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

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Executive Summary

The Canadian Securities Administrators (CSA) are soliciting public comment on possible changes to the rules governing the accounting standards used for financial statements filed by reporting issuers.

The growth of cross border financing activity around the world has focused attention on impediments to issuers wishing to offer their securities or have them listed in another country. Differences in accounting standards have been identified as a significant impediment. The International Organization of Securities Commissions (IOSCO) has been working with the International Accounting Standards Committee to develop a set of standards that could be accepted by all regulators for cross border offerings. In May 2000, IOSCO endorsed a set of core International Accounting Standards (IAS) developed by the IASC and recommended that member regulators accept them, with limited supplementary information.

The Canadian Accounting Standards Board (AcSB) has, for the past few years, been working with major foreign standards-setting bodies toward the convergence of accounting standards. The goal of convergence is to develop IAS as a single set of internationally accepted accounting standards. Recognizing that international convergence will take some years and that Canada's most important foreign market is the U.S., the AcSB has also been working on a more accelerated basis to eliminate the major differences between Canadian and U.S. GAAP.

Canadian securities rules require Canadian-based reporting issuers to use Canadian GAAP in all their financial statement filings. Foreign-based reporting issuers may use the accounting principles of their home jurisdictions, but must provide a reconciliation to Canadian GAAP for financial statements in a prospectus. They are not generally required to provide a reconciliation for continuous disclosure filings except in British Columbia. In some other jurisdictions, a requirement to provide a reconciliation is often imposed as a condition of any continuous disclosure exemption provided to a foreign issuer.

A significant number of Canadian issuers have raised capital or listed their securities in the United States. They are required to file continuous disclosure with the U.S. Securities and Exchange Commission, including a reconciliation of their Canadian GAAP financial statements to U.S. GAAP. Some Canadian issuers have chosen to prepare a full set of U.S. GAAP financial statements to increase their market acceptance in the U.S.

The CSA are considering whether it would be appropriate to relax the current rules to allow some or all Canadian and foreign reporting issuers to use, for all filings in Canada, IAS, U.S. GAAP or, perhaps, other bases of accounting, with limited or no reconciliation to Canadian GAAP.

We have been told that the current rules deter foreign issuers from doing public offerings in Canada, denying investment opportunities to investors. We have also been told that, for Canadian issuers listed in the U.S. that prepare a complete set of U.S. GAAP statements, any benefit to Canadian investors of continuing to prepare Canadian GAAP statements is outweighed by the costs involved.

There are, however, some difficult issues that complicate the question of accepting IAS or U.S. GAAP for regulatory filings in Canada. These are:

- *Comparability* — Having three or more different sets of accounting standards for reporting issuers would make it more difficult for Canadian investors and analysts to compare results for different issuers. For some Canadian issuers, however, the peer group to which they are usually compared is foreign companies that do not prepare Canadian GAAP statements.
- *Professional capacity* — Canadian accounting professionals have limited knowledge of U.S. GAAP and virtually no experience with IAS. A significant effort would be required for issuers, auditors and regulators to build sufficient expertise to handle increased use of these other sets of standards while maintaining high standards of compliance.
- *Other Statutory Requirements* — Even if the CSA exempts Canadian issuers from filing Canadian GAAP financial statements, they may still be required under corporate or tax statutes. The desired cost savings would be achieved only if these other requirements can be removed.

To assist in assessing the issues fully, the CSA are seeking responses to 17 detailed questions set out in the attached paper. We encourage you to answer as many of the questions as you can based on your experience. Please provide your responses by June 30, 2001, to ensure that your views are considered.

DISCUSSION PAPER

FINANCIAL REPORTING IN CANADA'S CAPITAL MARKETS

PART 1: INTRODUCTION

1. For many years, securities regulators around the world, including the Canadian Securities Administrators ("CSA"), have recognized that the efficiency of international capital markets is impaired by differences in offering, listing and reporting requirements in individual national markets. Tolerance of these differences has diminished as the world's capital markets have undergone fundamental changes driven by rapid and continuing technological change. At the same time, the need to access capital beyond national borders has grown as shifts in economic and political climates have led to the development of new market-based economies. Further, the world's major financial markets are becoming increasingly interconnected.

2. Companies seeking to raise capital commonly look beyond the borders of their domestic jurisdiction. Similarly, investors look for opportunities beyond their own domestic markets. This presents a challenge to securities market regulators to facilitate efficient cross-border capital flows while also maintaining high levels of investor protection. The challenge is particularly pronounced in Canada because many Canadian companies choose to access US financial markets to meet their needs for capital.

3. In common with securities regulators in other jurisdictions, the primary objective of the CSA is to protect investors by promoting informed investment decisions based on full true and plain disclosure. Consistent with this objective, Canadian companies participating in Canada's capital markets are required to provide financial statements prepared in accordance with a single common standard, Canadian GAAP. Foreign companies offering securities in Canada's capital markets are required to provide a reconciliation of their financial statements to Canadian GAAP. Increasingly, some observers question whether the benefits to Canadian investors of Canadian companies providing financial statements based on Canadian GAAP are outweighed by the incremental costs those companies incur if they choose to access US capital markets and are required to reconcile to US GAAP. Similarly, some observers question whether requirements for foreign issuers to reconcile to Canadian GAAP are a significant disincentive to foreign issuers to access Canadian markets, resulting in less efficient access by Canadian investors to foreign investment opportunities.

4. To address these challenges, members of the CSA have for some years worked with other securities regulators through the International Organization of Securities Commissions ("IOSCO") to promote common standards for cross border offerings and listings. These activities have resulted in IOSCO recommending to its member bodies the adoption of a set of agreed upon International Disclosure Standards for non-financial information. A further step has been to promote the development of a high quality body of accounting standards that would achieve acceptance internationally. IOSCO has focussed its efforts on the work of the International Accounting Standards Committee ("IASC") which recently completed

its core standards work program. This program was designed to provide a comprehensive body of accounting principles suitable for use in cross-border securities offerings.

5. In February of 2000, the SEC issued a Concept Release on International Accounting Standards. The release sought comment on the elements needed to achieve a high quality global financial reporting framework. As one aspect of the release, the SEC requested input as to the conditions under which they should accept financial statements of foreign private issuers prepared in accordance with International Accounting Standards ("IAS"). In particular, the SEC asked for comment on whether it should modify its current requirement for all financial statements to be reconciled to US GAAP. The SEC received extensive public comment on the issues raised in the release but, to date, has not proposed amendments to its existing rules. In May of 2000, IOSCO recommended to its member bodies that they accept financial statements from incoming issuers prepared in accordance with IAS. Subsequently, the European Commission announced a proposal to require all listed companies in the European Union member states to use IAS for their consolidated financial statements by 2005.

6. This Discussion Paper is a first step by the CSA in responding to the IOSCO recommendation. Its purpose is to seek public comment on whether changes should be made to the basis on which financial statements of both foreign and Canadian issuers are permitted to be filed. To provide a basis for reasoned input, the paper reviews current developments in accounting standards-setting, nationally and internationally, and assesses the prospects for convergence of accounting standards among national jurisdictions. Potential implications of these developments in the context of Canada's capital markets are discussed and key issues identified. The paper identifies a range of possibilities for modifying current financial reporting requirements and sets out various issues associated with those possibilities. These approaches need to be evaluated taking into account the sometimes conflicting needs and desires of various participants in Canada's capital markets.

