

Notice and Request for Comments

Proposed National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* and Companion Policy 52-107CP *Acceptable Accounting Principles and Auditing Standards*

and

Proposed Amendments to National Instrument 14-101 *Definitions*

Purpose of Notice

The Canadian Securities Administrators (the CSA or we) are publishing the following proposed materials for a 90-day comment period:

- National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* (the Proposed Instrument),
- Companion Policy 52-107CP *Acceptable Accounting Principles and Auditing Standards* (the Proposed Policy), and
- Amendments to National Instrument 14-101 *Definitions* (NI 14-101)

The Proposed Instrument, the Proposed Policy and the proposed amendments to NI 14-101 are collectively referred to as the Proposed Materials.

The Proposed Instrument and the Proposed 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 proposed amendments to NI 14-101 would remove one definition and add two new definitions.

This Notice forms part of a series of notices that address proposed changes to securities legislation arising from the upcoming changeover to International Financial Reporting Standards (IFRS).

We are publishing the text of the Proposed Materials with this Notice. You can also find the text of the Proposed Materials on the websites of many CSA members together with a blackline of the Proposed Instrument against Current NI 52-107.

We invite comments on the Proposed Materials. As the Proposed Materials relate primarily to the upcoming changeover to IFRS in Canada and need to be in place before

January 1, 2011, we are not inviting comment on provisions of the Proposed Materials that will not be affected by this changeover to IFRS (other than the housekeeping amendments described in this Notice).

Background

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

The AcSB has announced that it plans to incorporate IFRS into the Handbook of the Canadian Institute of Chartered Accountants (the CICA Handbook) as Canadian GAAP for publicly accountable enterprises. As a result, the CICA Handbook will contain two versions of Canadian GAAP for public companies for a period of time. This includes:

- Part I of the CICA Handbook – known as Canadian GAAP for publicly accountable enterprises that will apply for financial years beginning on or after January 1, 2011, and
- Part IV of the CICA Handbook - known as Canadian GAAP for public enterprises that are the standards constituting Canadian GAAP before the mandatory effective date (current Canadian GAAP).

The CSA supports Canada's move to IFRS - a globally accepted, high quality set of accounting principles. The Proposed Materials address the changes required to reflect IFRS.

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 CICA Handbook. A domestic issuer that is also registered with the United States Securities and Exchange Commission (SEC), i.e., an SEC issuer, 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.

The Proposed Materials were drafted to reflect that for financial years beginning on or after January 1, 2011 domestic issuers and registrants will be required to use IFRS as incorporated into the CICA Handbook.

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

December 14, 2010. The Proposed Materials have also been drafted to reflect this changeover.

Substance and Purpose of the Proposed Materials

The Proposed Materials require that, for financial years beginning on or after January 1, 2011, domestic issuers:

- prepare financial statements in accordance with Canadian GAAP applicable to publicly accountable enterprises, and
- report compliance with IFRS.

A domestic issuer who is also an SEC issuer will continue to have the option to use U.S. GAAP.

The Proposed Materials require that, for financial years beginning on or after January 1, 2011, domestic registrants:

- prepare financial statements in accordance with Canadian GAAP applicable to publicly accountable enterprises except that financial statements must account for investments in subsidiaries, jointly controlled entities and associates as specified for separate financial statements in Canadian GAAP applicable to publicly accountable enterprises, and
- report compliance with IFRS except that the financial statements account for investments in subsidiaries, jointly controlled entities and associates as specified for separate financial statements in IFRS.

Registrants will continue to be required to provide their financial statements on a non-consolidated basis in order to facilitate identification of potential concerns with a registrant's capital adequacy and financial solvency. Complete information in these areas would not be available if registrants filed consolidated financial statements.

Financial reporting terminology in Current NI 52-107 is being modified to reflect IFRS terminology. By replacing current Canadian GAAP terms and phrases with IFRS terms and phrases, we expect that a more consistent interpretation will be available for financial reporting for issuers and registrants. More consistent disclosure practices should increase transparency to the market and thereby benefit investors. As well, we have addressed certain transition issues as domestic issuers and registrants change from current Canadian GAAP to IFRS.

Issuers and registrants that file or deliver financial statements prepared in accordance with acceptable accounting principles other than IFRS as permitted by the Proposed Instrument may interpret any references in IFRS as a reference to the corresponding term in the other acceptable accounting principles.

The Proposed Materials are intended to provide an efficient transition mechanism for issuers and registrants to reflect the changeover, and produce high quality financial reporting for investors.

The Proposed Materials do not reflect the impact of exposure drafts or discussion papers from the IASB prior to their adoption into IFRS. The definition of IFRS in the proposed amendments to NI 14-101 incorporates amendments made from time to time.

