



July 17, 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 John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 800, Box 55
Toronto, Ontario M5H 3S8
Email: 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
Email: claudestpierre@cvmq.com

Dear Sirs:

Re: CSA Discussion Paper 52-401, Financial Reporting In Canada's Capital Markets

We would like to thank the Canadian Securities Administrators for the opportunity to comment on the discussion paper regarding the possible changes to the rules governing financial statements. As the largest independent Canadian oil and gas producer with operations in Canada,

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the North Sea, Indonesia and Sudan, Talisman, which is listed on both The Toronto Stock Exchange and The New York Stock Exchange, is acutely aware of the challenges and added burdens associated with cross border reporting in today's global capital markets. We fully support initiatives that reduce impediments to cross border transactions while ensuring that investors are provided relevant, timely and standardized information.

Due to ongoing initiatives, such as the joint projects of the CICA and FASB, there has been a significant convergence of National accounting policies between the US and Canada. A strong case can be made that most Canadian users of financial statements now consider that US and Canadian GAAP are consistent enough to justify the full acceptance of US GAAP financial statements in the Canadian capital market. In the future, International Accounting Standards may gain additional acceptance as they become more familiar to Canadian users.

Currently, Talisman meets its US continuous disclosure requirements through the filing of a Form 40-F, in which we provide a US GAAP reconciliation along with other material US GAAP financial information. A review of our investor base indicates that a significant portion of our investors are US residents, and in addition, many of our peers are US companies. As a result of these factors Talisman has in the past investigated the possibility of preparing full US GAAP financial statements in order for our investors to more readily interpret us to our peer group. This action, however, when combined with the current regulatory requirement to prepare Canadian GAAP financial statements, would result in a significant incremental cost and as such we are currently reluctant to proceed.

It is our opinion that many of the previous US – Canadian GAAP differences that may have in the past justified dual reporting no longer exist and that little benefit is achieved by continuing this dual reporting requirement. The market's need for comparability of financial statements among Canadian companies could be met more efficiently by requiring companies which choose to prepare US GAAP financial statements to prepare a limited Canadian GAAP reconciliation of net income and balance sheet items.

Our experience is that there is a sufficient understanding of US GAAP within the accounting profession in Canada, both within larger more sophisticated organizations that currently prepare US GAAP reconciliations and within the firms which audit them. The assessment of a company's ability to comply with US GAAP should be left to the company and its auditors.

In answer to your specific question as to whether the CSA should relax current financial rules to allow companies to file financial statements using accounting standards other than Canadian GAAP, we believe the CSA should allow companies the option to chose to prepare financial statements using US GAAP and provide a limited reconciliation to Canadian GAAP for net income and balance sheet items. As to whether Talisman would choose this option we would likely undertake a more detailed study of the market's interest in such statements, as well as the costs associated with the change and make a decision at that time.

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I would like to take this opportunity to express support for the recent CICA and CSA initiatives and to encourage the CSA to continue to work with counterparts in other jurisdictions to eliminate unnecessary reporting and disclosure differences that impede the free flow of capital. We look forward to reading the result of the discussion paper and again thank you for the opportunity to express our views on this important topic.

As requested in your letter dated May 3, 2001, I have attached to this letter an appendix with answers to those specific questions included in the discussion paper.

Yours truly,

Talisman Energy Inc.

Michael D. McDonald
Vice President, Finance and Chief Financial Officer

Appendix

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.

It is our position that, in light of the ongoing efforts of the standard setters in both Canada and the US to harmonize Canadian and US GAAP, little additional value is provided to Canadian investors by requiring Companies to prepare Canadian GAAP financial statements in addition to US GAAP financial statements. We suggest that the remaining GAAP differences do not justify the additional cost burdens on cross border issuers for either prospectus or continuous disclosure documents. However, we do acknowledge that there may be some benefit to investors to require issuers to prepare a reconciliation of financial information to Canadian GAAP until such time as the remaining GAAP differences are eliminated.

