Accounting Standards Board
AcSB
CNC
Conseil des normes comptables

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January 14, 2005

Mr. Michel Colinet
CESR-Fin Rapporteur
The Committee of European Securities Regulators
11-13 avenue de Friedland
75008 Paris, France

Dear Sir:

Your reference: CESR/04-632

I am responding on behalf of Paul Cherry to the letter of November 23, 2004 addressed to him by Messrs. John Tiner and Paul Koster.

Accompanying this letter is a partially completed copy of the questionnaire that was attached to the November 23 letter. Our response includes your Appendix 1 with an Introduction added and Sections 1-8 filled in. We have also provided one attachment to Appendix 1 to respond to one question. We will be completing Appendix 2 and a second attachment to Appendix 1 by the end of January, and will forward them to you when they are ready (but please note that we have made cross-references to the additional material in other parts of the questionnaire, as though that additional material were provided with this response).

If you should have any questions about our responses to the questionnaire, or wish further information, please do not hesitate to contact me.

Very truly yours,

Peter Martin

Peter J. Martin
Director
Accounting Standards

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Attachment

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February 2, 2005

Mr. Michel Colinet
CESR-Fin Rapporteur
The Committee of European Securities Regulators
11-13 avenue de Friedland
75008 Paris, France

Dear Sir:

Your reference: CESR/04-632

Accompanying this letter are the two portions of our response to your questionnaire that were not included with my letter of January 14, 2005. These are (1) Attachment B to Appendix 1 (Canadian/US GAAP differences), and (2) Attachment to Appendix 2 (IFRS/Canadian GAAP comparison).

If you should have any questions about our responses to the questionnaire, or wish further information, please do not hesitate to contact me.

Very truly yours,

Peter Martin

Peter J. Martin, CA
Director
Accounting Standards

Attachments

Canada

Appendix 1

Questionnaire on equivalence of third country GAAP

Introduction

The Canadian Accounting Standards Board (AcSB) is pleased to submit its response to this questionnaire. Accounting standards in Canada are set by the AcSB. The AcSB follows established, rigorous due process procedures that are similar to most other leading accounting standard setters. The process is intended to ensure that stakeholders are given a reasonable opportunity to provide their input. The AcSB is accountable to the Accounting Standards Oversight Council (AcSOC), which is responsible for protecting the public interest in standard setting. The AcSB must consult the AcSOC in the ongoing strategic planning and development of its work plan. However, the AcSB retains complete control over its technical agenda, and the AcSB's decisions on technical matters are not subject to approval of the AcSOC or any other body.

Accounting standards in Canada have the force of law. Various federal and provincial statutes, and regulations thereunder, require that financial statements prepared pursuant to those statutes must comply with the CICA Handbook–Accounting. This is further bolstered by the longstanding policy of the Canadian Securities Administrators, which is strictly enforced, that all annual financial statements included in annual reports and offering documents must be audited and the auditors must express an unqualified ("clean") opinion. Public companies are not permitted to depart from the requirements of the CICA Handbook–Accounting in any material respect.

Canada has a unique relationship with the US capital markets. Canada has more SEC registrants than any other foreign country. However, other international capital markets are also very important to us. This economic reality is reflected in the strategic direction that the AcSB has pursued in recent years, namely:

a) to play a leadership role in the global convergence of accounting standards; and

b) to harmonize current Canadian accounting standards with US and international standards as appropriate.

Accordingly, the AcSB has had a long-standing policy of avoiding unnecessary differences between Canadian GAAP and both IFRS and US GAAP.

There is a growing body of academic research on the quality of financial reporting in Canada and elsewhere. Recent studies have found that (i) Canadian GAAP produces higher quality accrual earnings than US GAAP (offset by a somewhat stronger "regime" effect in the US encompassing things such as SEC regulation, such that no significant difference in the overall quality of published accrual-based earnings was detected); and (ii) Canada ranks in the top category, along with the United States, in terms of the transparency of reported earnings.

There is extensive data spanning many years in audited reconciliations between Canadian GAAP and US GAAP amounts published in annual reports and prospectuses, because many Canadian public companies also report in the United States. This data has been the subject of extensive academic research. That research demonstrates very clearly that the information provided by those GAAP reconciliations offers minimal "added value" in terms of effects on stock market prices. In other words, the marketplace already perceives Canadian and US GAAP financial reporting as being of equivalent high quality. There is also a body of literature comparing and contrasting differences between Canadian and US accounting standards, produced by the major accounting firms and others.

The high level of confidence in the quality of financial reporting by Canadian public companies using Canadian GAAP is reflected in the Multi-Jurisdictional Disclosure System, a unique arrangement between the SEC and the Canadian Securities Administrators granting reciprocity to qualifying companies in accessing the capital markets of both countries.

The AcSB and its predecessor bodies have had a longstanding commitment to a single set of global standards, having served continuously and actively throughout the entire existence of the International Accounting Standards Committee, its reconstitution a few years ago as the International Accounting Standards Board and now as one of eight national bodies in formal partnership with the IASB working for a single set of global standards. Each participating body is committed to aligning its work program with that of the IASB to the maximum extent possible. Over the years, Canadians have served in many important capacities at the IASC – Board Chairman, Chairman of the Improvements Project, Chairman of the Framework Steering Committee, SIC Chairman, and Technical Director, to name just a few. The AcSB is the only Board in the world to have successfully completed joint projects with both the IASC (financial instruments – disclosure and presentation) and the FASB (segment disclosures). The AcSB is currently leading major research projects, on behalf of the IASB and our partner national standard setters, on the appropriate manner in which to measure financial statement items (measurement objectives) and development of criteria to guide the selection of appropriate disclosures to be provided in financial statements (disclosure framework), in the expectation that these projects will result in convergence and enhance our conceptual frameworks.

CESR's concepts paper proposes that, in assessing equivalence, "equivalent" should not be considered to mean "identical". We agree with that view. Any determination of equivalence must necessarily be based on an overall evaluation of the relevant national standards and the manner in which they are established and enforced, compared with similar criteria for IFRS. Understanding the differences in the accounting for individual items is merely an intermediate step by which one can form a meaningful assessment of the quality of financial reporting produced by those standards. One also needs to understand the system within which those standards apply, much as the capital markets react to published financial information based, not only on the differences between reported results themselves, but also other factors such as the quality of information provided. We note that this view seems to be consistent with the litmus test being proposed by CESR – whether investors would likely take similar decisions to invest or divest based on third-country GAAP financial statements as if they had received financial statements prepared in accordance with IFRS.

CESR is also charged with assessing the equivalence of US standards to IFRS. The considerable body of information dealing with Canadian/US GAAP differences, including audited descriptive and quantitative information, could shed important insights for CESR's concomitant evaluation of Canadian standards. For several years, the AcSB staff has been reviewing and analyzing differences between Canadian and US GAAP amounts reported by certain Canadian public companies that are SEC registrants. The most recent study based on 2003 financial statements is provided in Attachment B.

Section 1 – General Accounting Accepted Principles

a. Please describe the financial reporting standards that are legally enforceable in your jurisdiction as of January 2005, and which are covering the list of topics mentioned in Annex 2?

Business entities applying Canadian generally accepted accounting principles (GAAP) must follow the financial reporting standards in the CICA Handbook – Accounting ("the Handbook")[1], as described in Section 1100 thereof, "Generally Accepted Accounting Principles". The Handbook contains the accounting standards promulgated by the Canadian Accounting Standards Board (AcSB). The contents of the Handbook, together with other material developed by the AcSB, constitute the primary sources of Canadian GAAP. Section 1100 also describes other sources of GAAP and how they are to be applied (see item b, below).

GAAP is enforceable under laws that require its application in the preparation of financial

[1] Refer to the copy of the Handbook previously provided.

statements. These laws include various federal and provincial statutes and regulations governing business corporations, securities, banking and insurance, amongst other matters. Many of these laws explicitly recognize the standards in the Handbook as constituting Canadian GAAP.

The Canadian Securities Administrators (CSA) have recently given Canadian SEC registrants the option of adopting US GAAP in satisfying their financial statement obligations under securities laws, in accordance with National Instrument 52-107, "Acceptable Accounting Principles, Auditing Standards and Reporting Currency" [see www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part5/rule_20040416_52-107_ni.jsp]. This option is available subject to certain conditions, and is not necessarily available for satisfying legal obligations other than those in securities laws, such as reporting to taxation authorities or prudential regulators.

b. Where relevant, please also describe any other principles/guidance which are not mandatory applicable but are relevant for this project.

Section 1100 of the Handbook specifies that, when a primary source of GAAP does not deal with an issue or additional guidance is needed in applying a primary source, an entity adopts accounting policies and disclosures that are consistent with the primary sources of GAAP and developed through the exercise of professional judgment and the application of the concepts described in Handbook Section 1000, "Financial Statement Concepts". In applying professional judgment, an entity may consult various sources, including pronouncements of the IASB and the FASB, non-authoritative guides (such as those issued by industry associations), research studies, textbooks and journals.

c. Could you please include a description of the formal hierarchy of your standards? In particular, indicate whether the financial reporting standards referred to above are e.g. accounting standards, company law provisions, corporate governance standards…. Please also state whether provisions referred to are standards or interpretation (where necessary, please mention the basis for the enforceability).

Handbook Section 1100 specifies that the primary sources of GAAP, in descending order of authority, are:

1. Handbook Sections 1300-4460, including Appendices and Board Notices;
2. Accounting Guidelines, including Appendices and Board Notices;
3. Abstracts of Issues Discussed by the Emerging Issues Committee (EIC Abstracts), including Appendices;

4. Background Information and Basis for Conclusions documents accompanying pronouncements described in 1 and 2, including Appendices;
5. Illustrative material of those pronouncements described in 1 – 4; and
6. Implementation Guides authorized by the AcSB.

The contents of items 1 and 2 are discussed in detail and approved by the AcSB. The AcSB also authorizes and approves the publication of items 4 – 6, which are developed by the AcSB's staff or working groups. Items 1 - 3 and 5 are included in the Handbook; items 4 and 6 are published separately by the AcSB. Board Notices are separate notices published by the AcSB, generally to clarify its intention when the language of a standard is found to be unclear. Notices are followed up by revisions to the Handbook text.

EIC Abstracts are interpretations of GAAP developed and issued by the AcSB's Emerging Issues Committee. Illustrative material and Implementation Guides provide guidance for applying standards.

Other sources of GAAP are as noted in item b, above.

Enforcement of the application of GAAP is not the responsibility of the AcSB; it is carried out primarily through independent audits and the compliance activities of the securities regulators. Auditors, in turn, are subject to oversight by their professional bodies and, in the case of public company audits, by the Canadian Public Accountability Board. Rules of professional conduct of Canadian chartered accountants require them to apply GAAP as either preparers or auditors of financial statements. Those rules are actively enforced by the provincial institutes of chartered accountants. All of the primary sources of GAAP are equally enforceable.

d. Please indicate whether there are any additional or different enforceable final standards whose date of application would be after 1st January 2005.

The AcSB is continuously developing new standards and amendments to existing standards under its work program. As of the date of this response, the AcSB has:

- just approved new standards on financial instruments that correspond generally to IAS 39, Financial Instruments: Recognition and Measurement. These standards may be applied to December 31, 2004 year-ends but will not be mandatorily applicable until fiscal years beginning on or after October 1, 2006.
- proposed amendments to current standards on non-monetary transactions, accounting changes, earnings per share and subsequent events. These amendments are designed to

harmonize Canadian GAAP with US GAAP and IFRSs on issues being addressed by the FASB and IASB in their short-term convergence project. The amendments to Canadian standards are expected to be finalized in early 2005, effective at various dates but all applicable to calendar 2006 fiscal years or earlier. The AcSB expects to make similar short term convergence amendments to other standards in 2005 as the FASB and the IASB develop further short-term convergence proposals.