The French version of the Proposed Materials reflect the changes in terminology made in the English version. Moreover, it reflects the changes in the French terminology introduced as a result of the copyrighted translation of IFRS in French produced by the IASC Foundation (IFRS in French). As the terminology of IFRS in French is still in a state of flux, we have tried our best to anticipate what terminology will be incorporated into the French version of Part I of the CICA Handbook as of January 1, 2011 and we have been in consultation with the Linguistic Services of the CICA on the subject. The foremost concern has been to align the terminology used in the French version of the Proposed Materials with the terminology used in IFRS in French.

Summary of the Proposed Materials

1. Requirements for Acquisition Statements

An issuer must include in a document to be filed audited annual financial statements as well as unaudited interim financial reports for an acquired business that is significant in relation to the issuer, or in the context of an offering, that the issuer proposes to acquire where the likelihood of completing the acquisition is high. In addition to acquisition statements, an issuer must also provide *pro forma* financial statements that illustrate the impact of the acquisition on the issuer's financial position and financial performance. An acquisition is "significant" if it increases the size of the issuer by at least 20% if the issuer is a TSX-listed issuer and 40% if the acquirer is a venture issuer as defined in National Instrument 51-102 *Continuous Disclosure Obligations*. National Instrument 51-102 requires an issuer to file a business acquisition report that includes acquisition statements and *pro forma* financial statements within 75 days of the date of an acquisition. The national prospectus rules require a prospectus to include acquisition statements and *pro forma* financial statements relating to a significant business proposed to be acquired.

Under Current NI 52-107, the only Canadian accounting principles accepted for acquisition statements are Canadian GAAP applicable to public enterprises. Acquisition statements may not be prepared using the differential reporting options for private enterprises. Effective for financial years beginning on or after January 1, 2011, the CICA Handbook will contain both Canadian GAAP applicable to publicly accountable enterprises (IFRS incorporated into the CICA Handbook) and Canadian GAAP applicable to private enterprises. The nature and extent of differences between these two sets of accounting standards will be significantly greater than the differential reporting options referred to above. As stated by the AcSB, "in comparison to current Canadian GAAP for public enterprises, the proposed standards for private enterprises have approximately half the specific disclosure requirements", as well as "simplified accounting for financial instruments, investments, pensions and other complex areas".

We considered the cost and time for issuers to provide acquisition statements and the needs of investors for financial information regarding the acquired business or business proposed to be acquired.

CSA jurisdictions except for Ontario concluded that, in addition to the other permitted accounting principles, the Proposed Instrument should permit acquisition statements to be prepared in accordance with Canadian GAAP applicable to private enterprises subject to specified conditions. These conditions are:

- the acquisition statements must consolidate any subsidiaries and account for significantly influenced investees and joint ventures using the equity method,
- financial statements for the business were not previously prepared in accordance with any of the other accounting principles permitted by the Proposed Instrument for acquisition statements, and
- the acquisition statements are accompanied by a notice that identifies the accounting principles used, states that they differ from Canadian GAAP applicable to publicly accountable enterprises, and indicates that the *pro forma* financial statements include adjustments relating to the business and present *pro forma* information prepared using accounting principles consistent with the accounting principles used by the issuer.

CSA jurisdictions except for Ontario are of the view that the time and cost to convert acquired business financial statements from Canadian GAAP applicable to private enterprises to IFRS would exceed the benefit to investors. CSA jurisdictions except for Ontario are of the view that audited acquisition financial statements prepared in accordance with Canadian GAAP applicable to private enterprises subject to certain conditions, as well as *pro forma* financial statements, provide sufficient information for an investor. The *pro forma* financial statements would produce a combined presentation of the issuer and the acquired business or business proposed to be acquired in accordance with accounting standards of the issuer, for example IFRS.

Ontario concluded that acquisition statements should continue to be prepared in accordance with accounting standards that are required for public companies. This includes one of Canadian GAAP applicable to publicly accountable enterprises, IFRS, U.S. GAAP, accounting principles for foreign private issuers in the U.S., and accounting principles of designated foreign jurisdictions. Ontario believes that Canadian GAAP applicable to private enterprises with or without variations is not appropriate for acquisition statements. Ontario also believes that permitting these standards would result in investors not receiving sufficiently comprehensive financial information for making investment decisions. Further, Ontario believes that audited IFRS acquisition statements provide an important starting point for the development of *pro forma* financial statements and also provide important comparable information to the issuer's IFRS financial statements.

Commenters are asked to respond to these questions by discussing the relevant costs and benefits relating to the provision in paragraph 3.11(1)(f) of the Proposed Instrument and other potential options:

Question 1: Do you agree with the proposal of jurisdictions other than Ontario that acquisition statements should be permitted to be prepared in accordance with Canadian GAAP for private enterprises where the specified conditions are met in accordance with paragraph 3.11(1)(f)? Please give reasons for your response.

