



# International Financial Reporting Standards

Canadian Conference for Credit Union Executives – “Unlike Any Other”

May 6, 2008

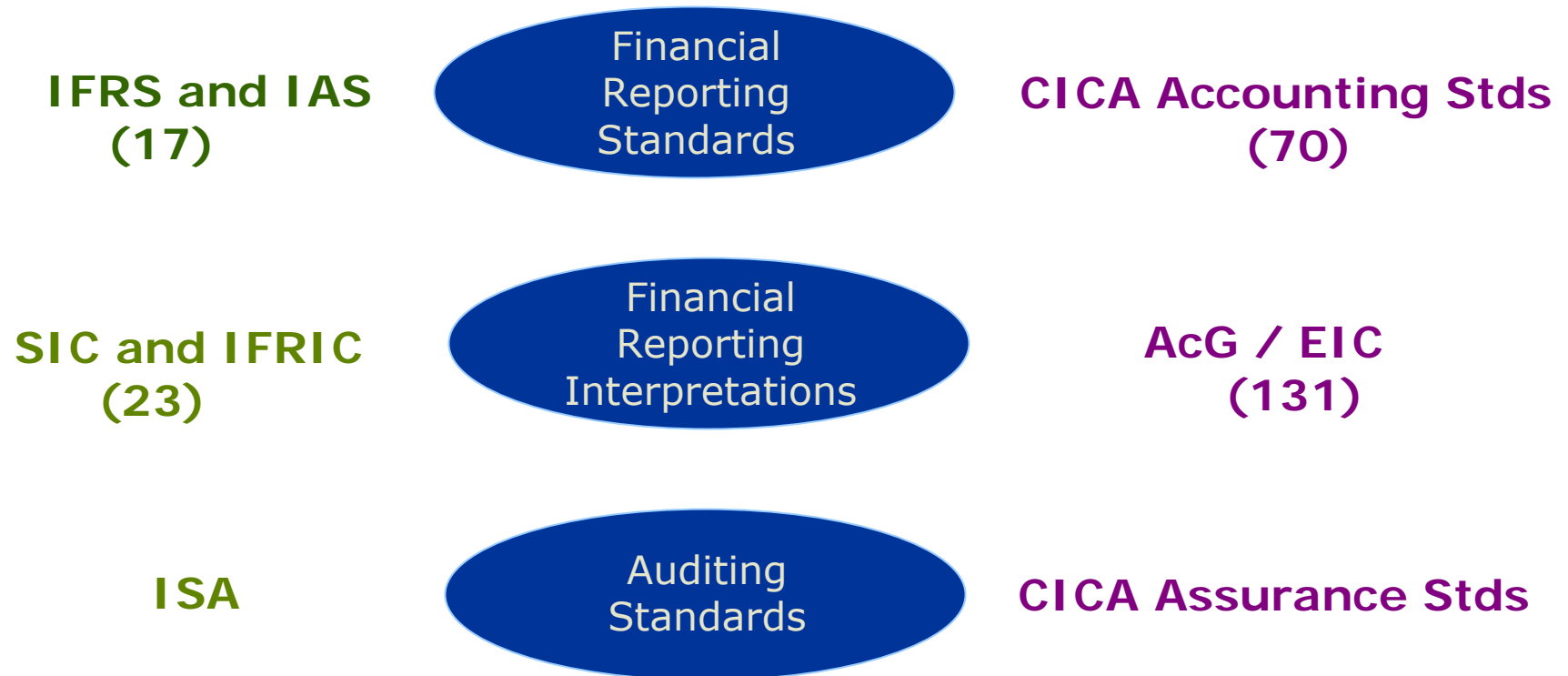


# Agenda

- IFRS Overview → the Basics
- Potential Trouble Spots
- Lessons Learned
- Building a System-Wide Solution
- Where to From Here?

