AcSB
Accounting Standards Board

Exploring Scalability in Canada

Responses to Consultation Paper I

August 2023

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ORDRE DES COMPTABLES PROFESSIONNELS AGRÉÉS DU QUÉBEC

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Montréal, le 19 juillet 2023

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Conseil des normes comptables
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Madame,

Vous trouverez ci-joint les commentaires du Groupe de travail technique NCECF – Comptabilité financière – Partie II, mis en place par l'Ordre des comptables professionnels agréés du Québec, concernant le document de consultation I intitulé « Rendre les normes modulables au Canada ».

Nous vous serions reconnaissants de nous faire parvenir une copie de la traduction anglaise de nos commentaires.

Veuillez prendre note que l'Ordre des comptables professionnels agréés du Québec agit seulement à titre de facilitateur et ce document ne constitue pas une réponse de ce dernier, mais le point de vue des membres participants au groupe de travail. De plus, ni l'Ordre des comptables professionnels agréés du Québec, ni quelque personne que ce soit ayant participé à la préparation des commentaires ne peuvent être tenus responsables relativement à leur utilisation et ils ne sont tenus à aucune garantie de quelque nature que ce soit découlant de ces commentaires, tel que décrit dans le déni de responsabilité joint à la présente.

Veuillez agréer, Madame Christopoulos, nos salutations distinguées.

Sophie Bureau

Sophie Bureau, CPA auditrice

Représentante du Groupe de travail technique NCECF – Comptabilité financière – Partie II de l'Ordre des comptables professionnels agréés du Québec

p. j. Déni de responsabilité et commentaires

DÉNI DE RESPONSABILITÉ

Les documents préparés par les Groupes de travail techniques et sectoriels de l'Ordre des comptables professionnels agréés du Québec (Ordre) ci-après appelés les « commentaires », sont fournis selon les conditions décrites dans la présente, pour faire connaître l'opinion des groupes de travail sur des énoncés de principes, des documents de consultation, des exposés-sondages préliminaires ainsi que des exposés-sondages publiés par le Conseil des normes comptables, le Conseil des normes d'audit et de certification, le Conseil sur la comptabilité dans le secteur public, le Conseil canadien des normes d'information sur la durabilité et d'autres organismes.

Les commentaires fournis par ces comités ne doivent pas être utilisés comme substitut à des missions confiées à des professionnels spécialisés. Il est important de noter que les lois, les normes et les règles sur lesquelles sont émis les commentaires peuvent changer en tout temps et que, dans certains cas, les commentaires écrits peuvent être sujets à controverse.

Ni l'Ordre, ni quelque personne que ce soit ayant participé à la préparation des commentaires ne peuvent être tenus responsables relativement à l'utilisation de ces commentaires et ils ne sont tenus à aucune garantie de quelque nature que ce soit découlant de ces commentaires. Les commentaires donnés ne lient pas, par ailleurs, les membres des Groupes de travail, l'Ordre, ou de façon plus particulière, le Bureau du syndic de l'Ordre.

La personne qui se réfère ou utilise ces commentaires assume l'entière responsabilité de sa démarche ainsi que tous les risques liés à l'utilisation de ceux-ci. Elle consent à exonérer l'Ordre à l'égard de toute demande en dommages-intérêts qui pourrait être intentée par suite de toute décision qu'elle aurait pu prendre en fonction de ces commentaires. Elle reconnaît également avoir accepté de ne pas faire état de ces commentaires reçus via les Groupes de travail dans les avis exprimés ou les positions prises.

MANDAT DES GROUPES DE TRAVAIL DE L'ORDRE

Les Groupes de travail de l'Ordre des comptables professionnels agréés du Québec ont comme mandat notamment de recueillir et de canaliser le point de vue des praticiens exerçant en cabinet et de membres œuvrant dans les affaires, dans les services gouvernementaux et dans l'industrie ainsi que le point de vue d'autres personnes concernées œuvrant dans des domaines d'expertise connexes.

Pour chaque exposé-sondage ou autre document étudié, les membres des Groupes de travail mettent leurs analyses en commun. Les commentaires ci-dessous reflètent les points de vue exprimés et sauf indication contraire, ces commentaires font l'objet d'un consensus parmi les membres des Groupes de travail ayant participé à cette analyse.

Les commentaires formulés par les Groupes de travail ne font l'objet d'aucune sanction de l'Ordre. Ils n'engagent pas la responsabilité de celui-ci.

COMMENTAIRES GÉNÉRAUX

Les membres du Groupe de travail technique NCECF – Comptabilité financière – Partie II (subséquemment nommés « membres ») sont d'avis que les NCECF répondent généralement aux besoins des parties prenantes relatifs aux entreprises à capital fermé. Ils ne souhaitent donc pas que le CNC entreprenne un projet de grande ou de moyenne envergure quant aux normes comptables applicables par ces entreprises.

Des membres ont mentionné être étonnés de la publication de ce document de consultation alors que, selon eux, les normalisateurs et les préparateurs, auditeurs et utilisateurs d'états financiers ont plusieurs autres priorités. Des membres auraient également voulu que le document contienne plus d'informations quant aux raisons à l'origine de sa publication.

Selon la quasi-totalité des membres, l'ajout de la possibilité de choisir une méthode comptable plus simple à quelques normes existantes de la Partie II serait suffisante et encouragerait l'application de ce référentiel. Cette façon de faire s'inscrit dans l'**approche 1** identifiée par le CNC. Les membres sont toutefois contre l'ajout de critères, conditions ou seuils d'application des choix offerts (basés sur la taille de l'entité, son secteur d'activités ou autres). Ils souhaitent que ces méthodes puissent être choisies par toute entreprise qui le souhaite, les utilisateurs des états financiers pouvant généralement influencer ces choix.

Quant aux obligations d'informations actuelles de la partie II, les membres suggèrent la modification de quelques exigences, plutôt qu'une modulation s'inscrivant dans l'**approche 2**.

Aucun membre ne souhaite l'ajout d'un référentiel comptable intermédiaire entre les normes IFRS de comptabilité et les parties II et III (**approche 3**).

Un seul membre a mentionné son intérêt pour un nouveau référentiel pour les petites entités (**approche 4**).

Les membres n'ont pas discuté des questions relatives aux normes de la Partie III.

QUESTIONS SPÉCIFIQUES DU CNC

APERÇU

Question 1 : Partagez-vous ces préoccupations? Dans la négative, pourquoi? Y a-t-il des points problématiques liés aux référentiels d’information financière en vigueur au Canada que le CNC n’a pas relevés? Dans l’affirmative, quels sont-ils, et comment le CNC pourrait-il les traiter dans le cadre de son projet visant à rendre les normes modulables?

Les principales préoccupations mentionnées dans le document sont les suivantes :

1) Pour les entreprises à capital fermé et les OSBL de grande taille, les informations à fournir selon la Partie II et la Partie III ne sont pas suffisantes pour répondre aux besoins des utilisateurs.
2) Les normes de la Partie II et de la Partie III sont trop complexes pour certaines entités de petite taille.
3) Les normes IFRS de comptabilité sont trop complexes ou contraignantes à appliquer pour certaines entités.
4) Habituellement, les entreprises à capital fermé et les OSBL ne choisissent pas d'appliquer un référentiel d’information financière du Manuel, sauf s'il s'agit d'une exigence explicite.

Les membres partagent la **première préoccupation** et la **troisième préoccupation** en ce qui concerne les entreprises à capital fermé, mais insistent sur le fait qu’elles s’appliquent seulement à un petit nombre d’entités.

En ce qui concerne la **deuxième préoccupation**, les membres sont d’avis que la complexité d’application des normes de la Partie II est davantage liée à la nature des activités ou des opérations de certaines entités qu’à leur taille. Ils sont d’avis que les normes de la Partie II prévoient certaines exigences qui ne sont pas bien adaptées aux besoins des principaux utilisateurs des états financiers de certaines entreprises à capital fermé et que quelques choix de méthodes comptables supplémentaires leur permettraient d’opter pour des méthodes comptables contribuant à produire des informations financières mieux adaptées à ces besoins.

Quant à la **quatrième préoccupation**, les membres la formuleraient autrement. Ils sont d’avis que les entreprises à capital fermé ne choisissent généralement pas de confier un mandat d’audit ou d’examen de leurs états financiers à un auditeur indépendant ou à un professionnel en exercice indépendant sauf s’il s’agit d’une exigence explicite. Toutefois, les états financiers de ces entreprises sont néanmoins souvent préparés conformément à la plupart des exigences en matière de comptabilisation et d’évaluation des NCECF. Les principales exigences des NCECF que ces entreprises n’adoptent pas lorsqu'elles préparent des états financiers qui ne seront pas soumis à un audit ou à un examen sont liées à la préparation d'un état des flux de trésorerie et aux informations à fournir, ainsi qu'aux sujets mentionnés en réponse à la question 3.

Les membres ajoutent que bien que des entreprises appliquent les NCECF (et que leurs états financiers sont soumis à un audit ou à un examen), certaines choisissent de ne pas en appliquer l'entièreté des exigences, jugeant leur application trop complexe ou coûteuse ou étant incompatibles avec les besoins en matière d'informations financières des utilisateurs de leurs états financiers. Le rapport de l'auditeur ou de mission d'examen portant sur ces états financiers comprend donc une réserve, souvent requise pendant plusieurs exercices. Les exigences fréquemment non appliquées sont habituellement liées aux sujets mentionnés en réponse à la question 3.

Les membres n'ont pas discuté de préoccupations relatives aux OSBL ni de points problématiques liés aux référentiels d'information financière en vigueur au Canada autres que celui de la Partie II.

MODULATION DES NORMES

Question 2 : Croyez-vous que le CNC devrait ajouter de la modulabilité aux référentiels comptables actuels du Manuel? Veuillez motiver votre réponse.

Oui, les membres sont favorables à l'ajout de plus de modulabilité aux normes actuelles de la Partie II. Tel que mentionné dans la réponse à la question 1, ils sont d'avis que certaines exigences des NCECF sont mal adaptées aux besoins en matière d'informations financières des principaux utilisateurs d'états financiers d'entreprises à capital fermé.

Tous les membres sauf un sont d'avis que <u>l'ajout de nouveaux choix de méthodes comptables aux NCECF</u>, quant aux exigences de comptabilisation et d'évaluation, <u>est la seule voie qui doit être poursuivie</u> pour offrir davantage de modulabilité aux exigences actuelles applicables par les entreprises à capital fermé. Ils jugent cette approche cohérente avec la modulabilité qui existe déjà dans les NCECF (par exemple quant aux choix de méthodes comptables pour la comptabilisation des impôts sur les bénéfices et des participations dans des filiales, partenariats ou satellites). Selon ces membres, l'ajout de la possibilité de choisir une méthode comptable plus simple à quelques normes existantes de la Partie II serait suffisante pour répondre aux besoins et à la deuxième préoccupation indiquée à la question 1 quant à la complexité des normes. Cette façon de faire s'inscrit dans l'**approche 1** identifiée par le CNC.

Même si offrir plus de choix de méthodes comptables peut diminuer la comparabilité entre les états financiers de certaines entreprises, les membres jugent que cet inconvénient n'est pas important étant donné la confidentialité des états financiers des entreprises à capital fermé et que leurs principaux utilisateurs peuvent inciter des entreprises à choisir les mêmes méthodes.

Les membres sont toutefois tous défavorables à l'ajout de critères, conditions ou seuils pour que les entités puissent appliquer les choix de méthodes comptables actuels et futurs offerts dans les NCECF, dont ceux énoncés dans la réponse à la question 3. Ils sont d'avis que l'ajout de critères, conditions ou seuils, basés par exemple sur la taille de l'entité ou son secteur d'activités, ne serait pas approprié et que chaque entité doit disposer de toute la latitude pour choisir les méthodes comptables qui sont appropriées selon les besoins des utilisateurs de ses propres états financiers. Ce point de vue est cohérent avec le libre choix qui existe actuellement à l'égard des choix de méthodes comptables déjà offerts dans les NCECF. Les membres soulignent que l'inclusion de critères, conditions ou seuils augmente inévitablement la complexité et oblige l'ajout d'exigences pour prévoir, par exemple, ce qui arrive quand les critères ou conditions ne sont plus rencontrés ou que l'entité passe d'un seuil à un autre. Les membres qui œuvrent à titre d'auditeur ou de professionnel en exercice dans la réalisation de mandats d'audit ou d'examen ont également soulevé des préoccupations à l'égard des biais (et du risque de mission accru) que l'introduction de tels critères serait susceptible d'introduire.

Quant aux obligations d'informations actuelles de la partie II, selon les membres ces exigences ne sont généralement pas trop complexes et répondent habituellement aux besoins des utilisateurs des états financiers. Ils suggèrent la modification de quelques exigences (voir la réponse à question 4), plutôt qu'une modulation s'inscrivant dans l'**approche 2**.

Aucun membre ne souhaite l'ajout d'un référentiel comptable intermédiaire entre les normes IFRS de comptabilité et les parties II et III (**approche 3**). Comme mentionné dans la réponse à la question 1, les membres partagent la première préoccupation et la troisième préoccupation indiquées en ce qui concerne les entreprises à capital fermé, mais insistent sur le fait qu'elles s'appliquent seulement à un petit nombre d'entités.

Tous les membres sauf un sont défavorables à la mise en place d'un nouveau référentiel pour les petites entités (**approche 4**). Ils sont d'avis que les fondements conceptuels des NCECF sont appropriés pour l'élaboration de normes adéquates pour toutes les entreprises à capital fermé à même la Partie II. Ils sont d'avis que seulement certaines exigences sont parfois contraignantes pour ces entreprises et qu'il serait donc inutile de créer un nouveau référentiel pour si peu.

Les membres ont également les craintes suivantes à l'égard de l'ajout de tout référentiel :

- Manque de ressources humaines et financières pour mener adéquatement les étapes préalables à la publication de tout bon nouveau référentiel (recherches, rédaction, révision, traduction, document de discussion, exposé-sondage, tables-rondes, etc.) et à son maintien dans le futur.

- Augmentation de la difficulté, ou incapacité, des préparateurs et des certificateurs d'états financiers à se former et à bien connaître et comprendre les exigences des nombreux référentiels.
- Augmentation de la difficulté, ou incapacité, des utilisateurs d'états financiers à se former et à connaître suffisamment les exigences des nombreux référentiels pour répondre à leurs besoins.
- Augmentation de la confusion parmi les préparateurs, certificateurs et utilisateurs d'états financiers.
- Diminution de l'attrait pour la profession de CPA et d'auditeur.
- Augmentation des difficultés liées au recrutement et à la rétention des praticiens en cabinets.

Les membres n'ont pas discuté de la pertinence d'ajouter de la modulabilité aux normes de la Partie III.

APPROCHES ENVISAGÉES

1. Modulation des exigences de certaines normes des parties II et III – Simplification des dispositions relatives à la comptabilisation et à l'évaluation

*Question 3 : Supposons que le CNC aille de l'avant avec la modulation des exigences de la **Partie II**. Quelles normes de cette partie comportent actuellement des exigences relatives à la **comptabilisation** et à l'**évaluation** qui sont complexes à appliquer pour certaines entités? Comment pourrait-on simplifier ces exigences tout en maintenant la pertinence des informations fournies aux utilisateurs des états financiers?*

Les membres sont d'avis que certaines exigences des NCECF relatives à la comptabilisation et à l'évaluation sont parfois, ou souvent, inadéquates en regard des besoins d'informations financières des principaux utilisateurs des états financiers des entreprises à capital fermé. Entre autres, les exigences suivantes amènent parfois, ou souvent, un trop grand niveau de complexité et des coûts élevés qui n'apportent pas de valeur ajoutée aux utilisateurs des états financiers :

1. Regroupement d'entreprises :

   L'identification des actifs incorporels identifiables, leur évaluation et leur comptabilisation distinctement de l'écart d'acquisition requiert un travail considérable et oblige, dans la plupart des cas de recourir à des experts en évaluation indépendants qui réalisent des travaux exclusivement aux fins de la comptabilisation des regroupements d'entreprises.

   Les membres sont d'avis que la comptabilisation distincte de ces actifs incorporels n'influe généralement pas sur les décisions des principaux utilisateurs d'états financiers d'entreprises à capital fermé. Ils proposent donc l’ajout de la possibilité de choisir une méthode comptable simplifiée permettant à l’acquéreur de ne pas identifier ni évaluer les actifs incorporels qui n’étaient pas comptabilisés dans les états financiers de l’entreprise acquise, faisant en sorte que ces actifs incorporels seront inclus dans un actif regroupant l’écart d’acquisition et les actifs incorporels non identifiés acquis.

Selon plusieurs membres, si le CNC avait à prioriser un seul élément à améliorer dans les NCECF, ce devrait être celui-ci.

Certains membres proposent que cet actif (qui regroupe l’écart d’acquisition et les actifs incorporels non identifiés acquis) soit soumis à un amortissement ultérieur sur une période ne dépassant pas 10 ans. D’autres jugent que les exigences actuelles liées à la dépréciation sont suffisantes pour s’assurer que cet actif n’est pas surévalué.

2. Options d’achat d’actions :

   L’évaluation des options d’achat d’actions ou d’autres instruments de capitaux propres consentis à des employés dans le cadre d’un régime de rémunération à base d’actions requiert un travail considérable de la part des préparateurs d’états financiers et oblige, dans la plupart des cas, de recourir aux services d’experts en évaluation indépendants.

   Les membres sont d’avis que la comptabilisation d’une charge de rémunération afférente à l’émission d’instruments de capitaux propres dans le cadre de tels régimes n’influe généralement pas sur les décisions des principaux utilisateurs d’états financiers d’entreprises à capital fermé. Ils proposent donc l’ajout de la possibilité de choisir une méthode comptable simplifiée permettant d’attribuer une valeur nulle à de tels octrois (en maintenant les informations à fournir actuelles).

3. Comptabilisation des produits :

   Les membres soulèvent que la détermination des unités de comptabilisation et l’identification des composantes multiples d’un accord est parfois complexe pour certaines entreprises ou dans certains domaines d’activités.

   Certains membres proposent l’ajout de la possibilité de choisir une méthode comptable simplifiée qui ne requerrait pas la séparation des composantes multiples d’un même accord aux fins de la constatation des produits et qui permettrait de comptabiliser l’accord comme une seule et unique prestation.

   D’autres membres sont défavorables à une telle méthode. Ils sont d'avis que le chiffre d’affaires des entreprises à capital fermé est une des rares données tirées des états financiers que leurs utilisateurs sont susceptibles de vouloir comparer d’une entreprise à l’autre et qu’en conséquence il n’est pas souhaitable d’introduire des choix de méthodes comptables susceptibles d’avoir une incidence sur le chiffre d’affaires présenté à l’état des résultats.

4. Actualisation de passifs financiers :

   L’évaluation initiale à la juste valeur des instruments financiers contractés dans des opérations conclues dans des conditions de pleine concurrence est un élément de complexité soulevé par les membres. Selon eux, plusieurs entreprises à capital fermé contractent des emprunts sans intérêt (ou à faible taux d’intérêt). Certains membres sont d’avis que le recours à une technique d’actualisation pour évaluer initialement un tel passif financier à sa juste valeur (et les ajustements ultérieurs requis aux fins de l’évaluation au coût après amortissement) donne également lieu à une méthode de comptabilisation incompatible avec les besoins des principaux utilisateurs des états financiers de ces entités.

   Certains membres proposent l’ajout de la possibilité de choisir une méthode comptable simplifiée qui ne requiert pas l’évaluation initiale à la juste valeur de passifs financiers pris en charge dans des opérations conclues dans des conditions de pleine concurrence. D’autres membres proposent de limiter ce choix à des emprunts sans intérêt (ou à faible taux d’intérêt) assimilables à une aide gouvernementale.

5. Évaluation des stocks :

   L’évaluation des frais généraux et autres coûts (autres que les coûts d’acquisition et les coûts de transformation) qui doivent être inclus dans le coût des stocks de produits transformés est complexe et requiert un temps considérable de la part des préparateurs des états financiers. Selon certains membres, l’incorporation de tels éléments dans le coût des stocks est un élément de complexité qui n’a aucune plus-value pour les principaux utilisateurs des états financiers, qui sont généralement davantage préoccupés par la valeur de réalisation nette des stocks, sans égard à leur valeur comptable au bilan.

   Ces membres proposent l’ajout de la possibilité de choisir une méthode comptable simplifiée qui permet de comptabiliser en charge tous les coûts indirects (incluant les frais généraux de fabrication) au moment où ils sont engagés.

   D’autres membres sont défavorables à une telle méthode. Ils sont d’avis que le bénéfice brut des entreprises à capital fermé est une des rares données tirées des états financiers que leurs utilisateurs sont susceptibles de vouloir comparer d’une entreprise à l’autre et qu’en conséquence il n’est pas souhaitable d’introduire des choix de méthodes comptables susceptibles d’avoir une incidence sur le coût des produits vendus présenté à l’état des résultats.

6. Passif à court terme :

   Les membres soulèvent de nombreux enjeux liés au classement dans le passif à court ou à long terme des emprunts venant à échéance au cours du prochain exercice ou des emprunts assortis d'une clause restrictive faisant l'objet d'une violation. Ils mentionnent que les exigences des paragraphes .13 et .14 du chapitre 1510, *Actif et passif à court terme*, donnent généralement lieu au classement dans le passif à court terme de la totalité du solde de ces emprunts. Selon plusieurs membres, ceci est incompatible avec les besoins des principaux utilisateurs des états financiers, qui souhaitent plutôt connaître les remboursements que l'entreprise prévoit faire au cours du prochain exercice, ce qui exclut souvent la portion dite à long terme des emprunts destinés à être refinancés et des emprunts faisant l'objet d'une violation à une clause restrictive. Selon les membres, dans la pratique il est rare que les emprunts ne soient pas refinancés ou que leur remboursement total soit exigé à court terme.

   Les membres ont notamment discuté de la possibilité de permettre le classement à long terme de ces emprunts (sauf la portion dont le remboursement est prévu à court terme par la direction) en exigeant de fournir des informations spécifiques, ainsi que de la possibilité d'introduire une présentation similaire à celle de l'exemple pour une dette remboursable à demande à la fin du chapitre 1510 (communément appelée « présentation mezzanine »).

