

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 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  
Montreal, Québec H4Z 1G3

Dear Sirs:

The following provides The Descartes Systems Group Inc.' response to the Discussion Paper, "Financial Reporting in Canada's Markets", as requested by the Canadian Securities Administrators.

Descartes provides collaborative logistics solutions, including integrated software applications and network services. The electronic logistics process enables enterprises and their trading partners, transportation carriers and other service providers to manage the flow of goods and information collaboratively with real time visibility from one end of the supply chain to the other. The Company also offers consulting, training, support and hosting services to the users of its logistics software products.

Descartes is incorporated in Canada and its common shares are listed on the Toronto Stock Exchange under the symbol "DSG" and quoted on the NASDAQ National Market under the symbol "DSGX". In its fiscal year ended January 31, 2001, the Company generated revenues of about US\$67 million and at the end of year had total assets of over US\$400 million. Currently Descartes has over 600 employees and operates globally with offices in North America, Europe and Asia Pacific. Its market cap is about US\$750 million.

As the Company's revenues are generated primarily in US dollars and the peer group which it is expected to be compared with comprises mainly US companies that report in accordance with US GAAP, the Company's primary consolidated financial statements and MD&A are prepared and filed in Canada and the United States in US dollars and in accordance with US GAAP. These statements are mailed to all shareholders. The Company also prepares and files its consolidated financial statements and MD&A in accordance with Canadian GAAP, in US dollars, which are mailed to all Canadian shareholders and are made available to US shareholders.

We commend the Canadian Securities Administrators initiative in seeking public input on this very important issue and we trust that the outcome of this process will be improvements to market liquidity, competition, efficiency and capital formation. We also strongly emphasize and believe that the effect of possible changes to current requirements should not compromise the mandate of the securities regulators, which is to provide protection to the investors.

Given the nature of our Company's business and its operating environment, Descartes will certainly benefit from and take advantage of any opportunity to prepare US GAAP financial statements only. The Company's responses to the questions listed below are focused on questions relating to possible changes to current requirements for Canadian issuers. However, brief responses have been provided with respect to questions relating to foreign issuers and the International Accounting Standards.

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*Q1 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.*

A1 With the endorsement of the International Accounting Standards by the IOSCO in May 2000 and the restructuring of the International Accounting Standards Committee, the relevance of a set of national accounting standards is diminishing rapidly. Given the evolving border-less capital markets and the technological advances achieved in the past several years, a movement towards a set of internationally acceptable accounting standards and securities regulations is not only inevitable but should be accelerated by all interested parties. We believe that this goal is achievable and is a matter of time. The question should not be whether we should relax the current requirements for reporting issuers; it should be how and how fast during this period of transition.

*Q2 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.*

A2 We believe that changes to existing reporting requirements should take place over distinct phases and in all instances should apply to both Canadian and foreign reporting issuers. We believe that during the period of transition referred to above, some limited reconciliations to Canadian GAAP should be provided by both Canadian and foreign issuers who use GAAP other than Canadian and should apply to continuous disclosure filings, offering documents and information circulars.

*Q3 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.*

A3 We believe that any changes to reporting requirements in Canada should take place in an orderly manner in distinct phases during the period of global transition to a universally acceptable accounting, disclosure and securities standards. We propose the following phases:

- (i) Effective immediately, the Canadian issuers should be given an option of preparing their financial statements in US GAAP with a qualitative discussion of significant differences with Canadian GAAP if applying Canadian GAAP would result in a decline in earnings by more than 5%. We believe that this option should be granted if the Canadian issuer can demonstrate to the satisfaction of the securities regulators that, given the issuer's business environment, following US GAAP would be more appropriate than Canadian GAAP. We also believe that the Canadian issuers should receive shareholder approval (simple majority) for adoption of US GAAP for their primary financial statements and the decision should be irreversible unless the issuer experiences a significant change in the nature of its business or its business environment. The securities regulators should develop criteria for assessing the Canadian issuer's application for adoption of US GAAP.
- (ii) Effective immediately, the foreign issuers should be allowed to file their financial statements using International or US GAAP with a qualitative discussion of significant differences with Canadian GAAP if applying Canadian GAAP would result in a decline in earnings by more than 5%. We do not believe that any foreign GAAP other than International or US should be accepted.
- (iii) Within five years, as the Accounting Standards Board eliminates the remaining significant differences with US GAAP, the requirement for a formal process of regulatory assessment and approval of adoption of US GAAP by a Canadian issuer and the need for a qualitative reconciliation to Canadian GAAP should be dropped. However, the requirement for shareholder approval and the irreversibility of the decision should be retained. Likewise, the requirement to provide qualitative reconciliation to Canadian GAAP for foreign issuers who follow US GAAP should be dropped.
- (iv) Within five years, as the International Accounting Standards are developed beyond core standards, the Canadian issuers should be permitted to adopt International Accounting Standards subject to the same process described in (i) above.
- (v) Within ten years, as Canadian GAAP is essentially harmonized with US GAAP and the International Accounting Standards represent a comprehensive set of standards comparable with Canadian and US standards, both Canadian and foreign issuers should be allowed to file under any of these set of standards with no reconciliation or shareholder approval requirements.

*Q4 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. It is important that Canadian investors have access to financial information prepared on a comparable basis? If not, why not?*

A4 For the response to the first part of question please refer to A3 above. We believe that Canadian investors should have access to financial information on a comparable basis. We also believe that those Canadian issuers who opt to adopt US or International GAAP will primarily be from specific industries with North American and International markets for their products and the need to have access to capital in the same markets. Accordingly, we do not believe comparability will be compromised among those companies operating within the same specific industries. Furthermore, a consistent application of US or International GAAP to all years of financials presented will preserve the comparability of the results within each entity. Admittedly, comparability among various industries could be somewhat affected, however, a qualitative discussion of such differences as proposed under A3 above would mitigate to a large extent the effect of such differences on the Canadian investors, if any.

