

Adoption of IFRS in Canada: Financial Reporting Dilemma for Canadian Companies Cross-Listed in the United States

Sylwia Gornik-Tomaszewski
St. John's University

Abstract

The Accounting Standards Board of the Canadian Institute of Chartered Accountants required all publicly accountable enterprises in Canada to report in accordance with International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. US Securities and Exchange Commission (SEC) registrants, however, are still allowed to use their financial statements in compliance with US Generally Accepted Accounting Principles (US GAAP) for domestic purposes, including filing with Canadian securities regulators. The primary objective of this study is to classify and analyze the 2011 annual reports filed with the SEC by Canadian companies cross-listed on the New York Stock Exchange (NYSE). This is done in an attempt to explain Canadian managers' financial reporting choices vis-à-vis the SEC's indecision about incorporating IFRS into the US financial reporting system. This study provides valuable evidence on the competition between IFRS and US GAAP called for in academic and professional circles. The findings indicate that the majority of Canadian companies listed on the NYSE: (1) provided an explicit and unreserved statement of compliance with IFRS, as issued by the International Accounting Standards Board (IASB), and (2) filed their annual report on Form 40-F, which is especially designated for certain Canadian private issuers. But there were also companies making different standard and form choices. This study highlights their decisions and explores their rationales.

Keywords Canada, IFRS, US GAAP, Publicly Accountable Enterprises (PAEs), Securities and Exchange Commission (SEC), Form 40-F, Form 20-F, Form 10-K.

Introduction

In recent years, Canada has gone through a major accounting system changeover. As of 2011, the Canadian Generally Accepted Accounting Principles (CGAAP) ceased to exist as a basis of financial reporting for public companies.¹ Canada's standard-setters chose International Financial Reporting Standards (IFRS) over US Generally Accepted Accounting Principles (US GAAP) to replace CGAAP in the belief that the American rule-based standards were too detailed and, therefore, too expensive to adopt (Johnson 2010). The change was based on the assumption that, by adopting IFRS, which are used in over 120 jurisdictions, Canadian companies will become more comparable with their competitors worldwide.

Two developments in the United States also contributed to this decision by Canadian authorities. The first was the convergence of US GAAP and IFRS, a decade-long process conducted by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). The presumption has been that the process would eliminate many of the significant differences between US GAAP and IFRS and would pave the way for an eventual adoption of IFRS by the US Securities and Exchange Commission (SEC). The second was the de facto acceptance of IFRS by the US SEC when applied by foreign private issuers

registered with the SEC. In December 2007, the SEC issued a final rule permitting foreign private issuers to file financial statements in accordance with IFRS as issued by IASB (SEC 2007a).² To be accepted by the SEC without the reconciliation to US GAAP, financial statements must contain explicit and unreserved statements of compliance with IFRS as issued by IASB, and the audit report must opine regarding the application of IFRS as issued by IASB.

For decades, the proximity of US capital markets and US competitors have caused a significant number of Canadian companies to comply with US GAAP. These companies were allowed to remain on US GAAP after the 2011 switchover to IFRS. As of 2011, no indication was given by the SEC as to its final decision on the IFRS status in the United States. In August 2007, the SEC issued "Concept Release on Allowing U.S. Issuers a Choice between IFRS and U.S. GAAP" (SEC 2007b), and in November 2008, the SEC issued a proposed "Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers" (SEC 2008). However, the financial crisis put these issues on a back burner. The initial enthusiasm was reduced to the SEC's staff "Work Plan for the Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers," which was conducted between February 2010 and July 2012. The report finalizing the work plan issued by the SEC contained no recommendation about whether, when, or how to incorporate IFRS into the US financial reporting system (SEC 2012). In light of these developments south of their border, Canadian companies had to determine which accounting policies are the most congruent with their objectives. The dilemma faced by the cross-listed companies was clearly reflected in their first annual reports filed with the SEC following the IFRS effective date. This study is based on a review and analysis of these filings.

The remainder of this paper is organized as follows: the next section explains Canadian financial reporting regulations. Then the SEC regulation of periodic reporting by Canadian private issuers is discussed, followed by a section on reporting and disclosure requirements under IFRS 1, "First-Time Adoption of IFRS." The following section reviews relevant academic literature. Next, a classification of the Canadian annual report filings with the SEC is presented, followed by more in-depth analysis of selected examples. Finally, the researcher's remarks close the paper.

Canadian Financial Reporting Regulation

Accounting standards and guidance in Canada are established by the Accounting Standards Board of Canada (AcSB), an independent organization within the Canadian Institute of Chartered Accountants (CICA). In January 2006, the AcSB ratified a new "Strategic Plan for the Direction of Accounting Standards" that significantly affected financial reporting in Canada. All publicly accountable enterprises (PAEs) are required to report under IFRS in place of CGAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011 (AcSB 2006). A PAE is defined as a profit-oriented enterprise that either: (i) has issued, or is in the process of issuing, publicly traded debt or equity listed on a domestic or foreign stock exchange or (ii) holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses, such as a bank, insurance company, mutual fund, or investment bank.³ Temporary exemptions were made for rate-regulated entities and investment companies. The AcSB has deferred the mandatory IFRS adoption for entities with qualifying rate-regulated activities by January 1, 2015. Investment companies benefit from a deferral until January 1, 2014. In preparation for this changeover, the Board has undertaken significant convergence

activities, adopting certain elements of IFRS into CGAAP and adopting new IFRS that emerged from the IASB.

