

In the Loop - Standards in Transition

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The IFRS acid test – will investors ‘get’ it?

Communicating effectively means much more than simply providing information. The difference is particularly important when it comes to communication between a public company and investors at a point when there are significant changes in how financial results are reported.

A hot air balloonist who became lost lowered his craft and called down to a man on the ground, “Can you tell me where I am?” “Of course,” came the reply. “You are in a hot air balloon hovering 30 feet above this field.” Exasperated the balloonist shot back, “You must work in IT. The information you gave me is technically accurate...and completely useless to me.” “And I suppose you are in management,” came the rebuff. “You don’t know where you are or where you’re going – and now it’s my fault.”

Please, no angry emails from IT specialists or managers – we all know the joke could just as easily refer to finance, communications – or any number of disciplines. My point is, effective communication cannot happen without an understanding of the needs of the audience.

In preparing the first IFRS interim reports, adopters should try to look at the information through the same lens as the people who are seeing it for the first time, most of whom are on a steep IFRS learning curve. Do the reports convey the intended message? Will the readers of those reports be able to discern whether changes in the statements are a reflection of business performance or the new standards? Watch for unintentionally raising red-flags by what is said – or not said.

Anthony Scilipoti, CA, CPA, executive vice-president of **Veritas Investment Research Corp.** and a member of the Accounting Standards Board, coaches analysts to look beyond the obvious when they are interpreting IFRS financial reports. “Remember that nothing ever happens in accounting by accident. I tell analysts to ask issuers why certain accounting policies were chosen. Explanations such as ‘Our accountants made us do it’ are not satisfactory. Accountants don’t *make* you do anything.” **Scilipoti** also says analysts should watch closely for things such as last minute changes, complicated organizational structures, and failure to hit timelines.

His advice to adopters? “Analysts want information to help ease the changeover, and we prefer it sooner rather than later. Help us read the trend analysis – disclosing pre-2010 IFRS comparatives might seem like a daunting task, but it helps us. Additionally, the cash flow analysis and an explanation of financial statement variances isolating the impact of IFRS from business operations are both important.”

Adopters issuing their first quarter reports under IFRS have an important story to tell. *How* it is told will affect how it is interpreted.

Helpful resources can be found on the CICA's [IFRS](#) website including:

- [IFRS Financial Statements – Examples](#): A sampling of interim IFRS financial statements provided by first-time adopters.
- [Meeting Regulatory Requirements](#): A web page that provides OSC guidance on MD&A disclosure, including a publication called *Ontario Securities Commission Issuer Guide: Top 10 Tips for Public Companies Filing Their First IFRS Interim Financial Reports*.
- [A Review of 2010 Financial Statement Disclosures and What to Expect in 2011](#): An audio/slide presentation that discusses how financial analysis will be different in an IFRS world. It was recorded during a panel discussion at the CICA's IFRS Conference for Financial Statements Users held in November 2010, led by **Anthony Scilipoti** and Peter Chant, FCA, Deloitte & Touche LLP. The information is geared toward users of financial statements; it is useful for issuers to understand the context in which investors and analysts will be approaching IFRS financial statements. The CICA is providing free access to this recording. Other useful IFRS audio presentations are available at the [CICA Xtensions Learning Centre](#).

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A handwritten signature in black ink, appearing to be 'John' or similar, written in a cursive style.

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