

ACCOUNTING STANDARDS BOARD

ACCOUNTING STANDARDS IN CANADA: FUTURE DIRECTIONS

BACKGROUND TO THE DISCUSSION PAPER

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BACKGROUND TO THE DISCUSSION PAPER

Key Conclusions and Recommendations From Other Reports on Strategic Issues

The material in this document has been extracted from the Final Report of the CICA Task Force on Standard Setting (1998), the Report of the CICA Task Force to Review the Recommendations of the AICPA Special Committee on Financial Reporting (1995), and the Report of the Commission to Study the Public's Expectations of Audits (1988).

Key Conclusions and Recommendations From Other Reports on Strategic Issues

Final Report of the CICA Task Force on Standard Setting (1998) – Extracts from the Executive Summary

Guiding principles

Our recommendations were founded on six general principles:

- Standard setting should remain in the private sector.
- Canada should endorse the principle of the internationalization of standard setting for private sector accounting and auditing.
- Canada should continue to play a vital role in developing appropriate and reliable standards which are accepted internationally.
- Internationally-accepted standards will not preclude the need for a national body with authority and responsibility for setting standards and providing guidance in Canada to meet the needs of Canadian constituents.
- The CICA should maintain its leadership role in both private- and public-sector standard setting in Canada, while expanding the opportunities for input and participation of others through strategic alliances.
- Innovation in the accounting profession – e.g., in developing new management decision-making tools and organizational performance measures – requires a different model from the one used in setting traditional accounting and auditing standards.

Developments on the world stage

We believe, in the long term, the internationalization of standard setting for private sector accounting and auditing is inevitable. The increasing globalization of business activities and the related need for standards accepted in the world's capital markets will demand it.

Hopes of significant progress toward this goal hinge on a July 1995 landmark agreement between the International Accounting Standards Committee (IASC) and the International Organization of Securities Commissions (IOSCO). Under it, IASC has agreed to complete a work plan encompassing a core set of standards covering the main areas of financial reporting. IOSCO has, in turn, agreed that successful completion of this work plan will pave the way for it to review and, if found acceptable, endorse IASC standards for cross-border securities registration. (A similar agreement for auditing standards is under discussion between IOSCO and the International Auditing Practices Committee.)

At the time we issued our Interim Report, the original end-of-1999 deadline for completion had been accelerated by IASC to March 1998; it has since been delayed to November 1998. We consider this schedule somewhat ambitious, but acknowledge that, as long as substantial progress is being made, the precise completion date is probably not critical. A more recent experiment in the joint development of new standards by national standard setters is the establishment of the Joint Working Group (JWG). Although in its infancy, the concept of a group of leading standard setters developing a common document which will be released as an exposure draft by all participants bodes well for long-term harmonization.

From a Canadian business perspective, we do not believe the IASC/IOSCO agreement will result in the ultimate goal of internationally-accepted standards unless it has the complete accord of the US Securities and Exchange Commission (SEC). Failure of the agreement would, in the eyes of some, make the US Financial Accounting Standards Board (FASB) the *de facto* world standard setter in accounting.

The long-term goals

We envision four long-term goals:

- There will be one set of internationally-accepted accounting standards in the private sector. Canada will play a significant role in establishing international accounting standards and retain its authority to set unique Canadian accounting standards where circumstances warrant.

- There will be one set of internationally-accepted auditing standards in the private sector. Canada will play a significant role in establishing international auditing standards and retain its authority to set unique Canadian auditing standards where circumstances warrant.
- The Public Sector Accounting Board will be the authoritative body for setting financial and performance standards for Canada’s federal, provincial, territorial and municipal governments.
- Under the CICA’s authority, and to help its members meet emerging market needs, a Centre for Innovation will sponsor and champion initiatives aimed at enhancing decision making and improving organizational performance.

Considering the options

With regard to the first two goals, in our Interim Report we saw one of two possible scenarios emerging – that separate bodies for setting internationally-accepted accounting and auditing standards would ultimately be based either internationally or in North America – and recommended that Canada should play an active role in both scenarios until a clear future direction emerged.

It now seems apparent that a clear direction will not emerge as quickly as we had anticipated. On the accounting front, meeting the deadline for completion of the core standards program by the IASC now appears uncertain. Thereafter, IOSCO must consider whether it will accept the resulting core set of standards – an exercise it has stated will take at least a year, and whose success is by no means a foregone conclusion. The subsequent ratification by individual national securities commissions will take time since, in many countries, it will require various levels of due process and/or legislative approval. On the auditing front, progress in securing IOSCO endorsement of IAPC standards has also been slower than anticipated.

In the face of these delays and uncertainties, we do not believe the CICA alone can afford to maintain an active role in both the international and North American scenarios as recommended in our Interim Report – and for two important reasons. First, a “wait-and-see” position, appropriate under the original timetable, would be inconsistent with maintaining the CICA’s leadership role over an extended period and could result in a loss of credibility. Second, the

financial commitment to support a short-term involvement in both scenarios could not likely be sustained over a longer period of uncertain duration.

In light of these circumstances, our task was to determine what approach would best move us toward the first two long-term goals. We considered a number of alternatives which essentially distilled down to three options available to the CICA.

We do not consider it appropriate that the CICA relinquish any of its current activities completely. If it is to meet increasing international and national demands, it must, therefore increase its resources or make choices and set priorities within its existing resource level.

Increasing international demands centre around expanding Canada's role in establishing internationally-accepted accounting and auditing standards. Increasing national demands primarily involve implementing Vision Task Force recommendations for developing new performance measures, expanding the scope of assurance services, and sustaining investment in Criteria of Control – areas the VTF identified as being of strategic importance to the profession's future. Over the last two fiscal years, while the total budget of the CICA Studies & Standards Group has remained relatively unchanged, there has been a significant transfer of resources to these new areas and away from traditional standard-setting.

Despite these increasing demands however, responses preceding and subsequent to our Interim Report, as well as anecdotal evidence and informal discussions, conveyed to us the expectation that our recommendations would result in a significant decrease in costs to the CICA and its members or, at least, that there would be no cost increase. The evidence suggests to us that costs cannot be reduced in the foreseeable future. At the same time, however, we cannot ignore indications from the provincial institutes and the CICA that there is no inclination to finance cost increases through increasing annual membership dues and we considered the options with this understanding clearly in mind.

What we mean by “harmonization” *

“Harmonization”, a term used throughout our Final Report, can mean different things to different people. We interpret standards as being harmonized when they have been arrived at following a process of input and negotiation among the relevant standard-setting bodies. This interpretation still allows a national body to set its own standards, but assumes it will do so only in the event it can clearly demonstrate that its country’s circumstances are unique.

Moreover, we see harmonization as involving a two pronged approach – focusing on eliminating differences between existing standards and working jointly with other major national and international standard-setting bodies to ensure that, in developing future standards, differences do not occur.

Option 1: The CICA would continue to support setting accounting and auditing standards and developing guidance in other areas, while maintaining financial resources at their current level

Under Option 1, the CICA would:

- Move toward harmonization of Canadian standards with those of the United States. A harmonization program with US standards is common to all options, although how quickly it moves forward may differ, depending on the level of investment in the international arena.

* The more complete discussion of this issue in chapter 1 of the report is as follows:

“Harmonization”, a term used throughout this report, is not a simple concept, and can mean different things to different people. Some seem to interpret it as a complete alignment (uniformity) of standards between two bodies, as in the suggestion that Canada should “adopt US standards”. For others, it means aligning one’s standards to those of another body, but with changes where necessary to allow for one’s own national economic or legislative peculiarities. Our task force views standards as being harmonized when they have been arrived at following a process of input and negotiation among the relevant standard-setting bodies, and it is in this sense that we use the term in our report. This interpretation still allows a national body to set its own standards, but assumes it will do so only in the event it can clearly demonstrate that its country’s circumstances are unique.

Moreover, we see harmonization as involving a two pronged approach focusing on eliminating differences between existing standards and on working jointly with other major national and international standard-setting bodies to ensure that, in developing future standards, differences do not occur.

- Curtail its international standard-setting activities, limiting them to only those associated with maintaining its seat on the international bodies.
- Retain its sole responsibility for standard setting in Canada.
- Continue its activities in researching and developing new service areas such as those mentioned by the Vision Task Force.

Option 2: The CICA would continue to play a leadership role in setting accounting and auditing standards and developing guidance in other areas, while securing additional funding from members or other internal sources

Option 2 differs from Option 1 in that, with additional funding from internal sources, the CICA would be in a position to accelerate its program of harmonization with US standards and increase its international involvement, with the objective of affirming its position as a significant player in international standard setting.

Option 3: The CICA would continue to play a leadership role in setting accounting and auditing standards and developing guidance in other areas, while securing additional funding from external sources

Option 3 differs from Option 2 in that Canada's involvement with some international groups would be financed from a broad base of interested parties. In attracting contributions from external organizations, the CICA would likely have to share its responsibility in some areas of standard setting.

Accounting standards

After much deliberation, we have concluded that, in the long term, Option 3 is the best choice for accounting standards, and therefore recommend:

The CICA should continue to play a leadership role in setting accounting standards, while securing additional funding from external sources (Recommendation 3.1)

Under this option, the CICA would accelerate its harmonization program with FASB standards and increase its involvement with the IASC and other international groups, with the objective of reaffirming Canada's significant role in establishing international accounting standards. Harmonizing with FASB standards does not mean the automatic adoption of US GAAP. Rather, it means that, in working to eliminate differences with US GAAP, Canadian standard setters would adopt FASB standards unless they can justify reasons for not doing so.

The CICA is unique among the world's major accounting bodies in being the only professional organization granted sole responsibility for setting national accounting standards. Following Option 3, which would mean sharing that responsibility with others, would align Canada's structure with that of other countries in the industrialized world where such standards are developed by boards on which the accounting profession is represented (along with various other organizations) or by governments.

**Report of the CICA Task Force To Review the Recommendations of the AICPA
Special Committee on Financial Reporting (1995) – Extracts from Section V,
Summary of Task Force Views**

HIGH PRIORITY

TASK FORCE VIEW III.3

The Accounting and Auditing Standards Boards should continue to work with international standard setters and standard setters in other countries to harmonize accounting and auditing standards, in particular with the United States. Differences should not be created by new standards unless there are compelling reasons. (Page 26)

TASK FORCE VIEW IV.2

Further research should be performed in order to determine the information needs of non-professional investors, in particular whether some would prefer to receive summarized financial statement information. (Page 28)

TASK FORCE VIEW IV.7

The Accounting Standards Board should develop a revised standard for the content and presentation of the income statement. This should include segregation of recurring and non-recurring components, considering alternatives in addition to the Jenkins proposal for core earnings. (Page 35)

OTHER

TASK FORCE VIEW IV.1

The Accounting Standards Board should focus primarily on setting standards for financial information to be made available to all users. (Page 28)

TASK FORCE VIEW IV.4

Standard setters should address the following areas of financial reporting:

- (i) cash flow per share, and the format for the statement of changes in financial position; and
- (ii) separate holding company reporting. (Page 31)

TASK FORCE VIEW IV.9

The detailed research supporting the classification by Jenkins of certain accounting matters as low priority should be considered before dismissing their importance. (Page 38)¹

TASK FORCE VIEW IV.11

Standard setters should take into account the discussion in the Jenkins report of issues of competitive disadvantage in developing future standards. (Page 42)

¹ These low priority items were (i) development of a value based accounting model; (ii) accounting for intangible assets, including goodwill; (iii) forecast financial statements; (iv) accounting for business combinations; and (v) elimination of alternative accounting principles.

TASK FORCE VIEW IV.12

CICA standard-setting processes should take account, not only of the most important current projects but should also consider research and studies with a longer term outlook. (Page 43)

**Report of the Commission to Study the Public's Expectations of Audits (1988) -
Extracts from Appendix A, Listing of Recommendations**

Accounting Standards

- R-4** The CICA Accounting Standards Committee should make a comprehensive survey of the existing body of accounting theory, identify important issues for which accounting standards are unstated or unclear, determine priorities, and intensify its efforts to give guidance on those issues, all with a sense of real urgency. (4.35)

- R-7** The CICA Accounting Standards Committee should undertake a review of GAAP to identify situations in which alternative accounting methods are accepted under GAAP, and should make every effort to eliminate alternatives not justified by substantial differences in circumstances. When it is thought such justification exists, the criteria for selection of the appropriate policy should be stated clearly. (4.54)

- R-8** If, in some individual area, support cannot be mustered for the elimination of alternatives not justified by substantial differences in circumstances, accounting standards should require disclosure that the choice of policies in this area is arbitrary. That disclosure should indicate the accounting result that would have been obtained by using the alternative. When disclosure of the result in quantitative terms would be impractical or excessively costly, the indication may be in approximate or general terms (at a minimum stating whether the alternative is more or less conservative than that actually adopted). (See also Recommendation R-23 in Chapter 5.) (4.54)

Extensions of Financial Disclosure

R-10 The CICA Accounting Standards Committee should study the question of financial reporting when an enterprise is in financial difficulty and issue explicit standards giving guidance to:

- The basis of reporting appropriate for a company that has failed.
- The disclosure that should be made by management in financial statements when an enterprise is a going concern at the reporting date but there is significant danger that it may not be able to continue as such throughout the foreseeable future. Since every enterprise carries some risk of failure, the standard should be as clear as possible concerning (1) how serious the risk of failure must be to require special disclosure of that risk, (2) whether or how gradations in the degree of risk should be indicated in the disclosure, (3) the length of the period ahead for which the risk of failure must be evaluated, and (4) whether or to what extent there is a need for indication of the extent of changes that might be required in the figures reported in the event of business failure. (5.19)

R-12 The CICA should initiate and complete as soon as possible a study of risks and uncertainties leading to conclusions as to how they may best be disclosed in financial statements or elsewhere (e.g. in Management's Discussion and Analysis in the annual report). Such a study should:

- Describe the nature of uncertainties and risks in some depth.
- Attempt a classification of different types of uncertainties and risks and provide guidelines for assessing their significance, particularly in terms of magnitude and probabilities.
- Consider how each category might best be disclosed and provide guidance on the form of disclosure.
- Indicate how and when gains and losses should be recognized in the financial statements (along the lines of present recommendations with respect to contingencies).

