

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  
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  
Canada  
M5H 3S8

Dear Mr. Stevenson:

This letter responds to the request for comment on the Canadian Securities Administrators (CSA) Discussion Paper 52-401, *Financial Reporting In Canada's Capital Markets*. The main part of the letter focuses on the more substantive issues covered by the Discussion Paper. The attachment provides additional comments on the specific questions raised in the Discussion Paper.

We welcome the CSA's commitment to achieving high-quality global accounting and financial reporting standards. The globalization of business and markets demands that regulators, standard setters and others develop one set of high-quality international accounting standards that will provide comparable, transparent, relevant and reliable financial information for making efficient capital allocation decisions. The Asian crisis highlighted the dangers posed by inadequate accounting and financial reporting standards in some countries and how they may add to market uncertainty and financial instability. As overseer of a significant capital market in the world, the CSA must play an important role in achieving the goal of high-quality international standards, and we are encouraged by its willingness to do so.

Andersen's vision is the use of one set of high-quality global accounting and financial reporting standards, consistently applied by all companies around the world and our comments on the Discussion Paper reflect our desire to be directionally consistent with our vision.

We believe the International Accounting Standards Board (IASB) (formerly the International Accounting Standards Committee - IASC) is ideally positioned to become *the* international standard-setting body that could provide the high-quality global accounting and financial reporting standards that the global market demands with increasing urgency. The revised standard-setting structure effective April 1, 2001, represents a positive step in improving the IASB's due process and providing it with the resources necessary to play that role. Additional factors that make the IASB a logical choice include:

- the close cooperation over the past few years between the IASB and the International Organization of Securities Commissions (IOSCO), in connection with the Improvements project, has resulted in a much-needed tightening of International Accounting Standards (IAS) through the elimination of several free choices of accounting policies. On the basis of the recently completed Improvements project, the IOSCO has now recommended to members the acceptance of IAS financial statements for purposes of raising cross-border capital;
- several stock exchanges (e.g. Neuer Market Exchange, Swiss Stock Exchange, and Lima Stock Exchange) already accept IAS as an appropriate accounting and financial reporting basis for listing purposes without reconciliation to local Generally Accepted Accounting Principles (GAAP). Other exchanges (such as London and Luxembourg) accept IAS for foreign registrants;
- several countries have adopted IAS as their local GAAP (e.g. Croatia, Cyprus, Panama and the Dominican Republic), have adapted IAS to suit their particular cultural and economic environment (e.g. Argentina, Australia, Sweden and South Africa), or specifically require the use of IAS when there is no local GAAP on a specific issue (e.g. Mexico and Thailand);
- several national accounting standard setters, including the Canadian Accounting Standards Board (AcSB) and other members of the former G4+1 group of standard setters, have undertaken joint standard-setting projects with the IASC in recent years, with the goal of convergence between IAS and local GAAP; and
- several prominent organizations, such as the World Bank, the International Monetary Fund (IMF), and the International Forum on Accountancy Development, have recommended the use of IAS as a benchmark for countries striving to improve the quality of their financial reporting.

For all these reasons, we believe the CSA is absolutely correct in seeking advice on whether, and when, it should accept IAS and U.S. GAAP financial statements (i.e. without reconciliation to Canadian GAAP) filed by foreign and domestic registrants. We also believe that this determination must be based on the

intrinsic quality of IAS and U.S. GAAP, more importantly, on whether the resulting package of information provides investors with relevant, reliable, and transparent information to make efficient capital allocation decisions. The issue is broader than just the quality of written accounting standards; the CSA recognizes this by focusing part of the Discussion Paper on infrastructure considerations.

We strongly agree with the CSA that a comprehensive infrastructure must be in place in order for high-quality international accounting and financial reporting standards to be used, interpreted, and enforced consistently throughout the world and provide the following thoughts on what we believe to be the main components of such an infrastructure:

- a high-quality independent accounting standard setter and standard-setting process;
- a high-quality auditing standard setter and standard-setting process;
- a global regulatory and enforcement structure;
- a global corporate governance framework;
- adequate education and training programs on international accounting and auditing standards; and
- healthy, vibrant, and competent accounting (preparer) and auditing professions.

