FINANCIAL POST
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From SOX to IFRS: Whatever the cost, it's got to be done.

Posted June 02, 2009

By Karine Benzacar

During economic downturns, it's always interesting to see what types of expenses companies cut and what types of projects continue to receive funding from senior management. In one of the worst recessions Canada has witnessed in decades, many organizations have cut back on discretionary projects, deferring them until the economic situation becomes more stable. This approach is not always the right approach.

One of the projects under scrutiny by many organizations is the implementation of International Financial Reporting Standards (IFRS). Accounting transactions in Canada are currently governed by Generally Accepted Accounting Principles (GAAP). IFRS is a standardized set of accounting principles which is used in over 100 countries throughout the world and which Canada has committed to adopting in January 2011. All Canadian public companies must use IFRS rather than GAAP to report their financials beginning in 2011.

The last large regulatory project implemented by Canadian companies was Sarbanes-Oxley (SOX) and many large corporations ran up implementation bills in the millions of dollars. Given their experience, companies are vowing that the same thing will not happen with IFRS but as we see companies procrastinate IFRS migrations, we should prepare ourselves to find companies facing similar high costs associated with last-minute implementations when they do eventually convert.

There are a lot of similarities between SOX and IFRS implementations. Both projects are quite large and focus primarily on improving accounting processes and systems rather than generating business. Like SOX, IFRS implementations can be very resource-intensive, requiring companies to analyze all their accounting policies, compare Canadian GAAP to IFRS, and make system changes to adhere to the new accounting guidelines. "How long it could take to convert to IFRS will depend on the size and complexity of the company," says Diane Kazarian, IFRS Partner at Pricewaterhouse Coopers, based in Toronto. "If the company is quite large, has multiple subsidiaries and jurisdictions, and a complex IT infrastructure, it could take two years or longer." One of the big differences with SOX implementations, is that IFRS conversions are coinciding with an economic downturn.

As organizations search for ways to control costs, the natural instinct is to reduce spending on accounting system implementations since they do not generate value directly. Some people may feel that accounting policies are not critical to running a business but as an accountant, I see the advantages of robust accounting practices. Accounting policies are important because they provide investors with important information and following international guidelines will make it easier for foreigners to invest in Canada.

Some companies might be wondering if Canada will copy the U.S. lead in delaying IFRS implementation deadlines beyond 2014. When Mary Schapiro was appointed the chairman of the Securities Exchange Commission (SEC) in January, one of the first things she did was delay the implementation of IFRS in the United States as a result of the current economic climate. "I will not be bound by the existing roadmap that's out for public comment," she said at the time, referring to the implementation dates her predecessor had put in place. She also said that the SEC estimates the cost of adopting IFRS for the largest firms in the U.S. can be as high as $32 million.

According to the Canadian Accounting Standards Board (AcSB), the accounting regulator in Canada, a delay is not an option. "Any deferral of the move to IFRS would be extremely disruptive at this point. Most of the users of financial statements have clearly supported the implementation of IFRS and the global recession has only highlighted the importance of moving to global standards," says Ron Salole, Vice President, Standards, CICA. "Even if we were to defer for another two years because of the credit crisis, companies would still likely end up asking for a further delay because they had deferred their preparations." The AcSB has confirmed in writing that the deadlines of January 1, 2011 are fixed. This approach is the right approach - there is no point in delaying when most of the world is already on IFRS and following standardized accounting practices.

Many consulting companies which increased their staffing in anticipation of heavy IFRS workloads are not yet feeling the demand. Kazarian feels that some companies are focused on the economic crisis and have deferred their IFRS conversion, while others are implementing without external support.

PTC Accounting is experiencing the same phenomenon. "To date we've not seen the level of activity on IFRS that we anticipated," says Rikki Wright, Managing Director and IFRS Lead of PTC Accounting. "It could be partly the economy holding people back but I think people are either underestimating the work necessary to ensure a smooth changeover or still hoping that the date will be pushed back. It reminds me a little of when Sarbanes-Oxley was introduced, people didn't truly understand it and so kept putting it off until the last minute. All of a sudden companies everywhere realized they needed help but by then all the people capable of undertaking such projects were already engaged."

Anne Bell, Regional Managing Director of Resources Global Professionals says that company employees leading IFRS efforts are too overworked to devote the proper attention to this important initiative. "Our clients are finding it very difficult to direct the appropriate focus and energy on their IFRS transformation," she say. "Most financial leaders who are leading IFRS implementations in their organization are putting out some of the fires which have resulted from our turbulent economic environment. There isn't much breathing space for financial leaders these days."

The Ontario Securities Commission does not feel that IFRS implementations are in jeopardy. "Canadian organizations have been working very hard to meet the deadlines and we are confident that they will meet the 2011 timeframe," says Cameron McInnis, Chief Accountant of the Ontario Securities Commission.

In order to inspire companies along their IFRS conversion efforts, the Canadian Institute of Chartered Accountants (CICA) is providing numerous resources to help businesses make the transition as seamless as possible. "We believe that as a profession, we need to take the leadership position on IFRS. We are looking to engage everyone, members and non-members alike, and help them find a way to make the transition to IFRS as seamless as possible," says Gordon Beal, Principal, Financial Reporting and Governance of the CICA. In fact, the CICA is offering a number of different training programs, ranging from brief high-level training to intensive IFRS courses which are almost a week to meet the various IFRS needs. Their website which is available to the general public contains a number of their own publications as well as points to other important sources of information. They have even developed a non-technical e-learning course which is available free of charge on their website to the general public. It is great to see a professional association being so proactive.

We have witnessed time and time again how companies try to save money by cutting corners and then eventually end up spending a lot more to accomplish the same task. As senior executives debate whether IFRS conversions are a priority in times of economic turbulence, they should remember that procrastination will only bring about bigger expense and more challenges down the road.

karine@knowledgeplus.ca

Karine Benzacar is Managing Director of Knowledge Plus Corp., an organization which trains accountants and other businesspeople on IFRS and finance. (www.knowledgeplus.org).