# What is IFRS?

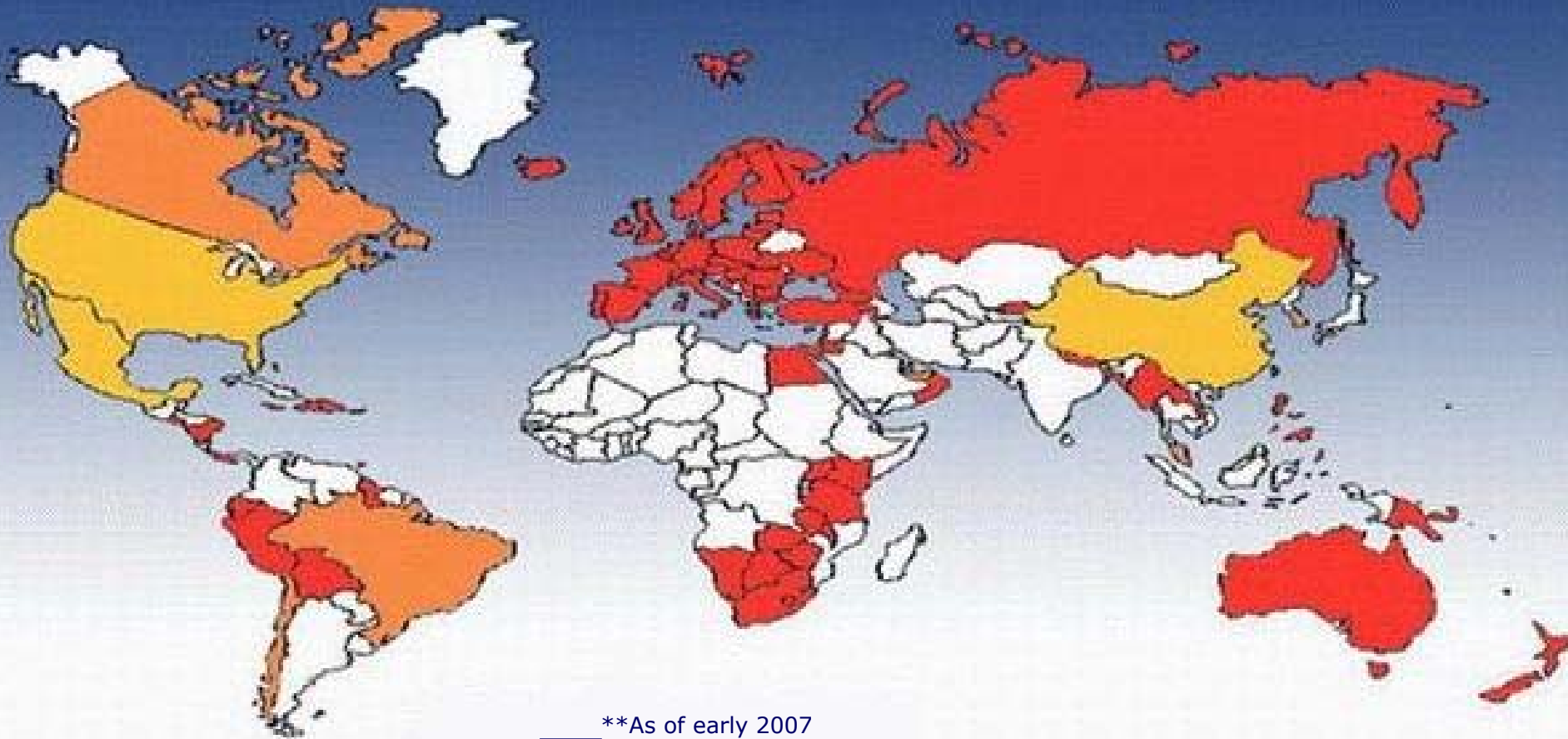
- Established by the International Accounting Standards Board (IASB)
- Framework required to produce GAAP F/S in international environment






# Why IFRS?

- Need for a common global financial reporting language
  - Increased level of cross-border transaction activity
  - Need to facilitate access to international capital markets
- Convergence between IFRS and US GAAP is underway
  - Memorandum of Understanding in place
    - Number of short term convergence projects to be done by 2008
    - Number of larger, but longer term, projects also underway
  - SEC now allowing foreign companies to file IFRS F/S without reconciliation
  - Possibility US companies will be given the option to file under IFRS
- Used in Europe, Australia, China, Mexico, Japan, South Africa, Russia and others.

