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June 30, 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
Registrar of Securities, Government of the Northwest Territories
Registrar of Securities, Government of the 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
e-mail: jstevenson@osc.gov.on.ca

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

Dear Sirs:

**Re: Request for Comment - Discussion Paper 52-401 – Financial Reporting in Canada's
Capital Markets**

We are writing to provide our comments on the proposals put forward in the above document. We are pleased to see that the Canadian securities regulatory authorities are addressing this timely and important issue.

Changing Canadian securities legislation to accept financial statements prepared on the basis of U. S. generally accepted accounting principles (“US GAAP”) by both foreign and domestic reporting issuers would, in our view, constitute a major stride forward towards recognizing the internationalization of the world’s capital markets and the significance of the US capital market, relative to the Canadian capital market. Such action would, in our view, enhance the efficiency of raising capital by Canadian entities, facilitate access to the Canadian markets by foreign issuers, while, at the same time, providing adequate protection to Canadian investors.

However, we would, at this time, not recommend that Canadian securities legislation be changed to accept financial statements prepared on the basis of International Accounting Standards (“IAS”) without reconciliation to either US GAAP or Canadian GAAP.

The attached appendix sets out our overall observations and recommendations for consideration by the commissions in the context of our responses to the seventeen questions posed in the Discussion Paper.

Yours very truly,



Gordon C. Fowler, Partner



Alan G. Van Weelden, Senior Principal

Appendix – RESPONSES TO SPECIFIC CSA QUESTIONS

We have reproduced the entire question from the Discussion Paper, and our comments or response below:

Q.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 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.

Response

We believe changes are necessary, but that the changes need not be considered as “relaxing” the current requirements, but rather recognizing and accepting higher standards of financial reporting. For example, changing current reporting requirements to make US GAAP an alternative standard of financial reporting in prospectuses and continuous disclosure documents would not be lowering Canadian requirements, but raising them, in part, to embrace the higher standards of financial reporting of the largest capital market in the world.

For a growing number of Canadian public companies with international operations, Canadian GAAP reporting is considered inadequate when seeking access to the world's major capital markets. A reconciliation to US GAAP is necessary to access US capital markets as well as major European and Asian capital markets. Even after providing a GAAP reconciliation, some of our clients maintain that share values may be discounted in the foreign markets because the financial information in the reconciliation note may not be given the same weight as a set of US GAAP financial statements. This category of Canadian issuers needs a better alternative. Based on our experience with cross border securities offerings/listings, the foreign capital market of overwhelming choice to Canadian issuers is the US capital market, hardly surprising since the US is Canada's closest and largest trading partner.

However, there are thousands of Canadian public companies that do not have plans to operate on an international scale. We believe these companies presently are well-served by Canadian GAAP and will continue to be well-served by Canadian GAAP as the CICA continues to harmonize its standards with those in the US and the International Accounting Standards Board. We feel that abandoning Canadian GAAP for IAS would be a backward step as far as high quality financial reporting in Canadian capital markets is concerned.

Can Canadian investors understand US GAAP financial statements?

We believe that most Canadian investors have embraced the concept of diversification in their investment portfolios, including international diversification, as a way to enhance long-term risk-adjusted returns. As a result, Canadian investors have, of necessity, had to

acquire, or rely on advisors who have acquired, a level of familiarity with financial statements prepared on the basis of foreign accounting principles. We believe this trend to international diversification of investment portfolios will accelerate in the future as the world's capital markets become more accessible to Canadian investors. As a result, we believe that Canadian investors will have to become increasingly familiar with foreign GAAP financial statements.

We believe the Canadian investors of most continuing importance to the integrity of our capital markets are our various financial institutions, including securities dealers, underwriting firms and investment managers. We say this believing that the majority of individual Canadian investors continue to rely, at least to some extent, on research and advice provided by these "institutional investors". Because of our country's close proximity to and strong trading relationship with the US, many of our largest clients, and indeed, many of Canada's largest public companies have successfully accessed the US markets for both their products/services and their capital requirements. By necessity, the institutional investors have had to acquire directly, or obtain access to, the expertise necessary to evaluate the merits of an investment in US public companies.

