



Canadian Securities  
Administrators

Autorités canadiennes  
en valeurs mobilières

July 15, 2011

Tom Seidenstein  
Chief Operating Officer  
IFRS Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Mr Seidenstein:

**Re: IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade**

The Canadian Securities Administrators Chief Accountants' Committee appreciates the opportunity to comment on the Report of the Trustees' Strategy Review (the Report). The Canadian Securities Administrators (CSA) is an organization of Canada's provincial and territorial securities regulators whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets. The CSA Chief Accountants' Committee (CAC) is comprised of the Chief Accountants from the provinces of British Columbia, Alberta, Ontario and Québec.

We have organized our letter to correspond with the numbering used to identify the principles and recommendations in the Report.

**A. Mission: defining the public interest to which the IFRS Foundation is committed**

**A1 Purpose of financial reporting standards**

We support the focus on developing financial reporting standards that meet the needs of "investors and other market participants in their economic and resource allocation decisions". While the needs of prudential regulators and other users should be considered, the primary focus should be the one outlined in this principle. We strongly recommend approval of this principle in its currently proposed form.

We agree with the proposal for the IASB to formalize existing informal relationships as part of its effort to encourage stakeholder involvement and obtain diverse views. Formalizing these relationships will also add transparency to the existence of these relationships and how they function. Consideration should also be given to entering into additional formal or informal relationships with other relevant parties when needed. For example, the Canadian Securities Administrators has expertise in the reporting of extractive activities and we welcome the opportunity to share our views when this topic relates to an IASB project.

## **A2 and A3 Adoption of IFRSs**

We agree that the IFRS Foundation should pursue the long-term goal of global adoption of IFRSs, in their entirety and without modification. However, as noted in the Report, a number of countries are still focused on convergence of national standards with IFRSs. We encourage the IFRS Foundation to continue to recognize the benefits of convergence. In particular, given the connections between the capital markets in Canada and the US, including the existence of many cross-border issuers and cross-border industry peer groups, we think that investors and other stakeholders highly value convergence between IFRSs and US GAAP. For example, the value of convergence is a theme we have heard in recent discussions about the development of IFRS standards for entities with rate regulated activities and entities in the insurance business.

With respect to the statements made in the Report relating to principles A2 and A3 that “the “primary objective is to develop ‘a single set of ... globally accepted reporting standards” and “any divergence from a single set of standards...can undermine confidence in financial reporting”, it is important for the IFRS Foundation to analyse and understand the rationale for a decision not to adopt IFRSs “in their entirety and without modification”. The IFRS Foundation should assess the rationale for these decisions and consider whether to develop improvements to the IFRSs. For example, in Canada, in response to significant concerns and uncertainties about IFRS requirements for rate regulated activities, the CSA has allowed entities with rate regulated activities that would otherwise be required to use IFRS to use US GAAP for an extended transition period. We have also permitted investment funds to defer adoption of IFRS pending provision of a new standard to preclude an investment entity from consolidating investments in entities that it controls, and instead measure those investments at fair value, with changes in fair value recognised in profit or loss.

In the discussion of principle A3, the Report states that “there should be a mechanism to highlight instances where jurisdictions are asserting compliance with IFRSs without adopting IFRSs fully”. It appears there are two possible reasons that this could occur. First, a jurisdiction could mistakenly believe that they are in compliance with IFRS. Second, a jurisdiction may choose to assert compliance with IFRSs with the knowledge that its standards do not fully comply with IFRS. It seems that these are separate issues that warrant distinct responses. As one example of the first possible reason, we understand that some jurisdictions alter the meaning of the IFRSs through the translation process. Any translation related modifications could be eliminated by having the IFRS Foundation establish a transparent process to provide official translations of IFRSs for use in all jurisdictions. For greater certainty, every official translation produced by the IFRS Foundation should be considered as issued by the IASB. We recommend that the IFRS Foundation identify the rationale behind any instance of noncompliance and take steps to remedy those situations. In addition to taking control of translation processes, the Foundation could increase educational efforts and the IFRS Interpretations Committee could add more issues to their agenda to deal with identified areas of misinterpretation.

We believe that investors need clear and accurate information about the accounting standards used to prepare financial statements. IOSCO published a media release in February 2008 to

address the confusion that can arise when national standards assert that they are based on but do not fully implement IFRSs. We support the recommendations in that media release.

#### **A4 Scope of standards and IFRS activities**

We strongly support the recommendation that “In the near term, the primary focus of the IFRS Foundation and the IASB should remain on developing standards for private sector entities”. There are a number of significant standards and issues that should be dealt with prior to considering development of standards for other entities or other purposes. For example, in addition to the current agenda, we recommend that the IASB address accounting requirements for rate regulated activities and extractive activities before broadening the scope of its standard setting activities.