- discussed the developing FASB and IASB proposals on business combinations, with a view to adopting the harmonized standard expected to be finalized by the FASB and the IASB in 2005 or 2006. The AcSB has undertaken similar discussions on other joint IASB/FASB convergence projects, such as revenue recognition, performance reporting and insurance, and monitors such other such projects with a view to adopting internationally converged standards.
- begun developing proposed standards on inventories and internally developed intangibles that are expected to make Canadian GAAP on these topics more consistent with IFRSs.
- proposed a disclosure standard for rate-regulated operations for application in 2005, and agreed to develop a recognition and measurement standard for these operations.

The timing of application of the standards resulting from these activities, if any, has not yet been determined.

e. Do you anticipate other significant changes in your GAAP to take place before 1st January 2007 (date upon which all third country issuers in Europe will have to present financial statements prepared under IAS/IFRS or equivalent GAAP, for reporting under Transparency and Prospectus EU Directive)?

See item d, above. It is quite possible that standards on some other topics, or amendments to existing standards, could take effect by January 1, 2007. In particular:

- The AcSB is currently engaged in a strategic planning process that will quite likely modify its existing strategic policies for harmonization with US GAAP and convergence on global standards (see the Invitation to Comment, “Accounting Standards in Canada: Future Directions”, and the related Discussion Paper and Background Information on the AcSB website at www.acsbcanada.org). The outcome of this planning process will not be determined until the second half of 2005, although a draft plan will be exposed for public comment by April. Decisions about specific topics on the AcSB’s work program will follow from the strategic plan when finalized.
- The AcSB’s agenda is aligned with those of the IASB and the FASB and, accordingly,

includes any short term convergence issues that will be addressed by either the IASB or the FASB.

Section 2- Description of differences

a. Please describe any differences between your financial reporting standards and the IAS/IFRS listed in Appendix 2 (please indicate which of your national financial reporting standards correspond to each IAS/IFRS mentioned).

Differences should be mentioned with regard to the following types of provisions:

- Scope
- Presentation/measurement
- Recognition
- Disclosure

Please see Appendix 2.

b. When information is provided to investors through other means than in the financial statements; is this information subject to audit requirements identical to those applicable for financial statements?

All information required for fair presentation of an entity's financial position, results of operations and cash flows in accordance with GAAP must be included in the financial statements, which must be audited. Other information provided outside financial statements is not subject to audit requirements identical to those applicable to financial statements.

Canadian generally accepted auditing standards require an auditor to review all parts of a document, such as an annual report, that contain audited financial statements to determine whether the document refers to any matters that may undermine the credibility of the financial statements.

Section 3 – Standard Setting Process

a. What is(are) the name of the body(ies) entrusted with the standard setting process in your jurisdiction? Please detail structure, functions and responsibilities of theses bodies.

Please see Attachment A with respect to setting Canadian accounting standards.

Generally accepted auditing standards are established by a separate Auditing and Assurance Standards Board (AASB) that has a structure and processes broadly comparable to the AcSB's (see information about the AASB at www.cica.ca/aasb).

b. Please include a brief description of the standard setting process (of the standards referred to above).

Please see Attachment A.

c. Are the standards referred to above easily accessible in English?

Yes, and also in French.

Section 4 – Conceptual framework

a. Do you have general financial reporting principles identical to the ones set out in the IAS/IFRS framework? Please describe any difference.

The Canadian conceptual framework, set out in Handbook Section 1000, "Financial Statement Concepts", is very similar to, and consistent with, the IASB Framework (the two frameworks were developed by the IASC and the AcSB's predecessor in consultation with each other). .Please see the comparison in Appendix 2.

b. Are your enforceable financial reporting standards taking into account the four characteristics as described in the concept paper released by CESR? Where not the case, please explain the differences.

The development of Canadian financial reporting standards takes into account the four principal characteristics described in the CESR concept paper (understandability, relevance, reliability and comparability), as set out in Handbook Section 1000. As described above, Section 1100 also requires that these characteristics be taken into account in the application of Canadian GAAP.

c. Do financial statements prepared under the basis of your GAAP pursue the same objectives as financial statements prepared under IAS/IFRS?

Yes; both frameworks indicate that the objective of financial statements is to provide financial information that is useful to a range of users in making economic decisions.

Section 5 -Published comparison
Have you conducted and published any exercise comparing and describing differences between IAS/IFRS and your country GAAP? If so, please provide us with a copy. Please also mention any other similar analysis that would have been made by a separate reliable body. ——————————————— The AcSB's staff is developing a comparison between Canadian standards and IFRSs (more extensive than the material in Appendix 2), but it is not finalized as of the date of this response. The AcSB may decide to publish that comparison, or a summarized version, as an adjunct to its draft strategic plan currently under development. We understand that some of the "Big Four" accounting firms are developing comparisons. We are not aware of any other organizations that have completed such an analysis or are working on one. The AcSB's staff periodically surveys significant differences between Canadian GAAP and other standards. Comparisons of Canadian and US standards with those of the other members of the AFTA trade treaties (Mexico and Chile) have been published biennially since 1996. Every year, the staff also analyzes a sample of reconciliations of Canadian GAAP to US GAAP information reported by Canadian SEC registrants. A copy of the most recent survey report is reproduced in Attachment B to assist in triangulating between IFRSs, US GAAP and Canadian GAAP.
Section 6 -Standards not covered by IAS/IFRS
Are there standards/principles covered by your GAAP that are not covered by IAS/IFRS? If so, (i) do they comply with IAS/IFRS basic principles contained in the IAS Framework and IAS 1 and (ii) are they compatible with all other IAS/IFRS endorsed for use in the EU? ——————————————— Canadian GAAP includes standards on several topics not covered by IFRSs – please refer to Appendix 2. We believe that, subject to the comments in Appendix 2, those standards are generally consistent with the IASB Framework and relevant aspects of IAS 1, and not incompatible with other IFRSs.
Section 7 Convergence projects
Is it intended that there will be any convergence project of your country's national standards with IAS/IFRS or with another framework -? If so, please describe the project. ——————————————— Under its current strategic plan, the AcSB has a two-part strategy for international harmonization

and convergence:

- harmonizing with US accounting standards, and
- converging with a single set of globally accepted, high quality international accounting standards.

Harmonization with US GAAP is the elimination of significant unjustifiable differences with FASB standards. It does not involve copying all aspects of US GAAP or even all elements of a particular US standard. It does involve developing standards that do not conflict with US GAAP but, in some cases, may also permit entities to adopt non-US GAAP accounting policies. Convergence is the adoption of the highest quality of US and international standards, which means working with the IASB, the FASB and other national standard setting bodies to agree on much-needed improvements to existing standards and the development of new standards. When the AcSB's two strategic objectives are inconsistent with each other relative to a particular accounting topic, the first takes precedence unless it is clear that a current US standard is not of sufficiently high quality and is likely to change. Most of the AcSB's projects in recent years have involved convergence in one form or another.

The AcSB is currently in the process of developing a new strategic plan that will address the issue of convergence in a manner that has not been determined as of the date of this response.

Section 8 Other issues

In understanding this exercise at this stage, do you identify any other particular issue that might be relevant for your national issuers in EU?

No other issues in addition to those mentioned in the Introduction and Sections 1-7.

Attachment A to Appendix 1

Appendix 1, Section 3 – Standard Setting Process

The following is based on the description of the Canadian standard setting process on the AcSB's website (www.acsbcanada.org).

* *

The Accounting Standards Board (AcSB)

The AcSB has the authority to develop and establish standards and guidance governing financial accounting and reporting in Canada. The mission, objectives and responsibilities of the AcSB are set out in its Terms of Reference (see below).

The AcSB meets at least six times a year for full Board meetings of one or two days each. The AcSB also meets on a number of other occasions by way of shorter telephone conference calls. In 2004, the AcSB met a total of 24 times.

Relationship to Other Committees

The AcSB presents its priorities and agenda to an oversight body, the Accounting Standards Oversight Council (AcSOC) – see below. After obtaining feedback from the AcSOC, the AcSB discusses and considers the views of the AcSOC with respect to the strategic direction of the AcSB. The AcSB's Chair is a non-voting member of the AcSOC.

The AcSB also works with the Emerging Issues Committee (EIC). The EIC's role is to provide timely guidance on new and emerging accounting issues, more quickly than by the regular consultative due process of standard setting. The AcSB advises the EIC of issues that may require action by the EIC (and vice versa).

The User Advisory Council (UAC) assists the AcSB in understanding how financial statement users, including investors and investment professionals, credit granters in financial institutions, equity and credit analysts, and rating agencies, use financial information.

The AcSB undertakes projects with the assistance of focused working groups that assist it in understanding specific issues and afford a greater opportunity for the exchange of ideas, knowledge and experience. These groups include the Differential Reporting Advisory Committee, the Not-for-Profit Advisory Committee and several other groups.

Structure and Members of the AcSB

The AcSB consists of a maximum of nine voting members from a variety of backgrounds. The Chair is a full-time position and the remaining members are part-time volunteers. Members are chosen in order that the AcSB has an appropriate balance of competencies and experiences to meet its objectives. Members volunteer for a three-year term (renewable for one term), with staggered expiry dates.

Senior members of the staff and the International Accounting Standards Board's Liaison Board member for Canada are non-voting members of the AcSB.

The AcSB is supported by a technical staff consisting of the Director, Accounting Standards, nine Principals, a Technical Manager, several consultants and administrative support.

How Do Topics Get on the AcSB's Agenda?

A topic can be added to the AcSB's agenda in a variety of ways:

- The staff may become aware of a particular accounting issue and draw it to the attention of the AcSB. Staff members are usually alerted to an issue through research, monitoring of domestic and international developments and ongoing discussions with others such as other standard-setting bodies, securities regulators, industry groups and representative organizations.
- Members of the AcSB, with their varied backgrounds, provide valuable insight in identifying accounting issues, in particular, problems that arise in practice.
- The AcSOC may also provide input by informing the AcSB of the concerns of the diverse groups represented on the AcSOC who have an interest in accounting standards.

The AcSB reviews its agenda regularly to assess the status of ongoing projects and potential projects, and to identify priority projects. Project proposals analyzing various project planning considerations such as the scope and objectives of the project, resources available and the level of interest in the subject (i.e., the extent to which there is an issue) are developed by the staff for areas of potential interest.

The AcSB votes to approve each project proposal following extensive review and discussion. Two-thirds of the members of the AcSB must vote in favour of proceeding with a project as specified in the project proposal. Each member of the AcSB has one vote. Members vote according to their own views rather than on the basis of the views of their firm or organization.

AcSB Procedures (Due Process)

The AcSB follows a rigorous consultative procedure in the development and issuance of accounting standards. The emphasis on "due process" is critical in maintaining the objectivity of the standard-setting process and the quality of the standards.

Project development, culminating in the preparation of an exposure draft, may be undertaken solely by the staff or assigned to a task force working in conjunction with a staff member. Exposure drafts, which are essentially final drafts of standards, are issued for public comment only on written approval by two-thirds of the members of the AcSB. The exposure draft process gives those who will be affected an opportunity to express their views while the AcSB is in the process of developing the standard.

The AcSB may decide to forego exposure of a proposed standard for a stated reason, which would most likely be that little new input would be obtained from exposure or re-exposure of a proposal, or that all affected parties have already been consulted by other means. This occurs very infrequently in practice.

