

CSA Request for Comment 52-401

Discussion Paper: Financial Reporting in Canada's Capital Markets

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.