

# Changes to Canadian GAAP

## How private companies are impacted

Canadian companies which are considered to be “non-publicly accountable enterprises” as defined in the CICA Handbook<sup>1</sup> (“Private Companies”) currently have the option to either follow the complete set of accounting standards in the CICA Handbook or to elect certain differential reporting options and prepare their financial statements under differential reporting.

Significant changes are about to be made to Canadian Generally Accepted Accounting Principles (“GAAP”) for Private Companies and decisions will need to be made to determine which of the two new financial reporting frameworks your company will choose to follow.

Specifically, each Private Company will need to assess the needs of its key stakeholders such as shareholders and lenders to determine their financial reporting expectations and requirements. Each Private Company, including Not-for-Profit Organizations<sup>ii</sup>, will either have to follow the new Canadian GAAP standards that are being drafted specifically for Private Companies (“Private Enterprise GAAP”) or they will have to elect to adopt International Financial Reporting Standards once fully adopted as Canadian GAAP (“Publicly Accountable Enterprise GAAP (IFRS)”). Unfortunately, status quo with existing Canadian GAAP will not be an option in the long term for Private Companies as the existing Canadian Handbook is expected to cease to exist after 2011. CEOs consistently told us they are worried about these five “pain points”:

### Private Enterprise GAAP

The Canadian Accounting Standards Board (AcSB) established the following approach for developing the new “made in Canada” standards for Private Companies:

- the existing CICA Handbook – Accounting will be used as a starting point
- the majority of the recognition and measurement standards in the existing Handbook, other than those that give rise to significant issues, are relevant to the sector and will be retained with few, if any, modifications

- issues in the existing Handbook that have caused significant concern to private enterprises will be reconsidered, based on cost/benefit considerations
- the specific disclosure requirements will be re-evaluated and are expected to have considerably fewer disclosures than in the existing Handbook
- reducing the volume of material will be a secondary goal.

As it works through the issues, the AcSB has been posting the working drafts of the proposed standards on its website. However, the AcSB has not yet released the working drafts for many of the more challenging standards, but has said that it expects to set out simpler approaches for areas such as financial instruments (measurement, hedging), individual pension plans, future income taxes and consolidations. Many of the differential (simplified) options currently available for private enterprises will be retained: in some cases they may be set out as the required approach, rather than as options.

As we issue this alert, the AcSB expects to issue its exposure draft of the entire set of proposed standards by the end of March 2009. It then plans to make the final versions of the new standards available by late 2009, so that private enterprises could choose to adopt them for December 31, 2009 year-ends. The AcSB tentatively plans that the new standards will supersede the existing Handbook by 2011. Therefore, Private Companies will be required to transition to Private Enterprise GAAP or Publicly Accountable Enterprise GAAP (IFRS) no later than fiscal 2011.

### Publicly Accountable Enterprise GAAP (IFRS)

Private enterprises, of course, must also think through their short and long term reporting needs in determining which new GAAP framework they should choose to follow. Private Companies thinking about going public in the foreseeable future, for example, will want to understand all the implications of that decision, and may choose to adopt Publicly Accountable Enterprise GAAP (IFRS) as part of that process. Others may go down this road to preserve or enhance their relationship with foreign investors who also follow IFRS, major lenders or other key users, or as part of planning for expansion, or planning an exit strategy.

The AcSB has previously announced that publicly accountable enterprises will be required to adopt the new Publicly Accountable Enterprise GAAP (IFRS) standards for fiscal years commencing on or after January 1, 2011 but early adoption will likely be permitted as soon as the IFRS standards are fully incorporated into Canadian Handbook – expected in the second half of 2009. Although the final standards have not been issued in Canada, they will be identical to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

While publicly accountable enterprises will be required to adopt this framework, Private Companies, including Not-for-Profit Organizations, will be permitted but not required to adopt this framework.

It is important to note that there are no differential reporting options in Publicly Accountable Enterprise GAAP (IFRS) so any Private Company who chooses to prepare their financial statements in accordance with this framework will be required to fully comply with all standards without exception, including the disclosure requirements which are more extensive than current Canadian GAAP.

Deloitte is taking a very active interest in this project. We are committed to helping private enterprises, as a vitally important sector, find the right balance: a cost-effective framework for reporting on financial performance, reflecting the real economic issues, and providing useful information for users, without straying into excessive complexity.

As part of this, we believe many private enterprises would be well advised to tune in to the project and to start thinking, if only at a high level, about what its impact might be. The impact may consist primarily of opportunities – for example, to address some long-standing pain points, to clear up systems-related issues, or to refocus key messaging. As always, Deloitte is ready to help our clients in all aspects of this.

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<sup>i</sup> Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1300.02 which will be amended once the CICA finalizes the Omnibus Exposure Draft “Adopting IFRSs in Canada”, expected in mid-2009

<sup>ii</sup> Subject to the outcome of the Invitation to Comment, “Financial Reporting by Not-for-Profit Organizations” issued on December 23, 2008.