

October 31, 2007

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) and the Issues and Policy Advisory Committee (IPAC) (collectively “the Committees”) of Financial Executives International (Canada) (FEI Canada) are pleased to provide their comments on the Accounting Standards Board’s (AcSB or the Board) Invitation to Comment entitled *Financial Reporting by Private Enterprises*. FEI Canada is an all-industry professional association for senior financial executives, with eleven chapters across Canada and approximately 2,050 members. Membership is generally restricted to senior financial officers of medium to large corporations as well as public sector organizations.

CCR is a 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 in respect of accounting, corporate reporting and disclosure. IPAC is a committee of FEI Canada which considers and recommends action on a range of topics of interest to Canadian business and governmental agencies. The current composition of IPAC is formulated to address the following areas: corporate governance, capital markets, tax policy, pensions, internal controls, private company accountability, and public sector accountability.

This response letter will address each of the specific questions asked by the Board.

**Do you agree that a common underpinning of fundamental accounting principles applies to all types of entities?**

The Committees believe common fundamental accounting principals should apply to all types of entities with significant external users in order to facilitate understanding, at a basic level, of financial information across entities. However, the Committees believe that substantial flexibility within these principles should be maintained when considering standards for specific classes of entities. This flexibility should allow for differing treatment or disclosure of certain issues, depending on the needs of financial statement users for a specific class of entities. For example, it is possible that the recognition of stock based compensation expense is not helpful,

and possibly confusing, for the users of the financial information from private entities. As another example, currently disclosures related to pension expense differ in detail for publicly traded companies as compared to other companies.

**Comment on the need for linkage (to standards for publicly accountable enterprises) and the extent of its importance in developing accounting standards for private enterprises**

The Committees recognize that the complexity of many accounting standards places a significant financial reporting burden on private companies and believes that there must be a process to alleviate this burden. In addition, the Committees recognize that many aspects of existing accounting standards do not necessarily provide significant value to the users of financial information of private companies. However, this does not mean that it is necessary or appropriate to create Canadian GAAP specifically for private companies.

The Committees believe there should be a strong linkage to the standards for publicly accountable enterprises. Without a strong linkage, the resulting divergent standards would be complex and confusing to users and the financial community as a whole. In addition, a strong linkage helps facilitate the movement of expertise between public and private entities, and the movement of private companies going public and public companies going private.

**Which of these options do you believe will best satisfy the needs of both users and preparers of private enterprise financial statements?**

**Option 1** — A top-down approach based on GAAP for publicly accountable enterprises

**Option 2** — Adoption of the IFRS-SME, with or without modification

**Option 3** — An independently developed set of standards

The Committees believe Option 1 best satisfies the needs of both users and preparers of private enterprise financial statements. The starting place for all Canadian enterprises should be international accounting standards. It should then be determined which standards, or specific measurement or disclosure rules, should not apply to private enterprises.

International standards are based on a well-defined conceptual model. Therefore the standards for private enterprises will start from a conceptually sound body of work that will be well understood by the financial community. The development of standards for private enterprises would only require debate regarding the exceptions or exemptions from disclosure, rather than developing a separate comprehensive body of standards for private companies. This is similar to the differential reporting model that is already in place.

The Committees believe Options 2 and 3 could result in significantly divergent standards that would add unnecessary complexity and would be confusing to financial statement users and the financial community as a whole. Significantly divergent standards would reduce flexibility in the movement of expertise among different classes of entities, and create a significant training

burden on both industry and public practice in a time when accounting resources are scarce and at a premium.

With respect to Option 2, there are a number of contentious issues within the IFRS-SME standards, and these standards do not appear to be gaining the same level of international acceptance as the primary body of IFRS. As a result there could be significant changes to IFRS-SME as currently published in exposure draft before acceptance. The Committees do not believe there is value in adoption of the IFRS-SME since IFRS already provides a sound set of standards to which exemptions and exceptions can be applied.

The Committees believe that it will be difficult to independently develop a separate set of standards because the needs of users will be diverse and it will be difficult to tailor these standards to satisfy all individual needs. In addition, the Committees do not support the greater cost that would be associated with the development of an independent set of standards under Option 3.

The Committees believe that a differential reporting model based on IFRS is the most appropriate strategy for setting standards for private enterprises. The Committees are of the opinion that the development of this model should strive to significantly reduce the complexity of the standards to be applied to private enterprises. There should be serious consideration of a significant number of meaningful exceptions and exemptions, in terms of both measurement and disclosure, based on a sound understanding of the needs of the users of the financial information. A cost/benefit analysis should be carefully considered for complex issues within the standards for publicly accountable enterprises.

The Committees believe the “mix and match” aspect of the current differential reporting model should be retained, allowing management to exercise its judgment regarding what is useful to the users of the financial statements of their organization. Clear disclosure of the choices made will facilitate understanding of the how the standards have been applied.

**Comment on the need for development of non-GAAP guidance, including an indication of who requires such guidance, its purpose and who should develop it.**

The Committees fully support the current initiatives of the CICA in the development of a new accounting framework for entities without significant external users.

In conclusion, the Committees believe that accounting standards for private enterprises with significant external users should be developed based on the foundation provided by IFRS. The Committees are of the opinion that a differential reporting model based on IFRS will result in standards that are relatively consistent with other classes of entities and enable meaningful exemptions from complex standards that may be unnecessary for the financial statement users of private entities.

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

Yours very truly,



Alister Cowan  
Chair,  
Committee on Corporate Reporting



Robert Dietrich  
Chair,  
Issues and Policy Advisory Committee