Building such infrastructure will require the cooperation of many organizations, such as the IASB, the major national accounting standard-setting bodies, the IOSCO, the International Federation of Accountants (IFAC), the large international accounting firms, the World Bank, the IMF, and others. We are encouraged by the level of commitment already demonstrated by several of these organizations. Until further steps have been taken to provide that an adequate global infrastructure is in place, the CSA should not eliminate its reconciliation requirement to Canadian GAAP for foreign registrants. Rather, we recommend the following actions at this time:

- the CSA should accept only financial statements prepared using IAS or U.S. GAAP as the primary basis of reporting for filings by foreign registrants. This requirement will recognize the importance of IAS in the global financial environment and acknowledge the importance that U.S. GAAP, and U.S. foreign registrants, play in the Canadian securities markets and development of accounting standards due to the close political, physical and economic ties between the two countries. We support immediate adoption of this requirement; however, we realize that a brief transitional period may be necessary for registrants to conform to such a proposed requirement;
- the CSA should send a strong message that it will recognize IAS as an acceptable basis of financial reporting by registrants (without reconciliation to Canadian GAAP) once it is satisfied with the IASB standard-setting process, the quality of IAS, and the steps taken to provide an adequate global infrastructure surrounding the interpretation and application of IAS worldwide. Until these necessary conditions exist, the CSA should retain its reconciliation requirement;

- the CSA should focus on endorsing the IASB standard-setting process rather than approving each IAS individually. In other words, the relationship between the CSA and the IASB should be similar to that between the CSA and the AcSB. The CSA should not substitute itself for the standard setter, either domestically or internationally. For the same reason, we favor retaining the full Canadian GAAP reconciliation requirement rather than lessening it based on a CSA assessment of the quality of each IAS individually;
- the CSA should encourage the AcSB to continue its work with the IASB to promote worldwide convergence and with the U.S. Financial Accounting Standards Board (FASB) to harmonize Canadian and U.S. GAAP, thereby reducing and eliminating the requirement for a Canadian / U.S. GAAP reconciliation;
- the CSA should work with the U.S. Securities and Exchange Commission (SEC) and other regulators to encourage the use of IAS at a country level. The more IAS are actually used by multinational companies, the better the chances of quickly achieving consistency in implementation and interpretation; and
- the CSA should state its intent to participate actively in the development of a global infrastructure, particularly as it relates to establishing an appropriate and effective worldwide regulatory environment, and should be publicly supportive of other organizations doing so. The reality today is that Canadian investors invest in securities markets all over the world and this trend is increasing, not decreasing. In our view, the CSA should seek to protect Canadian investors wherever they invest capital and this can be achieved through the development of a global regulatory and enforcement structure.

We believe that maintaining the Canadian GAAP reconciliation process for IAS and U.S. GAAP financial statements used by foreign registrants in the short term is the most appropriate alternative. We also believe that the CSA should take an active role in encouraging the leaders of the large standard setters to cooperate within the next three years to agree upon the most significant accounting differences (recognition, measurement, and disclosure differences) between their respective GAAP, including IAS, and develop a methodology that would harmonize the accounting treatments on a global basis – modifying local standards and IAS accordingly. Harmonization in this manner would significantly reduce reconciliation requirements for foreign registrants in Canada and abroad, while promoting the acceptance of IAS as *the* set of global accounting and financial reporting standards.

We believe the above recommendations are aligned with one of our ultimate goals: the development and application of a single accounting and financial reporting language worldwide.



If you would like to discuss our comments, please do not hesitate to contact us. Please contact Jeannot Blanchet at 312-507-6523 or via electronic mail at [jeannot.blanchet@us.andersen.com](mailto:jeannot.blanchet@us.andersen.com).

Very truly yours,

Arthur Andersen

Attachment

## QUESTIONS RELATING TO POSSIBLE CHANGES TO CURRENT REQUIREMENTS

### *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.*

Canadian GAAP has provided a consistent benchmark for financial reporting in Canada for many years and maintains its relevance to Canadian investors in the current environment. The Canadian Securities Administrators (CSA) however must recognise that the world is converging towards a single global economy and require a single set of global financial accounting and reporting standards. The CSA can and should take a proactive role in encouraging and developing such global reporting standards by adopting improvements to the Canadian reporting requirements that are consistent with the harmonisation of global reporting standards.

The CSA should embrace IOSCO's support of the use of International Accounting Standards (IAS) and make modifications to its current reporting requirements for foreign issuers seeking capital in the Canadian markets. We also believe the CSA should consider greater acceptance of U.S. GAAP financial statements in the Canadian marketplace as an indication of the importance of harmonising Canadian GAAP with U.S. GAAP and IAS leading to the creation of a single, high-quality global GAAP.