# IFRS – A current snapshot

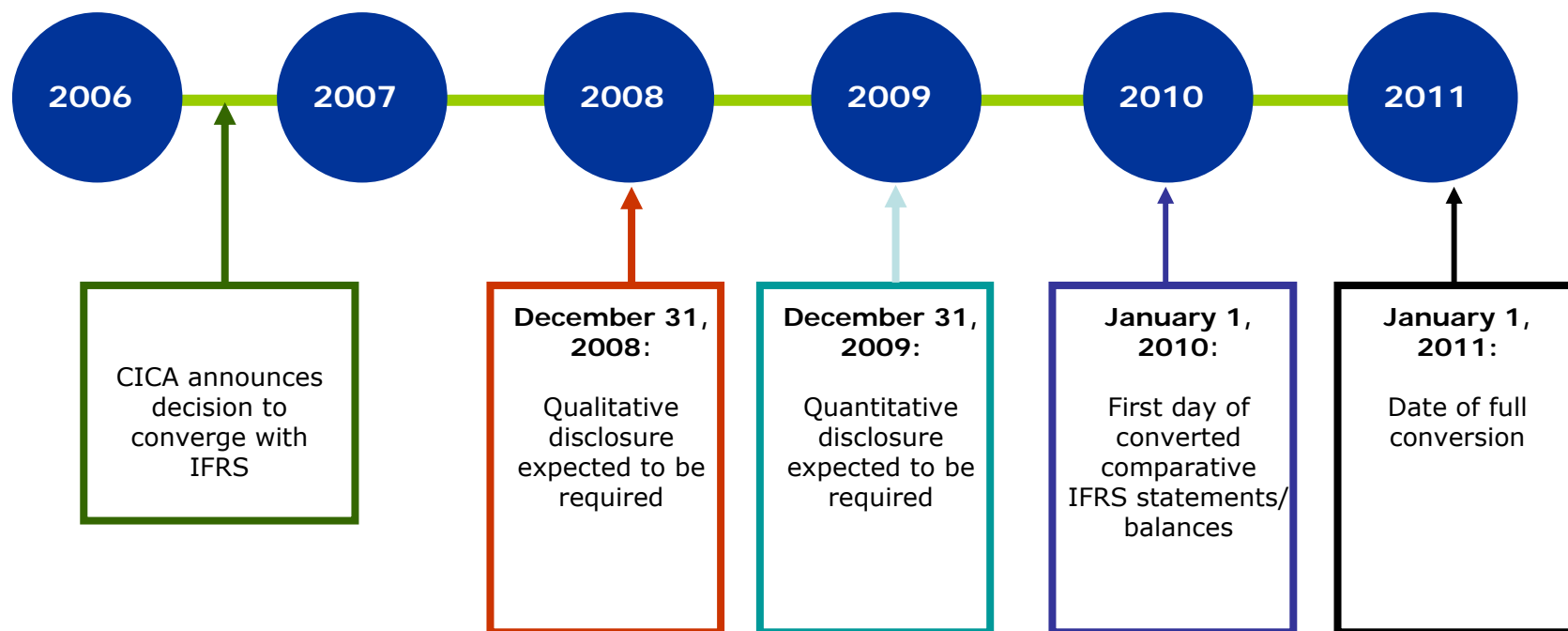


\*\*As of early 2007

-  Red = IFRS approved
-  Orange = started move to adoption
-  Yellow = adapting to IFRSs

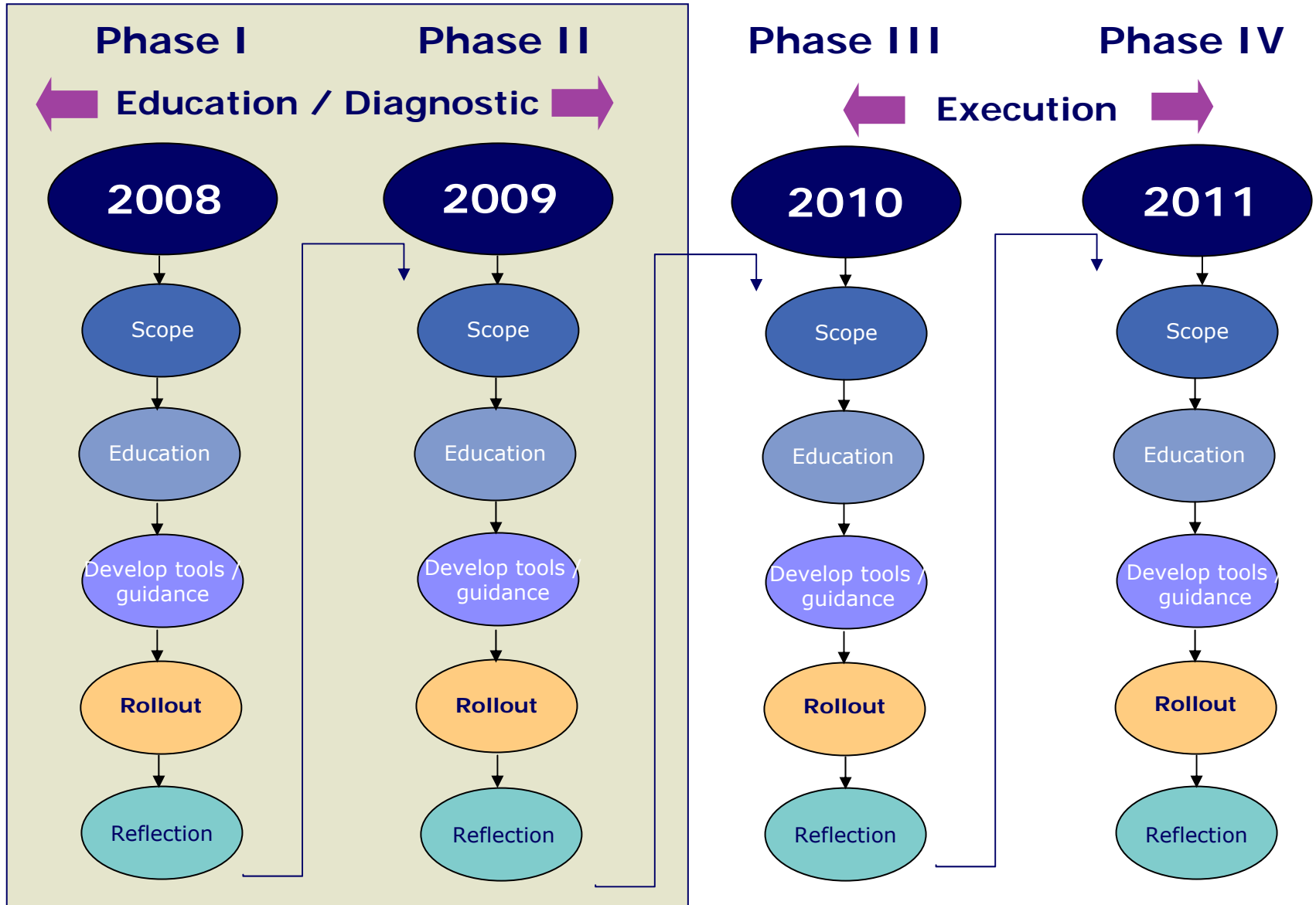
# When do You Need to Start Planning → NOW!

