

Canadian GAAP for Private Enterprises – Board Releases Exposure Draft

Number 8

KPMG ENTERPRISE

Canada's Accounting Standards Board (AcSB) has released its long-awaited and eagerly anticipated Exposure Draft of a proposed set of accounting principles tailored to the needs of Canada's private businesses. To facilitate making the new standards available for early adoption for 2009 calendar year-ends, the AcSB is requesting comments on the proposals by July 31.

In a major article, *Private Matters*, in the May 2009 issue of *CAMagazine*, Jeff Buckstein highlights the importance of these new standards. "The profession has been waiting for this for a long time and, finally, things are changing. The conventional wisdom in accounting standards used to be one size fits all; people believed that a single, wide-ranging umbrella could cover the needs of businesses of all stripes. Not any more." In the survey conducted by the Canadian Financial Executives Research Foundation (CFERF) and KPMG Enterprise in support of the CFERF Executive Research Report, *Issues in Private Company Reporting*, nearly one-half of Canada's leading private companies indicated that they intend to adopt the new private business standards, rather than transitioning to International Financial Reporting Standards, and a further one quarter were still considering the option.

Is your private company eligible to adopt Canadian generally accepted accounting principles for private enterprises (GAAP for PEs)? The answer is likely yes, unless you have issued debt or equity instruments that are trading in a public market, or you hold assets in a fiduciary capacity for a broad group of outsiders as a primary business.

If you adopt GAAP for PEs, you will adopt a principles-based set of standards that are designed to encourage the use of professional judgment. GAAP for PEs will be a self-sufficient, standalone set of standards and users will only be able to look to IFRS or another accounting framework in the rare circumstance when GAAP for PEs does not address their unique situation. The AcSB does not intend to make substantive changes to GAAP for PEs for a period of time after its release, such that stakeholders will have adequate opportunity to become familiar with the new

standards and their application in practice. The frequency of changes will be minimized, with updates being released only every 1 or 2 years.

In previous communiqués, we have talked about many of the proposed changes. The Exposure Draft confirms the Board's intention to significantly simplify the accounting for financial instruments and to provide a simplified accounting alternative for defined benefit pension plans for which the only members are the controlling owner of the business, his or her spouse, or both. The flexibility provided by differential reporting options has been retained with a further simplification – unanimous shareholder approval will no longer be required. Therefore, private businesses will continue to be able to prepare their financial statements on a non-consolidated basis and to use the taxes payable method if these options are suitable for the users of their financial reporting.

The AcSB has also worked aggressively to minimize the perceived standards overload arising from financial statement disclosure requirements. In the *CAMagazine* article, Peter Martin, Director of Accounting Standards at the Canadian Institute of Chartered

Accountants, notes that “the overall reduction applicable to many private firms should be in the 40% to 50% range.” However, the reduction in the specific disclosure requirements will require the preparers of financial statements to exercise sound professional judgment; all information that is material to the users of the financial statements must still be disclosed.

KPMG Enterprise is a strong supporter of the AcSB's GAAP for PEs initiative. We concur with Ron Salole, CICA Vice-President of standards. “The nice thing is that it's all derived from the current *Handbook*. The bulk of the material [more than 80%] is what they've already seen. So I don't think as big a retooling effort is needed as with IFRS.” KPMG Enterprise will review the Exposure Draft in detail and provide our comments to the AcSB on any matters that we believe require further consideration. We would encourage Canada's private business entrepreneurs to also provide their comments to the AcSB or contact a KPMG Enterprise adviser to discuss the impact of GAAP for PEs on their business. We will gladly consider the input from such discussions in formulating our response.

[Click here](#) to download the Executive Research Report entitled *Issues in Canadian Private Company Reporting* published by the Canadian Financial Executives Research Foundation and KPMG Enterprise.

For those who may not have kept abreast of the developments over the past year, refer to our resource microsite entitled **Financial Reporting Standards for Private Companies in Canada**. There you will find updates published that will provide much of the background you need to understand the issues and the choices in front of you.

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