



July 20, 2007

**Peter Martin
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto ON M5V 3H2**

By email to: ed.accounting@cica.ca

Dear Mr. Martin:

Re Financial Reporting by Private Enterprises

The Professional Standards Committee, representing 36 independent member firms of Porter Héту International in Canada, submits this response to the Invitation to Comment and related Discussion Paper on the above noted topic.

We wish to comment on three topics:

1. Which of the three options presented do we recommend?
2. The range of entities to which such standards should apply
3. Comments on guidance with respect to financial reporting by entities without significant external users

1. We unanimously endorse Option 2 – IFRS for SMEs for the following reasons:

- The simplicity of a single conceptual framework and manner of presentation for educators, students, practitioners and – above all – users of financial statements
- Maintenance – to the extent attainable - of international comparability for those SMEs that operate internationally and must report internationally to suppliers, creditors, investors or joint venturers.
- The impressive quality of the exposure draft of IFRS for SMEs which allays previous concerns by our committee members that an international body would not be able to understand SME based accounting issues and concerns.

We discussed the current exposure draft “IFRS for Small and Medium-sized Entities” and compared the differences between Canadian Differential Reporting options and the accounting recommendations in the IASB ED.

In only two instances did we believe the IASB ED would not meet Canadian requirements.

- accounting for preferred shares, issued as part of a tax structure, as debt, instead of equity, and
- requiring consolidated statements if IFRS.SME financial statements are prepared for either the parent or subsidiary, which in our view, in many scenarios, increases cost and serves no user at all.

Therefore we recommend adoption of IFRS for SMEs with the retention of these two Differential Reporting options as an addition in Canada, to the IASB SME standards.

Other Differential reporting options not included in the IASB ED, (such as taxes payable method of accounting for income taxes), are not necessary in our experience. In this instance, for example, future income tax accounting (or deferred tax accounting in IASB parlance) is seldom complicated and often not material for SMEs.

2. We recommend that the definitions of Small and medium sized entities in the IASB ED be adopted: That is:

A “SME “

- a) does not have public accountability, and
- b) publishes general purpose financial statements for (significant) external users

We also recommend adoption of the IFRS for SMEs ED definition of “public accountability” at page 246 (glossary) (oddly this definition differs from the definition on page 14 of the ED. We believe the glossary definition is simpler and more complete because it defines “accountability” in this context, in addition to the situations in which an entity has accountability. That definition states:

public accountability

Accountability to those present and potential resource providers and others external to the entity who make economic decisions but who are not in a position to demand reports tailored to meet their particular information needs. An entity has public accountability if:

(a) it has issued (or is in the process of issuing) debt or equity instruments in a public market; or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment bank.

In our view, NFP organizations which issue general purpose F/S for external users should be considered in the same way as for profit enterprises in a similar position.

We are aware the Discussion Paper is limited to private enterprises. However, we believe this is an artificial constraint. As practitioners primarily in the area of small and medium sized entities, we do not agree with the idea that all not for profit entities should be defined as “publicly accountable”. As experienced practitioners working with both private enterprises and not-for-profit entities we find little support for this view either in our work or in the international literature.

Many sporting, recreational and cultural clubs and associations raise little or no funds outside their own small memberships. They exist for the sole benefit of their members, therefore posing little risk to the public at large.

Many others, established to serve wider social purposes, operate as relatively simple and uncomplicated entities and could easily meet the reporting requirements of grantors or donors with a set of standards such as those set out in the IASB ED with relatively minor modifications such as (at least some) of those set out in current sections 4400 to 4460 of the CICA Handbook – Accounting.

In fact, many NFP organizations would not even be considered SMEs (using the IASB definition) due to the fact they have no significant external users of financial statements. }

Even where registered charities and foundations are concerned, CRA is performing an increasing effective monitoring role and is publishing more specific information on their website for the benefit of donors, grantors and creditors.

In our view a charity should not automatically be considered “publicly accountable” unless it meets the criteria set out in the IFRS for SMEs ED definition referred to above.

3. In relation to entities without significant external reporting requirements (users), we cannot find significant involvement (at least in the developed economies) by standard setters. CRA in Canada monitors their tax filings and in our experience bankers and other lenders often monitor such entities without requiring GAAP based financial statements. There are exceptions in unusual circumstances such as breach of covenants. In those cases the creditor can demand the preparation of statements in accordance with GAAP



Currently, in practice, such entities do not follow GAAP even when their statements are prepared by public accountants. We perform compilation engagements where the test is simply whether the resulting financial statements are false or misleading (given their purpose).

The question we have is this: Is there convincing evidence that current practice in relation to micro entities is broken to the extent that there is significant economic effect? After all, we are talking about entities without significant external reporting requirements. If it isn't broken – let's not fix it. . To proceed in this new direction, it would be important to ensure on a net cost-benefit basis, that there is a significant identified benefit to whoever the (as yet unidentified) significant external users may be.

We appreciate the opportunity to comment on these matters

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