- Multi-year project with multiple deliverables
- Most complex, most extensive change ever to Canadian financial reporting framework
- Represents a fundamental shift in thinking and approach



[NOTE: Above dates assume calendar year-end credit union]

# How Long Will It Take?

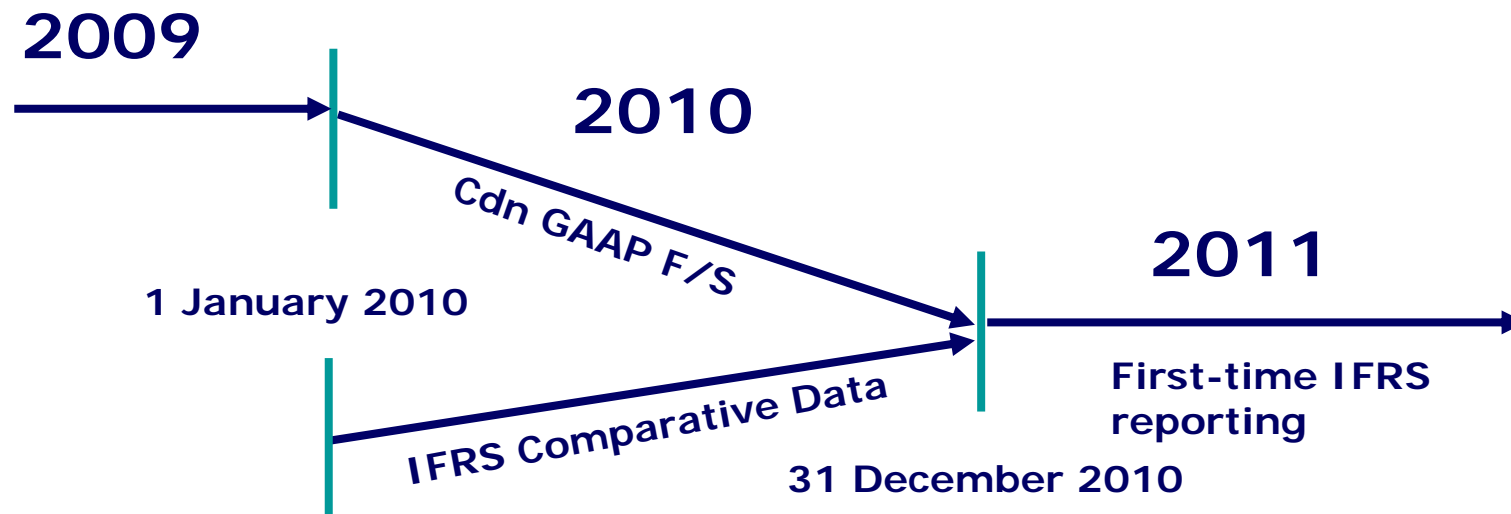


# How Will the Transition Work?

- Fresh Start → as if always accounting under IFRS
- 2011 with 2010 comparatives required
  - Required to restate opening Jan 1, 2010 balance sheet for comparative purposes
  - Recognize all assets and liabilities required by IFRS
  - Remove all assets and liabilities not complying with IFRS
  - Reclassify and present in accordance with IFRS
  - Apply IFRS measurement bases to assets and liabilities
  - Revisit all estimates based on principles set out in IFRS
  - Any differences generally go to opening Retained Earnings
- Certain optional and mandatory exceptions to retroactive accounting

