

December 5, 2011

**VIA EMAIL**

Mr. Y. Sato  
Executive Vice-President Mitsubishi Electric  
Chairman of the Corporate Finance Executive Committee  
Ministry of Economy, Trade and Industry of Japan

Dear Mr. Sato:

**Re: Request for Views on IFRS Implementation in Canada**

Financial Executives International Canada (“**FEI Canada**”) is the all-industry professional membership association for senior financial executives in Canada. With eleven chapters and more than 2,000 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada’s leading and most influential corporations.

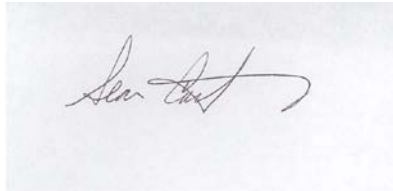
The Committee on Corporate Reporting (“**CCR**”) is one of two national advocacy committees of FEI Canada. CCR comprises more than 25 senior financial executives representing a broad cross-section of the FEI Canada membership and of the Canadian economy who have volunteered their time, experience and 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.

FEI Canada’s CCR is pleased to provide you with our perspective on IFRS implementation in Canada.

The adoption of IFRS has been a significant work effort for Canadian companies. On balance, we believe the implementation has gone smoothly. There have been no disruptions to the capital markets and IFRS has not been a primary focus in investment analyst reports. Reporting entities have met required deadlines and while there have been some reporting issues on implementation, the regulators have not reported major problems with issuers filings.

Please find attached, our answers to your specific questions.

Best Regards,



Sean Carleton  
Chair, Committee on Corporate Reporting

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## Appendix 1

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### Questionnaire on IFRS implementation in Canada

1. We understand that historically Canada has converged its accounting standards with US GAAP. **Why Canada has decided to adopt IFRS rather than continue to converge with US GAAP? Was the approach of gradually converging with IFRS as US GAAP aligned itself with IFRS considered to be a viable option?**

**Our response:**

We suggest that you read the AcSB draft strategic plan issued in March 2005 which discusses these issues. This can be found at <http://www.acsbcanada.org/documents/item19651.pdf>

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2. Accounting Standards Board of Canada (AcSB) “decides the composition of Canadian GAAP” and therefore “it has the ability to amend particular aspects of an individual IFRS before approving it for incorporation into the Handbook”, but its intention is to “bring IFRSs into the Handbook in full and

without modification”<sup>1</sup>. In the United States, however, the possibility of allowing the FASB to make changes to IFRSs they incorporate into US GAAP under the “condorsement” approach is being considered, and this seems to reflect a change in the circumstances since Canada decided to adopt IFRS. **Is it expected that AcSB will maintain its stated intention of not making modification to IFRSs it incorporates into Canadian GAAP in the changed circumstances?**

**Our response:**

This remains the AcSB’s stated intention and we expect this position to be maintained. However, this question might be better addressed to the AcSB.

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3. The convergence work being performed by the IASB and the FASB has been delayed and there are areas, such as accounting for financial instruments, where it seems to be difficult for the boards to reach a converged solution. **How is this viewed in Canada?**

**Your response:** U.S. markets are important to Canadian companies and therefore FEI Canada CCR continues to encourage convergence of IFRS and U.S. GAAP to one global standard. There are some areas where industry specific GAAP is accommodated under U.S. GAAP (e.g. rate regulated enterprises and extractive industries). The absence of equivalent GAAP under IFRS is a concern for some Canadian companies.

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4. Even after the adoption of IFRS in 2011, Canadian companies that are registered with the US SEC can continue to report under US GAAP. **Have any issues arisen in the securities markets because of the co-existence of IFRS and US GAAP, in particular in terms of comparability of financial statements?**

**Your response:** There have not been any issues raised in FEI Canada CCR’s discussions with regulators nor in the business press. Co-existence of GAAP is a fact in many jurisdictions, including the U.S. which permits IFRS without reconciliation to U.S. GAAP in some circumstances.