The AcSB pointed out that it made the decision to adopt IFRS for PAEs after “extensive consultation with stakeholders.” Because IFRS are rapidly becoming the global language of accounting, Canadian companies operating and competing globally cannot afford to retain domestic reporting standards (Avery 2011). The Chartered Accountants of Canada argued that Canada comprises less than 4 percent of the world’s capital markets and, therefore, IFRS provide more opportunities for Canadian businesses and investors by reducing the cost of capital, increasing access to international capital markets, and reducing costs by eliminating the need for reconciliations (CA 2009). The AcSB, however, has adopted a separate financial reporting standard for entities that do not have public accountability. It is a simpler, more limited version of CGAAP (Milstead 2010).

The AcSB disclosed its rationale and process for adopting IFRS rather than US GAAP in a separate document. The Board pointed out two main reasons for its decision: (1) more Canadian than US PAEs are smaller in terms of their market capitalization and, thus, were less willing to accept the expense and effort of applying detailed and extensive US GAAP and (2) the power of the SEC as the capital market regulator has been enhanced by the recent financial scandals, resulting in the potential for regulatory interference into the standard setting and a high cost of compliance with the reporting rules. Based on these concerns, the Board concluded that “selecting US GAAP would be a more difficult and indirect path to the ultimate goal of global convergence than direct adoption of IFRS” (Deloitte, IASPLUS 2011).

The decision to adopt IFRS came rather as a surprise, as research indicates that Canadian and US GAAP numbers are close substitutes (Bandyopadhyay et al. 2002). Therefore, it was concluded that investors are not deprived of valuable information if Canadian companies registered with the SEC are allowed to report domestically using US GAAP. The option to use US GAAP financial statements by domestic Canadian issuers that are also the SEC registrants was introduced by the Canadian Securities Administrators (CSA) in 2004.⁴ A rationale for this option was the cost and burden of preparing both CGAAP and US GAAP financial statements. National Instrument 52-107, “Acceptable Accounting Principles and Auditing Standards,” originally issued in January 2004, declared in Paragraph 4.1, “Acceptable accounting principles for SEC issuers,” that the SEC registrants are allowed to file financial statements with Canadian securities regulators that are prepared in accordance with US GAAP (CSA 2004).

The key rationale for the US GAAP option has been largely eliminated by the SEC’s recent decision to allow foreign private issuers to file financial statements prepared in accordance with IFRS, as issued by the IASB, without reconciliation to US GAAP for years ended on or after November 15, 2007. Consequently, the CSA staff, in their Concept Paper 52-402, reached the tentative conclusion that domestic issuers should not be allowed to use US GAAP for a financial year beginning on or after January 1, 2009, with the exception that a domestic issuer filing US GAAP financial statements in Canada for its most recent financial year ending on or before December 31, 2008, could continue doing so for five years (i.e., 2009 to 2013) (CSA 2008). Comment letters submitted to the CSA by leading participants in the Canadian capital markets, however, have opposed eliminating the use of US GAAP by domestic issuers who are also SEC registrants until the US adopts IFRS.

The Sec Regulation Of Annual Reporting By Canadian Private Issuers

Two of the most important laws applicable to companies wishing to access the US capital markets are the Securities Act of 1933 (the Securities Act) and the Securities Exchange Act of 1934 (the Exchange Act). Generally, the language of those securities acts does not distinguish between domestic and foreign registrants. A key consideration for a foreign company is whether it qualifies as a foreign private issuer as defined in Rule 405 of Regulation C under the Securities Act and Rule 3b-4 under the Exchange Act. If a company does not qualify as a foreign private issuer, it is subject to the same registration and disclosure requirements applicable to domestic US entities.

A foreign private issuer is defined in Rule 3b-4(c) under the Exchange Act as a foreign (non-US) issuer, other than:

- a foreign government or
- an issuer with more than 50 percent of its outstanding voting securities being held of record by US residents, if any of the following is true:
 - a majority of its executive officers or directors are citizens or residents of the US,
 - more than 50 percent of its assets are located in the US, or
 - its business is principally administered in the US.

Such a non-US issuer may elect to present the financial statements in accordance with US GAAP and file periodic reports as any domestic US issuer on Form 10-K, 10-Q, and 8-K. More commonly, however, a foreign private issuer would use Form 20-F. Form 20-F is the primary disclosure document for foreign private issuers under both the Securities Act and the Exchange Act. Thus, unlike Form 10-K, Form 20-F may serve as a registration statement and annual report. It is not accompanied by quarterly reports.

