



**Mutual Fund Dealers Association of Canada**  
Association canadienne des courtiers de fonds mutuels

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**BULLETIN #0378 – M**  
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# MFDA Bulletin

## Membership Information

**For Distribution to Relevant Parties within your Firm and Members' Audit Firms**

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### Conversion to International Financial Reporting Standards (“IFRS”) – Discussion Paper / Request for Comment

As noted in MFDA Bulletin #0328-M (Conversion to IFRS), the Canadian Accounting Standards Board (“AcSB”) has confirmed that IFRS will replace current Canadian Generally Accepted Accounting Principles (“GAAP”) for publicly accountable enterprises (“PAEs”), effective for fiscal years beginning on or after January 1, 2011. All entities meeting the definition of PAE, including MFDA Members, must adopt IFRS by this effective date.

#### **Purpose of this Discussion Paper**

As further discussed below, not all Members will meet the definition of a PAE. The purpose of this discussion paper is to solicit feedback from Members and auditors to determine the impact to them should the MFDA require all Members to adopt IFRS.

This discussion paper (i) sets out issues and options that are currently being considered by the MFDA and (ii) seeks input with respect to the potential impact of IFRS implementation on Member operations. Questions seeking specific Member input are set out below.

The MFDA recognizes that requiring financial reporting in accordance with IFRS for all Members could have an impact on Member operations (e.g. in respect of the calculation of regulatory capital, financial statement preparation and costs) and that such impact may be both transitional (i.e. those that arise in moving from current Canadian GAAP to IFRS) and ongoing.

Accordingly, the MFDA intends to use Member responses to the questions set out below, and any other input provided, to assist in determining the significance of such impact across the entire Membership prior to making a determination with respect to whether IFRS should be adopted for all Members.

Members are encouraged to consult with their external auditors when reviewing this discussion paper, responding to the questions set out below and providing any additional input that may assist the MFDA in considering relevant issues.

## **Background**

Bulletin #0328-M advised Members of entities excluded from the definition of PAE as the AcSB defined the term at that time. Members were also advised that, based on the existing definition, the position of the MFDA was that Level 3 and 4 dealers would be considered PAEs, and would thus be required to file their financial reports with comparative financial information in accordance with IFRS, for financial years commencing on or after January 1, 2011.

It was also noted that MFDA staff had not yet determined if Level 2 dealers met the definition of a PAE but that consideration was being given to requiring all Members to report using IFRS to maintain a consistent standard of reporting across the entire Membership.

In March 2009, the AcSB issued its second Exposure Draft relating to Adopting IFRS in Canada, which included a revision to the definition of PAE. The AcSB's revised definition of PAE includes profit-oriented entities that:

- Have issued, or are in the process of issuing, debt or equity instruments that are, or will be, traded in a public market; or
- Hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

As a result of this revised definition, it appears that only Level 4 dealers holding client assets in nominee name meet the definition of PAE and are required to file financial reports in accordance with IFRS for financial years commencing on or after January 1, 2011.

In addition, MFDA staff notes that Members that are directly or indirectly owned by companies that come within the definition of PAE may elect to adopt IFRS to satisfy the reporting requirements of the corporate group.

## **Current Options and MFDA Considerations**

The main options currently being considered are:

### **Option 1:**

Require all Members to submit financial reporting to the MFDA based on IFRS.

**MFDA Considerations:** This option may result in transition issues for all Members but would enable the MFDA to maintain a consistent standard of financial reporting across the entire Membership. It would also be more cost-effective for the MFDA as the MFDA would only be required to maintain a single platform for Members' financial reporting and a single format for the filing of Member financial reports. Further, Members, other than Level 4 dealers, may still be required to change accounting policies as a result of changes being made to private entity reporting.

## **Option 2:**

Require all Level 4 Members to submit financial reporting to the MFDA based on IFRS. Members other than Level 4 dealers would either (i) report in accordance with private enterprise GAAP; or (ii) elect to report in accordance with IFRS. These Members would be required to choose a reporting option, advise the MFDA of their option by a specified date and, subject to conditions, remain with the option selected.

**MFDA Considerations:** MFDA staff are concerned that there may be auditors of Members who will decide not to conduct an audit in accordance with IFRS which would require Members to change audit firms. MFDA staff are also concerned that there may be potential costs, particularly one-time consulting costs relating to the first year adoption, in converting to IFRS.

## **Request for Comments**

We are seeking input from Members and their auditors on the options discussed above. MFDA welcomes all comments but has provided questions below for consideration when responding. Members are encouraged to provide as much detail as possible.

Comments should be directed to [membershipservices@mfd.ca](mailto:membershipservices@mfd.ca) by **Monday July 13, 2009**.

### Questions to Consider:

1. Under Option 1, the MFDA would require all financial reporting under MFDA Rules be done in accordance with IFRS, except as modified by the requirements of the MFDA or MFDA Investor Protection Corporation, for all Members.
  - (a) Has your firm conducted an assessment of the impact of having to adopt IFRS [for the purpose of all financial reporting under MFDA Rules]?
  - (b) If so, what transitional and ongoing impact have you identified? In your response please consider and specifically address the impact with respect to each of the following:
    - Calculation of Risk Adjusted Capital ("RAC");
    - Preparation of financial statements;
    - Existing accounting policies and procedures;
    - Related party transactions;
    - Financial statement disclosures;

- Lease obligations;
  - Early Warning Tests;
  - Existing debt covenants;
  - Compensation plans;
  - Existing pension obligations/liabilities;
  - Increased costs (e.g. accounting resources, increased internal / external audit costs, increased costs related to systems changes/other). Please provide a breakdown in terms of (i) increased costs related to the transition to IFRS; and (ii) increased costs that would be incurred on an ongoing basis;
  - Systems changes: please provide details with respect to the types of changes that would be necessary;
2. If you are a Level 2 or 3 dealer, would your firm elect to adopt/has your firm elected to adopt IFRS? If so, please provide the reason (e.g. internal firm decision/upon the recommendation of the external auditors or to satisfy the financial reporting requirements of the corporate group as your firm is owned by a company that comes within the definition of PAE).

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