This group of investors also is better equipped to analyze and understand the increasingly complex types of transactions being entered into by world-class public companies. The complexity of these transactions, particularly those involving financial instruments, is in turn increasing the complexity of new and emerging accounting standards. It is a challenge for Canadian accounting professionals to keep current with these developments. It is unrealistic to expect the average individual (retail) Canadian investor will be able keep up-to-date with these changes. Reliance by smaller investors on others is becoming more essential, and in particular, reliance on the market makers and investment advisors, who analyze and evaluate the financial information and other disclosures and corporate developments of public companies.

Our conclusion is that Canadian institutional investors have become sufficiently familiar with US GAAP financial statements that they do not need the "protection" of mandatory Canadian GAAP financial statements or, for foreign reporting issuers, foreign GAAP financial statements reconciled to Canadian GAAP.

Thus, we recommend that the Canadian Securities Administrators accept financial statements prepared on the basis of either Canadian GAAP or US GAAP.

Why not IAS?

We believe that Canadian GAAP financial reporting in our capital markets is preferable to IAS and will be so for many years to come. If our client base is representative of the Canadian capital market participants, we believe a substantial majority of Canadian issuers have had little demand for and experience with IAS. The same is likely true for many Canadian auditors. Consequently we do not believe IAS should be accepted for financial

reporting in Canada at this time. (See our response to Questions 7, 11-17 for additional comments/concerns about IAS.)

Q.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 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.

Response

We believe that changes in the financial statement requirements should address both Canadian and foreign issuers.

We believe that US GAAP financial reporting should be an acceptable alternative for all Canadian issuers. Some constraints on the acceptability of US GAAP may be required during a transition period in order to ensure that the quality of financial reporting does not suffer due to an overload of pressure on financial executives, audit committees, auditors and regulators. Even after this transition period, there may be an ongoing need to regulate the acceptability of US GAAP financial reporting by certain foreign (non-US) issuers in the same way that the CSA presently oversees the integrity of Canadian GAAP financial reporting by foreign issuers under Part 6 of Companion Policy 44-101CP.

During the transition period, the primary jurisdiction of an issuer's primary listing may be relevant to both classes of issuers in evaluating the justification for a change in reporting basis, because the basis of financial reporting in the primary trading jurisdiction likely will be of greatest relevance to the market-makers of the issuer's shares. For example, the need for a change to US GAAP financial reporting likely is more pressing for a Canadian SEC registrant than for a junior issuer listed only on a Canadian stock exchange. Conversely, the primary listing of a foreign registrant may be on the TSE, in which case Canadian GAAP financial reporting may be of continuing relevance.

Another distinction that may be meaningful during the transition period is the issuer's experience with reconciling its financial statements to US GAAP. For example, we are not convinced that obtaining a listing on a US stock exchange, by itself, is sufficient reason to change from Canadian to US GAAP reporting. Consideration should be given to whether issuer has cleared a registration statement with the SEC, or has a record of continuous and timely reporting to the SEC, say three years or more (a "seasoning" period).

A foreign issuer that has cleared a registration statement with the SEC, or that is a "seasoned" SEC registrant, should be able to file, for both prospectus and continuous

disclosure purposes, financial statements either prepared in accordance with US GAAP or reconciled to US GAAP in accordance with the SEC's requirements. We regard the US securities regulatory oversight as sufficient to ensure the reliability of the US GAAP reporting for such foreign issuers.

Foreign non-US issuers, should have to reconcile their financial statements to Canadian or US GAAP, subject to the type of regulatory oversight presently contained in Part 6 of Companion Policy 44-101CP. We believe exemptions should be permitted in some circumstances. (See response to Question 3(v) below for several examples.)

