

September 7, 2001

**VIA FAX TO THE SECURITIES COMMISSIONS**

British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia  
Securities Commissions  
Office of the Administrator, New Brunswick  
Registrar of Securities, Prince Edward Island  
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**

**e-mail: [jstevenson@osc.gov.on.ca](mailto:jstevenson@osc.gov.on.ca)**

Secretary  
Ontario Securities Commission  
20 Queen Street West  
Suite 800, Box 55  
Toronto, Ontario  
M5H 3S8

**c/o Claude St. Pierre**

**e-mail: [stpierre@cvmq.com](mailto:stpierre@cvmq.com)**

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

**Re: Toronto Stock Exchange response to Canadian Securities  
Administrators Discussion Paper 52-401  
“Financial Reporting in Canada’s Capital Markets”**

Dear Sirs/Mesdames:

The TSE appreciates the opportunity to comment on the above-noted CSA Discussion Paper. We hope that our contribution will assist you in your review of the rules and policies governing accounting and financial reporting standards applicable to reporting issuers.

As Canada's senior equities market, the TSE considers the quality of the information available to investors to be of utmost importance for ensuring the integrity of the capital market. In addition to investors and other market participants, the TSE also relies on financial statements to determine if applicants meet our listing criteria. Financial reporting standards are constantly evolving, with new accounting and financial reporting standards proposed and adopted regularly. Efforts to harmonize Canadian accounting standards with foreign standards would clearly be beneficial to investors and Canadian reporting issuers, particularly those that are reporting in multiple jurisdictions.

While the TSE recognizes the value of consistent, standardized financial reporting, we also appreciate the increasing trend towards globalization of the capital markets and the related implications for issuers, investors and the markets generally.

On the question of whether current reporting requirements should be relaxed, the TSE does not express an opinion at this time given that we do not have adequate information to assess all of the costs and benefits. We do, however, believe that it is an appropriate time, given the trend towards globalization of the capital markets, to look at relaxing current requirements and the TSE is pleased to provide its comments to assist in this assessment.

In order to assess whether or not to relax financial reporting requirements, the TSE believes that data covering the following would be of great assistance:

- the cost to issuers of reporting under multiple GAAP regimes, including a comparison of the cost of preparing GAAP reconciliations versus full GAAP conversion;
- the impact that meeting additional financial reporting requirements in Canada may have on a company's decision to list here;
- the level of public reliance on Canadian GAAP reconciliations; and
- the number of companies that would likely be impacted by any relaxation of present requirements.

Rather than providing individual responses to the questions detailed in the Discussion Paper, the TSE's comments are organized on the following key issues:

- the harmonization of global financial reporting standards,

- the importance of the U.S. capital markets to Canadian issuers,
- the quality and comparability of financial information,
- foreign issuer reporting requirements, and
- knowledge and understanding of foreign GAAP.

### **Harmonization of Financial Reporting Standards**

The implementation of converging standards, accomplished over a reasonable period, are critical for serving the Canadian public's interest. Efforts to harmonize Canadian standards with those of the international community will ultimately lead to increased comparability between Canadian and foreign companies. This will provide both Canadian and foreign investors with informed access to global markets, thereby improving the flow of capital.

### **The Importance of U.S. Capital Markets**

Of particular relevance to assessing the need for change at this time is the importance of the U.S. capital markets to Canadian issuers and Canadian investors. Approximately 200 TSE-listed companies are currently interlisted on a U.S. market. Canadian companies accessing the U.S. capital markets may report using U.S. GAAP and Canadian investors have access to trade the securities of these Canadian companies and the securities of other public companies in these U.S. markets. While most investors would only have limited knowledge of foreign GAAP, it is reasonable to expect that there is some familiarity with U.S. GAAP given both its prominence and its relative similarity to Canadian GAAP.

