

June 29, 2001

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
The Manitoba Securities Commission
Ontario Securities Commission
Commission des valeurs mobilières du Québec
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 Nanuvut Territory

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

C/O Claude St. Pierre, Secrétaire
Commission des valeurs mobilières du Québec
800 Victoria Square, Stock Exchange Tower
P.O. Box 246, 22nd Floor
Montreal, Québec, H4Z 1G3

Ladies and Gentlemen:

**Re: Canadian Securities Administrators Discussion Paper 52-401
Financial Reporting in Canada's Capital Markets**

We are pleased to submit our comments on the above noted Discussion Paper. We are responding to the questions 1 through 10 posed by the Discussion Paper since our Canadian firm has relatively less practical experience with International Accounting Standards.

Question 1

We understand that Canadian market capitalization accounts for approximately 2% of the world's total market capitalization. In contrast, the U.S. market accounts for approximately 50% of the world's capitalization. To maintain the strength and diversity of Canadian capital markets, it is important to encourage non-Canadian issuers to qualify their securities for trading in Canada and therefore to be responsive and welcoming to non-Canadian issuers participating or considering participation in our capital markets.

At the same time, we believe that Canadian accounting standards should be the primary basis of preparation for financial information communicated within Canada for the near term. It is essential for financial information to be prepared on a consistent, comparable and reliable basis that is widely understood by the Canadian business community. Existing Canadian standards are clearly the leading choice at this time, simply because the other contenders (U.S. or International standards) are neither as widely used nor as widely understood at present. However, it is not our view that Canadian standards are inherently superior to other comprehensive bases of accounting for use in Canada. We applaud the efforts of accounting standard setters to eliminate major accounting differences and believe that this approach offers a reasonable means for Canada to transition to internationally recognized accounting standards.

To encourage the use of Canadian capital markets by non-Canadian investors, while recognizing that Canadian accounting standards likely will remain the benchmark in this country at least in the near term, we believe consideration should be given to elimination of the financial statement reconciliation requirement for non-Canadian issuers that are SEC registrants. These non-Canadian SEC registrants would provide financial statements that are either prepared in conformity with U.S. accounting standards or reconciled to that accounting basis. We believe it would be acceptable to exempt these issuers from the preparation of any financial information based on Canadian standards for the following reasons.

1. SEC registrants generally are required to have a maturity and sophistication in their financial reporting disclosures and processes that would help to ensure the quality of the financial reports.
2. An easing of the current requirements for reconciliation to Canadian accounting standards should encourage non-Canadian SEC registrants to distribute and list their securities in Canada.
3. U.S. accounting standards are increasingly applied and understood by Canadian financial statement users and this trend is likely to continue as the Canadian Institute of Chartered Accountants continues to eliminate major differences between Canadian and U.S. standards.
4. The number of non-Canadian SEC registrants wishing to issue or list securities in Canada is likely to remain small even with these exemptions because of the small size of our capital markets.

We also recommend that non-Canadian issuers that are not SEC registrants should be required to reconcile their financial statements to Canadian accounting standards for both primary distribution and continuous disclosure purposes. Such reconciliations should have a form and content similar to that specified in Item 18 of the SEC's Form 20-F and should be audited to the extent that the underlying financial statements are required to be audited.

Question 2

Our comments under Question 1 address the extent of relaxation of current requirements that we would endorse for non-Canadian issuers.

We also believe that some relaxation of current financial statement requirements should be considered for Canadian companies that wish to prepare their financial statements in accordance with U.S. accounting standards. One approach would be to permit the use of financial statements prepared in accordance with U.S. accounting standards, provided such financial statements are reconciled to Canadian accounting standards. Again, we would recommend that reconciliations should be provided for primary distributions and continuous reporting, should have a form and content similar to that specified in Item 18 of the SEC's Form 20-F and should be audited to the extent that the underlying financial statements are required to be audited.

This approach merits consideration since it would reduce the costs and efforts of financial reporting for Canadian companies that elect to prepare financial statements in accordance with U.S. standards while at the same time providing the Canadian marketplace with essentially the same information as is provided under the existing requirements.

Question 3

The relaxation of the rules we propose would allow Canadian issuers to use U.S. accounting standards with a full reconciliation to Canadian accounting standards as well as allow non-Canadian SEC registrants to file financial statements without reconciliation. We do not believe that any limited form of reconciliation (narrative discussion only or reconciliation of selected financial statement items only) would consistently produce complete and relevant information. Expansion of the exemptions from reconciliation beyond those noted above based on type of security or proportional interest of Canadians, similar to such exemptions in the Multi Jurisdictional Disclosure System, merits further consideration.

Question 4

We believe that Canadian issuers should be allowed to use U.S. accounting standards for the preparation of financial statements with a full reconciliation to Canadian accounting standards. In addition to the cost savings referred to under Question 2, this approach could facilitate the comparison of Canadian companies to non-Canadian competitors and would help level the playing field in those instances when U.S. accounting standards are claimed to convey competitive advantages.

