



Mr. Peter Martin CA  
Director, Accounting Standards  
Accounting Standards Board  
277 Wellington Street West  
Toronto, Ontario  
M5V 3H2

Dear Peter,

Thank you for the opportunity to comment on the exposure draft *Generally Accepted Accounting Principles for Private Enterprises, April 2009*. Our committee members have been supporters of the private enterprise GAAP initiative and are pleased that we are finally nearing the end of this process that will bring significant benefits to our members but more importantly, to our private enterprise clients.

Overall, we feel that these proposed standards were designed with the needs of private enterprises and their users in mind and are written in a way that make them easy for users to comprehend and implement.

Our comments on the specific questions are as follows:

1. *Do you agree with the proposed recognition and measurement changes? If not, please indicate, in detail, why not and what changes you would propose.*

In general, we are in agreement with the proposed recognition and measurement changes. However, we would like to comment on the following specific items:

Financial Instruments – Equity valuations – Proposed Section 3856

While we are pleased that many of the onerous disclosure requirements of IFRS will not be imposed on private enterprises (e.g. use of bid pricing, comprehensive income), we question the requirement that only equity securities for which prices are quoted in an active market should be recorded at their quoted value. Many of our clients' investment portfolios include equity securities as well as debt and mutual funds securities that are quoted in active markets. To segregate them under the proposed new standards would, in our opinion, not provide our clients with the most accurate picture of the value of their portfolios and would necessitate additional bookkeeping. We would prefer a more uniform approach.

**We recommend that the new standard provides the option of**

- recording all securities that are quoted in an active market at their quoted values or
- recording all securities at cost with note disclosure of their quoted values

## Financial Instruments – Transaction costs – Proposed Section 3856

We feel that the requirement to record and expense transaction costs such as commissions will be an onerous exercise of little discernable value since these amounts will be incorporated at the end of each period in the adjustment to quoted values. Moreover, while the adjustments to quoted values will involve minimal efforts, the recording of individual transaction costs on each purchase or sale will place an unnecessary burden on our clients and in the case of fixed income securities where transaction costs are usually embedded as part of the cost of the securities, almost impossible to segregate. Finally, as transaction costs are not deductible for tax purposes, our clients will be forced to carry two parallel sets of records, one for accounting purposes and one for tax purposes.

**We recommend that the new standards eliminate the requirement to expense transaction costs.**

## Stock-based Compensation – Proposed Section 3870

The proposed Section 3870 will replace the minimum value method with the calculated value method where the enterprise estimates the volatility that is used as an input to a stock option pricing model, based on an appropriate sector index. The exposure draft noted that “*Valuation models are widely available and are not difficult to use*”. It is our experience, however, that the application of valuation models such as the Black-Scholes model in a private enterprise setting is not without significant challenges and may bring into question the cost/benefit trade-off of this approach. As another alternative, we feel that a more intuitive approach such as valuing the option as the difference between the fair market value of what an employee/receiver of the option would have received in the market place and the compensation that he/she actually received should be considered.

**We recommend that the Accounting Standards Board consider additional approaches to the valuation of stock-based compensation.**

2. *Do you agree with the approach to disclosure? Are the proposed disclosure requirements appropriate (i.e. are all the proposed disclosure requirements necessary and are any necessary disclosure requirements omitted)?*

In general, we are in agreement with the proposed approach to disclosure. However, we would like to comment on the following item:

## Related Party Transactions – Proposed Section 3840

We have reservations regarding the new requirement under Section 3840, Related Party Transactions, to disclose key management personnel compensation. Our main concern is that the publication of such proprietary information could be used by third-parties (e.g. suppliers, competitors) for purposes that may not in the best interests of our clients and individuals within our client's organization. Moreover, in our experiences, the key user of this information (i.e. creditors) can access this information in the normal course of their business relationships.

Notwithstanding the above, the proposed standard as it is currently worded is nebulous as to the exact definition of the term "key" and "compensation". Additional guidance is required to ensure uniform application and comparability.

**We recommend that the Accounting Standards Board reconsider the requirement for the disclosure of the compensation of key management personnel as a group. If the decision is to retain this requirement, definitions should be provided for the key terms.**

3. *Do you agree with the approach of avoiding significant amounts of detailed guidance and interpretations (i.e. not carrying forward the EIC Abstracts)? If not please indicate, in detail, why not and how you propose to change the approach.*

We are in general agreement with the approach of avoiding significant amount of detailed guidance and interpretation with the expectation that, if these standards are adopted, guidance and interpretations will be provided as the situation requires going forward.

4. *Certain Sections and Guidelines in the existing Handbook have not been carried forward into the proposed standards, as they are not considered relevant to private enterprises. Do you agree with excluding those Sections and Guidelines from the proposed standards?*

We are in general agreement with those Sections and Guidelines that were excluded from the proposed standards as they are of limited utility and application for most private enterprises.

5. *Do you agree with the proposed transitional provisions in Section 1500, First-time Adoption? Are there other transitional issues that have not been addressed? Are the proposals to require comparative information, prepared using the proposed standards, and to require reconciliation to the enterprise's financial statements using its previous accounting policies, appropriate? Please indicate, in detail, any changes you propose and why?*

We are in general agreement with the proposed transitional provisions in Section 1500. We believe that the proposed exemptions from some requirements of other standards and the proposed prohibition of retrospective application of some aspects of other standards will be sufficient to facilitate the first-time adoption process.

Finally, a comment on the layout of the exposure draft. We feel that by segregating the extracts and the proposed disclosure requirements for each proposed standard, the document was somewhat difficult to navigate.

**We recommend that each standard should be immediately accompanied by its disclosure requirement.**

We would like to thank the members of the Accounting Standards Board for their hard work and we look forward to our continued participation in this process.

Yours truly,



Michel Lavigne CA  
Chair, Small Practices Advisory Committee  
ICAO

On behalf of committee members:

George Dube, CA, Kitchener  
Frank Fazzari, CA, Vaughan  
Edward Fink, CA, Toronto  
Graeme Goebelle, FCA, Georgetown  
Jason Harris, CA, Sarnia  
Terrence Jewett, CA, Thunder Bay  
Guy Venne, CA, Sudbury

Denise Jones, CA, Bowmanville  
Rebecca Ling, FCA, Markham  
Ken Maiden, CA, Toronto  
Joe Parisi, CA, Timmins  
Brian Popp, CA, Windsor  
Christene Scrimgeour, CA, London