Foreign Issuers

Q.3 – *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.***

Response:

In general, we believe that the CSA should accept US GAAP financial statements of US domestic companies without a reconciliation to Canadian GAAP, either in the primary market or in the secondary market.

However, in our view, the only basis on which the CSA should consider adopting IAS GAAP without reconciliation is to permit “senior” foreign (i.e. non-US) issuers to include a Canadian tranche of any transnational securities offerings, which we discuss further below.

We expect that many non-US foreign entities are quite prepared to reconcile their financial statements to US GAAP in order to obtain access to the US capital markets. However, we also expect that such companies are significantly less inclined to prepare an additional reconciliation to Canadian GAAP. Further, we do not see any ongoing justification for the existing significant difference in Canadian securities regulations relating to the primary market (reconciliation to Canadian GAAP is required) and the secondary market (no reconciliation to Canadian GAAP is required). Therefore, our preference would be for the CSA to accept IAS GAAP or other foreign GAAP financial statements on the same basis as the SEC accepts them – that is, the CSA should accept IAS GAAP or foreign GAAP financial statements reconciled to US GAAP. (We acknowledge that the SEC is currently studying this issue, and has not released any final proposed rules that would change the current requirement for foreign registrants using IAS GAAP to prepare a full reconciliation to US GAAP. We propose that the CSA adopt whatever final rules the SEC establishes.)

In response to the specific alternatives listed in Q.3 above, we have the following comments:

- (i) We strongly oppose the elimination of all reconciliation requirements.
- (ii) We strongly oppose selective reconciliation because the end product is incomplete financial information that is not prepared in accordance with any basis of GAAP.
- (iii) We strongly oppose the elimination of all quantitative reconciliation requirements. A qualitative discussion alone, is likely to gloss over the complex and potentially material underlying differences in accounting bases.
- (iv) At the end of an appropriate transition period, we support the acceptance of US GAAP without reconciliation to Canadian GAAP. (See response to Questions 2 and 6 for some of the considerations in ensuring an orderly transition.)
- (v) In addition to the general exemption in item (iv) we believe there are other circumstances where a reconciliation is not necessary. For example, a “senior” foreign issuer seeking a secondary listing of its shares on the TSE or to include Canadian investors in a multinational securities offering. As another example, we believe that exceptions should be made for exchangeable shares issued by a foreign issuer to acquire a Canadian issuer, whether by take-over bid or plan of arrangement, where the exchange feature is provided primarily to enable Canadian investors to defer the income tax consequences of the exchanges of shares. In this situation, we believe that Canadian GAAP financial information, both before and after the prospective investment decision, is irrelevant to the value of the foreign issuer’s shares being offered. Even if we make the assumption that the average Canadian

investor is expert in BOTH interpreting Canadian GAAP financial statements and applying appropriate share valuation methods, the best the investor can come up with is a hypothetical Canadian stock exchange valuation of the investment. Any regulatory concerns over the valuation of the foreign issuer's shares can be mitigated by limiting the exemption to senior issuers on stock exchanges recognized by the CSA. The concept of "recognized" stock exchanges has been part of Canadian securities legislation for decades, although its historical application has been largely provincial. A standard for "senior issuers" could be developed by analogy to MJDS criteria.

Canadian Issuers

Q.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 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?

Response:

We are opposed, initially, to any "wholesale" abandonment of Canadian GAAP or "free choice" of the reporting basis for Canadian companies. US GAAP should be an immediately acceptable alternative for a Canadian company that is an SEC registrant and has either cleared a registration statement with the SEC or has three or more years of experience in reporting to the SEC on a US GAAP basis. In our experience, many of these companies sell their products or services in the US market and find their financial performance is being compared by analysts primarily to their US competitors and their stock price strongly influenced by US capital market conditions.

The change to US GAAP reporting by non-SEC registrants should be subject to regulatory approval during a transition period. (See response to Question 6 for further details.)