Allowing Canadian issuers to use U.S. accounting standards with full reconciliation to Canadian accounting standards should not have a major impact on the comparability of financial

information. However, we suggest that you obtain input from analysts and brokers to determine the impact, if any, of this change on their decision making processes. It would appear that the Canadian investment community currently makes investment decisions in global industries such as airlines, aerospace, and financial services using a mixture of Canadian and non-Canadian financial statements, since the primary competitors of Canadian multinational companies tend to be non-Canadian companies which do not prepare any financial information in conformity with Canadian standards.

Question 5

Based on our experience, Canadian issuers accessing the U.S. markets have the ability to prepare financial statements using U.S. accounting standards. Generally, these companies hire major auditing firms to advise them in the preparation of their U.S. financial information. These auditing firms clearly have the requisite knowledge and ability to audit and advise clients in the preparation of financial statements prepared in accordance with U.S. accounting standards.

In general, we do not view this issue as a question of the ability of Canadians to deal with non-Canadian bases of accounting, since necessary abilities can always be acquired. Instead we believe this is fundamentally an issue of cost. Acquiring new abilities to cope with new accounting standards is a costly proposition. If new accounting bases are to be permitted or required in Canada, a careful analysis of the related costs and benefits should be performed to help insure the changes are justified.

Question 6

The significant concerns raised in Section 5 on the use of U.S. accounting standards are the comparability of information for Canadian investors, sovereignty over U.S. accounting standards, and increased cost to analysts and users.

As noted above in Questions 4 and 5, lack of comparability for Canadian investors should not be a significant issue to overcome since we propose that exemption from reconciliation be provided only to non-Canadian SEC registrants.

As to sovereignty over standards, the CICA has lessened the impact of this issue by working with the FASB to represent Canadian interests in the development of new U.S. standards. In addition, differences continue to decrease as harmonization activities continue. We note that recent new CICA standards that are based on U.S. or International standards differ very little from the original non-Canadian standard.

We have no basis to comment on whether our proposals will result in increased cost to analysts. The Canadian Securities Administrators (“CSA”) should obtain input from analysts on this issue. However, the additional costs (if any) may be offset by the improved comparability among U.S.

and Canadian companies and our proposed requirement for Canadian companies to reconcile to Canadian accounting standards.

Our proposals include relaxing the reconciliation requirements for SEC registrants and allowing Canadian issuers to use U.S. accounting standards with a reconciliation to Canadian accounting standards. This approach should not result in significant additional review responsibilities for the CSA since non-Canadian SEC registrants are subject to SEC scrutiny. Canadian issuers choosing to use U.S. accounting standards (which we believe will be limited in number, largely to Canadian SEC registrants and Canadians seeking eventual SEC registration) will still be required to provide a complete reconciliation to Canadian accounting standards. Therefore, it should be relatively straightforward for the CSA to review the application of U.S. and Canadian accounting standards. In addition, as Canadian and U.S. accounting standards are harmonized, the differences will be eliminated.

However, the full economic benefits of our proposals will not be achieved unless Canadian corporate statutes are amended to permit or require the same bases of accounting mandated by securities laws. For example, a Canadian SEC registrant that is permitted to file financial statements with the securities authorities based on U.S. standards with a reconciliation to Canadian standards will not enjoy meaningful cost savings if corporate laws require financial statements based on Canadian standards to be provided to shareholders. Thus the economic aspects of our proposals are dependent on the conformity of securities and corporate laws.

Question 7

We believe that U.S. accounting standards alone should be an acceptable alternative to Canadian standards in the limited circumstances described in this letter. We distinguish U.S. accounting standards from other foreign accounting bases for use in Canada because many Canadian financial statement preparers and users, as well as auditors, are already familiar with U.S. accounting standards. Further, given the extensive economic ties between Canada and the United States, Canada will achieve far greater benefits from the increased usage of U.S. accounting standards than through usage of any other foreign basis of accounting.

Question 8

Under Question 2 above, we recommended that all Canadian companies be permitted to prepare financial statements in accordance with U.S. accounting standards, accompanied by a complete reconciliation to Canadian accounting standards. As a practical matter, cost constraints make it likely that this alternative would appeal only to Canadian companies that are (or expect to be in the near term) SEC registrants. Consequently, our proposal may have a limited immediate impact on existing Canadian reporting practices.

Question 9

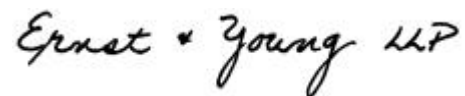
We believe, as mentioned above, to serve domestic purposes, Canadian companies using U.S. accounting standards should be required to provide a full reconciliation to Canadian accounting standards.

Question 10

In transition years the CSA should require all comparative years to be restated on a consistent basis to provide meaningful disclosures. Interim financial statements and MD&A should also be restated for the comparative periods.

We trust that our comments will be useful in your deliberations. If you wish to discuss this letter, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

[Douglas L. Cameron \(416-943-3665\)/Aaron S. Ames \(416-943-2175\)](#)