

IFRS and Aboriginal Entities

BDO Montréal

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Agenda

- What is IFRS?
- Why move to IFRS?
- When does it apply?
- Who does it affect?
- Why you should care?
- Examples of some of the impacts
- What to do now?

What is IFRS?

- IFRS → International Financial Reporting Standards
- Globally accepted and applied
- Issued by the International Accounting Standards Board (IASB)

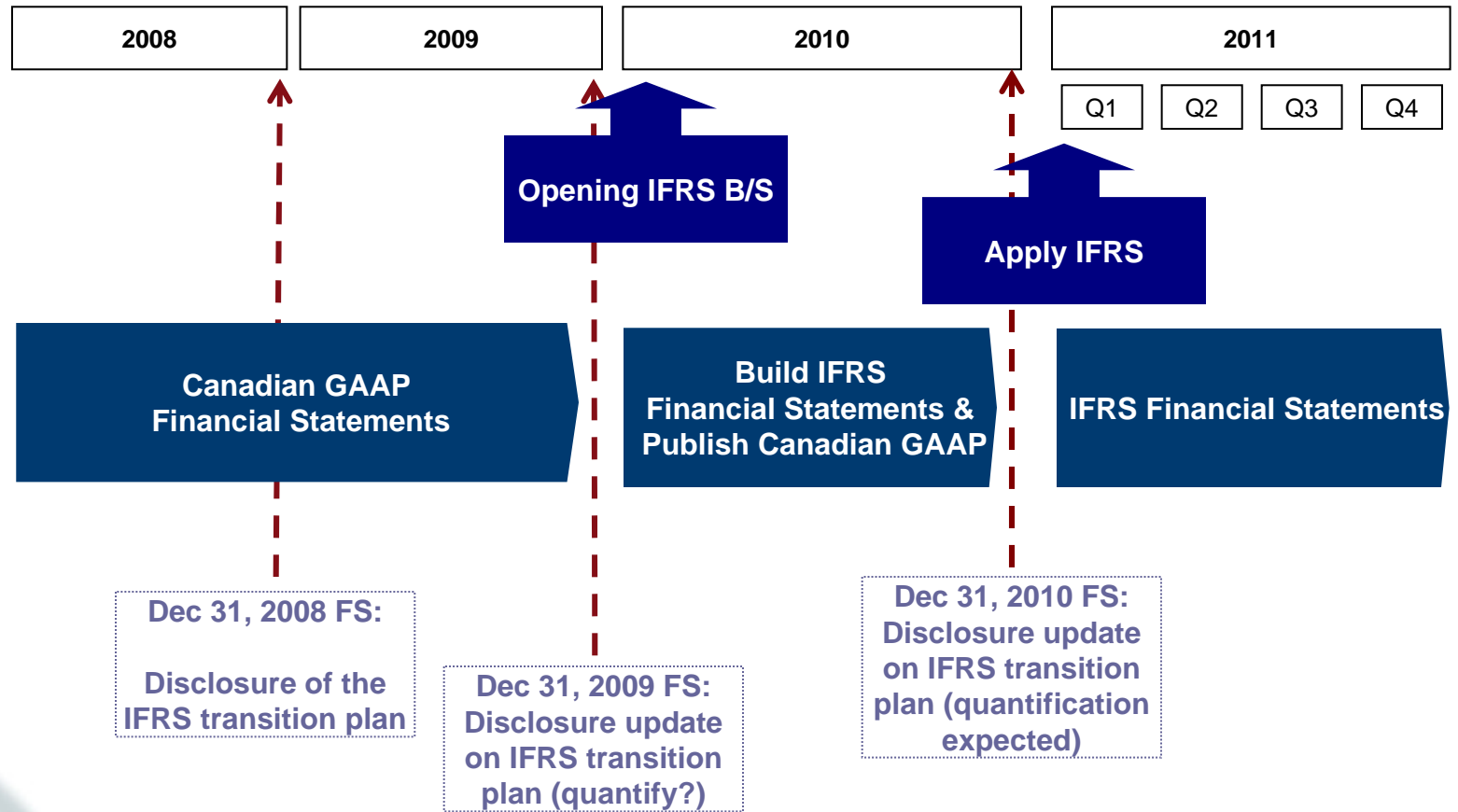
Why IFRS?

- **Harmonization**
- **Global acceptance of IFRSs (100+ countries)**
- **Regulatory backing – IOSCO, EU, etc.**



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IFRS - When does it apply?