However, after a transitional period during which Canadian reporting issuers, Canadian auditors and Canadian securities regulators become more expert in dealing with US GAAP, we would support a regime in which all Canadian reporting issuers are provided the option of preparing US GAAP financial statements for dissemination to shareholders and for filing with Canadian securities regulators.

Our expectation is that this option will be selected by only a minority of Canadian companies that have a connection with the US.

Q.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?

Response:

a) Auditors

In recent years we have made a concerted effort to develop and increase the US GAAP expertise within our Canadian firm, with considerable support from our US firm. Nevertheless, we find it a challenge to meet the existing demand for US GAAP reporting.

By way of background, KPMG LLP Canada faces the following circumstances:

As of June 30, 2001, KPMG LLP Canada audits 159 SEC registrants, as follows:

- 47 are MJDS filers, and file Annual Reports on Form 40-F, for which the primary additional requirement is an audited US GAAP reconciliation;
- 66 are foreign private issuers that do not qualify for MJDS, and file Annual Reports on Form 20-F, in which case the financial statements must be prepared in accordance with US GAAP or reconciled to US GAAP, and our audit must be completed in accordance with US GAAS;
- 24 file Annual Reports on Form 10-KSB, eighteen of which are US domestic companies and hence their financial statements must be prepared in accordance with US GAAP and our audit must be completed in accordance with US GAAS.
- 22 file Annual Reports on Form 10-K, twelve of which prepare their financial statements in accordance with US GAAP; and for all such 10-K filers, our audit must be completed in accordance with US GAAS.

In addition, 17 non-SEC clients have requested us to audit US GAAP financial statements.

We have implemented the following processes and policies that are applied to all of these SEC Registrants clients:

- We have implemented procedures that comply with the requirements of the SEC Practice Section of the AICPA (“SECPS”) membership rules - Appendix K for SEC Filing Reviews. In order to implement the required procedures, we have qualified a group of Canadian partners as SEC Reviewing Partners to augment the SEC Reviewing Partner program of KPMG LLP US. Each Canadian SEC Reviewing Partner has gone through a developmental assignment with KPMG LLP US’s Department of Professional Practice –

Accounting and Auditing. A Canadian or a US SEC Reviewing Partner is assigned to every SEC Registrant and carries out an SEC Filing Review in accordance with SECPS Appendix K.

- We have implemented procedures that comply with SECPS Appendix K for annual inspections of the SEC Filing Review process; and our inspection procedures are included in KPMG International's oversight review of our Quality Performance Review Program.
- We have implemented procedures that comply with Appendix E of the membership requirement of the SECPS for concurring partner reviews of SEC Registrant's financial statements.
- We have developed US GAAS supplementary audit checklists and related guidance materials that, when coupled with an audit done in accordance with Canadian GAAS and the KPMG International Audit Manual, meets the requirements of US GAAS. These checklists are applied on the audits of all SEC Registrants, except for MJDS clients.
- We have developed a 140 page comparison of Canadian GAAP and US GAAP that our audit staff use to ensure that audited financial statements appearing in SEC filings are properly reconciled to, or prepared in accordance with, US GAAP. This checklist is updated annually.
- We have developed and delivered in-depth training in US GAAP, US GAAS and SEC Rules and Regulations to the engagement teams that service SEC Registrant clients. Further, our standard audit staff training courses are based on training courses developed by KPMG LLP US for US auditors.
- KPMG LLP Canada has unlimited access to the KPMG US Department of Professional Practice – Accounting and Auditing, for consultations on issues relating to US GAAP, US GAAS and SEC Rules and Regulations. Consultations with DPP-A&A are frequent (daily).
- We are encouraging staff and partners who service SEC Registrant clients to become CPA's by writing the International Qualification Examination. Many have done so and more are planning to do so in the near future.