7. The paper invites responses to specific questions relating to the bases of financial reporting that should be permitted or required for issuers accessing Canada's capital markets. Readers are asked whether some or all Canadian companies should have the option of using US GAAP, IAS or other bases of accounting as an alternative to Canadian GAAP and whether foreign companies should continue to be required to reconcile to Canadian GAAP. With respect to IAS, the paper sets out questions designed to elicit views as to whether those standards constitute a reasonably comprehensive basis of accounting, are of high quality and can be rigorously interpreted and applied.

8. The CSA believe the issue of the accounting standards considered acceptable for use in Canadian capital markets can be evaluated independently of the other elements that must operate effectively to promote the provision of high quality, relevant, reliable and comparable financial information for investors. Accordingly, the paper does not address matters such as management and corporate governance processes and auditing standards and practices, as well as regulatory oversight of those matters. In particular, the paper does not address the acceptability of audits carried out in accordance with foreign auditing standards.

This may be considered in the future as the IOSCO Working Party on multinational accounting and disclosure turns its attention to auditing issues.

PART 2 : THE CURRENT ENVIRONMENT IN CANADA'S CAPITAL MARKETS

The current financial reporting regime

9. The provincial securities acts and regulations establish the basis on which financial statements for reporting issuers must be prepared. In essence, reporting issuers incorporated or organized in Canada or one of its provinces or territories ("Canadian issuers") are required to prepare financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("Canadian GAAP"). Reporting issuers incorporated or organized other than in Canada or its provinces or territories ("foreign issuers") are permitted to prepare financial statements in accordance with either Canadian GAAP or another body of accounting principles established in the issuer's home jurisdiction ("foreign GAAP"). In general, foreign issuers filing a prospectus containing financial statements prepared in accordance with foreign GAAP are required to provide an audited reconciliation from the foreign GAAP to Canadian GAAP. In the case of US companies accessing Canada's capital markets using the provisions of The Multijurisdictional Disclosure System ("MJDS"), a reconciliation is not required for certain types of offering, principally debt and preferred shares that have an investment grade rating.

10. Except in British Columbia, the provincial securities acts and regulations do not require foreign issuers filing annual and interim financial statements prepared in accordance with foreign GAAP to include in those financial statements a Canadian GAAP reconciliation. If, however, a foreign issuer applies for relief from its continuous disclosure obligations in order to conform to the requirements of its domestic jurisdiction, (e.g., to be allowed to file only semi-annual reports), staff of some of the CSA jurisdictions typically recommend to their Commission that, as a condition of granting the requested relief, the issuer be required to include a Canadian GAAP reconciliation in its financial statements. In general, a requirement for a GAAP reconciliation has not been imposed when the continuous disclosure financial statements of a foreign company are substituted for those of a Canadian issuer of exchangeable shares. The inconsistency in approach between offering documents and continuous disclosure in the requirements of most jurisdictions appears to be an historical anomaly reflecting the traditional securities regulatory focus on primary offerings. This distinction appears to lack a sound basis in today's capital markets where the vast majority of transactions take place in secondary markets that depend on continuous disclosure of relevant and reliable financial information.

11. In August 1993, the CSA proposed a Foreign Issuer Prospectus and Continuous Disclosure System ("FIPS") designed to facilitate world-class foreign issuers offering securities in Canada as part of an international offering. The system contemplated permitting such offerings on a basis that would exempt the issuer from the requirement to provide a Canadian GAAP reconciliation. Eligibility for FIPS was premised on meeting certain requirements relating to the size of the issuer and the amount of the offering to be distributed

in Canada and on the offering being made simultaneously in the US, resulting in the provision of US GAAP information, either directly or by reconciliation. The FIPS proposals have not been implemented formally but staff have been willing to consider recommending relief on a case by case basis to permit offerings along the lines of FIPS.

Use of US GAAP by Canadian companies

12. Over the past decade or more, a growing number of Canadian companies, both large and small, has accessed US capital markets in addition to the Canadian capital markets. These companies subject themselves to certain requirements imposed on foreign private issuers by the US Securities and Exchange Commission. These requirements, which are in addition to the requirements of securities law in the CSA jurisdictions, include preparing a audited reconciliation to US GAAP or a complete set of audited US GAAP financial statements.

13. A few Canadian companies that file with the SEC, rather than prepare only a reconciliation to US GAAP, have chosen to supplement their Canadian GAAP financial statements by preparing and distributing a complete set of US GAAP financial statements. While the absolute number of companies preparing and distributing two complete sets of financial statements is small, they include several of Canada's largest companies measured by market capitalization. In some cases, these companies use their US GAAP financial statements as the primary basis for public communication of financial information both in Canada and in the US. The companies also file with the Commissions in Canada and distribute to shareholders, in accordance with relevant securities and corporate laws, Canadian GAAP financial statements. These financial statements are, however, relegated to a clearly secondary role.

14. A variety of factors may have influenced Canadian companies to favour US GAAP financial statements as the primary basis for their public communication of financial information. For some interlisted Canadian companies, a majority of trading in their equity shares takes place in US markets and a substantial proportion of their shareholders is resident in the US. For others, the peer group with which they expect to be compared in the competition for capital comprises largely US companies that report in accordance with US GAAP. As a result, these Canadian companies believe they are better able to increase their profile in US capital markets by communicating using the financial reporting language that is most familiar to US investors.

15. A further significant factor that has influenced the decision of some Canadian companies to prepare US GAAP financial statements is differences between Canadian and US standards on accounting for business combination transactions. Of primary concern has been the relative ease of access to pooling of interests accounting under US GAAP which companies are sometimes able to exploit to portray apparently more favourable financial performance than would be the case under Canadian GAAP. Some have argued that this aspect of Canadian accounting standards places Canadian companies at a competitive disadvantage in US capital markets, impeding their ability to execute business acquisition strategies. Elimination of pooling of interests accounting as currently proposed by both US and Canadian standards-setters would remove this factor.

16. The growth in cross-border activity within North America, particularly by Canadian companies seeking listings and raising capital in US capital markets has intensified the focus on differences between Canadian and US GAAP. Some question the necessity to continue requiring all Canadian companies that are reporting issuers in the CSA jurisdictions to prepare Canadian GAAP financial statements. One view is that the integration of North American capital markets is such that Canadian companies should be permitted to prepare US GAAP financial statements as a substitute for Canadian GAAP financial statements. Another view is that Canadian companies should also be permitted to use International Accounting Standards and potentially other bases of accounting.

PART 3 : A PREVIOUS REVIEW OF FINANCIAL REPORTING REQUIREMENTS

17. In May 1993, the Office of the Chief Accountant of the OSC published for comment a report on a Study of Differences between Canadian and United States Generally Accepted Accounting Principles.[1] The report reflected the results of a study of reconciliations provided over a five year period by TSE listed Canadian companies that were also SEC registrants. The purpose of the Study was to assess whether any changes should be made to the OSC's reconciliation requirements, particularly for US companies accessing Canadian markets under the Multijurisdictional Disclosure System.

18. The study found that, although US and Canadian GAAP were broadly comparable, numerous significant differences were reported over time and it did not appear that their number or materiality were diminishing. Among the most common types of differences were timing differences relating to income statement recognition. Commonly encountered differences related to the accounting for foreign currency denominated debt, business combination transactions, accounting changes, income taxes, extraordinary items, interest capitalized and pension costs. No industry was free from GAAP differences but they were more likely to arise in oil and gas producers and real estate developers because of certain industry specific accounting practices.

19. The occurrence and magnitude of GAAP differences were often difficult to predict. Some arose from specific transactions or events occurring in a given reporting period, such as business combinations or general economic factors affecting exchange rates. Others, such as voluntary changes in the application of accounting principles, arose only as a result of a decision by the issuer. Even when a GAAP difference could have been expected to occur, perhaps as a result of required implementation of a new accounting standard, it was usually impossible to predict the magnitude of the difference.

