

IFRS Advisory Committee

Report on Public Meeting
August 16, 2006

CHAIRPERSON::	Ian Hague	
ATTENDEES:	<i>Voting</i>	<i>Non Voting</i>
	A. CAPISCIOLTO	B. BARRINGTON
	C. GRINDLEY	J. CARCHRAE
	R. HUSSEY	P. CHERRY
	S. LEGER	P. MARTIN
	I. MACINNIS	P. O'MALLEY
	K. PARSONS	
	E. SPIEKMAN	
	P. WALTERS	
	S. WOO	
	M. CHARBONNEAU (FOR J. SALOMAN)	
Regrets:	<i>Voting</i>	
	K. BROOKS	
	M. PAHAPILL	
Secretary:	K. McCardle	

The initial meeting of the IFRS Advisory Committee (IAC) was held in Toronto on August 16, 2006. The meeting was held in public, as future meetings of the Committee will be.

In his opening remarks, IAC Chair Ian Hague commented on the supporting role that the IAC would play for the Accounting Standards Board (AcSB) in converging Canadian GAAP for publicly accountable enterprises (PAEs) with International Financial Reporting Standards (IFRSs) and ensuring effective implementation by Canadian enterprises.

The Chair and AcSB staff provided an overview of the AcSB's current strategy for PAEs. The Committee noted recent developments in the implementation of IFRSs, including a recent meeting of AcSB representatives with the Chair and senior staff of the International Accounting Standards Board (IASB) to discuss Canada's plans for converging with IFRSs and seek insight from their experience.

Implementation Plan

The IAC discussed the AcSB's recently published "Implementation Plan for Incorporating IFRSs into Canadian GAAP," to ensure members were familiar with the issues discussed in that document. Committee members provided preliminary comments on planning matters related to the IAC's role as identified in the document. Discussions covered the following topics:

PAE Definition

The AcSB has agreed that its IFRS convergence strategy will apply to PAEs, but the boundaries of that definition have not yet been confirmed. The AcSB does not intend to preclude anyone else from reporting under IFRSs. It was noted that some non-public companies provide information to regulators for purposes such as assessment of capital requirements, and that the relevant regulators will need to consider whether such enterprises should comply with IFRSs regardless of whether they meet whatever definition of a PAE is adopted by the AcSB. IAC members suggested that the term "publicly accountable enterprise" should be defined in a manner consistent with the plain meaning of the words.

Committee members noted that a size test to determine whether an enterprise qualified as a PAE was discussed in the early stage of developing the AcSB's strategy, but past research had concluded that size should not be a factor due to the arbitrary nature of size cut-offs. Tricia O'Malley, a member of the IASB, noted that the IASB considered a size test for the application of its forthcoming standard on small and medium-sized enterprises, but concluded that this was a public policy issue for individual jurisdictions and not an issue for the IASB. She noted that what matters to the IASB is whether the financial statements are prepared in accordance with IFRSs in full, not whether an enterprise applying IFRSs is a PAE or any other type of an entity.

Regulatory Issues

The IAC noted that AcSB representatives have discussed the IFRS convergence strategy for PAEs with various regulators, and that the AcSB believes the regulators support the strategy.

Disclosure

The IAC discussed the AcSB's intention to require enterprises to disclose as early as 2008 their assessment of the effects of adopting IFRSs. In response to a question about whether this timing would make it difficult for many enterprises to be ready in time, AcSB staff explained that a disclosure requirement had been imposed in other jurisdictions with positive results: it appeared to encourage early preparation and precondition the markets to accept the changeover. The Committee noted that requiring early disclosure of the impact of adopting IFRSs would be similar to existing requirements for publicly traded companies under Canadian Securities Administrators (CSA) rules and regulations for MD&A to include a discussion of the impact of new accounting standards not yet adopted. It was noted that for reporting issuers, this is an

area in which appropriate disclosure requirements will need to be established together with the CSA. However, the AcSB will need to consider what is necessary for non-reporting issuers. The AcSB will co-ordinate with the CSA to avoid any duplication or inconsistency of requirements.

The Implementation Plan discusses the current CSA rules permitting Canadian enterprises registered with the US Securities and Exchange Commission (SEC) to file their financial statements in accordance with US GAAP. A Committee member questioned whether a non-SEC registrant could file in accordance with US GAAP. AcSB staff commented that such choices are provided by regulators and legislators, not the AcSB. In addition, if the capital markets are moving to global standards, then regulators might not apply the same reasoning today that they utilized when deciding to allow the US GAAP option for SEC registrants.

Progress Review

Some Committee members questioned why the progress review would consider “the ability of the IASB to continue to develop high-quality standards, including the functioning of its partnership with the [US Financial Accounting Standards Board (FASB)]” (see paragraph 7(b) of the Implementation Plan). This statement, and some other references in the Implementation Plan, left some IAC members with the impression that there might still be uncertainty as to whether the AcSB would proceed with the Strategic Plan. The AcSB’s intentions in this regard were clarified — the AcSB was emphasizing the importance of the FASB in the relationship and not indicating that there was uncertainty about converging with IFRSs. The progress review will assess whether affected parties are ready.

Convergence Experience

The IAC discussed the experience of Australia and the European Union (EU) in adopting IFRSs, relative to the AcSB’s plan. Questions were raised as to the quality of the financial statements produced in the first year of IFRS convergence, particularly in view of the shorter transitional periods provided in Australia and the EU. The consensus was that it is too early to assess the quality of implementation of IFRSs in Australia and the EU, as much of the analysis is just starting.