The AcSB is very aware of the need to develop and issue standards in a timely fashion, while at the same time giving all who wish to participate an adequate opportunity to do so. Documents for comment are all posted on the AcSB website. Those interested in being notified of the issuance of exposure drafts are urged to subscribe (free of charge) to an automatic e-mail notice of new postings on the AcSB website.

The AcSB analyzes and considers all of the comments received in response to each exposure draft. In addition, the AcSB or its staff may meet with a variety of interested parties who wish to express their views. When an exposure draft has been amended to reflect the concerns of respondents, the AcSB determines whether this would represent a "significant change" from the standard exposed, requiring re-exposure. Re-exposure involves the same process of issuing a revised exposure draft, followed by a comment period. The AcSB can also decide not to re-expose if two-thirds of its members vote to do so for a specific reason.

Final approval and issuance of a standard requires the votes of two-thirds of AcSB members in writing. New material is published in the electronic version of the CICA Handbook – Accounting as soon as possible. Updates to the paper version are issued quarterly, and include any material released in the electronic version in the previous three months. The AcSB sets effective dates for new accounting standards sufficiently far into the future that those using the paper version will receive a copy in advance of the mandatory application date.

The development of Accounting Guidelines generally follows the same procedures.

The AcSB will normally prepare a Background Information and Basis for Conclusions (BI&BFC) document at both the exposure draft and final stages of a project to develop new or revised standards. The BI&BFC document is prepared to help readers understand the objective of a standard, the rationale underlying it and the reasons for modifying previously existing GAAP. The document also helps readers understand the standard itself by summarizing alternative treatments that were considered but rejected in developing the requirements, highlighting pertinent financial accounting concepts underlying the requirements, and elaborating on the manner in which the standard may be applied in practice. A BI&BFC document does not form part of a standard and, accordingly, will not be used as a vehicle for providing explanations of requirements or application guidance that properly belong in Handbook material. The AcSB is not committed to preparing a BI&BFC document for every one of its projects and will decide on a case-by-case basis whether it believes the benefits of preparing such a document outweigh the costs.

As soon as possible following approval of an exposure draft or final Handbook material, the AcSB will review a draft of the related BI&BFC document. Final approval and issuance of the document requires the votes of two-thirds of AcSB members in writing. BI&BFC documents are published with exposure drafts and then made available in final form as a separate document as soon as possible following issuance of new Handbook material.

International Activities

International activities have become increasingly important to the AcSB's mission. In the absence of clearly demonstrated, unique Canadian circumstances, it is unlikely that the AcSB will adopt a new accounting standard in Canada that differs from those of its international colleagues. Consequently, the activities of international groups such as the IASB and the FASB significantly affect Canadian standard setting. The AcSB works extensively with these bodies, as well as with other national standard setters.

In particular, in light of the numerous cross-border transactions between Canada and the US, the AcSB's current strategy is to work to eliminate existing differences between Canadian and US GAAP, and to ensure that new differences are not created.

Enquiries about Projects

Questions are often asked concerning specific projects undertaken by the AcSB. A "Projects" section of the website contains summaries of the status of the AcSB's current projects and may provide links to relevant background documents such as exposure drafts. Other sources of useful information include Decision Summaries, which are published shortly after each AcSB meeting to highlight the decisions of the AcSB, and "FYI" Newsletters, which provide an overview of the work of the AcSB and additional information about current projects.

* *

AcSB Terms of Reference

Mission

1. The mission of the Accounting Standards Board ("AcSB") shall be to contribute to enhanced decision-making by continuously improving the quality of financial and other information about organizational performance reported by Canadian entities including profit oriented enterprises and not-for-profit organizations. The AcSB shall serve the public interest by developing and establishing standards and guidance governing financial

accounting and reporting domestically and by contributing to the development of internationally accepted standards.

Objectives

2. The AcSB shall have the following objectives:
    a. To develop standards that improve the quality of information reported by Canadian entities with due consideration for the costs and the benefits to preparers and users and which recognize changing priorities in the environment.
    b. To eliminate or minimize GAAP differences within North America and internationally, as appropriate to facilitate access by Canadian entities to US and global markets.
    c. To participate in the development of a single set of high quality internationally accepted accounting standards together with other standard setters.
    d. To support our standard setting activities by actively assisting implementation and providing timely guidance on emerging issues.
    e. To continuously improve the process of standard setting.

3. In meeting its objectives, the Board shall:
    a. Be committed to serve the public interest
    b. Respect and encourage input from all its stakeholders
    c. Bring objectivity to the consideration of issues
    d. Respect the ability of its stakeholders to exercise professional judgment.
    e. Be committed to timeliness in its responses to stakeholder needs.

Responsibilities

4. The AcSB shall have the following responsibilities:
    a. To issue and publish accounting pronouncements on its own authority, if satisfied as to need, usefulness and practicality, following a review of accounting theory and practice and a process of consultation with affected parties and debate (due process).
    b. To develop and submit to the Accounting Standards Oversight Council ("AcSOC") an annual plan that specifies AcSB's strategic direction, priorities and agenda, including a report on how projects were selected and priorities set.
    c. To implement the most effective working process for all projects and commission task forces, advisory groups, consultative groups or study groups, as appropriate, to aid in the development of accounting standards, guidelines or other material.
    d. To advise AcSOC as to the adequacy of human and financial resources to accomplish the AcSB's objectives.
    e. To recommend accounting research in Canada, particularly on issues that may be of relevance to the Canadian business environment.
    f. To communicate with and seek input from stakeholders on a timely basis.

g. To appoint, subject to the ratification of the AcSOC, members of an Emerging Issues Committee ("EIC"), whose mission shall be to provide a forum for the timely review of emerging accounting issues that are likely to receive divergent or unsatisfactory treatment in the absence of some guidance.
h. To approve changes to the EIC's Terms of Reference.

Accountability

5. The AcSB shall be accountable to the AcSOC to demonstrate that it has fulfilled its mandate effectively, efficiently and economically.

Composition and Term

6. Membership of the AcSB shall be as follows:

Voting Members

a. A full-time, paid Chair with a term of office of five years, renewable twice for terms of two years; and
b. Eight other volunteer members each with a term of three years, which is renewable for one term.

Non-Voting Members

a. The Vice-President, Standards of the CICA;
b. The Director, Accounting Standards;
c. The Director, Public Sector Accounting; and
d. The International Accounting Standards Board member.

7. The terms of the AcSB's voting members shall be arranged with staggered expiry dates so there will be an orderly rotation of membership each year.

8. The role of the Chair shall include:

a. Presiding over the AcSB meetings, including AcSB panels, and communicating with members between meetings, as necessary, concerning the AcSB's activities;
b. Serving as a non-voting member of the AcSOC and a non-voting member of its Nominating Committee;
c. Serving as one of Canada's representatives at meetings relating to international accounting standard-setting;
d. Acting as Canada's leading spokesperson and contact on private sector accounting matters for both the media and the public;
e. Representing the AcSB in meetings of other parties involved or interested in the AcSB's activities; and
f. Making presentations nationally and internationally on accounting matters.

Selection Process

9. Members of the AcSB shall be selected to ensure that it has an appropriate balance of competencies and experiences to meet its objectives. The Chair of the AcSB, in conjunction with the Accounting Standards Director of the CICA, and the Vice-President, Standards of the CICA, shall provide input regarding individuals for potential

membership on the AcSB to the Nominating Committee of the AcSOC. The Nominating Committee may, but need not necessarily, adopt such recommendations. After receiving such input, the Nominating Committee shall present the proposed members of the AcSB to the AcSOC for approval. In the case of the full-time, paid Chair of the AcSB, this procedure contemplates a search and interview process, which process shall form part of the budget of the AcSOC.

Assistance/Advice/Operations

10. The AcSB shall be supported by the Accounting Standards Director and such other staff as required.

Consultation and Communication

11. The AcSB actively shall solicit input on proposed accounting standards or guidance by issuing draft documents inviting public comment. Outreach programs, such as focus groups and field testing, shall be used to approach preparers, auditors and users of financial information directly for their input.

12. The AcSB shall disseminate information about international standard-setting activities, together with invitations to the public, to provide input on those activities.

13. The AcSB shall publish a basis for conclusions for each standard and exposure draft developed, if appropriate.

14. The AcSB shall provide examples and implementation guidance, if appropriate, to assist preparers, auditors and other constituents in understanding and applying complex standards consistently.

15. The AcSB shall publish newsletters, maintain an internet website and provide other such information to assist preparers, auditors and other users of financial information.

Decision Making

16. Each year, the AcSB shall present its priorities and agenda to the AcSOC for comments and shall consider the views and comments of the AcSOC in determining its priorities and agenda. If, for any reason, the AcSB does not wish to incorporate specific views and comments of the AcSOC into its priorities and agenda, the AcSB shall advise the AcSOC as to its reasons and provide the AcSOC with an opportunity to respond. The AcSB shall convey to the AcSOC its preliminary agenda planning decisions, including preliminary approval of project proposals and preliminary decisions to discontinue a project, and subsequently shall consider the AcSOC's views thereon before reaching final decisions.

17. A project to develop a new Accounting Recommendation or Accounting Guideline, or to modify an existing one, may be assigned to a panel of AcSB members. This

determination shall be made by the AcSB as part of the review and approval of the project proposal. In assigning a project to a panel, the AcSB shall approve the key principles to be followed by the panel as well as the panel's composition.

18. Decisions of the AcSB to release an exposure draft, approve an Accounting Recommendation or Accounting Guideline, or to assign a project to a panel of the AcSB shall require a vote of two-thirds of all AcSB voting members. Decisions of a panel of the AcSB to release an exposure draft or to approve an Accounting Recommendation or Accounting Guideline shall require the affirmative vote of five AcSB members of the panel. (AcSB members may attend meetings of a panel of which they are not a member, but can not vote.)

19. Each voting member shall have one vote. AcSB members are expected to vote according to their own beliefs and not as representatives voting according to the views of the firm, organization or constituency with which they are associated.

Reporting

20. The AcSB shall report annually on its activities.

21. The AcSB shall review its Terms of Reference to ensure that they continue to meet the needs of the AcSB and the public, and submit the results of this review to the AcSOC at least once every three years.

22. The AcSB shall submit such reports as may be required by the AcSOC.

Meetings

23. Meetings of the AcSB shall normally be held at least six times a year. Additional meetings may be convened to achieve the AcSB's objectives.

24. Any voting member of the AcSB who either:
    a. Fails to attend more than two meetings of the AcSB in succession (including meetings of panels of which they are a member) for whatever cause; or
    b. Fails to attend, in any twelve-month period, at least 50% of all meetings of the AcSB (including meetings of panels of which they are a member)

shall automatically cease to be a member of the AcSB at the end of the meeting at which he or she was in default. A member shall be deemed to be absent from a meeting of the AcSB unless he or she is in attendance for substantially all of it.

25. The AcSB's "year" shall end on March 31.

Bilingualism

26. The AcSB shall follow the CICA's bilingualism policy.

Funding

27. The AcSB's activities shall be funded by the CICA.

* *

Accounting Standards Oversight Council

The Accounting Standards Oversight Council (AcSOC) was established in 2000 to serve the public interest by overseeing and providing input to the activities of the Accounting Standards Board (AcSB). Commencing in 2003, the AcSOC also oversees and provides input to the activities of the Public Sector Accounting Board (PSAB).

The AcSOC's terms of reference state that it will support the setting of accounting standards by the AcSB and the PSAB domestically and contribute to the development of internationally accepted standards. The AcSOC will also provide opportunities for the public to comment on all aspects of accounting setting and will report to the public annually on the performance of the AcSB and the PSAB.

The responsibilities of the AcSOC include:

- Supporting the principle of private-sector standard-setting by the AcSB, following appropriate due process.