20. For the reconciliations examined in the study, the difference between net income under Canadian GAAP and net income under US GAAP was usually material. Virtually all reconciliations adjusted net income by more than 10%. In 7% of the cases, the reconciliation converted net income under Canadian GAAP to a net loss under US GAAP.

[1](1993), 16 OSCB 2273

As the number of reconciling items increased so did the incidence of offsetting items, suggesting that comparisons focussing solely on net income may be misleading.

21. The report invited comment on several specific questions and put forward four possible alternatives to the existing GAAP reconciliation requirements for foreign companies. In summary, the alternatives presented were:
    (i) no reconciliation to Canadian GAAP where the financial statements were prepared in accordance with US GAAP;
    (ii) full quantitative and qualitative reconciliation to Canadian GAAP both on an offering and continuous disclosure basis;
    (iii) partial reconciliation to Canadian GAAP where the financial statements were prepared in accordance with US GAAP, perhaps involving a qualitative discussion of all material differences with a quantitative reconciliation of only selected items; and
    (iv) full quantitative and qualitative reconciliation to International Accounting Standards both on an offering and continuous disclosure basis.

22. The report also raised questions concerning the implications for Canadian companies if US companies accessing Canadian capital markets were to be permitted to use US GAAP without reconciliation to Canadian GAAP. In particular, should some or all Canadian companies be given the option of reporting solely on a US GAAP basis. Finally, comment was sought on whether foreign issuers preparing financial statements in accordance with their home country GAAP, accompanied by a reconciliation to US GAAP, should be exempt from any requirement to reconcile to Canadian GAAP.

23. In October 1993, the Office of the Chief Accountant of the OSC published a summary of twenty three comments received on the report.[2] The summary indicated a wide variety of opinions on most of the issues with little consensus emerging except in two areas:
    (i) that Canadian GAAP was the appropriate basis of reporting for Canadian companies; and
    (ii) that International Accounting Standards were important as a long term benchmark for reconciliation by multinational issuers.

24. In view of the lack of consensus, the OSC concluded that it should not make any change from the existing reconciliation requirements, including the requirements of MJDS. The OSC also noted its intention to monitor developments as new information came to light and the global capital markets evolved. Paragraphs 25 to 43 below describe more recent developments, in particular the growing trend towards convergence of accounting standards both within North America and internationally.

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[2](1993) 16 OSCB 5118

PART 4: DEVELOPMENTS IN ACCOUNTING STANDARDS-SETTING

25. Since 1993, national and international developments with respect to accounting standards-setting have been significant. An understanding of these developments and their potential implications is an essential element in evaluating possible changes to existing financial reporting requirements for both foreign and domestic companies accessing Canada's capital markets.

The Canadian approach

26. Accounting standards in Canada are set by the Accounting Standards Board (AcSB) of The Canadian Institute of Chartered Accountants. This private sector accounting standards-setting body is long established and internationally respected. The standards it develops are recognized not only in securities legislation but also in federal and provincial incorporating statutes as the basis for preparation of financial statements of Canadian companies. In addition, those standards play a role in determining amounts subject to Canadian taxation as well as providing a basis for a wide range of contractual obligations that are founded on GAAP measures.

27. For many years, the AcSB set standards primarily with a view to ensuring their appropriateness and acceptability for Canadian companies operating in the Canadian environment. In more recent years, however, some segments of the Canadian business community have strongly urged the AcSB to place a heavy emphasis on setting standards that are consistent with US GAAP and, to some degree, with International Accounting Standards. Indeed, some have questioned the need to preserve a distinct Canadian standards-setting body. These pressures are reflected in the recommendations of the 1998 Report of the CICA Task Force on Standard Setting (TFOSS)[3]. This report identifies as a long term goal that there will be a single set of internationally accepted accounting standards in the private sector. It also envisages Canada playing a significant role in establishing international accounting standards and retaining its authority to set unique Canadian accounting standards where circumstances warrant. While keeping in mind the long term goal of a single set of internationally accepted accounting standards, the TFOSS report recommends that the AcSB undertake an accelerated program to harmonize with US accounting standards.

28. TFOSS explains that the Task Force views standards as being "harmonized" when they have been arrived at following a process of input and negotiation among the relevant standards-setting bodies. This interpretation still allows a national body to set its own standards, but assumes it will do so only in the event it can clearly demonstrate that its country's circumstances are unique. The Task Force emphasizes that harmonizing with the Financial Accounting Standards Board ("FASB") standards does not mean the automatic adoption of US GAAP. It notes that reasons for not doing so would include: (i) the FASB has acknowledged that its standard is in need of change; (ii) the FASB's standard is out of step

[3]The Canadian Institute of Chartered Accountants, CICA Task Force on Standard Setting (1998)

with the rest of the world; or (iii) Canada's national economic, regulatory or legislative peculiarities would not permit such adoption.

29. Taking into account the pressures in the Canadian business community, as well as the recommendations of the TFOSS report and broader changes in the environment nationally and internationally, the AcSB has adopted a strategy of harmonizing current Canadian accounting standards with US and international standards, as appropriate. The AcSB has also adopted a strategy of playing a leadership role in the global convergence of standards by participating with other standards-setters in joint projects to develop new standards. In implementing these strategies it is apparent that emphasis is being placed on importing US standards to expand the range of issues addressed and significant efforts are being made to avoid setting new Canadian standards that differ from US GAAP.

The impact of convergence on Canadian accounting standards

30. The AcSB has responded to the pressures for convergence of standards internationally, and particularly with the US, primarily in four ways. First, Canada has participated actively in the work of the IASC, both at the level of the IASC Board and in individual project steering committees, including working jointly to develop common standards on financial instrument accounting. Second, the Chair of the AcSB and senior staff have participated as members of the so-called "G4+1" group. The other members of this group are standards-setters from Australia, New Zealand, the UK and the US, with the IASC participating as an observer. This group has developed a series of reports relating to contentious issues that are of common concern to its members. These issues include accounting for leases, hedge accounting and accounting for stock based compensation. Third, the AcSB has worked jointly with the FASB on projects such as segmented information with a view to achieving a common standard within North America. Fourth, the Chair of the AcSB is a member of a Joint Working Group of national standards-setters and the IASC that is striving to develop a common standard on recognition and measurement of financial instruments.

31. The AcSB's actions have resulted in significant progress in furthering convergence of accounting standards, particularly within North America but also internationally. For example, among the most commonly encountered differences identified in the OSC's 1993 GAAP Differences Report, income tax accounting has now been substantially harmonized both within North America and with the IASC, as has the accounting for pension costs. It is interesting to note, however, that the new Canadian income tax accounting standard creates a potentially significant difference from US GAAP that is intended to accommodate a difference between Canada and the US in the process of enacting changes in tax laws. If this difference in the process of enacting changes in tax laws does indeed have economic substance, it suggests that the US standard does not take into account appropriately Canadian circumstances. In contrast, the International Accounting Standard is written to take into account the existence of different legislative processes in different countries and allows for the approach the AcSB considered appropriate to Canadian circumstances. Also consistent with furthering convergence of standards, the AcSB recently completed a project to modify its existing standard on earnings per share. This resulted in a Canadian standard

that is substantially the same as the comparable IASC and FASB standards which were developed in a recent joint project between those two bodies.