# 2010: The Year of Two GAAP's

- Need to prepare financial statements under both Canadian GAAP and IFRS for 2010 fiscal year



- **STRATEGY:** When should 2010 IFRS accounting be done?
- Consider
  - Finance and systems resource capacity / readiness
  - Need to ensure systems / processes in place and operating properly (parallel runs)
  - Efficiency of converting multiple periods at once vs "as you go"
  - 2010 year-end reporting demands in Q1 2011

# What Can We Learn from Others? (EU / Australia)

- Achieved compliance – but only just
  - Steep learning curve
  - Underestimated time and resources required
- Tactical rather than strategic in terms of approach
  - Forced to implement short terms solutions
  - Too much reliance on “bolt-on” solutions
- IFRS is open to interpretation and has many unresolved issues
- Directors & key execs need to understand the new accounting regime, be prepared to take a position & defend it
- Early start to transition process = Smooth transition

# Is IFRS Really All that Different?

- Although they may appear similar → IFRS ≠ Canadian GAAP
- 4 broad categories of difference:
  - Differences in principles / conceptual framework
  - Availability of “choices” in a number of areas
  - Detailed definitions / mechanics
  - Application / interpretation in practice
- Application may differ between countries
  - More open to interpretation / judgement which will be “coloured” by local approach
  - **QUESTION:** how much influence will “US-Style” approach have in the new world for Canadian reporters?



# IFRS: The “New World”

- Fundamental shift in approach
  - Principles vs rules
  - Limited application guidance
  - More judgement / interpretation required based on “substance” of arrangement
  - Conceptual framework will be key
- Number of choices to be made
- Disclosure requirements more extensive

# Which Areas are Likely to Cause Most Challenge?

- Financial Instruments
  - Close, but not all the way there .....
  - “Devil is in the detail” → numerous differences
- Loan Losses & Impairment
  - Similar framework, however, much more rigour will be required in modelling / supporting provisions
  - No more unallocated General Provisions!!
  - Reversal of impairment provisions allowed
- Securitization
  - Significantly different framework. Expect most transactions to be on-B/S (regulatory capital impact)
- Consolidation / Joint Ventures
  - Single consolidation framework. No VIE’s. No QSPE’s. Expect JV’s to be accounted for on an equity basis

# Which Areas are Likely to Cause Most Challenge?

- Leasing
  - More substance-based
  - Numerous mechanical and definitional differences
- Business combinations
  - No more pooling of interests.
  - Differences in timing of recognition of certain elements of purchase consideration.
- Impairment of Long Lived Assets
  - Many differences in level of testing, measurement of impairment

