



# Canadian CFA Member Survey

The Investors' Challenge\*

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# IFRS: The investors' challenge

In Canada, International Financial Reporting Standards (IFRS) will replace Canadian Generally Accepted Accounting Principles (GAAP) for all publicly accountable enterprises, which includes listed companies and any other organizations that are responsible to large or diverse groups of stakeholders, including non-listed financial institutions and securities dealers.

The Canadian Accounting Standards Board (AcSB) has decided that Canada will adopt IFRS effective January 1, 2011, joining more than 100 countries that already have adopted IFRS, including all of the European Union. The Canadian Securities Administrators also allows companies to pursue early adoption of IFRS which they will consider on a case by case basis.

This survey from PricewaterhouseCoopers (PwC) in conjunction with the Canadian Advocacy Council for Canadian CFA Institute Societies (CAC), aimed to gauge the level of knowledge, interest and communication surrounding IFRS from those Canadians who hold the Chartered Financial Analyst® (CFA®) designation, which included the analyst/investment community, CFOs and others—some of the biggest stakeholders of the IFRS conversion.

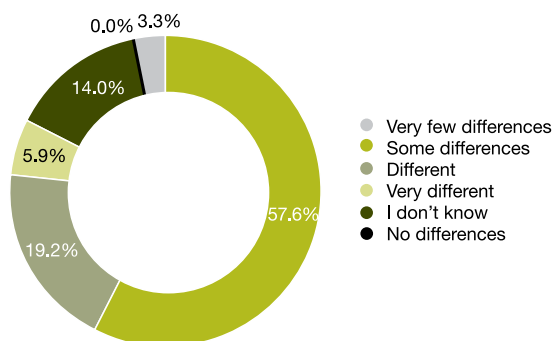
## Opportunities for Training and Information Sharing

With the transition date for IFRS looming on the horizon for all publicly accountable enterprises in Canada, this survey of the 271 respondents, who all hold the CFA designation, shows that while they favour the IFRS transition (47.6% believe that Canada should transition), there is much room to improve their understanding of what IFRS actually means.

Indeed, 47.2% are not very confident that they have a full understanding of what the impact of IFRS will be on the companies they invest in or follow. A further 19.9% are not at all confident. Only 5.5% say they have a very good or excellent knowledge of IFRS with the majority (73.8%) saying they have a fair to poor knowledge of IFRS.

However, this is not surprising given that many companies have only recently begun to communicate their conversion plans in 2008 and plan to communicate the quantifiable impacts of IFRS this year. We would expect that the understanding of the IFRS impacts should improve as companies continue to communicate their plans for conversions and related impacts.

Figure 1: How different do you think IFRS is from Canadian GAAP?



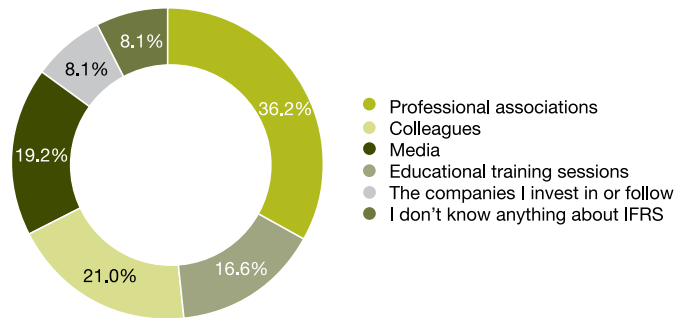
The survey shows that 74.2% have a fair to poor understanding of the differences between IFRS and Canadian GAAP and only 4.8% have a very good to excellent knowledge. Just over 57% believe IFRS only has some differences with Canadian GAAP, 19.2% say different, 14.0% say they don't know. Only 5.9% of respondents believe it's very different.

Canadian CFA charterholders will not be surprised, therefore, when they come to the understanding that there could be accounting differences between IFRS and Canadian GAAP which often reside in the details, causing recognition, measurement and/or presentation differences.