The disclosure requirements of Form 20-F are, in large part, very similar to those required of domestic issuers. There are, however, several significant differences, mostly with respect to financial statements and executive compensation disclosure. These differences include (SEC 2013):

- Foreign private issuers may provide financial statements prepared in accordance with US GAAP, IFRS as issued by the IASB, or home country accounting standards that comprise a comprehensive basis of accounting. If a foreign private issuer prepares financial statements pursuant to home country accounting standards or non-IASB IFRS, it must also provide a reconciliation to US GAAP consisting of a discussion and quantification of the material differences between the financial statements presented and the requirements of US GAAP.
- Foreign private issuers are permitted to disclose executive compensation on an aggregate basis and need not supply a Compensation Discussion and Analysis, as is required for domestic companies. To the extent a foreign private issuer discloses more extensive executive compensation information voluntarily or in accordance with home market requirements, such information must also be disclosed under Form 20-F.

In 1991, the SEC entered into the Multijurisdictional Disclosure System (MJDS) with Canada. Canadian issuers were permitted to report under the Securities Exchange Act of 1934 using Canadian disclosure documents and offering practices (SEC 1991). The MJDS was the first case in the United States with full recognition of foreign financial statements prepared in accordance with home country requirements. Canada was selected as the first country subject to reciprocal disclosure for at least two reasons: (1) the similarity between CGAAP and US GAAP

and (2) the large number of Canadian companies listed on exchanges in the United States (McQueen 1992).

The MJDS was developed with Canada due to its mature capital markets and strong regulatory tradition. While specific disclosure requirements of the United States and Canada differ in their details, the regulatory systems share the common objective of providing investors with the information necessary to make informed investment decisions. The application of accounting and auditing standards are key to any effective disclosure system, and the Commission staff determined through extensive analysis that Canada, like the United States, has highly developed accounting and auditing standards (Bayless 1992).

Under the Exchange Act, MJDS issuers file annual reports with the SEC on Form 40-F. Before the Sarbanes-Oxley Act (SOX) was passed in 2002, in accordance with the MJDS principle of relying on home country regulation, the disclosure requirements of Form 40-F were limited to an issuer's Canadian annual information form (AIF), annual management's discussion and analysis (MD&A), and audited financial statements (reconciled to US GAAP). Upon enactment of the SOX, however, Form 40-F was enhanced to require certain additional disclosures that went beyond what was required in Canadian annual materials.⁵ Later rulemaking by Canadian securities regulators, however, substantially increased Canadian continuous disclosure requirements, making them very similar to the US's rules (Torys 2009).

In 2008, the SEC adopted rule changes that affect when issuers test their eligibility to file annual reports on forms 20-F and 40-F as well as the timing and content of those annual reports. Forms 20-F and 40-F are compared in Table 1, below.

Table 1: Comparison of Form 40-F with Form 20-F

Form	Eligibility	Filing deadline
40-F	<p>Form 40-F may be used as an annual report by any SEC reporting company that:</p> <ul style="list-style-type: none"> (i) is incorporated or organized under the laws of Canada or any Canadian province or territory; (ii) is a "foreign private issuer" as defined under the SEC's rules, as of the last business day of its second fiscal quarter;⁶ (iii) has been subject to the periodic reporting requirements of any securities commission or equivalent regulatory authority in Canada for at least 12 calendar months immediately preceding the filing of the Form 40-F and is currently in compliance with such obligations;⁷ and (iv) has outstanding equity shares with an aggregate "public float" of 	<p>Canadian companies that file their audited financial statements and MD&A before the date on which the Annual Information Form ("AIF") is filed in Canada are required to file Form 40-F in the US on the day the audited financial statements and MD&A are due to be filed in Canada. The company should then file a 40F/A to add the AIF on the day the AIF is due to be filed in Canada. In any event, Form 40-F must be filed no later than the date that the relevant information is filed in Canada.</p>

	US \$75,000,000 or more.	
20-F	If an issuer, at the end of its fiscal year, meets requirement (ii) above (because it was a foreign private issuer as of the last day of its second fiscal quarter), but fails to meet one or more of the other requirements (i.e., clause [i], [iii], or [iv] above), then it will be ineligible to use MDJS Form 40-F. However, it may, as a foreign private issuer, use Form 20-F. ⁸	Foreign private issuers filing annual reports on Form 20-F must file in the US within six months after the foreign private issuer's fiscal year-end for fiscal years ending before December 15, 2011. For fiscal years ending on or after December 15, 2011, foreign private issuers must file within four months after their fiscal year end.

Source: (Lander 2009)

Before 2011, most Canadian issuers prepared their financial statements in accordance with CGAAP, as defined in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS as issued by the IASB and to require PAEs to apply these standards effective for the years beginning on or after January 1, 2011. There has always been a group of Canadian issuers, though, that opted for compliance with US GAAP and even voluntarily elected to file their annual reports on Form 10-K, which is designated for domestic US issuers.

First-Time Adoption of IFRS

When an entity adopts IFRS for the first time as the basis for preparing its general purpose financial statements, it has to follow the procedures set out in IFRS 1, "First-time Adoption of International Financial Reporting Standards." IFRS 1 is applicable to the first annual financial statements in which the entity adopts IFRS by an *explicit* and *unreserved* statement of compliance with all IFRS, and any interim financial statements that the entity presents in accordance with IAS 34, "Interim Financial Reporting," for part of the period covered by its first annual IFRS financial statements.