7. Actions rachetables au gré du porteur ou obligatoirement rachetables émises dans une opération de planification fiscale :

   Selon les membres, le classement comme passifs financiers de telles actions est parfois incompatible avec les besoins en matière d'information financière des principaux utilisateurs des états financiers des entreprises à capital fermé. Ceci est particulièrement vrai lorsque les actions ont fait l'objet d'une entente de subrogation en faveur d'un créancier et que le détenteur s'est donc engagé à ne pas exiger leur rachat à court ou à moyen terme.

   Certains membres sont d'avis que l'ajout de la possibilité de choisir une méthode comptable simplifiée qui permet le classement de ces actions dans les capitaux propres en présence d'une telle subrogation, bien que les conditions du paragraphe 3856.23 ne sont pas respectées, serait appropriée.

8. Contrats de location :

   Les membres ont discuté des enjeux liés à la comptabilisation linéaire de loyers résultant de contrats de contrats de location-exploitation, tant du point de vue du preneur que du bailleur. Ils soulèvent que ceci résulte parfois en des informations financières qui sont incompatibles avec les besoins des principaux utilisateurs des états financiers des entreprises à capital fermé, qui sont principalement axés sur les encaissements ou déboursés exigibles en vertu des modalités de l'entente de location.

Certains membres sont donc d'avis que l'ajout de la possibilité de comptabiliser les revenus de location ou les charges locatives d'un contrat de location-exploitation en fonction des modalités contractuelles doit être ajoutée au chapitre 3065, *Contrats de location*.

D'autres membres souhaitent un allégement ou l'ajout de précisions au chapitre 3065 permettant de ne pas comptabiliser selon une méthode linéaire les augmentations de loyer sur la durée du bail qui visent à refléter la valeur-temps de l'argent.

9. Immobilisations corporelles :

Certains membres soulèvent des préoccupations liées aux exigences du chapitre 3061, *Immobilisations corporelles*, qui requièrent que « le coût d'une immobilisation corporelle constituée d'importantes composantes distinctes est ventilé entre celles-ci lorsqu'il est raisonnablement possible de le faire et que la durée de vie de chacune des composantes peut faire l'objet d'une estimation ». Ils sont d'avis que ces exigences sont trop complexes et que leur application ou non n'influe pas sur les décisions des principaux utilisateurs d'états financiers d'entreprises à capital fermé.

Ces membres proposent l'ajout de la possibilité de choisir une méthode comptable simplifiée permettant à l'acquéreur de ne pas répartir le coût d'une immobilisation corporelle entre ses composantes distinctes et de déterminer la méthode et la durée d'amortissement en fonction de la durée de vie ou de la durée de vie utile moyenne de l'ensemble des composantes de l'immobilisation corporelle en cause.

Ces membres sont aussi d'avis que des indications additionnelles aux paragraphes .14 et .15 du chapitre 3061 sont nécessaires pour aider les préparateurs d'états financiers et leur auditeur (ou professionnel en exercice) à juger de la mesure dans laquelle des coûts engagés ont pour effet d'accroître le potentiel de service d'une immobilisation corporelle selon que celle-ci a été ou non séparée entre ses principales composantes au moment de sa comptabilisation initiale.

10. Régimes de retraite individuels :

Des membres sont d'avis que l'application des exigences du chapitre 3462, *Avantages sociaux futurs*, aux régimes de retraite individuels est trop complexe et que la comptabilisation de tels régimes comme régimes à prestations déterminées n'est pas importante pour les principaux utilisateurs d'états financiers d'entreprises à capital fermé lorsque suffisamment d'informations sont fournies par voie de notes à leur sujet.

Ces membres proposent l'ajout de la possibilité de choisir de comptabiliser ces régimes comme des régimes à cotisations définies.

Bien que plusieurs propositions des membres comportent des mesures d'allégement ou de simplification, ils insistent sur le fait que l'objectif principal est que les entreprises à capital fermé produisent des états financiers conformes aux NCECF qui répondent mieux aux besoins en matière d'information financière des principaux utilisateurs de leurs états financiers tout en contribuant mieux à leur prise de décisions.

Les éléments mentionnés aux points 1, 2, 3, 4, 5, 7, 8 (en partie), 9 et 10 précédents s'inscrivent dans l'**approche 1** de modulation visant à simplifier des dispositions relatives à la comptabilisation et à l'évaluation des NCECF et ce, en proposant l'ajout de méthodes comptables allégées ou simplifiées aux entités qui souhaitent les adopter. Les membres réitèrent que de leur point de vue ces choix de méthodes comptables doivent s'ajouter aux exigences actuelles des NCECF, et non les substituer.

Comme mentionné dans la réponse à la question 2, les membres souhaitent que les méthodes comptables simplifiées puissent être choisies par toute entreprise à capital fermé qui le souhaite, les utilisateurs des états financiers pouvant généralement influencer ces choix.

Les éléments mentionnés aux points 6 et 8 (en partie) précédents pourraient être proposés dans le cadre des améliorations annuelles apportées aux NCECF ou par le biais d'un exposé-sondage distinct, puisqu'ils visent davantage à apporter des améliorations aux exigences actuelles de certaines normes plutôt qu'à ajouter des choix de méthodes comptables simplifiées.

Afin de faciliter l'application des NCECF, le repérage des méthodes comptables les plus simples à appliquer par les préparateurs d'états financiers et le repérage par leurs utilisateurs des méthodes appliquées, des membres ont émis les idées suivantes :

- Les choix de méthodes comptables les plus simples, actuels et futurs, devraient être mis en évidence dans le texte des normes. Par exemple, ils pourraient être précédés d'un astérisque d'une couleur spécifique (*).
- Une liste des choix de méthodes comptables devrait être ajoutée au chapitre 1505, *Informations à fournir sur les méthodes comptables*.
- Le chapitre 1505 devrait aussi inclure une liste des principales méthodes (incluant celles faisant l'objet d'un choix) avec des cases à cocher, pouvant être copiée telle quelle dans la note aux états financiers portant sur les méthodes comptables importantes. Cette liste faciliterait la préparation de cette note. Les utilisateurs des états financiers pourraient aussi repérer rapidement les méthodes appliquées (ou non) par l'entité.

- Des liens vers des ressources gratuites, par exemple des balados offerts par le CNC ou des documents publiés par CPA Canada, devraient être insérés dans le texte des normes, par exemple à l'intérieur d'un encadré d'une couleur spécifique. Une approche similaire était utilisée dans les abrégés des délibérations du Comité sur les problèmes nouveaux dans l'ancienne Partie V alors que des références étaient fournies au début de certain abrégés. Une approche similaire est aussi utilisée dans la version annotée des IFRS vendue par l'IFRS Foundation dans laquelle des références sont indiquées entre des crochets ([xxx]) et dans des encadrés.

Finalement, notamment dans le but d'éviter la création d'un nouveau référentiel pour les petites entités (approche 4), un membre a émis l'idée de constituer un ensemble (groupement) préétabli de méthodes comptables dites simplifiées, à l'intérieur même des NCECF, qui pourrait être librement choisi en un seul bloc par les entités qui le souhaitent.

*Question 4 : Supposons que le CNC aille de l'avant avec la modulation des exigences de la **Partie III**. Quelles normes de cette partie comportent actuellement des exigences relatives à la **comptabilisation** et à l'**évaluation** qui sont complexes à appliquer pour certains OSBL? Comment pourrait-on simplifier ces exigences tout en maintenant la pertinence des informations fournies aux utilisateurs des états financiers?*

Puisqu'elle porte sur la Partie III, cette question n'a pas été discutée par les membres.

2. Modulation des exigences de certaines normes des parties II et III – Allègement des obligations d'information

*Question 5 : Supposons que le CNC aille de l'avant avec la modulation des exigences de la **Partie II**. Quelles normes de cette partie comportent actuellement des **obligations d'information** complexes à appliquer pour certaines entités? Comment pourrait-on simplifier ces **obligations d'information**, tout en maintenant la pertinence des informations fournies aux utilisateurs des états financiers?*

Comme mentionné dans la réponse à la question 2, les membres préfèrent la modification de quelques exigences d'informations à fournir, plutôt qu'une modulation s'inscrivant dans l'approche 2. Ils souhaitent que ces modifications s'appliquent à toutes les entités appliquant les NCECF et non seulement à certaines d'entre elles. Ces modifications pourraient être proposées dans le cadre des améliorations annuelles apportées aux NCECF ou par le biais d'un exposé-sondage distinct.

- Informations à fournir sur les risques financiers :

  Ces informations à fournir font l'objet de critiques depuis de nombreuses années.

  Selon le document « Historique et fondement des conclusions - Traitement comptable des instruments financiers contractés entre apparentés et informations à fournir sur les risques importants » publié en décembre 2018, les répondants à l'appel à informations craignaient que les informations sur les risques importants fournies dans les notes ne soient pas utiles aux utilisateurs des états financiers. Ils ont indiqué qu'elles reprenaient souvent des formules toutes faites et qui n'étaient pas propres à l'entreprise. Le Comité consultatif sur les entreprises à capital fermé a mentionné au CNC que certaines des informations fournies, notamment les causes des risques, sont évidentes du fait de la nature des instruments et observables dans le corps même des états financiers. Pendant l'élaboration de l'exposé-sondage, le CNC a consulté des utilisateurs d'états financiers qui, dans l'ensemble, estimaient ces informations utiles lorsqu'elles sont propres à l'entreprise et qu'elles expliquent son exposition actuelle au risque. Le CNC a par conséquent décidé de ne pas supprimer les dispositions imposant de présenter les causes d'un risque important et a modifié le paragraphe 3856.37 et ajouté le paragraphe 3856.53A pour y donner des indications qui clarifient les exigences et incitent les entreprises à présenter des informations pertinentes et qui leur sont propres, c'est-à-dire importantes selon leur exposition actuelle.

Les membres constatent peu de changement dans la pratique et jugent encore que la quasi-totalité des informations fournies à ce sujet, presque toujours dans une note distincte aux états financiers, sont inutiles et déjà évidentes autrement dans les notes aux états financiers. Par exemple, une importante modification de l'exposition au risque de change causée par une nouvelle dette en Euros est déjà visible dans la note sur la dette à long terme, la monnaie dans laquelle la dette est remboursable devant être indiquée selon l'alinéa 3856.43 e). Quelques rares informations pourraient ne pas être autrement fournies ou visibles, par exemple quant à une importante concentration du risque de crédit liée à des comptes clients en devises étrangères.

Selon les membres, il est très rare que les informations fournies à ce sujet soient lues par les utilisateurs des états financiers et encore moins qu'elles soient jugées utiles. Selon les membres, il est grand temps que le CNC modifie de façon importante les exigences actuelles et fournisse des exemples pratiques de ce qu'il souhaite comme informations fournies.

- Impôts sur les bénéfices :

  Certains membres considèrent que les coûts de fournir le rapprochement et les informations exigées à l'alinéa 3465.88 b) lorsque l'entreprise applique la méthode des impôts exigibles sont supérieurs aux avantages. Selon eux, ces informations sont très peu lues et encore moins utilisées par les utilisateurs des états financiers. Ainsi, ces informations devraient être fournies sur une base volontaire et ne devraient pas être obligatoires.

*Question 6 : Supposons que le CNC aille de l'avant avec la modulation des exigences de la **Partie III**. Quelles normes de cette partie comportent actuellement des **obligations d'information** complexes à appliquer pour certains OSBL? Comment pourrait-on simplifier ces **obligations d'information**, tout en maintenant la pertinence des informations fournies aux utilisateurs des états financiers?*

Puisqu'elle porte sur la Partie III, cette question n'a pas été discutée par les membres.

3. Ajout d'un référentiel comptable intermédiaire entre les normes IFRS de comptabilité et les parties II et III

Question 7 : Dans quelle mesure est-il courant pour les entités de passer des NCECF aux normes IFRS de comptabilité? Mis à part la préparation à un PAPE ou à un autre événement ayant une incidence sur la liquidité, qu'est-ce qui pousse une entité à effectuer cette transition? Quelles difficultés les entités doivent-elles surmonter pour effectuer cette transition? Le temps que les entités ont consacré à se conformer aux exigences relatives à l'information financière des normes IFRS de comptabilité a-t-il entraîné des conséquences négatives ou leur a-t-il fait perdre des occasions? Comment pourrait-on faciliter et accélérer le passage des NCECF aux normes IFRS de comptabilité?

Selon les membres, il n'est pas courant pour les entités de passer des NCECF aux normes IFRS de comptabilité. Pour certains membres, ces transitions sont toutefois de plus en plus fréquentes. Mis à part la préparation à un PAPE, ces transitions ont notamment eu lieu lors d'une acquisition de l'entité par une entité de capital risque étrangère et dans le secteur des technologies par des entités à capital fermé voulant volontairement se comparer à des entités appliquant les normes IFRS de comptabilité.

Les transitions sont généralement compliquées. Toutefois, à part pour certaines normes qui diffèrent de façon importante des NCECF, comme IFRS 16 *Contrats de location*, les principales différences sont surtout au niveau des informations à fournir. Souvent les systèmes d'information de l'entité ne sont pas suffisants ou les ressources humaines de l'entité ne sont pas suffisantes au moment de la transition.

Les membres jugent que ces difficultés sont la plupart du temps inévitables et inhérentes à une telle transition. Ils ne pensent pas que ces difficultés justifieraient de modifier de façon importante les exigences de comptabilisation et d'évaluation des NCECF, par exemple celles du chapitre 3065, *Contrats de location*. Ils ne pensent pas non plus que d'ajouter un référentiel comptable intermédiaire entre les normes IFRS de comptabilité et les parties II et III, axé ou non sur des obligations d'information allégées, répondrait à suffisamment de besoins pour en valoir les coûts.

Les membres sont aussi conscients de l'existence de besoins très ciblés, dont ceux de coopératives, mais ils croient que la plupart de ces besoins peuvent être comblés en appliquant la NCA 800, *Audits d'états financiers préparés conformément à des référentiels à usage particulier — considérations particulières.*

Dans ce contexte, les membres ne voient pas la nécessité d'ajouter un référentiel comptable intermédiaire entre les normes IFRS de comptabilité et les parties II et III (**approche 3**).

Question 8 : Si le CNC devait mettre en place un référentiel intermédiaire entre les NCECF et les normes IFRS de comptabilité, quels éléments des parties I et II devrait-il y inclure? Quels éléments de la Partie I serait-il avantageux d'inclure et quels éléments devrait-on omettre, car ils sont trop contraignants à appliquer?

Étant donné leurs réponses aux questions 2 et 7, les membres n'ont pas discuté de cette question.

Question 9 : Si le CNC devait mettre en place un référentiel intermédiaire entre les normes comptables pour les OSBL et les normes IFRS de comptabilité, quels éléments des parties I et III devrait-il y inclure? Quels éléments de la Partie I serait-il avantageux d'inclure et quels éléments devrait-on omettre, car ils sont trop contraignants à appliquer?

Puisqu'elle porte sur la Partie III, cette question n'a pas été discutée par les membres.

Question 10 : Partagez-vous l'avis du CNC quant au fait que la norme IFRS pour les PME ne répondrait pas aux besoins des parties prenantes canadiennes? Dans la négative, pourquoi?

Oui, les membres partagent l'avis du CNC quant au fait que la norme IFRS pour les PME ne répondrait pas aux besoins des parties prenantes canadiennes.

4. Introduction d'un nouveau référentiel pour les petites entités

Question 11 : Si le CNC devait élaborer un nouveau référentiel à l'intention des petites entités, quels aspects des normes actuelles des parties II et III devrait-il conserver? Y a-t-il d'autres facteurs ou questions dont le CNC devrait tenir compte dans ses délibérations sur l'introduction d'un tel référentiel?

Puisque tous les membres sauf un sont défavorables à la mise en place d'un nouveau référentiel à l'intention des petites entités (approche 4), ils n'ont pas discuté de cette question. Les principaux facteurs supportant leur point de vue sont mentionnés dans la réponse à la question 2.

Résumé

Question 12 : Lesquelles des approches proposées par le CNC vous semblent les plus avantageuses pour les parties prenantes? Pourquoi?

Tous les membres sauf un préfèrent de loin l'**approche 1** pour les raisons mentionnées dans la réponse à la question 2.

Question 13 : Selon vous, y a-t-il d'autres approches que le CNC devrait envisager?

Non, les membres ne voient pas d'autres approches que le CNC devrait envisager.

Question 14 : Lesquelles des approches proposées devraient être écartées par le CNC? Pourquoi?

Tous les membres sauf un veulent éviter l'ajout de tout autre référentiel. Ils souhaitent donc que le CNC écarte les **approches 3 et 4** pour les raisons mentionnées dans la réponse à la question 2.

ORDRE DES COMPTABLES
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Montréal, July 19, 2023

Katharine Christopoulos, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

Ms. Christopoulos:

You will find enclosed the comments of the Technical working group on ASPE – Financial accounting – Part II, established by the Ordre des comptables professionnels agréés du Québec, regarding Consultation Paper I, “Exploring Scalability in Canada.”

We would appreciate receiving a copy of the English translation of our comments.

Please note that the Order is only a facilitator, and that this document does not constitute a response by the Order, but the views of the working group members. In addition, neither the Order nor any of the persons involved in preparing the comments shall have any liability in relation to their use, and no guarantee whatsoever shall be provided regarding these comments, as specified in the following disclaimer.

Yours truly,

Sophie Bureau, CPA auditor

Representative of the Technical working group on ASPE – Financial accounting – Part II of the Ordre des comptables professionnels agréés du Québec

Encl.: Disclaimer and comments

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Subject to the conditions described herein, the documents prepared by the technical and sector-specific working groups of the Ordre des comptables professionnels agréés du Québec (the Order), hereinafter referred to as the "comments," provide the opinion of those working groups on statements of principles, consultation papers, associates' drafts and exposure drafts issued by the Accounting Standards Board, the Auditing and Assurance Standards Board, the Public Sector Accounting Board, the Canadian Sustainability Standards Board and other organizations.

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TERMS OF REFERENCE OF THE ORDER'S WORKING GROUPS

The terms of reference of the working groups of the Ordre des comptables professionnels agréés du Québec are to collect and channel the views of practitioners and members in business, industry and government, as well as those of other persons working in related areas of expertise.

For each exposure draft or other document reviewed, working group members share the results of their analysis. Consequently, the comments below reflect the views expressed and, unless otherwise specified, all of the working group members agree on these comments.

The Order does not act upon and is not responsible for the comments made by the working groups.

GENERAL COMMENTS

The members of the Technical working group on ASPE – Financial accounting – Part II (hereinafter referred to as "members") are of the opinion that, in general, ASPE meet the needs of private enterprise stakeholders. The members would therefore prefer that the AcSB not undertake a large or medium-sized project on the accounting standards for these enterprises.

Some members mentioned they were surprised that this Consultation Paper was issued. In their opinion, standard setters and financial statement preparers, auditors and users have several other priorities. Furthermore, some members would have liked the Consultation Paper to provide more information about why it was published.

Almost all of the members thought that adding a simpler accounting policy choice to a few of the existing Part II standards would be sufficient and would encourage application of that framework. This is consistent with **solution 1** identified by the AcSB. However, the members do not support the addition of criteria, conditions or thresholds for applying the choices provided (based on the size of the entity, its industry, etc.). They would like these policy choices to be available to all companies that want them, as financial statement users can generally influence these choices.

As for Part II's current disclosure requirements, the members suggest that some of them be amended, as opposed to the tiering proposed in **solution 2**.

None of the members want an intermediary accounting framework option between IFRS Accounting Standards and Parts II and III (**solution 3**).

Only one member expressed an interest in a new framework for small entities (**solution 4**).

The members did not discuss the questions relating to Part III standards.

SPECIFIC ACSB QUESTIONS

OVERVIEW

Question 1: Do you agree with the summarized issues above? If not, why not? Are there any additional issues with the current financial reporting frameworks in Canada that the AcSB has not identified? If so, what are they, and how do you think the Board could address them as part of its project on scaling the standards?

The main issues raised in the Consultation Paper are as follows:

1) For large private entities and NFPOs, Parts II and III do not sufficiently meet the information needs of users.
2) For some smaller entities, Parts II and III are too complex.
3) IFRS Standards are too complex or onerous for some entities to apply.
4) Private entities and NFPOs do not typically choose to apply a financial reporting framework in the Handbook unless it is explicitly required.

With respect to private enterprises, the members agree with the **first issue** and the **third issue** but emphasize that they apply only to a small number of entities.

As for the **second issue**, the members believe that the complexity in applying Part II has more to do with the nature of certain entities' operations or transactions than with their size. According to the members, some requirements in the Part II standards are not adequately suited to the needs of the primary users of certain private enterprises' financial statements. In the members' opinion, a few additional accounting policy choices would allow these enterprises to choose policies that contribute to financial reporting that better meets those needs.

The members would phrase the **fourth issue** differently. They believe that, in general, private enterprises do not have their financial statements audited or reviewed by an independent auditor or practitioner unless explicitly required to do so. Nevertheless, the financial statements of these enterprises are often prepared in accordance with most ASPE recognition and measurement requirements. The main ASPE requirements that these enterprises do not adopt when preparing financial statements which will not be subject to audit or review are related to the preparation of a cash flow statement and disclosures, as well as the topics mentioned in the response to question 3.

The members add that even if enterprises apply ASPE (and their financial statements are subject to an audit or review), some choose not to meet all the requirements, deeming them too complex or costly, or inconsistent with the financial reporting needs of those who use their financial statements. The auditor's report or the review engagement report on such financial statements is therefore qualified, and often remains qualified for several years. The requirements that are often not applied usually relate to the topics in the response to question 3.

The members did not discuss the issues relating to NFPOs or financial reporting frameworks in Canada other than Part II.

SCALING THE STANDARDS

Question 2: Do you think the AcSB should pursue scaling alternatives to the current accounting frameworks included within the Handbook? Why or why not?

Yes, the members agree with the pursuit of scaling alternatives to the existing Part II standards. As mentioned in the response to question 1, they believe that certain ASPE requirements are not suited to the financial reporting needs of the primary users of private enterprise financial statements.

All of the members except one were of the opinion that, as regards recognition and measurement requirements, <u>adding new accounting policy choices to ASPE is the only path that should be pursued</u> to add scalability into the existing requirements for private enterprises. They consider this solution to be consistent with the existing tiering in ASPE (e.g. accounting policy choices for income taxes and interests in subsidiaries, joint arrangements or entities subject to significant influence). According to these members, adding a simpler accounting policy choice to a few existing Part II standards would be sufficient to meet the needs and address the second issue mentioned in question 1 relating to standard complexity. This is consistent with **solution 1** identified by the AcSB.

