

Agrium Inc.
Response to the Canadian Securities Administrators
Discussion Paper 52-401
Financial Reporting in Canada's Capital Markets

PART 6: QUESTIONS RELATING TO POSSIBLE CHANGES TO CURRENT REQUIREMENTS

Q.1

66. Should we relax the current requirements for reporting issuers participating in Canada's capital markets to provide financial information prepared in accordance with Canadian generally accepted accounting principles? 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.

Agrium's Response

We do not believe that the current requirements should be relaxed for reporting issuers participating in Canada's Capital markets. We feel the difference in Canadian and other accounting standards are significant enough that the consistency and comparability of reporting amongst entities would be sacrificed. Agrium's various entities report results to legislative bodies in countries that have GAAP different than Canada. These vary from report in results in Canadian, US and International accounting standards. We note that the difference in reporting standards for issues like the reporting of preferred securities and foreign exchange result in significant differences in earnings and balance sheet accounts.

Until accounting standards in other jurisdictions move closer to IAS, Canadian and US the reconciliation's need to be in place. We believe the further harmonization of the three main accounting standards should occur with the ultimate goal of having one standard worldwide.

67. If you believe the CSA should relax the current requirements to provide Canadian GAAP financial information, please address Question 2.

Q.2

68. 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 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.

69. In addressing Question 2, please comment on:

(i) your experience with the quality and usefulness of the information included in Canadian GAAP reconciliations provided by foreign issuers;

(ii) whether, from your viewpoint as a preparer, user, or auditor of non-Canadian GAAP financial statements, the reconciliation has enhanced the usefulness or reliability of the financial information and how you have used the reconciliation;

(iii) any consequences that could result from reducing or eliminating the reconciliation requirement, including your assessment of the magnitude of any decrease or increase in costs or benefits to preparers or users of financial statements.

Foreign issuers

70. Question 3 addresses possible approaches to relaxing requirements to reconcile to Canadian GAAP when a foreign issuer prepares its financial statements in accordance with foreign GAAP.

Q.3

71. *In your view, how should the CSA implement any relaxation in the requirement for a reconciliation from foreign GAAP to Canadian GAAP? Please consider at least the following possibilities:*

(i) elimination of all reconciliation requirements, regardless of the basis on which a foreign issuer prepares its financial statements;

(ii) elimination of the requirement for a full reconciliation and its replacement with a requirement to reconcile only specified financial statement items. If you believe such an approach is appropriate, please describe how you believe it could be implemented;

(iii) elimination of all quantitative reconciliation requirements, regardless of the basis on which a foreign issuer prepares its financial statements, and introduction of a narrative discussion of qualitative differences between the basis of accounting used in preparing the financial statements and Canadian GAAP;

(iv) elimination of the reconciliation requirement for only those foreign issuers that prepare financial statements in accordance with specified bases of accounting, e.g., IAS and US GAAP. If you recommend this approach, please set out the criteria you believe should be applied in making this determination and indicate which bases you believe would meet these criteria;

(v) identification of specific reconciliation requirements depending on the type of transaction, type of security or proportionate interest of Canadian investors. If you believe such an approach is appropriate, please describe how you believe it could be implemented.

Agrium's Response

If the CSA were to relax standards for foreign issuers we would prefer that exemptions were available if the foreign issuer complied with US GAAP. US GAAP is the most consistent with Canadian GAAP and Canadian users are the most familiar with US GAAP due to the connection the capital markets have in the two countries.

Canadian issuers

72. Questions 4 to 10 address issues relating to the possible approaches to relaxing the requirement for Canadian issuers to prepare Canadian GAAP financial statements.

Q.4

73. 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 Canadian capital markets? Please comment on the impact of the concessions you propose on the comparability of 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 comparable basis? If not, why not?

Agrium's Response

We believe that Canadian companies should continue to be required to comply with Canadian GAAP until the majority of significant capital market countries accept international standards.