A review of our US GAAP reconciliations in prior years indicate that many of the previous material reconciling items have been eliminated such as future tax differences, accounting for pension costs and earnings per share calculations or will likely be eliminated such as the ability to defer foreign exchange gains/losses on long-term debt, the use of pooling of interest for business combinations under US GAAP and the balance sheet classification of certain securities that are able to be settled in either shares or cash at the option of the issuer and the classification of the corresponding security charges.

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.

The choice to prepare US versus Canadian GAAP financial statements should be that of the issuer. In the long run the market will ultimately determine which statements are acceptable. The choice to prepare financial statements based on US GAAP should be available to any company that believes that their investors would be best served by preparing such statements including foreign issuers, cross border issuers such as Talisman and Canadian companies which are only listed in Canada. A reconciliation to Canadian GAAP, particularly for those companies that prepare their statements based on other than US GAAP may provide useful information to allow easier comparisons with companies whose statements are prepared in Canadian GAAP. Should it be determined that the US – Canadian GAAP differences are not significant enough to warrant the costs and efforts to prepare a reconciliation, consideration should be given to allow foreign companies that prepare statements in other than US or Canadian GAAP the option to

reconcile to either US or Canadian GAAP. However, where an issuer prepares statements in other than US or Canadian GAAP a reconciliation to either US or Canadian GAAP would likely provide useful information to the market place.

Q.4/Q.7

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?

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?

Due to the significance of cross border transactions between Canada and the US, the proximity of the two countries, the quality of US accounting standards and the ongoing emphasis on harmonizing the two countries respective accounting standards, US GAAP appears to be a logical alternative for Canadian companies. The ability of users to compare financial statements should not be unduly diminished if companies were to prepare a reconciliation of net income and balance sheet items to Canadian GAAP. Though acceptance of International Accounting Standards is growing, currently they are little used and are poorly understood by both Canadian preparers and users of financial statements.

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?

The assessment of the abilities of Canadian issuers to prepare statements on bases other than Canadian GAAP is best left to the individual company and its auditors. As indicated previously, the number and significance of the US-Canadian GAAP differences have diminished and larger sophisticated issuers which are now currently preparing US GAAP reconciliations likely already have sufficient in-house expertise to prepare full US GAAP financials. Companies that choose to convert to preparing US GAAP statements need to weigh implementation costs against the perceived benefits. Sophisticated users of financial statements would likely accept US GAAP statements with limited reconciliations; less sophisticated users may not even know that there are minor GAAP differences.

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 appropriateness of allowing statements to be prepared based on other than Canadian GAAP may be best approached as a multiple step process. The first step might be to examine US GAAP in isolation due to the unique relationship that exists within North America and the high degree of convergence between US and Canadian GAAP and determine whether statements prepared in accordance with US GAAP are acceptable to the Canadian market. An initial trial period may be appropriate to gauge the acceptability and the ability of Canadian issuers to prepare US GAAP statements. The next step may be to review other standards as they currently exist for acceptability with an ongoing process to monitor the progress of certain standards such as IAS until such time as they converge sufficiently with Canadian GAAP to justify acceptance as an alternative to Canadian 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?

At present it appears that US GAAP may be the only acceptable alternative. In the future IAS standards may also prove to be acceptable. The decision to permit a company to prepare their financial statements on a basis of accounting acceptable by the CSA, whether this be US GAAP or IAS, should be left to the decision of the management of the issuer. Limiting the ability to prepare non-Canadian GAAP statements to SEC registrants or foreign issuers would unduly restrict domestic issuers. However, there should be some basis for management's choice of GAAP.

Q.9

Regardless of which basis 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?

Comparability of financial information is a necessary requirement of an efficient capital market and is one of the primary reasons for our support of the acceptance of US GAAP for Canadian filing purposes. Any steps to reduce the comparability of the financial information prepared by companies would need to carefully be weighed against the additional costs of preparing financial information under multiple bases. For companies that choose to prepare their financial statements on non-Canadian GAAP basis they should prepare a reconciliation of net income and the balance sheet for significant GAAP differences and provide additional material information to ensure that statements are not misleading to Canadian readers.

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 noted in Q9 above, comparability of financial information is a critical requirement of an efficient market. Comparability should also include comparative historical financial information. Accordingly, as the choice to change the basis of preparing the financial statements is optional, restatement of prior years historical information would be appropriate.