### *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.*

We commend the CSA for their role in improving the quality of financial reporting in Canada and the allocation of domestic and foreign investment resources in the Canadian markets. We believe that the CSA must maintain their strong commitment to protecting the interests of Canadian investors while acknowledging the significant role foreign registrants play in the Canadian markets and economy.

Accordingly, we recommend that the CSA concentrate its efforts on examining possible changes to reporting requirements for foreign issuers and not those of domestic registrants.

As the world is globalizing, the CSA must realize the growing importance of foreign registrants and concentrate on the reporting requirements in place for their entrance into the Canadian market. As discussed in the body of our letter and in the subsequent responses, we believe that reporting requirements for foreign registrants should be modified to require the use of IAS or U.S. GAAP with full quantitative reconciliations (on a continuous basis) to Canadian GAAP. We believe reconciliations are vital to the protection of Canadian investors and the development of a single set of global high-quality financial accounting and reporting standards.

Since our recommendation is for the CSA to retain the reconciliation requirement to Canadian GAAP, we do not recommend a change in the filing requirements of domestic registrants at this time.

### **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.***

We believe that instead of relaxing the reconciliation requirements, the CSA should consider tightening the requirements by permitting foreign registrants to file only IAS or U.S. GAAP financial statements, while maintaining the full reconciliation requirement. This approach is consistent with our goal of developing a single, high-quality global standard.

By requiring the use of IAS the CSA will send a strong message to foreign registrants and foreign companies in general of its commitment to develop a single set of global standards. We believe that IAS will be the foundation upon which a truly 'international GAAP' will be developed and as recommended by IOSCO, its application should be encouraged. As discussed later in our response, we have concerns about removing the reconciliation requirement at this time but believe the CSA should require the use of IAS financial statements by foreign registrants.

As an acceptable alternative, the CSA should also accept U.S. GAAP financial statements, with full reconciliation. This alternative acknowledges the significance of the economic relationship between the Canadian and U.S. economies and the large number of U.S. issuers registered on the Canadian securities markets; however, it also demonstrates that U.S. GAAP should not be considered as *the* global GAAP.

***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?***

We believe that the CSA should maintain its requirement to have Canadian companies file their financial statement in accordance with Canadian GAAP until such time as the CSA fully endorses IAS as *the* set of global financial accounting and reporting standards, and eliminates its reconciliation requirements,.

***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?***

Consistent with our belief that IAS should evolve into the single, high-quality global GAAP, we will provide the following comments on the use of IAS in Canada.

The IASB standards have undergone such a dramatic transformation over the past few years that developing and maintaining expertise on a Canadian and global level present unique challenges. Andersen, through its International Professional Standards Group (IPSG), attempts to address these challenges on a daily basis.



The IPSG develops training materials on IASB standards that are available to all Andersen professionals in Canada and worldwide, provides technical consultation to engagement teams on IAS topics, and serves a quality control function by, among other tasks, reviewing IAS financial statements used in cross-border offerings around the world. The IPSG is also developing an integrated network of IAS partners in each office / region around the world that will assist local engagement teams with the day-to-day application of IAS in their local environments.

With respect to preparers in Canada and worldwide, we believe that considerably more emphasis and efforts should be placed on developing and conducting training on IASB standards than has been the case to date. Preparers have primary responsibility for high-quality financial reporting, and they need to possess an appropriate level of knowledge and competency in IAS to discharge themselves of their responsibility.

***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.***

We do not believe that any additional alternatives should be permitted for domestic registrants, other than those that already exist. In relation to foreign registrants, we believe that only IAS or U.S. GAAP financial statements, with reconciliation, should be accepted by the CSA. Requiring a full reconciliation to Canadian GAAP will allow the CSA to retain its oversight ability to protect Canadian investors while encouraging the development of a single set of high-quality global financial accounting and reporting standards.

***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?***

We understand that domestic companies may use U.S. GAAP as the basis of preparation for their primary financial statements, with reconciliation to Canada GAAP when filing with the Canadian exchanges and do not suggest to change this practice. We do not believe however that any other alternatives should be permitted for domestic registrants.

**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?***

We understand that options already exist that allow domestic companies to prepare U.S. GAAP financial statements, with reconciliation to Canada GAAP, when filing with the Canadian exchanges and do not suggest to change this allowed alternative. We do not believe however that any other alternatives should be permitted for domestic registrants.

**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?***

Regardless of which alternatives may be allowed, we believe that all financial statements not prepared under Canadian GAAP should include a full quantitative reconciliation to Canadian GAAP. Any lesser requirement would diminish the importance of the reconciliation process and hinder the advancement of harmonisation and the development of a single set of high-quality global financial accounting and reporting standards.

