

Adoption of International Financial Reporting Standards

CICA Handbook
– Accounting,
Part I

*Background Information
and Basis for Conclusions*

FOREWORD

In January 2010, the Accounting Standards Board (AcSB) released Part I of the CICA Handbook – Accounting, which consists of International Financial Reporting Standards (IFRSs). The AcSB has approved for publication the contents of this document setting out its rationale and process for adopting those standards.

This document is intended to help readers understand how the AcSB reached its conclusions in adopting IFRSs, but it does not include explanations of requirements or guidance on the application of IFRSs.

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INTRODUCTION

- 1 This document summarizes considerations that were deemed significant by members of the Accounting Standards Board (AcSB) in reaching its conclusions about the use of International Financial Reporting Standards (IFRSs) in Canada. It sets out the AcSB's rationale for requiring the use of IFRSs by publicly accountable enterprises and permitting their use by other reporting entities, the process by which IFRSs were added to the CICA Handbook – Accounting, the key decisions made, and the principal reasons for adopting the positions taken and rejecting others. Individual AcSB members gave greater weight to some factors than to others.
- 2 Nothing in this document is to be taken as overriding the requirements of the Handbook. However, the discussion may help readers to understand how the AcSB reached its conclusions in adopting IFRSs, and the AcSB's intent with respect to their interpretation and application.
- 3 Factors and considerations summarized in this document are explained more fully in strategic planning documents previously issued by the AcSB. Most notably, these include the AcSB's May 2004 Invitation to Comment, "Accounting Standards in Canada: Future Directions" and related Discussion Paper, its March 2005 Invitation to Comment, "Accounting Standards in Canada: Future Directions – Draft Strategic Plan," and its final strategic plan for 2006-2011, "Accounting Standards in Canada: New Directions – Strategic Plan," issued in January 2006.

BACKGROUND

The previous strategy

- 4 In 2004, the AcSB began a process to develop a five-year strategic plan for the period 2006-2011. At the time, the AcSB had a dual strategy of harmonizing with US generally accepted accounting principles (GAAP) while working to support the international convergence of accounting standards. This strategy resulted largely from the recommendations of a task force established by the Canadian Institute of Chartered Accountants in 1996 to review accounting standard-setting activities in Canada. Among other things, the Task Force on Standard Setting was asked to examine the issue of the globalization of business (i.e., how to eliminate differences in accounting and auditing standards that impede international business activity and the flow of capital). In addressing its mandate, the Task Force undertook extensive stakeholder consultations including interviews, a request for comments, an open hearing and meetings with standard-setting boards in other countries.
- 5 In the area of accounting standards, the Task Force envisioned a long-term goal of one set of internationally accepted standards. To this end, the Task Force's final report, issued in August 1998, recommended the twin objectives identified in paragraph 4. In recommending these objectives, the Task Force showed considerable foresight in anticipating both the emergence of a global standard setter and the nature of changes to the International Accounting Standards Committee¹ that would be necessary to permit that development.
- 6 Given the steady but slow evolution of international accounting standards, and the United States' continuing commitment to the improvement and harmonization of accounting standards worldwide, harmonizing Canadian standards with US standards was seen as a necessary interim step

¹ The International Accounting Standards Committee is the predecessor body of the International Accounting Standards Board (IASB).

toward achieving a single set of globally accepted accounting standards. Harmonization with US GAAP was construed by the AcSB to mean the elimination of significant unjustifiable differences with US standards but not the copying of all elements of US GAAP or even all elements of a particular US standard.

- 7 The second objective (i.e., working to support the international convergence of accounting standards) meant the adoption of the highest quality of US and international standards by working with the US Financial Accounting Standards Board (FASB), the International Accounting Standards Committee and other standard setters to agree on improvements to existing standards and the development of new standards. Such increasing involvement globally was intended to reaffirm Canada's position as a significant participant in the development of international standards.

Need for a new strategy

- 8 In 2004, the AcSB concluded that it was timely to reconsider its current strategy in light of the following significant developments in the financial reporting environment:
 - (a) An increasing stratification of the universe of Canadian reporting entities by type and size.
 - (b) Questions about whether Canadian accounting standards were meeting the financial reporting needs of all categories of reporting entity, even with the introduction of differential reporting for qualifying non-publicly accountable enterprises.
 - (c) The increasing extent of harmonization of Canadian GAAP and US GAAP, and the difficulties created for Canadian financial statement preparers and auditors by such harmonization, including the unintended importation of certain aspects of US GAAP. These difficulties were exacerbated by confusion about what "harmonization" means. Consistent with the view described in paragraph 6, the AcSB, in many cases, avoided importing all of the detailed rules of US standards with which it was harmonizing. Still, some stakeholders insisted that "harmonized with" should mean "the same as" US GAAP and that entities must apply the more detailed US rules associated with a harmonized standard in order to comply with Canadian GAAP. The AcSB had not intended this outcome.
 - (d) Changes in the standard-setting climate as a result of recent financial reporting failures internationally, including greater emphasis on principles-based standards and more concern with the extent of rules-based requirements in US GAAP.
 - (e) Legal changes adopted or proposed permitting particular public companies to adopt US GAAP for some Canadian financial reporting purposes (see paragraph 13).
 - (f) The increasing trend to global convergence of accounting standards and the emergence of IFRSs as a viable basis for achieving convergence. Perhaps most significantly, the European Union, Australia, New Zealand and other countries had recently decided to adopt IFRSs for all public companies and, in some cases, all private companies as well.
- 9 The AcSB decided to seek public input on the strategic directions guiding its current actions before developing a new strategic plan. In May 2004, it issued an Invitation to Comment, "Accounting Standards in Canada: Future Directions," setting out four key issues requiring resolution. Those issues were whether Canada should:
 - (a) maintain its own standard-setting capability;
 - (b) maintain its own GAAP or adopt either US GAAP (as interpreted and enforced by the US Securities and Exchange Commission (SEC) – see paragraphs 31-32) or IFRSs;
 - (c) continue with the twin objectives of harmonization and convergence, either as described in paragraphs 4-7 or in some modified form; and

- (d) consider modifying current Canadian 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 2004 Invitation to Comment identified several possible scenarios and the more significant potential effects of each.