IFRS 1 requires, in principle, the retrospective application of each IFRS effective at the reporting date of an entity's first IFRS-compliant financial statements, with some mandatory exceptions and elective exemptions. A first-time adopter must present at least one year of comparative financial information prepared in accordance with IFRS, recognize transition adjustments in retained earnings, and explain the effect of the transition to IFRS on its financial position, financial performance, and cash flows (IASB 2008).

A first-time adopter must prepare and present an opening IFRS statement of financial position at the *date of transition* to IFRS. The date of transition to IFRS is the beginning of the earliest period for which an entity presents full comparative information under IFRS in its first IFRS financial statements. The first IFRS reporting period is the latest reporting period covered by an entity's first IFRS financial statements. Exhibit 1 presents a reporting timeline for a typical Canadian company reporting on a calendar-year basis.

Exhibit 1: Reporting Timeline under IFRS 1 for a Calendar Year-End Canadian Company

Date of Transition		Reporting Date
I-----I-----I		I-----I
1/1/10	12/31/10	12/31/11

The accounting policies used in the opening IFRS statement of financial position at January 1, 2010, the date of transition to IFRS, must be those in effect at December 31, 2011, which is at the end of the first IFRS reporting period. The preparation of an opening IFRS statement of financial position involves the following steps:

- a. Recognition of all the assets and liabilities required under IFRS,
- b. Derecognition of assets and liabilities not permitted by IFRS,
- c. Remeasurement of recognized assets and liabilities according to IFRS, and
- d. Reclassification of items that were recognized as one type of asset, liability, or component of equity in accordance with previous GAAP, but are recognized as a different type of asset, liability, or component of equity in accordance with IFRS.

The opening statement of financial position need not comply with IFRS if certain mandatory exceptions (prohibitions) and voluntary exemptions from the retrospective application of IFRS apply.⁹ Whenever policies used in the opening IFRS statement of financial position differ from those used for the same date under previous GAAP, the resulting adjustments must be reported directly in opening retained earnings at the transition date.

To comply with the revised International Accounting Standards 1 (IAS 1), "Presentation of Financial Statements," an entity's first IFRS financial statements shall include at least (IASB 2007):

- three statements of financial position,
- two statements of comprehensive income,
- two separate income statements (if presented),
- two statements of cash flows,
- two statements of changes in equity, and
- related notes, including comparative information.

IFRS 1 requires disclosures that explain how the transition from previous GAAP to IFRS affected the entity's reported financial position, financial performance, and cash flows. An entity's first IFRS financial statements must include the following reconciliations (IASB 2008):

- reconciliations of the entity's equity, reported in accordance with previous GAAP to its equity in accordance with IFRS for both of the following dates:
 1. the date of transition to IFRS, and
 2. the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP.

- reconciliation to the entity's total comprehensive income in accordance with IFRS for the latest period in the entity's most recent annual financial statements in accordance with previous GAAP.

IFRS 1 has been amended many times since it was first issued in 2003 because of new or amended standards.

Academic Literature Review

Early studies on the value relevance of US GAAP reconciliation of earnings and shareholders' equity, as required in the SEC filings, used to exclude Canadian companies from the sample due to perceived similarities between CGAAP and US GAAP (see, for example, McQueen 1993; and Amir et al. 1993).¹⁰ Several following studies, however, examined the magnitudes and the information content of the reported reconciliations between CGAAP and US GAAP income and shareholders' equity (see, for example, Bandyopadhyay et al. 1994; Barth and Clinch 1996; Bandyopadhyay et al. 1998). All these studies provided evidence that CGAAP-US GAAP earnings differences are particularly price relevant; that is, CGAAP earnings possess incremental information content beyond that included in US GAAP earnings. More recent studies indicated, however, that CGAAP and US GAAP-based accounting numbers are close substitutes (Bandyopadhyay et al. 2002), which ultimately led to the acceptance of US GAAP-based filings in Canada.

Research on IFRS costs and benefits conducted over the past decade has been generating significant output. Prominent studies summarizing the burgeoning IFRS literature include Kaya and Pillhofer (2013) and Hail et al. (2010a, 2010b). Many studies discussed in these papers concentrate on the implications of the potential adoption of IFRS in the United States. Research focusing on actual IFRS adoption in Canada, however, is in the early stages, as this is a very recent event and data is limited. One preliminary study indicates that the quality of earnings reported by Canadian companies has not been improved by IFRS adoption (Liu and Sun 2013).

Finally, several scholars concluded that the best solution to the ongoing US GAAP versus IFRS dilemma should be ongoing competition among standard setters. Such competition would improve standard-setting efficiency and possibly increase the quality of both US GAAP and IFRS (e.g., Sunder 2011, 2002; Kothari et al. 2010).

Classification of the Annual Report Filings with the SEC

Over 350 Canadian private issuers are registered with the SEC, but this study concentrates on a sample of companies listed on the New York Stock Exchange (NYSE) during the period 2011 to 2012. A list of pertinent companies was developed using the NYSE/EURONEXT website and other professional on-line resources. Originally, 91 companies were identified, but later research indicated that one of these companies went out of business on September 15, 2011. Therefore, the final sample consists of 90 companies.

