



July 27, 2005

Mr. Peter Martin  
Director, Accounting Standards  
Accounting Standards Board  
277 Wellington Street West  
Toronto, Ontario  
M5V 3H2

Dear Mr. Martin:

The Committee on Corporate Reporting (CCR) of Financial Executives International (Canada) (FEI Canada) is pleased to provide its comments on the Accounting Standards Board's (AcSB or the Board) Draft Strategic Plan entitled *Accounting Standards in Canada: Future Directions*. FEI Canada is an all-industry professional association for senior financial executives, with eleven chapters across Canada and approximately 1,700 members. Membership is generally restricted to senior financial officers of medium to 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. The following remarks are made on behalf of the Committee and do not necessarily represent the views of FEI Canada or its members.

CCR believes that the proposals in the strategic plan are more complicated than they need be, create too many alternatives for the preparation of financial statements, and will put a substantial burden on the preparer, auditor and user communities. Although we believe that the long-term objective should be adoption of international standards for public companies, the choice of international GAAP or US GAAP for public companies and the creation of Canadian GAAP for private companies will create unnecessary work and cost and will require a significant knowledge burden for all involved in the issuance of financial statements.

In the past, CCR has supported harmonization with US GAAP because of the dependence of Canadian companies on the United States capital markets and the importance of the United States as a trading partner. At the same time, we have supported adoption of international accounting standards over the longer term, once the Securities and Exchange Commission (SEC) has indicated clearly its intention to support the adoption of international standards. CCR is of the view that the AcSB is making the decision to adopt international standards too early. It is critical to know if the SEC is going to accept international standards for the purposes of financial statement filings with that regulator. That will not be known until 2009 at the earliest. In the

meantime, the Canadian standard-setters will have committed themselves to a course of action that is difficult to reverse. Although CCR agrees with the proposed strategic plan on a long-term basis, we do not agree with the implementation of this plan immediately and before we know whether or not the strategy is sound. Harmonization with US GAAP should continue to be the short-term tactical objective, while continuing to set Canadian accounting standards, with the decision to adopt international standards being made once the SEC has made its views on the acceptability of international GAAP public.

CCR urges the Board to consider that it is FEI's members that actually direct the implementation of the recommendations of the Board. This proposed plan is a dramatic shift from the previous direction of the Board and CCR believes that all of the implications have not been considered to the fullest extent.

This response letter will address the three specific questions asked by the Board first. CCR also provides comments on certain specific issues raised by the proposed strategic plan. We are providing these comments under the assumption that this plan will be adopted over the longer term and that they will be helpful to the Board three or four years from now when it determines whether or not to adopt international standards as Canadian GAAP. These comments should not be construed as acceptance of the current draft strategic plan as CCR continues to believe that harmonization with US GAAP is appropriate over the next three to four years. That plan of action, combined with the continuation of the differential reporting process currently in place, will ensure that all constituents are well-served.

**Is it appropriate to apply different strategies to different major categories of reporting entities rather than to apply the same strategy to all?**

CCR does not believe that it is appropriate to apply different strategies to different categories of entities in the manner proposed by the Board. The result is too complex and will be confusing to the financial community as a whole. The AcSB's draft plan will result in at least three different sets of GAAP being used in Canada in the long term - international accounting standards and US GAAP for public companies and not for profit organizations, and some form of Canadian GAAP for private companies. We believe that this will be confusing for users and difficult for auditors. While some might say that there are three sets of GAAP in use today, being Canadian GAAP, differential reporting and US GAAP, differential reporting is derived from Canadian GAAP, so in effect there are only two, with US GAAP used on a very limited basis.

The Board appears to have made the assumption that Canadian interlisted companies will be satisfied with the choice between US GAAP and international GAAP. CCR might agree with this if the SEC's views with respect to the acceptability of international GAAP were known today as CCR believes that most companies would choose international standards. However, consider a somewhat extreme but not unrealistic scenario where a Canadian interlisted company chooses to go the international route today, does the research and creates financial statements using international GAAP. The SEC subsequently decides that the application of international GAAP is not proven and it will not accept financial statements prepared using international standards. Given the significance of the US markets to these companies, a move to US GAAP will be required, with very little time to execute the work, and a substantial amount of time and

money will have been wasted. This places the financial reporting responsibilities of these companies at significant risk imposed on them by the standard-setters.

CCR recognizes that the complexity of many of the standards issued in recent years has placed a significant financial reporting burden on private companies and believes that there must be a process to alleviate this burden. However, that does not mean that it is necessary or appropriate to create Canadian GAAP specifically for private enterprises.

In the long term, CCR believes that the starting place for all Canadian entities should be that international standards apply to all entities. Then the Board can determine if there are valid reasons to make exceptions, similar to those that are provided now and presumably for cost/benefit reasons, either for private or not-for-profit entities. This would be the same process that would be applied in determining if there are “unique Canadian circumstances” that would result in a deviation from international standards for Canadian public companies. CCR is of the view that this is the only way that an appropriate conceptual framework for the preparation of financial statements can be maintained – in fact, we are not sure how the standards or exceptions thereto would be debated otherwise. This is a simpler approach to standard-setting in Canada and it will ensure that the fundamental concepts underpinning financial reporting are appropriate, and that exceptions are made on a rational basis.

In addition, under the proposed strategy, it seems likely that the AcSB will be retained in some form and the EIC will need to continue to interpret GAAP for private enterprises. This is not a logical business outcome if the basis for Canadian financial statements is international standards. One would expect that, if international GAAP replaces Canadian GAAP, the cost of standard-setting should fall substantially as Canada’s role would be to input into the international process, both as standards are set and interpreted. The cost of the differential reporting work would continue, as exceptions from international GAAP will continue to be required for private enterprises. CCR does not accept the ongoing cost associated with the proposed strategy.

