CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

CSA Notice of

National Instrument 52-107
Acceptable Accounting Principles and Auditing Standards

Amendments to National Instrument 14-101 *Definitions*

and

other Related Amendments to Rules, Companion Policies and other Instruments

Introduction

The Canadian Securities Administrators (the CSA or we) have approved National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* (the Instrument), Companion Policy 52-107CP *Acceptable Accounting Principles and Auditing Standards* (the Policy), and amendments to National Instrument 14-101 *Definitions* (NI 14-101). These documents are in Appendices D, F and G of this Notice and we refer to them collectively as the Final Materials. Subject to Ministerial approval requirements, the Instrument, the Policy and the amendments to NI 14-101 come into force on January 1, 2011. As described in Appendices H and I, other related amendments have also been approved and are also expected to come into force on January 1, 2011.

The CSA published proposed versions of the Instrument, the Policy and amendments to NI 14-101 (Proposed Materials) for comment on September 25, 2009.

The Instrument and Policy would replace the following documents currently in effect:

- National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency* (Current NI 52-107), and
- Companion Policy 52-107CP *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*.

The amendments to NI 14-101 remove one definition and add two new definitions.

Contents of this Notice

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1. Background

In February 2006, the Canadian Accounting Standards Board (AcSB) published a strategic plan to transition, over a period of five years, Canadian Generally Accepted Accounting Principles (Canadian GAAP) for public enterprises to International Financial Reporting Standards (IFRS), as adopted by the International Accounting Standards Board (IASB). In March 2008, the timing of the transition was confirmed. IFRS will apply to most Canadian publicly accountable enterprises for financial years beginning on or after January 1, 2011.

The AcSB has incorporated IFRS into the Handbook of the Canadian Institute of Chartered Accountants (the Handbook) as Canadian GAAP for publicly accountable enterprises. As a result, the Handbook contains two sets of standards for public companies:

- Part I of the Handbook – Canadian GAAP for publicly accountable enterprises that applies for financial years beginning on or after January 1, 2011, and

- Part V of the Handbook – Canadian GAAP for public enterprises that is the pre-changeover accounting standards (current Canadian GAAP).

The Canadian Auditing and Assurance Standards Board published their strategic plan to adopt International Standards on Auditing as Canadian Auditing Standards in February 2007. These standards will continue to be known as Canadian Generally Accepted Auditing Standards (Canadian GAAS) in the Handbook. Canadian Auditing Standards are effective for audits of financial statements for periods ending on or after December 14, 2010.

Current NI 52-107 sets out acceptable accounting principles and auditing standards to be applied by issuers and registrants for financial statements filed or delivered to securities regulatory authorities or securities regulators. Currently, a domestic issuer and a registrant must use Canadian GAAP for public enterprises in the Handbook, with the exception that a domestic issuer that is also registered with the United States Securities and Exchange Commission (SEC) has the option to use U.S. Generally Accepted Accounting Principles (U.S. GAAP). Under Current NI 52-107, only foreign issuers and foreign registrants can use IFRS.

2. Substance and Purpose of the Instrument
The Final Materials reflect the changeover in Canada to IFRS. The Final Materials also reflect changes to Canadian GAAS relating to the adoption of International Standards on Auditing.

Under the Instrument, the following requirements generally apply to a domestic issuer's financial statements for financial years beginning on or after January 1, 2011:

- annual financial statements and interim financial reports must be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises;
- annual financial statements must include an unreserved statement of compliance with IFRS and interim financial reports must include an unreserved statement of compliance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34); and
- an auditor's report accompanying financial statements must refer to IFRS as the applicable fair presentation framework and be in the form specified by Canadian GAAS for an audit of financial statements prepared in accordance with a fair presentation framework.

We also explain in the Policy that issuers and their auditors may refer to Canadian GAAP applicable to publicly accountable enterprises in addition to the reference to compliance with IFRS.

Under the Instrument, the following requirements apply to a domestic registrant's financial statements and interim financial information for financial years beginning on or after January 1, 2011:

- financial statements and interim financial information must be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27 *Consolidated and Separate Financial Statements.* Separate financial statements are sometimes referred to as non-consolidated financial statements;
- financial statements and interim financial information for periods relating to a financial year beginning in 2011 may exclude comparative information relating to the preceding financial year;
- annual financial statements must include a statement that the financial statements are prepared in accordance with the financial reporting framework specified in National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for

financial statements delivered by registrants, and must also describe that framework; and

- an auditor's report accompanying financial statements must be in the form specified by Canadian GAAS for an audit of financial statements prepared in accordance with a fair presentation framework.

