

Deloitte & Touche LLP
95 Wellington Street West
Suite 1300
Toronto, Ontario M5J 2P4

Telephone: (416) 874-3874
Facsimile: (416) 874-3862

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British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
The Manitoba Securities Commission
Ontario Securities Commission
Commission des valeurs mobilières du Québec
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, ON M5H 3S8

**Canadian Securities Administrators Discussion Paper 52-401
Financial Reporting in Canada's Capital Markets**

Deloitte & Touche is pleased to comment on the Discussion Paper: *Financial Reporting in Canada's Capital Markets*, (the "Discussion Paper") issued by the Canadian Securities Administrators (the "CSA").

We believe that the Canadian financial marketplace has been, and continues to be, well served by Canadian GAAP, which has been responsive to both circumstances unique to our Canadian environment and developments in accounting theory and practices in other jurisdictions. Nevertheless, globalization has increased both the number of Canadian companies seeking capital in foreign markets and, potentially, the number of foreign companies seeking access to Canadian capital markets. This warrants, in our view, consideration of some relaxation of the CSA's current requirements and we commend the

CSA for both its initiative in seeking a broad range of views on the issue and the comprehensiveness of its discussion paper.

We would support an initiative that would ease the Canadian reporting requirements on companies that prepare their financial statements using US GAAP. Given the increasing integration of the Canadian and American economies and harmonization of Canadian and US GAAP, the additional burden of full reconciliation to Canadian GAAP would seem to be unnecessary. While we are not convinced that users of such statements are prepared to forego all reconciling information, discussion of significant differences in either a note to the statements or the MD&A should provide sufficient information to enable users to make the necessary comparisons with other companies that use Canadian GAAP. We would, however, restrict this option to companies, either Canadian or foreign, which are subject to the regulatory oversight of the US Securities and Exchange Commission.

We would also support a similar approach for companies that prepare their financial statements using IAS and that are subject to a rigorous and transparent regulatory review in their home country. We believe that encouraging the use of IAS by foreign registrants in Canada will promote its use globally and, accordingly, increase generally the quality of accounting standards in the rest of the world. It would also provide an impetus to reduce differences in accounting standards between Canadian GAAP and IAS and lead to greater harmonization of accounting standards throughout the world.

Companies that do not qualify under the criteria discussed above should continue to be required to either use, or reconcile to, Canadian GAAP

Our responses to the specific questions raised in the Discussion Paper are contained in the Appendix A to this document.

Deloitte & Touche appreciates the opportunity to submit its comments and would be pleased to discuss them with you at your convenience. If you have any questions concerning our comments, please contact Mr. Bruce C. Jenkins FCA at 416-874-3637

Very truly yours,

Question 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 Canadian GAAP still has continuing relevance to Canadian investors in the current environment. Nevertheless, the increasing convergence of Canadian GAAP with both US GAAP and IAS, coupled with a growing use of US GAAP by Canadian registrants that access the US capital markets, is making the current requirement to fully reconcile earnings to what they would have been had Canadian GAAP been used more burdensome than necessary.

Question 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.

In addressing Question 2, please comment on:

(i) your experience with the quality and usefulness of the information included in Canadian GAAP reconciliations provided by foreign issuers;

(ii) whether, from your viewpoint as a preparer, user, or auditor of non-Canadian GAAP financial statements, the reconciliation has enhanced the usefulness or reliability of the financial information and how you have used the reconciliation;

(iii) any consequences that could result from reducing or eliminating the reconciliation requirement, including your assessment of the magnitude of any decrease or increase in costs or benefits to preparers or users of financial statements.

Foreign Registrants

Increasingly, corporations are viewing Canada and the USA as a single market. It would seem reasonable to us to permit US public companies to comply with Canadian regulatory requirements by filing financial statements prepared in accordance with US GAAP, supported by a partial reconciliation to Canadian GAAP. This approach should apply to continuous disclosure as well as offering documents and information circulars.

We strongly support the continued development and use of International Accounting Standards and have been encouraging regulators and standard setters around the world to help make worldwide general acceptance of IAS a reality. Acceptance by the CSA of financial statements prepared by foreign registrants using IAS, with partial reconciliation to Canadian GAAP, would send a strong signal of Canadian support for such initiatives.