Careful planning and use of certain options available under IFRS, however, could eliminate some of these GAAP differences. While the accounting areas where some of the more likely differences arise between Canadian GAAP and IFRS depends on industry and the company itself, a few examples could include:

- Financial instruments (de-recognition of assets and liabilities);
- Full-cost accounting oil and gas;
- New insurance accounting model;
- Fair value of biological assets (i.e. forestry);
- Hedge accounting;
- Consolidation of special purpose entities (SPEs); and
- Impairment of non-financial assets.

Figure 2: How did you learn about IFRS and its adoption in Canada?



## Training and Education

Of those who have learnt about IFRS, 36.2% identify professional associations, followed by colleagues at 21%, and the media at 19.2% as their sources.

But, there is a clear desire to learn more with 66.1% interested in training. Employers of CFAs should take note as 51.3% say their company has not invested any budget for the IFRS training. Accordingly, 74.9% have not even registered for training or allocated any time for IFRS training.

Recently the CFA exams have been adapted to be based primarily on IFRS, and CFA Institute (the global body of CFA charterholders) has published *International Financial Statement Analysis* based on this curriculum to educate existing charterholders and other investment professionals on understanding and evaluating global financial statements. CFA Institute is currently exploring a number of options for providing IFRS educational resources.

## Belief of IFRS Impact

There also seems to be a lack of understanding of the impact IFRS will have on companies. Just over 50% believe that the transition to IFRS will have 'some' impact on the companies that they invest in or follow. Yet, along with shareholder reporting, IFRS will present unique challenges for senior management, human resources, the treasury and taxation functions, IT and many other areas across the organization beyond the finance and accounting function. IFRS may impact existing management reporting including budgets, forecasts, performance measures, bonus structures, key performance indicators and debt covenants. Furthermore, new procedures will have to be considered to ensure IFRS implications are considered as part of the approval process for all new strategic investments.

Companies would be wise to get their communication processes and protocols in order in good time so that Canadian CFA charterholders will be able to accurately and effectively understand the results.

## Management Awareness

On a positive note, 60.9% of respondents feel that the management of the companies they invest in or follow has some awareness of IFRS. However, only 23.3% have received communication from the management of the companies that they invest in or follow of their expected impacts of IFRS on their financials. The majority, 43.9%, only expect them to begin communicating by December 31, 2009. A sizeable 33.2% don't know when they expect to receive communication on IFRS. Furthermore, 43.5% don't expect the information that they focus on will change as a result of companies moving to IFRS.

The financial statements of a Canadian company will look different under IFRS than they currently do under Canadian GAAP. Senior executives need to be prepared to discuss the reasons for, and nature of, the differences to shareholders, board members, lenders and the general investing public. Organizations will need a detailed communication plan to educate stakeholders and to actively manage perceptions.

## Size and Industry

Not surprisingly, 61% of respondent are not aware of work being done on IFRS for private companies. Similarly 56.8% are not aware of any different IFRS standards for private companies. However, while all public companies will have to adopt IFRS, so too will non-public enterprises if they hold assets in a fiduciary capacity for a broad group of outsiders.

Meanwhile, just after this survey was conducted, the AcSB released an exposure draft on the proposed generally accepted accounting principles for private enterprises (Private Company GAAP) in Canada. Private companies will have a choice between adopting these new standards or IFRS starting in 2011. This new information will certainly change the level of knowledge that Canadian CFA charterholders' have of the standards for private companies.

Respondents are somewhat split on their knowledge of whether or not there are industry specific issues. Just over 41% said 'yes' versus 38.4% 'no'. An additional 20.3% said they don't know.

The majority said 'not applicable' when asked which industries (47.2%), but those who did select an industry cited Energy (23.2%), Financials (21.8%) followed by Real Estate (10%) as their top three choices of industries that might have issues.

Figure 3: Are you aware of any industry specific issues with IFRS?