- 10 Responses received on the 2004 Invitation to Comment expressed a wide range of views on these issues. Commentators understood the need to reconsider the AcSB's existing strategy and most favoured change. The responses also confirmed the existence and significance of the stratification mentioned in paragraph 8(a).
- 11 It was evident from the comments received that many Canadians retained some attachment to the idea of a single set of GAAP able to accommodate all reporting entities at a high level, but also providing for some differentiation of requirements for the various sectors. A number of respondents suggested that Canadian standards be restructured into a "core GAAP" that would apply to all reporting entities and "enhanced GAAP" requirements that could be layered onto the core requirements to satisfy the additional needs of public companies. Based on the views expressed, the AcSB concluded that it was not realistic to expect that the concerns of those who were dissatisfied with the differential reporting model in place at the time could be addressed within the constraints of such an approach.
- 12 The AcSB was also aware of the views of some that two or more sets of accounting standards should not coexist within a single jurisdiction. Proponents of this view were concerned about a lack of comparability among reporting entities and the burden placed on financial statement users, preparers and auditors of having to be familiar with more than one set of standards.
- 13 The AcSB concluded that, beyond a certain degree of comparability, the primary concern of financial statement users is that they receive information that is relevant and reliable for their purposes. Also, the AcSB observed that, to a limited extent, different sets of standards had been in use in Canada for some time without any indication that significant difficulties had resulted. For example, some Canadian public companies had adopted US GAAP as the primary basis of financial reporting to their investors and creditors as a result of SEC requirements and a policy of the Canadian Securities Administrators. The latter had recently issued National Instrument 52-107, "Acceptable Accounting Principles, Auditing Standards and Reporting Currency," which permitted publicly accountable enterprises that had issued securities registered under US securities laws to use US GAAP in place of Canadian GAAP in satisfying the requirements of provincial securities laws for reporting to investors, subject to certain conditions. Under the same regulation, foreign reporting issuers that were not also registered under US securities laws were permitted to use IFRSs. In addition, some Canadian subsidiaries of foreign parents reported to their parent using IFRSs when this was the parent's basis of accounting, and may have also used the same information for reporting to creditors and others.
- 14 Based on these factors, the AcSB's experience in setting standards and the views expressed by stakeholders, the AcSB concluded that it was no longer appropriate to assume that it could continue to address the needs and concerns of all stakeholders in the Canadian financial reporting system through a single set of standards. This held true even with the variations on a single set of standards that had been tried or proposed to satisfy the differing needs of the different sectors. Having

reached this conclusion, the AcSB undertook the development of separate strategies for each of the distinct categories of reporting entity (i.e., publicly accountable enterprises, private enterprises and not-for-profit organizations). These strategies would reflect the different needs of users and cost-benefit considerations for each category resulting from the different transactions that entities in each category undertake and the different circumstances they encounter.

- 15 The AcSB undertook this activity only after an extensive program of consultation with interested parties. In addition to inviting written comments on the issues discussed in its 2004 Invitation to Comment and, later, the proposals in its March 2005 Draft Strategic Plan (see paragraphs 35-36), the AcSB held public roundtables throughout the strategic planning period to familiarize stakeholders with the issues and solicit oral comments. Representatives of the AcSB also met privately with certain key stakeholder groups including the AcSB's User Advisory Council. The input received reflected views from financial statement users, preparers and auditors, as well as from academe and regulators. All of this input was discussed with the Accounting Standards Oversight Council (AcSOC), in public sessions.
- 16 Stakeholders generally supported the AcSB's proposal to develop separate strategies for the different categories of reporting entity. Concerns expressed by respondents on this point were considered manageable. The AcSB intended that all standards for all categories of reporting entity would be based on the same conceptual framework, and would differ only when justified by the needs and cost-benefit considerations of the different categories. Clear definitions could be developed to delineate each category of reporting entity. The AcSB would formulate ways of carrying out its strategies without undue stress, in part by allowing a reasonable period of time to make necessary infrastructure changes such as modifications to regulations, contracts and educational programs.
- 17 The remainder of this document describes the evolution and implementation of the strategy for publicly accountable enterprises, including the incorporation of IFRSs into Part I of the Handbook. It also describes how the AcSB decided the applicability of IFRSs to other categories of reporting entity.
- 18 AcSOC serves the public interest by overseeing and providing input to the AcSB's activities, primarily in terms of its strategic direction and priorities. The Council played an integral part in the formulation and execution of the strategy for publicly accountable enterprises. The AcSB sought the Council's concurrence on all aspects of the strategy, and reported regularly on progress being made in its implementation. More detailed information on AcSOC's involvement with the strategy is provided throughout this document.

THE 2006-2011 STRATEGIC PLAN

Canadian GAAP as a separate and distinct basis of accounting

- 19 The first step in developing a new strategy for publicly accountable enterprises was to decide whether Canadian GAAP should continue as a separate and distinct basis of accounting for this sector, or be replaced by either US GAAP or IFRSs. It was generally accepted that these three options were the only viable alternatives.

- 20 When deciding on this issue, the AcSB considered the views of respondents to its 2004 Invitation to Comment. Some respondents favoured the continuation of a separate and distinct Canadian GAAP. Most public companies operating in domestic capital markets only saw no need to abandon Canadian GAAP, at least in the near term. Financial statement preparers, auditors and users in this market strongly disliked US GAAP and appeared to be more comfortable with something resembling current Canadian GAAP at the time. This perspective was reflective of the nature of this segment. Statistical information obtained by the AcSB when formulating its strategic plan indicated that, for the size of its economy, Canada has a relatively large number of public companies compared with the United States. Many Canadian public companies are very small, due in part to Canada's success in cultivating a junior "venture company" exchange. Such companies would have considered US GAAP too costly to apply. There were also concerns that the infrastructure necessary to support the use of US GAAP did not exist outside Canada's largest cities.
- 21 Other respondents preferring the continuation of a separate Canadian GAAP favoured a change in emphasis in terms of the strategies affecting the development of Canadian accounting standards. Some wished Canadian GAAP to be brought even closer to US GAAP. However, a majority thought international convergence should be the primary goal.
- 22 A number of respondents questioned whether the AcSB would be abdicating its responsibilities if it were to abandon a separate Canadian GAAP. The AcSB notes that its terms of reference focus on serving the public interest by improving the quality of financial reporting by Canadian entities and pursuing the objective of global convergence. The terms of reference do not require the AcSB to maintain a separate Canadian GAAP.
- 23 Comments from a majority of respondents indicated that they were in favour of eliminating a separate Canadian GAAP for the following reasons:
- (a) Experience over many years indicated that there are very few unique Canadian circumstances, making a separate set of Canadian GAAP for publicly accountable enterprises unnecessary.
 - (b) Some thought the continuation of a separate Canadian GAAP hindered the evolution of a single, global set of accounting standards and was inappropriate in an era of globalization of economic activity, especially when Canada's capital markets represent less than three percent of the global capital market.
 - (c) For Canadian public companies in international capital markets, stakeholders generally thought there was no compelling need for a separate Canadian GAAP. Both US GAAP and IFRSs were considered to be appropriate bases for providing useful information to investors and creditors.
 - (d) Elimination of a separate Canadian GAAP would also eliminate, or at least reduce the number of, items needed to reconcile to financial statements prepared in accordance with another set of accounting standards when meeting the requirements of securities regulators outside Canada (see paragraph 43).
 - (e) The AcSB's existing strategy meant that Canadian GAAP was being influenced increasingly by US GAAP and IFRSs. Some considered the changes being made to "Canadianize" the FASB or IASB standards (i.e., to conform them to the Handbook) to be a wasteful use of standard-setting resources. In addition, such changes often led to questions about whether the AcSB intended some difference between the original FASB or IASB standard and the harmonized Canadian equivalent.