# Which Areas are Likely to Cause Most Challenge?

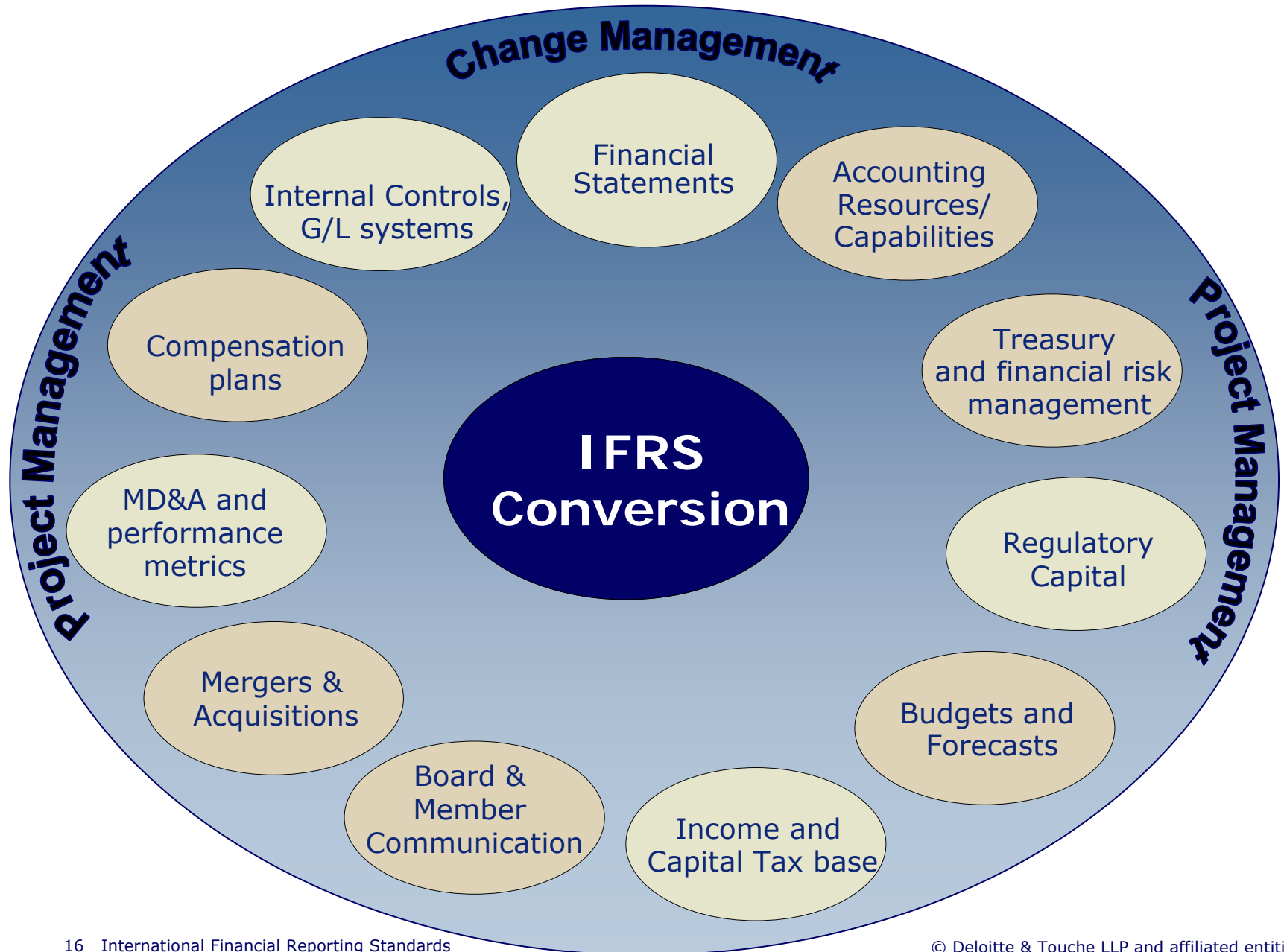
- Property, Plant and Equipment
  - Componentization for depreciation and refurbishments
  - FV accounting allowed for Investment Properties
- Employee Benefit Plans
  - Numerous differences in timing and pattern of recognition of various gains / losses
- Provisions & Contingencies
  - Minor definitional differences. Some differences in thresholds for recognition

# Other Potential Trouble Spots

- Bank's won't be first to adopt this time around
  - Lots of examples in EU and other jurisdictions though
- Long lead times for Regulatory Capital change / guidance
  - Need "line of sight" early on
- Long lead times for any system changes
  - Bolt on solutions not likely to be viable
- IFRS is still a moving target → significant projects on the agenda
  - Consolidation
  - Derecognition
  - Leasing
  - Fair Value Measurement
  - Revenue Recognition



