FP COMMENT

PETER FOSTER

How litigious will BCE get?

Shares of BCE predictably took a tumble, although not a nosedive, yesterday. This followed reports that the banks backing the proposed $52-billion buyout of the telecom giant were trying to renegotiate their commitments. This hardly comes as a surprise. The fact that the BCE share price has been lagging well below the $42.75 at which a group led by the Ontario Teachers' Pension Plan agreed to buy the company shows that the market didn't have faith in the deal, at least at that price. Still, the fact that BCE continues to trade well above $37 means that the market doesn't seem to think that the deal is going to crater. So how will this soap opera conclude?

According to a story in *The New York Times* on Monday, the backers of the BCE purchase — led by Citigroup, Deutsche Bank and the Royal Bank of Scotland — last Friday unloaded a swath of tightened terms on the prospective purchasers: Teachers, Providence Equity Partners, Madison Dearborn Partners, Merrill Lynch and Toronto-Dominion Bank (which is also one of the backers of the deal).

That the deal's bankers have cold feet is hardly news. Rumours that they might try to pull the plug, or at least improve their position, have been persistent since the subprime financial crisis began to unfold last summer. The banks had always planned to sell on the debt they took from the BCE deal. However, the crisis made that a much more difficult prospect. Either they would have to unload BCE paper at a discount, or hold the debt themselves, which would also involve recognition of its diminished value.

The thorny issue was — and remains — whether Teachers and co. would have to sue the banks to get them to cough up the cash. This in turn depended — and depends — on how much "wiggle room" there is in the financiers' letters of commitment. We may be sure those commitments have been given the fine-tooth-comb treatment in recent months.

Another fundamental issue is how enthusiastic Teachers and its partners are to complete the deal. Given the potential legal ramifications, it is unlikely that they would express anything but continued resolution. Still, some private-equity firms have walked away from deals in recent months, albeit with financial penalties. There is a clause in the BCE arrangement under which the buyers could exit the deal in return for a "break fee" to BCE of $1-billion. However, BCE remains profitable, and although increased competition is emerging with the forthcoming auction of wireless spectrum, the Teachers consortium claims to remain strongly committed (although what else could they say?).

The precedent that seems most relevant to BCE is that of the recent takeover of U.S. communications company Clear Channel. There, the financiers, who significantly included the big three in the BCE deal — Citigroup, Deutsche and RBS — attempted to change the terms of their commitment, and were

> "Teachers may have to sue to get the banks to cough up the cash for the deal

As Canadians adopt international accounting standards, they should know the rules may change at the last minute

Closing the GAAP

KARINE BENZACAR

It's rare to think of accountants and bold change in the same sentence. However, accountants will be leading the next wave of major regulatory changes affecting the Canadian business world: the adoption of International Financial Reporting Standards (IFRSs).

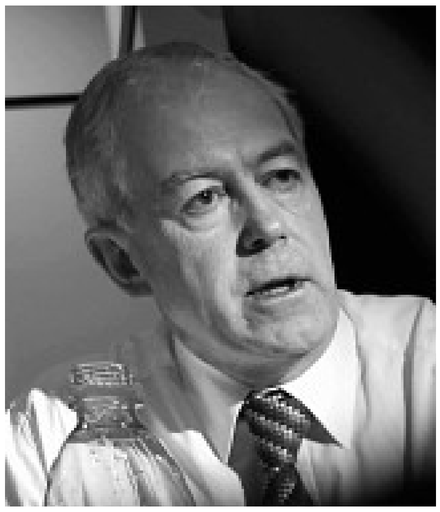
Accounting transactions are governed by a set of rules known as Generally Accepted Accounting Principles (GAAP). Each country has its own GAAP; the goal behind IFRS is to create the same set of accounting standards for all nations, which should ultimately make it easier to conduct business internationally and raise funds in global capital markets.

