

Certified General Accountants Association of Canada

Response to the Canadian Securities Administrators'

Uniform Securities Legislation Project

(hereinafter "USL")

1.0 The Need for Harmonization

- 1.1 The Certified General Accountants Association of Canada (CGA-Canada) welcomes the Canadian Securities Administrators (CSA) initiative to harmonize securities legislation.
- 1.2 We believe this initiative, when fully implemented, will reduce the regulatory burden placed on issuers by streamlining and harmonizing the system of securities regulation in Canada. The multiple jurisdictions and rules make efficient exchange of information difficult and add to the cost of capital.
- 1.3 The public interest is well served by moving toward a common standard by enhancing comparability and transparency.
- 1.4 CGA-Canada and its affiliated provincial and territorial associations support the leadership provided by the CSA to restore confidence in capital markets.

2.0 Auditing rights

- 2.1 Certified General Accountants provide a wide range of accounting and auditing services. Our members act as financial advisors, auditors, accountants and senior managers to Canadian businesses and investors.
- 2.2 Any initiative that may affect the providers of financial reporting information or the services of auditors must respect the current regulatory environment regarding auditing rights as well as consider the implications of legislation such as Bill 213 in Ontario and the regulatory regime for public accounting across jurisdictions.

3.0 Financial Reporting Information

- 3.1 Independent and objective accounting and audit principles and standards play an important role in the regulation of capital markets. The proposal does not address these issues.
- 3.2 The USL Project implicitly accepts current accounting principles, auditing standards and procedures. However, a recommendation put forward by Ontario's Five Year Review Committee's Draft Report, "Reviewing the Securities Act" on

May 29, 2002 touched on certain accounting and auditing issues of particular interest to Certified General Accountants. CGA-Canada made the following recommendation:

We recommend that in addition to permitting use of US GAAP, the Ontario Securities Commission and the Canadian Securities Administrators permit both foreign and Canadian companies to utilize International Accounting Standards (IAS). In addition, reconciliation of US GAAP and IAS to Canadian GAAP be an ongoing requirement, not a transitional provision as suggested by the Report.

- 3.3 It is appropriate in this context to remind the CSA of CGA-Canada's position on this recommendation. CGA-Canada believes the CSA must recognize the rapid evolution towards acceptance of International Financial Reporting Standards (IFRS). IFRS have been adopted by the European Union and other jurisdictions including Australia for implementation by 2005 and endorsed by the International Organization of Securities Commissions.
- 3.4 In addition, we believe that it be in the public interest, that if foreign issuers employ US GAAP, consideration should also be given to allow the use IFRS, with reconciliation. The use of IFRS may facilitate access to the global capital markets beyond the US. It can be argued that allowing the use of IFRS would open Canada to European capital markets.
- 4.0 The North-American Context
- 4.1 The *Sarbanes-Oxley Act 2002* adopted in the United States in response to the corporate and accounting scandals have identified the Securities and Exchange Commission as the arbiter of rules.
- 4.2 Provisions of the *Sarbanes-Oxley Act 2002* do address issues such as financial statements and information required in disclosure. It would be appropriate to consider some of the provisions contained in the Act to provide Canada with adequate competitive advantage. The appropriate governance rules provide investors with the necessary confidence to invest in Canadian capital markets.
- 4.3 It is our view that securities reform initiatives must acknowledge the important role of financial information in order to remain robust and meaningful for the public who ultimately rely on this information. This must be addressed prior to the development of the legislative framework.
- 4.4 In addition the CSA could consider the establishment of requirements such as:
- The appointment of audit committees and the requirements relating to the functioning and responsibilities of the audit committees;
 - The standard of review to be applied to audit committees;
 - The certification of other evidence of review by audit committees;

- The scope and content of an audit committee's review, and
- The composition of audit committees and the qualifications of its members;

In addition, the public would be well served by legislation that provides specific authority for the reporting of controls relating to effectiveness and efficiency of issuers operations. For example, it would be appropriate to consider that some of the financial-related issues discussed in Ontario's Five-Year Report be considered in the Project. Specifically:

- Quarterly financial statements be reviewed by the issuer's external auditor,
- Periods for filing annual financial statements be reduced to 90 days following the fiscal year end,
- That time periods for filing interim financial statements be reduced to 45 days after the end of each quarter, and
- That proxy disclosure rules require public companies to disclose in their proxy statements their expenditures for both audit and non-audit consulting services.

5.0 The need for liaison and coordination

- 5.1 The CSA, with the relevant stakeholders including representatives of all professional accounting organizations, have a responsibility to ensure that reform takes place in a context that the public interest is well served. These processes must be transparent, accountable and independent of any self-interest.

6.0 Conclusion

- 6.1 The Certified General Accountants Association of Canada congratulates the Canadian Securities Administrators on the uniform securities legislation project. These are suggestions that we believe should be taken into account as you contemplate a more comprehensive USL. You have the opportunity to harmonize standards, one of the underpinnings of a well-functioning securities regime. We look forward to working with the CSA on this and other initiatives.