



October 24, 2007

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

Dear Mr. Martin,

The Committee on Corporate Reporting of Financial Executives International Canada (“FEI Canada”) is writing to provide its views on the Progress Review – Steps to IFRS Incorporation in Canada currently being undertaken by the Accounting Standards Board (AcSB).

FEI Canada is an all-industry professional association of senior financial executives, with eleven chapters across Canada and more than 2000 members. Membership is generally restricted to senior financial officers of medium to large corporations, as well as senior financial officers in public sector organizations.

The Committee on Corporate Reporting (“CCR”) is one of two national advocacy committees of FEI Canada. CCR comprises more than 20 senior financial executives representing a broad cross-section of the FEI membership and of the Canadian economy who have volunteered their time, experience and knowledge to consider and recommend action on a range of issues related to accounting, corporate reporting and disclosure. In addition to advocacy, CCR is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving the standards and regulations impacting corporate reporting.

CCR supports the adoption of International Financial Reporting Standards (IFRS), as they appear to be moving to adoption as global GAAP.

We believe that it is vital that the AcSB take the lead in facilitating and encouraging a “sane” IFRS implementation to avoid a repeat of the excessive US certification implementation process. We do not believe that capital markets are well served, and Canadian competitiveness is hindered, when scarce financial resources are not used in value enhancing initiatives, particularly in the small and medium sized businesses that make up such a large part of our Canadian economy.

We have significant concerns with the feasibility of the proposed 2011 transition date and recommend that the implementation date be delayed at least one year unless certain issues are resolved quickly. We urge the AcSB to consider that it is FEI’s members that



actually direct the implementation of the recommendations of the AcSB and our members have significant concerns.

We are particularly concerned that the proposed date does not recognize the challenges and workload faced by the financial profession in implementing recent regulatory requirements over the next couple of years. From the perspective of ensuring continued investor confidence in the capital markets, particularly given recent events, it is critical that both the regulatory requirements and the IFRS implementation be flawlessly executed. To achieve this, companies need clarity now on who will be a publicly accountable enterprise, whether companies will be allowed to continue to file in US GAAP with the Securities Commissions, the introduction of new accounting standards be minimized, industry specific issues be addressed and the education and readiness of the financial community be significantly enhanced as soon as possible.

Further, we have consistently advocated that given the importance of the United States capital markets to Canadian companies and the United States as a trading partner, it is critically important that the Securities and Exchange Commission's (SEC) views be well understood before any definitive action is undertaken.

Regulatory Requirements

Canadian Securities Administrators (CSA) MI 52-109

We strongly believe that the AcSB cannot work in isolation of other regulatory requirements in considering the implementation date for IFRS. A critical difference with the IFRS transition in Europe and Australia is that none of these countries had certification requirements.

In 2005, as proposals for adopting IFRS were being debated, the adoption of certification requirements for Canadian companies equivalent to the US Sarbanes Oxley (SOX) requirements, were being pursued by the CSA. Both proposals were acknowledged as requiring significant effort by financial professionals to implement successfully.

The CSA has issued MI 52-109 which requires management to evaluate and provide disclosures on the effectiveness of internal controls and is effective for December 31, 2008 financial year ends. This is one year later than originally envisaged in the draft proposals and places the implementation timeline concurrent with the implementation of IFRS. The implementation of MI 52-109 will be the main focus for public companies until mid 2009, particularly small to medium sized entities which lack sufficient internal resources to implement such a major undertaking. We believe that there will be a significant number of entities which will be focused for the remainder of 2009 on improving and embedding the certification process within their day to day operations and the remediation of any identified internal control deficiencies. Therefore, there will be a large proportion of public reporting entities that will not be able to focus their full



attention on implementing IFRS until mid to late 2009, which we believe to be too late given the need to begin to collect comparative IFRS information for the 2010 financial year. At the same time, the Management, Discussion and Analysis (MD&A) disclosure requirements in respect of the IFRS transition have not been defined in detail for 2009 and later. At this point we are unable to assess what implications these might have on workload in this period.

No decision from the SEC on IFRS

While there have been positive signals emanating from the SEC in respect of the elimination of the IFRS US GAAP reconciliation, as yet there has been no definitive decision. The SEC has issued proposals for comment but any decisions will be unlikely to be made until well into 2008 and likely 2009 given the potential implications, particularly from a political perspective. In our submission to the AcSB dated July 27, 2005, we stated that it was critically important that the SEC's views be well understood before any definitive action is undertaken. Our position remains that the view of the SEC is important and, therefore, we believe that no final decision on the implementation date should be taken until the views of the SEC are clear.

CSA filing requirements

The CSA has not yet made a determination whether it will continue to allow Canadian public companies to use either US GAAP or IFRS and will likely not do so until sometime in 2008. As a result, preparers do not know their choices nor do they know the timeline in which such a decision will be made. This may lead to decisions being made by companies which could result in additional work and wasted effort and expense. We believe that it is important that the AcSB and the CSA work together to clarify this situation before any definitive decisions are made on the implementation timeline for IFRS.

Preparer, Auditor and User Education and Readiness

A critical element in the successful implementation of IFRS will be whether all parts of the financial community have the knowledge to prepare, audit, use and interpret financial information prepared under IFRS. From CCR's perspective, the development of such knowledge has been slow and remains in its infancy.

We appreciate the efforts that the AcSB has taken to publicize the intended change but the recent focus of the financial profession has been on implementing certification requirements and AcSB recent accounting pronouncements such as Financial Instruments. As a result, the awareness of IFRS and the potential implications for implementation and ongoing business did not really take hold until early 2007.