- Establishing a Nominating Committee to appoint individuals for membership on the AcSB and the PSAB, including the respective Chairs and, where applicable, Vice-Chairs, and for recommending membership on the AcSOC itself.

- Considering and, if approved, ratifying the appointments to the EIC made by the AcSB.

- Providing input to the AcSB and the PSAB, primarily in terms of the strategic direction and priorities of those bodies. The AcSOC will endeavour to ensure the AcSB and the PSAB bear in mind that the needs of users of financial information should be met and the most appropriate issues should be addressed in a suitable manner.

- Informing the AcSB and the PSAB of the views of the diverse groups represented on the AcSOC, as well as the views of other individuals or groups with an interest in accounting standards. The AcSOC recognizes that the authority to set accounting standards for the private and public sectors rests with AcSB and the PSAB, respectively.

The AcSOC normally comprises not fewer than twenty and not more than twenty-five volunteer voting members.

The AcSOC also includes the following non-voting members:

a. The Chairs of the AcSB and the PSAB;
b. The Vice-President, Standards of the CICA;
c. The Director, Accounting Standards;
d. The Director, Public Sector Accounting Standards; and
e. The International Accounting Standards Board member with responsibilities for liaison with the AcSB.

The AcSOC membership consists of, inter alia, senior members from business, finance, government, academe, the accounting and legal professions, regulators, and the financial analyst communities. The members have a broad perspective of the complex issues facing standard-setters.

The AcSOC normally meets three or four times a year. At the discretion of the AcSOC Chair, meetings are generally open to public observation.

Attachment B to Appendix 1

Appendix 1, Section 5 – Published comparison

* *

Reported Canadian/US GAAP Differences

Sample study of Canadian annual reports for years ending in 2003

[*to be provided*]

Appendix 2

List of IAS, IFRS and Interpretations issued		Do you have any Standard covering this topic?			Scope	Presentation / measurement	Recognition	Disclosure		Differences
IFRS 1	First time adoption of International Financial Reporting	Yes	No	If yes, please name the enforceable provisions.						
IFRS 2	Share based payment	Yes	No	If yes, please name the enforceable provisions.						
IFRS 3	Business combinations	Yes	No	If yes, please name the enforceable provisions.						
IFRS 4	Insurance contracts	Yes	No	If yes, please name the enforceable provisions.						
IFRS 5	Non-current assets held for sale and discontinued operations	Yes	No	If yes, please name the enforceable provisions.						
IAS 1	Presentation of financial statements	Yes	No	If yes, please name the enforceable provisions.						
IAS 2	Inventories	Yes	No	If yes, please name the enforceable provisions.						
IAS 7	Cash flow statements	Yes	No	If yes, please name the enforceable provisions.						
IAS 8	Accounting policies, changing in accounting estimates	Yes	No	If yes, please name the enforceable provisions.						
IAS 10	Events after the balance sheet date	Yes	No	If yes, please name the enforceable provisions.						
IAS 11	Construction contracts	Yes	No	If yes, please name the enforceable provisions.						
IAS 12	Income taxes	Yes	No	If yes, please name the enforceable provisions.						
IAS 14	Segment reporting	Yes	No	If yes, please name the enforceable provisions.						
IAS 16	Property, plant and equipment	Yes	No	If yes, please name the enforceable provisions.						
IAS 17	Leases	Yes	No	If yes, please name the enforceable provisions.						
IAS 18	Revenue	Yes	No	If yes, please name the enforceable provisions.						
IAS 19	Employee benefits	Yes	No	If yes, please name the enforceable provisions.						
IAS 20	Accounting of governance grants and disclosure of government assistance	Yes	No	If yes, please name the enforceable provisions.						
IAS 21	The effects of changes in foreign exchange rates	Yes	No	If yes, please name the enforceable provisions.						
IAS 22	Business combinations	Yes	No	If yes, please name the enforceable provisions.						
IAS 23	Borrowing costs	Yes	No	If yes, please name the enforceable provisions.						
IAS 24	Related party disclosures	Yes	No	If yes, please name the enforceable provisions.						
IAS 27	Consolidated and separate financial statements	Yes	No	If yes, please name the enforceable provisions.						
IAS 28	Investments in associates	Yes	No	If yes, please name the enforceable provisions.						
IAS 29	Financial reporting in hyperinflationary economies	Yes	No	If yes, please name the enforceable provisions.						
IAS 30	Disclosures in the financial statements of banks and similar financial institutions	Yes	No	If yes, please name the enforceable provisions.						
IAS 31	Interests in joint ventures	Yes	No	If yes, please name the enforceable provisions.						
IAS 32	Financial instruments: disclosure and presentation	Yes	No	If yes, please name the enforceable provisions.						
IAS 33	Earnings per share	Yes	No	If yes, please name the enforceable provisions.						
IAS 34	Interim financial reporting	Yes	No	If yes, please name the enforceable provisions.						
IAS 36	Impairment of assets	Yes	No	If yes, please name the enforceable provisions.						
IAS 37	Provisions, contingent liabilities and contingent assets	Yes	No	If yes, please name the enforceable provisions.						
IAS 38	Intangible assets	Yes	No	If yes, please name the enforceable provisions.						
IAS 39	Financial instruments: recognition and measurement	Yes	No	If yes, please name the enforceable provisions.						
IAS 40	Investment property	Yes	No	If yes, please name the enforceable provisions.						
IAS 41	Agriculture	Yes	No	If yes, please name the enforceable provisions.						
SIC 7	Introduction of the euro	Yes	No	If yes, please name the enforceable provisions.						
SIC 10	Government assistance	Yes	No	If yes, please name the enforceable provisions.						
SIC 12	Consolidation- special purpose entities	Yes	No	If yes, please name the enforceable provisions.						
SIC 13	Jointly Controlled Entities – Non-Monetary Contributions by Venturers	Yes	No	If yes, please name the enforceable provisions.						
SIC 15	Operating leases- incentives	Yes	No	If yes, please name the enforceable provisions.						
SIC 21	Income taxes- recovery of revalued non-depreciable assets	Yes	No	If yes, please name the enforceable provisions.						
SIC 25	Income taxes- Changes in the tax status of an enterprise or its shareholders	Yes	No	If yes, please name the enforceable provisions.						
SIC 27	Evaluating the substance of transactions in the legal form of a lease	Yes	No	If yes, please name the enforceable provisions.						
SIC 29	Disclosure- Service concession arrangements	Yes	No	If yes, please name the enforceable provisions.						
SIC 31	Revenue- Barter transactions involving advertising services	Yes	No	If yes, please name the enforceable provisions.						
SIC 32	Intangible assets- Website costs	Yes	No	If yes, please name the enforceable provisions.						
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	Yes	No	If yes, please name the enforceable provisions.						

<u>Please see the Attachment setting out the detailed comparisons of IFRSs with Canadian GAAP.</u>

Attachment to Appendix 2

Comparison of IASB standards to corresponding Canadian standards

[*to be provided*]

Attachment to Appendix 2

Comparison† of IASB standards to corresponding Canadian standards

Prepared for the Committee of European Securities Regulators – January 2005

> This comparison was prepared solely for use by CESR in its assessment of the equivalence of Canadian GAAP and IFRS. It should not be used for any other purpose without the prior written approval of the Canadian Accounting Standards Board. Although care was taken in preparing this comparison, no representation is made as to its completeness or accuracy.

This comparison has been prepared to provide a summary of the most significant differences only. It does not include all differences that might arise in an entity's particular circumstances. Users of this comparison should refer also to the standards themselves, set out in the CICA Handbook–Accounting and International Financial Reporting Standards. This comparison includes all standards issued by the International Accounting Standards Board (IASB) and the Canadian Accounting Standards Board, respectively, as at December 31, 2004.

IASB Standard	Primary Canadian standard(s)[1]	Differences[2]
Framework	Section 1000, Financial Statement Concepts	Section 1000 specifies that financial statements are prepared with capital maintenance measured in financial terms. The IASB Framework describes concepts of financial and physical capital maintenance without prescribing that a particular concept should apply.
IFRS 1	—	There is no Canadian standard providing exceptions to the normal basis of

† This comparison addresses only Canadian standards applicable to public (listed) companies. Canadian standards also address not-for-profit organizations and a separate body of standards applies to entities in the public sector. Certain non-public entities may adopt differential reporting options. However, these are not available to public companies.

1 The primary Canadian standards listed do not include Abstracts of Issues Discussed by the Emerging Issues Committee (EIC Abstracts), except when an EIC Abstract is the only source of Canadian GAAP dealing with a particular issue dealt with by IFRS. EIC Abstracts also deal with many issues not dealt with by IFRS.

2 In many cases, Canadian and IASB standards are essentially the same. This comparison deals only with major differences between the two bodies of standards.

IASB Standard	**Primary Canadian standard(s)**[1]	**Differences**[2]
		application when a new basis of accounting is applied for the first time. The usual requirements for changes in accounting policies would apply (see IAS 8 comparison, below).
IFRS 2	Section 3870, Stock-based Compensation and Other Stock-based Payments[3]	Section 3870 provides an exemption from recognition of an expense when an employee share purchase plan provides a discount to employees that does not exceed the per-share amount of share issuance costs that would have been incurred to raise a significant amount of capital by a public offering and that discount is not extended to other holders of the same class of shares. IFRS 2 provides no similar exemption. Section 3870 requires that, for non-tradable equity instruments, the more reliably measurable of the fair value of the goods or services received or the equity instruments granted be used. IFRS 2 requires that, when the fair value of goods or non-employee services received is not reliably measurable, the entity should use the fair value of the equity instruments granted. Section 3870 requires that share-based payments to non-employees be measured at the earlier of (a) the date at which a commitment for the performance by the counterparty is reached; or (b) the date at which performance is complete, whereas IFRS 2 requires the use of modified grant date. Section 3870 requires that cash-settled share-based payments are measured at their intrinsic value, whereas IFRS 2 requires that cash-settled share-based payments are measured at the fair value of the liability. Section 3870 permits stock appreciation rights to be measured at fair value or intrinsic value, whereas IFRS 2 requires fair value measurement. IFRS 2 requires the transaction to be accounted for as a cash-settled transaction if the entity has incurred a liability to settle in cash or other assets, or as an equity-settled transaction if no such liability has been incurred.