*Q5 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?*

A5 We believe that this issue of lack of knowledge of non-Canadian GAAP among issuers, auditors and users is totally exaggerated. Admittedly, among the majority there could be a one time cost of learning US or International GAAP, however, with the continuous efforts of standard setters to harmonize and converge, the incremental cost of learning is diminishing. The bigger issue, which is not within the scope of this paper, is the ever-increasing complexity of the accounting standards which render the financial statements of limited value to non-sophisticated users. We believe with increasing cross border listings and expansion of Canadian businesses to the south of the border, the base of US GAAP knowledge among the issuers, auditors and users is increasing significantly. It should also be noted that those companies who may adopt US GAAP for their primary financial statements, most likely are cross listed and already prepare US GAAP financial statements or reconciliations and have auditors with expertise in both set of accounting standards. Finally we should not underestimate the agility and resilience of Canadian Chartered Accountants in learning and adapting to the changed reporting requirements.

*Q6 If you believe alternatives to Canadian GAAP should be permitted, what specific steps should be 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.*

A6 We believe that our responses above have addressed the majority of the issues identified in Part 5 of the Discussion Paper. We believe that the phased-in approach proposed above and the continuation of the efforts of standard setters will provide the opportunity and the incentive to deal with challenges discussed in Part 5. During the transition period of say 10 years there will be sufficient time for building up the knowledge base and change the rules, regulations and other statutory requirements. We also believe that the issue of incremental administrative costs associated with preparing dual GAAP financial statements or GAAP reconciliations is somewhat exaggerated. The real cost, which is not quantifiable, is the confusion and uncertainty of the investors which results from reporting multiple EPS figures prepared under different accounting standards. We believe that our proposals will minimize such confusion and uncertainty.

*Q7 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?*

A7 As discussed above, under the proposed phased-in approach, we are advocating that the Canadian issuers should be permitted to adopt US GAAP immediately for their primary financial statements with limited qualitative reconciliations to Canadian GAAP. Our reason for this proposal is that we believe US GAAP provides the most comprehensive set of standards available and the Accounting Standards Board in Canada is giving priority to harmonize with US standards. We also believe that it will take several years before the International Accounting Standards reach the same level of sophistication and completeness. We oppose the adoption of any other foreign GAAP either now or in the future as most jurisdictions in the world are moving towards the adoption of International Accounting Standards and it does not seem appropriate to permit the adoption of the standards of such foreign jurisdictions in Canada given their movement towards international standards. The announcement of the European Commission of a proposal to require all listed companies in the European Union member states to use International Accounting Standards for their consolidated financial statements by 2005, is a case in point.

*Q8 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?*

A8 As discussed under A3 above, the Canadian issuers should be permitted to adopt US GAAP for their primary financial statements if following conditions are met:

- A simple majority of shareholders approve such course of action
- An application is made to the securities regulator requesting a permission to adopt US GAAP subject to satisfying pre-established criteria to be developed by the regulators. The criteria could include percentage of revenues generated in the United States, percentage of assets, peer group comparisons, number of US shareholders and other business, economic and social parameters.
- For the next five years a qualitative reconciliation of earnings to Canadian GAAP is provided if earnings under Canadian GAAP would have been lower by more than 5%.
- All prior years are restated.
- The decision would be irreversible unless there is a significant change in the company's business or its business environment.

*Q9 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?*

A9 We believe we have responded to these questions in the above comments.

*Q10 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?*

A10 Please refer to the above responses. We agree that upon the adoption of US GAAP by a Canadian issuer, all prior year financials should be restated to US GAAP.

*Q11 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.*

A11 The International Accounting Standards Committee has made a significant progress in developing the core standards, however, it will take several years before such standards are brought to the level of US standards in sophistication and completeness. We believe that the new restructured Board of the International Accounting Standards Committee will be instrumental in developing a set of universally acceptable accounting standards within the next several years. We have not examined the International Accounting Standards in detail to be able to identify any additional topics which need to be addressed.

*Q12 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?*

A12 We believe that effectively immediately the foreign issuers should be permitted to file their financial statements in Canada following either US or International Accounting Standards with limited qualitative discussion of earnings reconciliation if their earnings under Canadian GAAP will be lower by more than 5% from their adopted GAAP. With respect to specialized industry issues if not addressed in the international standards, the foreign issuers should be allowed to use home country standards subject to

qualitative reconciliation discussion referred to above. In any event, if such foreign issuers do also prepare their financial statements in US GAAP or with a reconciliation to US GAAP, such statements or reconciliations should be filed on a supplementary basis.

*Q13 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 analyzing the application of such standards.*

A13 Please refer to our previous responses. Our experience with respect to the use of these standards is very limited.

*Q14 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?*

A14 Same as A13.

*Q15 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?*

A15 Same as A13.

*Q16 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?*

A16 Same as A13.

*Q17 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.*

A17 Same as A13.

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We again commend the securities commissions in their efforts to deal with these significant issues and will be more than happy to meet with the staff of the commission to elaborate on our responses or provide any other assistance required in reaching an efficient and cost effective filing procedures in Canada. We believe our proposals are practical and would enhance the current filing requirements without compromising the mandate of the securities commissions, which is to provide protection to investors.