If the CSA no longer requires Canadian companies to comply with Canadian GAAP then we recommend that they be required to comply with US GAAP. US GAAP is similar to Canadian GAAP and the two standards are consistently moving closer together.

Q.5

74. 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?

Agrium's Response

There is increasing professional development courses training Canadian's in US GAAP. This is still not to the level that Canadian's are fully comfortable with US reporting standards. Canadian's have only a basic understanding of foreign accounting standards including International standards.

Q.6

75. 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 Canada's capital markets; and (ii) changes to incorporating statutes that would be required to facilitate the financial reporting environment you envisage.

Agrium's Response

If the CSA were to allow US GAAP reporting, the CSA could take a role in educating preparers on the application of US GAAP. They could also increase its involvement in monitoring of those using US GAAP to ensure they are applying it correctly.

Q.7

76. *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?*

Agrium's Response

Our distinction is based on the commonalities between the US and Canadian standards and the reciprocal involvement in their capital markets.

Q.8

77. *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 a reconciliation to US GAAP? Similarly, if you believe Canadian companies should be permitted to use other bases 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?*

Agrium's Response

It should be available to all as long as they comply with the standards.

Q.9

78. *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 to Canadian GAAP in some or all cases? If so, in what form should the reconciliation be presented, e.g., a full quantified reconciliation or something less, such as a reconciliation of only specified financial statement items or a qualitative discussion of differences?*

Agrium's Response

As stated earlier, the number of differences between Canadian and US GAAP that effects Agrium is small. The number of differences between the two standards overall are small. Those that do exist can effectively be represented in a simple reconciliation with a brief narrative.

Q.10

79. *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?

Agrium's Response

Comparative information should be presented on the same basis as the current information.

Q.11

85. 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.

Agrium's Response

The standards are comprehensive enough however there needs to be consistency in standards for all companies. If that means adopting standards that are quite specific and descriptive to ensure consistency then we feel that is the best approach.

Q.12

86. 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?

Agrium's Response

As stated earlier there should be reconciliation to Canadian standards currently due to the differences that exist in the standards.

Q.13

94. Are IAS of sufficiently high quality to be used without reconciliation to Canadian GAAP in cross-border filings in Canada? Why or why not? Please provide us with your experience in using, auditing or analysing the application of such standards.

Agrium's Response

IAS currently allows too much flexibility in alternatives in treating like situations. One example is deferred financing costs on debt issued to finance the construction of a new facility. IAS allows a number of alternatives including capitalization as part of the asset and subsequent amortization over the assets life. Both Canadian and US standards

require deferral and amortization over the life of the debt instrument which results in both different balance sheet classification and a different amortization amount through the income statement if the term the asset is amortized over differs from the term of the debt instrument.

Q.14

95. What do you view as the important differences between Canadian GAAP and IAS? We are particularly interested in investors' and analysts' experience with IAS. Will any of these differences affect the usefulness of a foreign issuer's financial information reporting package? If so, which ones?

Agrium's Response

The variety of options preparers are allowed to choose.

Q.15

96. *Based on your experience, are there specific aspects of any IAS that you believe result in better or poorer financial reporting (recognition, measurement or disclosure) than financial reporting prepared using Canadian GAAP? If so, what are the specific aspects and reasons for your conclusion?*

Q.16

97. How does the level of guidance provided in IAS compare with Canadian standards and is it sufficient to result in consistent application? Do IAS provide sufficient guidance to promote consistent, comparable and transparent reporting of similar transactions by different enterprises? Why or why not?

Agrium's Response

We do not believe that they do as the IAS currently allows a number of alternatives in like situations allowing entities to follow significantly different practices.

Q.17

98. *Are there mechanisms or structures in place within public accounting firms and the business community that will promote consistent interpretations of IAS where those standards do not provide explicit implementation guidance? Please provide specific examples.*

Agrium's Response

There doesn't appear to be any mechanism to promote consistent application of standards outside of explicit implementation guidance.