**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?***

As previously stated, we do not believe that any other alternatives should be permitted for domestic registrants.

***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.***

The IASB core standards provide a foundation upon which further International Financial Reporting Standards can be developed, but they are not, nor were they intended to be, an exhaustive coverage of all needed guidance. We know of no other internationally-recognized accounting framework that is more comprehensive than IAS. We also believe there is no accounting framework (including Canadian GAAP) that truly provides comprehensive guidance on fundamental issues encountered in a broad range of industries. GAAP consists of much more than authoritative literature; it encompasses recognized industry practices that have developed over the years without ever being codified. It will take time, as well as a better developed infrastructure, for “international GAAP” to emerge and be consistently applied throughout the world. Meanwhile, we believe it is appropriate to refer to other sources of accounting guidance consistent with the IASB framework (including standards issued under other accounting regimes) to supplement the core standards.

The IASB standards represent a major improvement over, and are generally of a higher quality than, many sets of local accounting standards around the world. The core standards are fairly comprehensive in their scope; however, no body of standards, including Canadian GAAP, addresses adequately every type of transaction over the complete range of industries at the current time. No doubt the IASB will continue to issue standards on important topics not already covered under IAS or adequately addressed by other standard setters. For example, we believe that stock-based compensation, transactions between entities under common control, accounting by joint ventures, e-business reporting issues (revenue recognition and cost classification), valuation of intellectual rights, definition of financial performance, and industry specific guidance (e.g. high-technology, insurance, natural resources, etc.) among others should be addressed by the IASB over the next few years to enhance the current set of core standards.

***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?***

If a specific (industry) topic is not covered in IAS, then preparers should defer to the guidance provided in IAS 1, paragraph 22, which addresses these situations and states:

*In the absence of a specific International Accounting Standard and an Interpretation of the Standing Interpretations Committee, management uses its judgement in developing an accounting policy that provides the most useful information to users of the enterprise's financial statements. In making this judgement, management considers:*

- (a) the requirements and guidance in International Accounting Standards dealing with similar and related issues;*
- (b) the definitions, recognition and measurement criteria for assets, liabilities, income and expenses set out in the IASC Framework; and*
- (c) pronouncements of other standard setting bodies and accepted industry practices to the extent, but only to the extent, that these are consistent with (a) and (b) of this paragraph.*

In practice, in the absence of IAS specific (industry) guidance, preparers tend to look to local accounting standards first if guidance exists and is consistent with the IASB Framework. If no local GAAP exists, reference is often made to U.S. GAAP because there is generally more application guidance available. In addition, certain foreign registrants prefer limiting as much as possible differences between their primary financial statements and their U.S. GAAP reconciliations in SEC filings.

We believe the approach described above is appropriate; it correctly emphasizes the need to look for analogies in IAS and to comply with the concepts included in the IASB Framework, while at the same time encouraging the use of other recognized bodies of standards to assist in the development of “international GAAP”. We do not believe the approach of having the CSA or any host country regulator specify treatment for topics not addressed by the core standards is a workable or desirable approach. In many cases, global companies offer securities on several capital markets concurrently (e.g. in London, Toronto, and New York). Which “host country” regulator should specify accounting treatment in these circumstances? A better answer is likely to emerge over time through a combination of (a) more guidance in IAS and more interpretations from the IASB Standing Interpretations Committee, (b) convergence of accounting practices by global companies using IAS in various industries, and (c) stronger worldwide infrastructure (regulators, auditors, educators, etc.) leading to more consistent interpretations and application of IAS and “international GAAP”.

### ***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.***

As mentioned under question 11, the IASB standards are generally of higher quality than many sets of local accounting standards found around the world. Our experience in auditing / reviewing the IAS financial statements of companies worldwide indicates that consistent interpretations and application of IAS are not yet a reality. In our opinion, this is primarily due to the lack of global infrastructure in interpreting, applying, and enforcing IAS; the process of creating 'international GAAP' is still in the early stages. It is for this reason that, as stated in the main part of this letter, we do not believe it is appropriate at this time to remove the Canadian GAAP reconciliation requirement for foreign filers using IAS. We believe that users will wish to have the reconciliation at least in the short term while confidence in and knowledge of IAS increases.

