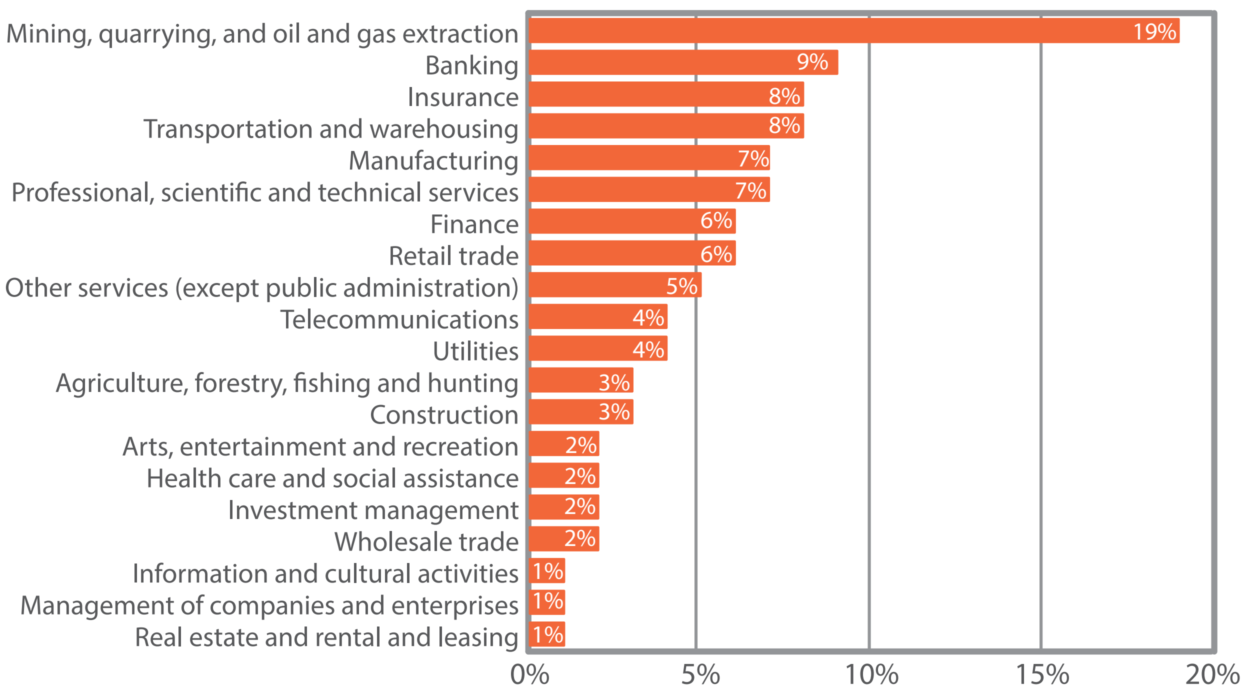
POSITION TITLE



CORPORATE STRUCTURE

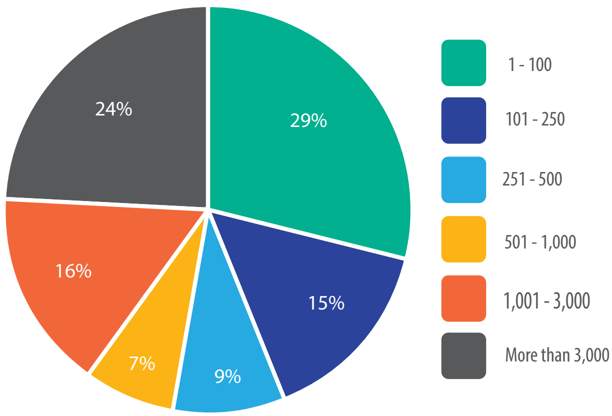


INDUSTRY

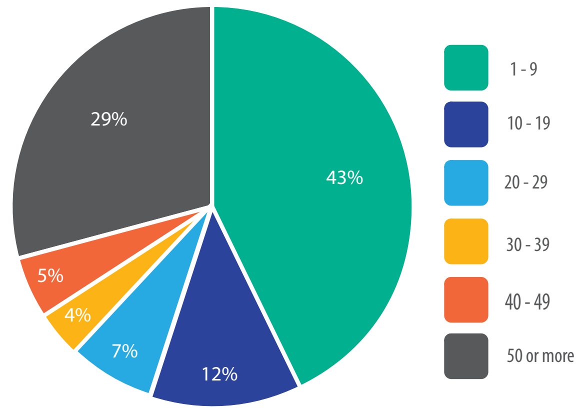


APPENDIX E: DEMOGRAPHICS

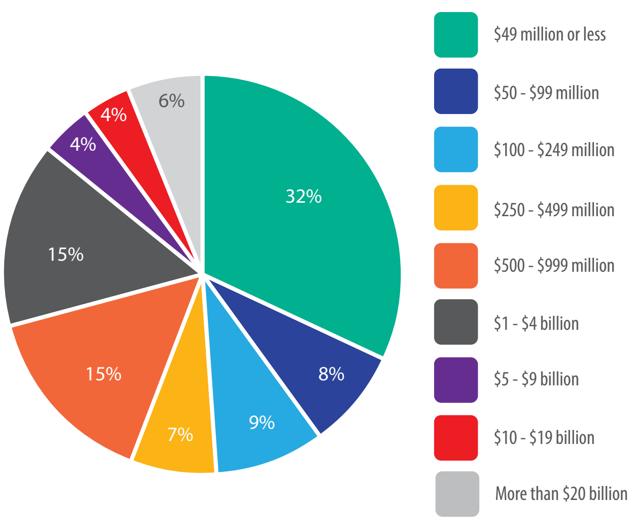
NUMBER OF EMPLOYEES



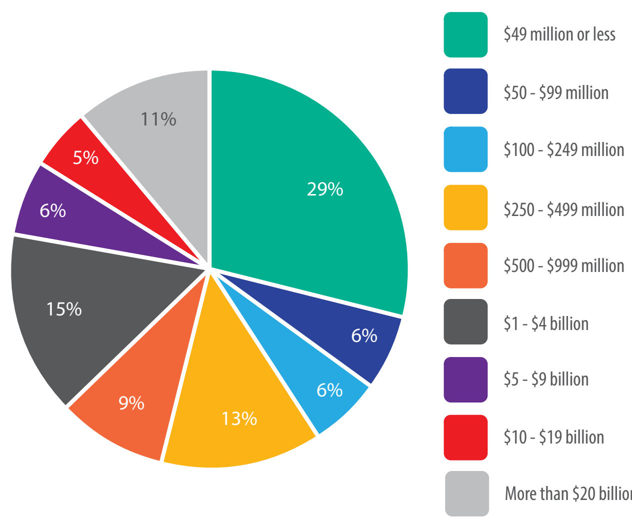
NUMBER OF FINANCE EMPLOYEES



REVENUES



TOTAL ASSETS IN MOST RECENT FISCAL YEAR



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Christian Bellavance – Vice President, Research & Communications

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