Even though providing more accounting policy choices may reduce financial statement comparability, the members consider this inconvenience to be unimportant, since private enterprise financial statements are confidential, and the primary users can encourage enterprises to choose the same policies.

However, the members are all <u>against the addition of criteria</u>, conditions or thresholds for applying current and future ASPE accounting policy choices, including those mentioned in the response to question 3. The members believe that adding criteria, conditions or thresholds based on, for example, an entity's size or industry would not be appropriate, and that each entity should have full discretion in selecting the accounting policies that are appropriate for the needs of their own financial statement users. This view is consistent with the current freedom to choose from the existing ASPE accounting policies. The members emphasize that the inclusion of criteria, conditions or thresholds inevitably increases complexity and creates a need for additional requirements to address, for example, what happens when these criteria or conditions are no longer met, or the entity moves from one threshold to another. The members who perform audit or review engagements also raised concerns about the potential introduction of biases (and increased engagement risk) with the addition of such criteria.

The members believe that, in general, the current disclosure requirements in Part II are not too complex and usually meet the needs of financial statement users. The members suggest amending some requirements (see the response to question 4), as opposed to tiering as proposed in **solution 2**.

None of the members want an intermediary accounting framework option between IFRS Accounting Standards and Parts II and III (**solution 3**). As mentioned in the response to question 1, with respect to private enterprises, the members agree with the first and third issue but emphasize that they apply only to a small number of entities.

All of the members except one were against the introduction of a new framework for small entities (**solution 4**). In their opinion, the financial statement concepts in ASPE are appropriate for the development of adequate standards for all private enterprises under Part II. They believe that only a few requirements are sometimes onerous for these enterprises and that it would be pointless to create a new framework for so little.

The members also raised the following concerns regarding the addition of a framework:

- Lack of human and financial resources to properly complete the necessary steps prior to the issue of a proper new framework (research, writing, revision, translation, discussion paper, exposure draft, roundtables, etc.), and for its maintenance thereafter.
- Increased difficulty, or inability, for financial statement preparers and assurance providers to learn, become familiar with and understand the requirements of numerous frameworks.
- Increased difficulty, or inability, for financial statement users to learn and become sufficiently familiar with the requirements of numerous frameworks to meet their needs.
- Increased confusion among financial statement preparers, assurance providers and users.
- Decreased interest in the CPA and auditor professions.
- Increased challenges in recruiting and retaining practitioners.

The members did not discuss the usefulness of scaling alternatives to Part III standards.

POTENTIAL SCALABILITY SOLUTIONS IDENTIFIED SO FAR

1. Tiering within the existing Part II and Part III frameworks – Simplified recognition and measurement in selected standards

*Question 3: If the AcSB were to pursue tiering within **Part II**, which standards have **recognition** and **measurement** requirements that are complex for some entities to apply? What opportunities exist to simplify the recognition and measurement requirements in these standards while still providing useful information to financial statement users?*

The members believe that certain ASPE recognition and measurement requirements are sometimes, or often, not suited to the financial reporting needs of the primary users of private enterprise financial statements. The following requirements, among others, are sometimes, or often, too complex and costly, and do not provide added value for financial statement users:

1. Business combinations

   Identifying and measuring identifiable intangible assets and recognizing them separately from goodwill involves significant effort and, in most cases, requires the use of independent valuation experts who perform work exclusively for the purposes of accounting for business combinations.

   In the members' opinion, recognizing these intangible assets separately does not typically influence the decisions of the primary users of private enterprise financial statements. Therefore, the members propose that a simplified accounting policy choice be added allowing the acquirer not to identify or measure intangible assets that were not recognized in the acquiree's financial statements. As a result, these intangible assets would be recognized in an asset combining the acquired unidentified intangible assets and goodwill.

   According to several members, if the AcSB were to prioritize one improvement to ASPE, it should be this one.

   Some members propose that this asset (that groups acquired unidentified intangible assets and goodwill) be subject to subsequent amortization over a period not exceeding 10 years. Others feel that the current impairment requirements are sufficient to ensure that the asset is not overstated.

2. Employee stock options

   The measurement of employee stock options or other equity instruments in a stock-based compensation plan involves considerable effort by financial statement preparers and, in most cases, requires the use of independent valuation experts.

In the members' opinion, recognizing a compensation expense for the issue of equity instruments under such plans does not typically influence the decisions of the primary users of private enterprise financial statements. Therefore, the members propose adding a simplified accounting policy choice allowing a value of zero to be allocated to these grants (while retaining current disclosures).

3. Revenue recognition

   The members note that identifying the units of account and the multiple elements in an arrangement can be complex at times for some enterprises or in certain industries.

   Some members proposed a simplified accounting policy choice that would not require the multiple elements in a single arrangement to be separated for revenue recognition purposes, and that would allow for the arrangement to be recognized as a single deliverable.

   Other members disagree with such a policy. In their opinion, private enterprise revenue is one of only a few financial statement items that users are likely to want to compare from one enterprise to another, so accounting policy choices that could affect the revenues reported on the income statement should not be introduced.

4. Discounting of financial liabilities

   According to the members, initial measurement at fair value of financial instruments obtained in arm's length transactions is complex. In their view, many private enterprises take out interest-free (or low-interest) loans. Some members believe that initial measurement of such a financial liability using a present value technique (and subsequent adjustments for measurement at amortized cost) also results in an accounting policy that is incompatible with the needs of those entities' primary financial statement users.

   Some members propose adding a simplified accounting policy choice that does not require initial measurement at fair value of financial liabilities assumed in arm's length transactions. Other members propose that this choice be limited to interest-free (or low-interest) loans similar to government assistance.

5. Measurement of inventories

   The measurement of overhead and other costs (other than costs of purchase and costs of conversion) that must be included in the cost of inventories of processed products is complex and very time-consuming for financial statement preparers. According to some members, incorporating such elements into the cost of inventories is complex without providing any added value for the financial statements' primary users, who are generally more concerned with the net realizable value of inventories, regardless of their carrying amount on the balance sheet.

These members propose adding a simplified accounting policy choice that allows all indirect costs (including manufacturing overhead) to be recognized as an expense when incurred.

Other members disagree with such a policy. In their opinion, the gross profit of private enterprises is one of only a few financial statement items that users are likely to want to compare from one enterprise to another, so accounting policy choices that could affect the cost of goods sold reported on the income statement should not be introduced.

6. Current liabilities

The members raised numerous issues with the classification of loans maturing in the next year or loans with a covenant violation as a current or non-current liability. According to the members, the requirements of CURRENT ASSETS AND CURRENT LIABILITIES, paragraphs 1510.13-.14 generally result in the total balance of these loans being classified as a current liability. Several members believe this is incompatible with the needs of the primary users of financial statements, who are more interested in an enterprise's planned repayments in the next year; this often excludes the so-called non-current portion of loans that will be refinanced and loans with a covenant violation. According to the members, in practice, it is rare that loans are not refinanced, or that full repayment is required in the short term.

The members discussed the possibility of allowing such loans (other than the portion management intends to repay in the short term) to be classified as non-current with specific disclosures, as well as the possibility of introducing a presentation similar to the presentation of callable debt at the end of Section 1510 (commonly referred to as a "mezzanine presentation").

7. Retractable or mandatorily redeemable shares issued in a tax planning arrangement

According to the members, the classification of these shares as a financial liability is sometimes at odds with the financial reporting needs of the primary users of private enterprise financial statements. This is especially true when the shares are subject to a subrogation agreement in favour of a creditor, and the holder has therefore agreed not to require redemption in the short or medium term.

Some members believe it would be appropriate to add a simplified accounting policy choice allowing these shares to be classified as equity when such subrogation exists, even if the conditions in paragraph 3856.23 are not met.

8. Leases

The members discussed the challenges related to straight-line recognition of operating lease payments, from both the lessee's and the lessor's perspectives. The members pointed out that this sometimes results in financial reporting that does not meet the needs of the primary users of private enterprise financial statements, which focus primarily on the incoming and outgoing payments required under the terms of the lease agreement.

Some members therefore believe that the option to recognize an operating lease's rental income or expenses on the basis of the contractual terms should be added to LEASES, Section 3065.

Other members would like relief or clarifications in Section 3065 allowing rent increases over the lease term to reflect the time value of money not to be recognized on a straight-line basis.

9. Property, plant and equipment

   Some members raised concerns about the requirements in PROPERTY, PLANT AND EQUIPMENT, Section 3061, i.e., "The cost of an item of property, plant and equipment made up of significant separable component parts is allocated to the component parts when practicable and when estimates can be made of the lives of the separate components." In their opinion, these requirements are too complex and do not influence the decisions of the primary users of private enterprise financial statements, whether they are applied or not.

   These members propose that a simplified accounting policy choice be added allowing the acquirer to not allocate the cost of an item of property, plant and equipment to the component parts, and to determine the amortization method and period on the basis of the average life or useful life of all the components of that item of property, plant and equipment.

   These members are also of the opinion that additional guidance is needed in paragraphs 3061.14-.15 to help financial statement preparers and auditors (or practitioners) assess the extent to which the incurred costs enhance the service potential of an item of property, plant and equipment, depending on whether it was separated into its significant component parts upon initial recognition.

10. Individual pension plans

    Some members feel that applying the requirements in EMPLOYEE FUTURE BENEFITS, Section 3462 to individual pension plans is too complex, and that accounting for such plans as defined benefit plans is not important to the primary users of private enterprise financial statements when note disclosure is sufficient.

    These members propose adding the option to account for these plans as defined contribution plans.

Even though the members made several proposals involving simplifications or practical expedients, they emphasize that the primary objective is for private enterprises to produce ASPE-compliant financial statements that better meet the financial reporting needs of primary users and assist them in their decision-making.

Points 1, 2, 3, 4, 5, 7, 8 (in part), 9 and 10 above are in keeping with potential scalability **solution 1**, i.e. simplified recognition and measurement within ASPE, in that they propose the addition of reduced or simplified accounting policies for entities wishing to apply them. The members reiterate that, in their view, these accounting policy choices should supplement, not substitute, current ASPE requirements.

As mentioned in the response to question 2, the members want these simplified accounting policy choices to be available to any private enterprise that wishes to apply them, since financial statement users can generally influence these choices.

The proposals in points 6 and 8 (in part) above could be included in annual improvements to ASPE or be the subject of a separate exposure draft, because they aim to improve existing requirements in certain standards, not add simplified accounting policy choices.

Members came up with the following ideas to facilitate ASPE application, the identification of the simplest accounting policies for financial statement preparers to apply, and recognition of the applied policies by financial statement users:

- The simplest accounting policy choices (current and future) should appear more prominently within the standards. For example, they could be preceded by an asterisk (*) in a specific colour.
- A list of accounting policy choices should be added to DISCLOSURE OF ACCOUNTING POLICIES, Section 1505.
- Section 1505 should also include a list of the main policies (including those that can be chosen) with check boxes that can be copied verbatim in the note to the financial statements on significant accounting policies. This list would make it easier to prepare the note. Financial statement users would also be able to quickly determine which accounting policies were applied by the entity (or not).
- Links to free resources, such as AcSB podcasts or CPA Canada documents, should be added to the standards, in boxes of a specific colour, for example. A similar approach was used in the Emerging Issues Committee Abstracts in the former Part V; references were provided at the beginning of certain Abstracts. Such an approach is also used in the annotated IFRS sold by the IFRS Foundation, in which references are enclosed in square brackets ([xxx]) and boxes.

Lastly, to avoid the creation of a new framework for small entities (solution 4), a member put forward the idea of establishing a predefined set of simplified accounting policies within ASPE that could be freely chosen as a whole by entities wishing to do so.

*Question 4: If the AcSB were to pursue tiering within **Part III**, which standards have **recognition** and **measurement** requirements that are complex for some NFPOs to apply? What opportunities exist to simplify the recognition and measurement requirements in these standards while still providing useful information to financial statement users?*

Since this question relates to Part III, the members did not discuss it.

2. Tiering within existing Part II and Part III frameworks – Reduced disclosure requirements

*Question 5: If the AcSB were to pursue tiering within **Part II**, which standards have **disclosure requirements** that are complex for some entities to apply? What opportunities exist to simplify the **disclosure requirements** in these standards while still providing useful information to financial statement users?*

As mentioned in the response to question 2, the members would prefer amendments to some disclosure requirements instead of the tiering proposed in solution 2. They would like these amendments to apply to all entities that use ASPE, not just some of them. These amendments could be proposed as part of the annual improvements to ASPE or be the subject of a separate exposure draft.

- Disclosure requirements for financial risks

  These disclosure requirements have been criticized for many years.

  According to the document "Background Information and Basis for Conclusions - Accounting for Related Party Financial Instruments and Significant Risk Disclosures" published in December 2018, respondents to the request for information expressed concerns that the significant risk disclosure note was not useful to financial statement users. They commented that risk information disclosed in the notes to the financial statements was often boilerplate and not enterprise-specific. The Private Enterprise Advisory Committee informed the AcSB that some of the information disclosed, including how a risk arose, was obvious based on the nature of the instrument and could be observed on the face of the financial statements. During the development of the Exposure Draft, the AcSB consulted financial statement users who, overall, thought such information was useful when it was enterprise-specific and explained the enterprise's current exposure to risk. Consequently, the AcSB decided not to remove the requirements to disclose how a significant risk arose, amended paragraph 3856.37 and added paragraph 3856.53A to provide guidance that clarified the disclosure requirements and encouraged enterprises to prepare their disclosures using relevant and enterprise-specific information, i.e. considered significant based on the enterprise's current exposure.

The members are seeing little change in practice and still consider substantially all the related disclosures, almost always in a single financial statement note, unnecessary and already otherwise obvious in the notes to the financial statements. For example, a significant change in exposure to foreign currency risk caused by a new debt in Euros is already shown in the note on long-term debt, as the currency in which the debt is payable must be disclosed in accordance with paragraph 3856.43(e). A few disclosures might not be otherwise provided or visible, such as a significant concentration of credit risk related to accounts receivable in foreign currencies.

According to the members, disclosures in this regard are very rarely read by financial statement users and scarcely ever deemed useful. The members feel it is high time for the AcSB to significantly amend the current requirements and provide practical examples of the disclosures it wants.

- Income taxes

  Some members believe that the costs of providing the reconciliation and disclosures required under paragraph 3465.88(b) when an enterprise applies the taxes payable method exceed the benefits. In their opinion, these disclosures are very rarely read and scarcely ever used by financial statement users. Therefore, the disclosures should be voluntary, not mandatory.

*Question 6: If the AcSB were to pursue tiering within **Part III**, which standards have **disclosure requirements** that are complex for some entities to apply? What opportunities exist to simplify the **disclosure requirements** in these standards while still providing useful information to financial statement users?*

Since this question relates to Part III, the members did not discuss it.

3. Intermediary accounting framework option between IFRS Accounting Standards and Parts II and III

Question 7: How common is it for entities to transition from ASPE to IFRS Accounting Standards? Other than preparing for an IPO or other liquidity event, what drives an entity to make this transition? What challenges do entities face with this transition? Did the time taken to comply with financial reporting requirements in IFRS Accounting Standards result in any negative consequences or missed opportunities for entities? What opportunities exist to make the process to transition from ASPE to IFRS Accounting Standards easier and less time-consuming?

According to the members, it is not common for entities to transition from ASPE to IFRS Accounting Standards. However, some members believe such transitions are increasingly frequent. Other than preparing for an IPO, these transitions take place when an entity is acquired by a foreign venture capital firm, or when a private entity in the technology sector wants to compare itself with entities that apply IFRS Accounting Standards.

In general, these transitions are complicated. However, with the exception of certain standards that differ significantly from ASPE, such as IFRS 16 *Leases*, the main differences are in the disclosure requirements. Often, the entity's reporting systems are inadequate, or it does not have enough human resources at the time of transition.

The members deem these difficulties to be inevitable most of the time and inherent in such a transition. They do not think these challenges warrant major changes to the recognition and measurement requirements under ASPE, e.g. those in LEASES, Section 3065. Furthermore, the members do not believe that an intermediary accounting framework option between IFRS Accounting Standards and Parts II and III, whether or not it centres on reduced disclosures, would address enough needs to be worth the cost.

The members are also aware that certain needs, such as those of co-operative enterprises, are very targeted. Nevertheless, they believe these needs can be met by applying CAS 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*.

Accordingly, the members do not see the need for an interim accounting framework between IFRS Accounting Standards and Parts II and III (**solution 3**).

Question 8: If the AcSB were to introduce an intermediary option between ASPE and IFRS Accounting Standards, which elements of Parts I and II should be included in this accounting framework? Which elements of Part I are beneficial to include, and which are too onerous to apply?

Given their responses to questions 2 and 7, the members did not discuss this question.

Question 9: If the AcSB were to introduce an intermediary option between accounting standards for NFPOs and IFRS Accounting Standards, which elements of Parts I and III should be included in this accounting framework? Which elements of Part I are beneficial to include, and which are too onerous to apply?

Since this question relates to Part III, the members did not discuss it.

Question 10: Do you agree with the AcSB's assessment that the IFRS for SMEs Accounting Standard would not meet the needs of Canadian stakeholders? If not, why?

Yes, the members agree with the AcSB's assessment that the IFRS for SMEs Accounting Standard would not meet the needs of Canadian stakeholders.

4. Introduction of a new framework for small entities

Question 11: If the AcSB were to develop a new framework for small entities to apply, what aspects of existing Part II and/or Part III would be helpful to retain? Are there additional factors or matters the Board should consider in its discussion of this potential new framework?

Since all of the members except one are against the introduction of a new framework for small entities (solution 4), they did not discuss this question. The main factors supporting their view are mentioned in the response to question 2.

Summary

Question 12: Which scalability solutions proposed by the AcSB do you think provide the greatest benefit to stakeholders, and why?

All of the members except one far prefer **solution 1**, for the reasons provided in the response to question 2.

Question 13: Are there any other scalability solutions that you think the AcSB should consider?

No, the members do not see any other scalability solutions that the AcSB should consider.

Question 14: Which, if any, of the proposed scalability solutions do you think the AcSB should not pursue, and why?

All of the members except one want to avoid the introduction of a new framework. Therefore, they hope that the AcSB does not pursue **solutions 3 and 4**, for the reasons stated in the response to question 2.

Famme & Co.
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July 25, 2023

Accounting Standards Board
277 Wellington Street West
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Att: Katharine Christopoulos, CPA, CA

Re: Consultation Paper – Exploring Scalability in Canada

Thank you for the opportunity to comment on the above-noted Consultation Paper.

Famme & Co. Professional Corporation operates three offices in Southwestern Ontario, Canada, with 13 partners and a staff in excess of 100. The firm has served the area since 1947 with an emphasis on the farm and agricultural sector, along with manufacturers, mutual insurance companies, and a wide range of not-for-profit organizations.

We believe that some aspects of Parts II and III of the Handbook are too complex for some smaller entities. These smaller entities make up a large part of our client base. We are happy to see the AcSB has identified this issue and is considering alternatives.

We offer the following responses to the questions posed in the Consultation Paper.

Question 1: Do you agree with the summarized issues above? If not, why not? Are there any additional issues with the current financial reporting frameworks in Canada that the AcSB has not identified? If so, what are they, and how do you think the Board could address them as part of its project on scaling the standards?

Yes, we agree with the issues identified by the AcSB through their preliminary research.

Question 2: Do you think the AcSB should pursue scaling alternatives to the current accounting frameworks included within the Handbook? Why or why not?

Yes, we think the AcSB should pursue scaling alternatives to the current accounting frameworks. Some standards included in the handbook, including new standards such as Section 3041 Agriculture and Section 3856 Financial Instruments - ROMRs, are complex in nature. Adoption of these standards did not make the financial statements more useful to the average small business shareholder or any additional users of those statements such as lenders.

Question 3: If the AcSB were to pursue tiering within Part II, which standards have recognition and measurement requirements that are complex for some entities to apply? What opportunities exist to simplify the recognition and measurement requirements in these standards while still providing useful information to the financial statement users?

Some examples of standards which we feel are complex and smaller entities would benefit from alternative recognition and measurement options include the following:

Section 3041 Agricultural Inventory: For most of our agriculture clients, the main user of the financial statements are the banks. These lenders already have access to up-to-date fair market values for agricultural inventory. Historical cost information is not relevant to them, but yet the standard requires a detailed build up of cost information which is cumbersome for many farm operations.

Section 3856 Financial Instruments – ROMRs: In our practice, we find this standard applying mostly in family-owned businesses where an Estate freeze has been completed to pass the business on to the next generation. The shares are all held within the family group and it is very unlikely one shareholder would require the company to redeem all or some of their shareholdings if it would put the business in peril as a result. We find that reporting these shares as liabilities is confusing to the average business owner and lenders are disregarding these shares as a liability and are not including them in debt covenant calculations.

Question 5: If the AcSB were to pursue tiering within Part II, which standards have disclosure requirements that are complex for some entities to apply? What opportunities exist to simplify the disclosure requirements in these standards while still providing useful information to financial statements users?

The following standards which we feel have disclosure requirements that smaller entities would benefit from simplified requirements include the following:

Related Party Transactions: For most small business clients, the users of the statements are all very familiar with the day-to-day operations of the business and the transactions which are done with related parties. Summarizing these transactions for disclosure on the year end statement can be onerous in some cases and it does not provide any useful information for the business owner.

Risk Notes (Currency, Credit, Interest Rate, etc.): For most small business clients, the users of the financial statements are very limited and would include the shareholders, tax authorities and lenders. The shareholders are already aware of the business risks – disclosing them on the statement is not useful information.

Question 7: How common is it for entities to transition from ASPE to IFRS Accounting Standards?

We do not believe this is a very common issue for small businesses. In addition, only a small group of practitioners would handle these types of scenarios.

Question 10: Do you agree with the AcSB's assessment that the IFRS for SMEs Accounting Standards would not meet the needs of Canadian stakeholders? If not, why?

Yes – we agree with this assessment.

Question 11: If the AcSB were to develop a new framework for small entities to apply, what aspects of existing Part II and/or Part III would be helpful to retain?

We believe that there are several parts that would be helpful to retain of Part II and III and if a new framework was to be created we would recommend that Part II and III be used as the starting point, bringing in scalability options for measurement and disclosure reporting for smaller entities.

Question 12: Which scalability solutions proposed by the AcSB do you think provide the greatest benefit to stakeholders, and why?

We believe that option # 1 – Tiering within the existing Part II and Part III frameworks – Simplified recognition and measurement in selected standards would provide the greatest benefit to stakeholders.

