

June 13, 2000

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Dear Sir:

Re: Ontario Securities Review Advisory Committee
Five-Year Review of Securities Legislation

We are writing to comment on a number of the issues raised in the Committee's request for comments dated April 28, 2000.

These comments are made by a Task Force¹ of the Accounting and Assurance Standards Boards charged with developing revisions of Handbook Sections related to prospectuses and other offering documents. This letter does not necessarily represent the views of the Boards, which are the professional standard-setting bodies within the Institute.

Because of the number of developments currently under way in the securities field, we have been unable in the time available for comment to do any more than identify the subjects of our interest or concern. The Task Force suggests that it would be useful for it to meet with members of the Securities Review Advisory Committee to discuss the matters touched on in this letter. Members of the Task Force have collectively had many years of experience in dealing with the affairs of public companies and government entities whose securities are traded both in Canada and in the United States and other countries. The Task Force has also been working with staff of the Ontario Securities Commission ("OSC") and the Canadian Securities Administrators ("CSA") on a number of initiatives over the past 18 months. The contact person at CICA is Don Jeffreys – Telephone (416) 204-3232, Fax (416) 204-3408, E-mail don.jeffreys@cica.ca.

¹ The Task Force comprises Carolyn M. Anthony, CA, PricewaterhouseCoopers LLP, Toronto; Maria V. Casano, FCA, BDO Dunwoody LLP, Toronto; Gordon C. Fowler, FCA, KPMG LLP, Toronto; Bryan D. Pinney, CA, Arthur Andersen LLP, Calgary; Susan F. Quig, CA, Ernst & Young LLP, Montréal; C. Peter Valentine, FCA, Auditor General of Alberta, Edmonton; Edward G. Williams, CA, Deloitte & Touche LLP, Vancouver; James S. Saloman, CA, IASC, London, Observer.
Staff: Donald E. Jeffreys, CA, CICA, Toronto; John Kirkwood, CA, Consultant, CICA, Toronto.
The CSA observer to the Task Force is Heidi M. Franken, CA of the Ontario Securities Commission staff.

We believe there is a need for a high-level strategic plan for the development of securities legislation and regulation, that would address “big picture” issues, such as:

- Continuing collaboration among the members of the CSA in furtherance of the concept of a “virtual National Securities Commission”.
- Removal of any continuing legal impediments to the efficient functioning of the OSC. The Task Force is well impressed by the pace and direction of change that has taken place in recent months on the initiative of the OSC.
- The increasing integration of North American and world securities markets, as a result of cross-border securities issues as well as developments such as the association of Canadian stock exchanges with exchanges in the United States and elsewhere. Variances in securities regulation between Canada and the United States seem to us to be very difficult to justify in most areas.
- The disintermediation in financial markets resulting from use of the Internet and other technological advances.
- Strengthening the effectiveness of continuous disclosure by issuers of publicly-traded securities.
- Advancing the development of international accounting standards. In this connection, we applaud the recent endorsement by The International Organization of Securities Commissions (IOSCO) of the work of the International Accounting Standards Committee (IASC).
- The role of auditors in connection with review of unaudited interim financial statements, future oriented financial information, management’s discussion and analysis (“MD&A”), and other areas outside the audited annual financial statements.
- Issues relating to civil liability of experts, and of directors and officers of securities issuers under the Securities Act. We are concerned not only with proposed civil liability provisions under the continuous disclosure system, but also with the existing Sections 130 and 131 of the Act.

In connection with accounting, financial disclosure and auditing matters, we believe it would be helpful for the Committee to engage in discussion with members of the accounting and auditing profession.

The following observations are made with respect to some of the specific issues raised in the Request for Comments and follow the numbers of the items in the Issues List.

Item 19 Continuous disclosure – general

As noted above, we are concerned with the need for strengthening the continuous disclosure system. The recent CSA Concept Proposal for an Integrated Disclosure System gives promise of substantial progress in this area. We believe that statutory civil liability, coupled with effective surveillance and punitive action by regulatory authorities, is likely necessary to ensure satisfactory operation of the system.

Item 20 Materiality

The provisions of the proposed prospectus Rule 41-501 requiring financial statement disclosure for material probable acquisitions appear to be inconsistent with the existing timely disclosure policy set forth in National Policy No. 40. We believe efforts should be made to conform such provisions which are closely related: no financial statement requirement should apply before the timely disclosure requirements become effective.

Item 21 Financial disclosure

- a. Both GAAP and GAAS are constantly evolving, and there are always, quite properly, perceptions that they can be improved. Institutions such as the CICA Accounting Standards Board and the IASC are dedicated to maintaining the quality and relevance of accounting standards, through constant attention to new issues and developments and through the use of due process (which includes public disclosure and discussion of proposed changes) to publish standards that are generally accepted.
- b. The CICA is committed to promoting harmonization, when this is feasible, between Canadian and international accounting standards. For example, the CICA Accounting Standards Board is currently developing a proposed standard on stock-based compensation that is intended to harmonize Canadian recognition and measurement practices with those in the United States. As well, the G4+1² is slated to issue a paper on the subject in July. Both hold promise for improving practices in this area in Canada, particularly the latter which will advocate full income statement recognition with no option of note disclosure without recognition.

We believe that the OSC is in a position to facilitate the use of international standards by foreign issuers whose securities trade in Ontario, and look forward to reviewing the OSC's paper on this subject this summer.

² The G4+1 is an informal working group of standard-setting bodies in Canada, Australia, New Zealand, the UK, and the US, with an IASC representative as an observer.

Item 39 Rule-making authority of the Commission

We believe that the rule-making process can be effective, but only if adequate discussion with knowledgeable members of the public, and field-testing of proposed changes, are carried out before the changes reach the drafting stage.

In our view, republication is warranted in any case in which material amendments are to be made to proposed rule changes that have been exposed to the public.

We hope that these comments will be helpful.

Yours very truly,

Maria V. Casano, FCA
Member, Task Force on Prospectuses and Other Offering Documents