For each of the 90 companies in the final sample, 2011 filings with the SEC were accessed through the SEC's EDGAR system, company website, or both. The annual reports were checked for compliance with IFRS 1. More specifically, auditor's reports and the notes of financial statements were retrieved to confirm whether the particular report represents first-time adoption of IFRS, as defined in IFRS 1. If the financial statements were prepared based on IFRS but the company did not comply with IFRS 1, earlier filings were searched for first-time adoption

disclosures. If a company was still on CGAAP, it was researched for possible exemption status. Companies complying with US GAAP were separately identified.

Static Analysis – Reporting Choices

Table 2 contains a summary of the collected data classified by form (40-F, 20-F, or 10-K); the set of accounting standards used to prepare financial statements (IFRS or US GAAP); and the reporting status of first-time IFRS adopters vis-à-vis the reporting date of December 31, 2011 (December 31, 2011, first-time adopters, early adopters, or late adopters). This is a static analysis of the filing status of Canadian private issuers listed on the NYSE from the perspective of December 31, 2011.

Table 2: Classification of the 2011 Annual Reports Filed with the SEC by Canadian Private Issuers Listed on the NYSE

CANADIAN COMPANIES LISTED ON THE NYSE								
FORM	STANDARD	NUMBER OF FILERS	TOTAL PER FORM	IFRS 1: REPORTING DATE			TOTAL IFRS	INDUSTRY
				31-Dec-11	EARLIER	LATER		
40-F	IFRS	60	70	42	6	12	60	Mining (19); Oil & Gas Producers (12); Banks and Financial Services (6); Real Estate (3); Industrial Metal (3); Media (2); Life Insurance (2)
	US GAAP	10						Industrial (2); Industrial Metals & Mining; Automobiles & Parts; Health Care; Real Estate; Construction & Materials; Support Services; Oil & Gas Producers
20-F	IFRS	3	7	2	1	0	3	Mining; Forestry & Paper; Electronics & Electrical
	US GAAP	4						Mining; Financial Services; Oil & Gas Producers; Industrial
10-K	IFRS	1	13	1	0	0	1	Chemicals
	US GAAP	12						Mining (2); Electricity; Beverages; Forestry & Paper (2); Travel & Leisure (2); Nonlife Insurance; Media; Pharmaceutical (2); and Biotechnology
TOTAL IFRS		64	90	45	7	12	64	
TOTAL US GAAP		26						
TOTAL ALL		90						

The analysis of the SEC filings leads to the following conclusions:

1. Six possible combinations of forms (Forms 40-F, Form 20-F, Form 10-K) and accounting standards (IFRS, US GAAP) were observed;
2. The most common practice for Canadian private issuers was to report on Form 40-F under IFRS (60 observations, 67 percent of the sample); the least utilized was Form 20-F (7 observations in total, 7.8 percent of the sample);
3. Of the 90 companies analyzed, 64 complied with IFRS (71 percent) while 26 complied with US GAAP (29 percent);
4. No particular association has been observed between the form/standard and industry; for example, mining companies are represented in almost all the categories listed in Table 2. The only conclusion that could be reached here is that large Canadian banks and financial institutions opted for Form 40-F and IFRS;
5. In half of the cases, Canadian issuers have December 31 as the fiscal year end, and their timeline of IFRS adoption is reflective of the one presented in Exhibit 1. Seven companies (7.8 percent) adopted IFRS earlier, while 12 companies (13.3 percent) had their reporting date, as defined in IFRS 1, scheduled some time in 2012 due to a non-calendar fiscal year end.

Dynamic Analysis – Reporting Changes

Table 3, presented below, offers an insight into the process of financial reporting realignment following the decision of the AcSB to adopt IFRS in 2011. This table allows the reader to understand better the changes taking place north of the US border as it provides data on companies switching from CGAAP to IFRS, switching from US GAAP to IFRS, as well as switching to US GAAP.

Table 3: Dynamic View of Financial Reporting Choices Resulting from Canadian Transition to IFRS

Number of Companies Adopting New Set of Standards	40-F	20-F	10-K	Total
Switching from Canadian GAAP to IFRS - regular adopter	52	2	1	55
Switching from Canadian GAAP to IFRS - early adopter	4			4
Switching from Canadian GAAP to IFRS - delayed adopter				0
Total Switching from Canadian GAAP to IFRS	56	2	1	59
Switching from US GAAP to IFRS - regular adopter	1			1
Switching from US GAAP to IFRS - early adopter		1		1
Switching from US GAAP to IFRS - delayed adopter	1			1
Total Switching from US GAAP to IFRS	2	1		3
Total Switching to IFRS	58	3	1	62
Switching from Canadian GAAP to US GAAP	5	1	1	7
Switching from IFRS to US GAAP				0
Switching from Canadian GAAP to IFRS to US GAAP	1			1
Total Switching to US GAAP		6	1	8
Total Adopting New Set of Standards		64	4	70
Number of Companies Continuing Under the Same Set of Standards				
US GAAP	4	3	11	18
IFRS	2			2
Total Continuing Under the Same Set of Standards	6	3	11	20
Total	70	7	13	90

Note: In the “Switching from Canadian GAAP to US GAAP” category, two of the 40-F entries are early adopters, and two are deferred adopters. The 20-F entry in this category had a change of GAAP and form.

