

October 23, 2007

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

Dear Mr. Martin:

Re: Financial Reporting by Private Enterprises – Invitation to Comment

We are a public accounting firm with mostly owner-managed businesses as our clients. While a significant number of these clients have multi-million dollar businesses, they do not have sophisticated accounting personnel, and therefore, look to us to advise them on accounting policies, financial statement presentation and disclosure. Generally, GAAP financial statements are prepared either because they are required by lenders (and occasionally investors) or for management to evaluate, or affirm already expected, business performance.

Based on our experience with our clients, the primary issue to be addressed in financial reporting for private entities is to ease measurement related issues as well as the extent of disclosure required in financial statements. In recent years, the complexity of the financial reporting model has increased exponentially as Canadian GAAP has attempted first to converge with US GAAP and now with IFRS. Multi-national Canadian corporations may be competing on a global stage and entering into complex transactions, and therefore accounting standards have to reflect this reality. However, private entities generally do not compete internationally and rarely want access to global capital markets. The goal of a financial reporting model for private entities should be to meet their needs in a cost-effective manner.

Our responses to the various issues raised in the Invitation to Comment are outlined below:

1. Is a common underpinning of fundamental accounting principles necessary?

We agree that certain fundamental principles should apply to all entities. The conceptual framework that has been developed by Canadian standard setters should be applied consistently in developing any future accounting models. Fundamental principles such as elements of financial statements, how they are defined and when they are recognized apply equally to public and private entities.

2. Is there a need for linkage between standards for public enterprises and those for private entities?

Some connection or linkage between the two is expected if they are to be based on the same underlying principles.

As a public accounting firm, a strong link between private company reporting and that for public enterprises (i.e. IFRS) would mean a common knowledge base and skill set for our partners and staff regardless of whether they work on private or public companies.

But our private company clients probably see no compelling reason for close links between financial reporting by public and private companies. Comparability of financial statements with those of public companies in Canada or internationally is not considered an issue. It is more likely that lenders to private companies assess and compare financial results with that of other private companies in the industry rather than public companies in Canada or internationally. Lenders are concerned about the company's ability to service their debt, which is cash flow related, and consider the underlying security.

3. Which of the three options proposed will best satisfy the needs of both users and preparers?

(i) Top-down "differential" approach based on IFRS

Based on the experience with the current differential reporting model, this will likely involve few modifications from the benchmark (IFRS). Relatively few "differential" treatments are currently available, and even these are supplemented with additional disclosure requirements. Financial reporting for private entities will probably not differ much from that for public entities as essentially there will be only one basis of accounting

(ii) Adoption of IFRS-SME

Since this proposed standard is based on the full set of IFRS there will be some degree of linkage between the two, but a number of modifications may be necessary to "Canadianize" the SME standard. This standard is more streamlined, than the full IFRS, however, there is not much relief on recognition and measurement issues (For example, fair value measurement is an issue for many private companies in terms of cost-benefit.) This option seems the most viable if it can be adapted for Canadian private companies. It would be a consistent approach, with the move to IFRS for Canadian public companies.

(iii) Independently-developed set of standards

A "made in Canada" approach directed specifically at private companies is appealing, but this is not a very practical approach. Since the source for development of such a standard has yet to be determined, it is difficult to arrive at a decision regarding this option.

A condensed and somewhat simplified version of the current Handbook seems an attractive option, especially if standard setters are going to reconsider some of the areas identified in the Invitation to Comment, i.e. greater use of historical cost rather than fair value, measurement and disclosure of financial instruments, future income taxes. However, the timeframe could be fairly long and the uncertainty in the meantime would be unacceptable.

On October 1, 2007 the CICA announced it is developing a simplified framework, based on existing standards, for private entities without significant external users. It is not clear at this time what this will entail. How will this differ from the third option discussed above? Can this framework be used when external users find it acceptable and consent to its use? What form of assurance can a public accountant provide on financial statements prepared under this framework? This approach could become a preferred approach for owner-managed entities currently preparing GAAP financial statements for limited external users.

In conclusion, we concur that there is a need for separate accounting standards for private entities. To have any real impact, it is critical that the new standards address the needs of owner-managed businesses – preparers and users. With the recent announcement of a simplified framework to be developed based on existing standards, it is difficult to conclude on one of the three options proposed in the Invitation.

We hope these comments will be considered in the AcSB's deliberations.

Yours very truly,

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