



"Tony Banik"  
<[tbanik@stewartgee.ca](mailto:tbanik@stewartgee.ca)>  
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To <[ed.accounting@cica.ca](mailto:ed.accounting@cica.ca)>  
cc  
bcc  
Subject Fw: IFRS for Private Reporting Enterprises

Attached are my comments for the ITC on Private Reporting.

I would also like to add some comments about the current EIC 122 model. Currently reporting enterprises need to treat a loan that is scheduled to mature within the next fiscal year as current liabilities if they have not obtained evidence from the financial institution that the loan will be renewed on a long term basis by the time the financial statements are complete. From my discussions with lending institutions, it is their intent to renew on a long term basis unless the reporting enterprise lacks cash flow to make future payments or has defaulted on previous payments. If we are to treat items on economic substance rather than legal form, accountants should look at debt repayment ability/cash flow of enterprises to assess whether to treat the loans as current liabilities. To me, this is consistent with capital lease accounting where enterprises look at economic substance of agreement rather than legal form. I think the current EIC 122 is overly conservative.

Thanks

----- Original Message -----

**From:** [Tony Banik](mailto:Tony Banik)

**To:** [s.thiel@icas.sk.ca](mailto:s.thiel@icas.sk.ca)

**Sent:** Friday, September 28, 2007 5:04 PM

**Subject:** IFRS for Private Reporting Enterprises

Shelley,

I've had a chance to think about the roundtable discussion that we had on Wednesday and I have the following comments:

1. I'm in favor of option 1 having a top down approach based on the current model for differential reporting

a) One of the key elements of the conceptual framework is comparability. People that are opposed to the "differential reporting" state the numerous options allowable decreases comparability. However other key components of the conceptual framework are cost/benefit and understandability. In terms of cost/benefit, standard setters must realize public accounting firms and financial reporting enterprises are business people. Public accounting firms often have justifying increasing accounting/audit fees due to the numerous disclosure requirements. A lot of reporting enterprises are either tempted to downgrade to notice to readers or go to some non accredited accountants to decrease fees. This does not serve potential users well if relying on financial statements for lending/investing decisions. The current differential reporting option has some flaws but overall the financial statements are a lot more understandable. For example, a lot of financial institutions have not fully understood future income taxes and often use this when calculating reporting enterprises debt to equity ratios. As a result, debt to equity ratios may be violated. As a part of the differential reporting option for future taxes, income taxes provision per financial statements are reconciled to statutory rates. As a result, lenders can see that the liability results from temporary differences between taxable and accounting income. As a result, they aren't as concerned when calculating loan covenants.

b) Even though option 2 (developing a separate IFRS for SME) is potentially beneficial from a

commercial/cost standpoint for enterprises and accounting firms, I don't believe it represents the best option. A lot of accounting firms have a majority of clients that are in the 85% base of private enterprises, but these same firms do have clients in the 15% base and public companies as well. I think it would be easier from this perspective for accounting firms having to learn one handbook rather than two separate hand books. From a pure knowledge perspective, CA's would be better equipped to deal with the increasing complexity of accounting issues that their clients face. In my opinion, this also creates better competition in the market place. If firms are taking themselves out of the market place by limiting themselves to a separate handbook for SME's, a lot of the larger private and public companies would probably be limited to the selection of public accounting firms who charge higher fees. If more firms are in the market place, this may result in more competitive pricing .

c) Many potential CA students prefer working for smaller to mid size firms for potentially a broader range of experience and more opportunities for advancement. These students could potentially advance to the manager or partner level faster if they can keep up with these standards. Also potential CA's may leave small to mid size firms if they feel their knowledge base is limited. This would be a potentially a good method for recruiting. It also serves CA students if they choose to leave public practice and work in industry for larger public/private companies.

d) Different private companies may have different needs. I don't think the mix and match model should be replaced by an all or inclusive model. For example, some joint venturers may choose to use the cost of equity method to minimize costs of financial statements. However other joint ventures may want to use proportionate consolidation as it may provide more information on joint venture capital for each member so they can determine proper profit and cash allocations. Also, it may be easier to track asset purchases and disposals for tax purposes under proportionate consolidation. Also some enterprises may feel that disclosing fair value of financial instruments is not relevant while other may.

e) I don't think option 3 for implementing a new set of standards is feasible. I'm assuming the new standards would need to be based on the same conceptual framework for IFRS/GAAP so I don't think it would provide much benefit in the long term.

Thanks

Tony Banik, CA  
Stewart, Gee & Associates  
700 - 230 22nd Street East  
Saskatoon, SK  
S7K 0E9  
ph: 653-7800 ext 232  
fax: 653-7801  
email: [tbanik@stewartgee.ca](mailto:tbanik@stewartgee.ca)