In assessing the quality of accounting standards proposed by international, regional, or domestic standard setters, we use several criteria including:

- standards should be comprehensive and require full disclosure;
- standards should be transparent, comparable and applied on a consistent basis;
- standards based upon a concept, or underlying theme, are easier to implement and explain than standards that represent a list of "do's" and "don'ts";
- the standards should allow that economic reality is reflected in the resulting financial statements;
- the standards should be consistent with an overall framework (such as the IASB Framework);
- standards that leverage off information used by management to operate the business or by users to analyze financial statements tend to be easier and less costly to implement and are found to be more relevant and more operational to all involved;
- standards should contain pragmatic approaches sometimes that serve to reduce the cost of implementation and help resolve practice questions, yet do not significantly compromise the underlying concepts;
- standards should provide for operational transition requirements; and
- the standards should be clearly (and accurately) drafted.

We recommend the CSA use such criteria in assessing the overall quality of IAS.

***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?***

Differences between Canadian GAAP and IAS can be classified into three groups: topics covered by Canadian GAAP and not IAS; topics covered by IAS and not Canadian GAAP; and topics covered by

both, but with different guidance. They can be further subdivided among recognition, measurement, and disclosure issues.

Although a number of differences exist between the two sets of standards, most of them do not lead to significant reconciling items between IAS and Canadian GAAP in practice. Some of the potentially more important differences (deferral of foreign exchange gains and losses on non-current foreign currency monetary balances and capitalization of certain intangibles) however can easily be reconciled by users based on the disclosures required to be made under IAS or Canadian GAAP.

***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?***

As discussed under question 14, differences certainly exist between IAS and Canadian GAAP. A fundamental difference is that IAS are much less prescriptive and detailed than Canadian GAAP. There are many reasons for this, including:

- Canadian GAAP have evolved over a longer period of time than IAS. One example is the Canadian Emerging Issues Committee (EIC), which plays an important interpretive role in the standard setting process, was created in 1988; the IASB Standing Interpretations Committee (SIC) was created in 1997;
- Canadian GAAP are developed to cater to a fairly homogeneous cultural, economic, and legal environment. IAS are developed to apply in extremely diverse cultural, economic, and legal environments. Also, IAS were not originally developed exclusively for purposes of cross-border capital raising activities, which is now clearly the focus of IASB since undertaking its Improvements project a few years ago.

Considering the above, it is somewhat unfair to compare the two sets of standards, and to make subjective assessments of “better or poorer financial reporting”. In our view, IAS require or allow more appropriate accounting treatments in certain areas such as the immediate recognition of vested past service costs for retirement benefits and the ability to measure long-term assets at fair value.

On the other hand, we believe that standards that permit alternative approaches (“free choices”) inhibit the ability to analyze financial statements across companies, thereby diminishing comparability. For example, allowed alternatives exist under IAS for accounting for investments in joint ventures, correction of fundamental errors, and investment properties.

The quality of IAS has improved considerably with the completion of the core standards, and the body of established “international GAAP” is already of higher quality than many local GAAP around the world.

***Q.16***

***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?***

The IASB standards do not have the same degree of detailed guidance as Canadian standards, for reasons discussed under question 15. As a result, users are often required to refer to the underlying framework of the IASC to help interpret and apply the standards and, where no specific guidance exists, preparers must look to other sources of GAAP and rely on professional judgment. The increased use of judgment may result in inconsistent application in an international environment because of differences in experience, background, and knowledge of preparers.

As mentioned earlier, the lack of an adequate infrastructure to interpret, apply and enforce IAS contributes more to the potential inconsistent application of IAS than insufficient guidance in the IAS themselves. As more countries adopt or harmonize with IAS, coupled with more guidance from the IASB, the interpretation “base” will grow and consistency will emerge in the form of codified “international GAAP”.

***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.***

The Standing Interpretations Committee (SIC) of the IASB provides authoritative guidance and interpretation of IAS. The role of the SIC is similar to the Canadian Emerging Issues Committee (EIC); however, the structure and operations are slightly different. The current SIC meets four times per year to help clarify and address topics that are unclear under existing guidance or which were not considered when the standards were written. (The new IASB is currently reviewing proposed changes to improve the operating procedures of the SIC.)

The staff of the IASB provides technical guidance on an ad hoc basis in response to constituents’ requests.



The large professional accounting firms also have their own technical departments that provide central guidance to their respective professionals on IASB standards. (Refer to our response to question 5.)

Although these mechanisms are helpful, there clearly is a need for more global infrastructure that will foster consistent interpretation and application of IAS. Please refer to other parts of this letter for additional discussion of the needed infrastructure.