Handbook recommendations based upon this study should be issued as soon as possible after its completion. (5.28)

R-13 *CICA Handbook* recommendations with respect to disclosure of commitments should be amplified so that material commitments, when not capitalized as assets and liabilities in the balance sheet, will be disclosed in fuller detail than is customary in today's practice. (5.32)

R-14 The CICA Accounting Standards Committee should consider how financial disclosure in notes supplementing the financial statements might be arranged so as to highlight matters of particular importance — including disclosure of risks and doubts as to going-concern status — and provide guidance in a standard on disclosure. (5.34)

Valuations and Estimates

R-16 The Committee should also consider whether there is a need for better guidance with respect to disclosure of the bases used in making accounting estimates and the possible range in the valuation figures that could have resulted within the exercise of reasonable judgment. (5.42)

Clarification of Financial Reporting Responsibilities

R-23 The CICA Accounting Standards Committee should amplify the present standard requiring disclosure of accounting policies, so as to emphasize:

- The underlying theory of accounting being followed.
- The judgments made in the selection of accounting policies and the effect, if significant, of choosing one alternative from two or more acceptable policies (see Recommendation R-8 in Chapter 4).
- The judgments and estimates made in the valuation of assets and liabilities and the implementation of accounting policies, together with the evidence supporting such judgments.

Detailed disclosure of actual judgments and estimates made by management could be usefully integrated with the disclosure. (5.73)

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BACKGROUND TO THE DISCUSSION PAPER

Accounting Standard Setting Structures

This document reproduces, with permission, a report prepared for CGA-Canada on accounting standard setting structures internationally.

Report to

Certified General Accountants Association
of Canada

on

Accounting Standard Setting Structures

January 2003

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Foreword

In the wake of the Enron collapse in the United States, the Certified General Accountants Association of Canada embarked on a serious quest to understand the implications of the crisis in investor confidence and to propose a course of action for Canadian governments and regulators.

The selection of financial reporting standards has significant public policy implications for an economy through the standards' ability to influence that economy. The institutions that set standards are a matter of public interest. It is our strong belief that the Canadian government has a responsibility to re-examine the structure under which those standards are set as part of an overall assessment of contemporary policies and regulations.

In order to inform the discussion, CGA-Canada is pleased to publish this report.

Guy Legault, FCGA, CAE, MBA
President & Chief Operating Officer
CGA-Canada

About the author

April Mackenzie, FCA, has been involved in the interpretation and development of financial reporting standards for 20 years, the last ten of which were spent leading the standard setting work of the Institute of Chartered Accountants of New Zealand (ICANZ). As Divisional Director of Policy at ICANZ, Mackenzie was a member of the international group the G4+1 (accounting standard setters from the UK, USA, Canada, Australia and New Zealand) and, until she left ICANZ in 2002, she was a member of the International Accounting Standards Board Liaison Standard Setters.

As part of the ICANZ Executive Management team, Mackenzie's responsibilities also included development of audit standards, code of ethics and rules, operation of member disciplinary processes and practice review, representation and advocacy.

Mackenzie is a Fellow Chartered Accountant of ICANZ and a member of the Institute of Chartered Accountants in Scotland.

Accounting Standard Setting Structures

Introduction

Over the last two decades, the global financial landscape has undergone a significant transformation. These developments have been attributable, in part, to dramatic changes in the business and political climates, increasing global competition, the development of more market based economies, and rapid technological improvements. At the same time, the world's financial centres have grown increasingly interconnected with increasing cross-border capital flows. The globalisation of economic activity has resulted in an increased demand for high-quality, internationally comparable financial information.

Within national jurisdictions governments have always had a concern in the public interest for the operation of their capital markets. Capital market efficiency is a function of, amongst other things, the quality and reliability of the financial information available to investors. This means that both accounting and auditing standards have key roles in determining capital market efficiency at a national level. High-quality accounting standards are essential to the efficient operation of a capital market because decisions about the allocation of capital rely heavily on credible and understandable financial information. High-quality accounting standards include a set of neutral principles that in their application produce consistent, comparable, transparent, relevant and reliable information that is useful for investors and others who make capital allocation decisions.

With the globalisation of economic activity and business generally, and along with it the increasing globalisation of capital markets, it has become increasingly important to national jurisdictions that their capital markets are efficient relative to competing capital markets. The more efficient the capital market is within a jurisdiction, the greater is its ability to price capital accurately and to attract international capital flows.

It is increasingly significant for any jurisdiction that its capital markets and the regulatory structures that support those markets, are, and are seen to be, of high-quality. The standard setting process is an integral part of that structure.

The United States Securities and Exchange Commission (SEC) issued a Concepts Release¹ in which it outlined six characteristics that it believed were necessary characteristics of a high-quality standard setter: Those characteristics include:

- An independent decision-making body;
- An active advisory function;

¹ SEC Concepts Release: International Accounting Standards. 2000 (February).

- A sound due process;
- An effective interpretative function;
- Independent oversight representing the public interest; and
- Adequate funding and staffing.

Essentially one can identify two features that capture the key characteristics of a high-quality standard setting process. The first, which is necessary but not sufficient, is that the process is technically strong and the second is that the decision making is free from bias other than that which is directed to achieving the public interest. Decision making that is free from bias means decision making that does not reflect any particular interests except the public interest. The public interest would demand an efficient capital market which is one where there is high-quality financial information.

It is in this context that any country will wish to operate its regulatory framework in such a way that investors and potential investors receive high-quality information. One part of that regulatory framework is an independent and technically sound standard setting process which delivers high-quality accounting standards that in turn produce high-quality financial information.

Having established that high-quality independent standard setting is a critical component to efficiency in a capital market, the key issue is to resolve what mechanisms can be used to ensure that a standard setting process is made to be, and seen to be, independent.

There are several organisations which are working towards the goal of producing high-quality standards and to improving the international comparability of financial reporting. They include:

- (a) the International Accounting Standards Board (IASB), the objectives of which include the development of a single set of high-quality, understandable and enforceable global financial reporting standards, and the convergence of national financial reporting standards and those global standards;
- (b) the International Federation of Accountants Public Sector Committee (PSC), which was established primarily to develop international standards and guidance for governments and public sector entities; and
- (c) the standard setting bodies of Australia, Canada, France, Germany, Japan, New Zealand, United Kingdom, and United States of America which have liaison relationships with the IASB, through members of the IASB who have formal liaison responsibilities with these national standard setting bodies (National Liaison Standard Setters).

This study identifies and documents elements of the structures of a number of the above listed standard setters which arguably contribute to their independence.

Observations on the Canadian Standard Setter

The Canadian Accounting Standards Board (AcSB) is well established. However, while its function has remained largely unchanged for many years, its structure has not. The Canadian Institute of Chartered Accountants (CICA) Task Force on Standard Setting recommended that the Board be downsized and that it be chaired by a full-time, paid Chair. Those recommendations were put into place in 1999 when the Board was reduced to nine members and Patricia O'Malley was named its first Chair. A second recommendation relating to oversight was also implemented with the establishment of the Accounting Standards Oversight Council (AcSOC) in 2000.

Of the accounting standard setting structures outlined in this paper, Canada's is the only one that does not have a separate entity approving accounting standards. The AcSB is the remaining standard setter fully within the control of a professional accounting body. Although the Board of Directors of the Canadian Institute of Chartered Accountants controls the funding of the AcSB and made the initial appointments to the oversight council, the current structure calls for the AcSOC to choose the members of the AcSB. AcSOC itself is self-perpetuating. The nearest similar jurisdiction is the New Zealand structure, which has the development of accounting standards controlled by its professional accounting body, but standards approval and therefore legal backing given through a statutory Board appointed independently of the profession and funded by government.

Other differences include:

- **Funding:** All of the structures, except Canada, have a base of funding outside of the professional accountancy bodies in their jurisdiction.
- **Advisory Bodies:** New Zealand and the United Kingdom do not have separate advisory groups.
- **Transparency:** The AcSB is one of the few standards setters whose meetings are not held in public, although it is anticipated that that will change in the near future.

The standard setting boards range in size from four members to 14 members. The Canadian Board has nine members. In keeping with the majority of other jurisdictions, Canada has a fulltime Chair and dedicated staff. However, like New Zealand, the staff is employed by a professional accounting body.

Independence in Fact

It is in fact very difficult to achieve independence of decision making. Independence of decision making requires the standard setter to withstand influence from a number of competing interests including: the executive arm of government, the accounting profession, preparers of financial reports and other "political" pressures. It might also require independence of decision making from other standard setters. Even the most significant standard setter, the US Financial Accounting Standards Board (FASB), has experienced constraints on its independence of decision making as evidenced by events surrounding share based payments and the willingness of Congress to directly interfere in the accounting standard setting process.

This paper does not comment on the success of the structures to achieve independence of decision-making nor on the quality of their accounting standards development. Whether the structure of an accounting standard setter has achieved independence and whether its accounting standards are high-quality is an empirical question. One has to look at the performance of the different standard setters as reflected through the capital markets and investor confidence and the standard setter's decisions on difficult and controversial accounting issues, to conclude whether the structures in place have resulted in a high-quality standard setter.

April Mackenzie, FCA
Consultant
August 2002

Australia

Board	Australian Accounting Standards Board (AASB) is a body corporate with perpetual succession established under the <i>Australian Securities and Investments Commission Act (ASIC) 1989 S226(1)</i> and is continued in existence by the <i>ASIC Act 2001 S261</i> .
Size	Ten
	Full-time Chair
	Nine part-time members
	<p>The Chair is appointed by the Australian Treasurer and the part-time members are appointed by the Financial Reporting Council (FRC). Appointments are for up to five years, eligible for reappointment.</p> <p>In 2001, the FRC established a Nominations Committee to make recommendations on the composition of, and criteria for appointment to, the AASB. The Nominations Committee consists of the Deputy Chair of the FRC, the Chair of the AASB and two other FRC members. The FRC released in June 2001 a <i>Charter and Framework for Appointments</i>. The <i>Framework</i> states that the AASB composition should balance expertise from the perspective of preparers, users and auditors. The FRC has advertised in the national press seeking expressions of interest from people wishing to be considered for appointments to the AASB.</p>
Purpose	<p>The functions of the AASB are:</p> <ul style="list-style-type: none"> • To develop a conceptual framework, not having the force of an accounting standard, for the purpose of evaluating proposed accounting standards and international standards; • To make accounting standards for the purposes of the corporations legislation²; • To formulate accounting standards for other purposes²; and • To participate in and contribute to the development of a single set of accounting standards for world-wide use.

² Note: The standards made under paragraph (b) are given legal effect by the Corporations Act. The standards formulated under paragraph (c) do not have legal effect under the Corporations Act itself but may be applied or adopted by some other authority. In carrying out its functions under (a) and (d), the AASB must have regard to the interests of Australian corporations which raise or propose to raise capital in major international financial centres.