32. Business combinations accounting remains as perhaps the most sensitive and significant area of difference between US standards and both Canadian standards and those of the IASC. The FASB is, however, well advanced in re-evaluating and amending the current US standard. The AcSB is working in parallel with the FASB with a view to converging on a single North American standard. The IASC also has a current project to consider whether to amend its standard. While the FASB and AcSB projects are expected to eliminate the pooling of interests method of accounting later this year, other differences in application of the purchase method of accounting can be significant and may well remain for the immediate future.

33. Differences also remain between Canadian standards and those in the US and internationally relating to timing of income statement recognition of gains and losses on foreign currency denominated debt. Several years ago, the AcSB proposed on two occasions to amend the Canadian standard to eliminate this difference but encountered significant resistance from the Canadian business community, including some of those who might be expected to favour harmony with US GAAP. Recently, the AcSB issued an Exposure Draft proposing to eliminate the difference from US and international standards by requiring immediate income statement recognition of foreign exchange gains and losses.

34. Significant differences between Canadian, international and US standards also persist in accounting for stock based compensation. To deal with this issue in a North American context, the AcSB issued recently an exposure draft proposing to import the relevant US standards, thus achieving consistency in another area of significant difference in current practice. This proposal raises some important questions as to the implications of importing complex US standards that, to some degree, lack a consistent conceptual foundation.

35. While significant strides are being made in eliminating differences from US GAAP and IAS, some new areas of difference have arisen as a result of standards introduced in the past seven years. For example, standards on recognition and measurement of financial instruments introduced recently in the US and by the IASC do not have a direct counterpart in Canada and differ significantly from current Canadian practices. The requirements of these standards also cannot be considered, at least in some respects, to comply with the principles set out in existing Canadian standards dealing with closely related areas. Further, many differences between Canadian and US GAAP remain in areas that are addressed in US literature, particularly Abstracts issued by the FASB's Emerging Issues Task Force, but not in Canadian literature. In some cases, the accounting treatment required under US GAAP may be entirely compatible with Canadian GAAP. In other cases the standards underlying the US requirements differ from their Canadian counterparts and hence the US GAAP treatment is not acceptable in Canada.

36. In summary, while convergence of standards between Canada and the US appears to be accelerating, the complexity of the issues is such that differences can be expected to remain significant for the immediate future. Convergence of national standards and IAS is also

accelerating but the speed of convergence between Canadian standards and those of the IASC will be influenced significantly in the short term by the extent to which the AcSB opts to import existing US standards that differ from IASC standards.

The IASC's core standards project

37. After studying issues relating to international equity flows, IOSCO noted that development of a single disclosure document for use in cross-border offerings and listings would be facilitated by the development of internationally accepted accounting standards. Rather than attempt to develop those standards itself, IOSCO focussed on the efforts of the IASC. In 1993, IOSCO identified for the IASC the necessary components of a core set of standards that would comprise a comprehensive body of accounting principles for enterprises making cross-border securities offerings. In 1994, IOSCO completed a review of the then current IASC standards and identified a number that the IASC would have to improve, as well as certain additional issues that would have to be addressed, before IOSCO could consider recommending IASC standards. The IASC then prepared a work plan designed to address the most significant issues identified by IOSCO -- the "core standards" work program. In July 1995, IOSCO and the IASC announced agreement on this work program. IOSCO stated that, if the resulting core standards were acceptable to its Technical Committee, the committee would recommend endorsement of those standards for cross-border capital raising and listing purposes.

38. The core standards work program was substantially completed by the IASC early in 2000. In May of 2000, following an extensive process to assess the 30 core standards in light of comments submitted to the IASC by IOSCO and its individual member bodies, the IOSCO President's Committee adopted a resolution endorsing the completed standards. The resolution recommends that IOSCO members permit incoming multinational issuers to use the 30 core standards to prepare their financial statements for cross-border offerings and listings, as supplemented where considered necessary by the host country to address outstanding substantive issues at a national or regional level. The supplemental treatments identified in the resolution are:
    (i) reconciliation: requiring reconciliation of certain items to show the effect of applying a different accounting method, in contrast with the method applied under IASC standards;
    (ii) disclosure: requiring additional disclosures, either in the presentation of the financial statements or in the footnotes; and
    (iii) interpretation: specifying use of a particular alternative provided in an IASC standard, or a particular interpretation in cases where the IASC standard is unclear or silent.

39. Attached as Appendix A is a description of the core standards project, including a copy of the endorsement resolution. The complete IOSCO assessment report can be found as document #109 in the Documents Library on the IOSCO website at http://www.iosco.org/iosco.html.

Restructuring of the IASC

40. In May 2000, the members of the IASC, comprising all professional accounting bodies that are members of the International Federation of Accountants (IFAC), approved a revised Constitution for the organization. This revised Constitution changes significantly the structure and operations of the IASC as a whole, including the Board that sets International Accounting Standards. Under the previous Constitution, the Board of the IASC comprised up to thirteen countries appointed by the Council of IFAC and represented by members of IASC, together with up to four co-opted organizations, including financial analysts, having an interest in financial reporting. All Board members served on a part-time basis without remuneration. Under the new Constitution, oversight of the operations of the IASC Board rests with Trustees who must commit to act in the public interest in all matters. The Trustees meet in public and are required to publish an annual report on IASC's activities, including audited financial statements and priorities for the coming year.

41. Among the Trustees' responsibilities are fundraising to support the activities of the IASC and appointment of the fourteen member Board, of which twelve are to be full-time members and two half-time. The Board has complete responsibility for all IASC technical matters. The Constitution establishes that the foremost qualification for membership of the Board is technical expertise and the selection of members is not to be based on geographic representation. To promote convergence of national accounting standards and IAS, seven of the full-time members have formal liaison responsibilities with national standards-setters, one of which will be the Canadian Accounting Standards Board. The Trustees also appoint the members of the Standing Interpretations Committee (SIC) and the Standards Advisory Council (SAC). Subject to the approval of the Board, the SIC publishes interpretations of the application of IAS. The role of the SIC is equivalent to that of the Emerging Issues Committee in Canada. The SAC provides a forum for the Board to obtain from a broad range of parties with an interest in financial reporting input on matters such as agenda decisions, priorities and major projects. The Board, the SIC and the SAC all meet in public.

42. These structural changes establish the IASC as an organization that operates independently of national and international professional accounting bodies. The revised structure provides good reason to believe the IASC will be able to lead the development of high quality, global accounting standards. To date, Trustees have been appointed and the first members of the Board have been announced. Patricia L. O'Malley, currently Chair of the AcSB, has been appointed as a Board member with liaison responsibilities to Canada. Formal commencement of operations of the restructured IASC awaits a determination by the Trustees that sufficient funding has been secured to declare the revised Constitution in effect.

43. While IOSCO took a product-oriented approach to evaluating the core standards, assessing each standard after its completion, the structure and processes of the IASC are important to the CSA's consideration of the IASC standards. In particular, the robustness of the structure and processes is a factor that will influence whether the CSA's potential acceptance of IASC standards in Canada's capital markets should be based on a product-oriented approach.

Alternatively, as IASC standards evolve in the future, we may wish to adopt a process-oriented approach, similar to our approach to the Canadian Accounting Standards Board.

PART 5: ALTERNATIVES FOR CANADA'S CAPITAL MARKETS

44. In light of the national and international developments described above, the CSA is inviting comment on potential changes from the existing financial statement requirements for both Canadian and foreign companies participating in Canada's capital markets. We have set out below a range of alternatives that the CSA has identified for consideration. Other variations undoubtedly could be considered.