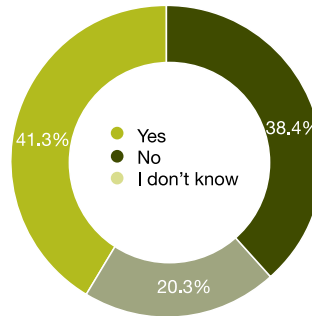
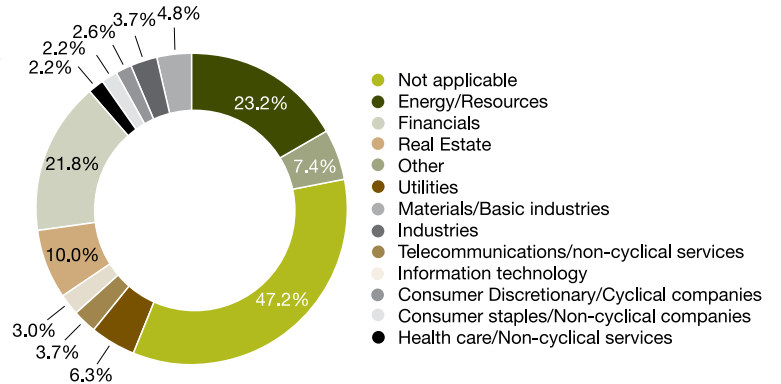


Figure 4: Which industries?



Preparedness and communication to stakeholders is key to make sure they are aware of conversion plans and IFRS impacts – both financially and organizationally.

## Those who already invest in or follow IFRS reporting companies

Not surprisingly, given that most of the respondents focus on Canada, only 23.2% of respondents currently invest in or follow companies reporting under IFRS. Of these respondents, 49.2% said that IFRS has not at all influenced their investment decisions, while 30.2% said the influence was minor. Almost seventy-eight percent have had no change in their investment decisions positively or negatively. Only 1.6% said they invest less.

Under IFRS neither industry nor geography factored as a role in changing their investment decisions.

Yet, from an industry perspective, the transition could be significant for certain industries, such as the oil and gas industry (O&G).

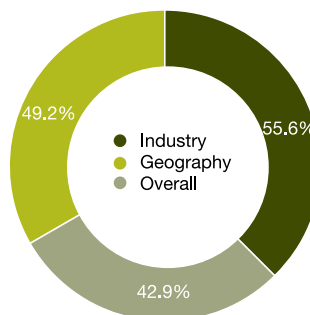
It is encouraging that despite concerns about the introduction of new standards, respondents perceive that management is handling the IFRS conversion well so far. According to the respondents, the management teams of the companies they follow or invest in have coped fairly effectively with the conversion (46%). But 39.7% said they did not know and 27% said they have coped 'not very effectively'.

According to the respondents the annual reports of the companies reporting in IFRS are fairly useful in explaining the impacts (36.1%). When asked how clear and understandable the information in the annual reports has been in relation to IFRS, 49.2% said fairly clear and understandable followed by not very clear and understandable at 22.2%. Nineteen percent said they did not know.

Just over 56% said the information published under IFRS has been fairly useful followed by 22.2% who said not very useful and 19% who said they did not know. These results show that there is an opportunity here for companies to improve their IFRS communications so that more stakeholders rate IFRS information as 'very' clear and 'very' useful.

When asked as compared to previous information published at an interim reporting stage, again the information was fairly useful for most at 49.2%. Meanwhile disclosures have improved 57.1% 'somewhat'.

Figure 5: Industry, geography and overall IFRS impact on investment decisions



## IFRS Future for Investors

The biggest challenge for Canadian CFA charterholders is the time required to assess and understand the changes introduced by the new standards. It is essential that Canadian CFA charterholders can spot and understand the difference between a change in the data that simply reflects the new accounting regime and one that shows change in a company's underlying economics or performance. Indeed, 56.1% feel that the conversion to IFRS is good for Canadian capital markets in the long run.

## Methodology

The results analysis in this survey includes answers from all respondents who took an online survey in the 27 day period from Wednesday, March 18, 2009 to Tuesday, April 14, 2009. 271 completed responses were received to the survey during this time.