Based on these processes and policies, we believe that we are qualified to audit the financial statements of a our SEC and non-SEC clients' US GAAP financial statements. However, we would be resource challenged if a significant additional number of our non-SEC registrant reporting issuer clients requested us to audit financial statements prepared in accordance with US GAAP.

We understand that the other “Big 5” Canadian audit firms have similar capabilities and challenges. We expect that the smaller firms are less equipped to deal with US GAAP financial statements, and rely heavily on their US affiliates.

With respect to IAS GAAP financial statements, KPMG LLP Canada is considerably less well equipped to audit such financial statements. We have virtually no professional accountants in Canada who are expert in IAS. If a client requests us to audit such financial statements, we must obtain significant assistance from the KPMG International IAS Desk in London.

b) Preparers

Based on our experience with our existing SEC registrant clients, there is a broad spectrum of US GAAP skills in Canadian SEC registrant companies. However, we believe that our non-SEC Canadian clients’ financial executives, and their audit committees members, for the most part, are not **currently** well equipped to expertly handle the preparation of US GAAP financial statements. We have offered US GAAP updates to our clients and, on a more selective basis, more in-depth US GAAP training, to ameliorate this apparent skills deficiency.

In a December 2000 speech, the SEC’s Chief Accountant, Lynn Turner, remarked that the success of the US capital markets “...is in no small part due to the trust and confidence the investing public place in the financial information they receive and analyze”. He also stated that “...it takes all three pillars of financial reporting, the financial executive, the independent auditor and the audit committee, to maintain the foundation upon which the success of our markets have been built”. We are in complete agreement with his assessment of the critical roles management, auditors and audit committees have to perform in order to produce high quality financial reporting. Any substantive shift in the foundation of financial reporting, such as a change from Canadian GAAP to US GAAP, requires those comprising each of the three “pillars” to possess the requisite knowledge of and expertise in the new basis of financial reporting.

We believe that obtaining professional accounting expertise in US GAAP is paramount to maintaining the reputation of Canadian accounting professionals and the integrity of financial reporting by Canadian public companies.

With respect to IAS, we have only a small handful of Canadian clients that are sufficiently familiar with IAS to prepare full IAS GAAP financial statements, and these clients are all subsidiaries of European multinational entities.

c) Regulators

Similar to our experience with our SEC registrant clients, Canadian securities regulators do not **currently** appear to be well equipped to expertly handle a flood of reporting issuers converting to US GAAP reporting.

d) Users

We do not have a great deal of direct experience with users' knowledge of, and ability to deal with, US GAAP financial statements. Our indirect experience comes from dealing with Canadian and US underwriters on US or cross-border securities offerings. In these circumstances, in most cases both Canadian and US underwriters appeared to understand the US GAAP issues that we discussed with them.

However, as discussed in our response to Q.1 above, due to the widespread acceptance of the practice of international portfolio diversification, we would surmise that users either have, or will have to obtain access to, knowledge of US GAAP.

We are not aware of the level of knowledge of, or experience with, IAS that Canadian users may have.

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

Response:

As previously stated, we strongly oppose any “wholesale” adoption/acceptance of IAS or any other foreign GAAP, except for US GAAP. With respect to US GAAP, we believe there should be a transition period during which there would be limited acceptance of US GAAP. During this transition period, an implementation plan must be developed. The plan should include elements such as:

- incorporating US GAAP (and/or IAS) training into university and UFE curricula;
- increasing access to and quality of US GAAP (and/or IAS) training for graduate CAs, whether in public accounting practice or in financial executive positions (such training

could be made mandatory, but would not necessarily be aimed at attaining CPA designation);

- arranging for preparation and publishing of a comprehensive comparison of Canadian and US GAAP (and/or IAS). Existing comparisons are at such a “high level” that they are of limited use to those who must actually prepare US GAAP or IAS financial statements; and
- continuing support for the CICA Accounting Standards Board efforts towards convergence of accounting standards.

