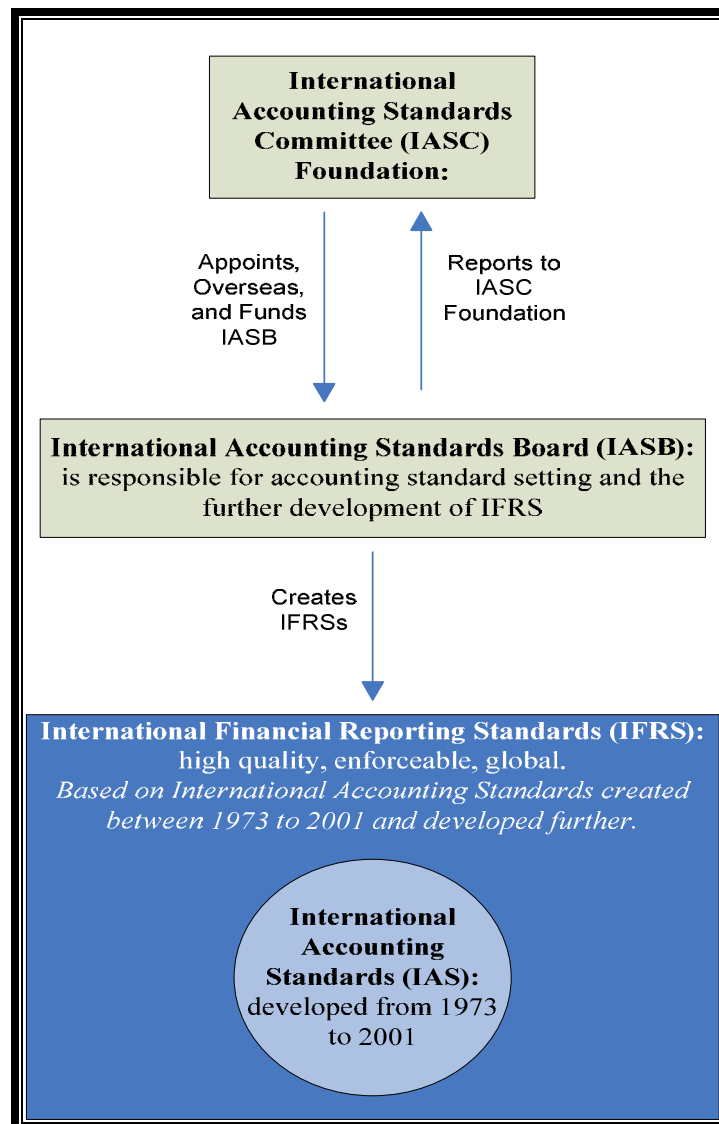


Global Context

International Accounting Standards (IAS) were issued between 1973 and 2001 by the board of the International Accounting Standards Committee (IASC). The IASC Foundation acts as the parent entity of the International Accounting Standards Board (IASB), an independent accounting standard-setter based in the UK. The IASC Foundation is responsible for appointing, overseeing, and funding the IASB. In April 2001, the IASB assumed accounting standard setting responsibilities from the IASC, adopted all IAS and continued their development, calling the new standards International Financial Reporting Standards (IFRS). Today, IFRS are used in over 100 countries and jurisdictions around the world, including the European Union, Hong Kong, Australia, India, and several others.



International Financial Reporting Standards (IFRS)

IFRS are a set of standards that establish broad rules as well as dictate specific treatment of items related to financial reporting. The use of IFRS will be required in 2011 for Canadian publicly accountable profit-oriented enterprises. This includes public companies and other profit-orientated enterprises that are responsible to large or diverse groups of shareholders. Private companies (non-publicly accountable enterprises), and not-for-profit organizations are not required, but are permitted, to adopt IFRS in 2011.

Why Change and Why Now?