24 After considering all of these factors, in early 2005, the AcSB decided that existing Canadian GAAP should no longer continue as a separate and distinct basis of accounting for publicly accountable enterprises. The AcSB then needed to choose between US GAAP or IFRSs as the appropriate basis of reporting for this sector.

US GAAP or IFRSs?

25 When deciding on the appropriate replacement for existing Canadian GAAP, the AcSB considered the views of those advocating the adoption of US GAAP and others favouring the adoption of IFRSs.

26 Proponents of US GAAP as a replacement pointed out the close links between the Canadian and US economies, in particular the capital markets, and the general similarity of Canadian and US GAAP. Some considered US GAAP to be more developed and, consequently, to provide better financial reporting than Canadian GAAP or IFRSs.

27 Proponents of US GAAP also pointed out that a limited number of Canadian entities had already adopted US GAAP as either a primary or secondary basis for financial reporting (see paragraph 13). As a result, there was growing knowledge of US GAAP in Canada and experience with its application. In contrast, at the time there was very little application of IFRSs in Canada and, accordingly, little knowledge of those standards or experience with them.

28 The majority of respondents to the 2004 Invitation to Comment who favoured moving away from a separate Canadian GAAP preferred IFRSs over US GAAP. Proponents of IFRSs pointed out that, with the increasing trend to global convergence of accounting standards, IFRSs had rapidly gained acceptance as a high-quality set of accounting standards. The IASB had already made improvements to a number of standards inherited from its predecessor and was addressing new topics of significance internationally. The European Union, Australia, New Zealand and a number of other countries had recently decided to adopt IFRSs for all public companies and, in some cases, all private companies as well.

29 Some respondents considered IFRSs closer in character to current Canadian GAAP. Both were principles-based and the conceptual frameworks underlying them were essentially the same. As a result, they often reached the same or similar conclusions. Both were also relatively unencumbered by the arbitrary exemptions, special treatments and other rules sometimes found in US GAAP. Many with this view thought it important for Canada to commit to IFRSs relatively soon in order to maintain its influence in the future evolution of IFRSs and, in particular, avoid the incorporation of excessive rules as found in US GAAP.

30 The AcSB observed that more Canadian than US publicly accountable enterprises have a small market capitalization (see paragraph 20), and were less willing to accept the expense and effort of applying detailed and extensive US GAAP. They preferred broad principles within which a company could determine how best to present its financial position and results of operations in a way that meets the needs of its shareholders and lenders.

31 The AcSB also noted the different nature and purpose of IFRSs compared with US GAAP. The IASB has a global mandate and its structure, due process and composition have been designed with a global perspective. However, US GAAP is not just the standards of the FASB. It is also whatever the US Securities and Exchange Commission (SEC) requires, including a number of rules that are set

directly by that organization, and can be costly to monitor and satisfy. The FASB and the Commission are responsible for serving the public interest of the US capital markets only.

- 32 Further, concerns about the extent of rules-based requirements in US GAAP brought about by recent financial scandals had resulted in changes to the US system. These changes increased the active role of the SEC and the potential for regulatory interference in standard setting. In addition, members of the US Congress had previously attempted to interfere in financial reporting issues from time to time. Such interventions were regarded as not necessarily in the general public interest. The AcSB agreed with the general view of stakeholders that the US system was unlikely to be responsive to the issues and concerns of Canadian companies and Canadian investors, and that the IASB offered a more receptive forum for Canadian input and influence.
- 33 Another significant factor for Canada in deciding between US GAAP and IFRSs was the existence of “legacy” issues. These were issues that had not been addressed after the IASB, the FASB and other national standard setters began working together on significant projects in order to achieve global convergence. Hence, these issues caused ongoing differences between the various sets of standards. It was likely that significant differences between US GAAP and other sets of standards would persist for some time while the FASB dealt with its large body of legacy issues. The AcSB concluded that selecting US GAAP would be a more difficult and indirect path to the ultimate goal of global convergence than direct adoption of IFRSs. More importantly, in light of recent developments, it made little sense for entities not already familiar with US GAAP to incur the considerable costs necessary to learn and apply it in its entirety. The FASB had indicated a desire to eliminate rule-oriented standards, and, with the Norwalk Agreement of 2002, had engaged with the IASB in a process designed to achieve global convergence of accounting standards. The IASB and the FASB had agreed to align their project agendas and conduct all significant projects jointly. As a result, it was anticipated that all significant new standards created by the IASB and the FASB would be the same, save only for those aspects that need to differ to achieve consistency with each Board’s legacy standards. If Canada imported the detailed rules embedded in US legacy standards by adopting US GAAP instead of IFRSs, it would then be faced with the effects of replacing those standards with higher quality standards as global convergence continues.
- 34 With these factors in mind, the AcSB concluded that IFRSs were the more prudent choice as a replacement for existing Canadian GAAP. The AcSB also decided that publicly accountable enterprises should adopt those standards sooner rather than later. Canadian publicly accountable enterprises were increasingly borrowing, operating and investing globally. IFRSs would provide them with better access to global capital markets and potentially reduce their cost of capital. The AcSB noted that the many similarities between Canadian GAAP and IFRSs would make it easier for publicly accountable enterprises to move to the latter as their new basis of accounting.²

The IFRS strategy

- 35 In March 2005, the AcSB issued an Invitation to Comment on a Draft Strategic Plan, addressing all three categories of reporting entity, that it thought struck an appropriate balance among the competing legitimate needs of its stakeholders and would best serve the public interest. The proposals in the Draft Strategic Plan had previously been discussed with AcSOC at its

² The same applies to other Canadian reporting entities choosing to adopt IFRSs (see “Applicability of IFRSs to Other Reporting Entities”).

February 10-11, 2005 meeting, in a public session. Council members generally agreed with the AcSB's approach.