In order to facilitate consistent interpretation of financial reporting requirements, the Instrument also uses terms and phrases used in IFRS as it has been incorporated into Part I of the Handbook, rather than the corresponding terms and phrases used in current Canadian GAAP. As well, we have addressed certain transition issues that domestic issuers and registrants will face as they change from current Canadian GAAP to IFRS.

The Instrument does not reflect the impact of exposure drafts or discussion papers from the IASB prior to their adoption into IFRS. The definition of IFRS, included in the amendments to NI 14-101, incorporates amendments to IFRS made from time to time.

3. Summary of Changes from the Proposed Materials

a) Acquisition statements

In the Proposed Materials, jurisdictions other than Ontario proposed to permit financial statements for a business acquired, or to be acquired (acquisition statements) prepared in accordance with Canadian GAAP applicable to private enterprises (also known as accounting standards for private enterprises in Part II of the Handbook) subject to specified conditions. Stakeholders were asked about this proposal and whether there were other options to better balance the cost and time to issuers and the needs of investors. One identified option was to permit acquisition statements prepared in accordance with Canadian GAAP applicable to private enterprises if they are accompanied by an audited reconciliation quantifying and explaining material differences from Canadian GAAP applicable to private enterprises to IFRS and providing material IFRS disclosures.

The majority of written comments received requested that the CSA agree on a harmonized approach on acceptable accounting principles for acquisition statements.

In addition to the written comments, the CSA held various consultation sessions to elicit comments about acquisition statements from investors, analysts and other stakeholders. The comments received assisted us in coming to a harmonized solution.

In the Instrument, all jurisdictions permit acquisition statements to be prepared in accordance with Canadian GAAP applicable to private enterprises subject to specified conditions. Non-venture issuers will be required to provide a reconciliation to the issuer's GAAP for all financial years presented and the most recently completed interim period. Consistent with acquisition statement requirements in Current NI 52-107, the reconciliation to the issuer's GAAP for the most recently completed financial year must be audited. Venture issuers will not be required to provide a reconciliation. Both venture and non-venture issuers must prepare *pro forma* financial statements using accounting policies that are consistent with the issuer's GAAP. The Policy provides new guidance on the preparation of the reconciliations required for non-venture issuers.

We developed different requirements for venture and non-venture issuers after considering the costs to prepare reconciliations and the information needs of investors and their advisors. We believe the requirements appropriately respond to cost/benefit considerations for venture and non-venture issuers.

We acknowledge that we developed these requirements prior to Canada's conversion to IFRS and the use of Canadian GAAP applicable to private enterprises by private companies. We intend to re-examine the issue of accounting principles permitted for acquisition statements after IFRS and Canadian GAAP applicable to private enterprises have been used in our capital markets for two years. We will assess the quality of information being provided to stakeholders and the cost and time for preparation.

The Proposed Materials, consistent with Current NI 52-107, contained a requirement that if acquisition statements are prepared using accounting principles different from the issuer's GAAP, the acquisition statements for the most recently completed financial year and interim period that are required to be filed must be reconciled to the issuer's GAAP, and material differences quantified and explained. The Final Materials do not include this requirement except where acquisition statements are prepared using accounting principles that meet the foreign disclosure requirements of a designated foreign jurisdiction, and those accounting principles differ from the issuer's GAAP.

b) Use of different accounting principles for different periods
The Proposed Materials provided an exemption from the requirement for financial statements to be prepared in accordance with the same accounting principles for all periods presented in the financial statements. The exemption permitted the presentation of a single set of financial statements containing comparative financial information for a financial year beginning before January 1, 2011 prepared using current Canadian GAAP if certain conditions were met. The Final Materials do not include this exemption.

