

December 24, 2009

To:

British Columbia Securities Commission  
Alberta Securities Commission  
Saskatchewan Financial Services Commission  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
New Brunswick Securities Commission  
Superintendent of Securities, Prince Edward Island  
Nova Scotia Securities Commission  
Securities Commission of Newfoundland and Labrador  
Superintendent of Securities, Yukon Territory  
Superintendent of Securities, Northwest Territories  
Superintendent of Securities, Nunavut

**Attention:**

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**et/and** Anne-Marie Beaudoin, Secrétaire  
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**RE: Request for Comments: Proposed Repeal and Replacement of NI 52-107  
*Acceptable Accounting Principles and Auditing Standards* and Proposed  
Amendments to NI 14-101 Definitions**

The Canadian Advocacy Committee<sup>1</sup> of the CFA Institute<sup>2</sup> Societies of Canada (the CAC) appreciates the opportunity to comment to the Canadian Securities Commissions on the proposal contained in NI 52-107 regarding the use of Private Equity Generally Accepted Accounting Principles (PE GAAP) for the Business Acquisition Reports and Prospectuses of publicly accountable enterprises.

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<sup>1</sup> The CAC represents the 12,000 Canadian members of CFA Institute<sup>1</sup> and its 12 Member Societies across Canada. The CAC membership includes portfolio managers, analysts and other investment professionals in Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada.

<sup>2</sup> With offices in Charlottesville, VA, New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 96,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 133 countries, of whom nearly 83,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 136 member societies in 57 countries and territories. <http://www.cfainstitute.org/aboutus/index.html>

The CAC does not support the proposed change to NI 52-107 to permit the use of PE GAAP in the circumstances set out. PE GAAP is only GAAP when applied to private enterprises. The PE standards assume a disclosure environment that does not exist when applied to publicly accountable enterprises. The inappropriate use of PE GAAP would have an unacceptable negative impact on the quantity and quality of information users of financial statements have available to make informed financial decisions. The CAC does not support the reduction in information provided to investors and lenders that would result from the proposed use of PE GAAP.

The proposed changes do not support the securities commissions' primary objective of investor protection. The CAC is unconvinced that the changes provide any benefit to investors or any significant cost savings to issuers. The use of Canadian GAAP and now IFRS has already been subjected to and justified by an extensive cost benefit analysis by the accounting standards boards. Further, the proposed relief from IFRS in this context is applying a lower audit standard than now exists under Canadian GAAP and is merely a deferral of the cost and effort to convert to IFRS.

The CAC responses to the specific question asked in the Request for Comments are as follows:

***Question 1:** Do you agree with the proposal of jurisdictions other than Ontario that acquisition statements should be permitted to be prepared in accordance with Canadian GAAP for private enterprises where the specified conditions are met in accordance with paragraph 3.11(1)(f)? Please give reasons for your response.*

**The CAC does not agree – see reasons below**

***Question 2:** Do you agree with Ontario's proposal that acquisition statements should be permitted to be prepared only in accordance with a set of accounting principles specified in paragraphs 3.11(1)(a) to (e)? Please give reasons for your response.*

**The CAC agrees with Ontario's proposal, which would not permit the use of PE GAAP – see reasons below**

***Question 3:** Do you think that any other options would better balance the cost and time for issuers to provide acquisition statements and the needs of investors to make investment decisions? For example, one option identified by Ontario would be to permit acquisition statements to be prepared in accordance with Canadian GAAP applicable to private enterprises where they are accompanied by an audited reconciliation quantifying and explaining material differences from Canadian GAAP applicable to private enterprises to IFRS and providing material IFRS disclosures. Please give reasons for your response.*

**CAC does not support the proposed compromise. Any compromise would reduce investor protection unacceptably – see reasons below**

**The reasons for the CAC position are outlined below:**

1. Under current CSA guidelines, differential reporting is not permitted for Acquisition Statements disclosure. In general, it is our view that users of financial statements require more, not less, information. In particular, the significant changes in operations that result from a material acquisition require considerable information presented on a consistent basis in order for users to be able to separate out and fully understand the impact of changes from the acquisition from the annual changes in results of existing operations. Even the current level of disclosure is inadequate in this respect. PE GAAP would provide less, not more, information to users and so make the situation worse.
2. PE GAAP permits reduced disclosure and, in some cases, simplified recognition of assets, liabilities, income and expenses because these standards assume the users of the financial statements, such as banks or venture capital organizations, are in a position of strength vs. a private company. These users are assumed to be able to ask for and receive additional information to permit them to make capital allocation decisions. PE GAAP permits and even mandates selective disclosure of information to investors as only those who ask for additional information will receive it and there is no obligation on the issuer to provide this information generally.
3. Because the accounting framework of PE GAAP would not be respected when applied to public enterprises, a properly prepared auditors' opinion would always be a "qualified opinion" for these financial statements.
4. The cost-benefit for each and every disclosure requirement in public GAAP has already been explicitly considered. This is true for both IFRS and existing Canadian GAAP. The Accounting Standards Board already has taken into account the balance between user needs against preparer costs. Further reductions in disclosure and simplification of recognition criteria that produce output that is less useful for investment decision-making are not appropriate and are not in the interest of investor protection.
5. Much of the cost of converting PE GAAP information to an IFRS basis will need to be paid in any case. Opening Balance Sheet information using IFRS for the acquired company is effectively required. Accounting policy decisions and system changes going forward will need to be made in most cases, within the next reporting period (approximately 90 days). One key aspect of the management's acquisition analysis will be the impact of the merger on financial statements going forward. This analysis would likely use historical income statement information using PE GAAP adjusted for the expected impact of reporting under IFRS.
6. Even if management does not consider the impact to the financial statements – which would seem to the CAC to be against best practices – analysts need to have sufficient information in order to reset their financial models. Historical income and cashflow information on a comparable basis is a requirement, and for the acquiring public entity the only comparable basis will be IFRS. The most relevant and important information for investors and analysts may well be the information that is the most difficult or time consuming for the issuer to provide. Policy decisions on financial

disclosure matters of this type should focus on the utility of the information to users, rather than on the difficulty posed to preparers.

### **Concluding remarks**

We thank you for the opportunity to provide the foregoing comments. We would be happy to address any questions you may have and we appreciate the time you are taking to consider our point of view. Please feel welcome to contact us at [chair@cfaadvocacy.ca](mailto:chair@cfaadvocacy.ca).

(signed 'Robert Morgan')

Robert F. Morgan CFA CGA  
Member, Canadian Advocacy Council

(signed 'Ross Hallett')

Ross E. Hallett, CFA  
Chair, Canadian Advocacy Council