More than 100 countries around the world, including Australia, New Zealand, and members of the European Union, have already adopted IFRS. Canada is next, and there's not much time. IFRS will be mandatory for all publicly accountable companies, starting in January, 2011. That will be less than three years following the official go-ahead given in February, 2008, by the Canadian Accounting Standards Board, the organization that sets accounting rules in Canada.

Canadian businesses migrating toward the change are getting worried about the immensity of the conversion challenge. Not only will systems changes be required, but net income for a company may change simply as a result of different accounting calculations. This could impact compensation plans, debt covenants, and investor reports.

While many business professionals have accepted the move to IFRS as mandatory, many individuals may not realize that the accounting standards have still not been finalized. There is inconsistent application of the standards throughout Europe and the one large economy missing from the list of adopters is the United States.

The United States is accustomed to setting its own rules and waiting for the rest of the world to fall in line. This time, however, the tables are turned. The European Union has steadily gained in economic power over the past decade, and more and more money is being raised in capital markets outside the U.S. Although the Securities Exchange Commission (SEC) in the United States initially had a cool reception to IFRS, it recently started allowing non-U.S. companies listed on stock exchanges in the U.S. to file financial statements using IFRS. In addition, American multinationals whose subsidiaries use IFRS are applying pressure on the Financial Accounting Standards Board (FASB), the U.S. accounting regulator, to adopt IFRS to lessen their cost of consolidating financial statements.



NATIONAL POST FILE PHOTO

Sir David Tweedie, chairman of the International Accounting Standards Board, admits it "is making some adoptions of U.S. standards."

All these factors are slowly pushing the United States to adopt IFRS and experts say that Canada's decision to adopt IFRS has been instrumental to encouraging the U.S. "Don't underestimate the impact Canada has on the U.S.," says Sir David Tweedie, head of the International Accounting Standards Board (IASB). "If anyone would have expected Canada to change standards, they would have expected Canada to adopt U.S. GAAP. Canada's decision to adopt IFRS took the world by surprise. The U.S. is looking around at all the big economies and the only one that hasn't accepted IFRS is the U.S."

> "*Until the U.S. buys into the standards, they won't be finalized*

However, we can't expect the U.S. to simply fall in line with the rest of the world. The FASB has been working closely with the IASB to "converge" U.S. GAAP with international standards. This does not mean simply making changes to the U.S. GAAP. As Bob Hertz, head of the FASB, explained to more than 800 accountants at a conference jointly sponsored by the Canadian Institute of Chartered Accounts (CICA) and IASB in Toronto in April, "Both of our standards [the U.S. and the IASB] are in some desperate need of overhaul. If the U.S. is going to adopt IFRS in the future, we have to make sure it makes sense for everyone rather than just adopt it." In a joint presentation with Hertz, Tweedie acknowledged that "the IASB is making some adoptions of U.S. standards; the U.S. is making some adoptions of IFRS."

The United States and the IASB are jointly reviewing several topics from the technical accounting for mergers and acquisitions to the way information is presented in financial statements. In fact, in a few years, we can expect financial statements to look substantially different from the way they do now, whether in North America or in Europe.

Hertz's comment summarizes the United States' lack of acceptance of IFRS and the country's philosophy of modifying it before adopting it. "This is all about change and some people do not often take to change that well for a variety of reasons. ... Whether it's about the U.S. taking an IFRS standard and making it U.S. GAAP or together creating a new standard, it's all about change."

In other words, we should expect the United States to use its power and influence to make changes to IFRS before it agrees to adopt it. We should also expect to see the IASB agree to these changes in order to obtain the buy-in from one of the world's largest economies. What does this mean for companies that are working hard to adopt the new accounting standards? IFRS is a moving target and until the United States buys into the standards, we cannot consider it finalized. Canadian companies should still begin their conversion efforts immediately, since there is a lot of work ahead, but they should also plan to make further changes and refinements down the road.

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karine@knowledgeplus.ca

Karine Benzacar is managing director of Knowledge Plus Corp., a business consulting and training firm. www.knowledgeplus.ca