- 36 For publicly accountable enterprises, the proposal was for the AcSB to direct its efforts primarily to participating in the movement toward the global convergence of accounting standards. In order to achieve the objective of a single set of globally accepted, high-quality accounting standards, Canadian GAAP would be converged with IFRSs over a transitional period expected to last five years. At the end of the transitional period, entities would be required to adopt the full body of IFRSs then in existence as a replacement for the Canadian accounting standards in use up until that time. A separate and distinct Canadian GAAP would cease to exist as a basis of financial reporting for publicly accountable enterprises.
- 37 The AcSB thought that by providing a reasonable lead time and a clear transition plan, the costs and disruption to affected stakeholders would be minimized. A five-year transition period was considered to provide sufficient time for publicly accountable enterprises to prepare themselves and users of their financial statements for IFRSs. It would also allow other stakeholders, including securities and financial institutions regulators, accounting educators, accountancy bodies and valuation professionals, to make the necessary adjustments to their processes and requirements.
- 38 The AcSB noted that some entities, including publicly accountable enterprises with parent companies already reporting in accordance with IFRSs, might wish to adopt IFRSs in advance of the mandatory changeover date (i.e., the date by which an entity was required to begin reporting in accordance with IFRSs). The AcSB proposed to permit the earlier adoption of the full set of IFRSs, rather than individual standards or interpretations, and included in its plans a process for making the standards available in Canada in a timely fashion in order to make this possible (see paragraph 65(f)). The AcSB noted that, notwithstanding its plans, entities subject to the requirements of regulators such as the Canadian Securities Administrators and the Office of the Superintendent of Financial Institutions would need to abide by the decisions of those regulators concerning earlier adoption.
- 39 The responses to the 2005 Invitation to Comment were generally supportive of the strategic directions proposed by the AcSB. However, some respondents expressed concerns about particular aspects of the Draft Strategic Plan, including the proposed adoption of IFRSs. For example, a number were concerned that smaller publicly accountable enterprises would have difficulty coping with a changeover to IFRSs because they have fewer resources available to deal with the challenges. On this point, the AcSB noted in its final strategic plan for 2006-2011 that the principal issue to be addressed when implementing the plan would be progress in Canada in dealing with IFRS implementation issues. This included efforts by individual affected enterprises to plan and carry out necessary changes, with particular attention to the circumstances of smaller entities. The expectation was that smaller entities would tend to start their preparations for IFRSs later and attempt to benefit from the experiences of those that started earlier. The AcSB observed that smaller entities may have less complex businesses and transactions, which would tend to simplify the changeover. Further, it was expected that additional resources would become available to these entities through Canada's accounting firms and other sources. The AcSB was aware that many smaller entities were served by audit firms other than the "Big Four", and worked with the provincial accountancy bodies and the Canadian Public Accountability Board to make known the details of its IFRS conversion implementation plan (see "The IFRS Convergence Implementation Plan" below). As a result, all affected entities, including smaller publicly accountable enterprises,

could make full use of the time available prior to the changeover date to plan and implement their conversion to IFRSs.

- 40 Another area of concern was the loss of control over Canadian GAAP by the AcSB that would result from a changeover to IFRSs. The AcSB noted that by adopting its existing dual strategy, it had already decided to rely heavily on the decisions of another standard setter (i.e., the FASB) while continuing to participate in the development of new, high-quality standards on topics on the common global standard-setting agenda. The only changes resulting from IFRS convergence would be in the party upon whom the AcSB was placing reliance and the degree of that reliance. As had been the case with the FASB, such reliance would be offset, in part, by the assurance that could be placed on the due process of the IASB. Moreover, the AcSB would retain the authority to decide what should constitute Canadian GAAP (see paragraph 46).
- 41 An issue critical to a number of major Canadian publicly accountable enterprises was whether a changeover to IFRSs would impair their access to US capital markets. The AcSB concluded that there was no need for concern. By the time of the changeover, a significant number of companies from Europe, Australia and other countries would have been providing IFRS-based information to US markets for several years. As a result, US markets would have some degree of familiarity with that type of information. IFRSs and US GAAP would also have converged further by the changeover date. In any case, Canadian enterprises active in US markets have the option of adopting US GAAP instead of IFRSs, as long as securities regulators continue to permit this.
- 42 Some respondents generally in favour of the adoption of IFRSs in Canada thought that any decision to adopt, as well as the timing, should be dependent on corresponding decisions taken by the US. A number of Canadian registrants with the SEC thought that the elimination of the requirement of that securities regulator for foreign registrants to reconcile their financial statements to US GAAP should be a prerequisite for the adoption of IFRSs. Others recommended that Canada wait to adopt IFRSs until the US had done so.
- 43 The AcSB decided that actions taken or not taken in the US regarding IFRSs should not be a necessary condition for proceeding with its strategy. Canada was one of very few developed economies other than the US that had not yet adopted a formal plan to converge with IFRSs. In fact, there was no guarantee that the US would ever do so. The benefits of Canada adopting IFRSs in the timeframe proposed, as summarized in this document and explained more fully in the strategic planning documents referenced in paragraph 3, were considered to outweigh the costs, even without any changes in the United States. In terms of the need for Canadian entities to reconcile their financial statements to US GAAP, the AcSB noted that while adopting US GAAP would be the only sure way of eliminating the effect of this requirement, this would be unacceptable to most Canadian public companies. However, the SEC had been holding out the prospect that it would consider eliminating its current requirement, but only for registrants reporting in accordance with IFRSs.³ Convergence with IFRSs appeared to be the most promising path to eliminating, at the earliest possible time, the need for Canadian registrants with the SEC to provide GAAP reconciliations.

³ The requirement was eliminated, with this condition, in December 2007. The new rules took effect in early March 2008.

- 44 A specific implementation issue raised in the 2005 Invitation to Comment was the question of whether the changeover to IFRSs should be accomplished in a single step or gradually over an extended phase-in period with multiple successive accounting changes. A clear majority of respondents preferred a one-time, single-step changeover. The AcSB had already embarked on standard-setting projects to adopt particular elements of IFRSs or reduce differences between Canadian GAAP and IFRSs. Changes to Canadian GAAP resulting from those projects would come into effect before any wholesale changeover to IFRSs. Therefore, the changeover, whether single-step or gradual, would apply only to those individual IFRSs that had not already been incorporated into Canadian GAAP.
- 45 In January 2006, after considering all the input received from the public and the views of AcSOC,⁴ the AcSB adopted its 2006-2011 Strategic Plan, including the proposals for publicly accountable enterprises described in paragraphs 36-38. It then set about developing an IFRS convergence implementation plan (see “The IFRS Convergence Implementation Plan” below).

