IFRS report card

The first anniversary of IFRS implementation has come and gone. So how did it go? Here's what a few companies had to say about their conversion

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Illustration: Michelle Thompson

Missing IFRS 1 reconciliations. Omitted statements of changes in equity. Opening IFRS statements of financial position absent-without-leave. These were the most glaring deficiencies identified by the Ontario Securities Commission in its sampling of Canadian companies' first efforts at IFRS first-quarter financial reports for the period ending March 31, 2011. A bit of a worry until more robust second-quarter and third-quarter reports followed. These reports included the required transition disclosures in what is surely the most sweeping of bottom-line accounting changes to how Canadian public companies interpret and measure their financial performance.

Transparency and comparability on a near-global scale have been understandably daunting, with glitches and missteps not unexpected. But for regulators and informed commentators, it seems that the post-GAAP conversion has gone off rather well. The business of continued refinement and proper interpretation of this almost entirely principles-based guidance continues as public companies grapple with the proper balance of informed judgment and compliance with IFRS.

For many publicly accountable enterprises (PAE), the final run-up to the IFRS transition bordered on the frenzied. The true magnitude of properly identifying the IFRS regime's new recognition, measurement and disclosure requirements was not realized until the PAEs really got down to it, says Karim Jamal, FCA, University of Alberta School of Business department chair, accounting, operations and information systems (and CAmagazine's technical editor for education). "But on the whole, it's quite something that there have been so few confusing muddles in what we've seen in those interim filings and now the year-ends," he says. "Anecdotally, I'm simply not hearing of anything going majorly wrong."

Other than concerns (and complaints) about the volume of explication now required for IFRS compliance, regulators agree that PAEs are adapting to the new standards. Indeed, the OSC was generally satisfied with the results; its 2011 first-quarter critique spoke more to lapses in disclosures than key elements of measurement. Still, the OSC was quick to warn that this side of the equation was crucial to the IFRS process. "What we did, immediately, was to look at all the Q1 filings that came in," says Kelly Gorman, OSC deputy director of corporate finance. "We had set out what our expectations were from transition disclosures well before the formal changeover — a good three-year lead time," she explains. "We wanted issuers to get investors ready for what the differences might look like in the financial statements." It seemed as though many had not gotten the message.

Calgary-based oil and gas producer Pengrowth Energy Corp. looked to avoid such hiccups by diving into IFRS transition as early as spring 2008. Jeff Dashkin, the company's former senior financial analyst and IFRS project co-ordinator (and now staff adviser, accounting research at Cenovus Energy), was determined that Pengrowth conform to what would at times be a rather onerous process. “There certainly had been a large amount of work involved with the IFRS transition,” he says. “In some cases, it forced us to sharpen the accounting pencil and take a closer look at what accounting policy fits the economic reality best. In other cases, we expended a lot of resources to comply with IFRS for noncash amounts that were less important to understanding the business.”

For Jamal, getting down to the nitty-gritty of a company’s performance and “value” are, obviously, the key indicators to be divined through these new metrics. “Only problem,” he says, “is that we’re getting a whole whack-load of words that may, quite unintentionally, obscure.” Prior to IFRS adoption, Pengrowth followed the industry’s long-established method of full-cost accounting, where the costs in exploration, acquisition and development were accumulated in one country-wide pool of properties and subjected to consolidated depletion and impairment calculations. But IFRS scraps this standard, requiring a more granular capitalization of assets. “We knew there would need to be significant changes to how we had aggregated capital costs,” Dashkin says, “and how we had depleted them and tested for impairment.” It was a gargantuan task.

If oil and gas first-time adopters, for example, had not been given the option of an exemption from making these detailed, historical retrospective applications, their filings would go from voluminous to volumes. “IFRS has to address the widest possible spectrum of accounting issues across so many uniquely variant industries,” says Jamal. “For now, as we get things sorted, the exceptions, exemptions, options and retrospective restatements are going to amass. All I can say is ‘happy reading!’”

By its very size and scope of operations, Royal Bank is not likely to prepare quick-read IFRS filings. Like all the banks, RBC has an atypical October fiscal year-end and went live with its first IFRS quarter on January 31. For chief administrative officer and CFO Janice Fukakusa it feels as though they have been functioning in this new environment for years. Operating in 50-plus jurisdictions, RBC has been reconciling its financials in Canadian GAAP, US GAAP and IFRS since 2011. “For us, it was helpful for other issuers to go ahead of us even though they were in different industries,” she says. “It allowed the bank to more easily see the potential for market reaction with respect to potential investor acceptance or investor questions.”