#### **A5 Consistency of application and implementation**

While we approve of the objective of ensuring consistent application of IFRSs internationally, we are concerned with the statement that “All application guidance and examples must be necessary to understand the principles”. We think that the criteria “necessary to understand the principles” is too high and may result in fewer examples and less application guidance than what is appropriate. We recommend that the IASB provide application guidance and examples when they are useful to illustrate the principles. While we understand the desire for IFRS to remain a principles-based set of standards and the challenges inherent in providing interpretations, application guidance and examples, if the IASB or the IFRS Interpretations Committee do not provide guidance, it will be provided by other sources including industry associations and international auditing firms. The lack of interpretation, application guidance and examples from the IASB increases the likelihood of divergent application of IFRSs.

The IASB and the IFRS Interpretations Committee are best positioned to provide interpretations and guidance. We recommend that the IFRS Interpretations Committee consider adjusting their criteria to take on additional issues which may result in more interpretations and guidance. A reasonable level of application guidance, examples, and interpretations will reduce diversity of views and practices, and will also facilitate the enforcement of IFRSs by securities regulators.

We also strongly agree with the recommendation that the IASB pursue the principle of consistency of application and implementation through working with a network including securities regulators and national standard setters to identify divergence in practice and where appropriate improve a standard or interpretation.

#### **B. Governance: independent and publicly accountable**

The independence of the Board in fact and appearance is critical to global acceptance of IFRSs. This was a consideration in Canada’s decision to adopt IFRS and we continue to support the current three-tier structure as being the most appropriate means of meeting the organization’s mission. Increased clarification regarding reporting lines, oversight and key responsibilities would be useful. It would also be useful to clarify the meaning of independence intended in principles B1 and B2.

## **C. Process: ensuring that its standards are of high quality, meet the requirements of a well-functioning capital market and are implemented consistently across the world**

### **C1 Due process and benchmarking**

We recommend improving the transparency of the IASB's due process by publishing a more comprehensive summary of all comments raised with respect to an Exposure Draft or another request for comments along with an explanation of how the IASB responded to each comment. This is the process used by securities regulators in Canada when developing new securities regulations or significant amendments to existing securities legislation.

We also recommend increased transparency of an IASB decision on whether or not to republish an Exposure Draft. Publication of staff papers and recommendations should not take the place of a reissuance of a proposed standard.

### **C2 Trustee oversight of the IASB's due process**

We are supportive of the recommendations made in this section of the Report. However, we think that the due process recommendations should also apply to the IFRS Interpretations Committee. Specifically, the Trustees should review compliance with due process relating to development of the Committee's priorities and agenda and the Trustees should clarify the nature of their oversight over the IFRS Interpretations Committee.

### **C3 Stakeholder feedback and enhancements in the agenda-setting and standard-setting process**

We support the recommendation that there should be a "clear demonstration of how priorities ...are set" and we strongly support the proposal for public consultation on the IASB's agenda and priorities.

It is often the case that as opposed to through public consultation, important financial reporting improvements are identified by various stakeholders in the application of the IFRSs. However, in certain instances we have observed the dismissal of some issues forwarded to the IASB or the IFRS Interpretations Committee on the rationale that the issue is isolated to a specific country and therefore does not involve significant divergent practices. When stakeholders in a particular jurisdiction identify an issue, it may be an indication of problems that exist or will emerge in other jurisdictions. We encourage the IASB and the IFRS Interpretations Committee to consider this in setting their agenda and priorities.

While we agree that the use of XBRL could be integrated into the standard setting process, we suggest clarification of the principle relating to XBRL to specify that XBRL should not be a driver of accounting standards. Setting accounting standards should take priority over the development the XBRL taxonomy.

In Canada, IFRS has been incorporated in the CICA Handbook as Canadian GAAP applicable to most publicly accountable enterprises. The English and French versions of the Handbook have equal status and effect. Similarly, English and French version of securities regulations have equal status. Our experience has been that comments raised during the translation process can improve the quality of a final rule. We encourage the IFRS Foundation to increase its focus on the development of official translations of IFRSs.

**C4 Actions aimed at consistency of IFRS implementation and C5 Importance of national and other accounting standard-setters**

We agree that post implementation reviews are vital to identify whether standards are functioning as expected and whether the standard setting process was effective. We agree with the recommendation in C4 and C5 that the IASB should use networks, including securities regulators, to identify inconsistency in the application of IFRSs, develop action plans to respond to inconsistency, and provide input on the IASB's priorities and other elements of due process.

Thank-you for the opportunity to respond to the Report of the Trustees' Strategy Review as well as the opportunity to participate in the roundtable held in New York. If you have any questions, please do not hesitate to contact us.

Yours truly,

**The CSA Chief Accountants' Committee**

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