IFRSs WITHOUT MODIFICATION

- 46 As the accounting standard setter in Canada, the AcSB decides the composition of Canadian GAAP. Therefore, it has the ability to amend particular aspects of an individual IFRS before approving it for incorporation into the Handbook. However, from the outset, the AcSB stated its intention to bring IFRSs into the Handbook in full and without modification. To do otherwise would result in multiple and possibly conflicting versions of IFRSs globally, if enough other national standard setters did the same. That would defeat the purpose of global convergence, which is to move toward a single set of high-quality accounting standards for use throughout the world.
- 47 Moreover, International Financial Reporting Standard IFRS 1 *First-time Adoption of International Financial Reporting Standards*, which provides transitional guidance and relief for entities adopting IFRSs for the first time, applies only when an entity makes an explicit and unreserved statement of compliance with IFRSs. For this reason, the AcSB believes it is important that Canadian GAAP for publicly accountable enterprises be the same as IFRSs.
- 48 Consistent with the AcSB’s “no tinkering” approach to the adoption of IFRSs in Canada, the AcSB decided that it will generally not issue application or interpretative guidance on those standards. The AcSB also decided that all of its existing Accounting Guidelines and interpretative guidance (i.e., Emerging Issues Committee Abstracts of Issues Discussed) would cease to apply to publicly accountable enterprises at the changeover date. The AcSB established a task force to determine if any issues addressed in the EIC Abstracts should be referred to the IASB’s interpretative committee, the IFRS Interpretations Committee, or be the subject of new guidance issued by the AcSB, because the issue is affected by specific Canadian legal, tax, regulatory or other circumstances that do not apply in other countries and, therefore, are unlikely to be addressed by the IASB.
- 49 The task force completed its review of all then-current EIC Abstracts in May 2008. The AcSB agreed with the conclusion of the task force that formal interpretations of the issues addressed by the EIC Abstracts would not be required for publicly accountable enterprises once IFRSs were adopted in Canada. Accordingly, the AcSB decided to withdraw all EIC Abstracts and not issue new interpretative guidance on those issues. The AcSB also decided the following:

⁴ These views were expressed at the Council meeting of October 27-28, 2005, in a public session.

- (a) Key principles from EIC Abstracts of relevance to Canadian reporting entities not required, or, in some cases, not permitted to adopt IFRSs, would be considered by the AcSB when developing new financial reporting models for those entities (see “Definition of a Publicly Accountable Enterprise” and “Applicability of IFRSs to Other Reporting Entities” below).
- (b) To the extent that issues addressed in particular EIC Abstracts:
 - (i) might be helpful to the AcSB’s review of IASB exposure drafts;
 - (ii) should be considered by the forum planned by the AcSB for the discussion of financial reporting issues arising from the application of IFRSs;
 - (iii) could assist in the advancement of an IASB project; or
 - (iv) relate to areas in which IFRSs currently do not provide guidance and, therefore, should perhaps be brought to the attention of the IFRS Interpretations Committee; the staff of the AcSB would communicate them to the appropriate parties.

DEFINITION OF A PUBLICLY ACCOUNTABLE ENTERPRISE

- 50 A key element of the scope of the AcSB’s IFRS strategy was the definition of a publicly accountable enterprise. That definition distinguishes those entities required to adopt IFRSs under Canadian GAAP.⁵
- 51 The AcSB’s definition for the term “publicly accountable enterprise” was based largely on the corresponding definition proposed by the IASB when developing its *International Financial Reporting Standard for Small and Medium-sized Entities*, and the experiences of the AcSB with non-publicly accountable enterprises when developing and maintaining DIFFERENTIAL REPORTING, Section 1300, in the pre-changeover standards in Part V of the Handbook. The AcSB provided Canadians the opportunity to comment on its proposed definition before approving it for inclusion in the Preface to the CICA Handbook – Accounting (see paragraph 76).
- 52 The definition first proposed by the AcSB was explicit in scoping out public sector entities. However, it went on to explain that the CICA Public Sector Accounting Handbook deemed some such entities to be publicly accountable enterprises for financial reporting purposes and specified that they should adhere to the standards applicable to publicly accountable enterprises in the CICA Handbook – Accounting, unless otherwise directed. Despite the views of some stakeholders that the CICA Handbook – Accounting should address the applicability of IFRSs to public sector entities, the AcSB decided to remove from the definition any mention of those entities. Governments and other entities in the public sector refer to the CICA Public Sector Accounting Handbook, not the CICA Handbook – Accounting, to determine the basis of accounting for purposes of their financial reporting.
- 53 Although pension plans are publicly accountable, the AcSB decided that its IFRS strategy should not affect these reporting entities immediately. Sharing the views of a number of other countries that IAS 26 *Accounting and Reporting by Retirement Benefit Plans* requires substantial improvement, the AcSB concluded that this IFRS would not represent an improvement over PENSION PLANS, Section 4100, in the pre-changeover standards in Part V of the Handbook. Further, it concluded that international convergence in this area at this time would not provide significant benefits to Canadian pension plans or the users of their financial statements. The AcSB decided to encourage

⁵ Entities other than publicly accountable enterprises may be required to adopt IFRSs by regulation or contract, or may wish to do so for other reasons. All Canadian reporting entities within the AcSB’s mandate are permitted to adopt IFRSs at any time (see paragraphs 57-61).

the IASB to replace IAS 26 and set out to develop an appropriate financial reporting model for use by Canadian pension plans in the meantime. In April 2010, the AcSB released accounting standards for pension plans (Part IV of the Handbook). A separate Background Information and Basis for Conclusions document sets out the AcSB's rationale for those standards. The AcSB intends the standards to be replaced eventually by an improved version of IAS 26 once it becomes available.

Fiduciary capacity

- 54 The AcSB's definition of a publicly accounting enterprise includes a criterion incorporating the notion of fiduciary capacity. Stakeholders commenting on an early version of the definition requested clarification of the term "fiduciary capacity". The AcSB decided to expand the definition to explain that an entity is not considered to hold assets in a fiduciary capacity if, for reasons incidental to a primary business, it holds and manages financial resources entrusted to it by clients, customers or members not involved in the management of the entity.
- 55 The definition includes a list of entities that may hold assets in a fiduciary capacity for reasons incidental to a primary business and, therefore, may not be publicly accountable. Consistent with an amendment made by the IASB to its definition, and to assist Handbook users in understanding the concept of "incidental to a primary business", the AcSB expanded the list provided in its definition to include "sellers that receive payment in advance of delivery of the goods or services such as utility companies". The AcSB noted that even with the examples provided and the definition's stated criteria, Handbook users will sometimes need to exercise judgment when deciding if a particular entity or entities in a particular industry meet the definition of a publicly accountable enterprise.
- 56 The AcSB continued to receive questions about how a particular entity (or entities in a particular industry, for example, credit unions and similar organizations) could determine whether it "holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses". However, the AcSB decided against amending the definition to provide further guidance on this issue. Whether or not an entity has a fiduciary responsibility as a result of one of its primary businesses depends on the particular entity's facts and circumstances. The definition could not be expanded to address all situations. Further, amending the definition to address this issue more completely would remove the existing symmetry between the AcSB's definition and that of the IASB. The AcSB noted that other jurisdictions besides Canada must deal with similar issues concerning public accountability.

