



**Certified General  
Accountants  
Comptables généraux  
accrédités**

Certified General  
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**FAXED**

August 30<sup>th</sup>, 2002

**Five Year Review Committee**

c/o Purdy Crawford, Chair  
Osler, Hoskin & Harcourt LLP  
Barristers & Solicitors  
Box 50, 1 First Canadian Place  
Toronto, Ontario M5X 1B8

Dear Mr. Purdy,

The Certified General Accountants Association of Canada would like to congratulate the Review Committee for the quality and comprehensiveness of their Report and thank them for providing an opportunity to submit these comments. The Association has restricted its comments to those areas of immediate interest and are found in the attached brief.

We generally support the recommendations related to accounting and auditing. However, we offer three suggestions for the committee's consideration:

- That, in addition to permitting use of US GAAP, the OSC and CSA permit Canadian or foreign companies to utilize IAS;
- That the reconciliation of US GAAP and IAS to Canadian GAAP be an ongoing requirement, not a transitional provision; and
- That the OSC and CSA support full and open public debate on the selection of accounting standards in Canada.

We would be pleased to provide any additional information the Committee may require.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Guy Legault'.

Guy Legault, FCGA, MBA  
President and Chief Operating Officer

Encl.

**CERTIFIED GENERAL ACCOUNTANTS ASSOCIATION OF CANADA**  
**Reviewing the Securities Act (Ontario)**  
**Five Year Review Committee Draft Report**  
**(hereinafter "The Report")**

1.0 The Need for Harmonization

- 1.1 CGA-Canada and its affiliated provincial and territorial associations support the notion of a single securities regulator and encourage all regulatory authorities to work towards this goal. In the majority of Canadian jurisdictions, clients, including public companies, have the ability to engage Certified General Accountants as their auditors. Under a single securities regulator, clients should expect that this right to choose would remain.
- 1.2 In the meantime, CGA-Canada agrees that there is a need to harmonize regulations to reflect business and investor reality. The multiplicity of jurisdictions and rules makes efficient exchange of information difficult and adds to the cost of capital. By moving towards a common standard, comparability and transparency are enhanced. In order to facilitate the effort, it is necessary for harmonization to focus both nationally and internationally.
- 1.3 At the international level, the work of IOSCO merits the support of the Commission. Such actions are timely, especially in light of recent events, such as the newly formed alliance of stock exchanges "The Global Equity Market" (GEM), which will allow 24 x 7, around the world trading of blue chip securities. If securities regulators are to accomplish the goal of harmonizing global requirements, IOSCO must be the body to accomplish that effort.

2.0 Accessing US Capital Markets

- 2.1 The Report indicates that "many Canadian issuers have listings on US stock exchanges" and that these issuers find it "desirable to provide financial information to the US marketplace that conforms to US GAAP." It goes on to say that maintaining two sets of financial records or preparing a reconciliation is time consuming and expensive.
- 2.2 CGA-Canada agrees that there is a cost associated with preparing two sets of financial statements or reconciliation; however, the scale of these costs have not been clearly determined and further study is warranted to establish whether the savings cited by eliminating duplication are significant enough to warrant the

## CGA-Canada Response to the Five Year Review

- proposed change. Those arguing that these costs are significant, namely the issuers, are not necessarily objective, nor independent in making these statements.
- 2.3 The Report questions, "...Whether the remaining differences between Canadian GAAP and US GAAP are so significant that they should preclude the use of US GAAP..." We believe this is an appropriate question and if the answer is in the affirmative, then providing reconciliation to Canadian GAAP should not be an onerous task. We believe the reconciliation is necessary to protect the public and should not be just a transitional provision.
- 3.0 The Evolution of Accounting Standards
- 3.1 The Report acknowledges three distinct sets of GAAP: Canadian, International Accounting Standards (IAS) and US. The Report comments on the fact that US standards are seen to be more prescriptive than either Canadian or IAS. Although the media tends to describe this difference as an "either/or" situation, the Association acknowledges that US GAAP has its basis in principles, just as IAS has rules. Moreover, despite the fact that there are differences between these sets of GAAP, all three standard setting bodies have been working to minimize differences.
- 3.2 At the present time, the two main sources of GAAP on the international stage are IAS and US. While both sets of standards are evolving and becoming closer, neither is prevailing as the global standard. However, we believe that over time, one set of standards will emerge and that the IASB, or some future iteration, will become the world standard setting body.
- 4.0 Why Adopt US GAAP
- 4.1 We are most interested in the notion that US GAAP is an acceptable alternative to Canadian GAAP on the basis that it has "... been developed by a competent body with sufficient resources, processes and input from all interested parties that the product can be considered high quality." Notwithstanding, the Report acknowledges that there are differences between US and Canadian GAAP, suggesting that "... the remaining differences between Canadian and US GAAP are [not] so significant that they should preclude the use of US GAAP by Canadian and foreign companies." The Report concludes that despite transitional issues "... the benefits that will accrue to issuers and investors eclipse the challenges that these issues present."
- 4.2 Advocates of the superiority of US GAAP must take into account the lingering impact of Enron and other US business failures. The Report does recognize this issue. While the Association believes there are many factors that contributed to the recent problems in the United States, and that US GAAP is not solely

## CGA-Canada Response to the Five Year Review

responsible, accepting US GAAP at this time may be questioned. Moreover, the ramifications of the recently enacted Sarbanes-Oxley Act for the setting of accounting standards have yet to be determined. We note with interest that the legislation mandates the Securities and Exchange Commission to study whether GAAP should change from a system based on rules to one based on principles. Because of the uncertainty caused by a fast changing environment, the timing of accepting US GAAP may be inappropriate in the Canadian context while at the same time further contributing to creating uncertainty for users of financial information.

