

June 20, 2001

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
The Manitoba Securities Commission
Ontario Securities Commission
Office of the Administrator, New Brunswick
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland
Securities Registry, Government of the Northwest Territories
Registrar of Securities, Government of Yukon Territory
Securities Registry, Government of the Nunavut Territory

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 800, Box 55
Toronto, Ontario
M5H 3S8

Dear Sir:

The Canadian Securities Administrators have invited comment on possible changes to rules governing accounting standards for financial statements filed by reporting issuers. PanCanadian welcomes the idea that there should be a choice of accounting standards for Canadian companies filing financial information in compliance with regulatory requirements. The CSA's Discussion Paper 52-401 addresses this issue at a global level by considering the possible use of US GAAP, International Accounting Standards or perhaps the GAAP of other countries such as the UK. For Canadian companies, the ability to use US GAAP is of primary interest and the CSA should not subordinate dealing with this issue in favour of resolving the global question. While a comprehensive, universal framework of accounting standards may evolve, PanCanadian believes that for shareholders and potential investors the option to use US GAAP would be much more relevant than using IAS or some other country's GAAP. PanCanadian endorses the option of using US GAAP for regulatory reporting purposes and, if this option were offered, would examine the possibility of using it.

PanCanadian recognizes that adopting this proposal and indeed any of the possibilities identified in the discussion paper raises valid questions in a number of areas. Our comments on four of these areas are provided below.

1. US GAAP

Attention has been focussed on the question of accounting standards because of the increase in cross border financing activity. This activity has highlighted the requirements of different accounting standards in various jurisdictions. These differences in accounting standards have been identified as a significant impediment to effective investor communications and efficient capital markets. Companies based in one country must face the challenge of interaction with investors in other countries accustomed to analysing financial information prepared according the accepted standard in that country. The paper also notes that effort is underway to achieve convergence among major standards-setting bodies around the world and furthermore, that an accelerated effort is proceeding to eliminate major differences between Canadian and US GAAP. These efforts should be supported and, when concluded, would resolve the problem increasingly met under the current circumstances. The work on Canadian / US GAAP convergence should receive particular attention in view of progress already made and the fact that there are not many significant differences remaining.

The US has traditionally been a market for Canadian companies selling goods and services and raising investment capital. But as the globalisation trend has developed, the US has also become by far the most likely source of non-Canadian financing for Canadian companies. In light of this, establishing US GAAP as an alternate regulatory reporting standard for Canadian companies is an eminently practical decision.

Throughout the CSA paper, acceptance of another set of reporting standards is characterised as a "relaxation" of requirements. Unfortunately, this attaches a pejorative connotation to such a change by implying that all other standards are inferior to Canadian standards. In fact, if the alternative standards were of high quality, it would be more appropriate to view the proposed change as an expansion of filing options. US standards are of high quality, have a substantial degree of congruity with Canadian GAAP and their use by Canadian companies could yield benefits for those companies and their investors. Introducing the use of US GAAP would not degrade Canadian financial reporting standards.

2. Comparability

A single set of GAAP, on the face of it, would imply universal comparability within the domain where those GAAP apply. In fact, GAAP, as the term indicates, offer guidance in the form of principles only. Within GAAP there are often a variety of acceptable mechanisms to account for the financial results of an enterprise. There are, for example, several methods of depreciation. Even within industry groups, homogeneity of practice is unlikely. In the oil and gas industry, for example, there are two very different methods of

accounting for oil and gas activities – full cost and successful efforts. The discretionary choices available with respect to accounting methods make comparability of financial results between companies somewhat more elusive than would immediately be supposed. The problem is aggravated by the need, even with a selected method of accounting, to interpret how that method may apply in a various circumstances. Judgment must be exercised and different corporations may legitimately choose a unique approach which they deem appropriate to their situation. Finally, if financial information is filed using more than a single set of GAAP, potential confusion is likely to arise from the existence of financial reports prepared using more than one set of standards. Very clearly, comparability, at present, must be seen to be a concept with significant limitations.

The greatest value of comparability lies in the ability to make comparisons among realistic options and, for any given company, those options are found within its peer group. If the majority of reporting entities in that peer group prepare financial information according to a particular set of GAAP, then the optimum level of comparability is achieved if all companies in that peer group can use the same GAAP. Ultimately, the market will ensure that companies in a peer group migrate to the best standard. For many Canadian companies, reporting financial information according to US GAAP would be the best standard.