Foreign issuers

45. For foreign issuers, the primary alternatives appear to be:

    (i) Maintain the status quo whereby a foreign issuer preparing financial statements in accordance with foreign GAAP is required to reconcile those statements to Canadian GAAP but, in most jurisdictions, only on an offering of securities and not on a continuous disclosure basis.

    (ii) Extend the reconciliation requirement to include continuous disclosure filings of interim and annual financial statements.

    (iii) Limit the reconciliation requirement, whether in the context of an offering of securities or continuous disclosure, to something less than a complete quantified reconciliation for all material differences in GAAP. Such an approach could be applied selectively depending on the basis of accounting used in the primary financial statements. For example, the extent of reconciliation required might vary depending on whether the financial statements are prepared in accordance with US GAAP, IAS, or another body of accounting principles.

    (iv) Eliminate the reconciliation requirement, whether in the context of an offering of securities or continuous disclosure, either without regard to the particular foreign GAAP used in the primary financial statements or selectively depending on the particular body of accounting principles. For example, the reconciliation requirement might be eliminated for only issuers that prepare financial statements in accordance with IAS or a limited number of other identified bases of accounting such as US GAAP.

46. For foreign issuers preparing financial statements in accordance with IAS, alternatives (iii) and (iv) could be applied in a manner consistent with the May 2000 IOSCO recommendation to its member bodies discussed in paragraphs 37 to 39 of this paper and reproduced in full in Appendix A.

Canadian issuers

47. For Canadian issuers, the primary alternatives appear to be:

(i) Maintain the status quo whereby Canadian issuers are required to prepare their financial statements in accordance with Canadian GAAP.

(ii) Allow Canadian issuers the option of preparing their financial statements in accordance with a basis of accounting other than Canadian GAAP. Such an approach might be implemented by specifying a limited number of acceptable alternatives to Canadian GAAP, perhaps IAS and US GAAP, or might be unrestricted. Acceptance of alternative bases of accounting might be premised on the provision of some form of reconciliation to Canadian GAAP, either full or partial, quantified or in narrative form. Any requirement for reconciliation might also be related to the particular basis of accounting selected.

Matters to consider in evaluating the alternatives

Relationship between alternatives

48. While the choice of approach for foreign issuers can be made independently of the choice of approach for Canadian issuers and vice versa, certain combinations may raise additional issues and may be more difficult to justify. For example, if Canadian issuers were allowed to prepare their financial statements in accordance with IAS or US GAAP without a reconciliation to Canadian GAAP, it would seem to be difficult to justify continuing to require a reconciliation from a foreign issuer preparing its financial statements in accordance with IAS or US GAAP. A decision to eliminate the reconciliation requirement for foreign issuers preparing their financial statements in accordance with IAS or US GAAP may not lead inexorably to the conclusion that Canadian issuers should have the option of using IAS or US GAAP either with or without a reconciliation to Canadian GAAP.

Comparability

49. Current requirements ensure that Canadian investors have access to financial statements for all Canadian companies prepared on the basis of a single set of accounting standards, resulting in consistent and comparable information. Comparability is a fundamental qualitative characteristic of financial information that enables users to identify similarities in and differences between the information provided by two sets of financial statements. Comparability is important when comparing the financial statements of two different entities and when comparing the financial statements of the same entity for two different periods of time. Canadian investors are limited in the percentage of registered retirement savings plan investments that may be invested outside Canada, thus ensuring a strong continuing interest in domestic investment opportunities and in the ability to compare reliably those opportunities.

Sovereignty

50. Acceptance from Canadian companies of financial statements prepared in accordance with US GAAP involves acceptance of accounting standards promulgated by a foreign private sector body in which Canadians have no direct role and over which the CSA has little or no influence. Canadians are free to participate in the US Financial Accounting Standards Board's (FASB) due process for proposing changes to accounting standards but it is doubtful that the interests of Canadians will be given significant weight in that process.

51. Acceptance from Canadian companies of financial statements prepared in accordance with IAS involves acceptance of accounting standards promulgated by a non-Canadian private sector standards-setting body that is accountable to the public interest without reference to a single national jurisdiction. Canadians have the ability to participate directly in the IASC's due process for proposing changes to accounting standards as well as indirectly through the IASC Board member with liaison responsibility to the AcSB.

Costs and benefits of Canadian GAAP

52. Foreign companies have on occasion represented to CSA staff that the process of reconciling their foreign GAAP financial statements to Canadian GAAP entails a significant cost burden. This relatively easily quantified cost to an individual company must be balanced, however, against the potential benefits to Canadian investors resulting from the information provided. These benefits are less easily quantified. Eliminating the direct cost burden to individual companies by removing the reconciliation requirement may increase costs to analysts and other users of financial statements and, by increasing uncertainty, may increase the cost of capital in Canada.

53. Canadian companies that are SEC filers and believe it is beneficial to supplement their Canadian GAAP financial statements with complete US GAAP statements may incur potentially significant costs beyond those imposed by regulatory requirements in Canada and the US. It is not clear how eliminating those costs will contribute to maintaining or enhancing protection of Canadian investors.

The focus on US GAAP

54. IAS and US GAAP are not the only bodies of foreign generally accepted accounting principles that might provide an acceptable basis for participation in the Canadian capital markets by either foreign or domestic companies. For example, accounting principles generally accepted in the United Kingdom carry substantial credibility, as do those in some other countries. For a Canadian investor, however, the level of uncertainty associated with financial information is generally greater when that information is based on foreign GAAP. Canada's proximity to the United States and the extent of the interrelationship between the Canadian and US capital markets have resulted in the primary focus being on the acceptability of US GAAP.

Defining US GAAP

55. US GAAP is an extensive body of standards and detailed rules derived from many different sources. In a Canadian context, it may not be entirely clear what is encompassed by the term "US GAAP". For example, to prepare US GAAP financial statements, would a Canadian issuer that is not an SEC registrant need to comply with the complete body of SEC interpretations, guidance and precedents, both formal and informal?

The need to assess foreign GAAP

56. Particularly for foreign issuers, limiting or eliminating the reconciliation requirement selectively depending on the particular body of accounting principles used by an issuer would raise difficult issues as to the criteria that should be applied to determine which accounting principles should be accepted either without reconciliation or with only limited reconciliation. These issues might be particularly difficult if the accounting principles of certain national jurisdictions were accepted rather than IAS only. In the interests of fairness, it may be necessary to monitor on an ongoing basis a broad range of national accounting principles to determine when changes should be made to the related reconciliation requirements.

Lack of knowledge of US GAAP in Canada

57. Although the number of Canadian companies preparing some US GAAP financial information is clearly increasing, the Canadian accounting profession has little systematic education in US GAAP and little practical experience in its application. While some of the main differences from Canadian GAAP may be fairly well known, at least in broad terms, there are dozens of other differences that are not generally understood even though they may be significant in particular circumstances. Canadian companies that might choose U.S. GAAP in preference to Canadian GAAP, as well as the auditors of those companies, would likely incur significant initial implementation expense. They might also be forced on an ongoing basis to redirect significant proportions of the resources spent to prepare and audit their financial information away from Canada and into the United States. Without appropriate planning and oversight, there may be an unacceptably high risk of error on the part of some Canadian companies seeking to implement US GAAP.

58. Given the very limited number of Canadian accountants with a comprehensive knowledge of US GAAP, a Canadian company is likely to have difficulty recruiting staff with the necessary US GAAP expertise. Consequently, the company might seek advice and assistance from US GAAP experts in the public accounting firm that conducts its audit. Depending on the extent of this advice and assistance, it may call into question the independence of the auditor in expressing an opinion on the US GAAP financial statements.