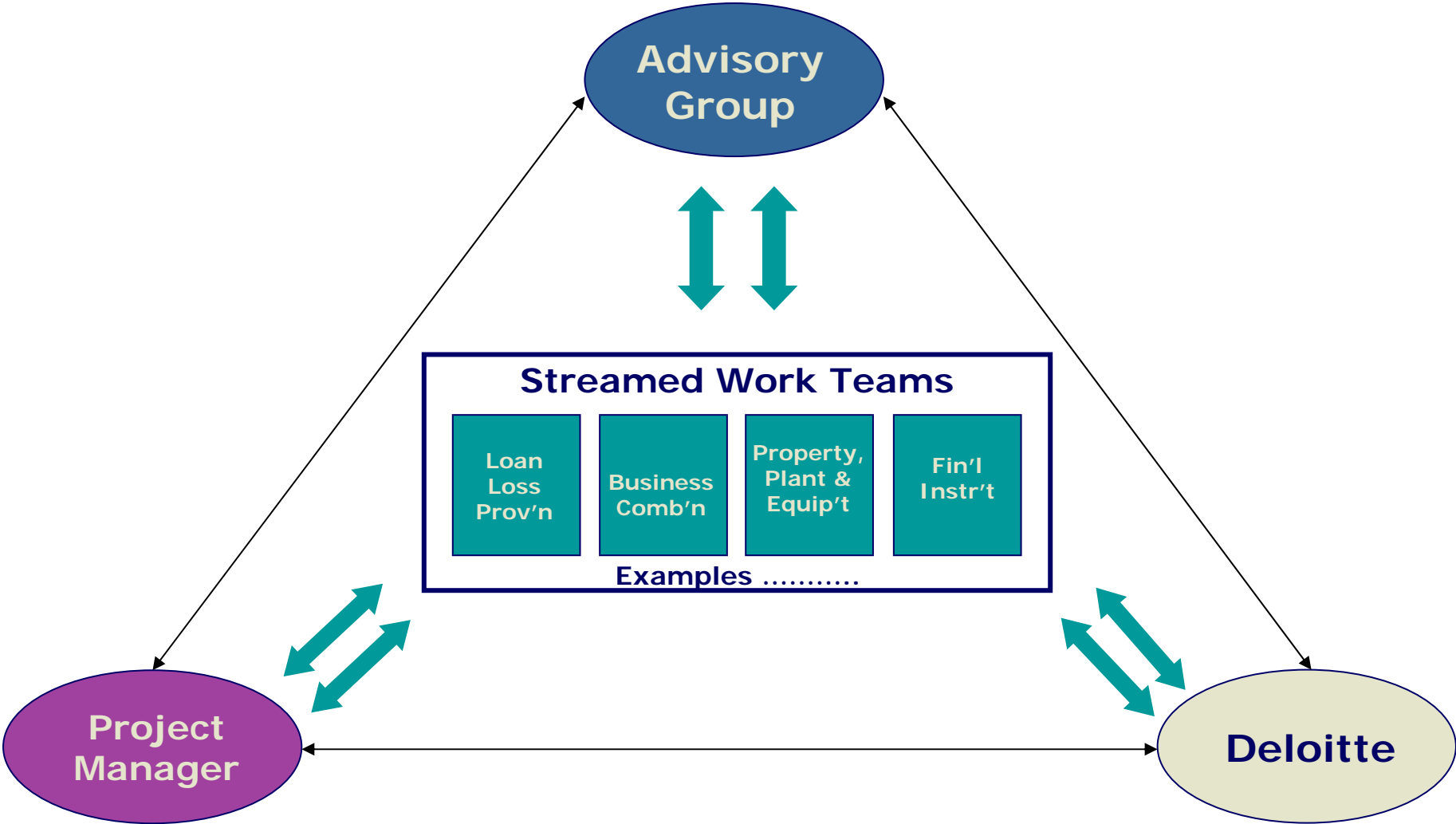
# Who Needs to be Involved?



# What is the System Doing to Help?

- National Project launched March 17<sup>th</sup>
- Objective
  - To build a cost effective solution tailored to the needs of the Canadian credit union system
  - Recognize and address needs of diverse groups wherever possible
- Approach
  - Leverage what we learned / accomplished with FI implementation
  - “Work With” strategy → helping the system build their own solution
  - Representation from Centrals and Credit Unions in each province
  - Focus on areas of commonality / difference
    - Streamed approach (i.e. – Large vs Small, Specific Topics)
    - Divide & Conquer strategy
  - Balancing the “Technical” and the “Practical”