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5. IFRS is considered to be more principles-based accounting standards and the preparation of financial statements is considered to depend more on management judgments than under rules-based US GAAP. **Are auditors prepared to respect management judgments? Has the regulatory approach been amended to accommodate the increase in the scope of management judgments?**
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<sup>1</sup> Accounting Standards Board. 2011. Adoption of International Financial Reporting Standards: Background Information and Basis for Conclusions.

**Our response:** The international audit firms take a common approach around the world to the application of IFRS. They each issue implementation guidance, have worldwide experts on different topics and consult internationally on issues, including whether there can be different interpretations of a standard. We do not expect any different situation in Canada to that in other countries that have adopted IFRS with respect to positions taken by audit firms. Canadian regulators supported the adoption of IFRS by Canadian companies and therefore have accepted the principles-based approach inherent in IFRS. That said, regulators are assessing the use of non-GAAP measures that have grown with the recent implementation of IFRS in Canada. We also note that Canadian companies have only completed interim reports with the first annual reports not being filed until the first quarter of next year. Thus, the regulators have limited experience with IFRS statements at this time.

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6. Given that IFRS is considered to be more principles-based standards, there are concerns in the United States about the potential increase in litigation risks. **Are there similar concerns in Canada?**

**Our response:** FEI Canada CCR is not aware of specific concerns with a change in perceived or actual litigation risk in Canada with the adoption of IFRS.

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7. **Has the scope of fair value accounting increased following the adoption of IFRS in Canada? What are the areas where fair value accounting is particularly problematic? Is there any confusion among companies applying fair value accounting?**

**Our response:** The requirement to measure assets and liabilities at fair value is not significantly different under IFRS than under previous Canadian GAAP. The IFRS 1 exemption permitting the use of fair value as deemed cost for PP&E has been used by a number of Canadian companies. Determination of level 3 estimates of fair value is often difficult. IFRS 13 should provide help in determining fair value on a consistent basis.

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8. Unlike US GAAP, IFRS does not have the concept of operating profit, which has often been considered to be an important performance measure. **Have any issues arisen because of the lack of this performance measure in terms of communication between companies and investors/analysts?**

**Our response:** Operating profit is an important performance measure that would be considered a non-GAAP measure. The Canadian Securities Administrators issued guidance on the use of non-GAAP measures a few years ago. The use of operating profit, similar to other performance measures like EBITDA, would require that it be defined. Indeed, IFRS permits use of sub-totals in financial statements where they provide meaningful information and the use of non-GAAP measures are permitted in other filings provided they are defined. FEI Canada CCR is not aware of any specific concerns with the use or non-use of any specific performance measure.

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**9. How has the wholesale change in accounting standards affected Company Law and Tax Law in Canada? How has the impact on regulations and contracts been accommodated?**

**Our response:** Generally speaking, the change in accounting standards has not resulted in wholesale changes to company and tax laws in Canada. Tax legislation requires the reconciliation of company financial results to a format defined under tax legislation. The change in GAAP simply changed the starting point or view. In all likelihood, the change in GAAP has impacted some contracts, but they are likely company specific and would have been dealt with as part of the individual company implementation. FEI Canada CCR is not aware that contracting or tax has been a major implementation issue for Canadian companies.

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**10. According to AcSB, IFRSs incorporated into Canadian GAAP are issued in both English and French and “the texts of the standards have equal authority in both languages in Canada”. Have there been any instances where different interpretations of same standards have developed because of differences in the nuances between the two languages?**

**Our response:** The IFRSs are translated into French by the CICA’s translation department who are well experienced in translating accounting and auditing standards. The translation department works closely with AcSB staff, who in turn interact with IASB staff as necessary. We understand that different interpretations of standards due to language/translation differences are an issue in some countries. This has not been a significant issue in Canada historically (any issues that have arisen have been resolved through editorial changes made in a timely manner). We are not aware of any significant issues with regard to IFRS at this time.

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