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Peter Martin
Director, Accounting Standards
Accounting Standards Board
277 Wellington St W
Toronto, ON M5V 3H2

Re: Financial Reporting by Private Enterprises

Dear Sir:

I would like to thank the Board for moving forward with this initiative. As a practitioner with many years experience in working with small private enterprises, I have gradually moved from preparing GAAP financial statements to preparing non-GAAP financial statements. From discussions with my colleagues, I know that I am not alone in this. There were three reasons for this move:

1. In common with the main users of general-purpose financial statements for private enterprises surveyed by the Board (Appendix E of the Discussion Paper,) many of my clients did not find GAAP financial statements particularly useful in making economic decisions and some found them confusing and difficult to understand. I surveyed my clients regarding the information they found most useful and tailored their financial statements accordingly. None of my clients' external users have ever requested additional disclosure;
2. Even after viewing the Board's internet-based presentations and attending professional development courses, I have found the rationale for some of the more recent standards difficult to understand myself and harder to explain to my clients. When my clients asked, "How will these new requirements benefit our businesses?" I found I was increasingly unable to give a positive response;
3. The independence issue relating to Review Engagements, which is not part of this discussion.

I have reviewed the Discussion Paper, the IFRS for SME Exposure Draft and Draft Implementation Guidance, and the Invitation to Comment and have the following comments.

Comment on whether you agree that a common underpinning of fundamental accounting principles applies to all types of entities: I agree that a common underpinning of fundamental accounting principles applies to all enterprises. A principles-based approach, accompanied by adequate enforcement of professional ethics, allows for the development of worldwide standards and should be encouraged in a global economy. Principles-based worldwide standards will make it easier to compare financial information of all kinds.

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: I was surprised to learn yesterday at a presentation on the "Invitation to Comment" to CABC members that, of over 2,000,000 private enterprises

doing business in Canada, less than 1% are publicly accountable enterprises. Although I believe it is vital for private enterprise financial reporting to be grounded in the same conceptual framework as that of public enterprises, it is not necessary for it be bound by the same reporting standards. What is important is that, where private enterprises have options not available to public enterprises, these are clearly defined and fully disclosed.

Comment on which of the options you believe will best satisfy the needs of both users and preparers of private enterprise financial statements, supported by your reasoning: I believe that Option 2, Adoption of the IFRS-SME, would be the best option. The IFRS-SME exposure draft is practical, written in plain language and gives clearly defined options for adopting various measurement methods and disclosure. The conceptual framework is the same as for publicly accountable enterprises. The illustrative financial statements and note disclosure provided in the IFRS-SME Draft Implementation Guidance are not fundamentally different from those Canadian users are familiar with, provide comprehensive note disclosure and, in my opinion, meet external users expressed need for high-quality financial reporting. In addition, those external users without a strong background in financial accounting would find the plain language in the IFRS-SME exposure draft helpful in interpreting financial statements.

Whether or not adopting the IFRS-SME would require some modification for Canadian purposes would depend on the final document approved by the IASB. For instance, where the IFRS-SME is silent on an issue, perhaps the Board could require the use of full IFRS disclosure instead of it being optional as the exposure draft proposes. Although there are certain issues arising from the IFRS-SME exposure draft that may cause problems in a Canadian setting, the survey of external users (Appendix E of the Discussion Paper) indicated that they have already learned to adjust for similar problems with existing GAAP (e.g. “high-low” preferred shares, callable loans etc.) The provincial institutes could help external users such as venture capital firms and financial institutions to transition to the new standards by providing outreach courses.

I do not support Option 1, the top-down approach, as it follows the route taken with the Differential Reporting standard. From the survey of external users (Appendix E of the Discussion Paper,) it appears that they have not found this standard particularly useful.

I also do not support Option 3, the “Made in Canada” solution. Private enterprises participate in the global economy and development of common worldwide standards should be encouraged.

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: In recent years, it appears that GAAP standards have been developed primarily to meet the needs of publicly accountable enterprises (the minority) with little regard to the impact on private enterprises (the majority) and the cost of implementing these standards. As a result, many private enterprises no longer produce GAAP financial statements. Provided the Board’s “Financial Reporting by Private Enterprises” initiative results in practical, cost-effective reporting requirements, I believe users and the profession will embrace the new requirements and the development of additional non-GAAP guidance should not be necessary. Private enterprises without significant external users have access to information other than the company’s financial statements for economic decision-making; the format of their financial statements is therefore not an issue.

Yours sincerely,



Rose Norton, CA