



British Columbia Securities Commission

July 27, 2001

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

Claude St. Pierre, Secrétaire  
Commission des valeurs mobilières du Québec  
800 Victoria Square  
Stock Exchange Tower  
P.O. Box 246, 22<sup>nd</sup> Floor  
Montréal, Québec H4Z 1G3

Dear Sirs/Mesdames:

Re: Comment Letter on CSA Discussion Paper 52-401

The British Columbia Securities Commission and the Institute of Chartered Accountants of British Columbia co-sponsored a discussion forum on May 10, 2001 on the topic of "US GAAP and International GAAP in Canada's Capital Markets." The purpose of the two hour event was to provide a brief overview of the issues raised in the CSA Discussion Paper 52-401 and have a discussion of the issues among the attendees. Approximately 35 people were in attendance; most were public accountants and financial officers from small and large public companies with an interest in US reporting requirements.



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Participants were provided with a hand-out of discussion questions that were based on the questions set out in the CSA Discussion Paper 52-401. These questions are duplicated in the comment letter attached. The discussion facilitators went through each question consecutively, providing opportunity for comments from the participants for each question. Two BCSC staff took written notes of the participants' comments; these notes have been transcribed and presented in the attached comment letter.

Should you have any questions, please do not hesitate to contact me.

Yours truly,

Carla-Marie Hait, CA  
Chief Accountant

## **FINANCIAL REPORTING IN CANADA'S CAPITAL MARKETS**

**DISCUSSION FORUM MAY 10, 2001**

**Co-sponsored by British Columbia Securities Commission and  
Institute of Chartered Accountants of British Columbia**

**DISCUSSION QUESTIONS AND COMMENTS PROVIDED**

**(Questions correspond to questions 1 to 10 in the CSA discussion paper 52-401)**

**Question 1: Is Canadian GAAP important to Canadian investors as a consistent benchmark?**

Participants comments  
It depends upon who the comparables to an issuer are; there are multiple companies in different sectors and in different countries; if the comparables are other Canadian companies, then Canadian GAAP is an important benchmark; if comparables are other foreign companies, then Canadian GAAP may not be an important benchmark.

Even within Canadian GAAP there is a lack of comparability, i.e. R&D costs, some will capitalize and some will expense.

Transparency is a better goal.

What's important to investors is that the financial statements are prepared in accordance with a comprehensive GAAP; it's not important whether or not it's Canadian or US GAAP, as long as it is a comprehensive set of standards for investors to understand. This holds true for individual investors and institutional investors.

The majority of comparisons are done to US companies, so US GAAP is already used by investors and is therefore relevant.

If US GAAP were permitted for Canadian companies, there would be transitional issues; comparison to prior years is an example - year of change to US GAAP, what do you compare it to? Canadian GAAP? Restate to US GAAP? GAAS issues also exist. If US GAAP were permitted for Canadian companies, could you even use those statements for US filing purposes, given that the GAAS requirement in the US is now US GAAS?

*Discussion facilitators:* We have heard comments from users that the reconciliation process is often useful to analysts because information often comes to light in the reconciliation that wouldn't normally be provided if just Canadian GAAP or just US GAAP financial statements were provided. There appears to be value in reconciling between the two GAAP's no matter which way you go i.e. Canadian to US or US to Canadian.

Participants comments: Some companies are switching to US GAAP because they feel competitors are using US GAAP; some however prefer to retain Canadian GAAP because it can have favourable results, such as higher net income.

If a Canadian company is allowed to file US GAAP and a competitor stays with Canadian GAAP then some comparability is lost.

**Question 2.a): Should we relax existing requirements to provide financial information in Canadian GAAP for:**

**i) foreign issuers;**

**ii) both foreign and Canadian issuers?**

Participants comments: Some level of reconciliation is necessary to provide investors with meaningful information, at least for foreign GAAP other than US GAAP.

Terminology is sometimes different e.g. a UK telecom company has 2 pages for legend in their annual report to explain terms e.g. "stocks" means inventory, "turnover" means revenue.

Issuers should file either Canadian or US GAAP financial statement but not GAAP from other countries. Rationale is that Canadian and US GAAP are understood, but GAAP from other countries is not.

There are not many non-US foreign issuers in our market place; the few that there are often prepare financial statements in accordance with US or Canadian GAAP.

*Discussion facilitators:* Are we getting in the way of foreign co.'s listing in Canada and restricting investment choices to Canadian residents?

This is probably not much of an issue in the junior market place.

Canadian investors may still invest in foreign companies in foreign markets. Although it's not quite as easy to do, investors have the choice.

If requirements are relaxed, companies from small countries that don't have well-developed standards and regulation may inappropriately access exemptions designed for US companies and to a lesser extent other G8 nations.

*Discussion facilitators:*

*Can we live with the remaining differences between Canadian and US GAAP?*

Participants comments:

There have been several large projects to bring Canadian GAAP in line with US GAAP i.e. income taxes, employee future benefits. The list of differences is getting smaller.

If we allow foreign filers to use US GAAP, then we should allow Canadian SEC registrants to file US GAAP as well. If a Canadian company was allowed to file US GAAP, they would have to reconcile to Canadian GAAP for tax purposes anyway, and therefore such issuers would not object to a requirement to reconcile to Canadian GAAP.

If we abandon Canadian GAAP, then the concern is that we lose our voice in influencing International Accounting Standards.