Australia continued

Observers	IASB liaison member, IFAC Public Sector Committee representative, New Zealand Financial Reporting Standards Board Chair
Vote	Affirmative vote of seven of ten to approve a standard
Advisory	Consultative Group which meets once or twice per year, plus project-based advisory panels drawn from the AASB's constituency
Meetings	Seventeen meeting days in 2000/01. Meetings are open to the public.
Interpretations Committee	Urgent Issues Group (UIG). A committee of the AASB, comprising the AASB's Chair, 15 part-time volunteer members and two observers. Appointed by AASB with approval of FRC Chair. Approval of an interpretation requires 11 or more UIG members to vote in favour. Interpretations can be vetoed by the AASB. Meetings are held in public.
Research Support	AASB staff
Budget and Funding Source	Approximately AU \$3 million, contributed from government and the accounting profession. A contribution in-kind of free accommodation from the Australian Stock Exchange.
Sector	Public and private sector and not-for-profit-entities
Oversight	<p>FRC established in 1999. It consists of 13 key stakeholders from the business community, the professional accounting bodies, governments and regulatory agencies. Members of the FRC are appointed by the Treasurer. Its functions include:</p> <ul style="list-style-type: none"> • To provide broad oversight of the process for setting accounting standards and to give the Minister reports and advice on that process; • To appoint the members of the AASB (other than the Chair); • To approve and monitor the AASB's: priorities; business plan; budget; staffing arrangements (including level, structure & composition of staffing); • To determine the AASB's broad strategic direction; • To give the AASB directions, advice or feedback on matters of general policy and the AASB's procedures;

Australia continued

<p>Oversight (continued)</p>	<ul style="list-style-type: none"> • To monitor: <ol style="list-style-type: none"> (i) the operation of accounting standards to assess their continued relevance and their effectiveness in achieving their objectives in respect of both the private and public sectors of the Australian economy; and (ii) the effectiveness of the AASB’s consultative arrangements; • To seek contributions towards the costs of the standard setting process; • To monitor and periodically review the level of and arrangements for funding; and • To establish appropriate consultative mechanisms. <p>The FRC does not have power to direct the AASB in relation to a particular standard or to veto a standard.</p>
<p>Convergence Statement</p>	<p>Under Section 227 of the <i>ASIC Act</i>, the AASB has a specific function “to participate in and contribute to the development of a single set of accounting standards for world-wide use”.</p> <p>The <i>ASIC Act</i> Section 225 provides that a function of the FRC is “to monitor the development of international accounting standards and the accounting standards that apply in major international financial centres, and</p> <ul style="list-style-type: none"> • To further the development of a single set of accounting standards for world-wide use with appropriate regard to international developments; and • To promote the adoption of international best practice accounting standards in the Australian accounting standard setting process if doing so would be in the best interests of both the private and public sectors in the Australian economy.” <p>Under the strategy adopted by the FRC at its meeting on 28 June 2002 and publicly announced on 3 July 2002, the AASB is obligated to work towards the full implementation of International Accounting in Australia in respect of financial years commencing on or after 1 January 2005. In setting this strategy the FRC was acting pursuant to Section 225 of the <i>ASIC Act</i> that provides that one of the functions of the FRC is “to determine the AASB’s broad strategic direction”.</p>

Canada

Board	The current incarnation of the Accounting Standards Board (AcSB) was established by CICA in 1999. Its predecessors go back to 1945.
Size	Nine
	Full-time Chair
	Eight part-time volunteers
	Appointed by Accounting Standards Oversight Council (AcSOC) on recommendation of its nominating committee. Volunteer appointments for three years, renewable for one term.
Purpose	<p>For establishing standards of accounting and reporting by Canadian Companies and not-for-profit organisations. The objectives are to:</p> <ul style="list-style-type: none"> • Develop standards that improve the quality of information reported by Canadian entities with due consideration for the costs and the benefits to preparers and users; • Facilitate access by Canadian enterprises to US and global markets by eliminating, or minimizing, GAAP differences within North America and internationally, as appropriate; • Support its standard setting activities by actively assisting implementation and providing timely guidance on emerging issues; and • Continuously improve the process of standard setting.
Observers	IASB liaison member and CICA senior staff
Vote	Two thirds of all members in writing
Advisory	None – but see objectives of AcSOC
Meetings	Normally meets six times per annum for full Board meetings, plus six conference calls. Meets in private. Members are sworn to secrecy, and are not permitted to discuss even technical issues with trusted colleagues. Also, votes are not recorded or published. Dissenting opinions are not published.
Interpretations Committee	Emerging Issues Committee (EIC). Was established by the AcSB. Volunteer members with three year renewable terms. A consensus is reached when no more than two EIC members present dissented to the interpretation. Consensus views are not approved or vetoed by the AcSB. As of 2003, members to be ratified by the AcSOC.

Canada continued

Research Support	AcSB staff (AcSB staff are employed by CICA)
Budget and Funding Source	Cdn \$2.5 million – Submitted by AcSB and approved by CICA
Sector	Private sector and not-for-profit entities
Oversight	<p>AcSOC established by CICA in 2000. Accountable to the Board of Directors of CICA through the Standards Committee of CICA. Twenty to 25 volunteer voting members and four non-voting members (Chair of AcSB, IASB liaison member, two AcSB staff). CICA funded and administered. Meets three to four times per annum. Reports to the public annually on the performance of the AcSB.</p> <p>Responsibilities include:</p> <ul style="list-style-type: none"> • To support the principle of private-sector standard setting by AcSB, following appropriate due process; • To appoint individuals for membership on AcSB, including the Chair, and for recommending membership on AcSOC itself; • To provide input to the activities of AcSB, primarily in terms of the strategic direction and priorities of AcSB; and • To inform AcSB of the views of the diverse groups represented on AcSOC, as well as the views of other individuals or groups with an interest in accounting standards. The authority to set accounting standards rests with AcSB.
Convergence Statement	<p>The AcSB supports the objective of harmonising accounting standards internationally and has worked with the IASC since its founding in 1973 to minimize differences between International Accounting Standards and Canadian standards.</p> <p>The AcSB has two stated fundamental focuses:</p> <ul style="list-style-type: none"> • Harmonisation with US GAAP i.e. elimination of significant unjustifiable differences with FASB standards; and • Convergence with the highest quality US and international accounting standards. <p>The Canadian Securities Administrators have proposed that Canadian corporations listed in the US be permitted to prepare financial statements in accordance with US GAAP with a reconciliation to Canadian GAAP for the first two years. Also, the Canadian Securities Administrators have proposed that certain foreign companies listed in Canada would be able to use US GAAP or IASB standards without reconciliation to Canadian GAAP.</p>

Germany

Board	Deutsches Rechnungslegungs Standards Committee eingetragener Verein (DRSC) also known internationally as German Accounting Standards Committee (GASC). Was established in May 2001 as a not-for-profit professional association in Germany. Generally members of the Association are persons with close connections to the aims of the Association (or Committee) based on a recognised qualification or experience in the field of accounting.
Size	Seven
	All part-time members
	Can co-opt two further members
	Appointed by the administrative Board of the association on 75% member vote of the administrative Board.
Purpose	<p>The principle objectives of the Association are:</p> <ul style="list-style-type: none"> • To develop accounting standards for application in the area of consolidated financial reporting; • To cooperate with the IASC and other standardization committees; • To act in a consultative role in relation to the development of legislation at national and intergovernmental levels, particularly with regard to accounting regulations; • To represent the Federal Republic of Germany on international standardization committees and in organizations promoting harmonization; and • To promote research in these areas.
Observers	IASB liaison member
Vote	Two thirds vote for adopting standards, for other decisions it will be by majority vote of its seven members or by two thirds vote if it has co-opted members.
Advisory	Consultative Council. Members appointed by management Board. Subscription for being on the Consultative Council set by administrative Board.
Meetings	Meetings to adopt a standard are held in public, although a fee may be payable to attend.
Interpretations Committee	Proposal to establish an Interpretations Committee

Germany continued

Research Support	Staff of the Association
Budget and Funding Source	Set by subscription on Committee members and members of the Consultative Council
Sector	Private sector – consolidated financial reporting.
Oversight	Administrative Board (18-23 persons) which comprises the management Board of the Committee (four persons) plus 14 other members of the Committee. Up to five further persons can be co-opted. Term of appointment is three years. It may not issue instructions to the Accounting Standards Board. The administrative Board selects and appoints the accounting standards Board, sets the subscription and the budget.
Convergence Statement	The Committee has been founded with the intention, amongst others, of accelerating international harmonisation through cooperation in international and intergovernmental organisations and cooperation with other standards committees.

Japan

Board	Accounting Standards Board of Japan (ASBJ) was established in August 2001, under the Financial Accounting Standards Foundation (FASF).
Size	13
	Three full-time members, including vice Chair
	Ten part-time members
	Appointed by the Trustees of the FASF
Purpose	<ul style="list-style-type: none"> • To investigate and develop accounting standards generally accepted in Japan; • To investigate practices concerning corporate finance and disclosure to make pertinent recommendations; and • To contribute to the development of high-quality internationally accepted accounting standards.
Observers	IASB liaison member, Financial Service Agency (FSA)
Vote	Eight of 13 (three fifths of existing Board members) for adopting standards. For other decisions, a majority vote of Board members is required.
Advisory	Theme Advisory Council (16 members)
Meetings	ASBJ usually meets once a month, open to the public. ASBJ also conducts a number of steering committees on each agenda topic. Steering committee meetings are usually held monthly with external specialists appointed by the Chair of ASBJ. All meetings are open to the public.
Interpretations	<p>Practical Solutions Standing Committee (PSSC) under the supervision of the ASBJ. The PSSC focuses on developing:</p> <ul style="list-style-type: none"> • Draft interpretations of Japanese accounting standards; and • Draft practical solutions on emerging issues which are not covered in Japanese accounting standards. <p>Drafts are submitted to the ASBJ for approval and require three fifths of support from the ASBJ for approval (the same as a standard).</p>
Research Support	Staff of ASBJ
Budget and Funding Source	¥700 Million (US \$6 Million)

Japan continued

Sector	Private sector and not-for-profit-entities
Oversight	Trustees (16) and Board of Directors (14)
Convergence Statement	The purpose of ASBJ's activity is both to investigate and to develop accounting standards generally accepted in Japan and to contribute to the development of high-quality internationally accepted accounting standards. Through these activities, ASBJ, IASB and other liaison national standard-setters will accomplish a goal of high-quality global standards.

New Zealand

Board	Accounting Standards Review Board (ASRB) was established 1993 as a Crown Entity under the Financial Reporting Act 1993. In practice, financial reporting standards are submitted by the Financial Reporting Standards Board (FRSB) of the Institute of Chartered Accountants of New Zealand.
Size	Four to seven
	All part-time
	Appointed by the Governor General on recommendation from the Minister of Commerce
	Members are required to be qualified for appointment by reason of their knowledge of, or experience in, business, accounting, finance, economics or law. Members are appointed for a renewable term of up to five years. The Ministry of Economic Development administers the appointment process, which includes public advertising of vacant positions.
Purpose	<p>The functions of the ASRB are:</p> <ul style="list-style-type: none"> • To review and approve or amend financial reporting standards submitted to it; • To give directions as to the accounting policies that have authoritative support within the accounting profession in New Zealand; • To encourage the development of accounting standards; and • To liaise with the Australian accounting standard-setter with a view to harmonisation.
Observers	Australian Accounting Standards Board Chair & IASB liaison member
Vote	ASRB: simple majority
Advisory	None
Meetings	The ASRB meets when it needs to conduct business. ASRB meetings are held in private. The FRSB meets for approximately ten days per annum. FRSB meetings are held in private.
Interpretations Committee	None

New Zealand continued

Research Support	<p>ASRB have no staff or research support.</p> <p>Any party can submit an accounting standard to the ASRB for approval. However, to date the standards that have been approved have all been submitted by the Institute of Chartered Accountants of New Zealand FRSB. The FRSB is a 12 volunteer member Board appointed by the Council of the Institute. All of the members are members of the Institute. FRSB supported by staff of Institute of Chartered Accountants.</p>
Budget and Funding Source	<p>The ASRB is funded from government vote. The funding for the 2003 year is approximately NZ \$470,000. Of that funding, \$360,000 is specifically designated for international work to allow New Zealand standard-setting to be involved in the work of the IASB and the IFAC PSC.</p> <p>The cost of developing accounting standards for submission to the ASRB is borne by the organisation making the submission. Currently the Institute of Chartered Accountants incurs approximately NZ \$900,000 to develop accounting standards. Excludes value of volunteer input.</p>
Sector	Public, private sector and not-for-profit
Oversight	None. However, the parliament can veto a standard within 28 sitting days of its approval by the ASRB.
Convergence Statement	<p>Pursuing a policy of international convergence and international harmonisation of New Zealand standards. “International convergence” means working with other standard-setting bodies to develop new or revised financial reporting standards that will contribute to the development of a single set of standards for world-wide use. “International harmonisation” of New Zealand standards refers to a process which leads to these standards being made compatible with the standards of international standard-setting bodies to the extent that this results in high-quality standards. Both processes are intended to assist in the development of an internationally accepted single set of accounting standards, applicable to all private and public sector entities, which can be adopted in New Zealand and elsewhere for both domestic and world-wide use.</p> <p>The ASRB is required to liaise with the AASB with a view to harmonising New Zealand and Australian accounting standards. However, the AASB also has a policy of international harmonisation of its standards and therefore the required harmonisation will in many cases follow simply as the result of both countries pursuing their policy of international harmonisation.</p>

New Zealand continued

Convergence Statement (continued)	<p>At the 11 December 2002 meeting of the FRSB, it was acknowledged that:</p> <ul style="list-style-type: none">• There is general acceptance that in order to maintain credibility for financial reporting, New Zealand must adopt International Financial Reporting Standards (IFRS);• There is support for continuing with sector-neutral standards;• The reporting entity approach followed in Australia is generally preferred over alternative approaches, but there should continue to be some form of structure for reporting by entities below the cut-off point;• There is strong support for harmonising with Australia in the solutions adopted for both sector-neutrality and the reporting entity concept;• The proposed dates of 2007 for mandatory adoption and 2005 for voluntary adoption have found general favour;• There is a preference for a gradual introduction of IFRS but it is recognised that with many of the IFRS under review a "big bang" approach may be the only feasible option;• There is acceptance that a significant education program for both preparers and users needs to be undertaken; and• There is acceptance that adopting IFRS will in substance hand over to the IASB the final say on financial reporting standards in New Zealand.
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United Kingdom

