

Simplified Accounting for Canada's Private Businesses (and Not-For-Profit Organizations)? —The Standard Setter Mounts a Full-Court Press

ENTERPRISE

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Canada's Accounting Standards Board (AcSB) is moving quickly to develop a new set of accounting standards for private enterprises. The AcSB expects that the process may be completed by the end of 2008 such that the new standards could be adopted for companies' 2009 year-ends. It is possible, perhaps even probable, that the new standards may be approved in time for companies to adopt them retrospectively for their 2008 year-ends.

At its May 6/7, 2008 meeting, the AcSB made the following key decisions:

- The majority of the recognition and measurement standards in the existing *CICA Handbook* are relevant to Canada's private business and will be retained with few, if any, modifications.
- Financial statement disclosure requirements (including the notes to the financial statements) will be considerably fewer than in the existing Handbook.
- An advisory working group will support the AcSB in reviewing contentious issues, such as accounting for income taxes and employee future benefits, to develop solutions that are appropriate for the sector, based on cost/benefit considerations.

The determining factors in evaluating changes to existing standards will be

- The benefit versus cost constraint; the benefits from providing the information should exceed the cost of doing so.
- The differing needs of the users of financial statements of private businesses, as compared to the users of financial statements of public companies.

The Board has determined that reducing the volume or length of existing standards is not a primary objective of this initiative. To enable the rapid deployment of the new set of standards, the AcSB will retain many of the existing *CICA Handbook* standards but will continue to monitor the International Accounting Standards Board's project to develop International Financial Reporting Standards for small and medium sized entities (IFRS for SMEs).

When modifications to existing Canadian standards are determined to be necessary, the AcSB will consider whether the relevant IFRS for SMEs approach should be adopted in Canada. The AcSB will also consider the Framework for Owner-Managed Enterprises (FOME) financial reporting white paper that was published by the CICA in 2007 and the responses that the CICA received. Existing differential reporting options under Canadian generally accepted accounting principles (GAAP) will also be considered.

The disclosure requirements for private-business GAAP will be based on principles already embedded in GAAP, namely that financial statements should provide information that is useful to investors, creditors, and other users in making decisions. Financial statements should provide information about the entity's economic resources, obligations, and performance where such information would be expected to affect the decision making of the user. A clear and concise description of the significant accounting policies of an enterprise will continue to be an integral part of the financial statements, perhaps supplemented only with information that the preparer, in his or her professional judgment, believes will influence the decisions of users. FOME's proposals for disclosure and IFRS for SMEs will serve as bases for deliberating the disclosure requirements for Canada's private-business GAAP.

A fundamental and overarching decision that has yet to be made is whether the new standards should incorporate the financial instrument standards that were introduced in Canada for public companies in 2007 and become effective for private companies for 2008. These standards are based on measuring financial assets and liabilities at fair value, rather than historic cost. Their rigor brings significant complexity to accounting for entities that are involved in hedging programs or whose contracts may be or contain derivatives. It is not clear whether financial instrument accounting brings a benefit to private-business financial reporting in excess of the compliance cost.

To facilitate its project timeline, the AcSB will be segregating existing standards into three groups:

- standards in the *CICA Handbook* that are not relevant to the private-business sector; these standards will not be carried forward
- standards that continue to be relevant to the private-business sector that will be carried forward with few, if any, modifications, excepting relating to disclosure; the AcSB will seek public input to confirm its decisions,
- those standards that must be deliberated and perhaps modified to make them more suitable for private business; the AcSB will likely seek public comment on its proposals through its established Exposure Draft process.

The AcSB has observed that this simplified accounting framework may be appropriate for many, if not substantially all, of Canada's numerous not-for-profit organizations (NPOs). As a result, NPOs will also want to monitor this project and provide their comments.

In a related and significant development, the AcSB has decided to allow private companies to elect to exclude non-financial contracts or derivatives embedded in non-financial contracts, leases, and insurance contracts from consideration in applying the new financial instrument accounting and disclosure standards. The existing requirements would have required that some of these contracts, or the derivatives embedded therein, be identified and recorded in the financial statements at fair value, along with related disclosures. This accounting policy election can provide significant relief to private businesses.

KPMG Enterprise will be an active participant in this process, both at the AcSB and on its advisory group. We will keep you advised of developments. However, given the short timeline for developing the standards, we would encourage you to monitor the AcSB's Web site and make your views known, particularly on the contentious issues.

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