In the end, says Ron Salole, CICA vice-president, standards, all the banks have performed quite well in their IFRS reporting. “No one is letter perfect, but we’re incredibly pleased, given their sheer bulk and the fact that they’ve had to deal with one or two significant standard changes on the financial instruments side that were sure to affect their systems.” Salole points out that less than a decade ago there were no standards at all to help rationalize any number of financial transactions. “Nobody had derivatives or other exotic instruments,” he says. “So we’re trying with IFRS to catch up with what’s happening in the business world — a challenge, to say the least.”

RBC’s IFRS transition plan was to prepare statements in a way that spoke to stakeholders and analysts in terms of both performance measurement and performance management. “I think in conversion to IFRS, it wasn’t just about financial reporting and disclosure,” Fukakusa says. “We also had to look at the impact of the change in the accounting base and measurement on our performance management and performance metrics that aren’t necessarily in our financial disclosure because they’re more granular.”

“The issue when you change an accounting standard,” Fukakusa continues, “is, although the numbers change, the actual company hasn’t changed. Earnings may be higher and the balance sheet may be more inflated, but you have the same company year over year. So you need to flag all the differences.”

“In at least one important way, diverting energy and attention to the transition to IFRS during an economic crisis was a good thing,” says John Hughes, a Toronto financial reporting consultant and author of IFRS Literacy: Understanding the New Financial Statements. “I think the process forced large PAEs to take a hard look at their baseline principles of measurement, volatility and risk,” Hughes asserts. “Kind of good timing, when framed in terms of a period where stakeholder confidence was a primary concern.” Hughes is currently working with the CICA on an IFRS implementation review to help the CICA understand the impact of the changeover on companies’ financial-reporting cultures and processes. For most of the companies interviewed for the review, the transition was a challenge, but few are reporting major internal systems adjustments as they wrestle with conforming to the new standards. “Everyone seems to be well-versed in the modifications required and the choices to be made,” says Hughes.

With a set of standards that are now far more open to accounting policy choices based on a company’s best judgments, the task of communicating why and how those decisions were made has become crucial to the effectiveness of implementing IFRS, says Joanne Boyes, senior director, corporate reporting and compliance at Saskatoon's PotashCorp. "From the start of the transition process back in 2007, we consciously made sure the market understood what the quantitative and qualitative impacts might be as we moved into the 2011 IFRS year," she says. A perennial all-star at the CICA's Corporate Reporting Awards, Potash continued on into its 2011 annual filing with a lucid and unambiguous exposition of its accounting changes and subsequent effects on financial statements and business. "In the end, the effects were negligible. But what if they weren't?" Boyes asks. "How would stakeholders know? We really were striving to prepare IFRS interim reports with a mind-set that this would be new [and it was] to users." Potash looked to presenting financial statements that leaned more to explaining rather than requiring even well-informed stakeholders and analysts to interpret where changes in the statements reflected the move to IFRS. "So, as requested by the Canadian Securities Administrators, we fully disclosed past years' comparatives and made sure to isolate any reporting variances related to IFRS."

For ***Anthony Scilipoti***, CA, CPA, executive vice-president at ***Veritas Investment Research Corp.*** in Toronto and a member of the Acccounting Standards Board, there is little in the new standards that will ensure companies properly disclose all relevant information. "If you had poor disclosure under Canadian GAAP, you will continue that poor disclosure under IFRS, on a relative basis," he explains. "We've raised the bar, but IFRS allows you discretion on what you disclose as well. The fact that IFRS is more principles-based allows for companies — even in the same industry, let alone in countries around the world — to make different judgments in their accounting, which can lead to very different results," he says. "But, the disclosure rules are quite prescriptive — 'thou shalt disclose this, this and the other.' And it is in the quality of these explanations where the rubber hits the road. I can't analyze and assess what may have improved or worsened in a company without them."

The OSC's assessment of the 2011 first-quarter was troubling, to say the least, says ***Scilipoti***. "There was some garbage in those first attempts, but you had to know that it mainly had to do with the mad rush to meet the deadline and confusion over a set of standards that are still evolving." Indeed, the standard-setters and industry associations are hard at work on such moving targets as revenue recognition, leasing, fair value, consolidations and joint ventures, etc. Perhaps the most universal of complaints heard in the CICA review is companies' complaints that the process of creating the new standards is not complete.

"What's echoing from most of these issuers is a strong sensation of IFRS fatigue," says Hughes. "Accounting for one's activities is very much a part of business, but they want to get back to business, nonetheless."

Jamal counsels patience. "There's been all kinds of errors, lapses and fuddles in a process that has also produced superb results. Hopefully, in a couple of years enough bottoms will be slapped and ears twisted and everyone will be sorted out in this new system," he laughs. "We just have to keep reminding ourselves that the problem in accounting is that it was not created to [and will never account for] the 'average.'" Procrastination, compromise and conciliation are the costs of change. Account for that, if you're going to do anything.