Other foreign registrants using their domestic GAAP should continue to be required to provide a full reconciliation to Canadian GAAP

Domestic Registrants

Using the same rationale as discussed above, Canadian companies that file either IAS statements in jurisdictions with a vigorous regulatory process or US GAAP statements with the SEC should be accorded similar treatment. We would not expect there would be much demand by, nor would we support requests by, Canadian companies whose sole regulatory jurisdiction was domestic, to file using either US GAAP or IAS.

Question 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.

As discussed in our response to Question 2, we would support a combination of possibilities (iii) and (iv).

Question 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 Canadian companies should continue to be required to prepare financial statements in accordance with Canadian GAAP unless they qualify to use US GAAP or IAS as described in our response to Question 2

Question 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?

We believe that adoption of a requirement for Canadian issuers to report using either US GAAP or IAS would create significant resource pressures for all those involved in the public reporting process. Our preferred accommodation would ease these pressures as the only registrants that could take advantage of the easing of the reconciliation process would be those that are already preparing statements using either US GAAP or IAS and are subject to an effective regulatory oversight.

Question 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.

In respect of US GAAP filers, we believe that the rigour of the regulatory oversight provided by the US Securities and Exchange Commission would be sufficient for CSA purposes. The assessment of the effectiveness of the regulatory oversight for foreign registrants using IAS will be a bigger challenge, and we would urge the CSA to address this issue through IOSCO.

Question 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?

Please see our response to Question 2.

Question 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?

Please see our response to Questions 2 and 3

Question 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?

Please see our response to Question 3.

Question 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?

Since, as discussed in our response to Question 3, we would only support non-Canadian GAAP for companies whose US GAAP or IAS statements are already subject to appropriate regulatory oversight, there should not be any transition issues unique to Canada,

Quality of IASC standards

Question 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.

We believe the core standards provide a sufficient comprehensive framework to provide a basis to address mainstream fundamental accounting issues. We recognize that the core standards are generally broad and, consistent with Canadian GAAP, tend to be less detailed than US GAAP. We also recognize that there is uncertainty as to the extent to which the core standards are being interpreted and applied consistently in practice. In general, however, IAS do address accounting for most business transactions that are not unique to individual industries.

Question 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?*

We note that the IASB is making progress in developing guidance for industry-specific issues. If there is IAS guidance for specialized industry issues, it should be used. If there is no IAS guidance, home country standards or Canadian GAAP may be used. If Canadian GAAP is not used, the enterprise should provide a narrative disclosure of significant areas of difference between local and Canadian GAAP and disclosure of the amount of significant differences.

Application of Canadian GAAP to entities in specialized industries where IAS do not provide guidance would have the most relevance and meaning to Canadian investors, as the financial statements would be more comparable to Canadian enterprises. However, provided application of the home country standard is transparent to the financial statement user through narrative disclosure of significant areas of differences with Canadian GAAP and of the quantification of significant differences between local and Canadian GAAP, the use of the home country standard also would be meaningful to users of the primary financial statements.

Having the host country specify treatment for topics not addressed by the core standards is a workable approach and would provide users in the host country with financial statements that are meaningful and useful. However, it may add inefficiency in the preparation of financial statements, as an enterprise may also be required to apply the accounting treatment prescribed by another host country in which it is “registered.”

Question 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.*

We note that there is considerable debate about what constitutes high quality accounting standards. Some believe that detailed standards ensure that the requirements of the

standards will be applied and interpreted consistently. Others believe that detailed standards are less clear to understand and, as a consequence, difficult to learn and interpret consistently. They believe that high quality standards are those that focus on concepts and that are written with sufficient clarity so that concepts can be applied and guidance in the standards interpreted consistently with the concepts.

The two views mentioned above are difficult to reconcile. We note that IAS and Canadian GAAP differ in certain areas, but we also note that there can be endless debates about which standards provide the best solution. We believe any evaluation of the quality of IAS will be subject to considerable debate and for that reason, we believe it is more important to focus on disclosing important areas of difference between IAS and Canadian GAAP. What we consider more important and urgent are actions that will promote worldwide convergence of accounting standards without diminishing the quality of financial reporting. Many countries around the world look to IAS as a benchmark to harmonize their accounting standards. This trend has already resulted in significant progress in the quality of financial information around the world. However, further convergence of accounting standards is needed. We strongly believe that removing the requirement for IAS foreign issuers for a full reconciliation with Canadian GAAP will promote the use of IAS and accelerate the trend toward worldwide harmonization of accounting standards.