Question 2: Do you agree with Ontario's proposal that acquisition statements should be permitted to be prepared only in accordance with a set of accounting principles specified in paragraphs 3.11(1)(a) to (e)? Please give reasons for your response.

Question 3: Do you think that any other options would better balance the cost and time for issuers to provide acquisition statements and the needs of investors to make investment decisions? For example, one option identified by Ontario would be to permit acquisition statements to be prepared in accordance with Canadian GAAP applicable to private enterprises where 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. Please give reasons for your response.

2. Accounting and Auditing Framework

i. For domestic issuers

We propose the following requirements for domestic issuers for financial years beginning on or after January 1, 2011:

- issuers must prepare their annual financial statements and interim financial reports in accordance with Canadian GAAP applicable to publicly accountable enterprises,
- issuers must make an explicit and unreserved statement of compliance with IFRS in the notes to their annual financial statements, and disclose compliance with International Accounting Standard 34 *Interim Financial Reporting* in their interim financial reports, and
- auditor's reports accompanying an issuer's financial statements must refer to IFRS and be in the form specified by Canadian generally accepted auditing standards for financial statements prepared in accordance with a fair presentation framework.

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

ii. For domestic registrants

We propose the following requirements for domestic registrants for financial years beginning on or after January 1, 2011:

- registrants must prepare their annual financial statements and interim financial information in accordance with Canadian GAAP applicable to publicly

accountable enterprises except that the financial statements or interim financial information must account for investments in subsidiaries, jointly controlled entities, and associates as specified for separate financial statements in Canadian GAAP applicable to publicly accountable enterprises, and

- registrants must disclose that annual financial statements comply with IFRS except that the financial statements account for investments in subsidiaries, jointly controlled entities, and associates as specified for separate financial statements in IFRS.

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

We have developed specific language for issuers and registrants to describe the accounting and auditing frameworks for special purpose statements and financial information to comply with the requirements of IFRS.

The CICA Handbook will provide IFRS in English and French. Therefore, the Proposed Policy explains that preparers and auditors will be able to use either version to comply with the proposed requirement to prepare financial statements in accordance with Canadian GAAP as applicable to publicly accountable enterprises.

The Proposed Materials require domestic issuers to explicitly refer to IFRS. The Proposed Policy addresses the continuing need for some entities to refer to Canadian GAAP to satisfy existing contractual obligations, other federal, provincial and territorial laws, regulatory rules and other statutory or regulatory requirements.

3. Structure of Proposed Instrument

Issuers and registrants will transition to Canadian GAAP applicable to publicly accountable enterprises for financial years beginning on or after January 1, 2011. However, not all issuers and registrants have calendar year ends. For this reason we kept the “old” version of the Proposed Instrument with a few changes in Part 4 so that issuers and registrants will be able to refer to current Canadian GAAP. The “new” version of the Proposed Instrument with requirements for Canadian GAAP applicable to publicly accountable enterprises is in Part 3.

4. Use of different accounting principles for different periods

The Proposed Materials require financial statements to be prepared in accordance with the same accounting principles for all periods presented in the financial statements. The Proposed Instrument provides an exemption to permit comparative financial information for a financial year beginning before January 1, 2011 to be prepared using current Canadian GAAP if certain conditions are met.

5. Removal of “same core subject matter”

We have removed this exemption due to global conversions to IFRS, and the infrequent use of the exemption.

6. SEC issuers

The Proposed Instrument maintains the option for a domestic issuer that is also an SEC registrant to use U.S. GAAP. We have removed the requirement to reconcile from U.S. GAAP to Canadian GAAP for periods relating to financial years beginning on or after January 1, 2011. We believe that this reconciliation would cease to be useful after the changeover to IFRS.

7. Amendments to NI 14-101

Definitions we are proposing in amendments to NI 14-101 include IFRS as issued by the International Accounting Standards Board, and ISAs as issued by the International Auditing and Assurance Standards Board. The Proposed Materials do not permit the use of national variations of IFRS or “jurisdictional” IFRS.

8. Acquisition statements and audit standards

With the broader adoption of ISAs internationally after 2010, we are proposing to permit ISAs to be used in auditor’s reports accompanying acquisition financial statements.

9. Comparative requirements for domestic registrants

As a transition exemption, the Proposed Instrument provides that financial statements and interim financial information for domestic registrants relating to a financial year beginning in 2011 and complying with IFRS may exclude comparative information for the preceding financial year or interim period.

10. Housekeeping amendments

Where appropriate, we have also included a number of amendments that are housekeeping amendments. These include:

(i) U.S. GAAS

The Proposed Materials have been changed to reflect the appropriate terminology for auditing standards in the U.S..