This option allows small businesses to simplify their reporting requirements but if they out-grow the "smaller entity" definition it is simpler to move to the more complex reporting requirements of the section. This option also does not require practitioners to learn a new set of standards. We also feel it would be easier and more timely to make future changes to the standards if the scalability options were to remain within Part II and III.

Question 13: Are there any other scalability solutions that you think the AcSB should consider?

None of which we are aware.

Question 14: Which, if any, of the proposed scalability solutions do you think the AcSB should not pursue, and why?

We strongly believe that option # 3 – Intermediary accounting framework between IFRS and Part II and III would be of no use to the financial statement clients of our firm. We do not support this option.

We also believe option # 4 – Introduction of a new framework – should not be pursued. This option would require practitioners to become familiar with yet another set of standards. We feel this option is more cumbersome for practitioners and users of the statements. It would also be more onerous for clients if an entity had to switch from a new standard back to Part II or III of the handbook because they out grew the scalability size limit.

Once again, we thank the AcSB for this opportunity to comment on the above-noted Consultation Paper.

Yours truly,
FAMME & CO. Professional Corporation

Lynn Eidt

Lynn Eidt, CPA, CA
Partner

31 July, 2023

Katherine Christopoulos, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

Dear Ms. Christopoulos:

Re: Consultation Paper I – Exploring Scalability in Canada

Thank you for the opportunity to provide input to the Accounting Standards Board (AcSB) on the above noted document.

We have reviewed the Consultation Paper issued by the AcSB and are pleased to provide our responses to your questions below:

<u>Question 1</u>
Do you agree with the summarized issues stakeholders have raised? If not, why not? Are there any additional issues with the current financial reporting frameworks in Canada that the AcSB has not identified? If so, what are they, and how do you think the Board could address them as part of its project on scaling the standards?

We agree that many of Canada's smaller private enterprises and not-for-profit organizations (NFPOs), encounter difficulties applying all the requirements of Parts II and III of the Handbook. Such entities frequently lack the necessary resources to apply all the requirements, and the needs of the users could still be met if the financial statements were prepared in accordance with a simplified set of requirements.

We also acknowledge that, on the other end of the spectrum, there are private entities and NFPOs for which financial statements prepared in accordance with Parts II and III may not sufficiently meet the information needs of users. However, we are of the view that it is reasonable to expect that an entity with user reporting needs greater than what is provided under those frameworks should be able to prepare financial statements in accordance with International Financial Reporting Standards (IFRS).

<u>Question 2</u>
Do you think the AcSB should pursue scaling alternatives to the current accounting frameworks included within the Handbook? Why or why not?

We believe that the AcSB should pursue opportunities to scale certain requirements in Parts II and III to provide an alternative approach for smaller private enterprises and NFPOs for which the challenges of reporting under the current frameworks exceed the requirements of the financial statement users.

There are already instances in Part II of the Handbook where an entity may select, from multiple acceptable alternatives, an accounting policy that is simpler and easier to apply. We believe that extending this approach to additional Accounting Standards will offer flexible solutions to better match the needs of the diverse population of entities applying Part II of the Handbook in Canada.

The landscape of NFPOs preparing annual financial statements in accordance with Parts II and III is even more varied. Even the smallest NFPO may be expected to provide audited financial statements in accordance with grant agreements or government regulations, and there is a general desire on the part of NFPO boards to be transparent and demonstrate responsible use of donations. The vast majority of

NFPOs in Canada are very small, and operate with limited or only volunteer administrative resources, often with minimal accounting knowledge. We are supportive of exploring additional scaling opportunities such as tiering and accounting policy choices for qualifying NFPOs. We think that the challenging financial reporting burden for many small Canadian NFPOs could be reduced significantly by expanding the scope of such differential accounting options to other requirements in Parts II and III.

We do not believe it necessary to pursue opportunities to develop accounting requirements for private enterprises and NFPOs for which Parts II and III do not adequately meet the information needs of the users, since we think these entities should be preparing financial statements in accordance with IFRS.

Questions 3 and 4

If the AcSB were to pursue tiering within Part II, which standards have recognition and measurement requirements that are complex for some entities to apply? What opportunities exist to simplify the recognition and measurement requirements in these standards while still providing useful information to financial statement users?

If the AcSB were to pursue tiering within Part III, which standards have recognition and measurement requirements that are complex for some NFPOs to apply? What opportunities exist to simplify the recognition and measurement requirements in these standards while still providing useful information to financial statement users?

We believe the AcSB should explore tiering in the following areas where the recognition and measurement requirements are complex within Part II:

- **Section 1582 *Business Combinations*** – The acquisition method, including the requirement to recognize and measure identifiable assets acquired and liabilities assumed at fair value are challenging for some private entities to apply. In particular the fair value measurement of identified intangible assets (e.g., customer lists) can be difficult for smaller private enterprises. The AcSB should consider whether, as an alternative, qualifying entities could recognize the amount of any consideration paid in excess of those carrying amounts as goodwill that would be subject to amortization.

- **Section 3031 *Inventories*** – Smaller entities often do not have the resources or processes in place to accurately apply the requirements for fixed and variable overhead allocation. An alternative may be to allow qualifying entities to recognize only direct costs in inventories.

- NFPOs are also required, in accordance with Section 3032 *Inventories Held by Not-for-Profit Organizations*, to recognize and measure inventories, other than contributed inventories or inventories in connection with products to be distributed at no or a nominal charge, in accordance with Section 3031. The alternative approach to measuring inventories described above should also be considered for smaller, qualifying NFPOs.

- **Section 3064 *Goodwill and Intangible Assets*** – The goodwill impairment testing requirements are another area of Part II that we understand can be onerous for smaller, less sophisticated private entities to apply. A simpler alternative for qualifying entities would be to permit the amortization of goodwill, unless there is evidence that goodwill no longer has value and should be written off.

- **Section 3111 *Asset Retirement Obligations*** – The requirements of this standard are generally considered complicated to understand and difficult to apply. It would be even more onerous for smaller entities with limited resources. The needs of users of smaller entity financial statements may be sufficiently met if information about known constructive and legal asset retirement obligations is disclosed in the notes, but not recognized in the financial statements.

- **Section 3462 *Employee Future Benefits*** – It is not unusual for smaller owner-managed businesses and smaller professional corporations (medical, legal, etc.) to provide Individual Pension Plans (IPP) to their key employees. An IPP is a defined benefit pension plan for a single person and is therefore subject to the requirements of Section 3462. The accounting requirements for defined benefit pension plans are extremely complicated and very onerous, and entities frequently accept a qualified auditor's report in lieu of accounting for IPPs in accordance with Section 3462.

NFPOs must also account for defined benefit plans in accordance with Section 3462, as outlined in Section 3363 *Reporting Employee Future Benefits by Not-for-profit Organizations*. The accounting for defined benefit plans in accordance with Section 3462 would likely be even more challenging and onerous for smaller NFPOs.

An alternative approach would be to exempt IPPs defined benefit plan accounting. The deferred compensation liability could be measured at the present value of the benefits expected to be provided in exchange for an employee's service to date. If the expected benefits are attributed to more than one individual year of service, the costs could be accrued in a systematic and rational manner over the relevant years of service in which the employee earns the right to the benefit (to the full eligibility date). Another option would be to account for IPPs the same as defined contribution plans.

- **Section 3475 *Disposal of Long-lived Assets and Discontinued Operations*** – The recognition, measurement and presentation requirements of this standard are not generally well-understood because they are not regularly applied. In lieu of having to apply the more burdensome reporting requirements of Section 3475, a disclosures-only election may be a simpler alternative that would ensure the needs of the financial statements users are still being met.

- **Sections 3856 *Financial Instruments* and 3870 *Stock-based Compensation* –** The recognition and measurement requirements of both of these standards are challenging for some smaller entities. The AcSB should explore tiering for smaller entities to allow simplified methods of accounting for derivatives and stock-based compensation.

We have not noted any Part III Accounting Standards that should be considered for tiering at this time. However, we would recommend that, as new Part II and Part III Accounting Standards are developed, the AcSB adopt a routine practice of considering whether there are requirements which should be scaled for certain private and not-for-profit entities.

<u>Questions 5 and 6</u>
If the AcSB were to pursue tiering within Part II, which standards have disclosure requirements that are complex for some entities to apply? What opportunities exist to simplify the disclosure requirements in these standards while still providing useful information to financial statement users?

If the AcSB were to pursue tiering within Part III, which standards have disclosure requirements that are complex for some entities to apply? What opportunities exist to simplify the disclosure requirements in these standards while still providing useful information to financial statement users?

Although there may be opportunities to allow certain qualifying entities to adopt reduced disclosure requirements, we do not think that entities will derive much benefit from doing so, because the information generally contained in note disclosures are derived from the application of the recognition, measurement, and presentation requirements. For this reason, we would encourage the AcSB to primarily focus on identifying scaling solutions for specific Accounting Standards, and the criteria for entities to be eligible to adopt the scaled recognition and measurement alternatives.

<u>Questions 7, 8 and 9</u>
How common is it for entities to transition from ASPE to IFRS Accounting Standards? Other than preparing for an IPO or other liquidity event, what drives an entity to make this transition? What challenges do entities face with this transition? Did the time taken to comply with financial reporting requirements in IFRS Accounting Standards result in any negative consequences or

missed opportunities for entities? What opportunities exist to make the process to transition from ASPE to IFRS Accounting Standards easier and less time-consuming?

If the AcSB were to introduce an intermediary option between ASPE and IFRS Accounting Standards, which elements of Parts I and II should be included in this accounting framework? Which elements of Part I are beneficial to include, and which are to onerous to apply?

If the AcSB were to introduce an intermediary option between accounting standards for NFPOs and IFRS Accounting Standards, which elements of Parts I and III should be included in this accounting framework? Which elements of Part I are beneficial to include, and which are too onerous to apply?

In our experience, private entities generally only transition from ASPE to IFRS Accounting Standards in anticipation of going public or needing IFRS-prepared financial statements to satisfy some other user's (e.g., sophisticated private investors, etc.). The ease of transition depends on a variety of factors including, but not limited to:

- Stage of the business;
- Level of complexity of the transactions undertaken by the entity;
- Experience, availability, and preparedness of management;
- Availability of resources with the appropriate IFRS knowledge and related skills and experience;
- Timeline of expected transition; and
- The quality of communication between management and the auditors.

Although the transition process can sometimes be burdensome it is extremely rare that obstacles in completing IFRS-compliant financial statements have impeded an entity's ability to execute its transactions as planned.

We are not in favour of the development of an intermediary option between ASPE and IFRS Accounting Standards. We are of the view that if ASPE financial statements do not sufficiently meet the users' needs, the entity should report under IFRS:

- While there are some significant differences between ASPE and IFRS, the existing frameworks have been in place in Canada for long enough that most stakeholders involved with entities preparing for a liquidity event generally understand what is necessary to complete a successful transition to IFRS. For example, since IFRS was first adopted in Canada, it has been a growing trend for smaller, less sophisticated entities to engage the services of advisors specializing in IFRS transitions to provide support through the transition and beyond.

- We do not expect that many entities would elect to adopt an intermediary option between ASPE and IFRS, particularly if the entity's longer-term goal is to undertake a liquidity event and, the intermediary GAAP is not considered a permanent solution. GAAP transitions are generally only undertaken when it is considered necessary to do so, and we believe this optional intermediary step would require unnecessary effort with minimal benefits.

- Many stakeholders would likely discourage the transition to an intermediary between ASPE and IFRS because it would diminish the comparability with other entities' financial statements, and period-over-period comparisons.

- The development of a new framework is a much larger, more complicated undertaking, that we expect would require considerably more resources and time to plan, develop and deliver than our preferred solution of incorporating more accounting policy choices in Parts II and III. As a result, entities will have to wait longer for a scaled solution.

- An additional Canadian accounting framework would require incremental management, oversight, and administrative, communication, education, and other resources. Incorporating additional optionality into the existing frameworks is an approach that would meet the same objectives.

For similar reasons we are not in favour of the development of an intermediary option between Part III and IFRS Accounting Standards. We would expect that an NFPO would have to be of a certain level of sophistication and complexity for its financial statements prepared in accordance with Part III to not sufficiently meet the financial statements users' needs. If Part III financial statements are inadequate, we think it is reasonable to expect an NFPO to prepare financial statements in accordance with IFRS, since any intermediary option between Part III and IFRS may still fall short of satisfying the financial statement user requirements.

Question 10
Do you agree with the AcSB's assessment that the IFRS for SMEs Accounting Standard would not meet the needs of Canadian stakeholders? If not, why?

We are not aware of any compelling reasons why IFRS for SMEs Accounting Standards would meet the needs of Canadian stakeholders any better today than it did in 2011, when ASPE was selected over IFRS for SMEs as the more suitable framework for private entities in Canada.

Question 11
If the AcSB were to develop a new framework for small entities to apply, what aspects of existing Part II and/or Part III would be helpful to retain? Are there additional factors or matters the Board should consider in this potential new framework?

We are not in support in the development of a new framework for small entities to apply. There are several drawbacks to this approach, including:

- The significant amount of resources would be needed to plan for, develop, finalize, and introduce a new framework.
- Incremental management, administration, and oversight costs to maintain an additional framework.
- Stakeholder confusion and added reporting requirements to explain the adoption of a new framework.

We believe that the same objectives can be achieved just as effectively and far more easily through the incorporation of more optionality in the existing requirements in Parts II and III:

- Alternative accounting policy choices already exist in certain Accounting Standards, so entities are familiar with this approach, and the AcSB already has a well-functioning process in-place to efficiently implement changes of this nature,
- Stakeholder confusion and lack of comparability that would result from the introduction of a new framework will be avoided, and
- Optional relief for certain entities can continue to be incorporated as Parts II and III Accounting Standards are amended in the future.

Questions 12, 13 and 14
Which scalability solutions proposed by the AcSB do you think provide the greatest benefit to stakeholders, and why?

Are there any other scalability solutions that you think the AcSB should consider?

Which, if any, of the proposed scalability solutions do you think the AcSB should not pursue, and why?

As previously indicated, we believe that scaling some of the more complex recognition and measurement requirements of Parts II and III to better accommodate the needs of a diverse group of entities would alleviate the strain on smaller entities overly burdened from having to apply those requirements. We think this can best be accomplished by the introduction of additional optional accounting policy choices in Parts II and III for which the burden of applying the requirements are significant and the existing requirements offer little value to the financial statement users.

Successful scalability will depend on ensuring that the eligibility criteria are inclusive enough that the simplified options are available to those entities currently struggling under the onerous demands of the existing requirements, but restrictive enough to avoid negatively affecting the users of the financial statements.

We would be pleased to offer our assistance to the AcSB in further exploring issues raised in our response or in finding alternative solutions to meet financial statement users' needs.

MNP LLP is one of Canada's largest chartered professional accountancy and business advisory firms. Our clients include small to mid-size owner-managed businesses in agriculture, agribusiness, retail, and manufacturing as well as credit unions, co-operatives, Indigenous, medical, and legal professionals, not-for-profit organizations, municipalities, and other public sector entities. In addition, our client base includes a sizable contingent of publicly traded companies.

Yours truly,

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July 31, 2023

Re: AcSB Consultation Paper I – Exploring Scalability in Canada

Dear Ms. Christopoulos,

We have read the above-mentioned Consultation Paper that was issued in March 2023 and are pleased to have the opportunity to provide responses to your specific questions as outlined below.

1. *Do you agree with the summarized issues above? If not, why not? Are there any additional issues with the current financial reporting frameworks in Canada that the AcSB has not identified? If so, what are they, and how do you think the Board could address them as part of its project on scaling the standards?*

   In general, we agree with the issues summarized on page 4 of the Consultation Paper. However, as noted in our response to the questions below (refer to our response to questions #3 and #4 in particular) there are a number of additional areas within Part II and Part III where the guidance is currently overly complex, lacking in detail or confusing for entities to apply and navigate. We would encourage the Board to continue with its scalability work and to consider these issues as the project progresses to ensure the development of relevant and high-quality accounting standards.

2. *Do you think the AcSB should pursue scaling alternatives to the current accounting frameworks included within the Handbook? Why or why not?*

   We believe there are opportunities for some scaling alternatives within the current accounting frameworks included within the CPA Canada Handbook as outlined in our response to the questions below. We also suggest there are opportunities as part of this project to clean up areas within Parts II and Parts III where stakeholders may feel the guidance is overly complex and/or onerous to apply and navigate (refer to our responses to questions #3 and #4 in particular).

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However, as outlined in our response below, we do not believe the introduction of one or more new frameworks is needed to meet scalability needs. We believe it is important that in coming to a conclusion on the way forward for this project, the Board ensures that the benefits for entities outweighs the costs of compliance. We believe any options the Board moves forward with should aim to provide useful guidance to the majority of entities following the CPA Canada Handbook and the users of their financial statements. However, the Board should also keep in mind costs including but not limited to the volume of resources that would be needed to implement and maintain the various options and for significant investments in developing educational materials or resources to assist entities and their stakeholders in navigating any significant financial reporting changes.

We also believe that in coming to a conclusion on whether scaling alternative are needed, the Board needs to be clear on what the vision for Part II is – is it:

1) To be more aligned with an international framework such as Part I or US GAAP to make it easier for entities that may transition to an international framework one day; or
2) To develop and maintain Part II so that it meets the needs of Canadian private sector entities and their financial statement users/stakeholders and that changes made to international frameworks such as Part I or US GAAP only need to be adopted in Part II when the changes better address Canadian private sector user and stakeholder needs?

3. *If the AcSB were to pursue tiering within Part II, which standards have recognition and measurement requirements that are complex for some entities to apply? What opportunities exist to simplify the recognition and measurement requirements in these standards while still providing useful information to financial statement users?*

We believe it would be beneficial for the Board to consider tiering within Part II. Part II already provides some level of scalability within the current framework through the use of accounting policy choices, such as those set out in paragraph .09 of Section 1506, *Accounting Changes*. We believe the Board could expand upon this list of items to improve scalability within Part II. While not a complete list, the following standards in particular contain recognition and measurement requirements that could be simplified while still providing useful information to financial statement users. These are areas where financial statements are often qualified or prepared under another disclosed basis of accounting, as entities find the following requirements complex or onerous to apply and financial statement users do not always find this information particularly useful:

- Section 1582, *Business Combinations* – Provide entities with the option to amortize goodwill and intangible assets acquired. Such an option is currently available in US GAAP and would be useful in Part II, as separating out the fair value of goodwill and intangible assets acquired can be onerous for entities, and users of financial statements often back out goodwill and intangible asset amounts when analysing financial statements. Additionally, the challenge with a qualification being issued in this situation is that it typically does not resolve in the future since goodwill is not removed from an entity's balance sheet unless it is impaired.
- Section 3870, *Stock-based Compensation* – Provide entities with the option to straight line the recognition of any compensation cost over the vesting period. Some entities have also suggested to provide an option where, in the absence of

an entity having a share valuation, the fair value of the stock-based compensation does not need to be recognized, instead note disclosure on the key terms of the stock-based compensation arrangement could be provided. Some private entities find the requirement to value options as complex and onerous.

- Section 3856, *Financial Instruments*:
    - Shares mandatorily redeemable on death of a shareholder – Many unanimous shareholder agreements that an entity is party to contain a clause whereby the entity is required to redeem certain classes of common shares at fair value upon the death of a shareholder. Often if a company has multiple classes of common shares all of the criteria in paragraph 3856.A28 is not met and since death can occur at any time the shares are required to be classified on the balance sheet as a current liability at fair value. However, in order to determine the liability amount, a valuation of the entity needs to be obtained each year. This is a costly and onerous requirement. Many entities also find the presentation of such shares as a liability at fair value distorts the financial statements. As a result, many entities qualify for this issue. Providing an option to classify these shares as equity and provide clear note disclosure to alert a financial statement user to the presence of such shares would reduce complexity while still providing decision useful information to a user, as they would be aware of the shares and could take any necessary actions (e.g. a lender could require the shares to be ranked in priority below repayment of their loan).
    - Below market rate loans – Provide entities with an option not to fair value below market rate loans. Some entities find this requirement onerous, especially if they have a large number of loans, and lenders often find recognition at fair value confusing as it does not match the balance of the liability in in their own records.

While we have listed the above as potential areas for tiering, we believe some, if not all, of these potential simplifications could be helpful for all entities applying ASPE (for example, the ability to amortize goodwill and intangible assets acquired in a business combination) not just to certain entities. We would encourage the Board to consider where a free accounting policy choice could be added related to the above simplifications so an entity and its financial statement users could determine which policy choice best meets their needs. We believe it could be quite challenging to develop specific criteria on when such simplifications could be used and if the criteria are too narrow, the majority of entities to which it would be useful would be unable to apply it.

In addition to the above potential simplifications, there are some areas that entities following Part II find challenging to navigate in practice. One such area is navigating the standards to apply the related party transaction guidance, as entities need to keep in mind how the measurement guidance in Section 3840, *Related Party Transactions,* interacts with other standards. Another area entities often struggle to navigate is the equity vs liability classification guidance in paragraphs .A22-.A29 of Section 3856, *Financial Instruments,* as the wording of the guidance in these paragraphs can be confusing to apply. Both of these examples are areas where would encourage the Board during this scalability project to consider clarifying the existing guidance to reduce confusion and complexity for entities or developing education materials or resources to assist entities in navigating these standards.

4. *If the AcSB were to pursue tiering within Part III, which standards have recognition and measurement requirements that are complex for some NFPOs to apply? What opportunities exist to simplify the recognition and measurement requirements in these standards while still providing useful information to financial statement users?*

   At the present time, we do not believe additional tiering within Part III is needed. We note that, the Board is currently in the process of undertaking projects on accounting for contributions and reporting controlled and related entities, which are two standards where we currently see the most complexity within Part III for entities. We believe the Board's current recognition and measurement proposals outlined in the Exposure Draft for the contributions project will likely reduce complexity in accounting for contributions, which will be helpful for entities preparing financial statements under Part III and the users of their financial statements. We would encourage the Board to keep in mind whether there are opportunities for tiering within any recognition and measurement requirements that may be introduced related to the contributions and reporting controlled and related entities projects.

   Additionally, we believe that some of the suggestions outlined for Part II in our response to question #3 above would be useful for entities following Part III when they look to Part II for guidance for these areas.

