



# **KPMG Report on the Transition to International Financial Reporting Standards**

**Presentation to OEB Stakeholder Conference  
May 4, 2009**

# Introduction

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- **Form and content**
- **Purpose of KPMG report**
- **IFRS vs. CGAAP**

# OEB Staff proposals

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- **Principles**
- **Regulatory Assets and Liabilities**
- **Other Accounting**
- **External uncertainties**
- **KPMG's views**

# Status of Uncertainties

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## International Accounting Standards Board “IASB”

- Rate regulated accounting
- Proposed IFRS 1 exemption for rate regulated entities

## Public Sector Accounting Board “PSAB”

- Adoption of IFRS by government business enterprises

# Property, Plant and Equipment

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## Key differences

- Capitalization of costs
- Interest costs (“borrowing costs”)
- Componentization/depreciation
- Customer contributions
- Asset Retirement Obligations

# Property, Plant and Equipment (cont'd)

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## Potential impacts

- Changes in timing of recognition of expenses
- More/less capitalization of borrowing costs
  - No capitalization of AFUDC
- Possible inconsistency in determining “qualifying assets”
- More components likely to be identified but pooling of individually insignificant items likely to be continued
- Gains and losses on “grouped assets” will be recognized in income statement
- PP&E includes value of contributed assets
- Additional asset retirement obligations may be recognized and regular remeasurement may lead to volatility

# Property, Plant and Equipment (cont'd)

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## Transitional issues

- Changes to underlying “historical costs” for new IFRS policies
- Elective exemptions exist

# Pensions and Employee Future Benefit Costs

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## Key differences

- 3 policy choices to account for actuarial gains/losses of defined benefit plans
  - Equity in full
  - Expense faster
  - Corridor approach/smoothing
- Accelerated vesting of past service costs
- Expected return on plan assets based on fair value

## Potential impacts

- Changes to calculations
- Changes in timing of recognition of expenses
- Changes to capitalized labor costs / value of PP&E

## Transitional issues

- Choice of
  - Recalculating historical amounts
  - Recognizing all previously unrecognized cumulative actuarial gains/losses in equity



# Transition to IFRS - disclosures

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- **Restatement of 2010 CGAAP information required**
  - Opening balance sheet (1/1/2010)
  - Annual and interim periods
- **Disclosure of 2010 restated information**
  - 2011 Annual report: 1/1/2010; 31/12/2010; 31/12/2011  
Full notes to balance sheet; IFRS 1 reconciliations
  - 2011 Interim report: 1/1/2010; 31/3/2010; 31/12/2010;  
31/3/2011; IFRS 1 reconciliations
  - Also restated profit and loss information for same periods
- **MD&A**
  - Disclosures of qualitative and quantitative IFRS information during 2009 and 2010

# Transition to IFRS – assessing impacts

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- **Critical accounting policies not yet known**
  - New standards (e.g. rate regulated accounting)
  - New exemptions (e.g. IFRS 1)
  - Policy choices to be selected
  - Standards applicable at December 31, 2011
  
- **Actual quantification is the end result**
  - Evolving interpretations
  - System solutions may need to be developed

# Transition to IFRS – Minimizing costs

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## Broad Strategies

- Minimize differences between IFRS and regulatory accounting
- Support utilities during the transition and facilitate collaboration
- Provide incentives to appropriately manage transition costs
- Permit exemptions from standard requirements where appropriate.

## Specific Initiatives

- Joint depreciation study (but with ability to “opt out”)
- Provision of accounting guidelines
- Clear framework for collecting and reporting IFRS costs and for evaluating recoverability in rates.

# Overseas Research

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- **Scope of research**
- **Key findings**
  - Few countries are using IFRS to report to the economic regulator (e.g. Australia and Israel)
  - Most regulators require entities to prepare a second set of financial statements

# In Conclusion

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- **Highlighted potential impacts on transition**
- **Transition adjustments**
- **Possible impacts on future rates**
- **Additional costs**
- **New reporting requirements**