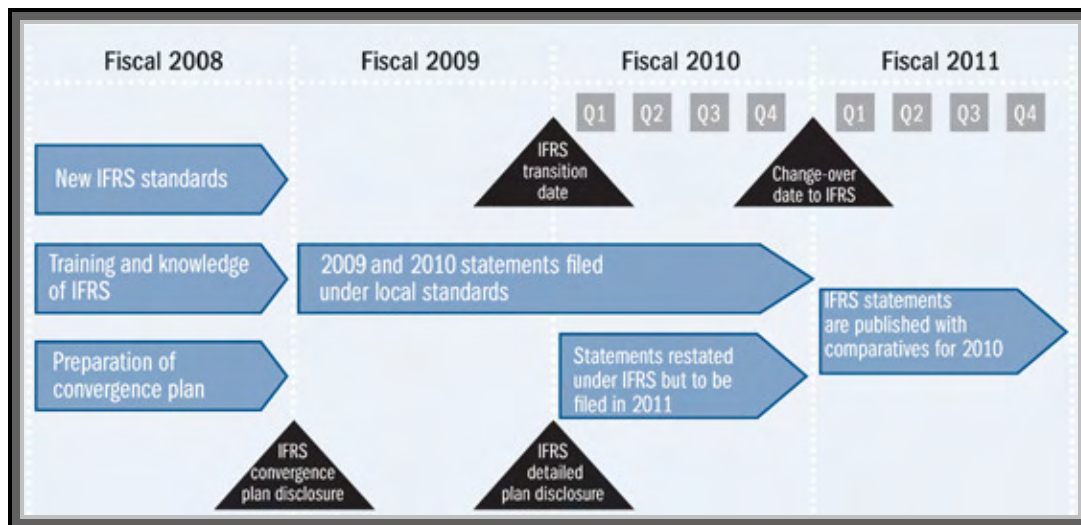
As the world's major economies continue to converge, there is a growing need to improve financial reporting internationally by establishing a single set of consistent, comparable financial reporting standards. The IFRS will not only improve comparability in a global context, but also eliminate the need for reconciliations of information reported under separate national standards. This will support and improve effective decision making in today's dynamic global economy.

Recent history has elevated the importance of high quality financial reporting in today's economy. Several lessons can be learned by the financial misrepresentation leading to the ruin of large firms such as Enron and WorldCom. At a minimum, the importance and relevance of reliable, clear and consistent financial reporting has become a key priority amongst senior financial executives and investors alike.

IFRS Timeline

- By December 31, 2008, organizations will have to disclose their plans for IFRS convergence and the effects that the organization anticipates as a result.
- January 1, 2010, will mark the first year for collection of comparative data to be included in the 2011 financial statements as part of the IFRS requirements
- December 31, 2010 will mark the last year of reporting under current Canadian Generally Accepted Accounting Principles (GAAP).
- January 1, 2011 will be the change over date to IFRS. From this date forward, financial reporting will be published in line with IFRS requirements.

Ernst and Young have summarized the IFRS timeline as follows:



International Public Sector Accounting Standards Board (IPSASB)

IPSASB focuses on the accounting and financial reporting needs of national, regional, and local governmental agencies, and the constituencies they serve. It achieves this mandate by providing benchmark guidance and facilitating the exchange of information among accountants and those who work in the public sector or rely on its work. IPSASB was established by and is accountable to the International Federation of Accountants (IFAC). IPSASB develops IPSASs that are “converged with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) by adapting them to a public sector context when appropriate. In undertaking that process, the IPSASB attempts, wherever possible, to maintain the accounting treatment and original text of the IFRSs unless there is a significant public sector issue which warrants a departure.”⁵

International Federation of Accountants (IFAC)

IFAC is the global organization for the accountancy profession, and is committed to protecting the public interest. It achieves this by developing high quality international standards, promoting strong ethical values, encouraging quality practice, and supporting the development of all sectors of the profession around the world.

IFAC is comprised of 157 members and associates in 123 countries and jurisdictions, representing over 2.5 million accountants. Member bodies participate in IFAC's Member Body Compliance Program, demonstrating their commitment to promoting high quality standards for the world's accountants.

⁵ http://www.ipsas.org/PDF_ipsas_standards_ifac/2006_A4_Preface.pdf

International Valuation Standards Committee (IVSC)

The IVSC was founded in 1981, as an NGO (Non-Government-Organization) member of the United Nations. It works cooperatively with member States, organisations such as the World Bank, OECD, International Federation of Accountants (IFAC), International Accounting Standards Board, and others including valuation societies throughout the world to harmonize and promote agreement and understanding of valuation standards.