### 5.0 Accepting Other GAAP for Filing in Canada

- 5.1 The Report states "...given the familiarity of the Canadian investment community with US GAAP..." The Report also argues that the familiarity of the Canadian investor community with US GAAP is such that there "... is no investor protection function being served by insisting on statements prepared in accordance with Canadian GAAP ..." However, the Report also cites concerns raised in response to CSA Discussion Paper 52-401 that "Canadian accounting professionals have limited knowledge of US GAAP and virtually no experience with IAS." The Association would appreciate seeing the evidence that the Canadian investor community is familiar with US GAAP.
- 5.2 Accepting other forms of GAAP will require a significant retraining of preparers, auditors and users: accountants, auditors, investment advisors, investors, creditors, bankers, regulators, tax authorities, unions, government and others. In addition, it will require a retooling of the education programs in Canadian colleges and universities. These changes cannot be implemented in the short term and there will be a significant cost associated with these changes.
- 5.3 The Report implies that the Review Committee's longer term recommendation is the adoption of international standards and permitting US GAAP is an intermediate step. The Report further acknowledges that "... Canadian accounting standards are, generally speaking, less prescriptive and rule oriented than US standards..." Moreover, US GAAP, unlike Canadian GAAP, does not come "neatly packaged." Although there are research studies supporting its conclusions, Canadian GAAP is, for the most part, contained within a single document. The same cannot be said for US GAAP. Indeed, the FASB has a project underway to consolidate US GAAP so that it would be more readily accessible. Our concern is that the costs of adopting US GAAP (the intermediate step) will be much higher than adopting international standards. When harmonization of accounting standards will occur is unknown, but in recent years there has been significant progress and as such "the intermediate step" may not last very long.

## CGA-Canada Response to the Five Year Review

- 5.4 In addition to the retraining and retooling, self-regulating bodies responsible for all professional service providers will need to review and revise their regulatory systems to ensure their members are in compliance with the expanded body of GAAP. Ultimately, public protection is the paramount issue.
- 5.5 Further, revising OSC rules to allow companies to file their statements in accordance with US GAAP may not result in any benefit to these organizations unless other regulatory requirements are similarly changed at the same time. If companies were still required to file statements using Canadian GAAP for corporations acts and other regulations, the OSC acceptance of US GAAP would be irrelevant. We question the likelihood that all regulatory agencies and governing acts could be amended simultaneously.
- 5.6 While the Review indicates that the Canadian investing community is familiar with US GAAP, CGA-Canada believes that the public interest would be well served by requiring reconciliation to Canadian GAAP on an ongoing basis – not as a transitional rule.

### 6.0 Why Not IAS

- 6.1 CGA-Canada is on record as advocating the implementation of IAS standards for Canada. In light of the proposal to permit foreign issuers to employ US GAAP, consideration should be given to also allow the use IAS, with reconciliation. IAS has been adopted by the European Union for implementation by 2005 and was also endorsed by IOSCO.
- 6.2 The use of IAS may facilitate access to the global capital markets outside of the United States. It can be argued that allowing the use of IAS, especially in light of the European Union's adoption for 2005, would open Canada to European capital markets. The benefits of adopting US GAAP by Canadian and US companies filing in the US would also be true of allowing the use of IAS by Canadian and foreign companies filing in Europe. Further, this action could benefit Canada by opening our markets to global capital flows.

### 7.0 Auditor Independence

- 7.1 We concur with the recommendation to monitor US and other international developments relating to auditor independence and disclosure requirements.

### 8.0 Conclusion

CGA-Canada recognizes and supports initiatives that will enable Canadian companies and equity markets to become more competitive in the global marketplace. We believe this can be done in a way that continues to protect the

## CGA-Canada Response to the Five Year Review

interests of Canadian investors. As such the Association makes the following recommendations for consideration:

- 8.1 CGA-Canada recommends that, in addition to permitting use of US GAAP, the OSC and CSA permit Canadian or foreign companies to utilize IAS.

The Association believes that the uncertainty created by the Sarbanes-Oxley Act is sufficient reason to delay the implementation of the proposal. However, despite the caveats noted above, the Association acknowledges the economic integration and dependency between Canada and the USA. However, the Association supports the notion of globalization noted in the report and suggests that if and when companies are permitted to file using US GAAP, they also be given the opportunity to file using IAS.

- 8.2 CGA-Canada recommends that the reconciliation of US GAAP and IAS to Canadian GAAP be an ongoing requirement, not a transitional provision.

Despite the Report's contention that investors are sophisticated enough to understand US GAAP, the Association believes that there are too many stakeholders who may be disadvantaged by the change in systems of GAAP. As noted in the Report, the differences are decreasing, so the cost of preparing a reconciliation will also decline.

- 8.3 CGA-Canada recommends that the OSC and CSA support full and open public debate on the selection of accounting standards in Canada.

The selection of accounting standards has significant public policy implications for an economy through their influence on that economy. The Association encourages the OSC and the CSA to support and participate in a full and open public debate of the choices available to Canadian policy makers. Accounting standards are the first step in establishing trust in financial systems.