Issuers regularly indicate their sensitivity to the incremental financial and regulatory costs associated with accessing multiple capital markets. If an issuer's primary capital market is the U.S., clearly accessing the Canadian market will have additional costs, which should be kept to a reasonable level. Companies reporting in both Canadian and U.S. GAAP may also be concerned about confusing shareholders if there are material differences in financial reporting standards. The financial and regulatory costs of being a reporting issuer in Canada continue to be important considerations for potential listing applicants and any reduction of these costs would be beneficial to investors, companies and the Canadian capital markets generally.

## **The Quality and Comparability of Financial Reports**

In considering acceptance of foreign standards, the TSE believes that U.S. GAAP and IAS ("International Accounting Standards") should be viewed as the primary alternatives based on their prominence and acceptance internationally. Given the relevance of U.S. GAAP to Canadian companies and its relative similarity to Canadian GAAP, it is reasonable to distinguish it from other foreign GAAP when considering alternatives to Canadian GAAP. Furthermore, the Canadian Accounting Standards Board is committed to largely eliminating existing differences between Canadian and U.S. GAAP.

Relaxation of requirements could be justified in a variety of circumstances. It may be appropriate, for example, for a Canadian company that has the majority of its operations, industry peers, shareholders and trading in the U.S. to be allowed to embrace U.S. GAAP as its primary basis of financial reporting. There may also be circumstances in which U.S. GAAP accounting treatment may be more appropriate for an issuer than Canadian GAAP. This might happen if, for example, the Financial Accounting Standards Board in the U.S. introduced standards which address a current issue prior to the introduction of corresponding standards in Canada.

Having multiple sets of reporting standards without reconciliation, however, may make it more difficult for investors to compare issuers. By providing a known basis for evaluating and comparing different companies, reconciliations to Canadian GAAP may be beneficial to Canadian investors. In conjunction with any relaxation of reporting requirements, reconciliations might be enhanced by requiring greater discussion of "material" differences between financial reporting regimes. Furthermore, if an issuer is required to provide GAAP reconciliation, it should be required to do so for all of its continuous disclosure obligations including interim financial statements and information circulars.

## **Foreign Issuer Requirements**

Foreign companies are also sensitive to the financial and regulatory costs of becoming a reporting issuer in Canada. These costs have been cited by foreign companies interested in listing on the TSE as a material factor and in some instances resulted in a listing delay or decision not to list. Lowering these costs will give foreign issuers greater access to Canadian capital markets while broadening investment opportunities for Canadian investors.

The value of information contained in Canadian GAAP reconciliations for foreign companies is difficult to assess, as it is not clear how much this

information is relied on by users. While there would be some loss of information if reconciliations were no longer required, it is difficult to evaluate the impact of this loss of information. Consideration should be given to relaxing requirements for substantial foreign issuers that meet certain thresholds such as a minimum market capitalization level or specified financial criteria.

The TSE believes it is reasonable to consider relaxing requirements for foreign issuers, and in particular for those interlisted on a major exchange and subject to home market regulatory oversight that is comparable to ours. The regulatory oversight within their primary capital market should ensure compliance with foreign GAAP. Approximately 40 foreign companies are currently listed on the TSE.

### **Practitioner Competence**

There is also the issue of the knowledge and competence needed by Canadian accounting practitioners, securities commissions, exchanges and others to prepare and understand financial reporting under non-Canadian GAAP. Based on feedback from accountants practicing in Canada, relatively few would be comfortable preparing financial statements in other than Canadian GAAP. Most firms rely on foreign practitioners for this, either through global partnerships or international affiliations. Some of the larger Canadian firms, however, do have partners specializing in clients with "cross-border" operations who have the required expertise. Further study is required to properly address this important issue.

Thank you for the opportunity to respond to the Discussion Paper. If you would like clarification on any point raised in this letter, please contact me.

Yours truly,

The Toronto Stock Exchange

Gerald Ruth  
Director  
Company Listings

/nl