Board	Accounting Standards Board ³ (ASB) was formed in 1990 under the Companies Act 1985 as amended. It is a subsidiary of the Financial Reporting Council (FRC) a company limited by guarantee.
Size	Up to ten
	Two full-time including a Chair and technical director
	Eight part-time members
	Appointed by Appointments Committee (Chair, Deputy Chair and three members of the FRC).
Purpose	The aims of the ASB are to establish and improve standards of financial accounting and reporting, for the benefit of users, preparers, and auditors of financial information. To develop and publish accounting standards.
Observers	Head of the Government Accounting Service, representative from the Department of Trade and Industry (DTI) and IASB liaison member.
Vote	Seven of ten – or six when there are fewer than ten members
Advisory	No formal advisory committee
Meetings	Meets twice a month most months. Meetings are in private.
Interpretations Committee	Urgent Issues Task Force (UITF). Is a committee of the ASB. Chaired by Chair of the ASB as a non-voting member of UITF. Fifteen other members.
Research Support	Staff of FRC group
Budget and Funding Source	£2.2 million for ASB provided by contributions from sponsors, the accounting profession (through the Consultative Committee of Accounting Bodies), the city (the London Stock Exchange, together with the banking and investment community) and the government.
Sector	Private sector

³ The United Kingdom Secretary for Trade and Industry issued in July 2002 a white paper proposing the establishment of a Standards Board developed from the existing Accounting Standards Board. Refer to the Modernising Company Law pages on the Internet site <http://www.dti.gov.uk/companiesbill>

United Kingdom continued

Oversight	<p>FRC is a company limited by guarantee and was set up to meet the need to involve the whole community of interests in financial reporting at the policy level. The FRC comprises a Chair, three deputy Chairs and up to 30 members, plus five observers. The Chair and deputy Chairs are appointed by the Secretary of State for Trade and Industry and the Governor of the Bank of England acting jointly. The FRC's membership includes representatives from the accountancy and legal profession, chairs and senior directors from a wide spectrum of large and smaller companies, and senior officials from government and the public sector. Its functions extend to providing guidance to the Accounting Standards Board on broad issues and on its work program. The FRC is responsible for seeing that the arrangements for the ASB are efficient, economical and effective and that they are adequately funded.</p> <p>The FRC meets twice per annum. The FRC sets the budget for the ASB.</p> <p>The ASB issues accounting standards in its own right.</p>
Convergence Statement	<p>The ASB will be proactive in working with the IASB and with other standard setters in the international partnership to achieve an improvement in the existing IASB standards and a convergence of global standards that in both cases respect the views of UK constituents.</p>

United States of America

Board	<p>Financial Accounting Standards Board (FASB) was established in 1973. Its standards are officially recognised by the Securities and Exchange Commission (SEC) and the American Institute of Certified Public Accountants (AICPA).</p> <p>The SEC has the statutory authority to establish financial accounting and reporting standards for publicly held companies under the Securities and Exchange Act of 1934. The Commission has traditionally relied on the private sector for this function.</p>
Size	<p>Seven</p> <p>All full-time Board members</p> <p>Appointed by the Financial Accounting Foundation (FAF)</p>
Purpose	To establish and improve standards of financial accounting and reporting for the guidance of the public, including issuers, auditors and users of financial information.
Observers	IASB liaison member
Vote	Simple majority
Advisory	Financial Accounting Standards Advisory Council (FASAC) consults on technical issues on the FASB agenda, project priorities, matters likely to require the attention of the FASB, selection and organisation of task forces. Thirty plus members. The FASAC meets four times per annum for one day at a time.
Meetings	FASB meets weekly. Open to the public.
Interpretations Committee	Emerging Issues Task Force (EITF), consists of 13 voting members and two participating observers. Meets six times per annum. Meetings open to the public. Consensus positions of the EITF are considered to be part of GAAP. A consensus is defined as agreement provided that no more than two of the 13 voting members object.
Research Support	Staff of FASB
Budget and Funding Source	Approximately US \$18 million. Of this US \$5 million is by way of contribution. More than half the funds contributed are from the accounting profession, the remainder comes from industry and the financial community. The majority of funding is from sales of publications.
Sector	Publicly traded enterprises

United States of America continued

Oversight	<p>FASB incorporated to operate exclusively for charitable, educational, scientific and literary purposes. Is responsible for selecting FASB members and the FASAC, funding, budget approval and general oversight, but are prohibited from involving themselves in the resolution of FASB technical issues.</p> <p>The FAF is separate from other organisations, but its Board of Trustees is made up of nominees from sponsoring organisations. There are also trustees-at-large.</p>
Convergence Statement	<p>The FASB's obligation to its domestic constituents demands that it attempt to narrow the range of differences between US and other countries' standards. The FASB's objective for participating in international activities is to increase the international comparability and the quality of standards used in the United States. The FASB pursues that objective in cooperation with national standard-setters and with the IASB. The FASB believes that the ideal outcome of cooperative international accounting standard setting efforts would be the world-wide use of a single set of high-quality accounting standards for both domestic and cross-border financial reporting.</p> <p>Central to the FASB's participation in the development of international accounting standards is its commitment to increasing global comparability while maintaining the highest quality accounting standards in the US. In supporting convergence, the FASB's goal is to ensure that international accounting standards are of the highest quality. To accomplish that goal the FASB supports the IASB as the focal point for the development of international accounting standards. The FASB intends to participate as fully as possible in the IASB's process while maintaining the highest quality standards domestically.</p> <p>The FASB has stated that it should retain a leadership role in standard-setting, that it should do as much as it can to participate in the development of internationally recognised standards to ensure that they are of the highest possible quality and that internationally recognised standards and a global standard-setting process is impossible without US acceptance and participation.</p>

United States of America continued

Convergence Statement (continued)	<p>The FASB and IASB issued a <i>Memorandum of Understanding</i> on 29 October 2002 toward formalizing their commitment to the convergence of US and international accounting standards. The agreement follows the decisions recently reached by both boards to add a joint short-term convergence project to their active agendas. The joint short-term convergence project will require both boards to use their best efforts to propose changes to US and international accounting standards that reflect common solutions to certain specifically identified differences. Working within each Board's due process procedures, the FASB and IASB expect to issue an exposure draft to address some, and perhaps all, of those identified differences by the latter part of 2003. The elimination of those differences, together with the commitment by both boards to eliminate or reduce remaining differences through continued progress on joint projects and coordination of future work programs, will improve comparability of financial statements across national jurisdictions.</p>
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International

Board	IASB assumed standard-setting responsibilities from its predecessor body the International Accounting Standards Committee in April 2001. The IASC Foundation was formed as a not-for-profit corporation incorporated in the State of Delaware, USA and is the parent entity of the IASB.
Size	14
	Twelve full-time including the Chair and seven formally designated liaison Board members
	Two part-time
	Appointed by IASC Foundation Trustees for terms of up to five years renewable. The foremost qualification for membership of the IASB is technical expertise. A minimum of five members of the IASB have a background as practising auditors, a minimum of three a background in the preparation of financial statements, a minimum of three as users of financial statements and one an academic background.
Purpose	<p>The purpose of the IASB is to:</p> <ul style="list-style-type: none"> • To develop, in the public interest, a single set of high-quality, understandable and enforceable global accounting standards that require high-quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions; • To promote the use and rigorous application of those standards; and • To bring about convergence of national accounting standards and International Accounting Standards to high-quality solutions.
Observers	No official observers although IASB meetings are open to a limited number of public observers on a space-available basis.
Vote	Eight of 14 to approve a standard.
Advisory	Standards Advisory Council. 50 members appointed by IASC Foundation Trustees. Meets three times per annum for two days each.
Meetings	IASB meets 11 times per annum for three to four days at a time. Meetings open to the public.
Interpretations Committee	International Financial Reporting Interpretations Committee (IFRIC) comprises 12 voting members, plus a non-voting Chair. The IFRIC is appointed by the IASC Foundation Trustees for renewable terms of three years. Meetings held in public. Approval of interpretations shall require that not more than three voting members vote against the interpretation. The IASB must approve the interpretation.

International continued

Research Support	IASB staff
Budget and Funding Source	£8.5 million. Funding raised through the IASC foundation trustees mainly through private contributions of auditing firms and business enterprises internationally. Eighty-eight corporations, associations, and other institutions provided financial support in 2001.
Sector	Publicly traded for profit entities
Oversight	<p>IASC Foundation, a not-for-profit corporation incorporated in Delaware, USA. The foundation undertakes its objectives through the IASC Foundation Trustees who are responsible for governance, fundraising and public awareness.</p> <p>The trustees are self perpetuating. The mix of trustees is to be representative of the world's capital markets and diversity of geographical and professional backgrounds. Trustees are appointed for three years, once renewable terms. Trustees meet at least twice per year and are remunerated with an annual fee and a per meeting fee.</p> <p>Trustees make a formal commitment to act in the public interest.</p>
Convergence Statement	<p>See purpose (c). Mandate is to produce a single set of high-quality, understandable and enforceable global accounting standards. To encourage convergence on those global standards. It is a facilitator.</p> <p>The FASB and IASB issued a <i>Memorandum of Understanding</i> on 29 October 2002 toward formalizing their commitment to the convergence of US and international accounting standards. The agreement follows the decisions recently reached by both boards to add a joint short-term convergence project to their active agendas. The joint short-term convergence project will require both boards to use their best efforts to propose changes to US and international accounting standards that reflect common solutions to certain specifically identified differences. Working within each Board's due process procedures, the FASB and IASB expect to issue an exposure draft to address some, and perhaps all, of those identified differences by the latter part of 2003. The elimination of those differences, together with the commitment by both boards to eliminate or reduce remaining differences through continued progress on joint projects and coordination of future work programs, will improve comparability of financial statements across national jurisdictions.</p>

ACCOUNTING STANDARDS BOARD

ACCOUNTING STANDARDS IN CANADA: FUTURE DIRECTIONS

BACKGROUND TO THE DISCUSSION PAPER

Statistical Information About Canadian Public Companies

The material in this document has been provided by the TSX Group Inc., operator of the Toronto Stock Exchange and the TSX Venture Exchange. The slides were included in a presentation made to the International Summit on Financial Reporting on October 21, 2003.

Statistical Information About Canadian Public Companies

Table 1 Total Number of Canadian Public Companies (see note 1 on page 5)

	US	Non-US	Total
TSX (Toronto Stock Exchange)	268	1,054	1,322
TSXV (TSX Venture Exchange)	90	2,204	2,294
Total	358	3,258	3,616

Table 2 Company Distribution by Market Capitalization (as at October 31, 2003)
(see note 1 on page 5)

	TSX				TSXV				TSX and TSXV	
	US	Non- US	Total	%	US	Non- US	Total	%	Total	%
< \$10 M	16	117	133	10.06	56	1,843	1,899	82.78	2,032	56.19
\$10 - 25 M	14	142	156	11.80	18	233	251	10.94	407	11.26
\$25 - 50 M	16	143	159	12.03	8	82	90	3.92	249	6.89
\$50 - 75 M	17	104	121	9.15	4	23	27	1.18	148	4.09
\$75 - 100 M	9	86	95	7.19	2	9	11	0.48	106	2.93
\$100 - 500 M	69	318	387	29.27	2	13	15	0.65	402	11.12
\$500 M - 1 B	31	68	99	7.49	-	1	1	0.04	100	2.77
> \$1 B	96	76	172	13.01	-	-	-	-	172	4.76
Total	268	1,054	1,322	100.00	90	2,204	2,294	100.00	3,616	100.00

Table 3 Company Distribution by Province

	TSX	TSXV	Total	%
Alberta	249	468	717	19.83
British Columbia	178	1,087	1,265	34.98
Manitoba	24	22	46	1.27
New Brunswick	2	6	8	0.22
Newfoundland	6	9	15	0.41
Nova Scotia	18	16	34	0.94
Northwest Territories	1	1	2	0.06
Ontario	586	437	1,023	28.29
Quebec	180	160	340	9.40
Saskatchewan	6	14	20	0.55
Yukon	1	-	1	0.03
Prince Edward Island	-	1	1	0.03
Sub-total	1,251	2,221	3,472	96.02
Non-Canadian	71	73	144	3.98
Total	1,322	2,294	3,616	100.00

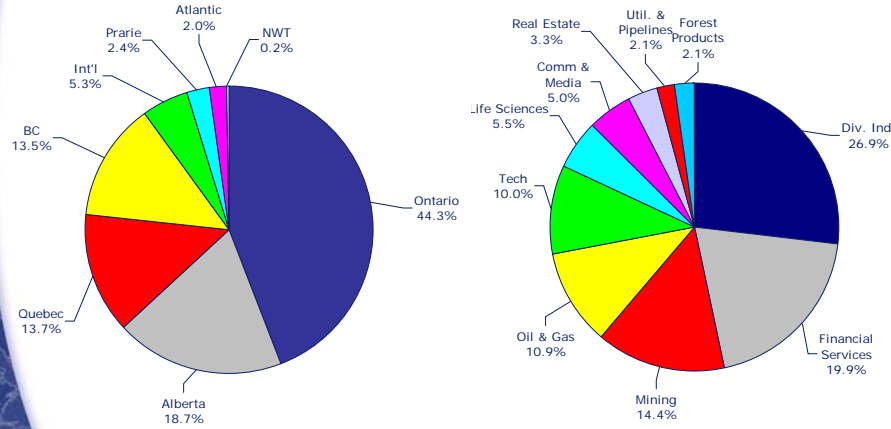
Table 4 Company Distribution by Industry Sector (see note 1 on page 5)

	TSX						TSXV				Total TSX and TSXV	
	US	Non-US	Total	%	Included in TSX Other Special Income Trusts	Purpose Issuers	US	Non-US	Total	%		%
Communications and Media	24	44	68	5.14	7	-	-	29	29	1.26	97	2.68
Diversified Industries	53	299	352	26.63	48	1	11	299	310	13.51	662	18.31
Financial Services	19	249	268	20.27	125	49	1	81	82	3.57	350	9.68
Forest Products	6	21	27	2.04	4	-	-	1	1	0.04	28	0.77
Life Sciences	24	47	71	5.37	-	-	2	63	65	2.83	136	3.76
Mining	65	127	192	14.52	2	-	48	913	961	41.89	1,153	31.89
Oil and Gas	28	119	147	11.12	28	-	10	284	294	12.82	441	12.20
Other	-	-	-	-	-	-	2	42	44	1.92	44	1.22
Real Estate	6	36	42	3.18	19	-	1	64	65	2.83	107	2.96
Technology	40	87	127	9.61	-	-	15	298	313	13.64	440	12.17
Utilities and Pipelines	3	25	28	2.12	14	-	-	10	10	0.44	38	1.05
Capital Pool Companies	-	-	-	-	-	-	-	120	120	5.23	120	3.32
Total	268	1,054	1,322	100.00	247	50	90	2,204	2,294	100.00	3,616	100.00

TSX listed companies are diverse by geography and sector ...

