

April 15, 2008

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**RE: CSA Concept Paper 52-402**

This letter provides the views of the Chair and staff of the Accounting Standards Board on some of the issues in CSA Concept Paper 52-402.

**Early Adoption of IFRS-IASB**

The Chair and staff agree with the CSA's proposals to allow early adoption of IFRSs as issued by the International Accounting Standards Board (IFRS-IASB). We are pleased that the CSA has addressed the issue of early adoption of IFRSs for its reporting issuers. By permitting early adopters to use IFRS-IASB, the CSA will ensure that the appropriate standards are applied by its reporting issuers, while the AcSB completes its due process to import IFRSs into Canadian GAAP.

**Ongoing references to IFRS-IASB and Canadian GAAP**

We agree that financial statements of reporting issuers should refer to compliance with IFRS-IASB. However, we expect that reporting issuers should refer also to compliance with Canadian GAAP. That would make it clear that reporting issuers are in compliance with both IFRS-IASB and any additional guidance that might be considered necessary as part of Canadian GAAP to supplement IFRS-IASB.

The Concept Paper expresses concern that there will be confusion if financial statements refer *only* to Canadian GAAP. However, this concern assumes that the only reference in financial statements will be to Canadian GAAP. We do not expect that to be the case.

Furthermore, the Concept Paper expresses concern that Canadian financial statements would refer to 'IFRS as adopted in Canada'. We also do not expect that to be the case, as we intend that Canadian enterprises complying with Canadian GAAP for publicly accountable enterprises will automatically be able to state compliance with IFRSs as published by the IASB, in addition to compliance with Canadian GAAP. In fact, for enterprises to be able to take advantage of the benefits of IFRS 1, *First-time Adoption of International Financial Reporting Standards*, the financial statements would have to contain an explicit and unreserved statement of compliance with IFRS-IASB.

However, we think that, in addition to a clear statement of compliance with IFRS-IASB it is important that the financial statements are required to *also* refer to Canadian GAAP. This may be necessary for compliance with legislation or contractual obligations. A clear dual reference to IFRS-IASB and Canadian GAAP ensures that no matter who is the user of the financial information, and what is their knowledge of Canadian GAAP's convergence with IFRSs, the accounting policy disclosure will provide appropriate information.

During the AcSB strategic planning process leading up to the decision to adopt IFRSs, the AcSB canvassed views on the importance of maintaining its ability to issue standards or interpretations, because no one can predict the future. It proposed that any supplements to IFRSs of any kind would be considered only in very rare circumstances. The AcSB indicated also that it wished to avoid developing any standards that would be inconsistent with IFRSs, and that it would confine any activity to supplementing IFRSs where a clear need has been demonstrated. Maintaining the ability to supplement IFRSs is important to address unique Canadian circumstances if they do arise. Stakeholders told the AcSB that they supported the maintenance of an ongoing capability to supplement IFRSs when there is a clear need to do so.

In February 2006, the IASB published a document called '*Working Relationships between the IASB and other Accounting Standard-Setters*'. In this document (paragraph 5.2) the IASB laid out a number of processes that an accounting standard setter might have to consider when adopting IFRSs, including translation, determination of whether a new or revised IFRS meets specified criteria as set out in local legislation, and endorsement of the standards within the local regulatory framework. Paragraph 6.3 of the document specifically contemplates issues affecting only one or two jurisdictions that 'may relate to a particular legislative or other local requirement – for example, a tax law that is unique to a jurisdiction'. To be able to conduct the activities contemplated in the IASB document, the AcSB will need to retain the ability to set standards for publicly accountable enterprises. It can only do so in the form of Canadian GAAP, since it has no ability to amend IFRSs.

The AcSB has identified only very few areas where it thinks it necessary to supplement IFRSs, but not conflict with IFRSs. An example of a possible issue is how 'substantive enactment' of tax legislation is achieved in the Canadian political system.

If securities regulations refer only to IFRS-IASB, in the absence of any other requirement to report in accordance with Canadian GAAP, reporting issuers would not be required to follow any additional guidance the AcSB may deem necessary, reducing comparability within the Canadian economy and allowing sub-optimal accounting treatments. Users of Canadian financial statements would be unsure whether a company complied only with IFRS-IASB, or also with any additional guidance issued by the AcSB.

In the European Union and Australia, entities have prepared financial statements that assert compliance with both IFRSs and a jurisdictional GAAP. The SEC staff commented in a summary of its review of financial statements prepared in accordance with IFRSs that were filed with the SEC, that "the vast majority of companies asserted compliance with a jurisdictional version of IFRS and most also asserted

compliance with IFRS as published by the IASB.”<sup>1</sup> The reference to two GAAPs, in itself, did not seem to create significant problems.<sup>2</sup>

The need for clarity for financial statements users as to whether an entity has complied with any necessary supplements to IFRSs is the key reason to refer to Canadian GAAP, in addition to IFRS-IASB. In addition, it seems likely that many Canadian entities will be required by other regulations, statues and contracts to refer to compliance with Canadian GAAP.

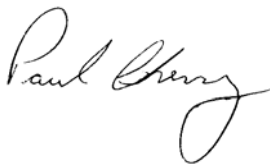
### **French translation of IFRS-IASB**

It is correct that the IASB only publishes IFRSs in English and, as noted in their document, ‘*Working Relationship between the IASB and other Accounting Standard- Setters*’, translation is one of the processes that a national accounting standard setter might have to undertake. We intend to ensure that an official French version of IFRSs, plus any additional guidance, is available. Therefore, when IFRSs are incorporated into Canadian GAAP, they will be available in both official languages.

It is, however, unclear at the present time when IFRS-IASB will be available in French. IFRSs as of January 1, 2007 are now available in French and we are working with the IASC Foundation to facilitate the translation of IFRSs issued since that date and to maintain up-to-date translations. However, this issue is, to some extent, beyond our control and, at this time, we are unsure whether such translations will be available in time for early adoption on January 1, 2009. We do expect that such translations will be available in time for 2011 adoption.

Should you wish to discuss any of our views, please contact Karen McCardle at karen.mccardle@cica.ca (Tel. (416) 204-3465), Ian Hague at ian.hague@cica.ca (Tel. (416) 204-3270) or me.

Yours truly



Paul G. Cherry, FCA  
Chair, Accounting Standards Board

cc. Chair & Director, Audit and Assurance Standard Board

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<sup>1</sup> “Staff Observations in the Review of IFRS Financial Statements”, U.S. Securities and Exchange Commission. [http://www.sec.gov/divisions/corpfin/ifrs\\_staffobservations.htm](http://www.sec.gov/divisions/corpfin/ifrs_staffobservations.htm) (July 2007)

<sup>2</sup> The SEC staff did find “in the vast majority of cases reviewed that the company's auditor opined on the company's compliance with the jurisdictional version of IFRS that the company used, but did not opine on the company's compliance with IFRS as published by the IASB.” Audit reporting in accordance with generally accepted auditing standards is within the mandate of the Auditing and Assurance Standards Board (AASB). If the CSA is concerned about the wording of audit reports, then that matter might be referred to the AASB.