

July 1, 2001

John Carchrae, CA  
Chief Accountant  
Ontario Securities Commission

Dear John;

**Re: CSA Discussion Paper 52-401**

I must confess that my fields of expertise are governance and auditing while the Discussion Paper's focus is financial accounting. Having said that I do have several comments that I hope will be helpful. I have responded only to those questions that I believed I was in a position to provide a useful perspective.

It is not clear to me how there can be a discussion of reporting standards without considering the auditing standards applied in reaching the opinion expressed in the auditor's report. I assume that Section 5610 of the *CICA Handbook* would apply. I have more concern about the GAAS than GAAP when considering the appropriateness of foreign registrants reporting in Canada. The CSA should consider this issue in their considering whether or not to allow reporting issuers in Canada to use other than Canadian GAAP.

I believe the AcSB will have a continuing role in the development and promulgation of unique Canadian standards that are needed by the myriad of small companies and organizations who require audits but who have no interest in US or international filings and standards.

Paragraph 31 An issue that is raised in this paragraph is the problem that exists when Canadian circumstances differ from US circumstances because of differences in tax laws, legislation, etc. The accounting may differ. If a Canadian company uses US GAAP such that the resultant disclosure ignores the Canadian reality, Canadian users will likely be misled. As paragraph 31 points out, the IASC accommodates such differences.

Paragraph 50 US standards are subject to political pressure to a much greater extent than Canadian standards and international standards I believe. This could be a real problem if a standard were to be set by the FASB that has been subject to some action by the US Congress.

Paragraph 54 I could support allowing companies to use US GAAP and international standards and perhaps UK standards (which I understand will be very much like international standards) but I would not go further than those three.

Q 1 I would suggest relaxing requirements to allow reporting issuers to use US or international GAAP.

Q3 I support possibility iii.

- Q4 Canadian issuers using Canadian GAAP (perhaps because they do not file with the SEC) will have difficulty as will analysts following them in comparing those companies to Canadian issuers using US GAAP. This situation could lead to fewer analysts following the Canadian GAAP issuer. My memory is that the academic literature suggests that it is important with respect to their cost of capital for listed companies to have a larger rather than smaller analyst following so the non-comparability could be problematic.
- Q5 As paragraphs 57-59 point out, this issue is problematical. The accounting firms auditing them and Canadian issuers wishing to use US GAAP will have significant costs tooling up to provide the necessary skill set.
- Q6 Major issue is the problem posed in my answer to Q5.
- Q7 Allowing issuers to use US and international GAAP will be problematical (see Q5); allowing a plethora of accounting standards will make the issue intractable.
- Q8 It is not clear to me why a company, other than a SEC registrant, would wish to use US GAAP. Perhaps the CICA's Assurance Standards Committee could amend Section 5400 (Paragraph .16) of the *CICA Handbook* to require the auditor to consider whether the accounting standards *qua* accounting standards are appropriate where Canadian standards are the default condition.
- Q9 Comparative information for prior years should be presented on a consistent basis when a company moves to non-Canadian GAAP.

Respectfully submitted,

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