The proposed strategy will require a significant effort with respect to transition of the roles and responsibilities of the AcSB, without having a certain outcome while we wait for the SEC’s decision. Much of this work would become “throw away” work if the SEC were to decide that international standards can not be applied rigorously.

We understand that the Board believes that the proposed strategy has received a warm reception. If the question being asked is, “Would you prefer US GAAP or international standards?”, it is an easy answer and, in that context, the strategy would receive a warm reception. However, if one works through the details including transition, the training and education required, the uncertainty over the next few years and the costs, it is our view that the strategy is flawed. It is our view that, before the AcSB chooses to continue with the proposed strategy, a detailed critical path needs to be developed to determine how this plan will be executed and possible “failure points” so that mitigation plans can be developed and communicated to minimize risk to its constituents. The plan should also detail the phase-out of Canadian standard setting and the related costs.

**Does the strategy for each of the major categories of entities establish an appropriate direction for the future development of financial reporting requirements for the entities to which it applies (will the strategies create an improvement in Canadian financial reporting and will the benefits exceed the associated costs)?**

*Public companies*

We do not agree that the Board's position should be that Canadian public companies can use either US GAAP or international GAAP. This should be permitted only by securities regulators. While the use of US GAAP is allowed today by certain securities regulators, it appears that the interest in adoption of US GAAP by public companies has waned considerably over the last few years as technical complexity has increased and the Securities and Exchange Commission (SEC) has changed its views about the acceptability and need for a global set of accounting standards. Very few inter-listed Canadian companies report in US GAAP today. We believe that only one GAAP should be acceptable in Canada from a standard-setting perspective.

CCR believes that, in the longer term, a better solution from a standard-setting point of view is for all Canadian companies to report using only one set of accounting standards, in this case international accounting standards. This will ensure comparability of financial results across Canadian public companies. CCR believes that the AcSB should specify the GAAP that is acceptable for Canadian public companies and not allow a choice.

*Private companies*

CCR's membership has limited private company experience and the following comments relate to the process the AcSB is proposing with respect to standard-setting for such companies. CCR is of the view that if international standards are adopted for Canadian public companies, those same standards should also be required for private companies with specific exceptions, similar to the differential reporting model already in place.

As previously noted, international standards are based on a well-defined conceptual model. The AcSB is proposing to build a set of accounting standards for private entities after research into the needs of users of such financial statements. CCR believes that it will be very difficult to develop those accounting standards because the needs of the users will be diverse and there will be no conceptual model upon which to determine whether the accounting logic in any given standard is correct. Differences in views may be irreconcilable. A simpler approach is to start with international standards as the base, and then determine which standards, or specific measurement or disclosure rules, should not apply to private companies. Then the Board will be starting from a conceptually sound body of work and only the exceptions or exemptions need be debated, rather than developing a comprehensive body of standards for private companies.

In summary, CCR believes that the strategy proposed by the Board will be expensive and, if simplified, will cost less and achieve most of the same objectives. The proposed strategy is expensive because users and auditors will be required to know three different GAAPs. This is costly from a training perspective and will require multiple sets of financial statement review documents to be developed and kept current by auditors.

**Are the individual strategies and the plan as whole operational (does it appear likely that they could be carried out as described within the proposed timeframes without causing undue disruption to affected parties)?**

CCR believes the individual strategies are operational but will build a layer of complexity into the standard-setting process, as we have noted in our previous comments. Ultimately, they may prove to be unworkable as there will be too many available options and will be too difficult for the auditing profession to accommodate.

It is also important to note that this will place a significant training burden on both industry and public practice in a time when accounting resources are scarce and are at a premium. CCR is very concerned that the Board's proposals will be the "straw that breaks the camel's back" in terms of the demands on professional accountants over the next few years. As we deal with the fallout from the financial reporting failures, the profession is under considerable stress and the proposed strategic plan will only add to that stress.

As noted in our introductory comments, we believe the implementation of this plan should be delayed and that certain of the proposals should be revisited.

## **Other Issues**

### *Transition*

CCR believes that the transition to international standards should take the "big bang" approach. Companies will have several years to prepare for the change and it will make explanations to the analyst community simpler if new standards are adopted only once, rather than over a period of years. In addition, if companies adopt different standards at different times, the comparability of financial results will be reduced. CCR also believes that early adoption of US or international standards should be permitted, at the option of the company, once the SEC's position is clear.

### *Timelines*

As previously noted, CCR does not agree with the timelines proposed in the draft strategic plan since we believe it is critically important that the SEC's view be well understood before any definitive action is taken in Canada.

We also believe that the Board is going to get divergent views from the users of private company financial statements as to their requirements. The range in size and complexity of these companies is large and we do not believe the research is going to yield results that will assist in the determination of what standards or exceptions to standards are appropriate for private entities.

In conclusion, CCR generally disagrees with the approach the Board is taking in the short term. Longer term, we believe it to be reasonable, subject to the acceptability of international standards by the SEC. In the interim, we believe that the AcSB should continue its harmonization

objectives with US GAAP, while continuing to make a significant contribution to the activities of the IASB.

CCR hopes that its comments will be useful to the Board in its ongoing to deliberations. If you have any questions or would like to discuss any of these matters with us, please do not hesitate to call.

Yours very truly,



Alister Cowan  
Chair,  
Committee on Corporate Reporting