Canadian securities regulatory authorities (“SRAs”) will have a major role to play in any transition to a new regime for financial reporting. Aside from the process of making regulatory changes, there likely will be a need for regulatory authorities to monitor, if not control, the transition of reporting issuers to a new financial reporting basis.

While there are comprehensive regulations governing those who sell securities in Canada, we are not aware of any regulatory requirements for the financial executives who assume responsibility for preparing the financial information on which trading in securities takes place. Canadian securities regulators presently require in certain circumstances “comfort” letters from Canadian auditors discussing their expertise in matters concerning the application of US GAAP and US GAAS. In an orderly transition to a new basis of financial reporting, such as US GAAP, it may be reasonable to require from a reporting issuer that wants to change to US GAAP reporting, submissions from both the reporting issuer’s CFO and audit committee, discussing their expertise to prepare and oversee, respectively, US GAAP financial statements.

Canadian SRAs have the powers to obtain and the ability to evaluate information that could be used to prioritize the need for a reporting issuer to make a change in reporting basis. Such information could include:

- market capitalization of the reporting issuer’s securities
- data on primary and secondary trading of the securities in jurisdictions in which the reporting issuer’s securities trade;
- identification of primary market-makers for its securities;
- relevant industry factors, such as the prevailing accounting practices; the relative standing of the reporting issuer in the industry, both nationally and internationally;

- the reporting issuer's track record of financial reporting (e.g., number of years as a reporting issuer; quality of reporting as indicated in the results of any applicable continuous disclosure review program)

The transition plan would require a mammoth and cooperative effort among Canadian securities regulatory authorities, stock exchanges, securities and investment dealers, professional accounting bodies, post-secondary educational institutions, and probably other capital market participants/overseers.

Q.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?*

Response:

Adoption of and compliance with IAS represents a worthy goal for scores of the IOSCO members, but it is not clear to us that adopting IAS would be setting the bar high enough for most participants in Canadian capital markets. In our experience, access by our Canadian clients to the US capital markets is overwhelmingly more prevalent than access to all other overseas capital markets combined. We believe that US GAAP is widely recognized as being more stringent and comprehensive than IAS, so we believe it makes more sense in Canada to move towards endorsing and accepting the higher quality US GAAP financial reporting in our capital markets.

Preparing financial statements in accordance with IAS will do little for the Canadian public companies interested in accessing US capital markets as long as the SEC continues to require a reconciliation of foreign GAAP, including IAS, to US GAAP.

Further, as discussed above, we believe that there is a significantly larger skill deficiency with respect to IAS on behalf of auditors, preparers and regulators than there is with respect to US GAAP.

Q.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 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?

Response:

We believe that the US GAAP alternative should be available immediately to Canadian SEC registrants and eventually available to any Canadian registrant. (The basis for this view has already been explained in the responses to prior questions.)

In the past decade we have encountered very few instances where a Canadian company sought a UK listing, and even in such cases a reconciliation to US GAAP will satisfy the LSE requirements.

We are concerned about the lack of experience in applying and interpreting IAS in Canada and presently require all financial statements purporting to be prepared (or reconciled) to IAS to be reviewed by an IAS group located in London. We are concerned about the level of expertise possessed by financial executives, audit committees and Canadian accounting firms in the understanding, application and interpretation of IAS. We fear that allowing both U.S GAAP and IAS as acceptable financial reporting alternatives would place an unbearable strain on those primarily responsible for maintaining high quality financial reporting in Canada.

We see no compelling business reason at this time to permit Canadian companies to prepare their financial statements in accordance with IAS, let alone UK GAAP, unless such financial statements are reconciled to either Canadian GAAP or US GAAP.

Q.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 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?

Response:

We believe that a Canadian SEC registrant that has either cleared a registration statement with the SEC or has three or more years of experience in reporting to the SEC on a US

GAAP basis should have the alternative of reporting only in US GAAP, without reconciliation to Canadian GAAP, in both prospectus and continuous disclosure filings. After a transition period this alternative should be extended to all Canadian registrants.

