

4 July 2001

Mr. John A. Carchrae
Chief Accountant
Ontario Securities Commission
20 Queen Street West
Toronto, ON M5H 3S8

Dear Mr. Carchrae,

We are pleased to provide you with our comments on the Canadian Securities Administrators Discussion Paper 52-401 "Financial Reporting in Canada's Capital Markets".

Alcan is one of Canada's largest multinational corporations and is a SEC registrant. Given the globalization of capital markets and free trade in North America, we strongly believe that all Canadian companies should have the option of filing in Canada under either Canadian or US GAAP. For this same reason, we believe that there should not be any significant differences between Canadian and US accounting principles and as such, harmonization efforts should continue. At this time, however, IAS should not be permitted as the standards, while improving, are not yet of sufficient quality; this situation, however, may change over time.

Alcan currently reports in US dollars under Canadian GAAP, reconciled to US GAAP. It has been our experience that the investment community, including the analysts, focus on Alcan's primary accounts. As long as there are no significant differences between Canadian and US GAAP, adopting US GAAP should not create any difficulties in raising capital in the Canadian market.

Our responses to the specific questions asked in the Discussion Paper are attached.

If you have any questions concerning our response, please do not hesitate to call the undersigned.

Yours very truly,

Richard Genest
Vice President and Controller

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.

We believe that all Canadian companies should have the option of preparing their financial statements under US GAAP. Alcan prepares its primary financial statements in accordance with Canadian GAAP with a reconciliation to US GAAP contained in a footnote. It has been our experience that the investment community, including analysts, focus on the primary accounts. Therefore, as long as there are no significant differences between Canadian and US GAAP, adopting US GAAP should not be a handicap in raising capital in the Canadian market. Given the globalization of capital markets, investors are concerned principally with the consistency of accounting policies within this global framework. Ideally, there should be one set of international standards. As this is still a long-term goal, we believe that, in the interim, there should not be any significant differences between Canadian and US 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.

Any relaxation in current requirements should address both foreign and Canadian issuers. The OSC should permit US companies filing in Canada to use US GAAP and, as well, they should permit Canadian companies filing in Canada to use US GAAP. Because the investment community focuses on the primary financial statements and tends to ignore the reconciliation contained in a footnote, we believe that, for both foreign and Canadian issuers, a foreign/Canadian GAAP reconciliation should not be required for either continuous disclosure or offering documents and information circulars.

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 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.*

The IAS has been evolving towards US standards. At such time when IAS are accepted by the SEC, those foreign issuers following either IAS or US GAAP should not be required to provide a reconciliation to Canadian GAAP. For foreign issuers that prepare their financial statements in accordance with GAAP other than IAS or

US GAAP, we believe there should be no relaxation in requirements in order to provide adequate protection for the Canadian investor.

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 OSC should permit Canadian companies to file in Canada using US GAAP. With the harmonization of US/Canadian GAAP, Canadian investors will have access to financial information prepared on a comparable basis. As mentioned above, US GAAP is appropriate with the globalization of capital markets. Many Canadian investors have now diversified their investment portfolios in foreign markets and the Canadian government has raised the foreign content level permitted in RRSP's.

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?

US GAAP is generally more prescriptive and has greater disclosure requirements than Canadian GAAP. If US GAAP is adopted for the primary financial statements, a more rigorous and thorough application of US GAAP would be required. Alcan units would have to maintain their general ledgers using US GAAP and an implementation period would be required for training and possible system changes. Internal performance measures would be based on US GAAP and Alcan would need to assess the impact of this on employees (eg. union employees) especially since the change would affect compensation, as well as on covenants or contractual arrangements. We would need to ensure that a considerably larger number of our employees are experienced with US GAAP as there is a lack of in-depth knowledge of US GAAP in Canada. Our auditors would need to have or obtain the necessary expertise to conduct their audits using US GAAS. As a result of the above, the costs for compliance and statutory reporting would increase.

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.

