INVESTING IN THE NEW ERA

What Investors Need To Know About IFRS Transition

Beginning January 1, 2011, most Canadian public companies are required to prepare their financial statements under a new set of accounting principles: the International Financial Reporting Standards (IFRS). This change may have a significant impact on some companies. As an investor, you should understand what this impact is on the companies you invest in. You should read the companies' public disclosure, including their financial statements and management's discussion and analysis (MD&A) (which can be found on the SEDAR website: www.sedar.com), and look for answers to these questions:

1. Is the company ready for the transition?

You should find out the progress of a company's IFRS transition from its 2010 year end MD&A. If the company is behind in its transition schedule, there may be a risk that the company may not meet its filing deadline for its first quarter results, and significant regulatory consequences may follow. Note that companies transitioning to IFRS are allowed a 30-day extension to file their 2011 first quarter report. Therefore, for some companies, you may expect to see the first quarter results being released or filed later than normal.

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2. How does IFRS affect the company's earnings and overall financial results?

In the company's first IFRS interim report, look for disclosures related to IFRS transition. These disclosures will typically be found in a "reconciliation" that the company has to provide in the notes to the financial statements, which will be supplemented by disclosures in the MD&A. The disclosures should explain the effects of the transition on the company's previously reported financial results, including its revenues, expenses, assets, liabilities, and cash flows. Once you understand the IFRS impact on the company's financial statements, you can more effectively focus your attention on understanding the changes in the company's underlying business described in its financial report.

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3. Does the transition to IFRS affect the company's business activities? If so, in what way?

The adoption of IFRS is not just an accounting exercise. It may also change a company's business activities. For example, a company may change the way it compensates its executives if IFRS adoption changes the financial metrics that are used to evaluate the executives' performance. Look for descriptions of these changes in the company's MD&A.

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Be An Informed Investor!

If the company's disclosures do not sufficiently answer your questions, contact the company or speak with a registered financial adviser.