We have provided additional discussion in the Policy to clarify that an entity that is required to file financial statements for three years can choose to present the earliest of the three financial years using current Canadian GAAP in two different formats.

c) Financial reporting framework

i) Registrants
We have modified the description of the accounting framework used to prepare a registrant's financial statements and interim financial information. Generally, the required framework is Canadian GAAP applicable to publicly accountable enterprises except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27. Separate financial statements are sometimes referred to as non-consolidated financial statements. A registrant's annual financial statements must describe the financial reporting

framework used. We have also explained in the Policy that the exceptions and exemptions included as Appendices in IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1) would be relevant for determining the opening statement of financial position at the date of transition.

ii) Summarized financial information
We have modified the description of the accounting framework used to prepare summarized financial information for an investment that is or will be accounted for by the equity method. The summarized financial information must also include a specified statement and a description of the accounting policies used.

iii) Acquisition statements
We have modified the description of the accounting framework for acquisition statements that are an operating statement for an oil and gas property that is an acquired business or business to be acquired. The operating statement must contain a specified statement and a description of the framework.

Similarly, we have modified the description of the accounting framework for acquisition statements that are based on information from the financial records of another entity whose operations included the acquired business or business to be acquired and there are no separate financial records for the acquired business or business to be acquired, also known as carve-out financial statements. The acquisition statements must contain a specified statement and a description of the framework.

We have also explained in the Policy that the exceptions and exemptions included as Appendices in IFRS 1 would be relevant for determining the opening statement of financial position at the date of transition for acquisition statements.

iv) Auditor's report
We have modified the requirements relating to an audit report accompanying an operating statement for an oil and gas property or carve-out financial statements to require the audit report to identify the financial reporting framework used.

d) 52/53 week financial years
The Instrument includes a new provision to permit application of Part 3 for financial statements for periods relating to a financial year that begins before January 1, 2011 if the immediately preceding financial year ends no earlier than December 21, 2010. This permits issuers and registrants that have financial year ends close to, but not on December 31, 2010, the option to transition to IFRS when their new financial year begins.

e) Entities with rate-regulated activities
The Instrument includes a new provision to permit the application of Part 3 of the Instrument to be deferred for up to one year by qualifying entities, consistent with the deferral granted by the AcSB. In these circumstances, Part 4 would continue to apply with the result that the transition to IFRS could be deferred by up to one year. A

"qualifying entity" is defined as a person or company that has activities subject to rate regulation, as defined in Part V of the Handbook and that is permitted under Canadian GAAP to apply Part V of the Handbook.

4. Other Amendments

The CSA are also publishing today amending instruments for the following instruments and for many of their companion policies which were previously published for comment reflecting the impact of the transition to IFRS:

National Instrument 51-102 *Continuous Disclosure Obligations*
National Instrument 41-101 *General Prospectus Requirements*
National Instrument 44-101 *Short Form Prospectus Distributions*
National Instrument 44-102 *Shelf Distributions*
National Instrument 71-102 *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*
National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*
National Instrument 31-103 *Registration Requirements and Exemptions*
National Instrument 33-109 *Registration Information Requirements*
National Instrument 45-106 *Prospectus and Registration Exemptions*

The CSA are also publishing today amending instruments for the following instruments and policies which have not previously been published for comment, and which include other changes to reflect the impact of the transition to IFRS (see Appendices H and I):

National Instrument 13-101 *System for Electronic Document Analysis and Retrieval (SEDAR)*
National Instrument 21-101 *Marketplace Operations*
National Instrument 52-110 *Audit Committees*
National Instrument 54-101 *Communication with Beneficial Owners of Securities of a Reporting Issuer*
Multilateral Instrument 11-102 *Passport System* and its Companion Policy
Multilateral Instrument 62-104 *Take-over Bids and Issuer Bids*
National Policy 12-202 *Revocation of a Compliance-related Cease Trade Order*
National Policy 12-203 *Cease Trade Orders for Continuous Disclosure Defaults*

The CSA support the AcSB's deferral of the mandatory adoption of IFRS for investment companies to financial years beginning on or after January 1, 2012. This deferral will permit entities whose financial statements are currently subject to Accounting Guideline 18 and will be impacted by the IASB's consolidation project to attain certainty about IFRS requirements for accounting for investment holdings. The CSA expect to publish final IFRS-related materials for National Instrument 81-106 *Investment Fund Continuous Disclosure* once the IASB revised standard on consolidation for investment companies is final in 2011.

5. Summary of Comments and CSA Responses
The CSA received submissions from 16 commenters who submitted comment letters on the Proposed Materials. The names of the commenters are listed in Appendix A. The summary of the comments on the Proposed Materials, together with our responses, are in Appendix B. We thank everyone who provided comments.

6. Questions
Please refer your questions to any of:

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