

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 the Yukon Territory  
Securities Registry, Government of the Nunavut Territory

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

June 27, 2001

Dear Mr. Stevenson:

**Re: Discussion Paper 52-401 “Financial Reporting in Canada’s Capital Markets”**

We appreciate this opportunity to provide comments on the above titled discussion paper regarding whether the current financial reporting rules under the provincial securities acts should be relaxed to allow some or all companies to file financial statements using accounting standards other than Canadian generally accepted accounting principles (“Canadian GAAP”), perhaps with limited or no reconciliation to Canadian GAAP.

We understand that as the world’s major financial markets become increasingly interconnected, differences in offering, listing and reporting requirements in individual markets present a challenge to many participants seeking relevant and useful information, including market regulators, companies seeking to raise capital and investors.

We support initiatives that result in simplicity in financial reporting and reduce reporting workloads, thus freeing scarce financial and technical resources for more meaningful activities. However, there are pros and cons to the proposals that need to be weighed carefully.

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In an ideal environment, one set of financial statements should meet the needs of all stakeholders. We believe that the concerted harmonization efforts undertaken by the Canadian and certain foreign accounting professions have and continue to result in fewer differences in accounting conventions in major markets. We believe that the very issues raised in the discussion paper have been a driving force behind the progress toward harmonization and that these efforts should be encouraged to continue at the same rapid pace, thus addressing the root cause of those issues. Perhaps relaxing reporting standards will reduce the pressure currently on the accounting and securities bodies to accelerate the pace of change.

While the paper does not address matters of regulatory oversight, taxation, management and corporate governance processes or audit, these items have a significant impact on the reporting required. Allowing financial reporting on a non Canadian GAAP basis for securities purposes does not relieve companies of the duplicate reporting and may prove detrimental to the fundamental strength of the Canadian capital markets if investors do not understand the basis of reporting used. Further, the Securities & Exchange Commission will likely retain its reconciliation requirements, and relaxing the rules may give the appearance of a less robust Canadian reporting environment.

We are also concerned that the reform suggested by the discussion paper will take many years to complete and will consume valuable resources at the Commissions, regulatory bodies, accounting firms and within companies themselves.

Due to the complex nature of our industry, we are concerned that introducing the changes contemplated will result in an unlevel playing field for life insurance companies in Canada. GAAP for life insurance enterprises in Canada differs significantly from the US, and there are no comparable standards in the international arena. Canadian life insurance companies manage their business on the basis of a GAAP that is progressive and has some attributes of fair value accounting. Conversely, US GAAP for life insurers is generally retrospective and based on a historical cost accounting model that has little meaning for business that can stay in force for 50 years. Further, it applies fair value measurement and recognition concepts to only one side of the balance sheet, resulting in a mismatched income statement. We are concerned that allowing some of Canada's largest companies to abandon Canadian GAAP as the prime basis of reporting may undermine the Canadian accounting framework. We do not support this manner of change if the outcome is such that our industry is forced to adopt US GAAP as its basis of reporting. However, our experience since becoming a public company has shown that our Canadian GAAP results are accepted and projected by both Canadian and US analysts, and that while we produce a US GAAP reconciliation, it is not looked upon as relevant by ourselves, nor, it appears, by others. Thus we question whether US analysts or other users find the reconciliation useful, or just another form filing.

Lastly, changes to the securities reporting environment in Canada alone are not particularly useful to our company, unless reciprocity was granted in the United States.

***DETAILED RESPONSES:***

**Question 1:**

*Should we relax the current requirements for reporting issuers participating in Canada's capital markets to provide financial information prepared in accordance with Canadian GAAP? By reference to your own experience, please explain why Canadian GAAP, as a consistent benchmark, does or does not have continuing relevance to Canadian investors in the current environment.*

We have explained above the circumstances related to our specific industry, where GAAP is very different by country, and is non-existent at the international level.

We believe that domestic companies in our industry whose shareholders are predominantly Canadian and whose earnings are derived in large part in Canada, have an obligation to Canadian capital markets and investors, and should continue to provide financial statements prepared in accordance with Canadian GAAP. Although certain companies may consider the US market a more relevant market for raising capital, Canadian investors and other financial statement users should be able to look to the Canadian regulators to provide a framework whereby they assume that their investment choices are made on a level playing field – that is, they can choose a company and industry to invest in, without having to be conversant in multiple bases of accounting. If a company chooses to access foreign markets where Canadian GAAP is not acceptable, the decision to produce a reconciliation to foreign GAAP, or full foreign financial statements, is a business choice that company needs to make.