   Another area entities following Part III find complex, is navigating between the standards in Part III and Part II, when they need to look to Part II for guidance on areas not covered by Part III. To reduce this confusion we would encourage the Board to consider the following potential solutions:

   - Making Part III its own stand-alone framework. This way entities would not need to jump between two Handbooks to find the relevant guidance for the transaction they are accounting for. However, we acknowledge this would be a significant time and resource commitment for the Board to develop initially and to maintain.
   - Including a Section at the beginning of Part III similar to the "Introduction to Accounting Standards that Apply Only to Government Not-for-Profit Organizations" Section that is at the beginning of the PS 4200 series in PSAS. This Section includes a useful table that outlines when each Section in the remainder of the Public Sector Accounting (PSA) Handbook is: generally applicable to GNFPOs; applies to GNFPOs with relevant transactions or circumstances; or has limited or no applicability to GNFPOs. It also contains footnotes with additional useful information on which parts of certain Sections may or may not be applicable. This table is quite useful in assisting GNFPOs in navigating the PSA Handbook and a similar table could be helpful in assisting private sector NPOs in applying Part II.
   - Providing clarification on specific items where the guidance is currently unclear, such as measurement of related party transactions.

5. *If the AcSB were to pursue tiering within Part II, which standards have disclosure requirements that are complex for some entities to apply? What opportunities exist to*

simplify the disclosure requirements in these standards while still providing useful information to financial statement users?

We have not found that the disclosure requirements within Part II are currently complex or onerous for entities to apply, as entities only need to include disclosures that are relevant for the transactions and balances they have, and the disclosures in Part II are not voluminous like those in Part I. As a result, we do not believe the current disclosure requirements need to be simplified through tiering.

However, we do think there is an opportunity for the Board to provide education to financial statement preparers on keeping materiality in mind when preparing financial statement disclosures. Currently, we find that some entities take the approach that if a disclosure requirement is listed in a Section of the Handbook, that disclosure must automatically be included in the financial statements regardless of whether that disclosure is material or relevant to financial statement users. This approach can lead to disclosure of boilerplate information that is not tailored to the entity's situation and not informative for financial statement users. For example, this can happen with the financial instruments risks disclosures in Section 3856, *Financial Instruments*. As a result, we would encourage the Board to consider whether there is education or resources that could be provided to entities following Part II to assist them in making materiality judgments when applying the disclosure requirements and in understanding best practices for customizing financial statement disclosures to reflect the entity's situation.

6. *If the AcSB were to pursue tiering within Part III, which standards have disclosure requirements that are complex for some entities to apply? What opportunities exist to simplify the disclosure requirements in these standards while still providing useful information to financial statement users?*

   Similar to our response to question #5 above, we do not believe the disclosure requirements within Part III are currently complex or onerous for entities to apply for the reasons outlined in our response to the question above. Instead, we would encourage the Board to consider opportunities to provide education or resources to entities following Part III to assist them in making materiality judgments when applying the disclosure requirements and in understanding best practices for customizing financial statement disclosures to reflect the entity's situation.

   Additionally, as the Board is currently in the process of undertaking some large projects related to Part III, in particulate the projects on contributions and reporting controlled and related entities, we would encourage the Board to keep in mind whether there is an opportunity for tiering within any new disclosure requirements that may be introduced related to these projects in the future.

7. *How common is it for entities to transition from ASPE to IFRS Accounting Standards? Other than preparing for an IPO or other liquidity event, what drives an entity to make this transition? What challenges do entities face with this transition? Did the time taken to comply with financial reporting requirements in IFRS Accounting Standards result in any negative consequences or missed opportunities for entities? What opportunities exist*

to make the process to transition from ASPE to IFRS Accounting Standards easier and less time-consuming?

While many entities do transition from Part II to Part I (or from Part II to US GAAP) in our experience those transitions are not nearly as common as the number of entities that transition from no accounting framework to Part II.

We have found that the main reasons an entity transitions from Part II to Part I is preparing for an IPO, going public transaction or other liquidity event (such as a merger; being acquired by a public company, company that operates globally and follows Part I, or private equity that requires Part I reporting; or a financing arrangement where Part I reporting is required). The other reasons an entity may transition from Part II to Part I is because they intend to operate globally and are acquiring subsidiaries that are already following Part I, or because the entity has grown to a significantly large size and find they are entering into quite complex transactions where the guidance in Part I is better suited to their needs. We would also like to note that some entities also transition from Part II to US GAAP for many of the same reasons as noted above.

Challenges entities face upon the transition from Part II to Part I include:

- Adjusting their financial statements and gathering the information needed to comply with the recognition, measurement and disclosures requirements of Part I where they are different than Part II, although the exceptions in IFRS 1, *First-time Adoption of IFRS*, provide some relief.
- Training their current accounting staff to become familiar with Part I or hiring staff or external experts with the appropriate knowledge.

Some larger entities that are planning to go public or are preparing themselves to be purchased by a global entity or private equity have resources in place to start tracking the information they will need to comply with Part I in advance and would choose Part II accounting policies that more closely align with Part I to ease this transition. In such cases we do not find that the time taken to comply with Part I results in negative consequences or missed opportunities for these entities.

Where the time to comply with Part I can be more problematic is for entities where an unplanned opportunity or transaction occurs. In such cases many entities do not have the internal resources to adopt Part I along with completing other tasks related to the opportunity. However, we do not find that this transition commonly results in significant negative consequences or missed opportunities for entities, other than a potential for delay in closing.

Additionally, in our experience other than situations where an entity is purchased by a public company following Part I, many times the private sector entity is not required to adopt Part I (or US GAAP as many private sector entities are purchased by US entities) prior to the transaction occurring. Often the adoption of Part I (or US GAAP) by the private sector entity occurs subsequent to the transaction taking place when there is more time and resources available to undertake the adoption. Additionally, sometimes the purchaser does not require the private sector entity to adopt Part I (or US GAAP), but instead requires a reconciliation from Part II to Part I (or US GAAP) to be prepared by the private sector entity.

One opportunity that could make the process to transition from Part II to Part I easier and less time-consuming would be for the Board to issue educational materials to entities currently applying Part II on things they should be considering now if they are planning to adopt Part I in the future (e.g. information they should be tracking, systems they would need in place, internal accounting expertise they need to develop, etc.). Other opportunities to make such a transition easier are outlined in our response to questions #8 and #10 below. However, the option outlined in our response to questions #8 and #10 would require a private sector entity to adopt an intermediary framework, so planning ahead would still be needed and this would not solve the issue for unanticipated transactions.

8. *If the AcSB were to introduce an intermediary option between ASPE and IFRS Accounting Standards, which elements of Parts I and II should be included in this accounting framework? Which elements of Part I are beneficial to include, and which are too onerous to apply?*

Overall, we do not believe an intermediary option between Part II to Part I is necessary. As outlined in our response to question #7 above, the majority of Canadian entities never need to apply Part I and for those that do, some plan for their transition to Part I in advance to make this transition smoother and for those entities that enter into an unplanned transaction we do not find the transition commonly results in significant negative consequences or missed opportunities for entities, other than a potential for delay in closing. If an entity were to transition from Part II to an intermediary framework, it would then need to transition from that intermediary framework to Part I. As a result, the entity would need to go through two transitions instead of only one. As well, if the intermediary framework had different recognition and measurement requirements than both Part II to Part I, this would make the two transitions particularly onerous. As a result, we do not think many entities would choose to use such an intermediary framework and we question whether it is a beneficial use of the Board's time to develop and maintain such a framework.

However, if the Board were to introduce an intermediary option between Part II to Part I then we think a reduced disclosure version of Part I would be the most beneficial. The reason being that this would simplify and reduce the cost of preparing Part I financial statements for organizations, while still providing users of the financial statements with the key information that they need. This would also make the adoption of full Part I less complex and costly in the future as the recognition and measurement principles would be the same and the organization would have the information it needed in order to prepare the disclosures required by Part I.

If the Board were to go this route, we would suggest leveraging what standards setters in other jurisdictions have done in determining which disclosures to reduce. The research the Board has already done on scalability in other jurisdictions[1], would be particularly useful here.

[1] Scalability in Other Jurisdictions (frascanada.ca)

9. *If the AcSB were to introduce an intermediary option between accounting standards for NFPOs and IFRS Accounting Standards, which elements of Parts I and III should be included in this accounting framework? Which elements of Part I are beneficial to include, and which are too onerous to apply?*

   We do not see a need for nor a benefit to an intermediary option between Part III and Part I. The use of Part I by NFPOs in Canada is rare, as Part I does not contain guidance that is adapted to the needs of most NFPOs. We have heard that some larger NFPOs in Canada, particularly universities, would prefer to prepare financial statements following US GAAP so as to be comparable to their US counterparts. As a result, if an NFPO in Canada was to follow a framework other than Part III we do not believe it would be Part I and so do not think an intermediary option between Part III and Part I would be used and do not think development and maintenance of such an option would be a good use of Board resources.

10. *Do you agree with the AcSB's assessment that the IFRS for SMEs Accounting Standard would not meet the needs of Canadian stakeholders? If not, why?*

   We can see why IFRS for SMEs was not originally adopted in Canada since the Board developed Part II as our own domestic framework, and we can see why the Board does not think the current version of IFRS for SMEs would meet the needs of Canadian stakeholders. However, we would like to raise that the IASB is currently in the process of undergoing a consultation process proposing extensive changes to IFRS for SMEs to make it more in line with the significant changes that have occurred in IFRS over the past few years including the adoption of IFRS 9 and IFRS 15. As a result, we would encourage the Board to consider whether once these changes are made, IFRS for SMEs could be a useful intermediary framework between Part II and Part I.

   As outlined in our response to question #8 above, we do not think an intermediary framework between Part II and Part I is necessary and that if one is developed a framework based on Part I with reduced disclosures would be the most beneficial. However, if the Board were to go down the path of developing an intermediary framework where recognition and measurement were simplified from that in Part I, we would encourage the Board to fully consider the amount of resources that would go into developing, maintaining and educating stakeholders on such a framework, especially for the limited number of entities that are likely to adopt it. With that in mind, adopting IFRS for SMEs may be an appropriate option for consideration.

   While this would mean the Board giving up some control over the development of the standards and there would still be Board resources needed for adopting IFRS for SMEs in Canada, just like there is for adopting Part I in Canada, we think that there would be less Board resources involved than developing and maintaining a made in Canada intermediary framework. We believe it is important for the Board to fully consider the amount of resources that would go into such a project given the likely limited number of entities that would make use of such a framework. We would be disappointed to see significant resources taken away from the development and improvement of the existing Part II, Part III, Part IV and Part I frameworks in Canada, since these frameworks are used by a much larger number of entities than an intermediary framework between Part II and Part I would be.

11. *If the AcSB were to develop a new framework for small entities to apply, what aspects of existing Part II and/or Part III would be helpful to retain? Are there additional factors or matters the Board should consider in its discussion of this potential new framework?*

    Based on our outreach, we do not see the demand for a framework for small entities and we do not believe the development and maintenance of such a framework would be the best use of the Board's resources.

    Small entities apply a framework such as Part II or Part III when there is a requirement for them to do so (e.g. a lender requires financial statements in accordance with Part II, a funder requires financial statements in accordance with Part III, etc.). Prior to their being such a requirement, small entities do not typically see the value in following such a framework and we do not think that if a small entity framework was developed it would be voluntarily adopted. Small entities that later go on to adopt Part II or Part III are able to use the optional exemptions in the first-time adoption Sections 1500 and 1501 respectively to help ease their transition. If the Board wanted to provide greater assistance to small entities, perhaps providing additional simplification options on first time adoption of Part II or Part III for areas where there is more complexity and it is difficult to go back in time to obtain the required information (e.g. goodwill and intangible assets in business combinations) could be useful. This would make the transition to Part II or Part III less complex and costly when small entities grow to a size where there is a requirement for them to follow those frameworks.

12. *Which scalability solutions proposed by the AcSB do you think provide the greatest benefit to stakeholders, and why?*

    We believe if the Board were to undertake scalability solutions, proposal 1: tiering within the existing Part II (and where relevant Part III) frameworks – simplified recognition and measurement in selected standards, would be of the greatest benefit to entities applying these standards and their stakeholders for the reasons stated in our response to questions #3 and 4 above.

13. *Are there any other scalability solutions that you think the AcSB should consider?*

    We think the Board should consider the other scalability solutions / suggestions to reduce complexity and confusion that we outlined in throughout our responses to the questions above.

14. *Which, if any, of the proposed scalability solutions do you think the AcSB should not pursue, and why?*

    We do not think the AcSB should pursue the following proposed scalability solutions for the reasons outlined in our response to questions #5, 6, 8, 9, and 11 above:

    - Proposal 2 – Tiering within the existing Part II and Part III frameworks – reduced disclosure requirements

- Proposal 3 – Intermediary accounting framework option between IFRS and Parts II and III
- Proposal 4 – Introducing a new framework for small entities

Thank you for your consideration of the above-noted responses. We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Craig Cross, Partner National Accounting Standards (647-798-1331 or via email at ccross@bdo.ca).

Yours sincerely,

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Katharine Christopoulos, CPA, CA
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Accounting Standards Board
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July 31, 2023

Dear Ms.Christopoulos:

SUBJECT: Consultation Paper I – Exploring Scalability in Canada (March 2023)

Grant Thornton LLP and Raymond Chabot Grant Thornton LLP (hereinafter "we") would like to thank you for the opportunity to provide comments on the Accounting Standards Board's (hereinafter the "AcSB" or the "Board") Consultation Paper 1 entitled *Exploring Scalability in Canada* (hereinafter the "CP"). Ultimately, we agree with the AcSB's project to investigate whether there should be more scalability in Canada with the main focus on providing understandable financial information that best serves the needs of the users of private enterprise and not-for-profit organization financial statements. However, in reviewing the issues noted in the CP and the proposed resolutions, we believe that the first step the AcSB needs to take is to determine its ultimate goal in relation to this project, since a move in the direction of adding more frameworks or additional accounting policy or disclosure options is a move away from comparability as a financial statement concept. If, as a result of this project, the Board decides to move ahead with providing more options/choices to meet stakeholders needs, we strongly believe there must be a consistent framework or methodology that the AcSB develops and uses throughout the process and on an ongoing basis since additional options/frameworks deviate from comparability as a financial statement concept. The Board can then refer to it in future basis for conclusions documents to explain the reasoning behind why it deviates from this concept while also ensuring consistency in application and understandability of its choices. This is a crucial step to ensure that it provides a solution that will benefit all stakeholders (preparers, users, practitioners) and the profession as a whole.

Our comments on the specific questions in the CP can be found in Appendix A.

If you wish to discuss our comments or concerns, please contact Melanie Joseph (Melanie.Joseph@ca.gt.com, 416-607-2736) or Gilles Henley (henley.gilles@rcgt.com, 514-393-4809).

Yours sincerely,

Grant Thornton LLP

Melanie Joseph, CPA, CA

Raymond Chabot Grant Thornton LLP

Gilles Henley, FCPA

Appendix A
Responses to Consultation Paper questions

Question 1 - Do you agree with the summarized issues above? If not, why not? Are there any additional issues with the current financial reporting frameworks in Canada that the AcSB has not identified? If so, what are they, and how do you think the Board could address them as part of its project on scaling the standards?

We disagree that Parts II and III are too complex for smaller entities because the size of an entity is not always directly related to the financial reporting complexities that they face; as a result, we believe size may not be the best determining factor when considering if an entity can apply a simplified accounting framework or choose alternative accounting policies or disclosure options. Rather, it is the nature of an entity's operation and the types of transactions it enters into that result in the complexity. We further expound on this topic in Question 11.

We strongly believe the project should not only target the elements of complexity within ASPE and ASNPO; rather, the Board should focus on the current requirements of ASPE that produce results that do not adequately meet the needs of the average users of an entity's financial statements (e.g., creditors, investors, shareholders). Even if a standard appears simple, it should be considered for scalability if the resulting financial reporting impact does not meet users' needs. On the other hand, a more complex standard that provides the most beneficial result to the users of the financial statements should not be considered for scalability just to simplify it.

We would also like to convey that the vast majority of private enterprises and not-for-profit organizations ("NPOs") apply a financial reporting framework when they have to have audited or reviewed financial statements required by legislation or contract (e.g., banking agreement or shareholder agreement). Applying all the requirements of any accounting framework has a cost and most of these entities will not incur additional professional fees and internal costs if not required to do so.

We have also heard from our clients that ASPE and ASNPO financial statements have too much disclosure and information such that users are not able to digest the information provided to understand the financial story of that entity for the period. For example, many users find the changes with respect to related party financial instruments and resulting increases in the policy notes difficult to understand; in addition, many users find the financial instrument risks disclosures continue to be boilerplate and provide little useful information. We believe users want the AcSB to focus on giving management the ability to make policy and disclosure decisions (approved by users) to ensure their financial statements meet the needs of their users.

Question 2 Do you think the AcSB should pursue scaling alternatives to the current accounting frameworks included within the Handbook? Why or why not?

Yes, we believe that the AcSB should pursue scalability through more accounting policy choices or reduced or optional disclosures because it will be helpful in ensuring that entities recognize, measure and present financial information in the way that best serves their users. Allowing management to make these decisions and financial statement users the ability to influence or dictate those choices would result in concise and relevant financial statements.

We do not believe the Board should consider the creation of additional frameworks (e.g., small entity, option between Part I and II/III, etc.) because stakeholders are already confused with the current framework choices / accounting policy choices. Scalability can be achieved within each framework through additional accounting policy choices and/or disclosure options whereby management can elect what best suits the users of their financial statements. We also believe it is important for the Board to have its own framework that it applies consistently when deciding whether to provide scalability within ASPE or ASNPO since additional accounting policy choices reduce comparability, a fundamental financial statement concept. For example, in the Contributions Project in ASNPO, the AcSB stated that it found comparability most important when proposing only one method of accounting for contributions; in relation to the amendments to Section 3400 *Revenue,* it is considering whether choice is necessary for upfront non-refundable fees. Although the importance of comparability may differ for stakeholders of private entities as compared to NPOs, we believe that having a framework to decide when to add scalability will ensure consistency in the AcSB's decision making process.

Another key issue that should be addressed in scaling the current accounting frameworks is improving the understandability of the financial information provided. There are many complexities in Part II and III; many users often overlook disclosures simply because they do not understand them, which poses a significant issue as they may not obtain a full understanding of the transactions and events within the entity. Part of the scaling the standards project should aim to make changes to improve the "average user's" comprehension of ASPE and ASNPO and their disclosures.

Lastly, we do not believe that there should be a size test that entities should have to meet to select an accounting policy; please see our additional comments on this item in Questions 1 and 11.

Question 3: If the AcSB were to pursue tiering within Part II, which standards have recognition and measurement requirements that are complex for some entities to apply? What opportunities exist to simplify the recognition and measurement requirements in these standards while still providing useful information to financial statement users?

We believe the following Part II Handbook recognition and measurement requirements do not result in financial information that adequately meets the needs of an average user of an entity's financial statements such that they should be simplified or clarified:

Section 1510 *Current assets and current liabilities*

The guidance related to current versus long-term classification of debt (especially debt with a covenant violation) is regularly applied incorrectly by entities and this is an area that many users review (especially debt holders when there are covenant violations). Examples relate to the application of paragraph 1510.13(c), what constitutes an appropriate waiver for a covenant violation to satisfy paragraph .14(a) and determining whether another covenant violation is likely (paragraph .14). The AcSB may want to revisit the guidance with the aim of clarifying the guidance and/or widening application, if it best serves users' needs. One option could be to allow entities a presentation choice similar to that for "callable debt" (as illustrated in the illustrative example "Presentation of callable debt" in the Appendix of Section 1510) for the current portion of debt is subject to refinancing or renegotiation within the next year or long-term debt for which there is a measurable covenant violation.

Section 1582 *Business combinations* and Section 3064 *Goodwill and intangible assets*

We strongly believe that there should be an election to not recognize intangible assets acquired in a business combination separately from goodwill. This suggestion would occur in conjunction with an amendment to Section 3064 that would allow entities to amortize goodwill (preferably over a shorter period to prevent the need for frequent impairment testing). The significant costs to obtain valuations do not outweigh the benefits to users of separating these assets from goodwill.

Section 1625 *Comprehensive revaluation of assets and liabilities*

Many entities do not have access to the option to use push down accounting because they are not able to meet the condition that all or virtually of the equity securities of the enterprise have been acquired. The Board may want to consider removing this requirement and permit the use of push down accounting as soon as an acquirer controls an entity in an arm's length transaction, if it best suits its users. We understand that this option is available in US GAAP.

Section 3041 *Agriculture*

While this standard is very new; our client base has frequently had users (e.g., bankers) request the recognition of productive biological assets at net realizable value rather than cost. This request may suggest that the standard is not currently meeting all users' needs, such that scalability may be necessary.

Section 3056 *Interests in joint arrangements*

Despite the major changes made in the accounting requirements for joint arrangements in 2016, seven years later, entities still request the option to proportionately account for all joint arrangements or equity account for all interest, regardless of the type. Some clients issue their financial statements in accordance with a special purpose framework or take qualifications to obtain the accounting their users want in this area. This suggests that the standard may not be meeting all users' needs such that scalability may be necessary. In addition, there is some complexity at times in determining how to classify a joint arrangement (i.e., jointly controlled operation, asset, or enterprise).

Section 3061 *Property, plant and equipment*

Scalability to allow entities the option to revalue investment properties to fair value rather than accounting for them at cost would be an option that would be more useful to many users, especially real estate entities.

Section 3065 *Leases*

The requirement to straight-line rental payments over the term of the lease does not meet the needs of significant number of users. We propose that the requirements from Section 3065 could be scaled in cases where increases in the rental payments are tied to, for example, the consumer price index (CPI) or any other index or increase that aims to reflect the time-value of money; in those situations, entities could elect not to include the impacts of the CPI/index in the straight-lining calculation. Another simplification measure would be to allow rent to be recognized based on the agreed upon payments in the lease agreement; we encourage the AcSB to enquire if such a proposal would meet the needs of certain financial statements' users.

Section 3400 *Revenue*

For the vast majority of financial statement users, revenue is one of the most important line items in the statement of operations. The application of the percentage of completion method can be extremely complex; many private enterprises struggle with the accounting (and the new disclosure requirements). Given the importance of this line item, we strongly encourage the AcSB to consider where scaling may better serve users' needs and provide the information they want. For example, scaling could allow certain entities the ability to recognize revenue based on billing milestones or use the completed contract method as a policy choice, or provide simplifications for professional services firms that struggle with the current recognition and measurement requirements related to work in progress, deferred revenue and costs of revenue.

The application of the requirements related to the accounting for multiple elements in a revenue transaction can also be very complex (identifying the deliverables, separating elements, allocating consideration).