Total # of issuers = 1,321

Median company size = \$93.4 mm



Source: Research Services, TSX Group, as at September 30, 2003

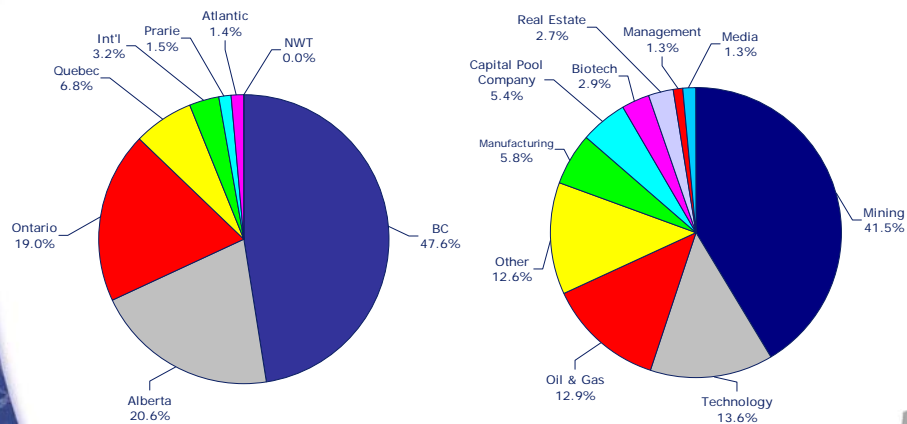
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... as are TSX Venture Exchange listed companies*

Total # of issuers = 2,300

Median company size = \$2.1 mm



Source: Research Services, TSX Group, as at September 30, 2003

*Including NEX

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Table 5 Company Distribution by Revenues (TSX only, see notes 1 and 3 on page 5)

Revenue	US	Non-US	Total
< \$100 M	109	667	776
\$100 - 500 M	56	153	209
\$500 - 1 B	20	41	61
\$1 B - 10 B	58	59	117
> \$10 B	16	9	25
No response (see note 2 on page 5)	9	125	134
Total	268	1,054	1,322

Table 6 Company Distribution by Assets (TSX only, see notes 1 and 3 below)

Assets	US	Non-US	Total
< \$100 M	83	576	659
\$100 - 500 M	52	214	266
\$500 - 1 B	31	55	86
\$1 B - 10 B	64	69	133
> \$10 B	29	15	44
No response (see note 2 below)	9	125	134
Total	268	1,054	1,322

Notes

- 1 “US/Non-US” was determined by whether or not the company was a SEC registrant.
- 2 No Response: TSX has information for most, but not all companies as information is not reported directly to it. Underlying data has been received from TSX, which has purchased this data from the Financial Post.
- 3 Asset and revenue information is not available for TSXV companies.

A small number of large Canadian public companies have significant involvement in the US capital markets

	Number	% of total issuers	% of TSX market cap
Number of Canadian-based companies interlisted in the U.S.	176	13	55 (\$631 B*)
Number of Canadian-based companies that are SEC registrants **	210	16	56 (\$595 B)

Source: Edgar, TSX Group, Bloomberg

* US Market Cap converted to Cdn dollars

** Numbers from a study done in December 2002. All other data is as of September 30, 2003.

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...while another small number of Canadian issuers reach beyond North American capital markets

	Number	% of total issuers	% of TSX market cap
Number of Canadian issuers with additional listings outside North America	33 (41 listings)	2.7	29.5 (\$324 B)
Number of Canadian issuers interlisted in the UK	17	1.3	9.4 (\$103.3 B)

Note: Data is as of September 30, 2003

Source: Research Services, TSX Group

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Canadian marketplace is very different than the US marketplace

# Issuers	Micro Cap	Small Cap	Med-Large Cap	Total
	(<\$50M)	(\$50-\$500M)	(>\$500M)	
TSX	471	592	258	1,321
TSX Venture	2,259	40	1	2,300
Nasdaq	883	1,758	725	3,366
NYSE	552	787	1,627	2,966
AMEX	544	287	60	891

Source: NYSE, Nasdaq, AMEX, TSX Group, as at September 30, 2003

Total Cdn: 3,621
Total US*: 7,223

Total market cap for Canadian public markets – CDN \$1.1 trillion

Total market cap for US public markets – CDN \$24.4 trillion*

* Excludes Chicago and regional exchanges

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Canadian global issuers attract foreign investors

	Number	% of total issuers	% of TSX market cap
Number of TSX issuers on S&P Global 1200 Index	60	5 (2.7% of S&P/1200 Global Index market cap)	55 (\$614 B)
Number of TSX issuers on MSCI World Index	84	5.4 (2.5% of MSCI World Index market cap)	49 (\$544 B)*

Source: Research Services, TSX Group, Bloomberg, Standard & Poors, MSCI

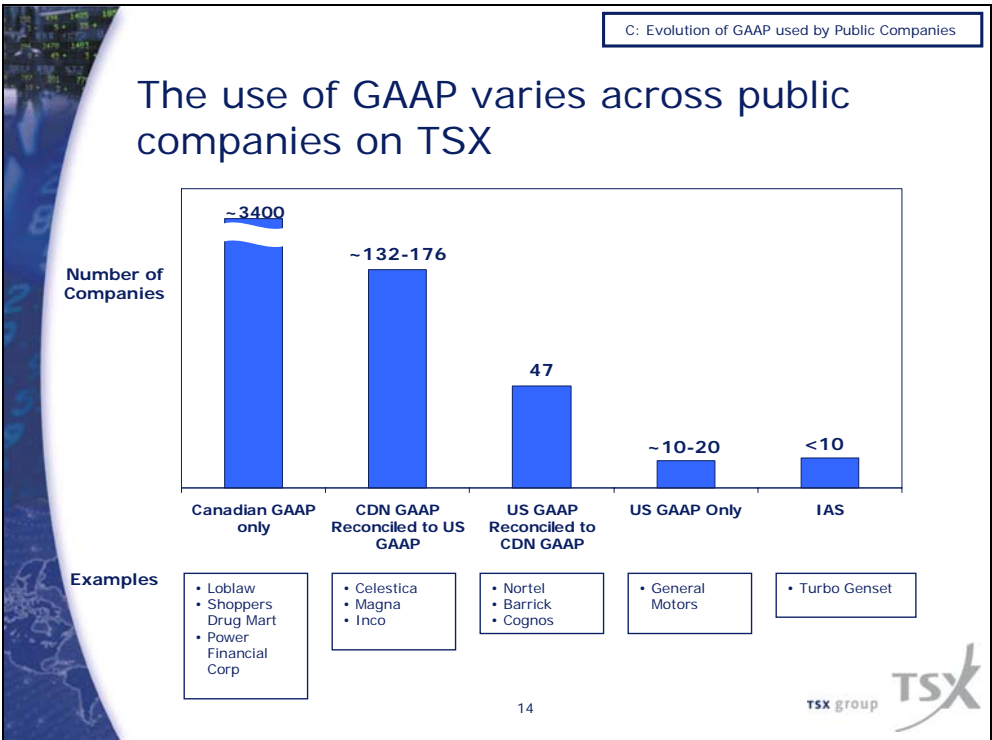
* US Market Cap converted to Cdn dollars

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Further information about global capital markets can be found on the website of the World Federation of Exchanges at www.world-exchanges.org.

ACCOUNTING STANDARDS BOARD

ACCOUNTING STANDARDS IN CANADA: FUTURE DIRECTIONS

BACKGROUND TO THE DISCUSSION PAPER

The Canadian Not-for-Profit Sector

The material in this document was prepared by the Accounting Standards Board staff as briefing material for the Board's March 31 - April 1, 2004 meeting.

The Canadian Not-for-Profit Sector

Introduction

The not-for-profit sector is a large and diverse one. It encompasses not only local charities, clubs, and churches, but also hospitals, social services, universities and colleges, museums and galleries, and foundations. In Canada, the sector includes over 77,000 not-for-profit organizations with charitable status, which is a subset of the broader sector estimated to include 175,000 to 200,000 organizations. Estimates in 2001 indicated that the organizations with charitable status in Canada alone had revenues of \$90.5 billion, employed 1.3 million people, and had a volunteer labour force estimated to be another 0.5 million full-time equivalent jobs. An illustrative list of not-for-profit organizations is included in Attachment 1.

Segments of the not-for-profit sector

There is no definitive list of the various segments comprising the not-for-profit sector. A national survey of more than 10,000 nonprofit and voluntary organizations is being conducted by Statistics Canada, with the results to be reported in the spring of 2004. This survey will include a quantitative assessment of the size, scope and activities of nonprofit and voluntary organizations.

The following discussion has been prepared, in part, from "*The Capacity to Serve, A Qualitative Study of the Challenges Facing Canada's Nonprofit and Voluntary organizations,*" a report from the National Survey of Nonprofit and Voluntary Organizations (research conducted by a consortium of organizations led by the Canadian Centre for Philanthropy). The report broadly divides the not-for-profit sector into sub-sectors which include Arts and Culture, Education and Research, Health, Social Services, the Environment, Law and Advocacy, Housing and Development, International Development, Religion, Business and Professional Associations, Sports and Recreation, and Fundraising and Volunteerism.

The not-for-profit sector is commonly thought of as being comprised of many small local organizations. However, it also includes large national organizations, and organizations that carry on operations in a commercial manner that may seek investment in the capital markets through the issuance of debt obligations and may also borrow from banks and other lenders.

Some examples of specific, large, not-for-profit organizations include universities, hospitals, United Ways, and quasi-government organizations, a few of which are profiled in Attachment 2.

Distinguishing characteristics of the not-for-profit sector

The CICA Handbook defines not-for-profit organizations as entities, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. A not-for-profit organization's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.

Not-for-profit organizations differ significantly from profit-oriented enterprises in a number of ways:

- they generally exist to provide a service (rather than enhance shareholder value);
- their revenues often represent “contributions” (for example, donations and government grants) from benefactors who want to see the service provided (rather than selling goods and services); and
- their asset base is used to provide service (rather than earn income); and they often rely heavily on a volunteer base to provide service (rather than relying solely on employees).

The Accounting Standards Board's activities in the not-for-profit sector

Background

Prior to 1995-96, not-for-profit organizations were not formally covered by the CICA Handbook. In recognition of the unique accounting and financial reporting characteristics of the not-for-profit sector, the 4400 series of CICA Handbook Sections was developed to define the not-for-profit sector and address certain of its unique characteristics. This process was assisted by the CICA's Task Force on Not-For-Profit Organizations.

Six Handbook Sections applicable to not-for-profit organizations were issued in 1996, effective for fiscal years beginning on or after April 1, 1997. At the same time, the other existing Sections were reviewed and their applicability to not-for-profit organizations was described in a table in

the Introduction to Accounting Recommendations That Apply Only to Not-for-Profit Organizations. As well, the CICA published a comprehensive, 290 page Guide, “Not-For-Profit Financial Reporting” in February 1998 to assist the not-for-profit sector in implementing the new accounting standards.

Since that time, there have been amendments to other Sections of the Handbook that parts of the 4400 series of Sections were based on. Some of these amendments were not made to the corresponding Section in the 4400 series, since that series had recently been issued and a decision was made to minimize the changes being made to it.