IFRS - Who is affected?

- **ALL Publicly Accountable Enterprises (“PAE”)**
- **Every company is a PAE.... unless.....**

1: Profit-oriented Enterprises	2: Not-for-profit Entities	3: Public Sector Entities
<ul style="list-style-type: none"> i. do not have public debt instruments or equity securities; and ii. are not in the process of issuing public equity or debt; and iii. do not hold assets in a fiduciary capacity for a broad group of outsiders. 	<p>Must meet the definitions in CICA Handbook s.4400.</p> <p>May change!</p>	<p>Those following Public Sector Handbook</p> <p>Exception: Government businesses.</p>

Why IFRS impacts First Nations?

**Government Business
Enterprise**

**Government Business Type
Organization**

Many First Nations own and operate for-profit entities.
Most of these entities are GBEs or GBTOs

- Public Sector Accounting Handbook
- GBEs and GBTOs are publicly accountable
- PAEs will follow the CICA Handbook – Accounting.
- PAEs will have to adopt IFRSs in 2011
- Impacts:
 - GBEs and GBTOs have to adopt IFRS in 2011
 - GBE and GBTO financial statements will change
 - Financial statements of the First Nation will change



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What is a GBE?

- Separate legal entity with the power to contract in its own name and that can sue and be sued;
- Has the financial and operational authority to carry on a business
- Its principal activity is to sell goods and / or provide services to individuals and organizations outside of the government reporting entity
- As part of its normal operations, it can maintain its own operations and meet its liabilities from the revenues it receives from sources outside of the government reporting entity



What is a GBTO?

- Separate legal entity with the power to contract in its own name and that can sue and be sued
- Has the financial and operational authority to carry on a business; and
- It sells goods and services to individuals and organizations as its principal activity.