While Table 2 indicates that close to one-third of Canadian companies in the sample complied with US GAAP, data in Table 3 provides a different insight. First of all, 70 out of 90 companies in the sample (77.8 percent) changed accounting standards around 2011. Of those changing standards, the overwhelming majority, that is, 62 companies out of 70 (88.6 percent), switched to IFRS. This should be compared with only eight companies out of 70 (11.4 percent) switching to US GAAP.¹¹ This fact should be viewed as important evidence of the competitive power of IFRS as the high-quality set of standards, especially since only companies listed on the NYSE are represented in the sample and it could be argued that these companies might prefer US GAAP as entities competing for capital in US security markets.

During the initial review of the SEC filings, several interesting cases were noticed in which Canadian companies made less anticipated accounting policy choices or changed their filing status. The next section describes these cases in more detail.

Analysis of Selected Filings

Because SEC registrants are allowed to file US GAAP-based financial statements with Canadian securities regulators, few companies decided to adopt US GAAP instead of IFRS as their primary basis of financial reporting commencing in fiscal year 2011 or 2012 (depending on fiscal year-end and/or exemption status). These companies argued that the decision to adopt US GAAP was made to enhance communication with shareholders and improve the comparability of financial information reported with US-based competitors and peer groups.

One of these companies is *Cash Store Financial Services Inc.*, one of Canada's largest payday lenders, operating more than 200 outlets in Ontario alone. The company filed its September 30, 2012, annual report on Form 20-F and complied in the financial statements with US GAAP, while previously, Form 40-F under CGAAP was used.¹² *Canadian Pacific Railway Limited* also adopted US GAAP, but in its 2010 Form 40-F. The company used CGAAP before. *TransCanada Corporation* started to file under US GAAP in 2012. The company used the deferral granted to certain qualifying entities historically using rate-regulated accounting (RRA) and stayed under CGAAP in 2011. TransCanada explained that, in the application of the CGAAP, they followed specific accounting guidance under US GAAP unique to rate-regulated businesses. These RRA standards allow the timing of the recognition of certain revenues and expenses to differ from the timing that may otherwise be expected in a non-rate-regulated business. Such treatment is allowed to appropriately reflect the economic impact of regulators' decisions regarding the company's revenues and expenses. The current version of IFRS does not include such a standard, and therefore, the company decided to adopt US GAAP, effective January 1, 2012.

One of the most interesting testimonials of the challenges faced by Canadian companies is the 2011 Form 40-F filed by the natural gas, oil, and natural gas liquids (NGLs) producer *EnCana Corporation*. The company was created through the merger of PanCanadian Energy Corporation and Alberta Energy Company Ltd. in 2002, but the predecessor companies' roots go 125 years back. EnCana operates in two divisions: Canadian and USA. The Divisions include the exploration for, development of, and production of natural gas, oil, and NGLs and other related activities within Canada and the United States, respectively. The company is traded on the NYSE under the ticker ECA.

The company's "Basis of Presentation" of financial statements included in the 2011 Form 40-F is quoted below.

Exhibit 2: EnCana Corporation: 40-F for the Fiscal Year Ended December 31, 2011; Note 2 to the Financial Statements

2. Basis of Presentation

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These are Encana’s first audited annual Consolidated Financial Statements issued under IFRS and present the Company’s financial results of operations and financial position as at and for the year ended December 31, 2011, including 2010 comparative periods. As a result, the Company has followed IFRS 1, “First-time Adoption of International Financial Reporting Standards”. Prior to 2011, the Company prepared its Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles (“previous GAAP”).

The preparation of these Consolidated Financial Statements under IFRS resulted in selected changes to Encana’s accounting policies as compared to those disclosed in the Company’s audited Consolidated Financial Statements for the year ended December 31, 2010, issued under previous GAAP. A summary of the significant changes to Encana’s accounting policies is disclosed in Note 26 along with reconciliations presenting the impact of the transition to IFRS for the comparative periods as at January 1, 2010, and as at and for the year ended December 31, 2010.

A summary of Encana’s significant accounting policies under IFRS is presented in Note 3. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1, as disclosed in Note 26. These Consolidated Financial Statements have been prepared on a historical cost basis, except for certain assets and liabilities as detailed in the Company’s accounting policies presented in Note 3.

In these Consolidated Financial Statements, unless otherwise indicated, all dollar amounts are expressed in United States (“U.S.”) dollars. Encana’s functional currency is Canadian dollars; however, the Company has adopted the U.S. dollar as its presentation currency to facilitate a more direct comparison to other North American oil and gas companies. All references to US\$ or to \$ are to United States dollars, and references to C\$ are to Canadian dollars.