59. In light of the limited number of Canadian issuers emphasising in the Canadian marketplace their US GAAP financial results only, it seems likely that few Canadian users of financial statements have either a thorough working knowledge of US GAAP or significant experience in analysing financial statements prepared on that basis.

Selective acceptance of foreign GAAP

60. In some respects, the current requirements of Canadian and U.S. securities regulations vary depending on the characteristics of a specific offering or on certain characteristics of the reporting issuer. For example, in some jurisdictions Management's Discussion and Analysis of Financial Condition and Results of Operations is required only when minimum levels of reported revenue and income are met. Under MJDS, the required GAAP reconciliation may be more comprehensive for an offering of equity securities than for an offering of debt instruments. It may be appropriate to require that financial information be prepared in accordance with, or reconciled to, Canadian GAAP only in specified circumstances. Similarly, the acceptance of IAS for Canadian filing purposes without reconciliation to Canadian GAAP might be confined to those issuers that meet specified criteria.

Regulating foreign GAAP

61. The accounting-related functions of the Canadian securities commissions are staffed almost entirely with Canadian accountants for whom Canadian GAAP is the foundation of their knowledge and expertise. At least in the short term, the CSA jurisdictions could not readily provide appropriate regulatory oversight of financial reporting by Canadian companies choosing to prepare their financial statements solely in accordance with US GAAP or another basis of accounting other than Canadian GAAP. Whether the cost of obtaining access to the necessary expertise would be justified may be influenced by whether a significant number of Canadian companies would choose to use US GAAP as their sole basis of reporting.

Requirements for Canadian GAAP financial statements

62. The CSA does not have authority over all matters relating to the basis of preparation of financial statements by Canadian companies. Regardless of what concessions might be made available to Canadian companies with respect to their participation in Canada's capital markets, those companies might still be required to prepare financial information in accordance with Canadian GAAP for other purposes such as taxation, contractual commitments, including borrowing covenants, and compliance with statutory obligations under incorporating legislation, e.g., the Canada Business Corporations Act. Unless comparable changes are made to these other provisions, any cost savings resulting from concessions on the part of the CSA might be limited.

Lack of knowledge of IAS in Canada

63. The Canadian accounting profession, including both preparers and auditors of financial statements, has little systematic training in the requirements of IAS and little practical experience in their application. Few Canadian companies disclose currently any information about the extent to which their financial statements comply with IAS. On the other hand, the CICA Handbook provides at least basic guidance on how IAS compare with Canadian

standards. Further, in contrast to US GAAP, the body of literature that comprises IAS is relatively clearly defined and easy to identify.

64. It seems likely that few Canadian users of financial statements have either a thorough working knowledge of IAS or significant practical experience in analysing financial statements prepared in accordance with those standards.

PART 6: QUESTIONS RELATING TO POSSIBLE CHANGES TO CURRENT REQUIREMENTS

65. Taking into account the issues noted in paragraphs 48 to 65 and your own experience in relation to the financial reporting requirements of the Canadian marketplace, please provide your views on the questions set out below. In responding, please consider the expected effects of possible changes on the CSA's mandate to provide investor protection as well as on market liquidity, competition, efficiency and capital formation.

Q.1

66. *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.*

67. If you believe the CSA should relax the current requirements to provide Canadian GAAP financial information, please address Question 2.

Q.2

68. *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.*

69. 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 issuers

70. Question 3 addresses possible approaches to relaxing requirements to reconcile to Canadian GAAP when a foreign issuer prepares its financial statements in accordance with foreign GAAP.

Q.3

71. *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.*

Canadian issuers

72. Questions 4 to 10 address issues relating to the possible approaches to relaxing the requirement for Canadian issuers to prepare Canadian GAAP financial statements.

Q.4

73. *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?*

Q.5

74. *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?*

Q.6

75. *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.*

Q.7

76. *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?*

Q.8

77. *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?*

Q.9

78. *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?*

Q.10

79. *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?*

PART 7: ASSESSMENT OF THE IASC STANDARDS

80. The remainder of the questions in this Discussion Paper are directed at the CSA's assessment of IASC standards. We request your views on whether the IASC standards:
    (i) constitute a comprehensive, generally accepted basis of accounting;
    (ii) are of high quality; and
    (iii) can be rigorously interpreted and applied.

81. In responding to the questions set out below, please be as specific as possible in your response, explaining in detail the factors you considered in forming your opinion. While we recognize that experience in Canada in applying IAS and analysing financial statements prepared in accordance with those standards is likely to be quite limited, wherever possible, please explain any experiences you have had. Please consider both the mandate of the CSA jurisdictions for investor protection and any expected effects on market liquidity, competition, efficiency and capital formation.

Comprehensiveness of the IASC standards

82. The goal of the core standards project was to address the necessary components of a reasonably complete set of accounting standards that would comprise a comprehensive body of principles for enterprises undertaking cross-border offerings and listings. The intent was to reduce or eliminate the need for reconciliation to national standards. In developing the work program for the core standards project, IOSCO specified the minimum components of a set of "core standards" and identified issues to be addressed by the IASC. For topics outside the core standards, such as industry specific accounting standards, it was agreed that IOSCO members would either accept "home country" treatment or require specific "host country" treatment or equivalent disclosure. "Home country" treatment means that a foreign issuer coming to Canada would be permitted to follow industry specific standards of their home country provided that those standards could be considered consistent with IASC standards as a whole. "Host country" treatment means that a foreign issuer coming to Canada might be required either to follow Canadian industry specific standards in its financial statements or to reconcile to those standards.

83. Given the stage of development of IAS, it might be appropriate to provide a limited form of accommodation to foreign issuers that prepare financial statements using those standards. Possibilities in this regard include:

    (i) Removing the reconciliation requirement for selected IAS and extending that recognition to additional IAS as warranted based on future review of each standard. Under this approach, when alternative treatments are specified (such as benchmarks and allowed alternatives), we may specify one treatment as acceptable, while retaining the reconciliation requirement for those financial statements that employ the unacceptable treatment. For example, we might require reconciliation if a company applies the allowed alternative treatment of periodically writing-up capital assets to estimated fair value.

(ii) Relying on IAS for recognition and measurement principles, but requiring additional Canadian GAAP and CSA mandated supplemental disclosures where appropriate.

84. IASC standards are published and copyrighted by the IASC. A listing of IAS and their effective dates is included as Appendix B. The IASC has summaries of each standard available on its website at <www.iasc.org.uk>.

Q.11

85. *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.*

Q.12

86. *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?*

Quality of the IASC standards

87. When we refer to the need for high quality accounting standards, we mean that the standards must result in relevant, reliable information that is useful for investors, lenders, creditors and others who make capital allocation decisions. To that end, the standards must (i) result in a consistent application that allows investors to make a meaningful comparison of performance across time periods and among companies; (ii) provide for transparency, so that the nature and the accounting treatment of the underlying transactions are apparent to the user; and (iii) provide full disclosure, including information that supplements the basic financial statements, puts the presented information in context and facilitates an understanding of the accounting practices applied. Such standards should:
   - be consistent with an underlying accounting conceptual framework;
   - result in comparable accounting by issuers for similar transactions, by avoiding or minimizing alternative accounting treatments;
   - require consistent accounting policies from one period to the next; and
   - be clear and unambiguous.

88. Some issues raised in IOSCO comment letters submitted to the IASC that commenters may wish to consider in evaluating the quality of IAS include:
   - the existence of an option to revalue property, plant and equipment to fair value (see IAS 16);

- the ability to amortize negative goodwill to offset restructuring costs (see IAS 22); and
- the potential to assess unlimited useful lives for goodwill and other intangibles (see IAS 22 and IAS 38).

