

COMMENT

Will OSC act on ABCP?

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It seems the Ontario Securities Commission has popped its head out of the sand long enough to notice the choppy financial reporting of companies with respect to their frozen asset-backed commercial paper holdings. Impairment writedowns have ranged anywhere between nil and 25%-40% on the high end. Thus an important issue is to determine whether companies are recognizing appropriate charges, and that reasonable net-income figures are being relayed to investors.

It's hard to shake the feeling, though, that the OSC might instead choose to waste its time on mere housekeeping issues, such as whether companies have busied themselves writing a page of financial statement notes while deciding not to take any writedowns. You see, in addition to the wide range of impairment charges recognized, companies have provided equally disparate discussions of their ABCP holdings. Some have written a few sentences, while others have allocated many pages.

Apparently the commission is requesting information on ABCP, or conducting surveys, or whatever it usually does to appear to have the market's interests in mind. We haven't

witnessed any corrections or restated financials as of yet, and we might not any time soon. The plan, ostensibly, is to gather information and then wait, hoping the issue will die down or magically go away.

We know from history that no enforcement action will ever come of it. The commission loathes having to officially scold any of the companies under its watch. According to recent comments from commission enforcement staff, it's just not very Canadian to publicly correct anyone. We prefer (or at least we're told so) that companies simply take a do-over and promise to try harder in the future to not violate accounting and securities rules.

However, a do-over in this instance might entail the OSC informing First Quantum Minerals or Ontario Power Generation, or one of a dozen other companies, that they need to take an impairment writedown and reissue their third-quarter financial statements. That's simply not going to happen, but the OSC will nevertheless be looking to ask someone to do something.

It's likely the OSC will miss the point entirely and decide to hit a meaningless target such as Air Canada, which took a 14% writedown, but only mentioned the issue in brief passing in its financial

statements. After all, much more busywork could have been performed by Air Canada, and OSC financial reporting oversight is all about housekeeping gone wild.

For the OSC to ask a company to reconsider the impairment writedown on its ABCP holdings, it would have to bring up accounting rules and valuation techniques, not exactly strong suits when it comes to commission talents. Of the 68 companies that have reported on their ABCP holdings, almost 20% took no writedown.

Most of those who ignored the impairment issues were inspired by Purdy Crawford,

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who is heading the committee to restructure the illiquid ABCP holdings with the least disruption possible.

While Mr. Crawford's current position does not permit him to extol anything but uninhibited optimism about the prospects of the Montreal Accord, accounting rules do not permit companies to adopt that same perspective.

Companies are required to value their assets under current conditions, irrespective of what might happen in the future as a

result of efforts to increase the value of the holdings.

There is plenty of evidence to show that ABCP assets are currently impaired. The last publicly announced transaction was at 70¢ on the dollar for a basket of ABCP trusts holding various assets. Announced public writedowns currently total \$1.2-billion.

Mr. Crawford's committee is scheduled to update the market on its progress by this Friday. It will hopefully provide some much-needed information, but will not likely support the efforts of companies that continue to ignore the realities of impairments in the market.

One wonders how many companies took into consideration the OSC's lack of teeth when recognizing no writedown on their ABCP holdings.

The OSC has telegraphed that it will not publicly excoriate a company for playing fast and loose with the accounting rules. Clearly, nobody is suggesting anyone should take the perp walk over the ABCP issue. However, it makes little sense why the OSC can't take quick corrective action with respect to a few companies, and let the beneficial effects disperse into the market. Until such time, we will continue to see an imbalance of financial reporting. The market as a whole could benefit from the OSC learning the art of sending a message without having to make an example out of anyone.

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