APPLICABILITY OF IFRSs TO OTHER REPORTING ENTITIES

- 57 By definition, private enterprises are not publicly accountable. Therefore, they are not required to adopt IFRSs. Not-for-profit organizations are also not required to adopt IFRSs, even though all such organizations have a form of public accountability to the providers of their funding.⁶ The AcSB undertook separate initiatives to develop appropriate financial reporting models for both these sectors, and subsequently released accounting standards for private enterprises and for not-for-profit organizations (Parts II and III of the Handbook, respectively). Separate Background Information and Basis for Conclusions documents set out the AcSB's rationale for each of those sets of standards.

⁶ The AcSB notes that IFRSs are not designed with not-for-profit organizations in mind, although such organizations may find them appropriate.

- 58 Some private enterprises have, or may have in the future, an intention of “going public” and wish to be able to provide financial statements prepared on the same basis as publicly accountable enterprises in advance of taking that step. Some larger private enterprises might wish to meet the reporting requirements for publicly accountable enterprises to obtain financing or to meet industry regulatory requirements. Similarly, large national not-for-profit organizations or organizations with global affiliations sometimes carry on operations in a commercial manner that seeks investment in the capital markets through the issuance of debt obligations, and may also borrow from banks and other lenders. As a result, entities in both these sectors might wish to prepare their financial statements using the same standards as an entity meeting the definition of a publicly accountable enterprise included in the Preface to the CICA Handbook – Accounting.
- 59 The AcSB decided that, regardless of the outcome of the process to develop new standards for each of private enterprises and not-for-profit organizations, entities in these two categories of reporting entity should have a free choice between those standards and IFRSs. An entity would make this choice based on its assessment of the needs of the users of its financial statements.
- 60 The AcSB also decided that this choice should be available to private enterprises and not-for-profit organizations not only on the mandatory changeover date specified in Parts II or III of the Handbook, respectively, but any time before or afterwards. The AcSB noted that, in the case of an entity that applies Part II or Part III for a time and subsequently moves to Part I, IFRS 1 *First-time Adoption of International Financial Reporting Standards* stipulates how the entity must prepare its first financial statements using the standards in Part I.
- 61 References in the remainder of this document to the adoption of IFRSs by publicly accountable enterprises apply equally to private enterprises and not-for-profit organizations choosing to adopt Part I instead of Parts II or III, respectively.

THE IFRS CONVERGENCE IMPLEMENTATION PLAN

- 62 Execution of the IFRS strategy for publicly accountable enterprises required the AcSB to make IFRSs available in Canada as early as possible before January 1, 2011. When considering how best to achieve this, the AcSB decided against simply rescinding the existing Canadian accounting standards applicable to publicly accountable enterprises, and instructing those entities to apply IFRSs as issued by the IASB and found in its Bound Volumes of IFRSs. Doing so would not fulfill the AcSB’s responsibility to provide, as part of Canadian GAAP, a set of accounting standards for use by this category of reporting entity.
- 63 The AcSB also noted the many requirements in Canadian legislation and commercial contracts to prepare financial statements in accordance with Canadian GAAP, including the accounting standards in the CICA Handbook (or other words to that effect). Having those references removed by the appropriate parties and replaced by a direct reference to IFRSs would be a difficult and time-consuming process.
- 64 Instead, the AcSB decided to incorporate IFRSs (excluding the *International Financial Reporting Standard for Small and Medium-sized Entities*) into the Handbook as a replacement for the Canadian standards then applicable to publicly accountable enterprises. Thus, IFRSs would become Canadian GAAP, along with the standards in the other Parts of the Handbook. However, the AcSB’s ultimate objective was for enterprises to be able to report compliance with IFRSs, as well as with Canadian GAAP.

- 65 In January 2006, the AcSB adopted an implementation plan for incorporating IFRSs, as issued by the IASB, into Canadian GAAP over the transitional period. The major components of this plan were as follows:
- (a) Standards newly developed by the IASB that were converged with standards issued by the FASB would be adopted in Canada as they were issued. This would reduce the number of IFRSs differing from Canadian GAAP at the changeover date and, therefore, the degree of change required to be made by Canadian entities.
 - (b) The AcSB would adopt a policy of not imposing changes to standards that might require extensive systems changes or information gathering that would become redundant at the changeover date. Accordingly, the AcSB generally would not adopt any new FASB requirements if they created a new conflict between Canadian GAAP and IFRSs.
 - (c) The AcSB would also plan not to adopt IFRSs during the transitional period that would create new conflicts with US GAAP. However, if the IASB changed a standard with the result that no such conflict was created, the AcSB might consider adopting the new IFRS during the transitional period if it enhanced the quality of Canadian GAAP.
 - (d) Some Canadian standards, such as those addressing impairment, variable interest entities and transfers of receivables, had a high degree of similarity to their US counterparts, but were different from IFRSs. If the FASB changed any such standards, the AcSB would consider its course of action on a case-by-case basis. In doing so, it would balance transitional issues (such as the desire to avoid more than one change to GAAP whenever possible) with the enhancement offered by the change the FASB had adopted and the lifespan of any such change if incorporated into pre-changeover Canadian GAAP. The consequences of not adopting the revised FASB position and the effect that would have on reconciling items for Canadian registrants with the SEC would also be considered.
 - (e) Differences between existing Canadian standards and their IFRS counterparts would cause changes for entities when they adopted IFRSs. A comparison of the two sets of accounting standards performed by the AcSB staff, and made available on the AcSB's website, assisted in the identification of the standards likely to cause the most significant changes. During the transitional period, the AcSB would attempt to reduce the significance of such changes in a variety of ways, including possibly approaching the IASB to request that particular subjects become part of its agenda. When the AcSB decided that an IFRS was of higher quality than the existing corresponding Canadian standard, it might initiate its own project to bring Canadian GAAP closer to the IFRS before the changeover date. The AcSB's IFRS Advisory Committee, established to assist with the assessment of technical issues associated with the move to IFRSs, would contribute to the AcSB's plans for mitigating the challenges posed by the significant changes discussed above.
 - (f) Due process requires the AcSB to expose, for public comment, all proposed changes to the Handbook. Accordingly, the AcSB has a responsibility to expose IFRSs in Canada before approving them for incorporation into the Handbook. The AcSB planned to approve IFRSs well in advance of the changeover date, when they would become effective. Once approved, the standards would be incorporated into the Handbook, serving as a benchmark of the standards and interpretations to be adopted at the changeover date. This benchmark would allow entities to become familiar with IFRSs and begin the selection of their post-changeover accounting policies. It would also make possible the earlier adoption of IFRSs by Canadian entities. Paragraphs 73-81 describe the approach taken by the AcSB to exposing IFRSs in Canada.
 - (g) IFRSs might change both before the changeover date and afterwards, in which case the AcSB would issue corresponding exposure drafts to incorporate the changes into Canadian GAAP. This

would ensure that, at any point in time, the Handbook included the most current version of IFRSs.