3 Substantially converged with FAS 123R.

IASB Standard	**Primary Canadian standard(s)[1]**	**Differences[2]**
		Section 3870 is similar, except that it requires accounting as a cash-settled transaction when the entity normally settles in cash. Section 3870 contains substantially less detail about how to deal with a modification of an award than IFRS 2. However, there is no conflict between the requirements.
IFRS 3	Section 1581, Business Combinations[4] Section 1600, Consolidated Financial Statements Section 3062, Goodwill and Other Intangible Assets[5]	Section 1581 requires that the date of acquisition is either: (a) the date on which the net assets or equity interests are received and the consideration is given; or (b) the date of a written agreement, or a later date designated therein, which provides that control of the acquired entity is effectively transferred to the acquirer on that date, subject only to those conditions required to protect the interests of the parties involved, whereas IFRS 3 requires that the acquisition date is the date on which the acquirer effectively obtains control of the acquiree. Section 1581 requires that shares issued as consideration be measured based on their market price over a reasonable period before and after the date the terms of the business combination are agreed to and announced, whereas IFRS 3 requires use of fair value on the date of the exchange transaction. Unlike IFRS 3, Section 1581 allows use of the acquiree's share of the fair value of the net assets or equity instruments acquired if that is more reliably measurable, in determining the cost of a business combination. Section 1581 does not require that contingent consideration be included in the purchase price until the contingency is resolved or the amount is determinable, whereas IFRS 3 requires that contingent consideration is recognized when it is probable that it will be paid and can be reliably measured. Section 1600 requires that non-controlling interests be reflected in terms of carrying amounts recorded in the accounting records of the subsidiary,

4 Substantially converged with FAS 141.
5 Substantially converged with FAS 142.

IASB Standard	**Primary Canadian standard(s)[1]**	**Differences[2]**
		whereas IFRS 3 requires that non-controlling interests are stated at the minority's proportion of the net fair value of the acquired net assets. Section 1581 requires that any negative goodwill be allocated as a pro rata reduction of certain acquired assets, with any excess presented as an extraordinary gain, whereas IFRS 3 requires that any negative goodwill be recognized immediately in profit or loss. The AcSB is undertaking a project to introduce new requirements for purchase method procedures at the same time as those presently being developed by the IASB and FASB.
IFRS 4	Section 4210, Life Insurance Enterprises — Specific Items Accounting Guideline AcG-3, Financial Reporting by Property and Casualty Companies Accounting Guideline AcG-8, Actuarial Liabilities of Life Insurance Enterprises — Disclosure Accounting Guideline AcG-9, Financial Reporting by Life Insurance Enterprises	Section 4210, AcG-3, AcG-8, and AcG-9 deal more extensively with accounting relevant to insurance enterprises than do IFRS, hence there is no need for an exemption from temporarily applying some requirements of other standards, similar to that in IFRS 4. Section 4210 addresses accounting for investments held by life insurance enterprises (measured either on an amortized cost basis [fixed-term investments], or on a moving average market basis [equity securities and real estate], although this will be replaced by requirements converged with IAS 39 – see discussion of IAS 39, below – except for real estate), actuarial liabilities (measured at an amount linked to the measurement of related investments), reinsurance and retrocession, segregated accounts and income and distributions. AcG-3 addresses deferred policy acquisition expenses, premium deficiencies, claims provisions, salvage and subrogation, and reinsurance for property and casualty companies. AcG-8 specifies disclosures about actuarial liabilities of life insurance enterprises. AcG-9 addresses additional aspects of accounting by life insurance enterprises, including impairment of assets, income and distributions, and certain income and capital tax considerations.

IASB Standard	**Primary Canadian standard(s)**[1]	**Differences**[2]
		Canadian standards do not permit presentation of discretionary participation features separately from liabilities and equity. The AcSB is closely following the IASB project to introduce new requirements for insurance contracts with the intent of issuing harmonized new requirements at the same time as the IASB.
IFRS 5	Section 3475, Long-lived Assets and Discontinued Operations[6]	Section 3475 does not permit an asset to be exchanged for similar productive assets to be classified as held for sale, whereas IFRS 5 requires that assets that are to be exchanged may be classified as held for sale when the exchange has commercial substance. The AcSB expects to issue a new standard on Non-monetary Transactions in the first quarter of 2005 that will converge on this topic. The definition of a discontinued operation in Section 3475 is less restrictive than that in IFRS 5, specifying that a discontinued operation may be a reportable segment, operating segment, reporting unit, subsidiary, asset group, or operation without long-lived or other assets, whereas IFRS 5 specifies that it must be a major line of business or geographical area of operations, or a subsidiary that was acquired exclusively for resale. Section 3475 requires presentation of pre-tax profits from discontinued operations on the face of the income statement, whereas IFRS 5 does not require this (although it is not precluded). Unlike IFRS 5, Section 3475 does not permit an entity to restate information from prior periods to segregate continuing and discontinuing asset and liabilities. IFRS 5 requires such restatement.
IFRS 6	Section 3061, Property, Plant and Equipment Accounting Guideline AcG-16, Oil and Gas Accounting – Full Cost	Unlike IFRS 6, Canadian standards contain no exemption from applying the normal GAAP hierarchy of sources from which to develop accounting policies for exploration and evaluation activities. Section 3061 specifies that, for a mining property, the cost of an asset

6 Substantially converged with FAS 144.

IASB Standard	Primary Canadian standard(s)[1]	Differences[2]
	EIC Abstract EIC-126, Accounting by Mining Enterprise for Exploration Costs	includes exploration costs if the enterprise considers that such costs have the characteristics of property, plant and equipment. For an oil and gas property, the cost of the asset comprises acquisition costs, development costs and certain exploration costs depending on whether the enterprise accounts for its oil and gas properties using the full cost method or the successful efforts method. EIC-126 provides additional guidance on when exploration costs may be capitalized. AcG-16 provides guidance on the application of the full cost method of accounting for oil and gas exploration, development and production activities. It does not require the full cost method, but it specifies how it applies if that is the method adopted. IFRS 6 does not address this. Like IFRS 6, Canadian standards require disclosures about significant accounting policies, however, there is no requirement to disclose separately the amounts of assets, liabilities, income and expense, and operating and investing cash flows arising from the exploration for and evaluation of mineral resources, other than in accordance with the standard on segment disclosures (see IAS 14, below). The AcSB expects to reconsider its standards in conjunction with the IASB's project on extractive industries.
IAS 1	Section 1000, Financial Statement Concepts Section 1400, General Standards of Financial Statement Presentation Section 1505, Disclosure of Accounting Policies Section 1508, Measurement Uncertainty Section 1510, Current Assets and Current Liabilities	Canadian standards establish overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for content in several individual standards, rather than one consolidated standard. Unlike IAS1, Section 1400 also requires a statement of retained earnings. A statement of changes in equity is not yet required, but the AcSB has approved the issue of Section 1530, Comprehensive Income in January 2005, which will require a similar statement. Unlike IAS 1, Section 1505 does not require disclosure of judgments made in the process of applying accounting policies, although some standards on

IASB Standard	**Primary Canadian standard(s)**[1]	**Differences**[2]
	Section 1520, Income Statement Section 3000, Cash Section 3020, Accounts and Notes Receivable Section 3210, Long-term Debt Section 3240, Share Capital Section 3250, Surplus Section 3260, Reserves Section 3480, Extraordinary Items EIC Abstract EIC-122, Balance Sheet Classification of Callable Debt Obligations and Debt Obligations Expected to be Refinanced [Section 1530, Comprehensive Income]	individual financial statement items require disclosure of assumptions. Unlike IAS 1, Canadian standards do not permit departure from standards on grounds of fair presentation. Unlike IAS 1, Section 1400 permits comparative information to be omitted in the rare circumstances when it is not meaningful. IAS 1 requires that a financial liability for which the entity does not have an unconditional right to defer its settlement for at least twelve months after the balance sheet date is classified as a current liability even if an agreement to refinance is completed after the balance sheet date and before the financial statements are authorized for issue. EIC-122 requires that such an obligation be classified as a current liability unless the debtor expects to refinance it and such intent is supported by post-balance sheet events. Canadian standards require balance sheet presentation of items similar to those required by IAS 1, with the exception of provisions and biological assets. Section 1520 is more specific than IAS 1 as to items to be distinguished in the income statement. Unlike IAS 1, Section 3480 provides for separate presentation of extraordinary items that are not expected to occur frequently over several years, do not typify the normal business activities of the entity, and do not depend primarily on decisions or determinations by management or owners. Such presentation is extremely rare in practice by public companies. Unlike IAS 1, Canadian standards do not require disclosure of dividends per share, domicile and legal form of an entity, address of registered office, country of incorporation, nature of activities, and name of parent and ultimate parent of a group. Such disclosures are subject to separate regulatory requirements.
IAS 2	Section 3030, Inventories	Unlike IAS 2, Section 3030 does not contain scope exceptions for work in progress on construction contracts, financial instruments, biological assets,

IASB Standard	**Primary Canadian standard(s)[1]**	**Differences[2]**
		and agricultural produce at the point of harvest. Unlike IAS 2, Section 3030 does not specify the basis of measurement for inventories. However, when the cost basis is used both Section 3030 and IAS2 contain similar requirements. IAS 2 contains more extensive guidance concerning the allocation of overhead and other costs to inventory. Unlike IAS 2, Section 3030 permits allocation of the applicable share of overhead expense properly chargeable to production, in determining cost of finished goods and work-in-process. Section 3030 requires that the costing technique selected results in the fairest matching of costs against revenues. Unlike IAS 2, it contemplates the use of a last-in-first-out (LIFO) technique. (However, LIFO is rarely used in practice in Canada, since it is not permitted for tax purposes.) Section 3030 does not address impairment. However, like IAS 2, practice would generally carry inventory at the lower of cost and net realizable value. The AcSB is presently undertaking a project to replace Section 3030 with a new standard converged with IAS 2.
IAS 7	Section 1540, Cash Flow Statements[7]	Certain investment funds with highly liquid investments measured at fair value are not required to apply Section 1540, whereas they are included in the scope of IAS 7. Section 1540, unlike IAS 7, prohibits the disclosure of cash flow per share amounts, except for dividends or similar cash distributions to owners.
IAS 8	Section 1100, Generally Accepted Accounting Principles Section 1506, Accounting Changes	Unlike IAS 8, Section 1506 does not specify the circumstances in which a change in accounting policy would be made. However, the AcSB has an exposure draft outstanding that would introduce this requirement when finalized in early 2005. Unlike IAS 8, Section 1506 does not exempt entities from the requirement to restate prior periods for the correction of an error on grounds of

[7] Substantially converged with FAS 95, FAS 102 & FAS 104.

IASB Standard	Primary Canadian standard(s)[1]	Differences[2]
		impracticality. Section 1506 does not require disclosure of the reason for a change in accounting policy or disclosures about the effect of new standards that have been issued but are not yet effective. Disclosure of the nature and effect of a change in accounting estimate is considered desirable, but not required. The outstanding AcSB exposure draft on this topic would converge Section 1506 with IAS 8 in early 2005.
IAS 10	Section 3820, Subsequent Events	Section 3820 requires an entity to consider subsequent events between the balance sheet date and date of completion of the financial statements, whereas IAS 10 requires consideration of such events up to the date when financial statements are authorized for issue. A recently approved AcSB exposure draft would converge with IAS 10 for publicly accountable entities. Unlike IAS 10, Section 3820 does not require disclosure of the date when financial statements are authorized for issue and who gave that authorization (although other legal requirements call for two directors to sign a company's balance sheet to signify board approval). The recently approved AcSB exposure draft would require disclosure of the date to which subsequent events were considered.
IAS 11	Section 3030, Inventories Section 3400, Revenue	Section 3030 deals with work-in-process inventory and Section 3400 deals with revenue from construction contracts. Each is less detailed than IAS 11. Unlike IAS 11, Section 3400 permits use of the completed contract method, in addition to percentage of completion, to determine income recognition. However, this method is permitted only when performance consists of a single act or when the entity cannot reasonably estimate the extent of progress towards completion.
IAS 12	Section 3465, Income Taxes[8]	Section 3465 recognizes a deferred tax asset at an amount limited to that which is more likely than not to be realized, whereas IAS 12 recognizes such

8 Substantially converged with FAS 109.

IASB Standard	Primary Canadian standard(s)[1]	Differences[2]
		an asset if it is probable that sufficient taxable profit will be available to utilize the temporary difference. Section 3465 requires classification of future tax balances as current or non-current as applicable, whereas IAS 12 classifies all such balances as non-current. Section 3465 requires that, when a future income tax asset acquired in a business combination that was not recognized as an identifiable asset by the acquirer at the date of the acquisition is subsequently recognized by the acquirer, the benefit should be applied: (a) first to reduce to zero any unamortized goodwill related to the acquisition; then (b) to reduce to zero any unamortized intangible assets related to the acquisition; and then (c) to reduce income tax expense. IAS 12 omits step (b). Section 3465 also addresses specific aspects of the Canadian tax system.
IAS 14	Section 1701, Segment Disclosures[9]	Section 1701 applies to co-operative business enterprises, deposit-taking institutions and life insurance enterprises, in addition to listed entities. Section 1701 requires that segments be determined based on the way that management makes operating decisions and assesses performance, whereas IAS 14 requires that risks and returns be considered and requires either a business or geographical basis as the primary basis and the other as secondary. Section 1701 requires that segment information be reported using the same accounting policies as used for reporting to the chief operating decision maker, whereas IAS 14 requires that the same accounting policies as used in preparing financial statements be applied. Section 1701 requires a reconciliation of the internal accounting basis for segments to the GAAP basis income statement. Unlike IAS 14, Section 1701 requires disclosure of the extent of reliance on