<b>Profile of respondents</b>		<b>Areas of specialization</b>	
Other – CFO, Corporate Finance, Treasurers, Private Equity and Accountants	28.9%	Not applicable	48.0%
Portfolio Management	14.8%	Private Asset/Portfolio Management	21.4%
Equity analyst	10.4%	Pension Fund	10.7%
Consultants	12.6%	Other	11.4%
Private client wealth management	7.0%		

<b>Primary focus</b>		<b>Size of employer by assets under management</b>	
Other	35.1%	Not applicable	32.5%
Large cap equities	22.9%	Less than 250m	12.5%
Private client	14.8%	1B to less than 5B	12.2%
		5B to less than 20b	12.2%
		25b and more	9.2%

<b>Region specialized</b>		<b>Areas of specialization</b>	
Canada	39.1%	Not applicable	48.0%
US	15.5%	Private Asset/Portfolio Management	21.4%
Do not specialize	7.0%	Pension Fund	10.7%
		Other	11.4%

<b>Industry</b>		<b>Experience</b>	
Generalist	28.4%	6 – 10 years of experience	22.1%
Not applicable	27.7%	11 – 15 years of experience	27.7%
Energy/resources	22.1%	16 – 20 years of experience	14.8%
Financials	17.3%		

<b>Company</b>	
Other – Energy, oil and gas, government, private equity	18.8%
Investment bank/broker dealers	15.1%
Consultancy	12.5%
Non financial corporation	10.3%
Private client wealth management	10.0%
Institutional investment manager	9.2%



# The Canadian Advocacy Council for Canadian CFA Institute Societies

The Canadian Advocacy Council for Canadian CFA Institute Societies (“CAC”) is the Pan Canadian body representing the interests of Canadian CFA Institute societies with regards to advocating CFA Institute’s Code of Ethics and Standards of Practice to Canada’s securities regulators, standard setters, self-regulatory organizations, industry groups and legislators.

The CAC advocates the interests of its members through the publication of comment letters on proposed rules and notices from standard setters, legislators and securities regulators. In addition, the CAC published “White Papers” on issues which it deems are of national importance and participates in a number of User Advisory groups. Comments and issues engaged by the CAC are screened through a vigorous litmus test and debate from its members.

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# How we can help

**PwC Observation:** Our experience has been that a more comprehensive approach to conversion with systems, processes, policies and procedures designed to embed IFRS into day-to-day operations, internal management information systems and the mindset of staff has proven to be a much more sustainable approach. Management should ensure sufficient and appropriate resources have been assigned to their IFRS conversion projects, and that they have robust communication plans and training for all stakeholders including investors and analysts.

## How Can PwC help?

The most viable approach to IFRS conversion will vary from one organization to another; however, our experience has shown that a critical success factor is early consideration and well-planned implementation.

PwC provides:

- Initial diagnostic of Canadian/IFRS accounting differences
- Advice on selection of appropriate accounting policies
- Development of IFRS implementation plan
- Communication strategies and change management
- IT and process improvements
- Competitor benchmarking
- M&A target accounting conversion assistance
- Valuation advice under IFRS fair value and impairment models
- Tax planning considerations on conversion to IFRS
- Comprehensive IFRS training for multiple stakeholders

**PwC Observation:** PwC has unparalleled global experience helping many of the world's largest public companies adopt IFRS and has assisted with IFRS conversion projects for a wide range of public companies across all industries. The benefits of using PwC are:

- A multi-discipline approach
- In-depth diversified experience
- A proven effective and efficient implementation methodology

We also have a significant number of well-trained IFRS specialists in Canada including people who focus on the banking, insurance, oil and gas, forestry and mining industries.

## Capital Markets Group

Our Capital Markets Group specializes in GAAP conversions for a wide range of organizations—from large complex financial services institutions requiring detailed analysis to desktop reviews for local reporting requirements. Since its formation, the Group has dominated the financial services conversion markets for both IFRS and US GAAP.

Our Capital Markets Group has access to a team of IFRS conversion experts comprising over 80 partners and staff specializing in multi-GAAP environments and the related conversion implications. This team has worked almost exclusively on IFRS conversions over many years and has played a leading role in developing the firm's conversion methodology. The team is also able to draw on the firm's wider technical and industry resources.

# Contacts

If you would like to discuss any of the issues raised in this paper, please speak to your usual contact at PricewaterhouseCoopers, or any one of the following partners and managers:

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