

## *Accounting Standards for Private Enterprises (ASPE) or IFRS?*

Canadian private enterprises will soon need to make the choice

Canadian publicly accountable enterprises will be required to use International Financial Reporting Standards (IFRS) for fiscal years beginning January 1, 2011. What about Canadian private enterprises? One thing is for sure, private enterprises can no longer sit on the sidelines.

Private enterprises will have an option to adopt one of the two following sets of standards:

- International Financial Reporting Standards (IFRS)
- Accounting Standards for Private Enterprises (ASPE)

Both standards would be effective for annual financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption of the above standards is possible.

### **Which set of standards is the best choice for your enterprise?**

The decision will not be easy as there are many variables that a private enterprise will need to consider before making the final decision. Let's take a look at the various factors which may affect Canadian private enterprises in trying to determine which accounting standard to adopt.



# ASPE or IFRS?

The following is a decision tree which will help the thought process in determining which standard to adopt.

## *Private Enterprise XYZ*

### **IFRS**

Private enterprises should consider whether IFRS is the best alternative if they have:

- Significant competitors, suppliers or customers in jurisdictions that already adopted IFRS
- Plans to issue equity for growth or expansion through an Initial Public Offering
- External financing and the enterprise's intentions are to provide a consistent platform for bankers and credit analysts
- Sophisticated users of financial statements
- Plans to expand operations globally
- Complex operations dealing with financial instruments or tradeable instruments
- Significant partnership with foreign companies, investors or public companies
- An intention to hold themselves to public company standards
- Competing against public companies for access to credit
- A transition plan that includes a possible sale to a private equity investor or public company
- A foreign parent company or foreign subsidiaries who already report in accordance with IFRS
- Plans to access capital or debt markets outside of Canada
- Plans to maintain financial reporting on the same basis as their public company competitors to help with benchmarking

### **ASPE**

Private enterprises should consider whether ASPE is the best alternative if they have:

- No plans to access public equity markets
- No plans to access public debt markets
- Significant domestic competitors, customers and suppliers that are private
- Current reporting that is relatively simple with minimal accounting complexities
- Minimal reliance on benchmarking and comparative analysis
- No immediate transition plans; goal is to maintain business within family or private individuals
- Minimal or no external equity investors who may have different views of the enterprise's future
- A mentality of 'simpler the better'
- Minimal accounting resources to spend on training, education and compliance
- An intention to stay within a familiar principles-based conceptual framework
- Prepare financial information principally for owners, lenders and tax compliance

## *Need to talk?*

We have experience in advising private companies on financial reporting matters. More than 65% of PwC Canada's clients are private businesses, ranging from high net worth individuals to owner-managed family businesses and large, professionally-managed businesses. PwC's Private Company Services (PCS) group is a team of business advisors dedicated to helping private company leaders resolve day-to-day business issues and achieve long-term success. We also have industry focused teams in Canada working on IFRS conversion projects.

So whichever choice you make, or if you need help making the right choice for your company, we can guide you through developing an appropriate conversion strategy and related timeframe.

Now that you have assessed some of the specific considerations for your private enterprise, let's have a look at a sample of general advantages and disadvantages of the two standards.

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### *Advantages*

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#### **IFRS**

- Generally accepted as more relevant, understandable, reliable and comparable on a global basis
- Follow the path of Canadian public companies
- May provide a competitive advantage against local Canadian enterprises who fail to adopt globally-harmonized standards
- 100 countries across the globe use IFRS, including majority of members of the G8
- SEC considering plans to make IFRS mandatory for US public companies by 2014
- Long-term financial reporting benefits – IFRS are here to stay
- Generally supported by finance executives around the world
- Comprehensive, principle-based standards (like current Canadian GAAP)
- Similar conceptual framework as Canadian GAAP, including recognition and measurement principles
- Offer more accounting policy choices than ASPE
- Contain several transitional elections to simplify retrospective application

#### **ASPE**

- Based on today's Canadian GAAP (retains its conceptual framework and many of its existing measurement and recognition principles), with several simplifications
- Potentially the simplest route from the available options (although transition may still be complex)
- Canadian marketplace is familiar with the framework
- Taxes payable method allowed (disallowed under IFRS)
- Unanimous shareholder approval will no longer be required for differential reporting options (no differential reporting under IFRS)
- More emphasis on historical cost
- Likely the best route if no plans to access public equity or debt markets
- No size restriction - any private business can use ASPE regardless of size
- Several transitional elections to simplify retrospective application
- Disclosure requirements less than under IFRS

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### *Disadvantages*

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#### **IFRS**

- Direct and indirect cost of converting to IFRS can be significant (staff retraining/information systems/internal controls/terms of contracts involving financial measures)
- Many differences between current Canadian GAAP and IFRS
- IFRS are more principles based and, as such, there are fewer bright lines and rules
- Contracts such as banking agreements and executive compensation arrangements may need to be renegotiated
- Users must be educated as to what the changes in the company's financial reporting protocols mean
- Depending on complexity, conversion to IFRS can be a fundamental change for an enterprise
- The process may be lengthy and may require careful project management and significant investment
- One-time disclosure requirements associated with the enterprise's initial reporting under IFRS

#### **ASPE**

- ASPE differs from current Canadian GAAP
- Present challenges in accessing equity and debt financing if there is inadequate comparability of financial reporting under IFRS and ASPE
- Contracts such as banking agreements and executive compensation arrangements may need to be renegotiated
- One-time disclosure and presentation requirements associated with the company's initial reporting under ASPE
- Overall effectiveness will be reviewed after standards have been in place for several years
- Probably not a long-term solution (ASPE may ultimately evolve to IFRS)

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