The IAC noted that the International Organization of Securities Commissions (IOSCO) and the Committee of European Securities Regulators (CESR) are both developing databases to enable their members to share their decisions on IFRS implementation issues, which should promote greater consistency in regulatory decision making. IOSCO also intends to review, on a regular basis, fact patterns entered in the database to identify areas of potential difficulty in interpretation that may be appropriate for referral to either the International Financial Reporting Interpretations Committee (IFRIC) or the IASB itself for clarification.

Convergence Experience: Education

An IAC member felt that the Implementation Plan overstated the availability of educational products from other jurisdictions that had already converted to IFRS. Another member's experience in adapting to IFRSs from Canadian GAAP was that a number of similarities exist between the two systems at a high level, but that there are more differences at a more detailed level. Several members who had worked in consulting on IFRSs agreed that differences may also arise from the interpretations by practitioners in applying IFRSs. .

Magnitude of Change

Some IAC members questioned the description of the classification "converged" in the high-level comparison of IFRSs to Canadian GAAP. Their opinion was that at a detailed level, some of the standards do not appear to be "converged". AcSB staff noted that the comparison is meant as a guide to encourage constituents to review their enterprises' specific issues by reference to the detail of IFRSs.

The Committee also noted that Canada will need to decide how to address certain existing standards, such as those for life insurance enterprises, for which there is unlikely to be a substantive counterpart in IFRSs at the projected changeover date.

How the IASB Works

Staff reviewed the main elements of the structure of the IASB, and the Committee discussed several aspects of the IASB's operations and their relevance to the advisory role of the IAC. Pat Walters, until recently a member of the IFRIC, provided insight into the responsibilities, influences and limitations of that Committee. John Carchrae, a member of the Standards Advisory Council (SAC), provided insight into how that group contributes to the IASB's operations.

The IAC noted that it usually takes three meetings for the IFRIC to issue a final Interpretation (IFRIC meets a maximum of six times a year). Members discussed whether national standard setters would be willing to wait for interpretations from IFRIC, in view of the time necessary for due process, and whether this could be an issue for how well global standards worked. A member observed that co-operation between IFRIC and the FASB's Emerging Issues Task Force (EITF) appears to be improving, which should enhance the consistency of interpretations coming from these two organizations. Ian Hague explained that the AcSB, through the EIC, monitors IFRIC activity and that AcSB staff respond to IFRIC drafts issued for comment. It was noted that during the transitional period, the IAC may be able to lend the expertise of its members to assist the EIC. It was also noted that the IAC might identify issues with IFRSs that require referral to IFRIC.

IASB Work Plan

The Committee discussed the IASB work plan. Tricia O'Malley highlighted the Memorandum of Understanding between the IASB and FASB, and its influence on the IASB's work plan and, accordingly, the AcSB's activities. She pointed out that the SEC had recently agreed that it would not require the IASB and FASB to have identical standards in order to consider modifying the current reconciliation requirement. Agreement on the main principles would be required so that financial reporting generally results in consistent trends.

IAC Terms of Reference

The IAC discussed some of the responsibilities it anticipated taking on. Ian Hague introduced the detailed "Comparison of IFRSs to Canadian GAAP" prepared by AcSB staff, and asked the Committee to consider how it could contribute to the maintenance, regular updating and publication of this document. The members discussed the logistics of reviewing the entire document and voting on its contents versus reviewing individual sections of the document as updated by AcSB staff, and providing them with advice and assistance. The latter option would leave the authority for publication with the AcSB staff.

Members expressed concern that if the IAC had the authority to publish the document, it might mislead constituents in applying the GAAP hierarchy in Section 1100, *Generally Accepted Accounting Principles*. The comparison document is only meant as a guide on a best efforts basis, not as part of the GAAP hierarchy. Members also cautioned against inadvertently interpreting IFRSs. Ian Hague explained that the original comparison did try to avoid interpretation but he hoped that the broad range of IAC members' experience would help to improve the comparison going forward. It was suggested that the comparison document make reference to IFRS Basis for Conclusions documents wherever possible, as that material provides the reasoning behind the standards and is very helpful. Members discussed whether there should be a mechanism to receive comments from constituents on the detailed comparison, similar to the approach taken with the Implementation Plan. The IAC agreed that it should participate in the detailed comparison but the basis of that involvement should be finalized as the Committee proceeds with the project.

The second responsibility discussed by the IAC was its involvement in responding to documents issued for comment by the IASB. Members questioned whether their own perspectives should be presented or whether Canadian constituents would be canvassed for their views. Tricia O'Malley noted that it is very helpful for the IASB to receive responses directly from constituents and not summarized versions of the constituents' comments compiled by the national standard setter. The IASB benefits from receiving separate responses from the points of view of standard setters and constituents. It was noted that Canadian constituents subscribing to the AcSB website would receive

notification of the issue of IASB documents for comment. IAC members considered the implications of various viewpoints being brought to its discussions and how differences would be resolved. Ian Hague clarified that the IAC is to provide advice to the AcSB; therefore a consensus within the Committee is not required.

The Committee decided not to reach conclusions on its Terms of Reference until it had been operating for some time and had a better sense of the work involved.

The public portion of the meeting concluded at this point. The remainder of the meeting dealt with administrative issues such as future meeting dates, contact information and a demonstration of software for distributing meeting materials to members.

Future meeting dates:

November 3, 2006

December 18, 2006

May 3, 2007

June 28, 2007