- (h) Throughout the transitional period, the AcSB would monitor Canada's progress in implementing the IFRS convergence strategy, and the readiness of the investor and business communities. The monitoring process would include a "progress review", within 24 months of the publication of the 2006-2011 Strategic Plan, intended to identify and assess any new information or new issues that would affect the implementation of the strategy (see "Progress Review" below).
- (i) Communications would be an important part of the implementation plan. The AcSB would update the plan periodically to inform stakeholders of the progress of the implementation of IFRSs for publicly accountable enterprises. It would also:
 - (i) continue to distribute a series of bulletins to senior executives in business and government and other interested parties to make them aware of the AcSB's 2006-2011 Strategic Plan;
 - (ii) continue ongoing communications with other stakeholder groups;
 - (iii) communicate with governments and other regulatory bodies throughout the transition process to obtain their input and to enhance their understanding of the process, thereby improving the understanding of their stakeholders;⁷ and
 - (iv) consult with its advisory committees throughout the process to ensure optimal communications with stakeholders.

66 Events relating to the execution of the AcSB's IFRS strategy transpired largely as planned. Deliberations and decisions of the AcSB relating to some of those events are described in more detail below.

PROGRESS REVIEW

- 67 The progress review mentioned in paragraph 65(h) began in 2007. The AcSB made clear that the purpose of this review was not to develop a new or significantly revised strategy, nor to provide an opportunity for those who disagreed with the IFRS convergence strategy to reiterate their views. The AcSB would only consider the possibility of a change in strategic direction in the unlikely event of a fundamental change in circumstances negating the rationale for the strategy. Rather, the results of the progress review were used to fine-tune and finalize the IFRS convergence implementation plan, including the changeover date.
- 68 The progress review considered the following factors:
- (a) Progress made in Canada in establishing the infrastructure for IFRS implementation. This included efforts by individual affected enterprises to plan and carry out necessary changes. Particular attention was given to the circumstances of smaller publicly accountable enterprises. The review also considered preparedness in various processes that support the application of Canadian GAAP, such as professional disciplinary and inspection systems, market regulation systems and education programs.
 - (b) Any significant difficulties encountered in the initial adoption or ongoing application of IFRSs in the European Union, Australia and other countries that the AcSB should consider when finalizing the changeover date.

⁷ Regulatory bodies with which the AcSB communicated included the Canadian Securities Regulators, the Office of the Superintendent of Financial Institutions and Canada Revenue Agency, the latter with regards to the potential income tax implications of the IFRS strategy.

- (c) The ability of the IASB to continue to develop high-quality standards that are accepted as contributing to the improved functioning of global capital markets.
- 69 The AcSB made available, on its website, reports on the scope and purpose of the progress review, the criteria for assessment and the information considered when conducting the review. A preliminary report on the progress review was discussed with AcSOC at its October 25-26, 2007 meeting, in a public session. The AcSB then issued the preliminary report at the end of October. A final report followed in February 2008.
- 70 Although acknowledging challenges and concerns in each of the areas identified in paragraph 68, the AcSB concluded that none warranted a delay in setting the changeover date. At its February 7-8, 2008 meeting, in a public session, AcSOC was asked to provide advice on any additional matters the AcSB should take into account before finalizing the changeover date. The Council was satisfied that the AcSB had followed due process in setting the changeover date and agreed with the decision to confirm the 2011 changeover. Many stakeholders agreed, and urged the AcSB to set the changeover date immediately.
- 71 On February 13, 2008, in a media release, the AcSB confirmed that publicly accountable profit-oriented enterprises were expected to prepare their first financial statements in accordance with IFRSs for interim and annual financial statements relating to annual periods beginning on or after January 1, 2011. This provided entities the certainty they needed to plan for the changeover.
- 72 In November 2008, AcSOC reviewed developments to improve financial reporting in light of the recent global financial turmoil. Council members reconfirmed their support for the AcSB's IFRS strategy. In a media release, the Chair of AcSOC noted that the need for a single set of high-quality, globally accepted accounting standards, developed by an independent standard setter, had never been more evident than under current conditions in global capital markets.

EXPOSING IFRSs FOR PUBLIC COMMENT IN CANADA

- 73 The AcSB planned to expose the IFRSs to be incorporated into Canadian GAAP as a result of the actions described in paragraphs 65(a) and (c) individually, either at the same time they were exposed by the IASB or as decided by the AcSB. That left the remainder of the body of IFRSs in existence at the changeover date to be exposed some time beforehand. Due to the volume of standards to be exposed, the AcSB decided that would best be achieved through a series of omnibus exposure drafts. Each exposure draft would include a number of IFRSs for public comment.
- 74 The first Exposure Draft, "Adopting IFRSs in Canada," issued in April 2008, exposed for public comment in Canada the IFRSs included in the IASB's 2007 Bound Volume of IFRSs. "Adopting IFRSs in Canada, II" followed in March 2009. It exposed changes made to IFRSs after the 2007 Bound Volume and included in the 2008 Bound Volume. The AcSB issued its third and final Exposure Draft of IFRSs, "Adopting IFRSs in Canada, III," in October 2009. That Exposure Draft exposed 15 amendments to IFRSs or new interpretations, as well as two IASB exposure drafts not previously published in Canada.
- 75 The key question posed by each of the Exposure Drafts was whether the IFRSs being exposed would produce inappropriate results if applied in Canada, despite the IASB's due process and acceptance of the standards in other countries. Comment was also sought on several key issues associated with

adopting IFRSs, including interpretations of those standards and the application of IFRS 1 *First-time Adoption of International Financial Reporting Standards* by Canadian first-time adopters.

