



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

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MFDA Bulletin

Compliance

For Distribution to Relevant Parties within your Firm and Audit Firm

International Financial Reporting Standards (“IFRS”) – Follow up to MFDA Bulletin #0378-M, Conversion to IFRS

The Canadian Accounting Standards Board (“AcSB”) has confirmed that International Financial Reporting Standards (“IFRS”) will replace current Canadian Generally Accepted Accounting Principles (“GAAP”) for all entities that meet the definition of a publicly accountable enterprise (“PAE”), effective for fiscal years beginning on or after January 1, 2011.

On June 12, 2009, the MFDA published [Bulletin #0378-M](#) which: (i) set out issues and options under consideration by the MFDA with respect to the conversion to IFRS; and (ii) sought input with respect to the potential impact of IFRS implementation on Member operations. On July 10, 2009, the Canadian Securities Administrators (“CSA”) issued CSA Staff Notice 33-314 *International Financial Reporting Standards and Registrants*, in which CSA staff advised that they had concluded their consideration of this issue, would require all registrants that were not Members of a Self-Regulatory Organization (“SRO”) to use IFRS for financial years beginning on or after January 1, 2011 and that the requirement would apply regardless of whether the non-SRO registrant meets the definition of a PAE. On July 13, 2009 the Investment Industry Regulatory Organization of Canada (“IIROC”) issued Notice #09-0209, *International Financial Report Standards (IFRS) Survey Results and Staff Recommendations*, in which IIROC staff outlined their recommendation to require a consistent reporting standard for all Members based upon IFRS.

Purpose

The purpose of this Bulletin is to provide Members with a summary of comments received in response to Bulletin #0378-M and to update Members on MFDA staff position with respect to Members’ financial reporting requirements following the changeover to IFRS in 2011.

Summary of Comments

The MFDA received a total of 11 submissions from Member and industry participants in response to Bulletin #0378-M. Generally, commenters highlighted the fact that not all MFDA Members would meet the definition of a PAE and therefore, imposing IFRS on firms that would not otherwise be required to convert to this standard may result in increased costs. The areas of concern regarding costs focused on: (i) the one-time conversion/transition costs (e.g. staff resources, staff education/training, operational system changes); and (ii) increased accounting and audit fees going forward. These commenters also questioned whether the benefits derived from imposing one reporting standard on all Members, given the different business and operational models they might have, would compensate for the increased costs expected.

Two Members stated they had performed a preliminary impact assessment of the changing standards on their financial position/results and determined the impact would be low to moderate.

MFDA Analysis and Considerations

MFDA staff reviewed the composition of its membership with respect to: dealer level; firms owned by a PAE and therefore likely required to report to their parent company using IFRS; nature of operations; and complexity of financial statements. In addition, MFDA staff performed a preliminary review of IFRS in comparison to existing Canadian GAAP and the requirements expected at the time of first adopting IFRS. Key differences requiring consideration by the majority of Members are financial statement disclosures and requirements associated with first-time adoption.

In response to Member concerns regarding possible increased costs in relation to benefits derived, MFDA staff intends to review the specific financial statement disclosure requirements and consider whether it is appropriate to allow a departure from IFRS on the Form 1, MFDA Financial Questionnaire and Report (“FQR”), where minimal regulatory benefit would be achieved from requiring full IFRS compliance. Furthermore, MFDA staff does not consider comparative financial statement information to be of significant regulatory importance as the primary purpose of the reporting requirements is to assess the current solvency of the firm. Therefore, comparative financial statement balances for regulatory reporting purposes will likely not be imposed during the first year of transitional reporting.

In addition, the implications of permitting two sets of reporting standards across the membership were considered as part of the IFRS review process. Two standards (i.e. IFRS and private enterprise GAAP) would require staff to be familiar with both standards and keep abreast of all changes as they arise. Further, having two standards would cause duplication of electronic filing platforms and FQRs and an inability to effectively compare and analyze financial data across the membership. This increase in regulatory oversight requirements would lead to increased operational costs to the MFDA and thus, indirectly, the membership.

MFDA staff also considered the approach taken by CSA and IIROC staff, as noted above, with respect to IFRS adoption for reporting entities under the jurisdiction of IIROC and the CSA, as

staff is of the view that it is important to maintain a consistent standard of reporting across the industry.

Recommendation

As a result of the foregoing, MFDA staff considers the requirement to adopt one standard for all MFDA Members, based upon IFRS, to be the best approach to ensure that consistent, fair and cost-effective regulatory oversight of the membership continues. MFDA staff will work with IIROC staff to ensure that a consistent standard is applied amongst all SRO Members.

As the requirements of IFRS and MFDA financial reporting will be reviewed from the perspective of relevance/regulatory benefits achieved, MFDA staff does not anticipate that requiring financial reporting in accordance with IFRS will create widespread changes or have a significant impact on Member operations for those who would not otherwise be required to report using IFRS. MFDA staff intends to communicate to Members proposed changes to the financial reporting requirements and specified departures from IFRS. Members are encouraged to communicate and consult with their auditors with respect to the impact these changes may have on their financial reports.

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