This leaves a significant challenge to educate preparers and auditors at the level of detail required over the next couple of years to ensure a successful implementation and provide comfort to the CEOs and CFOs of public companies, who are required to certify the financial statements, that their financial staff and auditors are appropriately knowledgeable and experienced. While the CICA has commenced the education and development process for its members, and to its credit others, to meet the 2011 timeline, the IFRS transition needs to start now but education has barely started. This will slow down implementation plans.

We are also concerned that the academic community has been slow to react and develop appropriate course changes to reflect the IFRS focus. This potentially leaves a large number of graduates over the next few years leaving university and other tertiary educational facilities without the level of detailed knowledge to immediately jump into the workforce in 2011, which will be a wholly IFRS environment under the current proposals.

The users of financial information, such as audit committees, regulators and analysts also require education. Again, this has barely started which is not surprising given that preparer education has only just commenced, but it is a critical area if the IFRS implementation is to be successful.

The availability of resources to implement IFRS successfully must be considered in any decision on timing. We know that economic growth, SOX and MI 52-109 are today causing a shortage of accountants and information technology professionals relative to demand. We do not see these factors lessening in the next few years. Layering IFRS implementation on top of these will cause significant resourcing stress and increase the risk of significant issues on implementation.

IFRS / Canadian GAAP Differences

We commend the Canadian Institute of Chartered Accountants (CICA) in publishing its recent guide to IFRS. The current identified differences between IFRS and Canadian GAAP runs to in excess of 100 pages. Some of these differences are identified as relatively minor, however we believe that this analysis is at too high a level and that in practice, based on the European experience, the number of differences is much larger. The “devil is in the details” and it will undoubtedly take longer than expected to successfully complete transition unless the AcSB takes a proactive stand in working with others to ensure a sane IFRS implementation approach and provides guidance on the level of detail and due diligence that preparers and auditors are required to undertake. It is imperative that we avoid a repeat of the US SOX implementation and the subsequent comments by the SEC that companies and auditors had gone too far and generated excessive detail.



We are also concerned that there is a significant proportion of the Canadian economy and capital markets where there are specific industry issues with no current IFRS or have the potential for significant changes to IFRS shortly after adoption. We are aware of impacts to companies in the oil and gas, insurance, rate regulated and agriculture sectors. We do not believe it is appropriate that a large number of companies may be required to make two significant changes, particularly in a relatively short period of time. This is wasteful of resources but more importantly has the potential to confuse the capital markets and shake investor confidence in the appropriateness of IFRS.

We are strong supporters of one global set of accounting standards consistently adopted, applied and interpreted across the world and developed and set by an independent standard setting body. Developments in Europe and China give us some concern over whether IFRS, as issued, will ultimately be accepted as the global GAAP or whether they will succumb to the potential for political influence and revert to localized GAAP. We believe it is inappropriate, and a retrograde step for Canada, to move from standards set by an independent body through an open and transparent process to one where local politicians require amendments before IFRS can be adopted. We believe that Europe will be key in this area but that their position will be greatly influenced by the SEC's approach to the elimination of the IFRS US GAAP reconciliation. As such we believe that the IFRS implementation date decision should be delayed until the position of the SEC and Europe is clearer.

Timing of the AcSB activities

It is critical for preparers to have certainty as they develop their transition plans for implementation. We understand that an omnibus exposure draft will be issued by the AcSB in Q1 2008. Although largely done for appearance's sake, it needs to be clearly understood that any changes to IFRS will hamper implementation efforts.

In addition, while the AcSB issued a tentative conclusion on the definition of a publicly accountable enterprise in July, we understand that a final decision will not be made until at least mid 2008. If companies are to meet the proposed AcSB timelines it would be appropriate for them to know today whether they apply to them. Companies should not be expected to incur costs and divert resources to planning for implementation on the basis that AcSB pronouncements **might** apply to them.

We also note the recent 171 page exposure draft from the IASB in respect of its improvement project. While these are intended to be clarifications, each potential change must be analyzed for the impact on accounting practice. We are also unclear of the intended finalization date so companies are left to plan for implementation without knowing the final form of the standards that will apply to them.

Conclusion and Recommendations

CCR supports the adoption of IFRS as they appear to be being adopted as the global GAAP. It is in the interests of the whole financial community, including the AcSB, that the implementation of IFRS be successful and uneventful to ensure continued investor confidence in the capital markets, particularly given recent events. Any implementation date needs to recognize the challenges and workload faced by the financial community in implementing recent regulatory requirements over the next couple of years and the level of IFRS knowledge and expertise of preparers and auditors as both of these will have a significant impact on whether the IFRS implementation will be successful.

For IFRS implementation to be successful, CCR recommends the following:

- The AcSB needs to take a proactive lead role in ensuring a sane implementation without the need for excessive detail
- Delay the implementation by at least one year to January 1, 2012 and implement a further check in mid 2009 to assess readiness as many uncertainties remain as outlined above, **unless** the following are resolved quickly:
 - Definition of a publicly accountable enterprise
 - CSA filing requirements
 - Enhanced preparer, auditor and user education and readiness
- Minimize the introduction of new IFRS accounting standards prior to implementation to reduce multiple implementation efforts occurring at the same time.
- Work with the IASB and FASB in the development of IFRS to eliminate US/IFRS GAAP differences and industry – specific issues
- Work with the CSA to ensure regulatory and IFRS requirements and timing are coordinated and staged in an appropriate manner.

CCR hopes that its comments will be useful to the AcSB and looks forward to partnering with it in its ongoing deliberations. If you have any questions or would like to discuss any of these matters, please do not hesitate to contact us.

Yours very truly



Alister Cowan

Chair
Committee on Corporate Reporting
FEI Canada