9 Substantially converged with FAS 131 (developed as a joint project).

IASB Standard	**Primary Canadian standard(s)**[1]	**Differences**[2]
		major customers.
IAS 16	Section 1400, General Standards of Financial Statement Presentation Section 3061, Property, Plant and Equipment Section 3280, Contractual Obligations Section 3830, Non-monetary Transactions	IAS 16 requires that property, plant and equipment acquired by way of a non-monetary transaction is measured at fair value unless the transaction lacks commercial substance, whereas Section 3830 requires fair value measurement unless the exchanged assets are similar. The AcSB expects to replace this standard in early 2005 with one that will be converged with IAS 16. Section 3061 requires an entity to carry property, plant and equipment on the cost basis. Unlike IAS 16, the choice to apply a revaluation basis is prohibited.
IAS 17	Section 3065, Leases	Section 3065 uses the term “capital lease” in the same manner as IAS 17 uses “finance lease”. From the point of view of the lessor, Section 3065 subdivides capital leases into sales-type leases and direct financing leases. Section 3065 requires disclosure of amortization and interest expense related to finance leases, while IAS 17 requires additional disclosures about operating leases. Disclosure of renewal or purchase options, contingent rentals and other contingencies is desirable in accordance with Section 3065, whereas it is required in accordance with IAS 17.
IAS 18	Section 3400, Revenue Accounting Guideline AcG-2, Franchise Fee Revenue Accounting Guideline AcG-4, Fees and Costs Associated with Lending Activities EIC Abstract EIC-141, Revenue Recognition	Section 3400 does not contain the scope exceptions in IAS 18. IAS 18 provides more extensive and detailed application guidance than Section 3400, although that guidance is consistent with the requirements of Section 3400. EIC-141 addresses some aspects not addressed by IAS 18. Both Section 3400 and IAS 18 discuss disclosures about major sources of revenue, although these are required by IAS 18 and indicated as “useful” by Section 3400. AcG-2 and AcG-4 provide more extensive guidance on franchise fee revenue and fees and costs associated with lending activities, respectively, than does the Appendix to IAS 18. The AcSB intends to issue converged standards on revenue at the same time

IASB Standard	**Primary Canadian standard(s)**[1]	**Differences**[2]
		as those resulting from the current joint IASB/FASB project addressing this subject.
IAS 19	Section 3461, Employee Future Benefits	Unlike IAS 19, Section 3461 does not deal with short-term benefits during an employee's active service, such as sick leave, profit-sharing and bonuses. Unlike IAS 19, Section 3461 does not permit a choice to recognize actuarial gains and losses directly in equity in the period in which they occur. IAS 19 requires both 'special" and other termination benefits to be recognized when the employer is demonstrably committed to pay, whereas Section 3461 requires that special termination benefits for involuntary terminations are recognized as a liability and an expense when management approves and commits the entity to a plan of termination, but contractual termination benefits are recognized when it is probable that employees will be entitled to benefits and the amount can be reasonably estimated. Section 3461 requires that past service costs related to benefits that have vested be amortized over the average remaining service period or life expectancy, whereas IAS 19 requires immediate expense recognition. Section 3461 requires that a curtailment gain be recognized only when an event giving rise to a curtailment has occurred, whereas IAS 19 requires recognition when the entity is demonstrably committed and a curtailment has been announced.
IAS 20	Section 3800, Accounting for Government Assistance Section 3805, Investment Tax Credits	IAS 20 permits recognition of non-monetary government grants at zero, which is not permitted by Section 3800. Section 3805 provides additional guidance specific to investment tax credits (government assistance relating to specific qualifying expenditures that are prescribed by tax legislation and which are received as a reduction in income taxes or by other means). The accounting is consistent with IAS 20.
IAS 21	Section 1650, Foreign Currency Translation	Section 1650 requires that non-monetary items carried at market be translated at the exchange rate in effect at the balance sheet date. IAS 21 requires that

IASB Standard	**Primary Canadian standard(s)[1]**	**Differences[2]**
		non-monetary items measured at fair value be translated at the date when fair value was determined. (For an item re-measured at the balance sheet date IAS 21 would achieve the same result as Section 1650.) Section 1650 contains requirements for foreign currency hedge accounting that differ from those of IAS 39. These will be replaced on the issue of new financial instruments standards in January 2005 (see IAS 39, below).
IAS 23	Section 1505, Disclosure of Accounting Policies Section 3850, Interest Capitalized — Disclosure Considerations	Canadian standards do not specify accounting treatments for borrowing costs; nor are they as specific as to the circumstances in which borrowing costs may be capitalized. Section 1505 requires disclosure of accounting policies and Section 3850 specifies disclosures if costs are capitalized.
IAS 24	Section 3840, Related Party Transactions	Section 3840, unlike IAS 24, excludes from its scope management compensation arrangements, expense allowances and similar payments to individuals in the normal course of operations. Such arrangements are disclosed by Canadian public companies in accordance with requirements specified by the Canadian Securities Administrators. Section 3840, unlike IAS 24, contains requirements for measuring related party transactions — at carrying amounts or exchange amounts — and the resultant treatment of gains and losses. Section 3840, unlike IAS 24, does not require disclosure of control relationships when there have been no transactions between the related parties, nor does it require disclosure of the name of an entity's parent and its ultimate controlling entity. Section 3840, unlike IAS 24, requires that contractual obligations with, and contingencies involving, related parties be separately disclosed.
IAS 26	Section 4100, Pension Plans	Information not requested by CESR.
IAS 27	Section 1590, Subsidiaries Section 1600, Consolidated Financial	Both Section 1590 and IAS 27 use similar bases of "control" for consolidation of subsidiaries, but IAS 27 assesses control at a point in time, whereas Section 1590 assesses an entity's continuing ability to control.

IASB Standard	**Primary Canadian standard(s)**[1]	**Differences**[2]
	Statements Section 3475, Long-lived Assets and Discontinued Operations	Section 1600, unlike IAS 27, requires that non-controlling interests are shown separately from shareholders' equity.
IAS 28	Section 3050, Long-term Investments Accounting Guideline AcG-18, Investment Companies	Section 3050 includes investments held for sale, whereas IAS 28 refers these to IFRS 5. However, the resultant accounting would be very similar. Section 3050 measures impairment based on an assessment as to whether there has been an other-than-temporary decline in value, whereas IAS 28 considers impairment based on the recoverable amount of the investment (the higher of net selling price and value in use).
IAS 29	Section 1650, Foreign Currency Translation	Section 1650 states that, when the economic environment of a foreign operation is highly inflationary relative to that of the reporting enterprise, financial statements are translated in a manner similar to that required for integrated foreign operations, rather than self-sustaining foreign operations. However, Canadian standards do not provide additional guidance on hyperinflationary economies to the extent addressed by IAS 29.
IAS 30	Section 3025, Impaired Loans Section 3860, Financial Instruments — Disclosure and Presentation	Unlike IAS 30, Canadian standards do not contain separate requirements for disclosure by banks and similar financial institutions. However, some of the requirements of IAS 30 correspond to Canadian requirements applicable to all entities. These include requirements in Section 3025 and Section 3860. New standards for financial instruments, to be issued in January 2005, will include some of the requirements of the IASB Exposure Draft on Financial Instruments — Disclosures, proposed to replace IAS 30. A project is expected to be commenced shortly to converge the remaining requirements.
IAS 31	Section 3055, Interests in Joint Ventures	Section 3055, unlike IAS 31, does not exclude a venturer's interest in a joint venture held by a venture capital organization, mutual fund, or unit trust, etc. Section 3055 requires the proportionate consolidation method of accounting for joint ventures. It does not permit the equity method allowed by IAS 31. Section 3055 includes investments held for sale, whereas IAS 31 refers these

IASB Standard	Primary Canadian standard(s)[1]	Differences[2]
		to IFRS 5. However, the resultant accounting would be very similar. Section 3055 requires more extensive disclosure than IAS 31, except that a listing and description of interests in significant joint ventures is considered desirable, rather than required.
IAS 32	Section 3860, Financial Instruments — Disclosure and Presentation[10]	Section 3860, unlike IAS 32, also applies to insurance contracts and Section 3860 encourages application to commodity-based contracts, whereas this is required by IAS 32. (New financial instruments standards to be issued in January 2005 will require that Section 3860 apply to these contracts). Section 3860 does not address the presentation of derivatives on an entity's own equity in the same manner as IAS 32. Section 3860 requires that some financial instruments, such as mutual fund units, partnership interests and certain types of shares in cooperative organizations that provide for payments to the holder of a pro rata share of the residual equity of the issuer, are classified as equity when they do not impose an obligation on the issuer to deliver or exchange any specific amount of financial assets in advance of redemption based on otherwise certain events (such as death of the holder). Section 3860 contains an additional option, not available in IAS 32, for initial measurement of a compound financial instrument, being the relative fair value method. Section 3860 only encourages an entity to describe its financial risk management objectives and policies, whereas IAS 32 requires this disclosure. The new financial instruments standards to be issued in January 2005 will require this disclosure. Modifications to the disclosure requirements of IAS 32 made in December 2003 will be included in new Canadian standards on financial instruments to be issued in January 2005. Further modifications proposed by the IASB in

[10] Section 3860 was developed as a joint project with IAS 32.

IASB Standard	**Primary Canadian standard(s)**[1]	**Differences**[2]
		ED 7, Financial Instruments — Disclosures, have, in some cases, been adopted in the forthcoming financial instruments standards and, in other cases will be adopted in a forthcoming AcSB project on Financial Instruments — Disclosures.
IAS 33	Section 3500, Earnings per Share	Section 3500, unlike IAS 33, requires presentation of earnings per share for income before discontinued operations and extraordinary items, as well as for each of those line items. The AcSB expects to issue revisions to Section 3500 in the first quarter of 2005 to eliminate some minor differences from IAS 33, including the treatment of contracts that may be settled in shares or cash.
IAS 34	Section 1751, Interim Financial Statements[11]	Section 1751 does not specify the frequency of interim financial statements. (Canadian public companies are required by securities legislation to prepare interim financial statements quarterly). Section 1751 requires that the line items required for annual reporting be included in interim financial statements. Unlike IAS 34 it does not contemplate a condensed set of financial statements. Section 1751 requires a cash flow statement for the current interim period with comparable amounts for the corresponding period in the immediately preceding financial year as well as cumulative amounts for the current and previous years, whereas IAS 34 requires a cumulative cash flow statement for each year to date, only. Section 1751 requires disclosure of changes in guarantees and total employee benefit costs, which are not required by IAS 34. Section 1751 also requires a reference to the most recently published annual financial statements when full GAAP disclosures are not provide in interim financial statements. Section 1751 does not require disclosure of significant changes in estimates made in the final interim period, as required by IAS 34.

[11] Section 1751 was developed based on IAS 34.