Foreign companies, whose domestic GAAP is sufficiently similar to Canadian GAAP should be able to file their domestic GAAP financial statements without a full quantitative reconciliation to Canadian GAAP, however they should provide a qualitative description of significant differences and the impact on Earnings Per Share. This view is based on the preposition that analysts' reports are generally based on the home GAAP jurisdiction, and Canadian investors will look to these reports in making investment decisions, rather than a qualitative reconciliation.

This same rationale could also be applied to Canadian companies in industries where Canadian GAAP is sufficiently similar to US GAAP, taking into account the concerns expressed in our introduction.

Any foreign filer whose industry GAAP is not sufficiently similar to the Canadian model, or in instances where the GAAP is considered inadequate compared to Canadian standards, should be expected to file a financial statement with an appropriate audited reconciliation to the annual accounts and to the financial statements included in offering documents and information circulars. We believe this should be applied to the life insurance industry.

**Question 2:**

*Should any relaxation in current requirements address (a) foreign issuers; or (b) Canadian issuers; or (c) both foreign and Canadian issuers? Please explain the basis for your views, including addressing the basis for any distinction you believe should be made between the*

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*requirements for foreign issuers and those for Canadian issuers. If you believe a requirement for foreign issuers to reconcile their financial statements to Canadian GAAP should be retained, please comment on whether that requirement should apply to continuous disclosure as well as offering documents and information circulars.*

See response to Question 1.

**Question 3:**

*In your view, how should the CSA implement any relaxation in the requirement for reconciliation from foreign GAAP to Canadian GAAP?*

See response to Question 1.

**Question 4:**

*If you believe Canadian companies should no longer be required to prepare financial statements in accordance with Canadian GAAP, what alternatives do you believe should be available and why are they an appropriate basis for a Canadian company to participate in the Canadian capital markets? Comment on the impact of the concession you propose on the comparability of the financial information available about Canadian companies in the Canadian capital markets. Is it important that Canadian investors have access to financial information prepared on a comparative basis? If not why?*

See response to Question 1.

**Question 5:**

*On the basis of your own knowledge and experience, what is your assessment of the ability of Canadian issuers, auditors and users to prepare, audit and make use of financial statements prepared on bases other than Canadian GAAP?*

We believe that companies, auditors and investors in our industry in Canada generally do not have an in-depth knowledge of foreign accounting principles and will therefore have a difficult time understanding financial statements prepared on the basis other than Canadian GAAP without expending scarce resources on training and education, both as an initial investment and an ongoing maintenance basis. While certain companies may be prepared to undertake this initiative, investors are less likely to have the time and resources to gain knowledge of another basis of GAAP. This would likely also apply to regulators and other government bodies who are contending with the majority, and not the few.

**Question 6:**

*If you believe alternatives to Canadian GAAP should be permitted, what specific steps should the CSA, the accounting profession or others take to facilitate implementation in a way that overcomes the issues identified in section 5 of the paper and ensures Canadians are provided with high quality, relevant, reliable and understandable financial information? Please comment on: (i) the steps you believe the CSA should take to ensure their ability to provide appropriate regulatory oversight over the financial statements provided to participants in the Canada's capital markets; and (ii) changes to incorporate statutes that would be required to facilitate the financial reporting environment you envisage.*

See response to Question 1 for Canadian domestic companies.

For foreign filers, the CSA should ensure it has a reciprocity arrangement with other countries that allows them to rely on foreign regulatory oversight, so long as the accounting, reporting and regulatory standards are comparable to Canada's. For those foreign filers from countries or from industries whose GAAP is not comparable to Canada, current filing requirements should continue to apply.

**Question 7:**

*If you believe the accounting standards of certain foreign countries, e.g. US GAAP, should be acceptable for use by Canadian companies while other foreign GAAP should not, what is your basis for this distinction?*

See response to Question 1. On a general basis, the differences between US and Canadian AAP are significantly less than 5 years ago, and progress continues to be made. Many of the more mainstream differences that have existed between the two GAAP's in the past have now been eliminated, and a review of the current CICA agenda would suggest more harmonization is imminent, including stock based compensation and the treatment of foreign exchange gains/losses on long term debt. In addition, the current fair value project that many worldwide accounting bodies are participating in suggests a fundamental change in accounting recognition and measurement is an achievable goal. While there are differences in the GAAP's, including the treatment of derivatives, and the valuation and income recognition principles for stocks and bonds, much of the information US GAAP requires is disclosed currently in Canadian financial statements, and is thus identifiable. Further, where Canadian GAAP is silent, it is accepted practice to look to US GAAP for guidance.

