



Dr. Karim Jamal, PHD, CA  
Professor and  
Chartered Accountants'  
Distinguished Chair in Accounting

---

3-30C Business Building  
University of Alberta  
Edmonton, Alberta  
Canada T6G 2R6  
Phone: 780-492-5829  
Fax: 780-492-3325

E-mail: [karim.jamal@ualberta.ca](mailto:karim.jamal@ualberta.ca)

<http://www.bus.ualberta.ca/kjamal/>

---

July 28, 2007

Mr. Peter Martin, CA  
Director, Accounting Standards  
Accounting Standards Board  
277 Wellington Street West  
Toronto, Ontario  
M5V 3H2

**Re: Reporting by Private Enterprises**

Dear Peter,

I am writing to express support for Option 3 (develop an independent set of Canadian standards) in your discussion paper on private enterprise reporting. I believe that it is appropriate to have a separate set of standards for private companies. In all areas of society, we find the use of standards. However, it is also common to have several sets of standards and not just one standard applied in most areas of the economy. There is no reason why one rigid set of accounting standards should be applied to all Canadian companies from a small corner grocery store to the largest publicly traded organizations.

I encourage you to develop a private sector GAAP from the ground up, and not just do some version of differential reporting as is currently the practice. I would prefer that you keep an open mind and involve preparers and accounting firms who serve the private company segment in your standard setting deliberations.

The current situation in accounting is very similar to that of the telephone industry in the early 1990's. At that time, a global standard setting body run by the UN called the International Telecommunication Union (ITU) had constructed a reliable and globally connected telephone system. There were however some problems with this system namely, the standards underlying the system were complex, and change was costly and very slow. The system was also not extensible,

and found it hard to cope with changes in technology. Since most of the intelligence was in the circuit system, changes had to be made centrally by the telephone companies and the public had very little involvement and ability to develop new products and services. I think this set of comments could apply to the current accounting standard setting process as well. We have a complex, overly centralized standard setting process that is extremely slow, and produces complex standards that are incomprehensible to large segments of the financial reporting community. Many of the standards are known for how they are breached or misused (e.g., the misuse of the lease standard to move debt off-balance sheet) rather than to create good financial reporting.

During the 1990's, rather than just stick with the complex and slow legacy system, the Internet Engineering Task Force (IETF) decided to change the model used and migrated the telephone system to the internet. As I am sure you are aware, the future of telephony is on the internet, and not on the overly complex, slow and costly circuit based telephone system in use prior to the 1990's. The advantages of the internet model is that the intelligence is at the end of the network instead of the centre which makes it easy to adapt the system to new uses like presence, instant messaging and wireless devices. The internet protocols are also easier to code, and integrate with other protocols widely used in society. This results in a simpler, less costly and easily adaptable system. This is what we need in accounting for private companies. We need a new way of constructing financial statements rather than just a slimmer version (e.g., the current differential reporting model) of the overly complex standards developed for public companies. Most of the fair value related measurements and convoluted items like embedded derivatives should probably not be required for private companies (and are probably not meaningful for many public companies also).

In our studies of standard setting, we find that it is beneficial to have a competing set of standards. It is unlikely that the ITU would have developed the standards needed to transfer the telephone system to the internet. It was the presence and actions of an alternative standard setting body (IETF) that set in process the development of a completely new set of standards required to move telephony over the internet. Setting Canadian private company standards, would enable us to maintain a standard setting infrastructure, help provide an arena where alternative

approaches to standard setting can be explored, and provide more flexibility in tailoring accounting standards to fit the needs of Canadian companies.

The current accounting conceptual framework, and the definitions of assets and liabilities used by standard setters are vague rhetorical devices that provide very little logical consistency in accounting standards. In this environment, it is dangerous to harmonize accounting standards globally and pretend that there is only one “correct” accounting. Competition in conceptualization and standard setting are likely to lead to better accounting standards. It is crucial that some independent thinking occur in the accounting standard setting process. I thus urge you to develop a new set of Canadian standards for private enterprises, and not just adopt the proposed IFRS-SME standards.

Sincerely,

Karim Jamal Ph.D, CA  
Professor and Chartered Accountants'  
Distinguished Chair in Accounting  
School of Business  
University of Alberta  
Edmonton, Alberta  
Canada T6G 2R6  
Phone (780) 492-5829

Research Papers: [http://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=101781](http://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=101781)  
Personal Website: <http://www.bus.ualberta.ca/kjamal/>