Convergence

Over the last several years, the International Accounting Standards Board (IASB) and its IFRSs have made significant progress towards achieving global accounting convergence. As of January 2005, all EU companies listed on EU exchanges have been required to prepare statements based on IFRS. Furthermore, from a global perspective, over 100 countries, have adopted IFRS. Other countries, such as Australia, Israel, and New Zealand are converging their national standards either partially or completely with IFRS. Even the top emerging economies, Brazil, Russia, India and China, are all working towards accounting standards convergence. In fact, by 2011 the IASB expects approximately 150 countries will have adopted IFRS.

Also, as previously indicated, IPSASs are converged with IFRS, but adapted to the public sector climate. Further, our interview with CICA's PSAB Director revealed the fact that in some cases, IPSASB monitors the research, analysis and results of PSAB research in order to assess the implications to IPSASs. However, our research also indicates there are no immediate convergence plans in progress, between IPSASs and PSAB standards.

The Application of Accounting Standards

Which standards apply to whom?

Generally speaking, in terms of accounting standards in Canada, organizations in the public, not-for-profit, and private sector, will be required to meet either PSAB standards, Not-for-profit GAAP, or IFRS.

Private-sector entities that are publically listed companies, non-listed financial institutions, securities dealers and many co-operative enterprises - commonly referred to as Publically Accountable Enterprises (PAEs) – will be required to follow IFRS standards. Private companies and not-for-profit organizations are not required to adopt IFRSs, but can be adopt them if they choose to.⁶ Not-for-profit institutions also have the option to continue to apply Not-for-profit GAAP.

In the public-sector, certain organizations will fall under PSAB, while others will be required to follow IFRS. The majority of public-sector entities - typical federal, provincial and local governments - will be required to follow PSAB. Certain public-sector entities, such as government business enterprises and government business-type organizations, will be required to comply with IFRS standards. Definitions of these entities can be found below, as per CICA's PSAB Handbook, Section PS 1300.28:

A government business-type organization is a government organization that has all of the following characteristics:

- (a) *it is a separate legal entity with the power to contract in its own name and that can sue and be sued;*
- (b) *it has been delegated the financial and operational authority to carry on a business; and*
- (c) *it sells goods and services to individuals and organizations as its principal activity.*

The PSAB Handbook, in the introductory section .10, defines a government business enterprise as follows:

A government business enterprise is an organization that has all of the following characteristics:

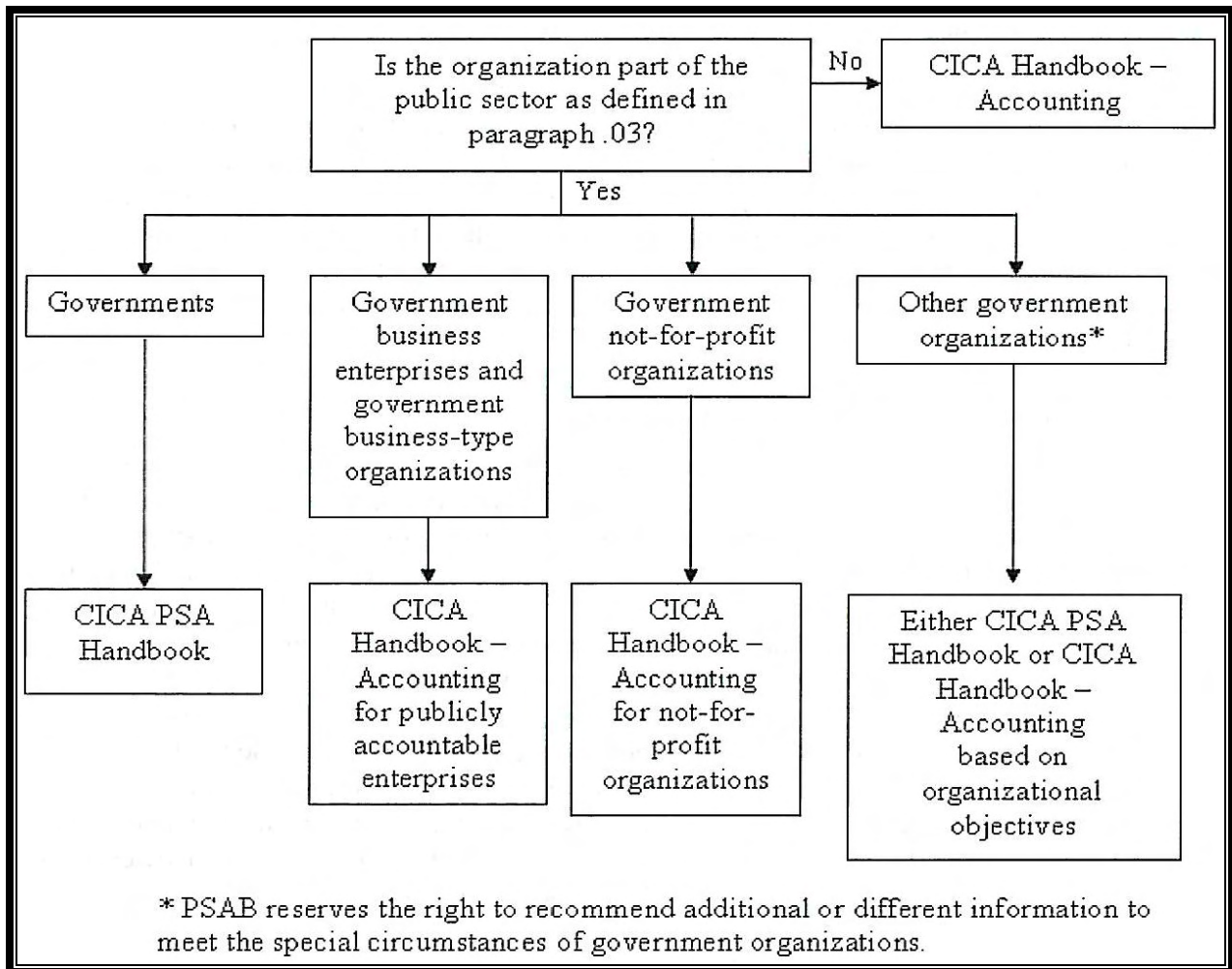
- (a) *it is a separate legal entity with the power to contract in its own name and that can sue and be sued;*
- (b) *it has been delegated the financial and operational authority to carry on a business;*
- (c) *it sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and*
- (d) *it can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.*

⁶ IFRSs in Canada: Cleared for Take-Off; Accounting Standards Board of Canada.

http://www.acsbcanada.org/download.cfm?ci_id=43905&la_id=1&re_id=0

According to the above definitions, local hydro corporations such as Mississauga Hydro will have to comply with IFRS. Given that the above are simply definitions, the PSAB Handbook should be reviewed and consulted in order to ensure an organization actually meets any of the above criteria.

The following diagram, taken from Appendix A of the introductory section of the PSAB Handbook, helps to summarize the application of the standards for public sector entities:



A summary of the reporting requirements and their application to different organization types within each sector is indicated below:

Financial Reporting Standards: An overview of the changing accounting standards relevant to Public Sector Organizations

The Application of Accounting Standards

May 16, 2008

A summary of the reporting requirements and their application to different organization types within each sector is indicated below:

Sector	Organization Type	Reporting Requirements		
		IFRS	Not-for-Profit GAAP	IPSASB
Private Sector	Publicly Accountable Enterprises (PAEs) - listed companies, non-listed financial institutions, securities dealers and many co-operative enterprises	X		
	Private Companies	X*		
Not-for-Profit	Not-for-Profit	X**	X**	
Public Sector	Government business enterprises	X		
	Government business type organizations	X		
	Remaining Canadian Federal, provincial, local government (majority of public sector entities)		X	
	International Public Sector			X

* Private companies are not required to adopt IFRSs, but can adopt them if they choose to.

** Not-for-profit institutions are not required to adopt IFRSs, but can adopt them if they choose to. They also have the option to continue to apply not-for-profit GAAP.

For further clarification on the definitions of organization types, please refer to the "Application of Accounting Standards" section of this report or see the Glossary.