- 76 The Exposure Drafts also provided stakeholders the opportunity to provide their views on a draft Preface to the Handbook as it would appear once restructured to accommodate the various sets of standards applicable to different categories of reporting entity. Among other things, the draft Preface included the AcSB's proposed definition of a publicly accountable enterprise (see paragraphs 50-56).
- 77 A substantial majority of respondents to the AcSB's three omnibus Exposure Drafts of IFRSs identified no standards that would produce inappropriate results if applied in Canada. However, stakeholders of two particular industry groups — investment companies and entities with rate-regulated activities — expressed concerns about being required to apply IFRSs as they currently existed. Investment companies thought it inappropriate to consolidate their controlling interests in investees, as required under existing IFRSs. They wished to retain their current ability under Canadian GAAP to measure controlling interests at fair value instead. Entities with rate-regulated activities were concerned that, unlike Canadian and US GAAP, IFRSs did not address their specific circumstances. They were uncertain of their ability to continue to recognize assets and liabilities to reflect the effects of rate regulation, and of what to do with regulatory assets and regulatory liabilities on their balance sheets at the changeover date.
- 78 The AcSB decided against removing either of these two groups from the scope of its IFRS strategy, most probably by adjusting the definition of a publicly accountable enterprise. Instead, it decided to monitor closely ongoing IASB projects affecting the groups and to consider action in the future if necessary. In the meantime, the AcSB and its staff worked diligently with these sectors and the IASB to understand and resolve their issues.⁸
- 79 At its December 10, 2009 meeting, the AcSB concluded that, in light of the comments received on all three omnibus Exposure Drafts of IFRSs, it should proceed to incorporate the IFRSs exposed into Canadian GAAP as planned. The AcSB also decided it was unnecessary for it to provide interpretative guidance in addition to that included in the IFRSs, or to seek amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* to facilitate the transition to IFRSs, beyond those already sought by the AcSB staff (see "IFRS 1" below). Finally, the AcSB finalized its definition of a publicly accountable enterprise.
- 80 With the omnibus exposure draft process completed, the AcSB continued with the process it had already begun of exposing all IASB proposals concurrently in Canada through corresponding AcSB exposure drafts. That process would permit real-time updates of IFRSs in the Handbook.

Language

- 81 Prior to adopting its 2006-2011 Strategic Plan, the AcSB had a due process policy of issuing all exposure drafts and final standards in both English and French. The texts of the standards have equal authority in both languages in Canada. The AcSB wished to maintain its bilingualism policy as

⁸ In September 2010, the AcSB announced a deferral of the mandatory date for adoption of IFRSs by qualifying entities with rate-regulated activities, and by investment companies and segregated accounts of life insurance enterprises. Separate Background Information and Basis for Conclusions documents provide the AcSB's rationale for those deferrals.

part of its IFRS strategy, even though the approved text of any discussion document, exposure draft or IFRS issued by the IASB is in English only. As stated in the IASB's *Preface to International Financial Reporting Standards*, the IASB may approve translations in other languages, provided it is assured of the quality of the translation. It may also license other translations. During the transition period, the AcSB went to great efforts to provide the IASB with timely, high-quality French translations of all of that Board's exposure drafts and final standards. The AcSB is working to establish a more permanent arrangement for French translations of IASB documents that meets the needs of Canadians and is acceptable to the IASB.

IFRS 1

- 82 The AcSB noted the importance of IFRS 1 *First-time Adoption of International Financial Reporting Standards* to first-time adopters of IFRSs in any jurisdiction and instances where additional transitional relief might be necessary to deal more effectively with the circumstances of Canadian first-time adopters. The AcSB considered developing a Canadian version of IFRS 1 to be used along with, or in place of, the international standard. However, it decided against that approach because it would not provide a basis for Canadian entities to claim full compliance with IFRSs as issued by the IASB (see paragraph 47).
- 83 The AcSB also considered, but rejected, restricting the ability of Canadian entities to apply the full range of options included in IFRS 1 upon transition to IFRSs. Some of these options are better suited to entities following a pre-changeover national GAAP that is substantially less well developed than Canadian GAAP. However, the AcSB wished to avoid the possibility of Canadian entities being at a disadvantage compared with their counterparts in other jurisdictions with no such restriction.
- 84 The AcSB decided to approach the IASB with a request to amend IFRS 1 in order to make it more useful to Canadian entities and entities in other countries adopting IFRSs for the first time in or around 2011. In December 2007, the AcSB staff posted to the AcSB's website an invitation to stakeholders to submit suggestions for possible modifications to IFRS 1. Those considered to have merit were included in a written proposal to the IASB, and resulted in several amendments to IFRS 1 benefiting Canadian first-time adopters. Two of those amendments involved expanding IFRS 1 to include deemed cost exemptions benefiting Canadian first-time adopters in the oil and gas industry using the full cost accounting method, and entities with rate-regulated activities. The staff of the AcSB worked closely with each of these sectors to ensure the validity of the issues they raised, and with the IASB to ensure it understood the rationale for the amendments being requested and the need to amend IFRS 1 in a timely manner.
- 85 The AcSB's omnibus Exposure Drafts of IFRSs provided stakeholders with further opportunities to suggest possible modifications to IFRS 1 in respect of the IFRSs included in the particular Exposure Draft. Based on the responses received, the AcSB decided that no additional amendments to IFRS 1 before the changeover date were warranted solely to accommodate Canadian first-time adopters.

ADVANCE DISCLOSURES ABOUT IFRSs

- 86 As noted in paragraph 68(b), when conducting its progress review, the AcSB considered the experiences of countries that had already adopted IFRSs. AcSB staff reviewed studies of the adoption of IFRSs in such countries, as well as general business media reports published in the two years leading up to the progress review. Also, the AcSB Chair and staff met with other national

standard setters, securities regulators and representatives of major accounting firms to enquire as to their experiences with the adoption and application of IFRSs.

- 87 Although IFRS adoption in other countries seemed to have gone smoothly, some executives in Europe and elsewhere expressed concern that adoption of IFRSs was costly and made it more difficult for entities to explain their financial results. The costs to convert accounting systems can be extensive, and the benefits (including reduced costs of capital) are often harder to identify and do not arise until later. It was the experience of these executives that communication by entities about the effect on financial reporting of the transition to IFRSs had been beneficial in aiding the understanding by users of financial statements. This suggested to the AcSB that Canadian entities should pay attention to management discussion and analysis (which is not provided as widely in other jurisdictions as in Canada) and other supplementary disclosures as the vehicle for conveying their perspectives on the adoption of IFRSs. This observation was included in the AcSB's final report on its progress review. The experiences of other countries with advance disclosures about IFRSs were consistent with the views expressed by analysts the AcSB consulted on this topic. Those stakeholders emphasized the fact that the markets do not like "surprises".
- 88 The AcSB also discussed with the Canadian Securities Administrators the importance of "market grooming" disclosures (i.e., disclosures by an entity intended to provide financial statement users with a general understanding of the future effects of adopting IFRSs). The AcSB supported the plans of the Canadian Securities Administrators to issue guidance on this issue and concluded that such guidance, even though outside an entity's financial statements, would provide the necessary disclosures by entities subject to the requirements of the securities regulators. The AcSB thought it unnecessary to develop similar requirements for the limited number of publicly accountable enterprises not subject to such requirements.
- 89 ACCOUNTING CHANGES, paragraph 1506.30 in the pre-changeover standards in Part V of the Handbook, requires that an entity disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not yet applied. The AcSB intended this requirement to apply to a change in an individual accounting standard within the pre-changeover standards and not to the wholesale replacement of a complete set of standards, as would occur at the IFRS changeover date. In June 2009, the AcSB issued an amendment to the scope of Section 1506 in order to make clear that intention.