In December 2011, Encana announced that it will adopt U.S. generally accepted accounting principles (“U.S. GAAP”) for 2012 financial reporting. As a result, the Company will report its first quarter 2012 results in accordance with U.S. GAAP. Reconciliations from IFRS to U.S. GAAP are included in Note 27 to these Consolidated Financial Statements.

The “previous GAAP” to which the company is referring in the second paragraph of the note is CGAAP. Accordingly, EnCana went through all the challenges of first-time adoption of IFRS in 2011 only to switch to US GAAP one year later. Consequently, the company posted in its 2011 Form 40-F a mind-boggling sixteen reconciliations in two different sets, as listed below.

Exhibit 3: EnCana Corporation: 40-F for the Fiscal Year Ended December 31, 2011; Notes 26 and 27 to the Financial Statements

EnCana Corporation - Transition from the Canadian GAAP to IFRS (Note 26)

1. IFRS Opening Consolidated Balance Sheet as at January 1, 2010
2. Consolidated Balance Sheet as at December 31, 2010
3. Consolidated Statement of Earnings for the Year Ended December 31, 2010
4. Consolidated Statement of Comprehensive Income for the Year Ended December 31, 2010
5. Consolidated Statement of Changes in Shareholders' Equity for the Year Ended December 31, 2010
6. Consolidated Statement of Cash Flows for the Year Ended December 31, 2010

EnCana Corporation - Transition from IFRS to US GAAP (Note 27)

7. Consolidated Statement of Earnings for the Year Ended December 31, 2011
8. Consolidated Statement of Comprehensive Income for the Year Ended December 31, 2011
9. Consolidated Statement of Earnings for the Year Ended December 31, 2010
10. Consolidated Statement of Comprehensive Income for the Year Ended December 31, 2010
11. Condensed Consolidated Balance Sheet as at December 31, 2011
12. Condensed Consolidated Balance Sheet as at December 31, 2010
13. Consolidated Statement of Changes in Shareholders' Equity for the Year Ended December 31, 2011
14. Consolidated Statement of Changes in Shareholders' Equity for the Year Ended December 31, 2010
15. Condensed Consolidated Statement of Cash Flows for the Year Ended December 31, 2011
16. Condensed Consolidated Statement of Cash Flows for the Year Ended December 31, 2010.

This double effort seems to result from a combination of factors: (1) compliance with IFRS 1 disclosure requirements (reconciliations 1-6) and (2) voluntary signaling to the US markets and competitors (reconciliations 7-16), because the SEC no longer requires reconciliations to US GAAP from companies complying with IFRS, as issued by the IASB.

National Instrument 52-107 allows companies already on US GAAP or with close US ties to remain on or switch to US GAAP. Accordingly, the choices described above are not surprising. Cases of transition from US GAAP to IFRS, however, were also observed making the overall picture a little bit more complicated. For example, prior to the adoption of IFRS in 2011, the primary financial statements of *Barrick Gold Corporations* (Form 40-F filer) were prepared according to US GAAP. *Brookfield Infrastructure Partners L.P.* (Form 20-F filer) switched from US GAAP to IFRS a year earlier, in its 2010 annual report. Both companies did not explain these choices in their reports.

Analyzing various forms and accounting standard choices, one would assume that companies filing their annual reports with the SEC on Form 10-K, whether domestic or foreign, comply with US GAAP because this form is designed for domestic filers. There is a case, however, which would make this assumption false. The case in point is *Potash Corporation of Saskatchewan Inc. (PotashCorp)*, the world's largest integrated fertilizer and related industrial and feed products company by capacity. PotashCorp is the largest producer of potash worldwide by capacity. In 2011, the company's potash operations represented 17 percent of global production and 20 percent of global potash capacity (PotashCorp 2011).

PotashCorp used to file its CGAAP-compliant financial statements on Form 10-K but adopted IFRS for the first time in 2011. The company provided the following note explaining the basis for presentation of the financial statements.

Exhibit 4: Potash Corporation of Saskatchewan Inc. Note 2 to the Financial Statements

NOTE 2 BASIS OF PRESENTATION

The company previously prepared its financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and required publicly accountable enterprises to apply these standards effective for years beginning on or after January 1, 2011, with early adoption permitted. Accordingly, these consolidated financial statements are in accordance with IFRS, as issued by the International Accounting Standards Board (“IASB”). In these consolidated financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the company’s adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS and First-Time Adoption of International Financial Reporting Standards (“IFRS 1”). Subject to certain transition elections disclosed in Note 30, the company has consistently applied the same accounting policies in its opening IFRS statement of financial position as at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 30 describes the impact of the transition to IFRS on the company’s reported financial position and financial performance, including the nature and effect of significant changes in accounting policies from those used in its Canadian GAAP consolidated financial statements as at January 1, 2010 and December 31, 2010, and for the year ended December 31, 2010.

The company is a foreign private issuer in the US that voluntarily files its consolidated financial statements with the Securities and Exchange Commission (the “SEC”) on US domestic filer forms. In connection with the company’s transition to IFRS, it is permitted to file two years of financial statements presented in accordance with IFRS, instead of three, in the company’s audited consolidated financial statements. In addition, the company is permitted to file with the SEC its audited consolidated financial statements under IFRS without a reconciliation to US generally accepted accounting principles (“US GAAP”). As a result, the company no longer prepares a reconciliation of its results to US GAAP. It is possible that certain of the company’s accounting policies could be different from US GAAP.