Reconstitution of the Not-For-Profit Organizations Advisory Committee

As a result of the foregoing, the Task Force on Not-For-Profit Organizations was reconstituted as the Not-for-Profit Organizations Advisory Committee in early 2003. The Advisory Committee’s responsibilities include advising the Accounting Standards Board and its staff on actual or potential financial reporting issues unique to the not-for-profit sector and recommending new projects when warranted. In particular, the Advisory Committee assists the Accounting Standards Board by:

- reviewing project proposals, discussion papers, statements of principle and exposure drafts to identify whether a project is likely to pose particular issues for not-for-profit organizations, and suggesting ways of dealing with such issues;
- keeping users, preparers and auditors/reviewers of not-for-profit organizations’ financial information informed about the Board’s activities, including assisting the Board in communicating proposed or final standards potentially having a significant effect on not-for-profit organizations and the rationale for the requirements of those standards; and
- developing guidance in implementing accounting standards for not-for-profit organizations and, when requested, acts as an expert resource for the Board and its staff in dealing with specific accounting issues having implications for not-for-profit organizations.

The Advisory Committee has met a number of times and has reviewed the changes made to the Handbook since 1996. Based on this review, the Advisory Committee has identified some

improvements that should be incorporated into the 4400 series of Handbook Sections to ensure that it is consistent with other current Handbook Sections. Further, the Advisory Committee has identified areas in practice that should be addressed in the current accounting and financial reporting environment. The Advisory Committee conducted a survey of its priorities in September 2003, requesting respondents to identify any potential improvements that are needed as a result of inconsistencies in current practice, or new or unique accounting or disclosure issues for not-for-profit organizations.

The Accounting Standards Board has recently begun an Accounting Standards Improvements project. The Advisory Committee is considering the need for corresponding amendments to the Sections of the Handbook addressing not-for-profit organizations.

* * * * *

Illustrative List Of Not-For-Profit Organizations

The following list is illustrative of the breadth of the spectrum covered by the not-for-profit organizations, and is not meant to be all-inclusive.

Agricultural marketing boards

Arts and cultural

- Art galleries and museums
- Arts councils
- Performing arts organizations

Business and professional organizations

- Labour unions
- Professional associations
- Trade associations

Cemeteries

Condominium corporations

Educational

- Colleges/CGEPs
- Private schools
- Universities

Environmental organizations

Funding foundations

- Hospital foundations
- Community foundations

Health care societies

(Red Cross, Cancer)

Health organizations

- Hospitals
- Community services
(Victorian Order of Nurses)

International development organizations

Memorial societies

Political parties

Public broadcasting stations

Religious/fraternal organizations

Research and scientific organizations

Social services

- Civic organizations
- Community development agencies
- Food banks
- Homeless shelters
- Housing and development
- Libraries
- Voluntary health and welfare organizations

Sports and recreation

- Community groups
- Sports/athletic groups
- Social and country clubs
- Uniformed groups (Scouts, Guides)
- Zoological and botanical societies

Specific Examples Of Larger Not-For-Profit Organizations

The not-for-profit sector is estimated to be comprised of some 175,000 to 200,000 organizations in Canada many of which are very small. However, there are also very large and sophisticated organizations in the sector with very diverse mandates. The following are a few examples of larger not-for-profit organizations.

University of Toronto – an institution dedicated to providing post-secondary education and to conducting research. The University had net assets of \$1.3 billion at April 30, 2003, including \$1.1 billion in endowments, and received \$1.2 billion in revenues in 2003.

University Health Network – a corporation without share capital incorporated under the Toronto Hospital Act, 1997, devoted to patient care, education and research. The Network operates on three hospital sites, separately identified as Princess Margaret Hospital, Toronto General Hospital and Toronto Western Hospital. UHN received \$900 million in revenue in 2003, and had net assets of \$238 million at March 31, 2003.

Canadian Egg Marketing Agency – manages the production, pricing, distribution and disposition of eggs in Canada and promotes the sale of eggs. The Agency received \$146 million in revenue in 2002, and had \$6.1 million of fund balances at December 28, 2002.

Public Service Alliance of Canada (union) – receives annual revenues of over \$42 million and had over \$28 million in net assets at December 31, 2000.

Public Sector Foundations – have been created by the Federal Government to achieve its public policy objectives. Some of those incorporated under Part II of the *Canada Corporations Act* (with funding amounts to March 31, 2001) are: Aboriginal Healing Foundation (\$350 million); Genome Canada (\$300 million); Foundation for Sustainable Development Technology in Canada (\$100 million) and Canada Health Infoway Inc. (\$500 million). Those created under separate legislation include the Canada Foundation for Innovation (\$3,150 million); and the Canada Millennium Scholarship Foundation (\$2,500 million). These foundations have generally invested the government funding contributions in bonds, treasury bills, bankers' acceptances and

NHA mortgage backed securities and are currently spending a portion of the grants on an annual basis.

Airport Authorities – include the Greater Toronto Airports Authorities, the Vancouver International Airport Authority, the Ottawa MacDonald-Cartier International Airport Authority and the Halifax International Airport Authority. An example of an airport authority is the Greater Toronto Airports Authority (GTAA), which was incorporated in 1993 under Part II of the *Canada Corporations Act*. The GTAA is a corporation without share capital with a mandate to provide the Greater Toronto Area with a regional system of airports that meet the current and future demands for air services. The consolidated financial statements indicate long-term outstanding debt of \$4.5 billion as at December 31, 2002. Net assets of \$68 million are segregated into externally restricted, internally restricted, and unrestricted funds on the consolidated balance sheet. The corporation had revenues of \$578 million for the nine months ended December 31, 2002.

NAV CANADA – a non-share private corporation that owns and operates Canada's civil air navigation service. NAV CANADA employs some 5,500 individuals across Canada, has no shareholders, and is financed through the debt markets. The 2002 financial statements indicate that NAV CANADA had some \$1.9 billion in long-term debt, including \$199 million in bank loans outstanding as of August 31, 2002. Under its capital markets platform, the company also has a drawn and undrawn committed borrowing capacity of \$2.943 billion that is used to meet its ongoing financial requirements including bond maturities. On January 11, 2002, NAV CANADA issued a prospectus in relation to the issue of \$500 million in debt securities.

ACCOUNTING STANDARDS BOARD

ACCOUNTING STANDARDS IN CANADA: FUTURE DIRECTIONS

BACKGROUND TO THE DISCUSSION PAPER

Reported Canadian/US GAAP Differences

Survey of Canadian annual reports for years ending in 2002

The material in this document has been extracted from a paper presented to the Accounting Standards Oversight Council in February 2004. It summarizes the results of research and analysis done by the Accounting Standards Board staff in 2003.

Reported Canadian/US GAAP Differences

Survey of Canadian annual reports for years ending in 2002

I – Introductory Comments

This report analyzes the results of reported Canadian/US GAAP differences in a survey of 150 public Canadian companies for fiscal years ending in 2002. All the companies selected for this study have listings on major US stock exchanges or issue sizeable debt offerings in the US.

In recent years, a major focus of the Canadian Accounting Standards Board (AcSB) has been the harmonization of Canadian accounting standards with those in the United States – that is, the elimination of significant unjustifiable differences between Canadian and US GAAP. It is intended that this report and the accompanying analyses will assist the AcSB to measure its progress and choose future harmonization projects.

Canadian standards are principles-based and contain varying degrees of implementation guidance. The AcSB seeks to avoid excessive-detailed “rules-based” standards, requiring reporting entities and their auditors to exercise professional judgment. In a number of areas, the AcSB has deliberately chosen not to adopt more extensive implementation guidance and “bright line” tests often found in US GAAP. This necessarily means there will continue to be significant differences in the application of US and Canadian GAAP, including areas where the standards in both countries are based on the same fundamental principles (“harmonized”). Furthermore, for various reasons explained below, the relative significance of specific differences can vary from year to year and, of course, the differences change as the standards in both countries continue to evolve. Accordingly, the primary purposes of this survey are:

- to identify new or unintended differences; and
- to assist the AcSB in determining the status of continuing differences as follows:
 - the AcSB or FASB has eliminated the difference such that it should not arise on new transactions (certain transitional differences arising from transactions and events in prior years may continue to be report for several years but should decline in number and significance over time);

- the AcSB or FASB has a project underway or imminent that is expected to eliminate the difference; or
- the AcSB has considered the difference and does not intend to take action in the foreseeable future, presumably because the Canadian GAAP treatment is considered superior or the difference generally does not result in material differences in most situations.

Attachment 1 sets out an analysis of Canadian/US GAAP differences by topic.

II – The Companies – Basis for Selection

The 150 surveyed public Canadian companies were selected as follows:

- All of the largest 200 Canadian companies by asset size (as reported in the Financial Post “FP 500”, June 2002) that are SEC registrants (90 companies) were examined.
- A sample of additional Canadian companies listed on the NYSE, NASDAQ or AMEX was selected (60 companies). Preference was given to companies that were included in the 2001 survey.

Twelve companies included in the 2001 sample did not qualify for inclusion this year. In selecting replacement companies, we attempted to maintain the industry classification balance in order to maintain comparability.

In order to facilitate our analysis, we have used the industry classifications assigned by.

This is the fifth survey of Canadian/US GAAP reconciliations. The survey basis and approach are consistent with the 2000 and 2001 studies. The number of companies selected in each industry classification has remained fairly consistent since 2000. While there are undoubtedly some errors and omissions, we are reasonably confident that the survey captures the nature and extent of the significant differences reported in the surveyed 2002 annual reports.

III – Companies Not Providing a Reconciliation of Canadian – US GAAP Differences

Seventeen companies in the survey (11% of the sample) prepared separate financial statements in both Canadian and US GAAP and did not provide a GAAP differences reconciliation. Of the 133 companies reporting Canadian/GAAP differences (150 minus the 17 that did not provide reconciliations), 127 provided reconciliations in the notes to their audited financial statements and 6 companies provided this information only in filings with the SEC.

IV – Quality of Reconciliation Information

The quality of reconciliation information varied significantly. Some companies provided reconciliations that were well presented and included reasonably detailed information regarding the differences and, when relevant, their effects on income. However, some others provided information that was overly summarized, so that it was sometimes impossible to separate differences and assess their effects on income. There were also some statements that included long and complex notes that obscured information.

We had difficulty classifying reported differences in some situations for the following reasons:

- Inadequate note explanations made classifications of the nature of some reported differences difficult.
- We attempted to classify differences by their basic cause, which was sometimes difficult to ascertain from the information provided. For example, a company involved in a business acquisition might allocate an amount to a pre-operating cost asset under Canadian GAAP that would be a goodwill asset under US GAAP, with different ultimate expense effects – should the difference be treated as a pre-operating cost or a business combination difference? In this case, we consider the primary underlying cause to be the difference in the treatment of pre-operating costs.

The published reconciliations were accepted as being complete and accurate in all material respects. No attempt has been made to evaluate the appropriateness of the interpretation and application of either Canadian or US GAAP as expressed or implied by the reconciliations.

V – Analysis of Reported Differences – General Comments

The 133 companies reporting Canadian/US GAAP differences reported a total of 610 differences.¹ The number of differences did not decline from the numbers reported in previous years to the extent that might have been expected. Also, the reported differences in 2002 financial statements do not constitute a complete list of potentially material differences between Canadian and US GAAP. There are several reasons:

- Several standards issued during this period by the AcSB and the FASB that harmonize Canadian GAAP with US GAAP were not yet effective.
- Some transitional differences persist in respect of harmonized standards that are in effect (and some of these differences could persist for many years). For example, both Canadian and US standards changed to require no amortization of goodwill and subject certain intangible assets to more stringent impairment requirements, but the transitional provisions for implementing this change are different.
- Certain potential differences may occur or be significant in some years and not in others depending on the type of transactions, events, and economic transactions taking place. Important changes in environmental circumstances affected the number of reported differences in some years. For example:
 - In 2002, 26 fewer differences arose with respect to accounting for income taxes than in 2001. The differences relate to the requirement under US GAAP that the effects of new tax legislation be reflected when that legislation is “enacted”, while under Canadian GAAP the requirement is that legislation be “substantially enacted”. It is presumed that less Canadian tax legislation was not fully enacted in 2002 as compared with 2001.
 - On the other hand, 32 more companies reported income differences due to pension accounting in 2002 than in 2001. This increase is the result of poor investment performance and reduced interest rates over the preceding years, causing the fair value of pension plan assets to fall and the present value of defined benefit plan obligations to rise. US GAAP requires that companies record a liability and a charge to other

¹ This somewhat understates the number of differences because some companies had more than one difference within a single category.

comprehensive income when a measure of plan obligations exceeds the fair value of pension plan assets and unamortized past service costs; Canadian standards do not have this requirement.

- Some improvements in the process of identifying differences moderately increased the number of reported differences in 2002 over 2001 and 2000.

For these reasons, we believe there is limited value in making detailed statistical comparisons with the results of our previous surveys, especially for periods predating 2000. For the most part we have concentrated on the 2002 reconciliations, with limited comparisons with 2001 where it seems appropriate.

The following is a range of reported differences per company between 2000 and 2002.

Number of Companies:	2002	2001	2000
Reported no differences	6	6	3
Reported 1-3 differences	40	40	50
Reported 4-6 differences	57	53	48
Reported 7-9 differences	27	31	16
Reported 10 differences	2	1	
Greater than 10 differences	1	2	1
Total number of companies	133	133	118

It is noteworthy that all five years' surveys indicate a significantly larger proportion of companies reporting higher net income under Canadian GAAP than under US GAAP. However, the number of companies reporting higher income under Canadian GAAP in 2002 has declined somewhat from 2001 and 2000.