<u>Section 3462 *Employee future benefits*</u>

Many entities find the added cost and complexity of having to account for individual pension plans as defined benefit plans do not outweigh the benefits. The relief that was previously provided to allow the use of funding valuations has been diminished as many provinces have removed the legislative requirement for funding valuations which results in added costs for an accounting valuation. Many entities and their users could benefit from the option to treat these plans as defined contribution plans. This simplification could also be provided for all defined benefit plans; we encourage the AcSB to investigate whether such a proposal would be meet the needs of any financial statements' users.

<u>Section 3856 *Financial instruments*</u>

The requirement to initially account for financial instruments at fair value in an arm's length transaction can be complex and time consuming (for example, zero or low interest loans); often times, the users of the financial statements see little benefit to this requirement. An exception from fair value at initial measurement is already permitted for related party financial instruments; thus, the exception could be extended as a scalability option to reduce complexity and meet user needs. The added complexity has been especially difficult for NPOs who often times issue or receive low interest loans as part of their operations; their users are often confused and do not understand the accounting. NPOs often struggle to find the resources to measure the instruments at their fair value (e.g., staffing, finding the appropriate inputs such as market rates of similar instruments).

Entities struggle with distinguishing between liabilities and equity (for example shares that are mandatorily retractable upon the death of the shareholder or preferred shares that are retractable under specific circumstances). We encourage AcSB to provide more specific guidance to clarify when such shares should be classified as liability or to look for scalability opportunities if deemed acceptable for stakeholders and financial statements' users.

Subsequent measurement of indexed financial liabilities is complex as it often requires obtaining an evaluation of the entity's fair value. Entities consider the measurement of these liabilities (including the underlying fair values) at each balance sheet date very costly and complex and see no benefit for their financial statement users.

When ASPE was implemented, hedge accounting was simplified in an attempt to provide access to hedge accounting with less work effort.   In our view, very few entities have applied the requirements and still find it complex or inaccessible. For many financial statement users, fair value measurement of derivatives that are entered into for hedging purposes, but that do not fall within these hedging relationships, generally does not provide adequate information. We believe that the AcSB should consider additional simplifications or options (such as allowing hedging relationships including futures to qualify).

The addition of the related party financial instruments guidance has substantially added to the complexity in accounting for financial instruments and the accounting for related party transactions in general. While the amendments have not been out long, confusion and ongoing misinterpretation continues especially for private enterprises that often now have to look to numerous standards in measuring each element of a related party transaction. In addition, accounting policy notes have increased and added to the confusion for users given the complexity in the accounting. We strongly believe the AcSB should consider scalability in this area. If it does not do so, the AcSB should (1) implement a post-implementation review as soon as possible to obtain feedback on the issues with the requirements and (2) make any necessary improvements immediately.

Section 3870 *Stock-based compensation and other stock-based payments*

The accounting for stock-based compensation can be very complicated (especially for those settled in equity); many private entities struggle with the accounting including, for example, application of graded vesting, obtaining the inputs for an option pricing model (e.g., volatility, share price). One scalability option would be to allow disclosure only for transactions with employees that are settled in shares. Another option could be to allow simplifications in measurement (for example the former Pre-changeover GAAP allowed private enterprises to set volatility at a minimum value). We believe that the continued recognition and measurement of stock-based compensation that meets the definition of a liability, stock-based compensation in business combinations, and stock-based compensation to non-employees is still appropriate, despite the complexity.

Question 4: If the AcSB were to pursue tiering within Part III, which standards have recognition and measurement requirements that are complex for some NFPOs to apply? What opportunities exist to simplify the recognition and measurement requirements in these standards while still providing useful information to financial statement users?

We believe the following Part III Handbook recognition and measurement requirements do not result in financial information that adequately meets the needs of an average user of an entity's financial statements such that they should be simplified or clarified:

Section 4410 *Contributions – revenue recognition*

Many NPOs do not have the resources to obtain formal appraisals or valuations when they receive donated tangible or intangible capital assets. ASNPO states that it is only in unusual situations where an entity cannot determine fair value. However, the cost for those valuations can be significant for these entities. Many would appreciate an option to measure those donated items at a nominal amount and disclose it when it has not obtained an appraisal or valuation to make better use of their limited resources. Moreover, we believe that the requirements in Section 4433 related to contributed tangible capital assets should be modified to be consistent with the requirements in Section 4410 related to any other contributed materials and services, therefore allowing NPOs the choice to recognize these assets at fair value (if the criteria from paragraph .16 are met) or to not recognize them (or recognize them at a nominal amount) and only provide disclosure.

There is currently no guidance related to how to account for forgivable loans which has added some complexity and diversity in accounting.

Question 5: If the AcSB were to pursue tiering within Part II, which standards have disclosure requirements that are complex for some entities to apply? What opportunities exist to simplify the disclosure requirements in these standards while still providing useful information to financial statement users?

In developing ASPE over 13 years ago, the AcSB revisited all of the disclosures, keeping in mind private enterprises and their users. There have been a number of changes and additions over the last number of years. We strongly believe that the AcSB should revisit all disclosures again to ensure that the disclosures narrate the story of an entity's operations during the period. For example, is the intent to provide sufficient information such that a user can ask for more information or to explain major transactions or events in detail? We suggest that disclosure should be minimal and limited to providing sufficient information to allow users to ask for more specific information, given that many users in the private enterprise sector can get financial information beyond that contained in the financial statements on request, as stated in paragraph .38 of the Basis for Conclusion *Accounting Standards for Private Enterprises (June 2010)*. This project is an opportunity to ensure the disclosures in ASPE financial statements are concise, relevant and useful for users.

We have identified the following Part II Handbook disclosure requirements that are too complex to apply or do not provide the users with relevant or useful information:

Section 1500 *First time adoption*

The requirement to provide an opening balance sheet at the date of transition should be optional. (Paragraph 1500.04)

Section 3031 *Inventories*

The requirement to disclose the cost of inventories expensed including overhead costs can be very involved and is not necessarily of importance to all entities. (Paragraph 3031. 35(c))

Section 3400 *Revenue*

The AcSB should consider simplifying or removing the recent requirement to disclose the cumulative aggregate amount of costs incurred and recognized profits (less losses) to date for contracts in progress at period end. (Paragraph 3400.32A(b)). This disclosure has been especially difficult to provide for professional services firms, as this requirement is not restricted to construction contracts. Moreover, even when there is no difficulty in providing the disclosure, we believe it should be removed (or made optional) as it does not provide any relevant information to financial statements' users. The remaining disclosures in paragraph .32A should also be considered for further simplification or removal. For example, as long as total holdbacks are disclosed on the balance sheet, would it be necessary to separate holdbacks for contracts in progress?

Section 3465 *Income taxes*

The reconciliation of the income tax rate or expense related to income or loss for the period before discontinued operations to the statutory income tax rate or the dollar amount that would result from its application, when the taxes payable method is used, is rarely understood or provided in appropriate detail to be useful to users. (Paragraph 3465.88(b))

Section 3856 *Financial instruments*

When an enterprise chooses to present the charge to equity arising from the issuance of ROMRS in a tax planning arrangement classified as a financial liability in retained earnings it must disclose the amount charged to retained earnings on the face of the balance sheet (paragraph 3856.47(e)). We question why it has to be on the face of the balance sheet and why it must be done on an ongoing basis and not just in the year the charge was made.

The disclosure of a description of the tax planning arrangement that gave rise to the ROMRS should only be required in the year the arrangement occurs. It should not have to be carried forward indefinitely. (Paragraph 3856.47(c)(iii) and (d))

The risks and uncertainties disclosure requirement provides no additional relevant additional information; it tends to be boilerplate information that does not provide significant insight into the entity's operations to users despite the AcSB's ongoing attempts to improve the requirements since ASPE's inception. (Paragraph 3856.53 and 53A)

Section 3870 *Stock-based compensation and other stock-based payments*

The Board should revisit what is required as disclosure for the various types of stock-based compensation and payments arrangements with the goal of ensuring it provides useful information for the users of financial statements.

Question 6: If the AcSB were to pursue tiering within Part III, which standards have disclosure requirements that are complex for some entities to apply? What opportunities exist to simplify the disclosure requirements in these standards while still providing useful information to financial statement users?

We have identified the following Part III Handbook requirements that are too complex to apply or do not provide the users with relevant or useful information:

<u>Section 4450 *Reporting controlled and related entities by NPOs*</u>

The AcSB should consider streamlining the disclosure requirements in this section as it can become lengthy.

<u>Section 4470 *Disclosure of allocated expenses by NPOs*</u>

The purpose of this section was to provide more comparability between NPOs when they allocate general and administrative costs to other functions. It is not widely used and has still not resulted in greater comparability between entities that do allocate expenses in their NPO financial statements.

Question 7: How common is it for entities to transition from ASPE to IFRS Accounting Standards? Other than preparing for an IPO or other liquidity event, what drives an entity to make this transition? What challenges do entities face with this transition? Did the time taken to comply with financial reporting requirements in IFRS Accounting Standards result in any negative consequences or missed opportunities for entities? What opportunities exist to make the process to transition from ASPE to IFRS Accounting Standards easier and less time-consuming?

It is rare for entities to transition from ASPE to IFRS outside of the reasons named above. Some of the instances include: an entity that has been taken control of by another entity that reports in accordance with IFRS (or an entity under common control of an entity that reports in accordance with IFRS). An entity may also transition if it operates in international jurisdictions that use IFRS or a framework similar to IFRS. Some entities transition to access specific accounting available under IFRS such as real estate entities that have investment properties they wish to account for at fair value; however, the extensive disclosure requirements in IFRS can deter entities from transitioning.

Some challenges an entity may face in transitioning include the lack of IFRS knowledge by the accounting staff of the entity or the costs to train internal financial reporting staff or hire outside consultants to help with transition. Furthermore, in some cases, IFRS requires more fair value measurement, which may pose a challenge to entities in terms of cost, experience and access to the appropriate experts. ASPE also has some policy choices that are not available under IFRS such as the choice to capitalize or expense development costs; IFRS requires them to be capitalized. In this example, transition can be difficult because the entity would have to go back (perhaps many years) to value the asset under IFRS.

What may help entities transitioning from ASPE to IFRS is an up-to-date comparison document maintained by CPA Canada to advise of differences and similarities among key standards with respect to recognition, measurement and disclosures. This comparison document, in addition to IFRS 1 *First-time adoption of International Financial Reporting Standards* in IFRS would be very useful for entities to make it easier to transition. In addition, in order to avoid increasing the challenges that entities face transitioning from ASPE to IFRS, we believe any scaling the AcSB adds to ASPE or ASNPO standards (such as those suggested in our responses to Questions 3 and 4) be integrated through accounting policy choices; therefore, allowing entities to continue to apply policies or choices that maybe more convergent with the comparable IFRS standard.

Question 8: If the AcSB were to introduce an intermediary option between ASPE and IFRS Accounting Standards, which elements of Parts I and II should be included in this accounting framework? Which elements of Part I are beneficial to include, and which are too onerous to apply?

We absolutely do not agree with any introduction of an intermediary option between ASPE and IFRS. It would not only be complex and costly, but it would also require preparers, users, and practitioners to learn an entirely new framework which is far too arduous and unnecessary. We do not believe that users would agree with having an intermediary framework as they have trouble understanding the ones currently in place and the differences between them. Furthermore, entities would never adopt an intermediary framework due to the complexity and cost. Those that would adopt it would be such a small number that it would not justify the resources to develop and maintain the framework.

Question 9: If the AcSB were to introduce an intermediary option between accounting standards for NFPOs and IFRS Accounting Standards, which elements of Parts I and III should be included in this accounting framework? Which elements of Part I are beneficial to include, and which are too onerous to apply?

We do not under any circumstances believe that the AcSB should introduce an intermediary framework between ASNPO and IFRS.

There are next to no circumstances where NPOs would transition to IFRS; therefore, an intermediary framework would be a response to an issue that does not exist for NPOs. There is no need for an intermediary option. In addition, IFRS does not consider NPO-specific issues at all within its framework (e.g., contributions, endowments).

Question 10: Do you agree with the AcSB's assessment that the IFRS for SMEs Accounting Standard would not meet the needs of Canadian stakeholders? If not, why?

Yes, we agree.

Question 11: If the AcSB were to develop a new framework for small entities to apply, what aspects of existing Part II and/or Part III would be helpful to retain? Are there additional factors or matters the Board should consider in its discussion of this potential new framework?

We do not believe that the AcSB should develop a new framework for small entities because the size of an entity is not a reflection of the complexities in its operations. Also, choosing the measure of what constitutes "small" (e.g., revenue, profits, number of employees, or market share) is somewhat of an arbitrary measure. As an entity grows or shrinks in size, it could require repeated switching back and forth between frameworks which would be very confusing for users and time consuming for preparers, accountants and auditors. It would also risk the introduction of a bias for entities that are near to exceeding the established threshold; therefore, increasing the audit risk for auditors.

If "smaller" entities are finding Part II and III too complex, then scaling within the existing standards to provide more choice to management to meet their users' needs allows the framework to produce information that meets users' expectations, while retaining the actual conceptual framework which we believe is robust and adequate. A new framework means training users to understand a whole new set of financial reporting requirements. If the goal is simplicity, the AcSB should allow additional accounting policy and disclosure options within ASPE and ASNPO (as described in Questions 3 and 4) that allows scaling chosen by management which is tailored to the needs of the entity's financial statement users.

Ultimately, we believe the AcSB needs to refine its ultimate goal for “smaller” entities. If it is to simplify the accounting, then entities may want to discuss alternative levels of assurance (e.g., a compilation which requires disclosure of the basis of accounting chosen by management versus an audit or review engagement in accordance with an accounting framework). If the goal is to provide an accounting framework to allow entities and their management to make accounting and disclosure choices to satisfy their users’ needs, then providing useful scalability options within the current standards is the better choice.

Question 12: Which scalability solutions proposed by the AcSB do you think provide the greatest benefit to stakeholders, and why?

Scalability solutions #1 and #2 would provide the greatest benefit to stakeholders. These two options should be considered together, rather than separately as they are interrelated. Scaling the standards is a good opportunity to help improve preparers, practitioners, and other stakeholders’ understandability of entities’ financial statements and increase efficiencies in their preparation and presentation.

Question 13: Are there any other scalability solutions that you think the AcSB should consider?

We have not identified any further scalability solutions besides what has already been noted in the CP and our response.

Question 14: Which, if any, of the proposed scalability solutions do you think the AcSB should not pursue and why?

We do not believe that the AcSB should purse scalability solutions #3 and #4. Canada already has five financial reporting frameworks (including public sector accounting standards) that users and practitioners struggle to keep up to date with. More frameworks would only cause confusion, unnecessary costs and complexities within the industry. These solutions would only act as a disservice to the profession with few added benefits. Furthermore, these solutions do not align with the goal of scaling the standards and reducing complexities. When determining how to incorporate a scaled approach, it is crucial that the AcSB decide what is most important: user needs (which may require more choice to meet different needs) or comparability and how it will balance the two. This plan will drive changes to our existing standards and impact the future of the financial reporting in Canada.

ORDRE DES COMPTABLES PROFESSIONNELS AGRÉÉS DU QUÉBEC

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Montréal, le 31 juillet 2023

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Objet : Document de consultation I Rendre les normes modulables au Canada

Madame Christopoulos,

Nous vous écrivons au nom de l'Ordre des comptables professionnels agréés du Québec (« Ordre ») en réponse à votre demande de commentaires sur le document de consultation intitulé « Rendre les normes modulables au Canada ». Nous vous remercions de nous donner l'occasion de faire part de nos commentaires.

L'Ordre regroupe 41 000 membres et 5 000 futurs CPA, ce qui en fait l'un des plus grands régulateurs de comptables professionnels agréés (CPA) au Canada. Nous sommes un ordre professionnel au sens du Code des professions, soit un organisme principalement voué à la protection du public. Nous assurons la surveillance de la profession de CPA au moyen de nos lois et règlements. Nous effectuons plus de 750 inspections professionnelles par année. Nous appliquons les normes professionnelles et éthiques les plus élevées, accompagnons nos membres dans l'exercice de la profession et soutenons le perfectionnement professionnel continu de nos membres et de nos étudiants.

Selon les observations effectuées dans le cadre de nos activités d'encadrement de la profession et principalement lors des inspections professionnelles, nous considérons qu'une modulation des normes est requise pour répondre aux besoins en constante évolution du marché canadien. Toutefois, nous souhaitons souligner que les NCECF répondent généralement aux besoins des parties prenantes relatives aux entreprises à capital fermé. Il n'est donc pas dans l'intérêt de la profession ni du public que le CNC entreprenne un projet de grande ou de moyenne envergure quant aux normes comptables applicables par ces entreprises, notamment par l'introduction d'un ou plusieurs référentiels comptables (approche 3 et 4), ce qui pourrait alourdir le fardeau normatif et nuire à la flexibilité et l'agilité normative canadienne déjà confrontées à des défis. De plus, nous croyons que l'ajout de référentiels destinés aux entreprises à capital fermé créera de la confusion chez les utilisateurs et autres parties prenantes.

La solution que nous privilégions est l'ajout de choix de méthode comptable simplifiée pour quelques normes existantes de la Partie II. En effet, cette approche pourrait être une mesure rapide et efficace pour répondre aux besoins et préoccupations soulevées par le marché et la profession et simplifierait l'application de ce référentiel pour les PME canadiennes. Cette façon de faire s'inscrit dans l'approche 1 identifiée par le CNC. Toutefois, nous estimons que l'ajout de critères, conditions ou seuils d'application des choix offerts (basés sur la taille de l'entité, son secteur d'activités ou autres) alourdirait inutilement le processus normatif. Ces méthodes devraient pouvoir être choisies par toutes entreprises qui le souhaitent; les utilisateurs des états financiers pouvant généralement influencer ces choix.

Nous vous serions reconnaissants de nous faire parvenir une copie de la traduction anglaise de nos commentaires.

Veuillez agréer, Madame Christopoulos, nos salutations distinguées.

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QUESTIONS SPÉCIFIQUES DU CNC

Question 1 : Partagez-vous ces préoccupations? Dans la négative, pourquoi? Y a-t-il des points problématiques liés aux référentiels d'information financière en vigueur au Canada que le CNC n'a pas relevés? Dans l'affirmative, quels sont-ils, et comment le CNC pourrait-il les traiter dans le cadre de son projet visant à rendre les normes modulables?

1) Pour les entreprises à capital fermé et les OSBL de grande taille, les informations à fournir selon la Partie II et la Partie III ne sont pas suffisantes pour répondre aux besoins des utilisateurs.

Nous ne partageons pas les préoccupations mentionnées. Nous sommes d'avis que si une société de grande taille considère que les informations à fournir selon la Partie II et la Partie III ne sont pas suffisantes pour répondre aux besoins de leurs utilisateurs, elles peuvent choisir d'adopter comme référentiel les normes IFRS qui exigent la présentation d'informations plus exhaustive. Par ailleurs, la société pourrait également fournir des informations additionnelles sur base volontaire afin de répondre aux besoins de ses utilisateurs.

2) Les normes de la Partie II et de la Partie III sont trop complexes pour certaines entités de petite taille.

Nous sommes en accord dans une certaine mesure avec cette préoccupation. Selon les observations effectuées dans le cadre de nos activités d'encadrement de la profession et principalement lors des inspections professionnelles, la complexité d'application des normes de la Partie II n'est pas liée à la taille de l'entité, mais est davantage liée au coût et à l'accès à l'expertise requise. Nous sommes d'avis que les normes de la Partie II prévoient certaines exigences qui ne sont pas bien adaptées aux besoins des principaux utilisateurs des états financiers de certaines entreprises à capital fermé et que l'introduction de choix de méthodes comptables supplémentaires leur permettraient d'opter pour des méthodes comptables contribuant à produire des informations financières mieux adaptées à leurs besoins.

À titre d'exemple, le taux global de réussite de l'inspection professionnelle pour les cabinets offrant des services de certification était seulement de 57% en 2022-2023. Il est à noter que 52 % des échecs résultent de déficiences liées à l'application de traitements comptables plus complexes, particulièrement les questions liées aux regroupements d'entreprises et aux produits. Or, pour remédier aux déficiences relatives aux regroupements d'entreprises, près d'un tiers des auditeurs ont simplement ajouté une réserve à leur rapport puisque leur client considère que l'application de cette norme est trop complexe et coûteuse et que l'information est jugée non pertinente par les utilisateurs des états financiers. La multiplication de ces réserves, souvent requises pendant plusieurs exercices, est un exemple éloquent que les normes ne sont pas bien adaptées aux besoins des utilisateurs.

3) Les normes IFRS de comptabilité sont trop complexes ou contraignantes à appliquer pour certaines entités.

Nous partageons dans une certaine mesure ces préoccupations, mais ne partageons pas la solution envisagée par le CNC pour y répondre. Certaines normes IFRS peuvent effectivement s'avérer complexes ou contraignantes à appliquer pour un très petit nombre d'entités qui sont néanmoins des émetteurs assujettis ayant un volume et une diversité d'utilisateurs beaucoup plus grands que pour une entité à capital fermé ou un OSBL. Ainsi, il demeure dans l'intérêt du public que ces entités continuent d'utiliser les normes IFRS comme référentiel comptable, la comparabilité entre les entités étant importante. Par ailleurs, les IFRS ne sont généralement pas appliquées par les entités à capital fermé puisque c'est un choix. Les référentiels de la Partie II et III ont été conçus pour répondre à leurs besoins.

4) Habituellement, les entreprises à capital fermé et les OSBL ne choisissent pas d'appliquer un référentiel d'information financière du Manuel, sauf s'il s'agit d'une exigence explicite.

Nous percevons la problématique de façon différente. Selon nos observations, les entreprises à capital fermé ne choisissent généralement pas de confier un mandat d'audit ou d'examen de leurs états financiers à un auditeur indépendant ou à un professionnel en exercice indépendant sauf s'il s'agit d'une exigence explicite. Pour les entreprises qui choisissent de faire une mission de compilation, les états financiers de ces entreprises sont néanmoins souvent préparés conformément à la plupart des exigences en matière de comptabilisation et d'évaluation des NCECF. Les principales exigences des NCECF que ces entreprises n'adoptent pas lorsqu'elles préparent des états financiers qui ne seront pas soumis à un audit ou à un examen sont liées à la préparation d'un état des flux de trésorerie, aux acquisitions d'entreprises, à la constatation des produits et aux informations à fournir. Ainsi, nous sommes davantage préoccupés par la diminution des mandats d'audit et d'examen et par l'augmentation des missions de compilation. Les changements fréquents ainsi que la complexité des normes de comptabilité et certification pourraient être une cause de la dégradation des missions.