89. On the other hand, other aspects of the IAS might be viewed as superior to Canadian GAAP. These include comprehensive guidance under IAS relating to areas that are not addressed in depth in Canadian standards, including:
    - impairment of assets (see IAS 36);
    - provisions, contingent liabilities and contingent assets (see IAS 37);
    - intangible assets (see IAS 38);
    - recognition and measurement of financial instruments (see IAS 39).

90. We welcome comments on any technical issues arising with respect to IAS. We are seeking input on whether preparers, auditors and users of financial statements have identified particular issues based on their experience with IAS and whether they have developed strategies for addressing those issues. We would benefit also from the public's views regarding whether any of the standards represent a significant improvement over existing Canadian accounting standards.

91. A critical issue in assessing the quality of IAS is whether they will produce a level of transparency and comparability consistent with that provided to Canadian investors under Canadian GAAP. Identification of differences between IAS and Canadian GAAP contributes to an understanding of how the information provided to users of financial statements might differ. It is important, however, to focus not only on differences but on the quality and consistency of the standards as a whole. Significant differences may make financial position and operating results reported under IAS more difficult to compare with results reported under Canadian GAAP but continuing convergence of standards is likely to reduce the significance of this issue over time. Nonetheless, the ability to make comparisons is generally considered important for an investor making capital allocation decisions.

92. Readers who are interested in specific information about similarities and differences between IAS and Canadian standards are referred to the *CICA Handbook, Section 1501, International Accounting Standards*. For further information with respect to similarities and differences among accounting standards internationally, readers are referred to the CICA publication *Significant Differences in GAAP in Canada, Chile, Mexico and the United States*.

93. In some respects, it is difficult to evaluate the effectiveness of certain IAS at this stage. First, there is only limited direct use of IAS in developed capital markets. Second, even where IAS are used directly in those markets, a number of new or revised standards may not have been implemented yet. For that reason, financial statements prepared currently using IAS may not reflect fully the improvements achieved by the IASC in the core standards project. Therefore, preparers, users and regulators may not have significant implementation experience with respect to those standards to assist in evaluating the quality of the financial statements that result.

Q.13

94. *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.*

Q.14

95. *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?*

Q.15

96. *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?*

Q.16

97. *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?*

Q.17

98. *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.*

PART 8: CONCLUSION

99. Commentators are encouraged to respond to the specific questions set out in this paper, but also to provide any additional information they believe will supplement the information set out in the paper. We are particularly interested in additional perspectives on the role of accounting standards in capital markets and the information needs of participants in those markets. We would also welcome views and data as to the potential costs and benefits associated with changes you believe should be made in comparison to the costs and benefits of the existing regulatory framework.

100. Following consideration of comments received, the CSA will determine whether specific changes to the existing financial reporting framework should be proposed. This may lead to rulemaking proposals or other action to implement change.

PART 9: COMMENTS

101. Interested parties are invited to make written submissions by June 30, 2001. Submissions should be addressed to all of the Canadian securities regulatory authorities listed below and sent, in duplicate, in care of the Ontario Securities Commission, as indicated below:

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 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
e-mail: jstevenson@osc.gov.on.ca

102. Submissions should also be addressed to the Commission des valeurs mobilières du Québec as follows:

Claude St. Pierre, Secrètaire
Commission des valeurs mobilières du Québec
800 Victoria Square
Stock Exchange Tower
P.O. Box 246, 22nd Floor
Montréal, Quebéc H4Z 1G3
e-mail: claude.stpierre@cvmq.com

103. An email attachment or a diskette containing the submissions (in DOS or Windows format, preferably Word) should also be submitted.

104. Comment letters are placed in a public file in certain jurisdictions and form part of the public record unless confidentiality is requested. Comment letters will be circulated among the CSA jurisdictions whether or not confidentiality is requested. Although comment letters requesting confidentiality will not be placed on the public file, freedom of information legislation in certain jurisdictions may require the securities regulatory authorities to make comment letters available. Persons submitting comment letters should

therefore be aware that the press and members of the public may be able to obtain access to any comment letters.

105. Questions may be referred to any of:

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February 28, 2001

APPENDIX A

The Core Standards Project

1. The IASC and IOSCO

The International Accounting Standards Committee (IASC) is a private sector body that throughout the development of the core standards project had as members all the professional accountancy bodies that are members of the International Federation of Accountants (IFAC). IFAC has more than 140 members from over 100 countries. The IASC's dual objectives were to (i) formulate international accounting standards and promote their acceptance and observance; and (ii) work generally for improvement and harmonization of accounting standards.

The business of the IASC was conducted by a Board with 16 voting delegations and five non-voting observer delegations with the privilege of the floor. These observers represented the European Commission, the International Organization of Securities Commissions (IOSCO), the US Financial Accounting Standards Board (FASB), the Chinese Institute of Certified Public Accountants and the IFAC Public Sector Committee. Each voting delegation included up to three members who shared a single vote. Delegation members normally were drawn from the accountancy profession and the preparer community. Representatives of national standard-setters often were included in a delegation as a technical advisor. For several years, the Board has met approximately four times a year for about a week to receive reports from its staff and steering committees and to discuss and approve for publication exposure drafts and final standards.

Board delegates served on a part-time, volunteer basis and were supported by a small full-time staff based in London. This staff provided a manager for most IASC projects and worked with project Steering Committees comprising volunteers representing a mix of Board member and non-Board member IFAC organizations. IOSCO and the European Commission were non-voting observers for most Steering Committees.

IOSCO is an association of securities regulatory organizations. It has approximately 135 ordinary, associate and affiliate members, including 6 based in Canada. Two key IOSCO committees following this project were the Technical Committee and its Working Party No. 1 on Multinational Disclosure and Accounting. The Technical Committee is composed of 16 regulatory agencies, including the Commission des valeurs des mobilières du Québec (CVMQ) and the Ontario Securities Commission (OSC), that regulate some of the world's largest, more developed and internationalized markets. Its objective is to review major regulatory issues related to international securities and futures transactions and to coordinate practical responses to those issues.

Working Party No. 1 is one of several working groups that report to the Technical Committee. It has members from sixteen jurisdictions and is chaired by a staff member from the US Securities and Exchange Commission (SEC). The Chief Accountant of the OSC and the Director, Research and Market Developments of the CVMQ are members of the Working Party.

2. Development of the core standards project

In 1989, IOSCO prepared a report entitled, "International Equity Offers". That report noted that cross-border offerings would be greatly facilitated by the development of internationally accepted accounting standards. Rather than attempt to develop those standards itself, IOSCO focused on the efforts of the IASC.

In 1993, IOSCO wrote to the IASC detailing the necessary components of a reasonably complete set of standards to create a comprehensive body of principles for enterprises undertaking cross-border securities offerings. In 1993, the IASC completed a project to improve the comparability and usefulness of financial statements prepared in accordance with its standards. Prior to this project, a number of IAS codified existing practice in multiple jurisdictions, permitting several alternative treatments for a single type of transaction. As a result of this improvement project, many alternatives were eliminated, although the IAS retained multiple approaches in a few areas with one designated as a "benchmark" treatment and the other as an "allowed alternative."