Accounting for Investments in GBEs and GBTOs

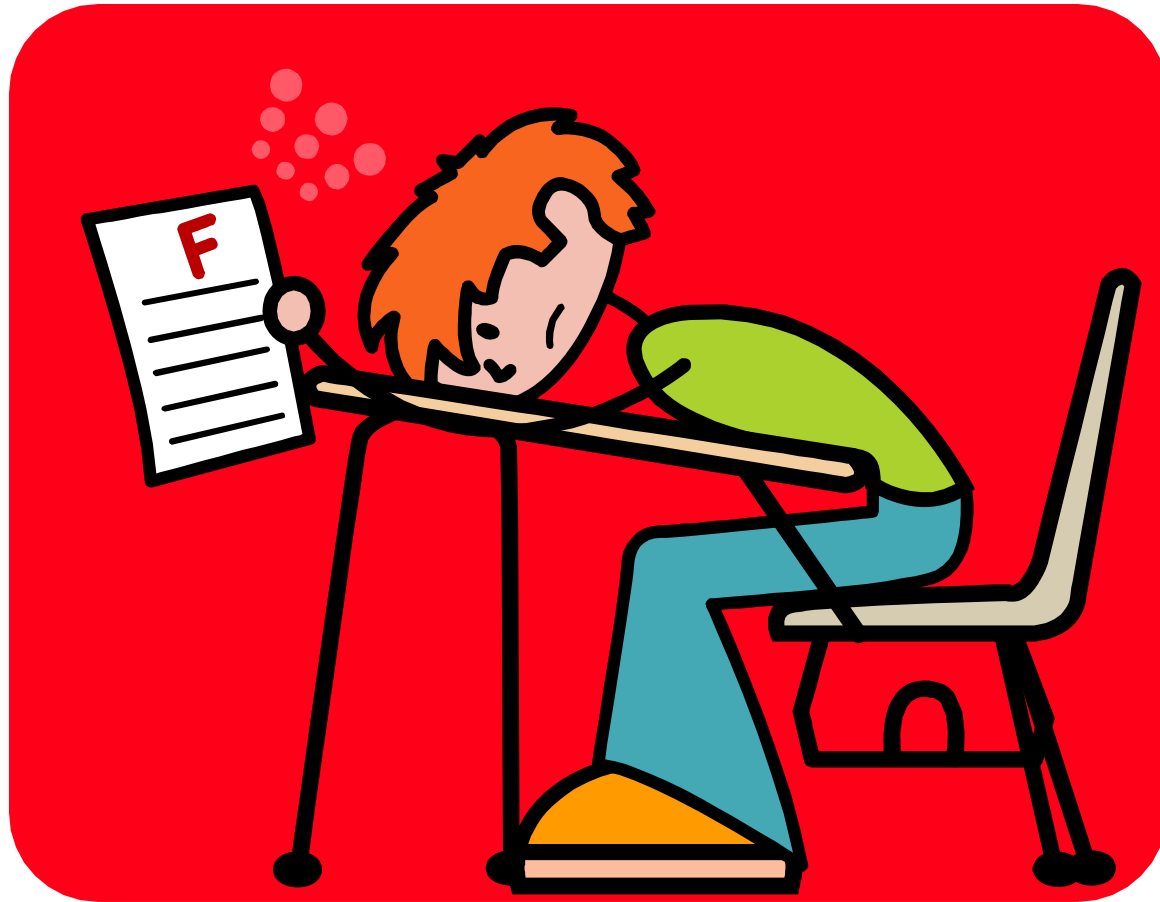
Government Business Enterprises

- Modified equity method.
- Based on the financial statements of the GBE - will have to be IFRS statements in 2011.
- Condensed financial statements of the GBE - will have to be IFRS statements in 2011.

Government Business Type Organizations

- Full consolidation into First Nation financial statements.
- GBTO FS will be IFRS → new consolidation adjustments required
- Need to understand PSA – IFRS differences

Quiz Time!



Scenario 1 – GBE or GBTO?

- Wilderness Adventures – tour operator
- Owned by the First Nation
- Sales are to individuals and companies outside the First Nation – tour packages in Northern Canada
- Operates and pays debts from the sales it generates outside the First Nation group

Government Business Enterprise!



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Scenario 2 – GBE or GBTO?

What would need to be different at Wilderness Adventures to make it a GBTO?

- ➔ *Sales mainly within the First Nation group*
- ➔ *Relies on First Nation group to operate and meet its liabilities*

IFRS – Canadian GAAP

The Devil is In the Details!



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FS – Equity -Before & After

BT Group PLC			
	31-Mar-06 (000's)	31-Mar-05 (000's)	01-Apr-04 (000's)
U.K. GAAP Equity		£3,901	£3,112
IFRS Equity (deficit)	£1,555	£95	-£1,039
IFRS VS. U.K .GAAP		-£3,806	-£4,151

Some Known Differences...

- Inventories
- Business combinations and non-controlling interest
- Financial instruments & hedging
- De-recognition of financial assets/securitizations
- Pension and post employment benefits
- Accounting for income taxes and tax uncertainties
- Leases
- Impairment of assets
- Provisions (including AROs)
- Revenue recognition
- Non-Current Assets Held for Resale and Disc Ops
- Stock-based compensation
- Consolidations, SPEs, investments, JVs
- Rate-regulated operations
- Industry-specific
 - Extractive industries
 - Insurance contracts

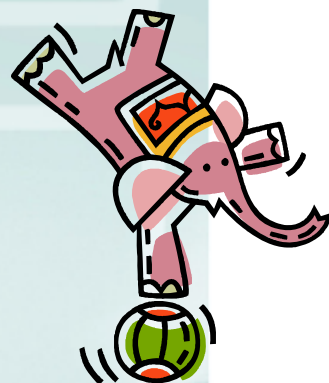


The Devil in the Details – Property, Plant and Equipment

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- Major spare parts – *must be treated as PP&E*
- Components approach – *more rigorously applied and broader than under Canadian GAAP*
- Cost or subsequent revaluation option



- Cost Model: Same
- Revaluation Model:
 - Specific class of assets measured at FV less accumulated amortization and any impairment
 - Revaluation increases go to equity
 - Revaluation decreases to P&L
 - Amortization measured on revalued amount

The Devil is in the Details – Investment Property

- New concept – separate standard
- Definition: Property held for rental or capital appreciation
- Measurement Options: Cost or Fair Value
 - Cost: Not different (Cost less accumulated depreciation)
 - Fair Value:
 - Not same as revaluation (used in PPE)
 - Application is all or none (one exception exists)
 - Increase / decreases go through P&L
 - If cost model applied, FV must still be disclosed.



Use of Fair Value Options

IFRS

Canadian GAAP

- Financial Instruments
- Stock based compensation
- Purchase price allocations on business combinations
- Impairment tests

Canadian GAAP +....:

- Property, plant and equipment
- Investment properties
- Intangibles
- Others?