IASB Standard	**Primary Canadian standard(s)[1]**	**Differences[2]**
IAS 36	Section 3050, Long-term Investments Section 3062, Goodwill and other Intangible Assets[12] Section 3063, Impairment of Long-lived Assets[13] Section 4210, Life Insurance Enterprises — Specific Items	Section 3063 requires recognition of an impairment loss when the carrying amount of a long-lived asset is not recoverable (undiscounted future cash flows are less than carrying amount), measured as the amount by which the carrying amount exceeds fair value. Sections 3050 and 4210 require recognition of an impairment loss when there has been a loss in value of an investment that is other than temporary. (This will be amended on issue of new financial instruments standards in January 2005 to specify that an impairment loss is recognized when there is a significant or prolonged decline in value below carrying amount.). Reversal of an impairment loss is prohibited. In contrast, IAS 36 requires recognition of an impairment loss when the carrying amount of an asset or group of assets exceeds recoverable amount (the higher of fair value less costs to sell and value in use). Reversal of an impairment loss is made when there has been a change in estimates used to determine the recoverable amount. Section 3062 requires that an identifiable indefinite life intangible asset be assessed for impairment by comparing its carrying amount with its fair value, whereas IAS 36 includes such assets in the cash generating unit to which it relates. Section 3062 requires that goodwill impairment assessments be made at the level of the reporting unit, which is either an operating segment or one organizational level below an operating segment, whereas IAS 16 allows a cash generating unit below the level of the reporting unit to be identified for such testing. Section 3061, unlike IAS 36, prohibits discounting in determining the net recoverable amount of property, plant and equipment.
IAS 37	Section 1508, Measurement Uncertainty	Canadian standards do not contain a single standard equivalent to IAS 37. Canadian standards do not define a provision in the same manner as IAS 37.

12 Substantially converged with FAS 142.
13 Substantially converged with FAS 144.

IASB Standard	**Primary Canadian standard(s)[1]**	**Differences[2]**
	Section 3110, Asset Retirement Obligations[14] Section 3290, Contingencies[15] Accounting Guideline AcG-14, Disclosure of Guarantees[16] EIC Abstract EIC-135, Accounting for Costs Associated with Exit and Disposal Activities (including costs incurred in a restructuring)[17]	However, the definition of a liability in Section 1000 is very similar to that in IFRS, on which the IAS 37 definition of a provision is based. Therefore, many "provisions" would be accounted for in a similar manner in Canadian and IFRS financial statements. Canadian standards do not explicitly require that expected values should be used in measuring provisions when there is a large population of items. Section 3110 requires fair value measurement on initial recognition, whereas IAS 37 requires use of management's best estimate. Section 3290 focuses on contingencies, rather than contingent assets and contingent liabilities. A contingent loss is recognized when a contingency is likely and can be reliably estimated. Note disclosure is provided when a contingency is unlikely, cannot be reliably estimated or is not determinable. IAS 37 uses the term contingent liability in a narrower sense for liabilities that are not recognized on the balance sheet. Section 3290 requires that contingent gains are disclosed when they are likely, but are not recognized, whereas IAS 37 recognizes contingent assets when an inflow of benefits is virtually certain and requires disclosure when an inflow of benefits is probable. Canadian standards do not contain disclosure requirements corresponding to those in IAS 37. Section 1508 requires disclosure about measurement uncertainty, which correspond to similar disclosures in IAS 37. However, unlike IAS 37, Section 1508 limits the exemption from these disclosures based on seriously prejudicial information to disclosure of the recognized amount. Other disclosures about measurement uncertainty continue to be required.

14 Substantially converged with FAS 143.
15 Substantially converged with FAS 5.
16 Disclosures converged with FIN 45.
17 Substantially converged with FAS 146.

IASB Standard	Primary Canadian standard(s)[1]	Differences[2]
		Unlike IAS 37, Canadian standards for financial guarantees are limited to disclosure (in AcG-14). Initial measurement will be addressed in standards on financial instruments to be issued in January 2005 (see IAS 39, below). Subsequent measurement is not addressed, other than through Section 3290.
IAS 38	Section 3062, Goodwill and Other Intangible Assets Section 3450, Research and Development Costs	Unlike IAS 38, neither Section 3450 nor Section 3062 permits revaluation at fair value for intangible assets that have an active market.
IAS 39	Section 1650, Foreign Currency Translation[18] Section 3010, Temporary Investments Section 3025, Impaired Loans Section 3050, Long-term Investments Section 4210, Life Insurance Enterprises — Specific Items Accounting Guideline AcG-12, Transfers of Receivables[19] Accounting Guideline AcG-13, Hedging Relationships Accounting Guideline AcG-14, Disclosure of Guarantees[20] Accounting Guideline AcG-17, Equity-linked Deposit Contracts Accounting Guideline AcG-18,	Section 3050 establishes a cost-based model for investments, together with disclosure requirements (although it makes some exceptions). It will be replaced by the issue, in January 2005, of Section 3855, which is converged with IAS 39. IAS 39 is more stringent than Canadian standards regarding general allowances for impairment. Canadian standards do not address how hedge accounting is to be applied, except for certain requirements for foreign currency hedging in Section 1650. Unlike IAS 39, nothing in Canadian standards requires that derivative financial instruments in a hedging relationship be measured at fair value (although, like IAS 39, freestanding derivatives are required to be measured at fair value). Current standards will be replaced by the issue, in January 2005, of Sections 3855 and 3865, which are substantially converged with the recognition, measurement and hedge accounting requirements of IAS 39, except that fair value hedge accounting for a portfolio hedge of interest rate risk is not explicitly permitted. AcG-12 addresses derecognition of receivables, but unlike IAS 39, its scope does not address derecognition of other financial instruments such as

18 Substantially converged with FAS 52.
19 Converged, in large part, with FAS 140.
20 Disclosures converged with FIN 45.

IASB Standard	Primary Canadian standard(s)[1]	Differences[2]
	Investment Companies EIC Abstract EIC-88, Debtors Accounting for a Modification or Exchange of Debt Instruments EIC Abstract EIC-128, Accounting for Trading, Speculative, or Non-Hedging Derivative Financial Instruments [Section 3855, Financial Instruments — Recognition and Measurement] [Section 3865, Hedges]	securities lending transactions or sale and repurchase agreements. In contrast to IAS 39, AcG-12 applies a control-based approach with a focus on legal isolation and does not provide for partial derecognition. Section 4210 allows life insurance enterprises to account for investments using a moving average market method. This will be replaced by the issue, in January 2005, of Section 3855, thus converging with IAS 39. AcG-14, AcG-17 and AcG-18 address particular aspects of financial instrument accounting. AcG-17, dealing with a particular aspect of embedded derivative accounting, will be withdrawn as a result of the issue, in January 2005, of Section 3855.
IAS 40	Section 3061, Property, Plant and Equipment Section 4210, Life Insurance Enterprises — Specific Items	Section 3061, unlike IAS 40, does not permit investment property to be measured at fair value. A cost-based method of accounting is generally required. However, Section 4210 requires life insurance enterprises to use a moving average market value method to account for property held for investment.
IAS 41	Section 3030, Inventories	Canadian standards do not contain specific requirements dealing with agriculture. To the extent that a cost-based model is applied, Section 3030 (see IAS 2, above) would be applied. Some Canadian entities apply a fair value-based model to agricultural produce.
SIC 7	—	The change to the Euro was not sufficiently significant for Canadian entities to require addressing specifically in Canadian standards.
SIC 10	Section 3800, Accounting for Government Assistance	No significant differences.
SIC 12	Accounting Guideline AcG-15, Variable Interest Entities[21]	AcG-15 requires consolidation of certain variable interest entities of which the entity is the primary beneficiary (through exposure to a majority of expected losses or expected residual returns). The guidance is more detailed than that in

[21] Substantially converged with FIN 46(R).

IASB Standard	Primary Canadian standard(s)[1]	Differences[2]
		SIC 12 but, as in SIC 12, control (on a basis other than ownership of voting interests) must exist.
SIC 13	Section 3055, Interest in Joint Ventures	Section 3055 does not explicitly address the elimination of unrealized gains or losses on non-monetary assets contributed to jointly controlled entities from the underlying assets. Section 3055 allows presentation as a deferred gain, which is prohibited by SIC-13.
SIC 15	EIC Abstract EIC-21, Accounting for Lease Inducements by the Lessee	EIC-21, unlike SIC 15, does not address accounting by the lessor.
SIC 21	—	Since Canadian standards do not contemplate a revaluation model for investment properties, this issue is not applicable.
SIC 25	Section 3465, Income Taxes	Section 3465 addresses only the consequences of a change in tax status of an entity's shareholders – it does not address a change in tax status of the entity itself. Unlike SIC 25, Section 3465 requires that the effects of such a change be included in equity, rather than net income.
SIC 27	Section 3065, Leases	Evaluating the substance of transactions involving the legal form of a lease is not explicitly addressed in Canadian standards, other than by reference to Section 3065.
SIC 29	—	Canadian standards do not specify information to be disclosed when an entity enters into a service concession arrangement.
SIC 31	Section 3400, Revenue Section 3830, Non-monetary Transactions	Canadian standards do not explicitly address barter transactions involving advertising services. The general principles of Sections 3400 and 3830 would apply.
SIC 32	EIC Abstract EIC-86, Accounting for the Costs of A Business Process Reengineering Project	No significant differences.

IASB Standard	Primary Canadian standard(s)[1]	Differences[2]
	EIC Abstract EIC-118, Accounting for Costs to be Incurred to Develop a Web Site	
IFRIC 1	Section 3110, Asset Retirement Obligations[22]	Unlike IFRIC 1, Section 3110 would not adjust the cost of the asset or liability for changes in the discount rate used after initial recognition.
IFRIC 2	Section 3860, Financial Instruments — Disclosure and Presentation	Section 3860 addresses members' shares in cooperative entities and similar instruments, reaching slightly different conclusions from IFRIC 2 (see IAS 32, above).
IFRIC 3	—	Canadian standards do not explicitly address emission rights.
IFRIC 4	EIC Abstract EIC-150, Determining whether an Arrangement Contains a Lease	No significant differences.
IFRIC 5	—	Canadian standards do not explicitly address rights to interests arising from decommissioning, restoration and environmental rehabilitation funds.

Canadian standards that have no IASB counterpart

Canadian standard	
Section 1625, Comprehensive Revaluation of Assets and Liabilities	This Section establishes standards prohibiting comprehensive revaluation of assets and liabilities unless certain conditions are met. A comprehensive revaluation is required when the conditions are met as a result of a reorganization and are optional when they are met as a result of a business acquisition. There is no corresponding IFRS.
Section 3070, Deferred Charges	This Section requires disclosures about deferred charges. It is to be withdrawn on the issue of new financial instruments standards (see IAS 39, above).

22 Substantially converged with FAS 143.

Canadian standard	
	There is no corresponding IFRS.
Section 3841, Economic Dependence	This Section requires disclosure and explanation of economic dependence when the ongoing operations of a reporting enterprise depend on a significant volume of business with another party. There is no corresponding IFRS.
Section 4250, Future-oriented Financial Information	This Section establishes standards for measurement, presentation and disclosure of future-oriented financial information when presented for external users of financial information in the format of general purpose financial statements or in such special purpose as agreed by the parties. It deals with assumptions, accounting policies, the period for such information, a requirement to present at least an income statement, and certain disclosures. There is no corresponding IFRS.
Accounting Guideline AcG-7, The Management Report	This Guideline provides guidance on the minimum content of a management report that acknowledges management's responsibility for financial information. There is no corresponding IFRS.
Accounting Guideline AcG-18, Investment Companies	This Guideline requires fair value measurement for all of an investment company's investments. The result is consistent with fair value measurement in accordance with IAS 39 for certain classes of assets (including those to which the fair value measurement option applies), but not with the amortized cost measurement basis for certain assets in accordance with IAS 39. This Guideline specifies the circumstances in which a parent company or equity method investor continues to account for an investment company investee's investments at fair value. This differs from the consolidation method required by IAS 27 and the equity method required by IAS 28 for associates subject to significant influence.