In 1994, IOSCO completed a review of the revised IAS and identified a number of issues that would have to be addressed, as well as standards that the IASC would have to improve, before IOSCO could consider recommending IAS for use in cross-border listings and offerings. IOSCO divided the issues into three categories:

(i) issues that required a solution prior to consideration by IOSCO of an endorsement of the IASC standards;

(ii) issues that would not require resolution before IOSCO could consider endorsement, although individual jurisdictions might specify treatments that they would require if those issues were not addressed satisfactorily; and

(iii) areas where improvements could be made, but that the IASC did not need to address prior to consideration of the standards by IOSCO.

In July 1995, IOSCO and the IASC agreed that the proposed "core standards work program" would, if completed successfully, address all the issues that required a resolution before IOSCO would consider endorsement. IOSCO stated that, if the resulting standards were acceptable to its Technical Committee, that group would recommend endorsement of those standards for cross-border capital raising and listing purposes.

3. Overview of the work program

The IASC's work program identified 12 areas that required new or substantially revised standards. As of April 2000, the IASC had published eight new standards and ten revised standards addressing those areas. The IASC standards are copyrighted and are not reproduced as part of this release. However, summaries of the standards, as well as information about obtaining the full text, are available from the IASC website at <www.iasc.org.uk>.

IOSCO, through Working Party No. 1, has been a non-voting observer at meetings of the IASC Board, its Steering Committees, and its Standing Interpretations Committee. The Working Party has attempted to reply to each document the IASC published for comment. The Working Party comment letters alerted the IASC to concerns of the Working Party or its members while the issues were under discussion. Some members of the Working Party also commented individually on proposed standards.

In contributing to Working Party comment letters, the participating CVMQ and OSC staff focused on the quality of information that would be provided to investors, identifying areas where comparability and transparency might be compromised or where other significant investor protection issues existed. The CVMQ and OSC staff did not focus on eliminating differences from Canadian GAAP. In fact, in several instances the staff were satisfied that improvements could be achieved by adopting an approach that differed from Canadian GAAP.

4. The Assessment Process

The pace of the IASC work program required that, immediately following the adoption of a final standard, the Working Party shift its attention to other pending standards. As a result, the Working Party did not stop to evaluate each completed standard and assess the extent to which it addressed concerns raised in comment letters. This approach also was consistent with the understanding between the IASC and IOSCO that the Working Party would assess the completed standards, individually and as a group, once the IASC completed all of the core standards. That assessment of the core standards focused not only on the extent to which the completed standards addressed the IOSCO concerns, but also on whether the standards work together to form an operational basis of accounting.

The results of the Working Party's review and assessment of the core standards were summarized in a report to IOSCO's Technical Committee. The report described outstanding substantive issues with the IASC standards and suggested ways to address those issues. Following review of the Working Party report, the Technical Committee forwarded to the Executive Committee the following resolution endorsing the IASC standards with a recommendation that it be adopted for approval by the Presidents' Committee of IOSCO:

> *In order to respond to the significant growth in cross-border capital flows, IOSCO has sought to facilitate cross-border offerings and listings. IOSCO*

believes that cross-border offerings and listings would be facilitated by high quality, internationally accepted accounting standards that could be used by incoming multinational issuers in cross-border offerings and listings. Therefore, IOSCO has worked with the International Accounting Standards Committee (IASC) as it sought to develop a reasonably complete set of accounting standards through the IASC core standards work program.

IOSCO has assessed 30 IASC standards, including their related interpretations ("the IASC 2000 standards"), considering their suitability for use in cross-border offerings and listings. IOSCO has identified outstanding substantive issues relating to the IASC 2000 standards in a report that includes an analysis of those issues and specifies supplemental treatments that may be required in a particular jurisdiction to address each of these concerns.

The Presidents Committee congratulates the IASC for its hard work and contribution to raising the quality of financial reporting worldwide. The IASC's work to date has succeeded in effecting significant improvements in the quality of the IASC standards. Accordingly, the Presidents Committee recommends that IOSCO members permit incoming multinational issuers to use the 30 IASC 2000 standards to prepare their financial statements for cross-border offerings and listings, as supplemented in the manner described below (the "supplemental treatments") where necessary to address outstanding substantive issues at a national or regional level.

Those supplemental treatments are:

- ***reconciliation:** requiring reconciliation of certain items to show the effect of applying a different accounting method, in contrast with the method applied under IASC standards;*

- ***disclosure:** requiring additional disclosures, either in the presentation of the financial statements or in the footnotes; and*

- ***interpretation:** specifying use of a particular alternative provided in an IASC standard, or a particular interpretation in cases where the IASC standard is unclear or silent.*

In addition, as part of national or regional specific requirements, waivers may be envisaged of particular aspects of an IASC standard, without requiring that the effect of the accounting method used be reconciled to the effect of applying the IASC method. The use of waivers should be restricted to exceptional circumstances such as issues identified by a domestic regulator when a specific IASC standard is contrary to domestic or regional regulation.

The concerns identified and the expected supplemental treatments are described in the Assessment Report.

IOSCO notes that a body of accounting standards like the IASC standards must continue to evolve in order to address existing and emerging issues. IOSCO's recommendation assumes that IOSCO will continue to be involved in the IASC work and structure and that the IASC will continue to develop its body of standards. IOSCO strongly urges the IASC in its future work program to address the concerns identified in the Assessment Report, in particular, future projects.

IOSCO expects to survey its membership by the end of 2001 in order to determine the extent to which members have taken steps to permit incoming multinational issuers to use the IASC 2000 standards, subject to the supplemental treatments described above. At the same time IOSCO expects to continue to work with the IASC, and will determine the extent to which IOSCO's outstanding substantive issues, including proposals for future projects, have been addressed appropriately.

This resolution, which was adopted by the Presidents' Committee in May 2000, is not binding on its member organizations. IOSCO members are, however, committed to consider seriously whether, and if so how, to implement the recommendation in their individual jurisdictions.

APPENDIX B

List of Core Standards and each Standard's Effective Date

IAS	Title	Effective Date
1	Presentation of Financial Statements (revised)	1 Jan 99
2	Inventories	1 Jan 95
7	Cash Flow Statements	1 Jan 94
8	Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies	1 Jan 95
10	Events After the Balance Sheet Date (revised)	1 Jan 00
11	Construction Contracts	1 Jan 95
12	Income Taxes (revised)	1 Jan 98
14	Segment Reporting (revised)	1 Jul 98
16	Property, Plant and Equipment (revised)	1 Jul 99
17	Leases (revised)	1 Jan 99
18	Revenue	1 Jan 95
19	Employee Benefits (revised)	1 Jan 99
20	Accounting For Government Grants and Disclosure of Government Assistance	1 Jan 84
21	The Effects of Changes in Foreign Exchange Rates	1 Jan95
22	Business Combinations (revised)	1 Jul 99
23	Borrowing Costs	1 Jan 95
24	Related Party Disclosures	1 Jan 86
25	Investment Properties**	1 Jan 87
27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries	1 Jan 90
28	Accounting for Investments in Associates	1 Jan 90
29	Financial Reporting in Hyperinflationary Economies	1 Jan 90
31	Financial Reporting of Interests in Joint Ventures	1 Jan 92
32	Financial Instruments: Disclosure and Presentation	1 Jan 96
33	Earnings Per Share	1 Jan 99
34	Interim Financial Reporting	1 Jan 99
35	Discontinuing Operations	1 Jan 99
36	Impairment of Assets	1 Jul 99
37	Provisions, Contingent Liabilities and Contingent Assets	1 Jul 99
38	Intangible Assets	1 Jul 99
39	Financial Instruments: Recognition and Measurement	1 Jan 01

** This standard is withdrawn and replaced by IAS 40, Investment Property, for annual financial statements covering financial periods beginning on or after January 1, 2001.