Provisions



More obligations recognized under IFRS than Canadian GAAP

- **Provisions** - not a term described in current Canadian GAAP.
- **IFRS definition:** "...provision is defined as a liability of uncertain timing or amount".
- **Contingent liabilities** are recognized under Canadian GAAP if they are likely.
- **Provisions under IFRS** are recognized if an outflow of resources is probable (i.e., greater than 50% likelihood)

The Move to IFRS– Why Should you Care?

- Just an accounting problem?
– **NO!!!**
- Each reality is and will be different
- Pervasive effects
- So much more than just accounting...



Impact: More than just Accounting

Human Resources

- Leaders needed
- Training needs
- Additional resources needed?
- Hire or outsource?



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Impact: More than just Accounting

Contractual Arrangements

- Financial statements tied to contractual arrangements
- Impact on conditions?
- Are we talking the same GAAP?
- Agreements to be reviewed
- Stakeholders, funders and creditors to be informed
- Revise early



Impact: More than just Accounting

Compensation plans

- Heightened earnings volatility
- Impact on bonus plans tied to earnings / profit
- Impact on employees
- Contractual amendments needed?



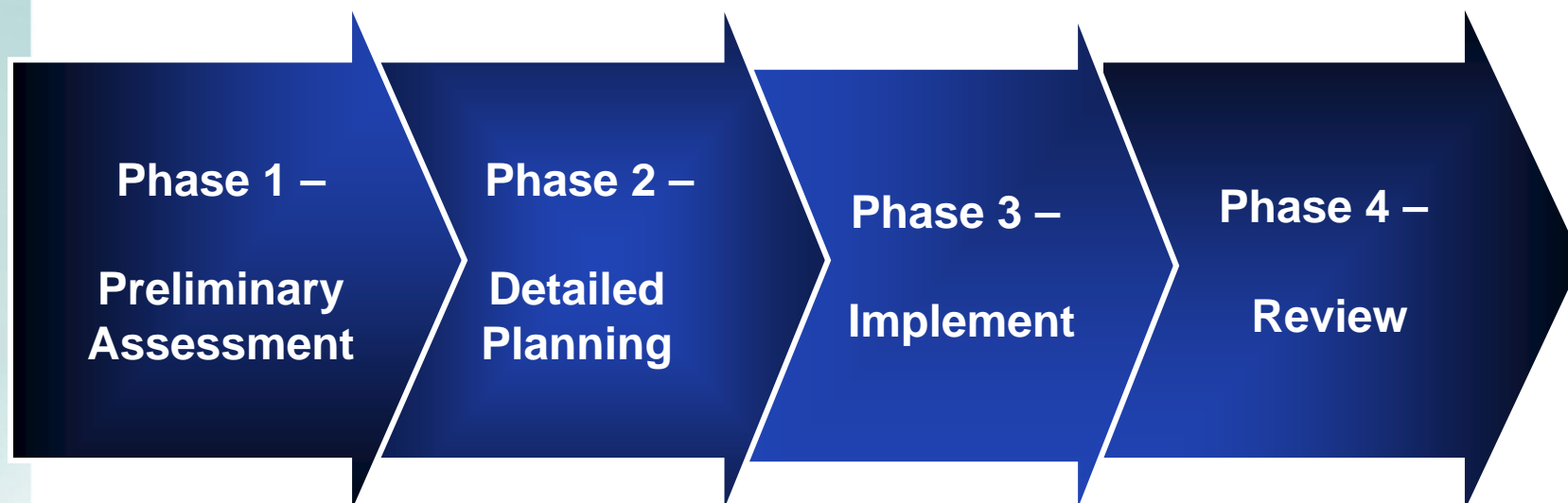
Impact: More than just Accounting

Information Systems and Controls

- Taxes
- Business Acquisitions
 - Buyer using different GAAP
 - Different measurements??
- Contractual Arrangements
 - My GAAP or your GAAP??
- Management Reports
 - Normalization for volatility?