Nearly half of the individual differences are immaterial to the financial position and results of operations of the companies reporting them although the combined effect of several immaterial individual items can obviously be material. The accompanying analysis concentrates on those instances where the differences were material (any revenue, expense, gain or loss less than 5% of net income being considered immaterial for this purpose).

Voluntary Differences

A number of the reported differences are voluntary – that is, companies could have chosen a Canadian GAAP alternative that conformed to US GAAP but chose to be different. For example, 10 companies (2001 – 12 companies) reported that they chose not to follow US standards for interest capitalization. While some voluntary differences are reasonably evident, many differences are not fully described or would require more research for us to be confident in determining whether they are voluntary. For example, it is hard to assess whether differences relating to cost deferrals are voluntary or due to GAAP conflicts, although it would appear that many of them are likely voluntary. Also, most of the differences relating to stock compensation seem likely to be voluntary. We have not tried to hazard an estimate of the number or proportion of voluntary differences.

Differences that will be eliminated

A large number of reported differences will be eliminated in future years as a result of:

- newly completed accounting standards that harmonize Canadian standards with US GAAP but did not come fully into effect in the current year; and
- current or planned projects to harmonize Canadian and US GAAP.

Attachment 2 sets out an analysis of these differences, including a rough estimate of the number of Canadian/US GAAP differences reported in 2002 that should be expected to be eliminated in future years in respect of the more significant standard setting projects, recently completed or underway, to harmonize Canadian and US accounting standards. It is noted, however, that some differences will persist for some time in each of these areas where there are transitional effects resulting from changes in standards.

* * * * *

Analysis of Canadian/US GAAP Differences by Topic

Topic	Reported	Immaterial 2	Transition 3	In Process 4	Inactive	Comments
Foreign currency translation	13	10*			3	Relates to release of CTA to income
Goodwill and other intangible assets	19	1*	18			
Extraordinary items	6	5*	1			FASB has changed
Stock compensation	41	33*	8			
Impairment of long lived assets	22	4	18			
Disposal & discontinued operations	4	2*	2			
Business combinations	7	5	2			
Employee benefits	58	19	16		23	Minimum pension liability
Income taxes	32	11**	6		15	Use of “substantially enacted” rates
Receivables/ securitizations	3	2		1		
Financial instruments	74	27*		47		
Debt/equity classification	43			43		Impact often material to balance sheet. Impact also material to P&L in 18 cases

² Items affecting net income by less than 5%. Not applicable to items that affect balance sheet only.

³ Standards that are now harmonized by action taken by AcSB or FASB but either not yet in effect in both countries or there is a transitional balance from periods prior to the change.

⁴ Projects activated or imminent by AcSB or FASB.

* These immaterial items will also be eliminated as a result of active or imminent AcSB or FASB projects.

** These immaterial items were not analyzed to ascertain if they might be affected by active or imminent AcSB or FASB projects.

Topic	Reported	Immaterial 2	Transition 3	In Process 4	Inactive	Comments
Change of policy	1			1		FASB intends to change
Consolidation/equity method	21	8**		2	11	Differences in when/how to apply equity method
Joint ventures	39	***			39	Canada is unique in requiring proportionate consolidation
Hedging	19	10*		9		
Government Assistance	1	1				
Non-monetary transactions	3	2		1		
Restructurings	3		2		1	“Fresh start” used in Canada
Leases	7	4			3	Targeted for global project
Capitalized interest	11	8			3	Voluntary difference
Debt	1	1				
Deferred charges	49	26	1		22	3 mining; 3 life ins. cos.; 13 are pre-operating costs
Inventories	2	1			1	NRV used in Canada
Investments – cost/fair value	42	18*		24		
Investments- other	6	4			2	1 life co
PP&E and depreciation	9	2	4		3	2- reserves included in base by mine; 1-when to start depreciating [in use vs. available for use]

*** These items do not affect net income but do materially affect assets, liabilities, revenues and expenses.

Topic	Reported	Immaterial 2	Transition 3	In Process 4	Inactive	Comments
R&D	21	14			7	FASB intends to change re in-process R&D; Canadian GAAP arguably superior
Shareholders' equity	12	12 ^{***}				These are reclassifications within equity
Revenue recognition	12	4 ^{***}		8		EIC recently issued significant guidance based on EITF/SAB-101. Global project underway
Costs deducted from sales	9		9			EIC recently issued guidance based on EITF
Other	16	12 ^{**}			4	3 financial institutions

Canadian/US GAAP Differences That Are Being Eliminated

Completed standards

Foreign currency translation –

- Canadian standard harmonized with US GAAP in eliminating deferral and amortization of gains and losses on foreign currency denominated monetary assets and liabilities effective for fiscal years beginning on or after January 1, 2002.
- Number of differences – **10** (These are reported differences by companies whose 2002 fiscal years began before the effective date of this standard, January 1, 2002).

Goodwill and other intangible assets –

- Goodwill and other intangible assets with indefinite useful lives are no longer amortized to earnings, but periodically tested for impairment. Canadian and US standards harmonized for fiscal years beginning on or after January 1, 2002.
- Number of differences – **19** (These all relate to differences in transitional provisions between US and Canadian GAAP).

Extraordinary items (early debt retirement) –

- The FASB withdrew the rule to classify gains and losses on extinguishment of long-term debt as extraordinary items effective in 2002. Consistent with Canadian GAAP, such gains and losses will now be included in income before extraordinary items.
- Number of differences – **6** (These are reported differences in 2002 by companies with year ends before the FASB effective date).

Stock-based compensation and other stock-based payments –

- New Section 3870, Stock-based Compensation, was changed to require that stock based compensation be accounted for on the same basis as SFAS 123, Accounting for Stock-Based Compensation, effective for fiscal years beginning on or after January 1, 2002.
- Number of differences – **41**.

Impairment of long-lived assets –

- Impairment provisions of Section 3061, Property, Plant and Equipment, replaced by Section 3063, Impairment of Long-Lived Assets, have been harmonized with FASB standards, effective for fiscal years beginning on or after April 1, 2003.
- Number of differences – **22**.

Disposal of long-lived assets and discontinued operations –

- New Section 3475, Disposal of Long-Lived Assets and Discontinued Operations, harmonized with FASB standards for the recognition, measurement, presentation and disclosure of the disposal of long-lived assets. This Section replaces the disposal provisions of Section 3061, Property, Plant and Equipment, and also Section 3475, Discontinued Operations. Canadian standard effective May 1, 2003.
- Number of differences – **4**.

Consolidation of variable interest entities –

- New Guideline AcG-15, Consolidation of Variable Interest Entities, (VIEs) has been harmonized with new FASB standard, requiring that VIEs that are financially dependent on a primary beneficiary be consolidated by the primary beneficiary. The Canadian standard is effective for all annual and interim periods beginning on or after November 1, 2004.
- Number of differences – **4**.

Other transitional differences re standards that were effective in prior years

- Effects of differences in the treatment of changes arising on adopting new standards. These differences will ultimately disappear as the effects of changes are reflected in subsequent years' income. Reported transitional differences in 2002 are in respect of Canadian standards in the following areas that were harmonized with US GAAP in prior years: business combinations, pensions and post-employment benefits, income taxes, and securitizations.
- Number of differences – **27**.

AcSB projects underway or planned

Financial instruments and hedge accounting –

- The AcSB is in the final stages of developing a set of Canadian standards that will harmonize Canadian GAAP with US and IASB standards on accounting for investments (SFAS 115, Accounting for Certain Debt and Equity Securities) and derivatives and hedges (SFAS 133 and subsequent amendments).
- Number of differences – **131** (in the future, Canadian companies will be able to create certain voluntary differences with US GAAP in a few areas where Canadian standards may allow some alternatives not permitted under US GAAP).

Debt-equity classifications –

- The AcSB has amended the requirements in Section 3860, Financial Instruments – Disclosure and Presentation, concerning the balance sheet classification of issued securities as liabilities or equity. The purpose of the amendment is to follow closely the FASB standard on Liabilities and Equity.
- Number of differences – **43**.

Accounting standards improvements –

- The AcSB has commenced a project to amend and improve certain Handbook standards that are no longer relevant, are incomplete, contain unjustified inconsistencies with US

and IASB standards, or where there may be questions of style, lack of specificity, or effectiveness. This project can be expected to result in some significant reduction of differences with US GAAP, but it is too early to estimate the number of differences that will be eliminated.

Total differences expected to be eliminated – approximately 300

The differences expected to be eliminated in future years constitute almost 50% of the total differences reported by the 133 companies in the 2002 survey. It may be rather optimistic to expect that all these differences will be eliminated in the near term because of transitional differences that may take some time to work through.

ACCOUNTING STANDARDS BOARD

ACCOUNTING STANDARDS IN CANADA:
FUTURE DIRECTIONS

BACKGROUND TO THE DISCUSSION PAPER

Differential Reporting for Profit-Oriented Enterprises

This document has been prepared by the staff of the Accounting Standards Board.

Differential Reporting for Profit-Oriented Enterprises

The following discussion addresses challenges to the universal application of the full extent of Canadian GAAP other than those applied by not-for-profit organizations and governments. Generically, any accommodation is referred to as “differential reporting” and includes the differential reporting options currently provided in the CICA Handbook – Accounting.

Background

The “standards overload” debate is not new¹ and has been recognized by the Accounting Standards Board and its predecessors from at least 1980. It gained momentum with the publication of the first financial instruments standard, Section 3860, early in 1996 and has been further fuelled by the recent move toward global harmonization of standards.

A 1999 CICA Research Report, *Financial Reporting by Small Business Enterprises*, surveyed the needs of the users of small businesses’ financial statements and the concerns of accounting practitioners who service small business clients. The Research Report recommended a principle that would allow a simplified standard, where appropriate, available only to private entities. The standard developed by the Board following its review of the Research Report’s findings, Handbook Section 1300, *Differential Reporting*, establishes the framework to enable differential reporting alternatives at the discretion of the Board. Key features of this framework are discussed below.

Who qualifies for differential reporting?

To qualify for any differential reporting option, an entity must be a non-publicly accountable enterprise (that is, a for-profit entity) that obtains the unanimous consent of all of its owners (or

¹ “Big GAAP/Little GAAP” issues were raised in the 1980 Report to the CICA Board of Governors by the CICA Special Committee on Standard-Setting and again in the Accounting Standards Committee’s 1984 report “Financial Reporting by Small Businesses.”

beneficiaries, in the case of a trust) to the use of the option. Consent is required for each option chosen. Once provided, consent remains in force until revoked by any individual owner.

What are the Differential Reporting options currently available?

The options currently available are:

- Qualifying enterprises are not required to consolidate subsidiaries and may choose either the cost method or the equity method to account for these investments.
- Long-term investments may be accounted for using the cost method.
- Joint venture interests may be accounted for using either the equity method or the cost method.
- A qualifying enterprise may elect to test for goodwill impairment only on the occurrence of an event or circumstance that may be evidence of impairment.
- Shares issued in a tax re-organization that would otherwise be classified as liabilities may be classified as equity.
- Qualifying enterprises may elect to omit certain share capital disclosures for unissued classes of shares.
- The taxes payable method may be elected.
- Certain disclosures about financial instruments may be omitted and certain related party financial instruments do not need to be measured at fair value.

How are differential reporting options identified and approved?

A Differential Reporting Advisory Committee (DRAC), comprising representatives from private companies, banks and practitioners with private company clients, identifies issues encountered in the course of their normal activities and reviews proposed new and amended standards for potential issues. With the assistance of the Board's staff, the DRAC prepares proposals for differential options. To gain approval of its proposals, the DRAC must convince the Board that the costs of complying with the standard exceed the benefits and that any alternative treatment proposed does not compromise the needs of users.

Analysis

What works under the current framework?

The Canadian differential reporting framework allows the development of GAAP solutions to many practical problems encountered by private businesses. The Study Group charged with developing the Research Report and its successor, the DRAC, have been generally effective in developing differential GAAP options that meet the requirements of financial statement users but provide relief to preparers. Many of the options alleviate otherwise extensive disclosures. A more limited number provide relief from recognition and measurement requirements. The framework has been gaining acceptance amongst enterprises, practitioners and lenders.

What are the outstanding concerns?

Qualifying enterprises

Some entities currently ineligible for differential reporting believe that they should be eligible. A large number of relatively closely held public companies perceive little or no benefit to full compliance with GAAP and have difficulty producing all of the required information without incurring significant costs.

The Canadian differential reporting framework is rooted in the concept of accountability – financial statement users have the power to determine the basis on which an entity should be accountable to them. Any entity with public accountability must comply with the full extent of Canadian standards. No differential reporting system currently available internationally provides GAAP relief to entities with public accountability. However, some assert that a number of recent standards, especially those in the wake of Enron such as Accounting Guideline AcG-15, Consolidation of Variable Interest Entities, are designed to prevent abuse by the largest of public companies without regard for the costs of compliance by those entities with more modest resources.

Canada does not currently have a legal or regulatory framework that would permit further stratification of entities for financial reporting purposes. Unanimous owner consent is required for differential reporting because a majority should not be able to deny any owner the right to information to which he or she is legally entitled. Any change to corporate enabling legislation

that would permit departures from GAAP would open a door to more alternatives. Any reduction in reporting requirements for certain entities with public accountability would need, at a minimum, the support of the regulations governing the public issuance and trading of securities.