MODULATION DES NORMES

Question 2 : Croyez-vous que le CNC devrait ajouter de la modulabilité aux référentiels comptables actuels du Manuel? Veuillez motiver votre réponse.

À la lumière des préoccupations mentionnées ci-dessus, nous considérons que l'ajout de plus de modulabilité aux normes actuelles de la Partie II est nécessaire et même dans l'intérêt du public. Les normes comptables doivent répondre aux besoins en matière d'informations financières des principaux utilisateurs d'états financiers et actuellement certaines exigences des NCECF sont mal adaptées aux entités à capital fermé.

Bien que nous appuyions fortement la modulabilité, nous considérons qu'elle devrait se faire par l'ajout de nouveaux choix de méthodes comptables aux NCECF. Cette approche est cohérente avec la modulabilité qui existe déjà dans les NCECF (par exemple quant aux choix de méthodes comptables pour la comptabilisation des impôts sur les bénéfices et des participations dans des filiales, partenariats ou satellites). Cette façon de faire s'inscrit dans l'**approche 1** identifiée par le CNC.

Même si offrir plus de choix de méthodes comptables peut diminuer la comparabilité entre les états financiers de certaines entreprises, à notre avis, cet inconvénient est de moindre importance étant donné la confidentialité des états financiers des entreprises à capital fermé et que leurs principaux utilisateurs peuvent inciter des entreprises à choisir les mêmes méthodes.

Par ailleurs, nous sommes fortement défavorables aux approches 3 et 4, qui consistent à ajouter de nouveaux référentiels selon des conditions, critères ou seuils particuliers basés par exemple sur la taille de l'entité ou son secteur d'activités pour les raisons suivantes :

- **Risque de créer de la confusion additionnelle chez les parties prenantes et d'augmenter les écarts par rapport aux attentes du public :** Les diverses parties prenantes éprouvent déjà de la difficulté à comprendre les différences entre les différents référentiels comptables et les divers types de missions (vérification, examen et compilation). Il est probable que la création de nouveaux référentiels ajoutera à cette confusion. De plus, les entités devront faire leurs propres interprétations des conditions, critères et seuils pour déterminer le référentiel approprié. Cela peut entraîner des incohérences dans le choix des référentiels et donc une augmentation de la confusion.

- **Risque de perte d'expertise :** Chaque référentiel exige des connaissances et donc une expertise différente. Avec l'arrivée des normes IFRS et l'introduction de plusieurs référentiels, nous avons pu observer une perte d'expertise dans certains domaines autant pour les comptables professionnels agréés (CPA) travaillant dans les entreprises, que ceux en cabinet. Nous sommes d'avis que l'ajout de référentiels va diluer l'expertise des CPA, ce qui est contraire à l'intérêt public surtout dans un contexte de pénurie de main d'œuvre.

- **Risque d'augmenter la complexité et le risque d'erreur dans le choix du référentiel à adopter** : L'inclusion de critères, conditions ou seuils augmente inévitablement la complexité et oblige l'ajout d'exigences pour prévoir, par exemple, ce qui arrive quand les critères ou conditions ne sont plus rencontrés ou que l'entité passe d'un seuil à un autre. Ceci augmente donc la complexité et le risque d'erreur associé au choix du référentiel.

- **Risque d'exercer une pression supplémentaire sur les CPA ayant des ressources limitées :** Avec l'ajout de référentiel, afin d'acquérir une bonne compréhension, un investissement de temps considérable est à prévoir pour les CPA, notamment, on peut s'attendre à une hausse importante des besoins en formation, ce qui ajoutera une pression excessive sur des ressources déjà limitées. Nous pouvons même nous attendre à ce que certains professionnels soient dans l'incapacité d'acquérir les connaissances requises pour adopter un nouveau référentiel. Le fait d'offrir simplement plus de flexibilité dans les normes actuelles par l'introduction de nouveaux choix permettrait de répondre aux besoins des utilisateurs tout en limitant l'investissement de temps pour la profession. Dans un contexte de pénurie de main d'œuvre, il y a un risque d'alourdir le fardeau normatif pour les professionnels, ce qui augmente également le risque d'erreurs et/ou d'application erronée du ou des nouveaux référentiels.

- **Limite la flexibilité pour certaines entités à capital fermé qui ne respecteraient pas les critères, conditions ou seuils pour l'application d'un référentiel en particulier**: Pour les entités à capital fermé, chaque entité doit disposer de toute la latitude pour choisir les méthodes comptables qui sont appropriées selon les besoins des utilisateurs de ses états financiers. Ce point de vue est cohérent avec le libre choix qui existe actuellement à l'égard des choix de méthodes comptables déjà offerts dans les NCECF.

- **Risque de réduire l'agilité normative** : La profession ainsi que les organisations vivent actuellement une période de grands changements propulsés par l'ère numérique et les considérations ESG. Dans ce contexte, les normalisateurs doivent augmenter leur agilité pour répondre aux besoins du public en constante évolution. À notre avis, l'introduction de nouveaux référentiels pourrait alourdir significativement la charge de travail et mettre de la pression sur les ressources humaines et financières des conseils des normes. Un nouveau référentiel exige un apport en ressources considérable des normalisateurs pour effectuer chacune des étapes : recherches, rédaction, révision, traduction, document de discussion, exposé-sondage, tables rondes, etc.

- **Possibilité de répondre plus rapidement aux besoins des parties prenantes et de faire preuve d'une plus grande agilité normative par l'introduction de choix dans les normes actuelles** : Les normes actuelles de la partie II et III répondent à la grande majorité des besoins des utilisateurs des états financiers. L'ajout de certains choix permettrait de répondre plus rapidement à certaines préoccupations et permettre une plus grande agilité normative que l'introduction de nouveaux référentiels. Une approche par priorité est davantage envisageable dans une modulation par choix de méthode comptable (approche 1 et 2) que par l'ajout de référentiel (approche 3 et 4).

Nous ne sommes pas favorables à l'ajout d'un référentiel comptable intermédiaire entre les normes IFRS de comptabilité et les parties II et III (**approche 3**). À notre avis, les limites et risques qu'apporterait ce référentiel transitoire surpassent largement ses bénéfices puisque nous estimons qu'un nombre très restreint d'entités l'adopteraient. En effet, les événements ayant une incidence sur la liquidité sont relativement rares. Ainsi, bien que ces transitions soient généralement compliquées, les difficultés associées à une transition aux normes IFRS sont la plupart du temps inévitables et inhérentes à une telle transition. Ce référentiel serait donc utilisé seulement pendant une période transitoire et à notre avis les coûts et les efforts associés à sa création surpassent grandement les avantages.

Nous sommes en désaccord avec l'approche de mise en place d'un nouveau référentiel pour les petites entités (**approche 4**). À notre avis, les fondements conceptuels des NCECF sont appropriés pour l'élaboration de normes adéquates pour toutes les entreprises à capital fermé à même la Partie II. Seulement certaines exigences sont parfois contraignantes pour ces entreprises et il serait donc inutile de créer un nouveau référentiel pour si peu.

APPROCHES ENVISAGÉES

Modulation des exigences de certaines normes des parties II et III – Simplification des dispositions relatives à la comptabilisation et à l'évaluation

Question 3 : Supposons que le CNC aille de l'avant avec la modulation des exigences de la Partie II. Quelles normes de cette partie comportent actuellement des exigences relatives à la comptabilisation et à l'évaluation qui sont complexes à appliquer pour certaines entités? Comment pourrait-on simplifier ces exigences tout en maintenant la pertinence des informations fournies aux utilisateurs des états financiers?

Dans le cadre de nos activités d'encadrement de la profession, tel que mentionné à la question 1 ci-dessus, certaines exigences des NCECF relatives à la comptabilisation et à l'évaluation sont parfois inadéquates en regard des besoins d'informations financières des principaux utilisateurs des états financiers des entreprises à capital fermé. Entre autres, les exigences suivantes amènent parfois, ou souvent, un trop grand niveau de complexité et des coûts élevés qui ne semblent pas apporter de valeur ajoutée à plusieurs utilisateurs des états financiers:

1. **Regroupement d'entreprises** : L'identification des actifs incorporels identifiables, leur évaluation et leur comptabilisation distinctement de l'écart d'acquisition requiert un travail considérable et oblige, dans la plupart des cas de recourir à des experts en évaluation indépendants qui réalisent des travaux exclusivement aux fins de la comptabilisation des regroupements d'entreprises. Le nombre grandissant de réserves sur ce volet ajouté au rapport d'audit et d'examen à la suite de nos inspections professionnelles tend à démontrer que la comptabilisation distincte de ces actifs incorporels ne semble pas influencer les décisions des principaux utilisateurs d'états financiers d'entreprises à capital fermé. Ainsi, l'ajout d'un choix de méthode comptable simplifiée permettant à l'acquéreur de ne pas identifier ni évaluer les actifs incorporels acquis permettrait de réduire la complexité normative tout en répondant aux besoins des utilisateurs des états financiers. Il pourrait également être intéressant d'ajouter comme choix possible l'amortissement de l'écart d'acquisition afin de simplifier le traitement post acquisition et de réduire la complexité liée ou à procéder à un test de dépréciation.

   Selon nous, si le CNC avait à prioriser un seul élément à améliorer dans les NCECF, cela devrait être celui-ci.

2. **Options d'achat d'actions :** L'évaluation des options d'achat d'actions ou d'autres instruments de capitaux propres consentis à des employés dans le cadre d'un régime de rémunération à base d'actions requiert un travail considérable de la part des préparateurs d'états financiers et oblige, dans la plupart des cas, de recourir aux services d'experts en évaluation indépendants. Selon nos observations, la comptabilisation d'une charge de rémunération afférente à l'émission d'instruments de capitaux propres dans le cadre de tels régimes ne semble généralement pas influer sur les décisions des principaux utilisateurs d'états financiers d'entreprises à capital fermé.

   L'ajout de la possibilité de choisir une méthode comptable simplifiée permettant d'attribuer une valeur nulle à de tels octrois (en maintenant les informations à fournir actuelles) pourrait être une solution qui apporterait plus de flexibilité et simplifierait son application.

3. **Actualisation de passifs financiers** : L'évaluation initiale à la juste valeur des instruments financiers contractés dans des opérations conclues dans des conditions de pleine concurrence est un élément de complexité soulevé lors des inspections professionnelles. Plusieurs entreprises à capital fermé contractent des emprunts sans intérêt (ou à faible taux d'intérêt). Le recours à une technique d'actualisation pour évaluer initialement un tel passif financier à sa juste valeur (et les ajustements ultérieurs requis aux fins de l'évaluation au coût après amortissement) est fréquemment relevé comme lacune lors des inspections et semble également donner lieu à une méthode de comptabilisation incompatible avec les besoins des principaux utilisateurs des états financiers de ces entités.

   L'ajout de la possibilité de choisir une méthode comptable simplifiée qui ne requiert pas l'évaluation initiale à la juste valeur de passifs financiers pris en charge dans des opérations conclues dans des conditions de pleine concurrence pourrait être une solution qui apporterait plus de flexibilité et simplifierait son application.

4. **Actions rachetables au gré du porteur ou obligatoirement rachetable émises dans une opération de planification fiscale** : le classement comme passifs financiers de telles actions est parfois incompatible avec les besoins en matière d'information financière des principaux utilisateurs des états financiers des entreprises à capital fermé. Ceci est particulièrement vrai lorsque les actions ont fait l'objet d'une entente de subrogation en faveur d'un créancier et que le détenteur s'est donc engagé à ne pas exiger leur rachat à court ou à moyen terme.

   L'ajout de la possibilité de choisir une méthode comptable simplifiée permettant le classement de ces actions dans les capitaux propres en présence d'une telle subrogation, bien que les conditions du paragraphe 3856.23 ne soient pas respectées, pourrait être une solution qui apporterait plus de flexibilité et simplifierait son application.

L’**approche 1** de modulation pourrait facilement répondre à ces éléments et permettrait de simplifier des dispositions relatives à la comptabilisation et à l’évaluation des NCECF et ce, en proposant l’ajout de méthodes comptables allégées ou simplifiées aux entités qui souhaitent les adopter. Ces choix de méthodes comptables doivent s’ajouter aux exigences actuelles des NCECF, et non les substituer, et ils devraient être accessibles par toutes entreprises à capital fermé qui le souhaite, les utilisateurs des états financiers pouvant généralement influencer ces choix.

Ajout d’un référentiel comptable intermédiaire entre les normes IFRS de comptabilité et les parties II et III

Question 8 : Si le CNC devait mettre en place un référentiel intermédiaire entre les NCECF et les normes IFRS de comptabilité, quels éléments des parties I et II devrait-il y inclure? Quels éléments de la Partie I serait-il avantageux d’inclure et quels éléments devrait-on omettre, car ils sont trop contraignants à appliquer?

Nous ne sommes pas en faveur de cette option, se référer à la question 2.

Question 9 : Si le CNC devait mettre en place un référentiel intermédiaire entre les normes comptables pour les OSBL et les normes IFRS de comptabilité, quels éléments des parties I et III devrait-il y inclure? Quels éléments de la Partie I serait-il avantageux d’inclure et quels éléments devrait-on omettre, car ils sont trop contraignants à appliquer?

Nous ne sommes pas en faveur de cette option, se référer à la question 2.

Question 10 : Partagez-vous l’avis du CNC quant au fait que la norme IFRS pour les PME ne répondrait pas aux besoins des parties prenantes canadiennes? Dans la négative, pourquoi?

Nous partageons l’avis du CNC quant au fait que la norme IFRS pour les PME ne répondrait pas aux besoins des parties prenantes canadiennes. Les NCECF répondent déjà aux besoins pour le marché des PME au Canada. L’ajout d’une modulation par l’introduction de choix apporterait de la flexibilité et de la simplification pour répondre aux besoins du marché canadien.

À notre avis, l’adoption des normes IFRS pour les PME pourrait également alourdir le processus normatif, résultant par un manque de flexibilité et d’agilité pour répondre aux besoins du marché des PME canadiennes. Actuellement, nous observons que l’adoption des normes d’audit internationales par le Canada apporte une certaine rigidité normative qui impacte négativement la pratique de l’audit au Canada.

Introduction d’un nouveau référentiel pour les petites entités

Question 11 : Si le CNC devait élaborer un nouveau référentiel à l’intention des petites entités, quels aspects des normes actuelles des parties II et III devrait-il conserver? Y a-t-il d’autres facteurs ou questions dont le CNC devrait tenir compte dans ses délibérations sur l’introduction d’un tel référentiel?

Nous ne sommes pas en faveur de cette option.

Résumé

Question 12 : Lesquelles des approches proposées par le CNC vous semblent les plus avantageuses pour les parties prenantes? Pourquoi?

Nous accueillons avec grand enthousiasme l’**approche 1** proposée par le CNC, mais en rendant les choix accessibles à toutes les entités peu importe leur taille, pour les raisons mentionnées dans la réponse à la question 2. Nous considérons que la modulation par l’approche 1 est nécessaire pour répondre aux réalités du marché canadien et assurer l’intérêt du public.

Question 13 : Selon vous, y a-t-il d’autres approches que le CNC devrait envisager?

Non.

Question 14 : Lesquelles des approches proposées devraient être écartées par le CNC? Pourquoi?

À notre avis, il faut absolument éviter l'ajout de tout autre référentiel, les **approches 3 et 4** devraient donc être écartées au risque de nuire davantage à la situation. Pour plus d'information, voir notre réponse à la question 2 ci-dessus.

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Montréal, July 31, 2023

Katharine Christopoulos, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

Subject: Consultation Paper I – Exploring Scalability in Canada

Ms. Christopoulos:

We are writing to you on behalf of the Ordre des comptables professionnels agréés du Québec (the Order) in response to your request for comments on the Consultation Paper, "Exploring Scalability in Canada." Thank you for the opportunity to comment.

The Order has 41,000 members and 5,000 future chartered professional accountants (CPAs), making it one of the largest CPA regulators in Canada. We are a professional order as defined by the Professional Code, that is, a body whose primary mission is to protect the public. We supervise the CPA profession through our laws and regulations. We conduct more than 750 professional inspections annually. We uphold the highest professional and ethical standards, guide our members in the practice of the profession and support our members' and students' continuing professional development.

Based on the observations we have made in our professional oversight activities, primarily during professional inspections, we believe that scalability is required to meet the continually evolving needs of the Canadian market. However, we would like to point out that ASPE generally meet the needs of private enterprise stakeholders. It is therefore not in the interest of the profession or the public for the AcSB to undertake a large- or medium-scale project on the accounting standards that these enterprises apply, especially by introducing one or more accounting frameworks (solutions 3 and 4). This could increase the regulatory burden and hinder the flexibility and agility of Canadian standards even further. Furthermore, we believe the introduction of frameworks for private enterprises will create confusion for users and other stakeholders.

Our preferred solution would be to provide simplified accounting policy choices for a few of the existing Part II standards. This approach could be a quick and effective way to address the needs and concerns of the market and the profession, and would make it easier for Canadian SMEs to apply the framework. This is consistent with solution 1 identified by the AcSB. However, we believe that adding application criteria, conditions or thresholds to the choices provided (based on entity size, industry, etc.) would unnecessarily complicate the standard-setting process. Any enterprise wishing to choose a policy should be able to do so, as financial statement users can generally influence such choices.

We would appreciate receiving a copy of the English translation of our comments.

Yours truly,

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SPECIFIC ACSB QUESTIONS

Question 1: Do you agree with the summarized issues above? If not, why not? Are there any additional issues with the current financial reporting frameworks in Canada that the AcSB has not identified? If so, what are they, and how do you think the Board could address them as part of its project on scaling the standards?

1) For large private entities and NFPOs, Parts II and III do not sufficiently meet the information needs of users.

We do not agree with these issues. In our opinion, if a large company believes that Parts II and III do not sufficiently meet the information needs of its users, it can choose to adopt IFRS Accounting Standards, which require more comprehensive reporting. Moreover, the company could voluntarily provide additional information to meet its users' needs.

2) For some smaller entities, Parts II and III are too complex.

We agree with this issue to a certain extent. Based on the observations we have made in our professional oversight activities, primarily during professional inspections, Part II's complexity has more to do with cost and access to the required expertise than entity size. In our opinion, some Part II requirements are not adequately suited to the needs of the primary users of certain private enterprises' financial statements; additional accounting policy choices would allow these enterprises to opt for policies that better meet those information needs.

For example, in 2022-2023, the overall professional inspection success rate for firms providing assurance services was only 57%. Note that 52% of failures resulted from deficiencies in more complex accounting, particularly for business combination and revenue issues. To address the deficiencies related to business combinations, close to one third of auditors simply qualified their reports, because their clients considered the standard too complex and costly to apply, and deemed the information irrelevant to their financial statement users. These increasingly frequent qualified opinions, which are often required for several years, clearly demonstrate that the standards are not well suited to users' needs.

3) IFRS Standards are too complex or onerous for some entities to apply.

We agree with these issues to a certain extent, but not with the AcSB's potential solution. Some IFRS Standards may indeed be complex or onerous to apply for a very small number of entities who are nevertheless reporting issuers with a much greater volume and diversity of users than for a private enterprise or NFPO. Therefore, it would be in the public interest for these entities to continue using IFRS Standards, because comparability between entities is important. Moreover, private enterprises generally do not choose to apply IFRS Accounting Standards. Parts II and III were developed to meet their needs.

4) Private entities and NFPOs do not typically choose to apply a financial reporting framework in the Handbook unless it is explicitly required.

We see the problem differently. Our observations indicate that, in general, private enterprises do not have their financial statements audited or reviewed by an independent auditor or practitioner unless explicitly required to do so. Nevertheless, the financial statements of enterprises that choose to perform compilation engagements are often prepared in accordance with most ASPE recognition and measurement requirements. The main ASPE requirements that these enterprises do not adopt when preparing financial statements that will not be subject to audit or review are related to the preparation of a cash flow statement, business acquisitions, revenue recognition and disclosures. Therefore, we are more concerned about the decrease in audit and review engagements, and the increase in compilation engagements. Frequent changes and the complexity of accounting and assurance standards could be a reason for the decline in engagements.

SCALING THE STANDARDS

Question 2: Do you think the AcSB should pursue scaling alternatives to the current accounting frameworks included within the Handbook? Why or why not?

In light of the abovementioned issues, we consider that the pursuit of scaling alternatives to the current Part II standards is necessary and even in the public interest. Accounting standards must meet the financial reporting needs of the primary users of financial statements; currently, some ASPE requirements are not suited to private entities.

While we are firmly in favour of scalability, we believe that it should be achieved by providing new accounting policy choices in ASPE. This solution is consistent with the existing tiering in ASPE (e.g. accounting policy choices for income taxes and interests in subsidiaries, joint arrangements or entities subject to significant influence). This is consistent with **solution 1** identified by the AcSB.

Even though providing more accounting policy choices may reduce financial statement comparability for certain enterprises, in our opinion, this inconvenience is of minor importance, since private enterprise financial statements are confidential, and their primary users can encourage enterprises to choose the same policies.

Furthermore, we strongly disagree with solutions 3 and 4, which involve adding new frameworks with specific conditions, criteria or thresholds based on, for example, an entity's size or industry, for the following reasons:

- **Risk of increased confusion among stakeholders and public expectation gaps:** Stakeholders already find it difficult to understand the differences between the various accounting frameworks and types of engagements (audit, review and compilation). The creation of new frameworks would probably add to this confusion. Furthermore, entities will need to interpret the conditions, criteria and thresholds themselves in order to determine which framework is appropriate. This could result in inconsistent framework choices and further confusion.

- **Risk of lost expertise:** Each framework requires knowledge and therefore different expertise. With the arrival of IFRS Accounting Standards and the introduction of several frameworks, we have seen a loss of expertise in certain areas among CPAs, both in business and private practice. In our opinion, the addition of frameworks will dilute CPA expertise, which is not in the public interest, especially during a labour shortage.

- **Risk of increased complexity and of choosing the wrong framework:** The inclusion of criteria, conditions or thresholds inevitably increases complexity and creates a need for additional requirements to address, for example, what happens when these criteria or conditions are no longer met, or the entity moves from one threshold to another. As complexity grows, so does the risk of choosing the wrong framework.

