

# Should I stay or should I go?

Number 7

KPMG ENTERPRISE

Canada's private businesses can currently choose between two financial reporting frameworks when preparing their financial statements. Management has free choice between:

- the framework used by public companies "generally accepted accounting principles" or "GAAP"), and
- an alternative framework that provides a simplified accounting model for financial instruments ("XFI GAAP")

The landscape will change when the Accounting Standards Board approves the new accounting framework for private businesses ("PB GAAP") at which time XFI GAAP will be withdrawn. And, of course, we know that GAAP for public companies will transition to International Financial Reporting Standards ("IFRS") in 2011, by which time private companies will have had to choose between PB GAAP and IFRS. A further consideration is that PB GAAP may be available for adoption as early as 2009.

Private companies that are considering adopting IFRS in 2011 could choose to adopt PB GAAP in the interim and then transition from PB GAAP to IFRS. Alternatively, they could continue to apply GAAP and transition from GAAP to IFRS in 2011 or in a subsequent year. What are some of the more significant differences between GAAP and PB GAAP that a company should consider in its analysis?

PB GAAP will introduce significant recognition and measurement differences for financial instruments. GAAP is a fair-value based standard whereas PB GAAP will be predominantly a cost based model. PB GAAP will not incorporate the concept of other comprehensive income which is a temporary parking lot for certain unrealized gains and losses under the fair value method. In addition, PB GAAP will only permit hedge accounting in specified and limited situations and it will be an accrual based model focusing on disclosure of the terms and conditions of the hedging model, rather than the fair-value model in GAAP. It is clear that transitioning from the GAAP

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accounting for financial instruments to IFRS will be a significantly easier task than transitioning from PB GAAP to IFRS, as today's GAAP is substantially converged with IFRS in this area.

PB GAAP will maintain today's differential reporting options and introduce a number of additional ones. Unanimous shareholder approval will no longer be required; rather, the selection of the accounting policies will be at management's discretion. The more significant differential reporting options such as the ability to prepare financial statements on a non-consolidated basis and using the taxes payable model rather than tax allocation model of accounting for income taxes clearly create significant differences to IFRS. However, PB GAAP will allow management to continue to apply consolidation and tax allocation accounting which would minimize the changes on a subsequent transition to IFRS.

In summary, businesses planning adoption of IFRS in 2011 are clearly better served by GAAP than the new private business GAAP. Businesses that are considering adoption of IFRS subsequent to 2011 will either have to accelerate the adoption of IFRS to 2011 or adopt PB GAAP after XFI GAAP is withdrawn, likely in 2011. Companies that adopt PB GAAP but that may later move to IFRS should make accounting policy choices within PB GAAP that will minimize the changes on the ultimate transition to IFRS.

If you have any questions or issues you would like to discuss, please contact a member of your KPMG engagement team or one of our IFRS professionals.

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