

FINANCIAL REPORTING BULLETIN

Why IFRS Might Have Implications for Private Enterprises

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Starting January 1, 2011, publicly accountable profit-oriented enterprises in Canada are required to follow International Financial Reporting Standards (IFRS).

With the availability of accounting standards for private enterprises – generally accepted accounting principles for private enterprises – private companies in Canada have the option of adopting IFRS or private enterprise standards for years beginning on or after January 1, 2011 with provision also for early adoption.

In considering their options, it is conceivable that a meaningful number of private enterprises in Canada may elect to adopt IFRS. Some may reasonably be expected to use IFRS because:

- they have a foreign parent company or subsidiaries already, or intending to, report under IFRS;
- existing and prospective shareholders or lenders may favour IFRS; or,
- foreign capital providers inclusive of lenders may require financial statements to be prepared under IFRS.

Importantly, private enterprises may want to consider other dimensions affecting the ultimate decision. These should include considerations such as:

- the intention or possibility of going public (becoming publicly accountable) at a later time;
- anticipation of a future sale to a public company;
- the desirability of being recognized as equivalent to or similar to public companies;
- the necessity of comparability with competitors which may report under IFRS;
- the propensity to report under IFRS due to publicly traded market competitors;
- whether there is sufficient time to analyse implications, to affect accounting policy choices, and to collect comparative data to accommodate the January 1, 2011 IFRS changeover date; and,
- the preferences of lenders and the enterprise's proclivity to adapt.

In short, while a private enterprise can adopt private enterprise standards and migrate to IFRS at a later time, it may make business sense to consider IFRS now if the company believes it is likely to get there anyway. Cost, effort, and timing will naturally be part of the assessment.