We believe the reconciliation to Canadian GAAP is useful to investors in Canada, especially to investors who currently have limited experience with IASC standards. Accepting IAS foreign issuers in Canada without reconciliation or disclosure of differences in accounting requirements with Canadian GAAP would decrease user comprehension because of their inability to understand differences. However, we also believe that a full reconciliation to Canadian GAAP is not necessary if differences can be made to be transparent through narrative disclosure. Furthermore, in time, Canadian investors will have an opportunity to become familiar with IAS and obtain an understanding of how they differ from Canadian GAAP. We support retaining a partial reconciliation requirement for IAS foreign issuers to ensure a sufficient level of transparency and comparability with Canadian enterprises. Our proposal is to require narrative disclosure of significant areas of difference and partial reconciliation by quantifying the impact of specified areas of differences.

A judgment will have to be made about the specified important areas of difference that should be quantified, and it should be based primarily on the potential magnitude of the differences, as well as the quality of the standards and the transparency otherwise provided by the narrative disclosure of differences. The determination as to what should be eliminated from the current reconciliation requirements will have to be made on a standard-by-standard basis and such determination will require study. The reconciling items should be specifically defined and guidance also should be prepared to facilitate computations by preparers so that they will not have to learn all the nuances of Canadian GAAP.

We believe this approach would ease the use of IAS in Canada for foreign filers because it would not force preparers of financial statements using IAS to understand Canadian

GAAP fully to access Canadian capital markets. We also believe this approach will promote greater acceptance of IAS as a global standard.

Question 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?*

We would defer to the response of the Canadian standard setters to this question.

Question 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?*

It is not difficult to identify those areas where alternatives exist, areas where guidance is lacking and areas where the standards are different from Canadian GAAP – in fact, many of those differences were identified during the development of the recently issued “GAAP 2000 – A Survey of National Accounting Rules in 54 Countries”. However, the consequences of these differences are subject to considerable debate.

We agree that alternatives within an accounting framework reduce the quality of the resulting financial information. Although IAS permit certain alternative accounting treatments and those accounting alternatives should be generally eliminated, there is debate about the extent to which the allowed alternatives actually impede comparability when their existence is disclosed.

Although the IASB has recently completed its set of core standards, there are a number of areas for which there is no guidance or limited guidance and other areas for which interpretive guidance is needed. However, there is debate about the extent to which IAS are being interpreted and applied consistently in practice.

Although there are a number of IAS that differ from Canadian GAAP, there is debate about which of the standards that differ provide a better solution. We encourage the Canadian standard setters to continue to work, in cooperation with the IASB, to reduce these differences.

Question 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?*

In order for accounting standards to result in rigorous application, the standards must provide concepts and guidance that are clear and understandable so they will be interpreted uniformly. We believe that presently, IAS are generally broad, consistent with the Canadian approach. However, there is debate about the extent to which IAS are being

interpreted and applied inconsistently in practice. It is difficult to assess whether more guidance would really be necessary to ensure consistent, comparable and transparent reporting or whether a clearer reference back to the underlying concepts would produce more rigorous application. We also note from our experience that where IAS are most difficult to implement, it is often because specific local business conditions exist or because a standard deals with already complex issues.

Question 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.*

We consider that the SIC is the most appropriate mechanism to promote consistent interpretation of IAS. We also believe that the SIC should continue to be the only recognized authoritative source of interpretation of IAS.

In addition to the SIC, other mechanisms to promote consistent interpretation of IAS have developed, including networks of IAS specialists within international auditing firms, working groups in certain countries involving the regulator, auditors, enterprises and other interested parties, to discuss implementation issues of IAS so that interpretation issues can be forwarded to the SIC through the local national standard setter, publications on implementation of IAS and training initiatives.

Within our firm, a procedure has been established to promote consistent responses to accounting questions raised by our various member firms. Various “Centers of Excellence” exist in key geographical locations that serve as IAS technical accounting centers. Questions are raised to the Center of Excellence by the practice offices in their respective geographic region. The Center of Excellence considers the question and provides a response to the practice office. For complex issues, the Center of Excellence may consult with the other Centers of Excellence or the DTT International Accounting Standards and Policies Committee, which meets on a quarterly basis to discuss technical international accounting issues and establish accounting policies for our global member firms. A member from each of the Centers of Excellence is a member of that committee.