With respect to the costs to issuers for providing both US and Canadian GAAP information, there are not just two sets of financial statement that must be prepared due to two sets of GAAP, but two languages and sometimes two currencies, therefore eight sets of financial statement. There is similar duplication with the AIF and annual report.

**Question 2b)**

**Do reconciliations to Canadian GAAP make foreign financial information more useful or reliable?**

**& Question 2c)**

**If we reduced or eliminated the reconciliation requirement, what would be the costs and benefits to preparers and users?**

Participants  
comments:

One industry participant stated that it was less work and easier for him to prepare 2 full sets of financial statement rather than a detailed reconciliation. However this was later qualified as he indicated he was going from US GAAP to Canadian GAAP and that going from Canadian GAAP to US GAAP was more difficult. Several participants disagreed, and stated it was less work to prepare a reconciliation rather than 2 full sets of financial statement.

As new US disclosurers continue to make their way into Canadian GAAP financial statements, the benefit of the reconciliation decreases.

If analysts are provided with two separate sets of financial statement - Canadian and US without reconciliation, they will bear greater costs in analyzing the financial statement compared to having a reconciliation.

Smaller issuers find it more difficult to bear the costs of dual reporting; the proportion of costs is much higher for a junior than for a large issuer; perhaps we should consider materiality criteria to allow certain differences to not be reconciled.

**Question 3:**

**What approach to GAAP reconciliations for foreign companies do you recommend:**

- i) reconciliation, regardless of foreign GAAP used;**
- ii) reconcile only specified financial statement items;**
- iii) no quantitative reconciliation; only narrative discussion of qualitative differences;**
- iv) no reconciliation if specified foreign GAAP e.g. US GAAP, IAS**
- v) reconciliation only for certain types of transactions or securities, or where specified proportion of Canadian investors.**

Participants  
comments:

Perhaps consider a qualitative reconciliation without the quantitative analysis. (option iii) above)

Several participants responded to the above comment by indicating that qualitative informative without quantitative reconciliation doesn't make sense; the numbers must be included because users would want to quantify differences described.

A transaction-based approach doesn't work well because over time reconciliation requirements may vary. If you have a transaction today and must provide reconciliation, do you have to reconcile for the next 5 years...10 years...?

For debt transactions GAAP reconciliation is not critical; the deal is sold off the debt rating.

If we allowed issuers to reconcile based upon the "importance" of issues (option ii) above) this would permit cherry picking and inconsistency.

**Question 4:** **Question 2(a) raised the possibility of allowing Canadian companies to report in foreign GAAP. If you support that approach, what foreign GAAP should be permitted for Canadian companies?**

Participants comments: Right now US capital markets are the most important in the world; will it always be that way? Right now International Accounting Standards are not well understood, but perhaps in ten to fifteen years they will be.

If issuers are permitted more choices, there will be more variability and selection of GAAP might result from what best suits an issuer, not what GAAP is appropriate for the situation.

Private companies are requesting their financial statements be prepared using US GAAP because investors like US GAAP. US investors like it and Canadian venture capitalists understand it.

**Question 5:** **Are a significant number of Canadian issuers, auditors and users able to prepare, audit and use foreign GAAP financial statements?**

Participants comments: A shift to US GAAP is not just learning some new accounting standards; it's a culture shift. We are moving from a judgment-based approach to a rule-based approach.

There is a concern that retail investors may only look at income without understanding the differences between Canadian and US GAAP.

It is not just the auditors who would be affected by a change to US GAAP; the bookkeepers and staff would also be affected. The cost of the transition could be more than some smaller audit firms could handle.

There is concern about the quality of US GAAP financial statement being prepared in Canada. Some smaller firms are providing US GAAP audits without the necessary technical expertise.

**Question 6: If you recommend alternatives to Canadian GAAP, how should the CSA, the accounting profession or others facilitate implementation?**

Participants comments The potential increase in demand for US GAAP skills may not be significant because many issuers and public accounting firms are already addressing the demand for US GAAP financial statements. For example, the professionals employed in the technology group of one of the large public accounting firms in Vancouver all have obtained their CPA designation.

Those issuers who have no need will not switch to US GAAP. Other participants disagreed with this view and stated that analysts would pressure issuers to convert to US GAAP.

**Question 7: If you support certain foreign GAAP (e.g. US GAAP) for Canadian companies, but do not support other foreign GAAP, what is your basis for this distinction?**

See responses to Question 2a) and Question 4

**Question 8: If you recommend US GAAP as an option for Canadian companies, should this option be available to all Canadian companies, only those that are SEC registrants, or some other limited group? What criteria should determine eligibility?**

Participants comments There should be a distinction between FASB GAAP and FASB GAAP plus SEC rules and regulations. Must specify the level of US GAAP to ensure comparability.

The option of US GAAP should not be tied to SEC reporting status because some issuers may plan to become SEC registrants.



If Canadian companies are not permitted to use US GAAP, this may contribute to issuers "discontinuing" out of Canada and deciding to "continue" to the US.

**Question 9:** **If Canadian companies were permitted to use certain foreign GAAP, should reconciliation to Canadian GAAP be required in some or all cases? Consider the approaches set out in question 3.**

See responses to Question 3

**Question 10:** **If Canadian companies were permitted to use certain foreign GAAP, what transitional issues would exist? For example, how should comparative information be presented?**

Participants comments      Comparatives should be presented on a consistent basis. Issuers will need sufficient time to make the transition. Give them as much advance notice as possible.