IFRS – Need for a Project Plan

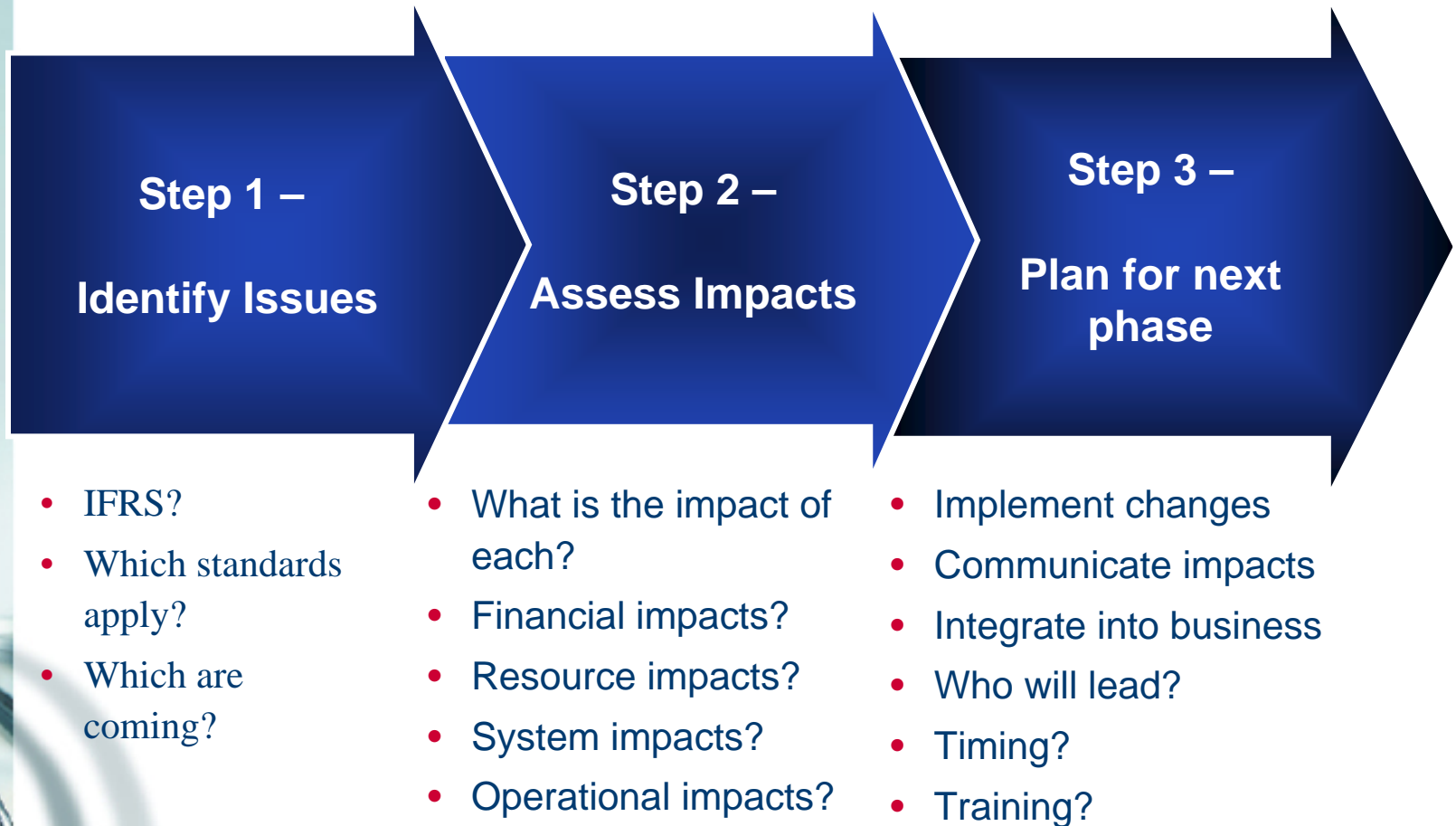


Planning – Key Considerations

- What is the data required to produce the financial statements?
- Does it exist today?
- Where does the data required come from?
- How will we obtain the data?
- Who produces the data?
- What is the process required to produce this information?
- What internal controls need to be in place?
- What processes need to change in the company?



IFRS – Getting to Phase 1– What to do Now?



IFRS Assistance

- BDO Publications
- Website – www.BDO.ca
- BDO IFRS Consulting Group:
 - ✓ Sandra Santos, CGA – Client Service
 - ✓ Manon Durivage, CA - Quality Assurance
 - ✓ Michael Rodger, CA – Risk Advisory Service
- Local BDO client service partner



CONCLUSION.....

- Understand impacts
- Impacts can be pervasive
 - New principles?
- More than just accounting
- Plan today – eliminate surprises tomorrow



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