If differential reporting were to be extended in any form to publicly traded entities, further consideration of the optional nature of the provisions would be necessary as comparability between reporting entities is important to the efficient flow of capital.

The Board considered whether the size of the reporting entity should be a factor in defining eligibility for differential reporting. Both the UK and New Zealand have incorporated size criteria into the eligibility for their differential reporting standards. The Background Information and Basis for Conclusions document for Section 1300 notes that there is a presumption of disproportionate cost of financial statement preparation to user benefits in small businesses. However, size is a weak qualifier because it does not really address accountability while presuming what the effect of accounting requirements is.

In proposing amendments to its legislation prescribing financial reporting standards, New Zealand notes that it also focuses on the concept of economic impact in its eligibility requirements. Adding economic impact to accountability opens a number of possibilities for refinements in the qualifying criteria; for example:

- number of shareholders.
- number of employees.
- level of customer dependence (a higher reporting standard might be desirable for an entity with a regional monopoly for its products or services).

Nature of available differential reporting alternatives

Some financial statement preparers believe that there are outstanding issues for which differential reporting alternatives should be developed. Some constituents believe that more current standards require differential options. In addition, new standards continue to present challenges to the small business community. Matters of particular concern that have been raised with the Board are the standards that:

- require certain shares to be presented as liabilities. While there are no conceptual arguments against these standards, some argue that recent changes to Handbook Section 3860, Financial Instruments – Disclosure and Presentation (corresponding to FASB Statement 150, which receives similar criticism in the US) penalize private businesses by failing to recognize that the features that cause the liability classification are required in private equity financing to compensate for the lack of liquidity of the shares. In other words, private businesses could be in a position of showing virtually no equity simply because the owners are unable to transfer their interests. Classification as liabilities does not truly represent the nature of these interests either – most lenders view liabilities to owners as equity. The Financial Executives Institute’s Committee on Private Companies noted in a letter to the FASB that FASB Statement 150 puts private companies at a disadvantage not only in maintaining debt covenants and obtaining supplier credit, but also in competing for government contracts.
- require fair value measurements. Many private businesses do not have the resources to determine the fair values of their assets and liabilities and believe that the cost to perform these calculations exceeds any benefits. Concerns include fair value measurements of items required by:
 - the new financial instruments standards;
 - Handbook Section 3063, Impairment of Long-Lived Assets;
 - Handbook Section 3110, Asset Retirement Obligations;
 - Handbook Section 3062, Goodwill and Other Intangible Assets, and
 - Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments.

These concerns are echoed by firms of public accountants that service private companies. In many cases, valuation expertise is outside the capability of many small firms. Even when a practitioner has the ability to value assets or businesses, changes to the independence rules prevent auditors from providing these services to their audit clients. It is difficult for a practitioner to convince a private business client that is not required by a lender or other financial statement user to provide fair value measurements that the additional expense is justified. In some cases, fair value measurement requirements are contributing to a tendency to downgrade audit engagements to reviews or compilations.

- create accounting/tax differences. Handbook Section 3065, Leases, is often mentioned in this context.
- require extensive disclosure requirements with associated additional costs. Alternatives to new requirements in Handbook Section 3461, Employee Future Benefits, are in process and requirements for Section 1506, Accounting Changes, are under discussion.

Small practitioner issues

Small business practitioners indicate that they are experiencing increasing difficulty servicing their clients. Practitioners dealing with small business clients report a tendency for these clients to downgrade their audit engagements to reviews or compilations on the basis that compliance with GAAP is too costly for the benefit provided. Within the existing framework, practitioners report that not all entities that could benefit from differential reporting avail themselves of the options due to reluctance to approach certain owners. To avoid the unanimous consent requirement in Handbook Section 1300, some entities choose their own non-GAAP approaches and either accept qualified audit opinions or, frequently, downgrade to review or compilation engagements.

Some practitioners argue that they are challenged to develop or acquire the expertise within their firm to comply with the newer fair value measurement standards for financial instruments and stock options. As the move toward fair value measurements increases, this issue will get worse.

The new audit independence standards add a level of frustration to practitioners dealing with smaller companies – auditors are no longer permitted to provide many of the services traditionally provided to small business. There is a question as to whether all businesses are well-served by these new rules. Although small practices can work with larger accounting firms to perform some of the prohibited non-audit services, this is not always a desirable, cost-effective alternative for some businesses.

Many of these issues are not within the mandate of the Board. However, they do suggest that a comprehensive approach to meeting the needs of private businesses might be effective.

Other related issues

The differential reporting options currently available have been slow to gain acceptance. Despite the fact that Canada's differential reporting options have been structured as acceptable GAAP alternatives, some financial statement preparers and users view financial statements presented with any of the available options as being inferior to financial statements prepared without reference to differential reporting options. The result is that some consider differential reporting to be "tainted" GAAP, in other words, not generally accepted accounting principles.

The Board cannot provide or endorse low quality financial reporting standards and cannot unilaterally address many of the current small and medium sized business reporting issues. On the one hand, the Board is concerned about whether the differential reporting system is being used.

International Developments

There is no universally accepted model for approaching differential accounting. As noted below, both the criteria for qualifying for differential treatment and the nature and extent of the available options vary widely. This section provides an update of some of the more significant recent developments in differential reporting internationally.

International Accounting Standards Board (IASB)

The IASB is in the midst of a project to review the International Financial Reporting Standards (IFRS) for areas of possible overload. It plans to produce a set of accounting standards suitable for non-publicly accountable entities. Individual countries following IFRS would determine any further qualification requirements such as size or significance tests. Unanimous consent of the owners would be required to use the differential standards. These standards would operate like the Canadian differential reporting options in that a regular IFRS would apply where there is no differential standard. The IASB has not decided whether the differential standards will be mutually exclusive.

The standards will be built by modifying the concepts or principles in IFRS to suit the needs of private business financial statement users and on the basis of a cost/benefit analysis. The modifications will target disclosure and presentation issues. The IASB is working on the

premise that recognition and measurements principles will not be changed unless supported by user needs and disproportionate costs to benefits.

The IASB is preparing a discussion paper and will target financial statement user groups for input.

United Kingdom

The UK Accounting Standards Board (ASB) first adopted a Financial Reporting Standard for Smaller Entities (FRSSE) in 1997. It is a self-contained standard; entities that adopt it are exempt from other accounting standards. The ASB routinely exempts qualifying entities from new standards so that it can determine whether there is a need to amend the FRSSE.

In general, the FRSSE reduces the disclosure burden for small entities which are defined as having revenues less than £5.6 million (approximately \$13.75 million), total assets less than £2.8 million (approximately \$6.8 million) and no more than 50 employees. It is restricted to unconsolidated financial statements. Current or fair value measurements are optional under the standard, a point on which the FRSSE differs significantly from GAAP in other jurisdictions.

The UK also provides some reporting relief to certain companies with revenues less than £22.8 million, total assets less than £11.4 million, and fewer than 250 employees.

New Zealand

New Zealand was the first jurisdiction to enable differential reporting for small and medium sized entities. It currently exempts certain companies from meeting the full legislated reporting requirements on the basis of public accountability and asset and income thresholds. Some of these exemptions are provided within the Financial Reporting Act (1993); others are embedded in the accounting standards published by the Accounting Standards Review Board (ASRB). Effectively, this creates a three-tier system.

New Zealand's legislative qualifying criteria are based on economic impact, defined as a function of features of the business including public financing and its size. The differential reporting regime adds an accountability criterion that includes consideration of the degree of separation between management and ownership.

Exempt companies, the bottom tier, have total assets less than NZ\$450,000 (\$395,000) and revenues of less than NZ\$1,000,000 (\$878,000). They have no subsidiaries and are not themselves subsidiaries of other companies. They have no more than 25 shareholders. Exempt companies are not required to prepare financial statements except as required by specific users.

Differential reporting applies to middle tier companies with no public accountability, no separation between ownership and management or with total assets less than NZ\$2.5 million (\$2.2 million), total assets less than NZ\$5 million (\$4.4 million), and fewer than 20 employees. Differential reporting provides exemptions from cash flow statements and segment reporting as well as a number of measurement, presentation and disclosure options.

New Zealand will require adoption of IFRS by 2007 with optional early adoption starting in 2005. The government is currently seeking input into possible amendments to its Financial Reporting Act that could establish the three-tier system directly within the legislation. There are no indications as how the ASRB will incorporate any of the differential standards developed by the IASB into its framework.

United States

The auditing standards of the American Institute of certified Public Accountants (AICPA) allow audit reports on non-GAAP financial statements prepared using an “Other Comprehensive Basis of Accounting.” As a result, a range of financial reporting practices have been available to small businesses. On March 18, 2004, the FASB announced the establishment of a Small Business Advisory Committee comprised of lenders, investors, analysts, preparers and auditors involved with small businesses. The AICPA formed, in December 2003, a Private Company Financial Reporting Task Force to investigate the relevance and extent of use of current GAAP requirements, cost/benefit imbalances, concerns about fair value accounting, and the relevance of international convergence efforts. This group, chaired by a former AICPA chairman, will work with the American Bankers Association, Financial Executives International, the National Federation of Independent Business and state CPA societies to explore these issues.

Summary

International efforts at addressing the differential reporting issue to date incorporate a number of criteria:

- separation of management from economic interest:
 - degree to which owners are actively involved in management of the business.
 - number of shareholders.
 - shareholder consent.
- political influence.
- economic influence:
 - size by assets.
 - size by revenue.
 - number of employees.
- other aspects of accountability (not-for-profit organizations).

Differential options include:

- reduced disclosures.
- permission to use tax basis measurements.
- permission to avoid fair value measurements.
- permission to prepare on a cash basis.
- exemptions from preparing certain financial statements, such as interim or cash flow statements.
- exemptions from disclosing segment information.

Conclusions

The Canadian differential reporting system provides a useful framework for providing standards relief without compromising the quality of Canadian GAAP. To the extent that constituents believe the system needs to be expanded, the following would be useful to assist the Board consider any future changes:

- a legal framework supporting stratification of entities for financial reporting purposes other than by unanimous owner consent:
 - changes to enabling legislation.

- regulatory changes governing public traded companies.
- specific focused user input on financial reporting needs, especially from:
 - analysts covering small public companies.
 - merchant bankers and venture capitalists assisting mezzanine level companies with financing.

The views of those financial statement users having an interest in new ventures may be of particular interest to the Board, as emerging issuers often fall into intermediate zones between limited and broad public accountability and between limited and widespread economic impact.

ACCOUNTING STANDARDS BOARD

ACCOUNTING STANDARDS IN CANADA: FUTURE DIRECTIONS

BACKGROUND TO THE DISCUSSION PAPER

Differential Reporting Under Securities Legislation

The material in this document has been extracted from certain of the regulatory instruments of the Canadian Securities Administrators.

Differential Reporting Under Securities Legislation

NI 51-102, Continuous Disclosure Obligations

National Instrument (NI) 51-102, Continuous Disclosure Obligations, contains differential reporting requirements with respect to financial statements subject to securities legislation. It provides that the annual financial statements and auditors' report must be filed:

(a) in the case of a reporting issuer other than a venture issuer, on or before the earliest of:

- a. the 90th day after the end of its most recently completed financial year; and
- b. the date of filing, in a foreign jurisdiction, annual financial statements for its most recently completed financial year.

(b) in the case of a venture issuer, on or before the earliest of:

- a. the 120th day after the end of its most recently completed financial year; and
- b. the date of filing, in a foreign jurisdiction, annual financial statements for its most recently completed financial year.

NI 51-102 also allows similar differential reporting for interim financial statements.

In respect of Management Discussion and Analysis (MD&A), NI 51-102 requires additional disclosures for venture issuers without significant revenues. A venture issuer that has not had significant revenue from operations in either of its last two financial years must disclose in its MD&A for each period a breakdown of material components of:

- (a) capitalized or expensed exploration and development costs;
- (b) expensed research and development costs;
- (c) deferred development costs;
- (d) general and administration expenses; and
- (e) any material costs, whether capitalized, deferred or expensed, not referred to in paragraphs (a) through (d).

Further, if the venture issuer's business primarily involves mining exploration and development, the analysis of capitalized or expensed exploration and development cost must be presented on a property-by-property basis.

A "venture issuer" is defined to mean a reporting issuer that, at the applicable time, did not have any of its securities listed on any of the Toronto Stock Exchange, a US marketplace or a marketplace outside Canada and the United States.

NI 52-107, Acceptable Accounting Principle, Auditing Standards and Reporting Currency

This instrument sets out that the general rule for financial statements is preparation in accordance with Canadian GAAP. Exceptions are made for SEC issuers and foreign issuers. These exceptions allow for the financial statements to be prepared in accordance with another GAAP, such as US GAAP or International Accounting Standards. This instrument specifies several conditions that must be met for an entity to qualify for presentation of financial statements in accordance with a GAAP other than Canadian GAAP.

MI 52-110, Audit Committees

Multilateral Instrument (MI) 52-110 sets out rules in respect of composition, authority, and responsibilities of an issuer's audit committee. This instrument grants exemptions to venture issuers and US listed issuers. The exemptions granted to venture issuers are in respect of the composition of the audit committee and certain reporting obligations.