Conclusions, Takeaways and Resources

As a result of the upcoming changes in financial reporting standards, many organizations will be affected in a significant manner. The public sector and local governments in particular, will be impacted considerably because many local governments do not currently use full accrual accounting to monitor, manage and report on their financial position. In order to be successful in this shift, organizational leaders will have to develop and implement specific plans to adequately educate staff of the changes and help facilitate the change process. Of utmost importance is to understand that the changes in financial reporting requirements should not be viewed as a simple accounting exercise, but as significant change in operations and an opportunity to implement better fiscal and managerial decision-making. If they plan and execute appropriately, local governments will have the opportunity to lay the groundwork for new or significantly improved asset management strategies.

In order to facilitate the implementation of the new financial reporting requirements and PS-3150 in particular, local governments should also keep up-to-date on changes and on-going developments in the industry. Our research uncovered the following sources as being very informative:

1. **PSAB** - Public Sector Accounting Board of Canada
http://www.psab-ccsp.ca/index.cfm/ci_id/1053/la_id/1.htm
 - General PSAB information and updates.
2. **PSAB/ Asset Management Resource Centre** - Association of Municipal Managers, Clerks & Treasurers of Ontario (AMCTO) & Municipal Finance Officers' Association of Ontario (MFOA)
<http://www.amcto.com/psab/assetmgmt.asp>
 - Work plans, Seminars, Newsletters, Deflator Indexes, Conference Presentations, and Readiness Surveys.
3. **OMBI** – Ontario Municipal CAO's Benchmarking Initiative
<http://www.ombi.ca/accounting.asp>
 - Reference Manuals, Guidebooks, and Case Studies.

Glossary

Accounting Standards Board (AcSB): an independent body with the authority to develop & establish standards and guidance governing financial accounting and reporting in Canada

Accounting Standards Oversight Council (AcSOC): was established by the CICA to serve the public interest by overseeing and providing input to the activities of the Accounting Standards Board (AcSB).

Canadian Institute of Chartered Accountants (CICA): conducts research into current business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government.

Government business-type organization: is a government organization that has all of the following characteristics:

- (a) it is a separate legal entity with the power to contract in its own name and that can sue and be sued;
- (b) it has been delegated the financial and operational authority to carry on a business; and
- (c) it sells goods and services to individuals and organizations as its principal activity.

Government business enterprise: is an organization that has all of the following characteristics:

- (a) it is a separate legal entity with the power to contract in its own name and that can sue and be sued;
- (b) it has been delegated the financial and operational authority to carry on a business;
- (c) it sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and
- (d) it can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.

IAS: International Accounting Standards that were issued between 1973 and 2001 by the board of the International Accounting Standards Committee.

International Accounting Standards Committee (IASC) Foundation: contributed to original International Accounting Standards and acts as parent entity to IASB

International Accounting Standards Board (IASB): an independent accounting standard-setter based in the UK and responsible for IFRSs.

International Financial Reporting Standards (IFRS): a set of standards that establish broad rules as well as dictate specific treatment of items related to financial reporting.

Financial Reporting Standards: An overview of the changing accounting standards relevant to Public Sector Organizations

Glossary

May 16, 2008

International Valuation Standards Committee (IVSC): founded in 1981, is an NGO (Non-Government-Organization) member of the United Nations and works cooperatively with member States, organisations such as the World Bank, OECD, International Federation of Accountants (IFAC), International Accounting Standards Board, and others including valuation societies throughout the world to harmonize and promote agreement and understanding of valuation standards.

International Public Sector Accounting Standards Board (IPSASB): The IPSASB (formerly Public Sector Committee (PSC)) is a Board of IFAC formed to develop and issue under its own authority International Public Sector Accounting Standards (IPSASs). IPSASs are high quality global financial reporting standards for application by public sector entities other than Government Business Enterprises (GBEs).

Not-for-profit GAAP: Generally Accepted Accounting Principles developed for the Not-for-profit sector developed by CICA.

Publicly Accountable Enterprises (PAEs): listed companies, non-listed financial institutions, securities dealers and many co-operatives enterprises.

Public Sector Accounting Board (PSAB): is an independent body with the authority to set accounting standards for the public sector.

Statements of Recommended Practice (SORPs): address specific aspects of reporting on financial condition and financial and non-financial performance. PSAB issues SORPs to enhance decision-making and accountability by improving the understandability of reports issued in the public sector.

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1. Tim Beauchamp, Director, Public Sector Accounting Board (PSAB)
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4. Mathew Wilson, Senior Policy Advisor
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