• (1510)

In April, 1981 the accounting research steering committee drafted a proposed accounting guideline for the treatment of PIP incentive grants. The accounting research committee discussed the draft guideline and expressed agreement with the steering committee's position and proposed course of action. The draft guideline was then circulated to interested parties for comment. Government representatives, including the Minister of Energy, Mines and Resources (Mr. Lalonde) and the Minister of Finance (Mr. MacEachen), received the draft guideline but did not offer any comments on it.

In January 1982 a final draft of the guideline was circulated by the accounting research committee to the petroleum industry, through the Canadian Petroleum Association and the Independent Petroleum Association of Canada, and to other interested parties for comment. None of the recipients expressed objections to the final guidelines. At the same time, government representatives, including the Minister of Energy, Mines and Resources, the Minister of Finance and the Minister of Consumer and Corporate Affairs (Mr. Ouellet), were advised of the steering committee's intention to finalize and issue the guideline.

The CICA then issued a formal accounting guideline dated February, 1982 which specified that PIP incentives should be accounted for in accordance with the CICA handbook, Section 3800. Basically, that section specifies that since petroleum incentives are expenditure oriented, they should be taken into income in the same manner as the exploration and development expenditures they support.

Some oil companies have made representations to the federal government as to the acceptability of a different type of accounting treatment. Discussions have taken place between representatives of the oil industry and the Minister of Energy, Mines and Resources which present the possibility of federal action to legitimize an accounting treatment which is contrary to the CICA position and thus contrary to generally accepted accounting principles. The dangers inherent in such actions prompt my remarks today.

One of the most basic of the generally accepted accounting principles is that revenues and expenditures related to those revenues should be matched as closely as possible. The February 1982 accounting guideline issued by the CICA defines the PIP grants as follows:

> The petroleum incentives program provides for direct incentive payments for exploration and development to Canadian taxable and non-taxable corporations and individuals. The objective is to encourage oil and gas exploration by Canadian corporations and individuals.

Therefore, the petroleum incentives should be taken into income in the same manner as the exploration and development expenditures they support. On the other hand, the petroleum and gas revenue tax is a tax payable by corporations and individuals, including federal and provincial enterprises, that receive income from oil and gas production. It is levied on net operating revenue related to the production of oil and gas, including income from oil and gas royalty interests.

The controversy arises because corporations and individuals qualifying for the PIP grants may waive entitlement to the direct payment of the grant and instead receive the benefits by way of a credit against the petroleum and gas revenue tax. It is then suggested that since the PGRT is a current expense, the PIP grant should be included in current earnings by netting or offsetting the PIP grants against the PGRT in the income statement.

The remarks of my good friend, Gert Mulcahy, F.C.A., CICA accounting research director, are most pertinent and succinct. She said:

> The proper accounting for government grants, including PIP grants, is largely a question of timing. PIP grants should be taken into income as the exploration and development efforts they finance result in earnings or the expenditures are written off ... If such grants were to be taken into income immediately, the result would be current overstated earnings for affected Canadian companies and reduced earnings for those companies in the future ... Economic reality is not reflected if a grant for future benefit is included in income for the current year before the results of the exploration expenditures are known.

There is some suggestion that the oil companies are pressuring the minister to allow the "offset" or "netting" treatment. In my opinion, that is not a generally accepted accounting treatment and I would urge the federal government to support the CICA position rather than enacting an order in council legislating generally accounting principles. We can understand the oil companies's concern to present as favourable an income position as possible but I suggest to the government that this can be accomplished through the statement of changes in financial position included in the companies's financial statements.

As suggested in the accounting handbook, the method by which benefits are received should not affect the accounting treatment. It is also suggested by the oil companies that since the PIP grants were instituted by the federal government because of the elimination of the earned depletion allowances and the super-depletion allowances for frontier exploration, the grants should be allowed as deductions from income.

With respect, Mr. Speaker, that argument does not necessarily apply. No government can eliminate apples and replace them with oranges and then legislate the oranges into apples. That is what the government is trying to do.

That concludes my remarks as to the generally accepted accounting principles and the CICA efforts in this case. I now wish to turn my attention to the position of the Canadian Institute of Chartered Accountants and the possible repercussions of actions contrary to that position.

The Canadian Institute of Chartered Accountants and the related provincial institutes take a back seat to no professional body when it comes to professional research, professional independence and professional responsibility. My previous remarks make it unnecessary for me to elaborate upon the ongoing concerns of the CICA with respect to the need for professional research of a high calibre. This is a perfect example of the methods by which the CICA operates and it would be difficult for any profession to find fault with those methods. If the federal government is putting forth a contrary position, it should prove its point through the force of research