We believe that the connection between Canadian GAAP and other countries accounting practices (other than the US) is not as strong and as such, other foreign GAAP's cannot be considered equivalent to Canadian GAAP, particularly for our industry. To the best of our knowledge, there are no comparable standards across countries and for this reason, the international accounting standards committee (IASC) embarked on a project on insurance accounting project a number of years ago. Results prepared using other foreign GAAP's will generally differ significantly from Canadian GAAP results and will not be comparable or provide particularly relevant information to Canadian investors.

**Question 8:**

*If you believe US GAAP should be permitted as an alternative basis for preparation of a Canadian company's financial statements, should that alternative be available to all Canadian companies or to only a limited group such as those that are SEC registrants and are therefore required to provide either US GAAP financial statements or reconciliation to US GAAP? Similarly, if you believe Canadian companies should be permitted to use other basis of accounting such as IAS or UK GAAP, should those alternatives be available to all or to a limited group only? If you believe the alternatives should be available to a limited group only, what criteria should be applied to determine eligibility?*

See response to Question 1. While US GAAP has its defects, it is a basis of accounting commonly used by a dominant capital market and with rare exception, convergence efforts should continue to be the focus of the accounting professions. For those industries that have few US GAAP differences, providing US GAAP financial statements with some form of reconciliation may prove adequate for investors.

However, for our industry, we do not believe US GAAP or any foreign GAAP should be permitted as an alternative basis for preparation of a Canadian company's financial statements. Management and business decisions are based on the accounting model of each country, and without reconciliation, investors will have difficulty comparing businesses for investment decision purposes. Internationally, the IASC is in the process of developing an international insurance standard, and this may provide a viable alternative in the future.

**Question 9:**

*Regardless of which bases of accounting you consider acceptable as alternatives to Canadian GAAP, should a Canadian company using one of those alternatives be required to present a reconciliation Canadian GAAP in some or all cases? If so, in what form should the reconciliation be presented? E.g. Full quantified reconciliation or something less, such as reconciliation of only specified financial statement items or a qualitative discussion of differences?*

Refer to response in Question 8.

**Question 10:**

*If the CSA permits alternatives to Canadian GAAP, what transitional issues would need to be addressed to facilitate implementation of the change? For example, in the first period in which a Canadian company presents financial statements prepared in accordance with a basis of accounting other than Canadian GAAP, should comparative information for all prior years presented be required on a consistent basis?*

In the event that the CSA permits alternatives to Canadian GAAP, we believe that the following issues would need to be addressed (with exception for US GAAP as previously outlined):

- A reconciliation from Canadian GAAP to the alternative GAAP should be presented for the last 5 years on a consistent basis.
- Full Canadian GAAP financial statements and full foreign GAAP financial statements should be issued for the first transitional year to ensure that the users establish the material differences between the different bases.
- The currency of preparation of the financial statements should be in Canadian dollars.

## **IASC STANDARDS:**

### **Question 11:**

*Do the core standards provide a sufficiently comprehensive accounting framework to provide a basis to address the fundamental accounting issues encountered in a broad range of industries and a variety of transactions without the need to look to other accounting regimes? Please explain the basis for your view and, if you believe there are additional topics that need to be addressed in order to create a comprehensive set of standards, identify those topics.*

We believe that experience in Canada in applying IAS and analyzing financial statements in accordance with those standards are very limited. Based on our limited knowledge of these standards, it appears that the core standards provide a sufficiently comprehensive accounting framework. It covers most basic areas of accounting. However, the core standards of the IAS do not give the detailed guidance necessary for specific industries, such as life and property & casualty insurance. We are aware of the current IASC project to develop an international accounting standard for the valuation of insurance contracts (for both life and property and casualty contracts) and have participated in the review of the proposals from the Steering Committee over the last few years. We are encouraged that the basic premise of the proposals are akin to the principles in our current Canadian GAAP life insurance accounting standard, and we will continue to support this initiative.

### **Question 12:**

*For specialized industry issues that are not yet addressed in IAS, should we require companies to follow relevant Canadian standards in the financial statements provided to Canadian investors? Alternatively, should we permit use of home country standards with reconciliation to relevant Canadian standards or should we not impose any special requirements? Which approach would produce the most meaningful financial statements for Canadian investors? Is the approach of having the host country specify treatment for topics not addressed by the core standards a workable approach? Is there a better approach?*

We believe that for industry issues that are not yet addressed in IAS, companies should provide a reconciliation from the home country standard to Canadian GAAP since this will provide more meaningful information to the Canadian investors.

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**Question 13-17**

We cannot provide comments on these questions given Manulife Financial's limited experience and application of IAS pronouncements.

We hope that these comments are helpful in your deliberations. If you would like any further elaboration, please do not hesitate to contact me at 416-415-3867.

Yours truly,

Robyn A. Wyatt  
*Vice President & Chief Accountant*

Cc: Peter Rubenovitch, EVP & Chief Financial Officer