- **Risk of added pressure on CPAs with limited resources:** Gaining a proper understanding of any new framework requires a considerable time investment for CPAs. A significant increase in training needs can be expected, which would put excessive pressure on already limited resources. We can even anticipate that some professionals will be unable to acquire the knowledge required to adopt a new framework. Simply providing more flexibility within the existing standards by introducing new choices would meet users' needs while limiting the time investment for the profession. With the labour shortage, there is a risk of increasing the standards burden for professionals, which also increases the risk of errors and/or misapplication of any new frameworks.

- **Limited flexibility for private enterprises that may not meet the criteria, conditions or thresholds for a given framework:** Each private enterprise should have full discretion in selecting the accounting policies that are appropriate for the needs of their financial statement users. This view is consistent with the current freedom to choose from the existing ASPE accounting policies.

- **Risk of reducing standard-setting agility:** The profession and organizations are currently going through significant changes, brought about by the digital age and ESG considerations. Standard setters must become more agile to meet the public's continually evolving needs. In our opinion, the introduction of new frameworks could significantly increase the workload of standards boards and put pressure on their human and financial resources. To issue a new framework, standard setters must deploy considerable resources at every step, e.g. research, drafting, revision, translation, discussion paper, exposure draft and roundtables.

- **Possibility of meeting stakeholder needs more quickly and improving agility with new accounting policy choices in existing standards:** The current standards in Parts II and III meet the vast majority of financial statement users' needs. The addition of choices would address certain issues more quickly and allow for greater agility than the introduction of new frameworks. A priority-based approach is more feasible with tiering through accounting policy choices (solutions 1 and 2) than through the introduction of a framework (solutions 3 and 4).

We are not in favour of an intermediary accounting framework option between IFRS Accounting Standards and Parts II and III (**solution 3**). In our opinion, the limitations and risks with this transitional framework would far outweigh the benefits, because we believe that only a very small number of entities would adopt it. Liquidity events are relatively rare. While transitioning is generally complicated, the difficulties involved in transitioning to IFRS are inevitable most of the time and inherent in such a transition. An intermediary framework would only be used for a transitional period, and we believe that the cost and effort to create it would greatly exceed the benefits.

We disagree with the introduction of a new framework for small entities (**solution 4**). In our opinion, the financial statement concepts in ASPE are appropriate for the development of adequate standards for all private enterprises under Part II. Only a few requirements are sometimes onerous for these enterprises, and it would be pointless to create a new framework for so little.

POTENTIAL SCALABILITY SOLUTIONS IDENTIFIED SO FAR

Tiering within the existing Part II and Part III frameworks – Simplified recognition and measurement in selected standards

Question 3: If the AcSB were to pursue tiering within Part II, which standards have recognition and measurement requirements that are complex for some entities to apply? What opportunities exist to simplify the recognition and measurement requirements in these standards while still providing useful information to financial statement users?

In our professional oversight activities, as mentioned in our response to question 1 above, [we have observed that] certain ASPE recognition and measurement requirements are sometimes not suited to the information needs of the primary users of private enterprise financial statements. The following requirements, among others, are sometimes, or often, too complex and costly, and do not appear to provide added value for financial statement users:

1. **Business combinations:** Identifying and measuring identifiable intangible assets and recognizing them separately from goodwill involves significant effort and, in most cases, requires the use of independent valuation experts who perform work exclusively for the purposes of accounting for business combinations. The growing number of qualified audit and review reports in this regard following our professional inspections suggests that recognizing these intangible assets separately does not influence the decisions of the primary users of private enterprise financial statements. Therefore, the addition of a simplified accounting policy choice allowing the acquirer not to identify or measure acquired intangible assets would reduce standard complexity while meeting the needs of financial statement users. It could also be useful to add the option to amortize goodwill in order to simplify post-acquisition treatment and reduce impairment testing complexity.

   In our opinion, if the AcSB were to prioritize one improvement to ASPE, it should be this one.

2. **Employee stock options:** The measurement of employee stock options or other equity instruments in stock-based compensation plans involves considerable effort by financial statement preparers and, in most cases,

requires the use of independent valuation experts. According to our observations, recognizing a compensation expense for the issue of equity instruments under such plans does not typically influence the decisions of the primary users of private enterprise financial statements.

Adding a simplified accounting policy choice allowing a value of zero to be allocated to these grants (while retaining current disclosures) could be a solution that would provide more flexibility and make application easier.

3. **Discounting of financial liabilities:** Our professional inspections have shown that initial fair value measurement of financial instruments obtained in arm's length transactions can be complex. Many private enterprises take out interest-free (or low-interest) loans. Initial measurement at fair value of such a financial liability using a present value technique (and subsequent adjustments for measurement at amortized cost) is frequently identified as a weakness during inspections and also appears to result in an accounting policy that is incompatible with the needs of those entities' primary financial statement users.

   Adding a simplified accounting policy choice that does not require initial measurement at fair value of financial liabilities assumed in arm's length transactions could be a solution that would provide more flexibility and make application easier.

4. **Retractable or mandatorily redeemable shares issued in a tax planning arrangement:** The classification of these shares as a financial liability is sometimes at odds with the financial reporting needs of the primary users of private enterprise financial statements. This is especially true when the shares are subject to a subrogation agreement in favour of a creditor, and the holder has therefore agreed not to require redemption in the short or medium term.

   The addition of a simplified accounting policy choice allowing these shares to be classified as equity when such subrogation exists, even if the conditions in paragraph 3856.23 are not met, could be a solution that would provide more flexibility and make application easier.

Scalability **solution 1** could easily address these elements and would make it possible to simplify the recognition and measurement provisions in ASPE, by proposing the addition of reduced or simplified accounting policies for entities wishing to adopt them. These accounting policy choices should supplement, not substitute, current ASPE requirements, and should be available to any private enterprise that wishes to apply them, since financial statement users can generally influence these choices.

Intermediary accounting framework option between IFRS Accounting Standards and Parts II and III

Question 8: If the AcSB were to introduce an intermediary option between ASPE and IFRS Accounting Standards, which elements of Parts I and II should be included in this accounting framework? Which elements of Part I are beneficial to include, and which are too onerous to apply?

We do not support this option; see question 2.

Question 9: If the AcSB were to introduce an intermediary option between accounting standards for NFPOs and IFRS Accounting Standards, which elements of Parts I and III should be included in this accounting framework? Which elements of Part I are beneficial to include, and which are too onerous to apply?

We do not support this option; see question 2.

Question 10: Do you agree with the AcSB's assessment that the IFRS for SMEs Accounting Standard would not meet the needs of Canadian stakeholders? If not, why?

We agree with the AcSB's assessment that the *IFRS for SMEs Accounting Standard* would not meet the needs of Canadian stakeholders. ASPE already meet the needs of Canada's SME market. Scalability through the introduction of choices would provide flexibility and make it easier to meet the Canadian market's needs.

In our opinion, adopting IFRS Accounting Standards for SMEs could also weigh down the standard-setting process, resulting in a lack of flexibility and agility to meet the needs of the Canadian SME market. Currently, we are seeing how Canada's adoption of certain international auditing standards brings a degree of rigidity that negatively impacts auditing in Canada.

Introduction of a new framework for small entities

Question 11: If the AcSB were to develop a new framework for small entities to apply, what aspects of existing Part II and/or Part III would be helpful to retain? Are there additional factors or matters the Board should consider in its discussion of this potential new framework?

We do not support this option.

Summary

Question 12: Which scalability solutions proposed by the AcSB do you think provide the greatest benefit to stakeholders, and why?

We enthusiastically support the AcSB's proposed **solution 1**, provided the choices are available to all entities regardless of size, for the reasons given in our response to question 2. We consider scalability through solution 1 necessary in order to respond to the realities of the Canadian market and serve the public interest.

Question 13: Are there any other scalability solutions that you think the AcSB should consider?

No.

Question 14: Which, if any, of the proposed scalability solutions do you think the AcSB should not pursue, and why?

In our opinion, the introduction of any new framework should be avoided at all costs. Therefore, the AcSB should not pursue **solutions 3 and 4** so as not to further worsen the situation. For more information, see our response to question 2 above.

July 31, 2023

Katharine Christopoulos, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Ms. Christopoulos:

Re: Consultation Paper I - Exploring Scalability in Canada *("Consultation Paper")*

We welcome the opportunity to comment on the Accounting Standards Board's ("AcSB" or the "Board") first phase of consultation related to the Board's Scaling the Standards project.

Our responses to the specific questions in the Consultation Paper are included below.

Question 1: *Do you agree with the summarized issues above? If not, why not? Are there any additional issues with the current financial reporting frameworks in Canada that the AcSB has not identified? If so, what are they, and how do you think the Board could address them as part of its project on scaling the standards?*

Yes, we generally agree with the summarized issues presented in paragraph 4 of the Consultation Paper. We have not identified additional issues with the current financial reporting frameworks that the AcSB has not identified.

Question 2: *Do you think the AcSB should pursue scaling alternatives to the current accounting frameworks included within the Handbook? Why or why not?*

Scalability in financial reporting could simplify the process for small to medium-sized entities, thereby potentially reducing their reporting burden, while at the same time ensuring stakeholders are provided with sufficient and appropriate information. While we acknowledge the need for some scalability in financial reporting, we believe it is equally important to maintain its robustness, comprehensiveness and understandability. We are concerned that introducing further diversity into the accounting framework landscape could actually result in additional complexity by reducing the comparability across entities, which is an important objective in financial reporting.

We encourage the AcSB to exercise caution in pursuing scaling alternatives with a goal of simplification, as it may, in fact, result in additional diversity and complexity. We believe that certain limited scaling alternatives could be explored by the AcSB. In our view, the best option for the AcSB to explore would be tiering within the existing Part II framework whereby certain recognition and measurement requirements

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are simplified in selected standards. We have provided further discussion on this scaling alternative in our responses to Questions 3, 5, and 12 below.

Overall, while we believe that the AcSB is prudent to explore potential scaling alternatives, our view is that the need for such alternatives is limited, and therefore, any potential solutions (if developed) should be targeted and narrow in application.

Question 3: *If the AcSB were to pursue tiering within Part II, which standards have recognition and measurement requirements that are complex for some entities to apply? What opportunities exist to simplify the recognition and measurement requirements in these standards while still providing useful information to financial statement users?*

Based on our experience, the following standards under Part II of the Handbook have recognition and measurement requirements that often create burdensome complexities for private entities (that potentially outweigh the informational utility):

- Section 1582 - Business Combinations - specifically, the recognition of identifiable intangible assets separately from goodwill and the requirement to measure them at fair value; and
- Section 3870 - Stock-Based Compensation and Other Stock-Based Payments - the valuation of shares, or awards linked to shares, as these are not publicly-traded and observable market prices rarely exist on a regular basis.

Both of the standards above require valuations based on unobservable inputs. This can be time-consuming and costly for private enterprises.

Other than the standards identified above, we believe complexities within the recognition and measurement requirements of these standards often arise due to the inherently complex nature of the transactions they aim to represent. Simplifying them would be challenging as it risks the loss of useful information. However, the development of clear and practical guidance specifically aimed at helping smaller entities navigate these requirements could be helpful.

If the Board chooses to introduce tiering within Part II, consideration should be given to how the standards would be applied if an entity no longer meets the threshold to apply a certain alternative. If the expectation is that an entity would need to apply the “main” Part II requirements on a retrospective basis once a threshold is met, this could reduce the usefulness of tiering to smaller entities.

In addition, if the Board chooses to introduce tiering within Part II, one alternative to reduce diversity might be to include these as a series of standards, where an entity adopts all of them, rather than picking and choosing (ie. in a manner similar to a government not-for-profit organization that chooses whether or not to apply the PS 4200 series of standards when it applies Public Sector Accounting Standards).

We are aware of smaller entities that are concerned Part II is too complex. Our understanding is that this often arises for two different reasons:

1. The accounting requirements of Part II are different from either "cash plus accrued payables and receivables" or are different from the requirements for tax. Therefore, preparers don't believe the information is useful. Examples of this include:
    - recognition of rent on a straight line basis over the term of a lease; and
    - measurement of quoted equity portfolio investments at fair value.
2. The accounting is different from how the entity views their business. Examples of this include:
    - retractable preferred shares issued in a tax planning arrangement presented as a liability, when the entity sees them as equity; and
    - accounting for jointly controlled assets and operations differently than jointly controlled entities.

While we acknowledge the concerns of these smaller entities, our experience is that the financial statements are generally only prepared under Part II if required by a third party (for an expanded discussion on this theme, refer to our response to Question 11). We are concerned that providing too many simplifications within Part II would undermine the usefulness of the financial information for these users and therefore the utility as "general purpose" financial statements.

Question 4: *If the AcSB were to pursue tiering within Part III, which standards have recognition and measurement requirements that are complex for some NFPOs to apply? What opportunities exist to simplify the recognition and measurement requirements in these standards while still providing useful information to financial statement users?*

We have not identified any standards within Part III that have recognition and measurement requirements that are too complex for NFPOs that would warrant additional tiering beyond that which already exists.

Question 5: *If the AcSB were to pursue tiering within Part II, which standards have disclosure requirements that are complex for some entities to apply? What opportunities exist to simplify the disclosure requirements in these standards while still providing useful information to financial statement users?*

We believe the disclosure requirements under Part II are generally appropriate for achieving their intended purpose. We do not believe the requirements are overly complex. Generally, once an entity has accounted for a transaction, the information needed for the disclosures required by Part II is readily available.

While we support the AcSB's efforts to explore scalability and tiering, we do not see significant opportunity to simplify the disclosure requirements under Part II.

We acknowledge there are many smaller entities that rely on accounting practitioners for assistance in preparing their disclosures. We don't believe this is because the Part II disclosure requirements themselves are complex or cumbersome. Rather, we believe it is due to lack of experience of personnel at these entities in preparing financial statement disclosures. We believe this is an opportunity where guidance outlining disclosure requirements using simplified language and providing illustrative examples could be helpful for these entities.

Question 6: *If the AcSB were to pursue tiering within Part III, which standards have disclosure requirements that are complex for some entities to apply? What opportunities exist to simplify the disclosure requirements in these standards while still providing useful information to financial statement users?*

Similar to our response to Question 5 which addressed these questions in relation to Part II, we do not believe the disclosures required by Part III are overly complex. We do not see a significant opportunity to simplify the disclosure requirements under Part III.

Question 7: *How common is it for entities to transition from ASPE to IFRS Accounting Standards? Other than preparing for an IPO or other liquidity event, what drives an entity to make this transition? What challenges do entities face with this transition? Did the time taken to comply with financial reporting requirements in IFRS Accounting Standards result in any negative consequences or missed opportunities for entities? What opportunities exist to make the process to transition from ASPE to IFRS Accounting Standards easier and less time-consuming?*

In our experience, transitioning from ASPE to IFRS Accounting Standards is not common unless required by external financial statement users. This could be in preparation for a public listing or liquidity event, as the result of an acquisition, or due to a funding arrangement that requires the preparation of IFRS financial statements. Once entities reach a certain size, they may determine it is appropriate to transition to IFRS Accounting Standards to provide comparability to other entities for investors and creditors. However, the transition is not typically pursued solely for managing accounts or operations internally. Overall, the decision to transition is usually based on the specific requirements to prepare IFRS financial statements rather than as an elective choice.

Entities face several challenges during this transition, including, but not limited to:

- the ability of finance teams to manage both the conversion project and ongoing daily business needs;
- a lack of expertise in IFRS Accounting Standards conversions and IFRS Accounting Standards requirements;
- Enterprise Resource Planning (ERP) systems that do not meet the new financial reporting requirements; and
- the need to reconcile between pre- and post-conversion information (which may cause delays in audits, particularly in the first year of transition).

The transition process can result in missed opportunities (if not completed within an appropriate time frame) and additional costs (if not managed efficiently). To alleviate these difficulties and make the transition process smoother, a potential solution could be to maintain up-to-date publications highlighting the differences between ASPE and IFRS Accounting Standards.

Question 8: *If the AcSB were to introduce an intermediary option between ASPE and IFRS Accounting Standards, which elements of Parts I and II should be included in this accounting framework? Which elements of Part I are beneficial to include, and which are too onerous to apply?*

While we believe it is worthwhile for the Board to explore different possibilities for an intermediary option between ASPE and IFRS Accounting Standards, we have concerns that such an option (while theoretically appealing) would present practical impediments as it would be demanding for the AcSB to keep this intermediary option up-to-date. Moreover, it may only be beneficial for a limited number of entities, most of whom, if not all, would presumably progress to “full” IFRS Accounting Standards regardless. As such, we are concerned that any intermediary option between ASPE and IFRS Accounting Standards could introduce unnecessary complexity and long-term cost for both the AcSB and the entities who utilize such an intermediary option, as well as have a negative impact on the comparability of financial reporting. For these reasons, we would discourage the development of an intermediary framework ASPE and IFRS Accounting Standards.

If the AcSB does choose to explore an intermediary option between Part II and IFRS Accounting Standards, a pragmatic approach could be to incorporate IFRS recognition and measurement principles, but with simplified disclosure requirements. One of the benefits of using IFRS recognition and measurement principles is their global acceptance and the comparability they provide across different jurisdictions. Conversely, full IFRS disclosure requirements can be onerous for entities not operating in public markets, due to the level of detail required and the resources needed for compliance. Potentially, simplified disclosure requirements designed with the needs of smaller, private entities in mind could correspond better to the resources of these entities and the information needs of their users.

The Board could consider leveraging the output of the International Accounting Standards Board’s (IASB) ongoing *‘Subsidiaries without Public Accountability: Disclosures’* project. This initiative aims to apply reduced disclosure requirements while maintaining the recognition, measurement, and presentation requirements under IFRS. While the IASB project is currently focused on certain subsidiaries of entities already reporting under IFRS, an opportunity could exist to leverage the output of the IASB’s work and expand the scope to certain other Canadian entities solely for Canadian GAAP as the Board deems appropriate.

If the Board considers an intermediary alternative between Part II and IFRS Accounting Standards that consists of the recognition and measurement principles of IFRS Accounting Standards, the evaluation would also need to consider transition implications for entities that move from ASPE to this alternative and then to “full” IFRS. Specifically, the Board would need to consider how an intermediary alternative would actually assist in the transition to full IFRS considering that entities must still apply the provisions of IFRS 1 in order to state “compliance with IFRS as issued by the IASB”. For example, IFRS 1 may require either full retrospective application or measurement relief as at the date of transition, and these may vary from the measurement date of any transition to an intermediary framework.

We believe creating a hybrid model which considers some, but not all, of the recognition and measurement requirements of the IFRS Accounting Standards, would introduce unnecessary complexity. We would discourage the introduction of such a framework.

Question 9: *If the AcSB were to introduce an intermediary option between accounting standards for NFPOs and IFRS Accounting Standards, which elements of Parts I and III should be included in this accounting framework? Which elements of Part I are beneficial to include, and which are too onerous to apply?*

Based on our experience within the NFPO sector, we do not perceive a significant demand for an intermediary option between NFPO-specific standards (Part III) and IFRS Accounting Standards. The number of NFPOs currently applying IFRS Accounting Standards, is extremely limited. These entities would typically only apply IFRS Accounting Standards due to the issuance of public debt or because of a foreign parent. Entities with public debt would be unable to use an intermediary option. Entities with a foreign parent would likely already be captured by the aforementioned IASB *'Subsidiaries without Public Accountability: Disclosures'* project (see our response to Question 8). We also do not expect entities currently applying Part III would transition to an intermediary option.

Question 10: *Do you agree with the AcSB's assessment that the IFRS for SMEs Accounting Standard would not meet the needs of Canadian stakeholders? If not, why?*

Yes, we agree with the AcSB's assessment that the *IFRS for SMEs* Accounting Standard might not fully address the needs of Canadian stakeholders.

Question 11: *If the AcSB were to develop a new framework for small entities to apply, what aspects of existing Part II and/or Part III would be helpful to retain? Are there additional factors or matters the Board should consider in its discussion of this potential new framework?*

We do not encourage the development of a new financial reporting framework for small entities.

As the AcSB notes within the Consultation Paper, "Private entities and NFPOs do not typically choose to apply a financial reporting framework in the Handbook unless it is explicitly required." This is consistent with our experience. Private entities usually only adopt a specific accounting framework when required by a third party, such as a shareholder or lender. Consequently, we do not expect that there would be significant voluntary adoption of any new framework by entities that are not already using ASPE.

We specifically considered whether we believed a new framework would be used by entities that need to disclose their basis of accounting within compiled financial information. We do not think this will be the case. We believe entities will continue to prepare their financial statements in a manner that is useful for them, and then disclose how they have done that within the basis for accounting.

Overall, if the AcSB intends to pursue scaling, we believe tiering within ASPE is a better alternative than the introduction of a new accounting framework. Given that we believe the introduction of a new accounting framework will not result in "net new" users, we believe the use of an existing, well-understood, comprehensive framework is a more practical option than the creation of a new one.

Question 12: *Which scalability solutions proposed by the AcSB do you think provide the greatest benefit to stakeholders, and why?*

Among the scalability solutions proposed by the AcSB, we believe that the approach which would provide the greatest benefit to stakeholders is the first option proposed, namely, "Tiering within the existing Part II and Part III frameworks - Simplified recognition and measurement in selected standards." This approach allows for a more targeted application of standards, potentially reducing the burden on smaller entities while still maintaining the robustness of financial reporting.

As outlined in our response to Question 3 above, there are certain standards within Part II where the recognition and measurement requirements are complex and burdensome. We did not identify standards within Part III we believe are too complex.

However, while we identify this as an opportunity for scaling, we do caution the AcSB that the additional simplification will result in additional diversity, which we believe may be challenging for users.

Question 13: *Are there any other scalability solutions that you think the AcSB should consider?*

We have not identified any other potential scalability solutions that we believe the AcSB should consider at this time.

Question 14: *Which, if any, of the proposed scalability solutions do you think the AcSB should not pursue, and why?*

We do not believe the AcSB should develop a new accounting framework for small entities. As we have discussed in our response to Question 11 above, we believe that tiering within the existing ASPE framework would be preferable to drafting an additional new framework.

We also do not believe the AcSB should pursue an intermediary framework between IFRS Accounting Standards and either Part II or Part III. As discussed in our responses to Question 8 and Question 9, we do not expect such frameworks would be widely used and could add further complexity to an already crowded landscape.

We would be pleased to respond to any questions you might have. Questions can be addressed to Celeste Murphy (celeste.k.murphy@pwc.com), Lucy Durocher (lucy.durocher@pwc.com), and/or Sean Cable (sean.c.cable@pwc.com).

Yours very truly,

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