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## Time for common accounting standards

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Canada is about to join a growing worldwide migration to common financial reporting standards. In an ever-growing global economy, it is important that we keep in step.

International Financial Reporting Standards (IFRS) will soon become the basis of reporting for public companies in Canada, replacing Canada's own Generally Accepted Accounting Principles (GAAP.) The Canadian Accounting Standards Board announced this change in January, 2006, after two years of extensive consultation and public discussions across this country. The decision has been welcomed, both here and abroad, as serving the best interests of Canadian business and investors alike. The proposed changeover date is 2011. The strategy is supported by a well-developed, comprehensive implementation plan (see [www.acsbcanada.org](http://www.acsbcanada.org)) which has been open for public comment for two years.

Why change? Because Canada cannot stand in isolation from the growing acceptance of a common financial reporting language. Capital markets have gone global and Canada accounts for less than 4% of the global capital markets. If every country speaks a different accounting language, investors have difficulty comparing companies and investors ultimately bear the costs of translation. A global accounting language is the best solution for both public companies and investors. Many participants in the Canadian capital markets were becoming increasingly uncomfortable with Canadian standards that were neither one thing nor the other -- that is, neither IFRS nor U.S. GAAP, but a mix of both.

Why IFRS? With businesses increasingly making decisions in a global context, the move to IFRS will place Canada on the same reporting playing field as more than 100 other countries, including the United

Kingdom and other European Union nations, as well as Australia, Japan, China, India, Brazil, South Korea and Israel, to name a few, are in the process of converging with IFRS.

Even the United States is signalling an interest in IFRS. Late last year, the U.S. Securities and Exchange Commission (SEC) decided to accept IFRS from foreign private issuers on an equal footing with U.S. GAAP. This means that Canadian companies reporting using IFRS will no longer be required to reconcile their financial statements to U.S. GAAP -- a significant cost saving. In addition, there is a formal agreement and work program to converge U.S. GAAP and IFRS and significant progress has already been made. Most recently, the United States is considering whether to adopt IFRS for its domestic issuers. Canada's implementation plan for changing over to IFRS has been praised south of the border for its high quality.

Here in Canada, it is recognized that the transition to IFRS poses an enormous challenge, but is manageable if companies start to prepare now. Extensive training and education is already underway and will intensify. Considerable information is already available on the Accounting Standards Board Web site and is constantly being updated. Board staff meets regularly with stakeholders to ensure that appropriate steps are being taken.

Long-term benefits outweigh any short-term challenges. IFRS will provide more opportunities for Canadian businesses and investors in Canadian businesses by reducing the cost of capital, increasing access to international capital markets and reducing costs by eliminating the need for reconciliations.

IFRS has been evaluated by the International Organization of Securities Commissions, including the SEC. The consensus is that the standards are comprehensive, robust and capable of consistent interpretation and application. The balance of informed opinion worldwide, including the United States and Canada, is that IFRS strikes the appropriate balance between fundamental principles and more specific implementation guidance.

IFRS is already being used in most of the world's major capital markets. Other countries have made the transition to IFRS, often in less time and facing greater challenges than Canada, and public companies, analysts and investors have coped well. The result has generally been greater clarity with no discernible disruption of the capital markets. IFRS will provide a sound basis for high quality, clear and consistent reporting that serves investors' needs in Canada.

The Canadian Securities Administrators are expected to publish proposals dealing with related issues such as allowing voluntary adoption of IFRS before 2011 and whether U.S. GAAP can be used instead of Canadian GAAP. They also are expected to publish draft guidance for disclosure in Management's Discussion and Analysis of the significance of the impending changeover to IFRS.

Changing the basis of financial reporting for public companies has both costs and benefits. These have been carefully considered. Adopting IFRS will serve Canadians well in the global economy of the 21st century.

--- - Paul Cherry is chairman of the Canadian Accounting Standards Board.