

Invitation to Comment

Accounting Standards in Canada: Future Directions

prepared by:
Accounting Standards Board

Comments are requested by September 15, 2004

AcSB

Responding to this Invitation to Comment

This Invitation to Comment is issued by the Accounting Standards Board. The Board is composed of persons knowledgeable in the preparation and use of financial statements with backgrounds in business, public practice and academe. All members serve as individuals and not as representatives of their employers or organizations.

Individuals and organizations are invited to send written comments to the Board. Comments are most helpful if they clearly explain the issues they raise and suggest a specific course of action supported by specific reasoning. All comments received will be available on a public file within one week of receipt.

To be considered, comments must be received by September 15, 2004, addressed to:

**Ron Salole
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2**

**For ease of handling, we prefer comments to be sent by e-mail (in Word format), to:
ed.accounting@cica.ca**

ACCOUNTING STANDARDS IN CANADA: FUTURE DIRECTIONS INVITATION TO COMMENT

The Accounting Standards Board is developing a five-year plan for the period 2005-2010.¹ With the advice of the Accounting Standards Oversight Council (AcSOC), the Board has decided to seek public input concerning the strategic directions guiding its current actions before developing a new plan.

This Invitation to Comment solicits input concerning the future strategy of the Board. The Board seeks broad-based input from users, preparers and auditors of financial statements, regulators and all other interested members of the public. Comments will assist the Board, in consultation with the AcSOC, in deciding where to focus its attention and resources, and will affect the determination of specific project priorities. Comments are requested primarily on issues of general policy and approach. The Board does not seek comments at this stage on specific topics that should or should not be the subject of its attention, although respondents may find it helpful to refer to specific projects as examples to support their views on strategic issues.

Summary of key issues

The Board is interested in any input on its direction and strategy but, as indicated in the accompanying discussion paper, it particularly wishes to test some of the directions set out in the 1998 Final Report of the CICA Task Force on Standard Setting and the Board's current Terms of Reference. Four key issues, which need to be addressed sequentially, are whether Canada should:

- maintain its own standard-setting capability;
- maintain its own GAAP or adopt either US GAAP or International Financial Reporting Standards (IFRS), the standards of the International Accounting Standards Board (IASB);

¹ The Board's current plan for 2003-2005, including the strategic directions and policies, will remain in effect until replaced by the plan for 2005-2010.

- maintain the current strategy of working to support the international convergence of accounting standards while harmonizing with US GAAP; and
- consider modifying current GAAP requirements to provide better information to the users of financial statements of various different types of entities through, for example, a wider application of differential reporting.

The Board has concluded that it will be unable to develop a strategic plan without first reconsidering its mission and objectives in light of responses to this Invitation to Comment. Canadian financial accounting could take any one of a number of different directions, each of which could entail quite different resource requirements and timeframes for implementation. The possibilities include the following (no significance should be attached to their order of presentation):

Scenario	Effect on standard setting	Timing	Implications
Continue with status quo.	Maintain current standard-setting arrangements.	It should be clear by 2007 whether IFRS will be accepted by major capital markets, including the US.	Transition to US GAAP or IFRS begins in 2008-09. Need to address status of detailed US rules.
Adopt US GAAP for all entities.	Disband or significantly curtail current standard-setting arrangements.	Implementation depends on when financial statement preparers, auditors and users have adequate resources.	Need to retrain/educate all stakeholder groups.
Adopt IFRS for all entities.	Disband or significantly curtail current standard-setting arrangements.	Implementation depends on when financial statement preparers, auditors and users have adequate resources. IASB needs support of national standard setters, including Canada's, for a few more years.	Need to retrain/educate all stakeholder groups. Transition to IFRS begins in 2008.
Abandon harmonization with US standards. Develop standards that better reflect Canadian circumstances.	Maintain full-fledged standard-setting function in Canada.	Could begin immediately.	Avoids difficulties and confusion arising in practice from increasing similarity of Canadian and US standards.
Abandon the field. Allow the marketplace to determine reporting practices.	Disband or significantly curtail current standard-setting arrangements.	Could begin immediately.	Requires private negotiation of reporting requirements for each entity.

The Board recognizes that, under certain of these scenarios, its strategic plan would need to provide for a reasonable transition to globally converged standards.

If the Board is to continue developing Canadian GAAP (which assumes decisions on the first two of the four key issues listed above), then it will need the public's views on the following questions:

1. Should convergence with highest-quality, globally accepted standards and harmonization with US GAAP² each continue to be objectives for financial reporting in Canada? If so, should these objectives apply in all circumstances or only to standards for certain types of entity, and how should they be applied?
2. Should differential reporting be extended to public companies, so that some public companies would be subject to different standards than others (companies might be differentiated on the basis of size, participation in international capital markets or some other characteristic)? In general terms and within the context of the Board's objective of developing high-quality standards consistent with its conceptual framework, how might standards for different types of entity differ? How could this approach be justified relative to an objective of harmonizing with US GAAP or global convergence?

Underlying these two sets of questions is a complex web of issues and environmental factors. In responding to these questions and commenting on other issues, commentators are asked to specify additional information or research that may be required in order for the Board to make informed decisions on its future direction and strategy.

After developing its draft strategic plan, the Board will need to review its structure, processes and resources relative to the strategic direction it proposes to take. Respondents proposing substantial changes to the Board's current mandate or strategic direction are asked to comment on the effect such changes may have on the current structure, processes and resources.

² For purposes of its current plan, the Board has defined harmonization with US GAAP to be the elimination of any conflicts with US GAAP requirements but not necessarily the adoption of US standards. However, the term is sometimes given other meanings.

Process and timing for the Board's planning process

On the basis of this Invitation to Comment, the Board intends to obtain input through response letters and a series of direct consultations with interested parties over the period June-September 2004. After analyzing the input, the Board will develop a draft strategic plan to be discussed with the AcSOC and exposed for public comment. The Board expects to approve its new strategic plan and related work program in mid-2005.

Unlike some documents seeking input from the public on policy issues, this Invitation to Comment does not propose a single strategy with a request for views on that proposal. Rather, it solicits input on strategic issues to make sure that the Board has all relevant information on hand before it begins to make any policy decisions. The Board will assess policy directions proposed by respondents on the basis of their clarity, completeness, internal consistency, and compatibility with environmental factors and the objectives of financial reporting.

To assist readers, the Board has developed the accompanying Discussion Paper. The Discussion Paper highlights key aspects of the environment in which the Board operates and different strategies it might adopt, including arguments for and against each and their possible consequences.³ The Discussion Paper summarizes factors that the Board is currently aware of as a stimulus for discussion; it is not intended to limit responses. The Board is interested in learning whether readers have additional factors to bring to its attention or further insights into the factors discussed in the paper, as well as proposals for specific strategic directions.

³ The Board has also developed or obtained additional background information on certain matters that it believes may be relevant. This additional information is referenced from the discussion paper.