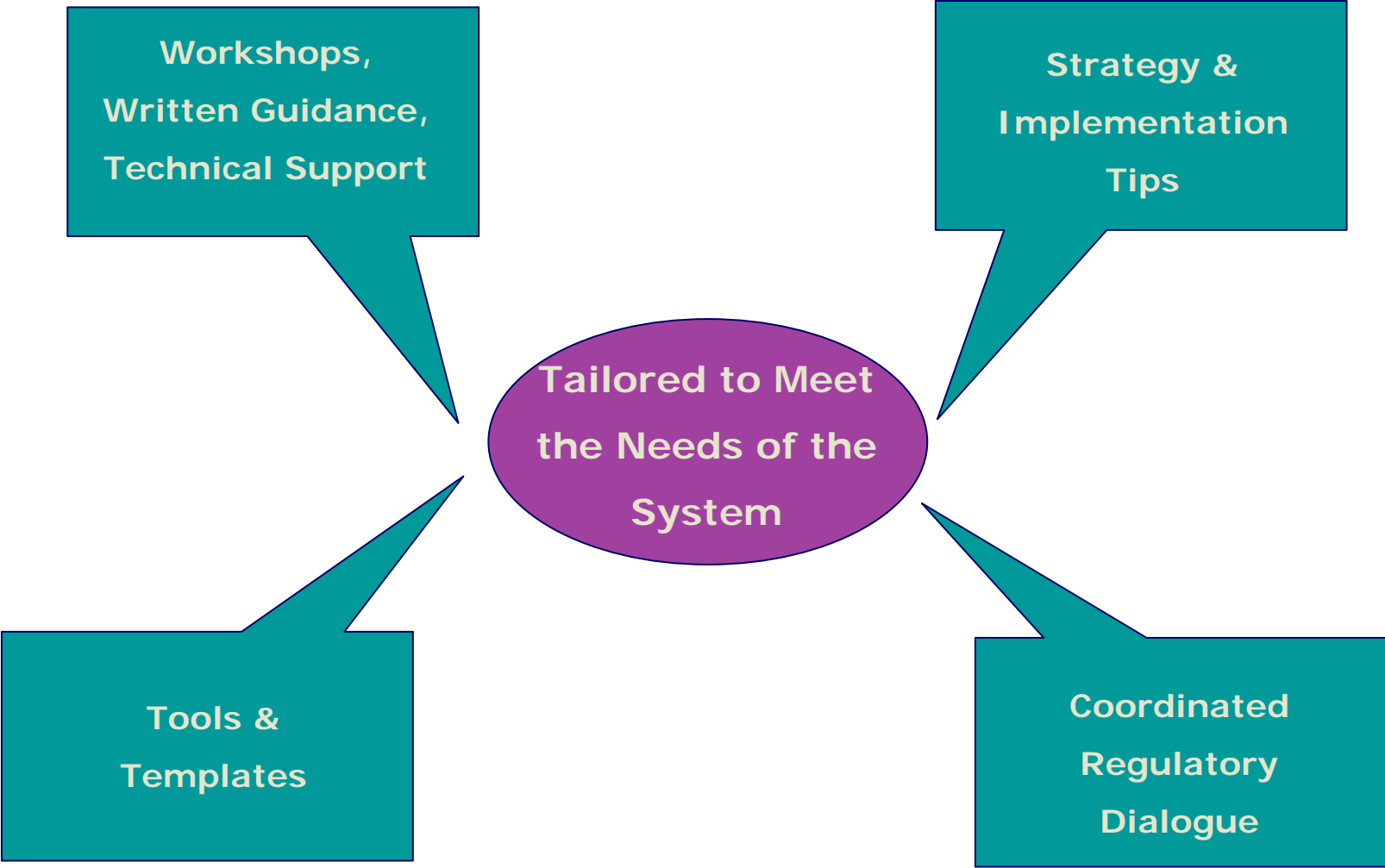
# How is the National Project Organized?



# National Project Advisory Group

- BC
  - Dan Blue, CUCBC
  - David Gaskin, Coast Capital
  - Bill Keen, North Shore
  - Susan Esson, Valley First
  - Barry Ward, Westminster
  - Waheed Hirji, Prospera
- ALBERTA
  - Anne Gillespie, CUCA
  - Kirk Harline, Servus
  - Warren Book, First Calgary
  - Elaine Friedrich, CUDGC Alberta
- SASKATCHEWAN
  - Sheri Lucas, SaskCentral
- MANITOBA
  - Bob Lafond, CUCM
  - Brad Funk, Steinbach
- ONTARIO
  - Fred Blaak, Libro
  - Jose Gallant, Alterna
  - Ron Smith, CUCO
- ATLANTIC
  - Don Noyes, CUCNS
  - Kim Walker, CUCNB
  - Tammy Christopher, Omista
  - Lynda Coe, Atlantic
- CANADA
  - Gary Rogers, CUCC

# What Do the Potential Deliverables Look Like?



# What Credit Unions Can Expect to See

- May / June 2008 Awareness Level Webinars / Sample Board Package
- Fall 2008 Diagnostic Workshops / Sample 2008 Disclosure Templates
- Spring 2009 Implementation Workshops / Tools, Templates, Guidance / Sample 2009 Disclosure Templates
- Late 2009 Access to Interpretative Position Papers
- Throughout FAQ Forums / Communiques / e-Library

# Where to from Here?

- Start to dialogue with your Board / Management team
  - Planning / strategy will be key
  - Ensure you have the resources lined up to tackle all phases
  - Multi-functional team required
- Talk to your auditors regarding approach / expectations
- Start building your IFRS knowledge
  - May / June Webinars expected
  - CICA Omnibus released in early April
  - Invest some time in the IFRS “Conceptual Framework”
- Stay tuned
  - Developments from National Project

# Questions

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