Public Company Accounting Oversight Board Generally Accepted Auditing Standards (U.S. PCAOB GAAS) and the auditing standards for private U.S. companies, i.e. American Institute of Certified Public Accountants Generally Accepted Auditing Standards (U.S. AICPA GAAS), are reflected in the Proposed Instrument.

(ii) Auditor’s opinions

The Proposed Materials reflect the terminology appropriate to Canadian GAAS for audits of financial statements on or after December 14, 2010. A “modification of opinion” includes a qualification of opinion, an adverse opinion, and a disclaimer of opinion.

(iii) Credit supporter or credit support issuer

We have made modifications to the Proposed Instrument to properly reflect existing practices for credit supporters and credit support issuers in continuous disclosure and prospectus rules. We have found the current requirements do not clearly align with the

financial statement requirements for credit support issuers and credit supporters in the continuous disclosure and prospectus rules.

Other Amendments

The CSA, except the Autorité des marchés financiers and the New Brunswick Securities Commission, are also publishing for comment today amending instruments for the following Instruments and accompanying Companion Policies 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*

The Autorité des marchés financiers and the New Brunswick Securities Commission are publishing for comment today staff notices that set out the substantive proposed changes reflected in the amending instruments published in the other CSA jurisdictions. Because of the legal obligation to publish amending instruments simultaneously in French and English in Québec and New Brunswick, and because the French IFRS terminology is still in a state of flux, publication for comment of amending instruments in these provinces is presently not feasible. It is expected that the Autorité des marchés financiers and the New Brunswick Securities Commission will publish for comment corresponding amending instruments, in French and in English, during the first quarter of 2010. However, market participants in Québec and New Brunswick are encouraged to comment on the substantive proposed changes presented in the staff notices, and on the amendments published by the other CSA jurisdictions.

We also intend to publish for comment on a later timing changes reflecting the impact of the transition to IFRS on Investment Funds including the following Instruments and accompanying Companion Policies:

National Instrument 81-106 *Investment Fund Continuous Disclosure*

National Instrument 81-101 *Mutual Fund Prospectus Disclosure*

National Instrument 81-102 *Mutual Funds*

National Instrument 81-104 *Commodity Pools*

National Instrument 41-101 *General Prospectus Requirements* relating to Form 41-101 F2 *Information Required in an Investment Fund Prospectus*

We will also publish for comment on a later timing changes reflecting the impact of the transition to IFRS on the following Instruments and Policies:

National Instrument 31-103 *Registration Requirements and Exemptions*

National Instrument 45-106 *Prospectus and Registration Exemptions*

National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*

National Instrument 52-110 *Audit Committees*

National Policy 58-201 *Corporate Governance Guidelines*

The CSA will also be publishing a replacement for CSA Staff Notice 52-306 *Non-GAAP Financial Measures* and a revised National Policy 41-201 *Income Trusts and Other Indirect Offerings* on a later date reflecting the changeover to IFRS.

Alternatives Considered

No alternatives to the Proposed Instrument were considered.

Anticipated Costs and Benefits

The AcSB's Strategic Plan approved moving financial reporting for Canadian publicly accountable enterprises to IFRS with a mandatory changeover from current Canadian GAAP to IFRS for years beginning on or after January 1, 2011. The CSA has monitored the implementation of the AcSB's Strategic Plan. We support the changeover to IFRS. Our objective is to ensure a smooth transition from current Canadian GAAP to IFRS for reporting issuers and registrants. Transition issues include changes to securities legislation and regulations to address changes in terminology and disclosure requirements. While the changeover to IFRS may impose costs on our market participants, the changes in the Proposed Materials are generally expected to not impose additional costs and may even assist in reducing costs of the transition by providing appropriate guidance and increasing awareness of the changeover.

Unpublished Materials

In proposing the Proposed Materials, we have not relied on any significant unpublished study, report, or other written materials.

Appendices

The appendices with this Notice include the Proposed Materials. The appendices are organized as follows:

- a table summarizing changes in the Proposed Materials (Appendix A),
- the text of the Proposed Instrument (Appendix B),
- a blackline of the Proposed Instrument against Current NI 52-107 (Appendix C),
- the Proposed Policy (Appendix D),
- the proposed amendments to NI 14-101 (Appendix E).

Request for Comments

We welcome your comments on the Proposed Materials. Please provide your comments in writing by December 24, 2009. If you are not sending your comments by email, you should also send an electronic file containing the submissions (in Windows format, Microsoft Word).

Please address your submission to all of the Canadian securities regulatory authorities, as follows:

British Columbia Securities Commission

Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Nunavut

Deliver your comments **only** to the two addresses that follow. Your comments will be distributed to the other participating CSA member jurisdictions.

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We cannot keep submissions confidential because securities legislation in certain provinces requires that a summary of the written comments received during the comment period be published.

Questions

Please refer your questions to any of:

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