These consolidated financial statements were authorized by the Board of Directors for issue on February 21, 2012.

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The PotashCorp filings provide an example of new reporting choices opened to foreign private issuers as a result of the SEC’s 2007 decision to accept IFRS-based financial statements from this group of registrants.

Concluding Remarks

Canadian authorities support the goal of a single set of high-quality accounting standards that are accepted and applied globally, namely IFRS, as issued by the IASB. Recent financial reporting changes have promoted broad adoption of IFRS in Canada. The transition was successful and at cost, which has been described in the recent survey as manageable and broadly in line with expectations (CFERF 2013).

The unresolved status of IFRS in the United States, however, seems to undermine this goal. Based on our representative sample of Canadian cross-listed companies it could be concluded that about one-third of them complies with US GAAP to enhance their communication with US shareholders and improve comparability with US competitors. These companies also pressure Canadian regulators to retain an option to use US GAAP for domestic purposes. Issuers, investors, regulators, and auditors in Canada must still deal with three sets of standards because the mandatory transition to IFRS has been delayed for rate-regulated entities and investment companies. Allowing domestic issuers to choose among two or three sets of standards for preparing their financial statements reduces the comparability of financial statements and increases costs and complexity for market participants.

Moreover, although IFRS may reduce the cost of sharing financial data globally, the SEC has yet to accept the XBRL-IFRS taxonomy. SEC rules require foreign filers to submit XBRL data. However, Canadian companies use either US GAAP or IFRS. Those companies that use US GAAP are now in their third year of XBRL filing. Those who use IFRS, however, have been told in a letter from the SEC that it has not approved the IFRS taxonomy and, thus, foreign filers cannot comply with the rule until further notice (Joyce 2012).

There are several reasons why the SEC has not approved the IFRS taxonomy. Principal among them is the fact that US GAAP is rules-based, which helps the development of the US GAAP taxonomy. The IFRS taxonomy, however, is much less detailed due to the principles-based character of IFRS. Consequently, the SEC has been concerned that the IFRS taxonomy is not robust enough to meet its needs. Also, the basic structure of the IFRS taxonomy is incompatible with the systems the SEC developed for its own taxonomy. The two sides have not been able to compromise (Joyce 2012). This is a topic for another study though.

Regarding this study, it could be extended in the future to include a review of all Canadian filings. Also, because IFRS and US GAAP currently compete in capital markets, the process is dynamic and will require repeated observations in the future.

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Footnotes

¹ Some temporary exemptions will be discussed in the next section of the paper.

² The SEC’s final rule became effective March 4, 2008.

³ The PAE concept is similar to the concept of an entity with public accountability used in IFRS for Small and Medium-Sized Entities (IFRS for SMEs). Therefore, the application of IFRS in Canada is broader than in the European Union, and it applies to many more types of entities. For

example, many governmental businesses, such as Crown Corporations or State Entities, have to apply IFRS. Similarly, brokerage firms and investment companies not listed but with a broad number of investors are being required to apply IFRS. There are about 4,500 such entities in Canada (Deloitte, IASPLUS 2012).

⁴ The regulation of capital markets is decentralized in Canada. The ten provinces and three territories are responsible for securities regulations. Securities regulators from each province and territory have teamed up to form the Canadian Securities Administrators (CSA). The CSA is primarily responsible for developing a harmonized approach to securities regulation across the country (CSA 2013).

⁵ For example, disclosure about off-balance-sheet arrangements and contractual obligations, the presence of a financial expert on the audit committee, and the auditor's attestation of the issuer's internal control over financial reporting.

⁶ MJDS issuers must test their eligibility as foreign private issuers at the end of their second fiscal quarter and continue to test their eligibility to file annual reports on Form 40-F as of the end of their fiscal year.

⁷ Canadian companies that are not required to file an AIF in Canada may only use Form 40-F as an annual report if they prepare and file an AIF voluntarily in Canada. Otherwise, a different form, such as a Form 20-F, must be used.

⁸ Under the new rules, foreign private issuers may now test their eligibility to use the forms and rules available to foreign private issuers once a year, on the last business day of their second fiscal quarter.

⁹ For a full list of mandatory exceptions and voluntary exemptions from the retrospective application of IFRS, refer to IFRS 1 (IASB 2008).

¹⁰ Canadian companies had been treated differently than other non-US issuers long before MJDS. They had been allowed to use the registration and reporting forms for foreign private issuers only in limited circumstances (SEC 1987). As a result, the majority of Canadian companies had been filing Form 10-K before Form 40-F became available.

¹¹ US GAAP tally in Table 2 was amplified by those Canadian companies that committed long time ago to annual reports for the SEC being based on US GAAP. Eighteen of these companies continue to report using the same set of standards and the same form, in most cases Form 10-K, as before the IFRS decision.

¹² It was difficult to determine whether the company lost the eligibility to file Form 40-F or switched to Form 20-F voluntarily.