Given the current level of similarity between Canadian and US GAAP, and that progress continues toward their convergence, the problem of comparability between Canadian and US GAAP is a diminishing one. PanCanadian believes that the CSA should not preoccupy itself in pursuit of comparability which ultimately cannot be achieved. Instead it should accept that companies would do what is necessary to attract investors. The CSA and other regulatory authorities should ensure that high quality GAAP are established for reporting purposes in that regard. On that basis, we submit that Canadian reporting requirements be expanded to include the option of using US GAAP for Canadian filing purposes. Given that the US standards are already of high quality, there is no need to mandate disclosure beyond that which is already defined in the standards.

3. *Professional capacity*

The discussion paper raises a concern about professional expertise with respect to the use of another set of standards beside Canadian GAAP. This concern would relate to the maintenance of records, preparation of financial reports based on those records and the auditing of those financial reports. We believe that a considerable amount of the expertise necessary to undertake these functions already exists within Canada as it relates to US GAAP. The same level of professional expertise probably does not exist for the GAAP of other countries nor for IAS.

Some Canadian companies who have undertaken cross border financing have already chosen to prepare financial reports according to US GAAP for US filing purposes. In other cases, reconciliations between Canadian and US GAAP are prepared and this also requires a working knowledge of US GAAP. Finally, there are a number of Canadian companies who are subsidiaries of US companies. They may or may not be involved in regulatory reporting activities in both countries but, certainly do prepare financial statements according to US GAAP for consolidation by their US parent. There is clearly a level of expertise which does exist but may seem "hidden" because its use is limited and not entirely overt. The companies most interested in using US GAAP in place of Canadian GAAP in all probability already possess the knowledge and expertise to do so.

If there is a view that professional capacity would have to be raised to a higher level to meet a potential increase in activity, this should be seen as a normal challenge in a dynamic business environment. Continuing education is a fundamental part of any profession and the accounting profession in Canada is active in addressing new developments. Canadian GAAP are not static. Since 1989 the Emerging Issues Committee of the CICA has issued 119 abstracts dealing with a wide variety subjects requiring guidance as business practices have evolved. Enhancing professional expertise with respect to US GAAP would not be an extraordinary activity for members of the Canadian accounting profession and would build on an existing base of knowledge. In our view, the adoption of US GAAP as an alternate set of reporting standards would not be hampered by lack of professional capacity.

4. *Other statutory requirements*

The CSA rightly notes that even if US GAAP were allowed for purposes of regulatory reporting, the specification of financial information prepared according to Canadian GAAP in other statutes and regulations and perhaps covenants relating to individual companies' financial arrangements would preclude the realisation of benefits otherwise available by using a single standard. We agree and accept that the advantages of having an option with regard to the standard which might be used may not be achieved immediately. Nevertheless, the process of establishing the option must be initiated. In many cases, the specification of Canadian GAAP for financial statements is intended to ensure that a consistent, high quality standard is used to present financial information. US GAAP certainly meets this requirement and it will be necessary to seek amendment of various statutes and regulations to permit use of US GAAP as an alternate standard. The basis for proposing such a change would be the same as outlined earlier – considerable similarity between Canadian and US standards and growing convergence between the two sets of standards. Therefore, although changes to other statutes and regulations will indeed be required, we urge the CSA to take the initiative by expanding its requirements by allowing the use of US GAAP as an option.

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In general, PanCanadian believes that the decision about acceptable standards and processes surrounding the application of those standards should be market driven. We recognise that the CSA has an important role in protecting investors but equally important, it must provide a competitive, efficient structure for access to capital markets. This role can no longer be carried out effectively by confining its perspective to the Canadian context alone. It is necessary to recognise that many companies will act to enhance their financing prospects by going outside the borders of their own countries. To ensure that Canadian companies can access opportunities in both Canada and the US in a cost effective, efficient manner, we recommend that the CSA install US GAAP as an alternate, high quality set of financial reporting standards acceptable for financial reporting in Canada.

Yours truly,

PANCANADIAN PETROLEUM LIMITED

WESLEY R. TWISS
Executive Vice President & Chief Financial Officer