Attachment B to Appendix 1

Appendix 1, Section 5 – Published comparison

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REPORTED CANADIAN / US GAAP DIFFERENCES
Summary of Survey of Canadian annual reports for years ending in 2003

I – Introductory Comments

This report analyzes the results of reported Canadian/US GAAP differences in a survey of 150 public Canadian companies for fiscal years ending in 2003. All the companies selected for this study have listings on major US stock exchanges or issue debt securities in the US.

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

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

- To identify new or unintended differences; and
- To assist the AcSB in determining the status of continuing differences.

Appendix 1 sets out a summary analysis of Canadian/US GAAP differences by topic.

II – The Companies – Basis for Selection

The 150 surveyed public Canadian companies were selected as follows:

- All of the largest 200 Canadian companies by asset size (as reported in the Financial Post "FP 500", June 2003) that are SEC registrants (68 companies) were examined.
- A sample of additional Canadian companies listed on the NYSE, NASDAQ or AMEX companies was selected (82 companies). Preference was given to companies that were included in the 2002 survey.

Fourteen companies included in last year's sample did not qualify for inclusion this year. In selecting replacement companies, we attempted to maintain the industry classification balance in order to maintain comparability. We have used the industry classifications assigned by the System for Electronic Document Analysis (SEDAR) for the purposes of this study.

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

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

Twelve companies in the survey (8% of the sample) prepared separate financial statements in both Canadian and US GAAP and did not provide a GAAP differences reconciliation. This is a decrease of five from the preceding year.[1] Of the 138 companies reporting Canadian/US GAAP differences (150 – 12 that did not provide reconciliations), 132 provided reconciliations in the notes to their audited financial statements. 6 companies provided this information only in filings with the SEC.

IV – Quality of Reconciliation Information

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

No attempt was made to evaluate the appropriateness of the interpretation and application of either Canadian or US GAAP as expressed or implied by the reconciliations.

V – Analysis of Reported Differences – General Comments

The 138 companies reporting Canadian/US GAAP differences reported a total of 711 differences. Differences did not decline to the extent that might have been expected in 2000-

[1] Of these five, four provided reconciliations in 2003, and one company's annual report was not available at the time of the survey this year.

2003. Nor do the reported differences in 2003 financial statements constitute a complete list of potentially material differences between Canadian and US GAAP. There are several reasons:

Transitional effects

- Several standards issued during this period by the AcSB that harmonize Canadian GAAP with US GAAP were not yet effective.
- Some transitional differences persist in respect of harmonized standards that are in effect (and some could persist for many years).
- Some new standards are developed and put into effect in the US before harmonized standards are put in place in Canada, creating differences until the Canadian standards are effective.

Economic circumstances

- Certain potential differences occur or are significant in some years and not in others depending on the types of transactions and events taking place, and economic conditions.

The following were of significant effect:

- 32 additional companies reported income differences due to pension accounting in 2002 over 2001, with an additional 12 in 2003. This increase was largely due to the result of poor investment performance and reduced interest rates over the last few years, causing the fair value of pension plan assets to fall and the present value of defined benefit plan obligations to rise. US GAAP require that companies record a liability and a charge to other comprehensive income when a measure of plan obligations exceeds the fair value of pension plan assets and unamortized past service costs; Canadian standards do not have this requirement.
- SFAS 143, *Accounting for Asset Retirement Obligations*, came into effect in the US in 2003, resulting in 52 new differences. CICA Handbook Section 3110 was harmonized with the US standard effective for years beginning in 2004.
- 22 additional differences arose as a result of differences in the reported amounts of foreign currency cumulative translation adjustment accounts. The reason for this is not clear and most companies provided no explanation of this difference.

Furthermore, an increasing number of differences have been reported over the past three years in respect of accounting for financial instruments and hedges as a result of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities,* and subsequent amendments, and SFAS 115, *Accounting for Certain Debt and Equity Securities*. These accounted for 148 reported differences in 2003 and 131 in 2002. These differences will be eliminated when new Canadian standards recently approved by the AcSB come into effect. In addition some improvements in the process of identifying differences moderately increased the number of reported differences in 2003 over prior years.

Thus, it is important to understand the nature and causes of reported differences in making any detailed statistical comparisons with the results of our previous surveys, especially periods predating 2000.

The following is a range of reported differences per company between 2000 and 2003.

Number of Companies:	2003	2002	2001	2000
Reported no differences	6	6	6	3
Reported 1-3 differences	37	40	40	50
Reported 4-6 differences	53	57	53	48
Reported 7-9 differences	34	27	31	16
Reported 10 or more differences	8	3	3	1
Total number of companies	**138**	**133**	**133**	**118**

Prior to 2002, approximately two-thirds of the companies reported higher income under Canadian GAAP than under US GAAP. This declined a little in 2002, and a further in 2003, so that only slightly more than one half of the 138 companies reported higher Canadian GAAP income in 2003.

Close to sixty percent of the individual differences are less than five percent of reported Canadian GAAP net income. Of course, the combined effect of several immaterial individual items can be material, and some differences that are not material to reported net income have significant balance sheet effects. We have not attempted to examine the materiality of balance sheet effects.

Voluntary Differences

A number of the reported differences are voluntary – that is, companies could have chosen a Canadian GAAP alternative that conformed to US GAAP but chose to be different. For example, 8 companies (2002 – 10 companies) reported that they chose not to follow US standards for interest capitalization. While some voluntary differences are reasonably evident, many differences are not fully described or would require more research for us to be confident in determining whether they are voluntary. For example, the voluntary vs. conflict nature of differences relating to cost deferrals is hard to assess, although it would appear that many of them are likely voluntary. Also, most of the differences relating to stock compensation seem likely to be voluntary. We have not tried to hazard an estimate of the number or proportion of voluntary differences.

Differences that will be eliminated

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

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

Appendix 2 sets out an analysis, including a rough estimate of the number of Canadian/US GAAP differences reported in 2003 that may be expected to be eliminated in future years in respect of the more significant standard setting projects, completed or underway, to harmonize Canadian and US accounting standards. It is to be noted, however, that some differences will persist for some time in each of these areas where there are transitional effects resulting from changes in standards.

Appendix 1
Summary Analysis of Canadian/US GAAP Differences by Topic

Topic	Total Reported	Immaterial Income Effect[1]	Transition[2]	In Process[3]	No Project in Process	Comments
Foreign currency translation	27	14			13	Relates to cumulative translation adjustment account
Asset retirement obligations	52	27*	`	25		
Stock compensation	42	32*		10		
Impairment of long lived assets	24	9*	15			
Business combinations	11	4	7			
Employee benefits	70	38	3		29	Minimum pension liability & pension asset allowance (targeted for a global project)
Income taxes	23	13	5		5	Use of “substantially enacted” rates in Canada
Derivative financial instruments	84	34*		50		
Debt/equity classification	45	21* ***		24		

1 Items affecting reported Canadian GAAP net income by less than 5%. Some have material balance sheet effects; this survey has not attempted to analyze balance sheet effects.

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

3 Projects activated or imminent by AcSB and/or FASB.

Consolidation/ equity method	22	16**		6		Differences in when/how to apply equity method
Joint ventures	43	42***			1	Canada unique in requiring proportionate consolidation (targeted for a global project)
Hedging	17	9*		8		

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

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

*** These items do not affect, or have an immaterial effect on, net income but many of them may materially affect assets, liabilities, revenues and expenses.

Topic	**Total Reported**	**Immaterial Income Effects**	**Transition**	**In Process**	**No Project in Process**	**Comments**
Restructurings	7	4			3	"Fresh start" used in Canada
Leases	8	5***			3	Targeted for global project
Capitalized interest	8	7			1	Voluntary difference
Deferred charges	49	24		13	12	Items in "Non Project" column include mining (3) and life insurers (3)
Investments-cost/fair value	58	27*		28	3	Items in "No Project" column relate to life insurance accounting for real estate and mortgages
PP&E and depreciation	12	4			8	2- defining mining reserves 5- sinking fund depreciation 1-when to start depreciating
R&D	22	13			9	Canadian GAAP arguably superior (targeted for global project)
Shareholders' equity	22	22***				These are reclassifications within equity

Revenue recognition	14	9***			5	Global project underway
Costs deducted from sales	11	11				
Other	40	32**	4	1	3	

Appendix 2
Canadian-US GAAP Differences That Are Being Eliminated

<u>Completed standards</u>

Stock-based compensation and other stock-based payments –

- New CICA Handbook Section 3870, *Stock-based compensation*, was changed to require that stock based compensation be accounted for on the same basis as SFAS 123, *Accounting for Stock-Based Compensation*, effective for fiscal years beginning on or after January 1, 2002. Most differences exist because Section 3870 applies only to stock based compensation granted on or after the effective date. A recent amendment to Section 3870 requires expense recognition for all awards and transactions for fiscal years beginning on or after January 1, 2004.
- # of differences **– 42**

Impairment of long-lived assets –

- Impairment provisions of CICA Handbook Section 3061, *Property, Plant and Equipment*, replaced by Section 3063, *Impairment of Long-Lived Assets* have been harmonized with FASB standards, effective for fiscal years beginning on or after April 1, 2003.
- # of differences **– 24**

Asset Retirement Obligations

- New CICA Handbook Section 3110, *Asset Retirement Obligations*, has been harmonized with FASB Statement No. 143, *Accounting for Asset Retirement Obligations*. Section 3110 is effective for fiscal years beginning on or after January 1, 2004.
- # or differences - **52**

Other transitional differences re standards that were effective in prior years

- Effects of differences in the treatment of changes arising on adopting new standards. These differences will ultimately disappear as change effects are reflected in subsequent years' income. Reported transitional differences in 2003 are in respect of CICA Handbook standards in the following areas that were harmonized with US GAAP in prior years: business combinations, pensions and post-employment benefits, income taxes, securitizations, variable interest entities, extraordinary items (early debt retirement), goodwill and other intangibles, discontinued operations, and foreign currency translation.
- # of differences - **38**

<u>AcSB projects underway or planned</u>

Financial instruments and hedge accounting –

- The AcSB has approved a set of Canadian standards that will harmonize Canadian GAAP with US and IASB standards on accounting for investments (SFAS 115, *Accounting for Certain Debt and Equity Securities*) and derivatives and hedges (SFAS 133 and subsequent amendments).

- # of differences **– 148** (Although Canadian companies will be able to create certain voluntary differences with US GAAP in a few areas where Canadian standards may allow some alternatives not permitted under US GAAP)

Debt-equity classifications –

- The AcSB has commenced a project to amend the requirements in Section 3860, *Financial Instruments – Disclosure and Presentation*, concerning the balance sheet classification of issued securities as liabilities or equity. The objective of the project is to follow closely the FASB project on Liabilities and Equity.
- # of differences **– 45**

Accounting standards improvements –

- The AcSB commenced a series of projects to amend and improve certain CICA Handbook standards that are no longer relevant, are incomplete, contain unjustified inconsistencies with US and International Accounting Standards Board GAAP, or where there may be questions of style, lack of specificity, or effectiveness. These projects can be expected to result in some significant reduction of differences with US GAAP, but it is too early to estimate the number of differences that will be eliminated.

Total differences expected to be eliminated– approximately 350

These constitute almost 50% of the total differences reported by the 138 companies in the 2003 survey. It may be rather optimistic to expect that all these differences will be eliminated because of transitional differences that may take some time to work through, and different interpretations in light of circumstances in practice may lead to some differences in these areas.