The Canada Business Corporations Act regulations would need to be changed to allow the use of US GAAP accounts, otherwise Canadian companies will have to prepare two complete sets of annual consolidated financial statements. This issue should be addressed concurrently with the possible changes to the rules governing the accounting standards used for financial statements filed by reporting issuers. Unless the Income Tax Act is changed, Canadian GAAP would still need to be kept as supplemental information for purposes of tax filings. Efforts should be made to establish one standard-setting body in North America, presumably a modified FASB, with some Canadian input on the Board and on the staff. In this way, Canada would exercise some real influence on the initial development of standards that under the present system end up becoming the basis for Canadian standards anyway. Given the demonstrated competence of Canadian accountants in standard setting, the work of the FASB would benefit significantly. Alternatively, the role of the Canadian Accounting Standards Board could be redefined so as to simply review US standards (and related emerging issues abstracts) and accept them as the Canadian standard unless there were strong reasons to adopt a different standard. The burden of proof, however, would be to show why the US standard would not be acceptable in Canada.

Q.7

If you believe the accounting standards of certain foreign countries, eg. US GAAP, should be acceptable for use by Canadian companies while other foreign GAAP should not, what is your basis for this distinction?

Ideally, IAS standards should prevail. However, in reality, the US through the SEC/FASB is the world standard setter. For a Canadian company seeking capital in the US, FASB is more relevant and, as well, US standards are more strongly enforced than those of the IASC. However, the IASC has recently made moves to establish a board with significant full-time membership (including Canadian representation) and once the quality of the standards and their enforcement are at a high level, they will be acceptable.

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 used to determine eligibility?

We believe that all Canadian companies should have the option of preparing their financial statements under US GAAP and that the choice of standards be consistently applied.

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 fully quantified reconciliation or something less, such as reconciliation of only specified financial statement items or a qualitative discussion of differences?

See response to Q.2.

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?

Unless comparable changes are made to the CBCA regulations, Alcan would have to distribute to shareholders two complete sets of annual consolidated financial statements (both sets of annual statements would be reviewed and approved by the Board), one in US GAAP and one in Canadian GAAP. This would certainly create additional costs.

Should comparable changes be made to the CBCA regulations and US GAAP adopted, we would recommend that comparative information for all prior years be required on a consistent basis for the financial statements and notes. For Alcan (a SEC registrant), this would mean that the two prior years would need to be restated and, for the income statement, the restatements would be required on a quarterly basis. The restatement of the "Eleven year summary" included in the annual report would need to be evaluated.

A switch to US GAAP raises some transitional issues with respect to the SEC who view such a switch as a change in "accounting basis". In the year of the switch, the previous year's 10-K (including financial statements and MD&A) would have to be refiled on a US GAAP basis to ensure the effectiveness, for potential financings, of any registration statements that incorporate the 10-K by reference. The switch may also raise some transitional auditing issues since the SEC requires US GAAP financial statements to be audited using US auditing standards, which differ in some respects from Canadian auditing standards.

The adoption of US GAAP would require that the general ledgers of all Alcan reporting entities be maintained in US GAAP with Canadian GAAP being kept as supplemental information for the Canadian subsidiaries for purposes of tax filings. Currently, the reconciliation of Canadian and US GAAP is done centrally and has not been pushed down to the reporting entities. This would mean that an implementation period would be needed for training and possible system changes.

Adopting US GAAP as the primary reporting basis would mean a more rigorous and thorough application of US GAAP than is done presently. It would no longer be a matter of centrally identifying material differences for certain financial statement line items. Significant additional internal resources would most likely be required, both for the transition and on an ongoing basis, to implement and monitor all of the detailed aspects of US GAAP. Also, it may be necessary to add additional staff to the audit team to oversee compliance with US GAAP figures.

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.

In general, the core standards issued by the IASC look comprehensive but it is not possible to confirm this without conducting a detailed review. In light of our experience with IAS, as reported under Q.13, IAS is sometimes more lenient than Canadian GAAP. As well, IAS are not yet accepted by either the OSC or the SEC.

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 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 company specify treatment for topics not addressed by the core standards a workable approach? Is there a better approach?

We believe that IAS should not be permitted at this time, as explained under Q.7.

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.

In the fourth quarter of 2000, Alcan acquired Algroup, a Swiss based company. Algroup followed IAS and it was a difficult task for Algroup to reconcile to Canadian GAAP. IAS are not well known in Canada and based on our experience, Canadian GAAP is generally more prescriptive than IAS, which leave open more room for interpretation.

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?

See response to Q.13 for Alcan's experience.

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?

See response to Q.13 for Alcan's experience. We believe that Canadian GAAP results in better reporting as IAS are more lenient.

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?

As Canadian GAAP is generally more prescriptive than IAS, IAS may result in less consistent application.

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.

To the best of our knowledge, structures are either not in place in Europe or do not operate as effectively as they do in North America.