



September 15, 2004

Mr. Peter Martin, CA
Director, Accounting Standards
Canadian Institute of Chartered Accountants
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Dear Mr. Martin:

Re: Accounting Standards in Canada: Future Directions

The Committee on Corporate Reporting (CCR) of Financial Executives International (Canada) (FEI Canada) is pleased to provide its response to the Accounting Standards Board (AcSB) Invitation to Comment on the future direction of accounting standards in Canada. The following remarks are made on behalf of CCR and do not necessarily represent the views of FEI Canada or its members.

FEI (Canada) is an all-industry professional association for senior financial executives, with eleven chapters across Canada and approximately 1,500 members. Membership is generally restricted to senior financial officers of medium and large corporations. CCR is a technical committee of FEI Canada, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

CCR responded to the proposals put forth by the Task Force on Standard Setting in 1997 and 1998. In our response, we supported harmonization with US GAAP (as the AcSB currently defines it) with longer term harmonization with or adoption of international standards if they were accepted for reporting issuers in the US capital markets. Our views have not changed materially since that time. However, the standard-setting process for the development of international standards has changed significantly and, as a result, the views of the FASB and the SEC in the United States have changed since that time with respect to the acceptance of international standards.

CCR has noted its views on each of the four issues noted in the invitation to comment. We also have provided responses to the two questions raised by the AcSB. These views and responses are not based on research but on CCR's collective view about standard setting in a Canadian context from a preparer's perspective.

KEY ISSUES

Maintain Canada's Standard-setting Capability or Not

CCR believes that it is necessary for Canada to maintain its own standard-setting ability, regardless of the strategic path chosen. This role likely will change in the future if the AcSB decides to adopt US or international standards. There will be a need to interpret standards in a Canadian context, recognizing that there are statutory, tax and other legal differences between countries that may require recognition in the financial statements. Examples are capital taxes which do not exist in Canada, different tax legislation (consolidated tax returns can be filed in the United States) and different systems for enacting legislation in the two countries.

It is CCR's view that some of the existing standard-setting infrastructure also would be required in this situation. Presumably there would be a process in place to ensure that standards are acceptable from a global perspective, similar to the process used now for international standards. Research resources such as those currently employed by the CICA will be needed to participate in the process and to ensure that proposed standards are appropriate for the Canadian economic environment.

Maintain Canadian GAAP or Adopt US or International GAAP

In the short term, CCR believes that Canadian GAAP should be maintained. Current sentiment appears to suggest that, in the long term, international standards will be accepted by United States regulators. Canadian GAAP is more closely aligned to international standards in that they are based on principles. For Canadian preparers, a solution that would permit filing financial statements with the SEC in international GAAP is the preferred solution. The United States now appears to see the value of a principles-based approach, as opposed to its rules-based or "cookbook" approach, and its acceptance of international standards for US filings would substantiate this. A further reason to support adoption of international standards over the long term is that the SEC is empowered to establish US GAAP unilaterally which could have consequences for politically-driven issues where the US public may pressure the regulator to take action. The best example of this is the ongoing debate on accounting for stock-based compensation.

We do not believe that adopting US GAAP is a viable alternative. Although large Canadian interlisted companies have internal US GAAP expertise, for the vast majority of other Canadian public and private companies, compliance with US GAAP would be an onerous burden that would come with significant cost. It is our view that even the interlisted companies would agree that they do not have sufficient expertise in-house currently to prepare US GAAP financial statements and require significant assistance from their auditors in preparing US GAAP reconciliations. Even this becomes increasingly difficult as independence rules require more distance between management and the external auditors.

CCR also believes that the actions of the securities regulators must be taken into consideration in determining the Board's strategic direction. The Ontario Securities Commission now accepts financial statements filed in either Canadian or US GAAP. If the AcSB were to abandon its efforts to harmonize with US GAAP, this would be in conflict with the bases on which companies are permitted to prepare their financial statements.

We believe that the lack of expertise in US GAAP is problematic for public accounting firms. While the large firms have in-house expertise or access to their US firms, the large majority of Canadian practitioners would be unable to practice with a wholesale shift to US GAAP.

There would also be a significant impact on the CA education process in Canada which is not equipped to train or examine CA candidates in a US GAAP environment. This would result in a further shortage of qualified accountants in Canada, a situation which is already causing issues with respect to staffing positions in practice and industry.

Maintain the Current Strategy or Not

CCR continues to believe that, in the short term, the AcSB should continue its strategy of supporting international convergence while harmonizing with US GAAP. Until international standards are accepted in the United States, harmonization with the US continues to be of great importance to Canadian companies which raise capital in the United States markets. This strategy is appropriate as long as the United States continues to support the development of international accounting standards that are subject to rigorous due process. To date, efforts to work jointly with the United States on standards have not resulted in standards that are rules-based and have been successful in eliminating a number of Canadian/US GAAP differences. In those cases where Canadian standards have been issued based on a standard in existence in the United States, the standards do tend to be rules-based. The harmonization strategy also does not place an undue burden on Canadian companies that have no interest in preparing their financial statements in US GAAP.

Modify GAAP Requirements for Different Types of Entities

If the current strategy is retained, with the ultimate objective of adopting international accounting standards, this issue becomes simpler. CCR believes that the only logical stratification of entities is between those that are public and those that are not. This has become even more evident with the introduction of certifications of financial statements and potential certifications with respect to internal control. One of the costs of raising capital in the public markets is compliance with GAAP and securities regulations. This is true for large or small public companies. Both large and small companies compete for capital in the same marketplace and should not be subject to different rules for preparing financial statements or, for that matter, certification requirements. This will serve only to confuse the investing public since financial statements will not be comparable.

Differential reporting continues to be appropriate for private enterprises and CCR fully supports this initiative. Compliance with the complex standards applicable to public companies creates unnecessary cost for private companies. The users of financial statements of private companies typically have access to information that is unavailable to users of public company financial statements. However, financial statements prepared using differential reporting should state, on the face of the financial statements, the basis on which they are prepared.

Summary of Views on Key Issues

CCR believes that the first scenario in those listed is the correct direction for the AcSB to take in the short-term. It meets the needs of all constituents, while leaving options open for the future. It results in no significant cost in the short-term, particularly “throw-away” costs if the United States ultimately should accept international standards.

QUESTIONS

Convergence

As suggested in our previous comments, CCR believes that convergence with highest-quality, globally accepted standards and harmonization with US GAAP should continue to be objectives for financial reporting in Canada. The primary reason for this is that it leaves options open for the future, should international standards not be accepted by United States regulators. In addition, Canadian standards that are a result of harmonization efforts with the FASB have not resulted in a rules-based approach. Lastly, this approach allows the large Canadian companies to continue to access the US capital markets with relative ease.


CCR believes that these objectives should apply in all circumstances to all public companies, for the reasons previously outlined. The needs of the users of financial statements of private companies must be considered on a case by case basis in determining whether new or harmonized standards should be applied to their financial statements.

Differential Reporting

It is CCR's view that differential reporting should only be applied to private companies, as previously discussed. Users of public company financial statements deserve to have financial statements that are comparable, regardless of the company's size. We recognize that this is a burden for smaller companies but believe it is appropriate when competing for capital in the same markets. While some might argue that large and small public companies are not competing in the same capital markets, in principle they are and must be subject to the same rules.

CCR hopes its comments will be useful to the AcSB. If you require further clarification with respect to any of our comments, please do not hesitate to contact us.

Yours very truly,



Karyn A. Brooks, CA
Chair
Committee on Corporate Reporting