We do not believe that Canadian companies should be permitted to prepare financial statements in accordance with only IAS. However, if the CSA disagrees and Canadian companies are permitted to report using IAS, we believe a full quantified reconciliation is necessary because even the most sophisticated of Canadian investors have little or no knowledge of or expertise in IAS.

We take these apparently contradictory points of view due to our believe that there is a significantly larger skill deficiency with respect to IAS on behalf of auditors, preparers and regulators than there is with respect to US GAAP.

Q.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?

Response:

We believe that a set of financial statements should be prepared using a single comprehensive basis of accounting and that this requires comparative information of all prior years to be presented on a consistent basis. Those companies who meet the criteria we have suggested for immediate use of US GAAP only reporting (i.e., those who have cleared a registration statement with the SEC or who have been reporting US GAAP reconciliation information in their continuous SEC filings for three or more years), should be able to satisfy this transitional requirement.

IAS Standards

Q.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.

Response:

We have insufficient experience in KPMG Canada to address this question.

We have for many years routinely looked to US authoritative pronouncements to address accounting issues not specifically addressed in Canadian authoritative pronouncements. We support the CICA's efforts in recent years to harmonize Canadian accounting standards with those in the US. We hope this will continue with an eye to the inevitable convergence of US GAAP with IAS, which we believe for the most part will entail raising IAS to the higher standards contained in US GAAP.

Q.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?

Response:

We have insufficient experience in KPMG Canada to address this question.

The very nature of these questions highlights the major problem associated with IAS, which like "beauty", seem to depend on the eye of the beholder/preparer. In our view, the better approach is to severely limit the use of IAS in Canada and follow US GAAP as the path to a single set of world accounting standards.

Q.13 – 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.

Response:

We have insufficient experience in KPMG Canada to address this question.

We believe there are circumstances where acceptance of IAS or other foreign GAAP financial statements without reconciliation may be justified. For example, consider a senior UK company listed on the LSE filing a registration statement with the SEC containing UK GAAP financial statements reconciled to US GAAP in support of a share offering in the UK and the US. A requirement for a reconciliation to Canadian GAAP is likely to result in the exclusion of Canadian investors from the cross border offering, even though the pension and mutual funds of these Canadian investors may hold shares of far less substantial foreign issuers.

We have had very little demand to audit financial statements prepared in accordance with IAS. As noted earlier, we are concerned about the lack of experience in applying and

interpreting IAS in Canada and presently require all financial statements purporting to be prepared (or reconciled) to IAS to be reviewed by an IAS group located in London. The demands on this group will increase significantly as a result of the European Union's decision to adopt IAS by 2005. We believe that it is unrealistic and unnecessary to expect that Canadian financial executives, audit committees and auditors can become expert in both US GAAP and IAS in a period of less than five years.

Q.14 – 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?

Response:

We have insufficient experience in KPMG Canada to address this question. We did, however, participate in a project by the Big 5 International Accounting Firms to compare certain IAS standards with Canadian GAAP entitled – *GAAP 2000 – A Survey of National Accounting Rules in 53 Countries*. If it would be useful, we can provide the CSA with a copy of the results of this survey.

Q.15 – 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?

Response:

We have insufficient experience in KPMG Canada to address this question. However, we are not aware of any IAS that results in better financial reporting than Canadian GAAP.

Q.16 – How does the level of guidance provided an 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?

We have insufficient experience in KPMG Canada to address this question.

Q.17 – 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.

Response:

We have insufficient experience in KPMG Canada to address this question.

KPMG International has established an IAS Desk in London, and an international IAS Partner liaison group. Financial statements of any KPMG client are required to be reviewed by a designated IAS partner prior to release. However, these requirements and the related infrastructure are currently less formal and less consistent than the requirements and infrastructure that KPMG has in place with respect to US GAAP financial statements and SEC registrants. See also our response to Question 8.