

**APPENDIX B**  
**Summary of Comments and CSA Responses**

**PROPOSED NATIONAL INSTRUMENT 52-107**  
***ACCEPTABLE ACCOUNTING PRINCIPLES AND AUDITING STANDARDS***

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**Legend:**

AASB: Canadian Auditing and Assurance Standards Board  
BAR: Business acquisition report  
IFRS: Standards and interpretations adopted by the IASB, as amended from time to time  
ISAs: International Standards on Auditing  
PE GAAP: Canadian Generally Accepted Accounting Principles for private enterprises

Theme	Comments	Responses
<b>GENERAL COMMENTS</b>		
<b>A. <u>General Comments</u></b>		
1. General support for principles underlying the Proposed Materials	One commenter expresses their support for the principles in the Proposed Materials.	We thank the commenter for its support.
2. Use of ‘jurisdictional’ IFRS	One commenter supports the fact that the proposals do not permit the use of national variations of IFRS or ‘jurisdictional’ IFRS	We thank the commenter for its support.
<b>SPECIFIC REQUEST FOR COMMENT</b>		
<b>B. <u>Specific Request for Comment</u></b>		
1. Request for harmonized approach to securities regulation	<p>Eight commenters recommend that the members of the CSA agree upon a harmonized approach on acceptable accounting principles for acquisition financial statements (see ‘Specific Request for Comment’ discussion below). Reasons cited:</p> <ul style="list-style-type: none"> <li>• an unharmonized approach is contrary to efforts to create a comprehensive national continuous disclosure regime and to harmonize and streamline securities law in Canada;</li> <li>• a uniform set of rules is simpler to understand, more cost effective to apply;</li> <li>• an unharmonized approach produces an uneven playing field and will result in unnecessary complexity for private entities looking to be acquired by public companies;</li> <li>• capital markets generally benefit from a harmonized approach;</li> <li>• an inconsistent approach by CSA members may weaken Canada’s reputation internationally.</li> </ul> <p>One commenter notes that all issuers on TSX and over 50% of issuers listed on TSX Venture are reporting issuers in Ontario and would be subject to different requirements if the current proposals for acquisition statements were maintained. This disparity may create a competitive disadvantage for TSX listed issuers and TSX Venture listed</p>	<p>We thank the commenters and acknowledge their request for a harmonized approach on acceptable accounting principles for acquisition financial statements.</p> <p>In addition to the written comments summarized in this section, the CSA held various consultation sessions to elicit comments about acquisition statements from investors, analysts and other stakeholders. All of the comments received assisted us in coming to a harmonized solution.</p> <p>All jurisdictions agreed to amend the rule to allow acquisition statements prepared in accordance with PE GAAP 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 current acquisition statement requirements, the reconciliation to the issuer’s GAAP for the most recently completed financial year would be audited. Venture issuers will not be required to provide a reconciliation. Both venture and non-venture issuers</p>

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	<p>issuers that complete offerings in Ontario and therefore have a negative impact on business in Ontario. The commenter is also concerned about the impact of Ontario effectively imposing its regulatory approach on a national basis given the breadth of issuers that will be affected and the opposing view of the majority of the CSA members</p>	<p>must prepare <i>pro forma</i> financial statements using principles consistent with the issuer’s GAAP</p> <p>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.</p> <p>We acknowledge that these requirements were developed prior to Canada’s conversion to IFRS, and the use of PE GAAP by private enterprises. As stated previously, we intend to re-examine the issue of accounting principles permitted for acquisition statements after IFRS and PE GAAP 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.</p>
<p>2. Permitting acquisition statements prepared in accordance with PE GAAP, with specified conditions (PE GAAP Proposal)</p>	<p><u>Comments supporting the PE GAAP Proposal</u>  Seven commenters agree with the PE GAAP Proposal. One additional commenter would also be strongly supportive of the proposal if the use of tax allocation accounting is included as a specified condition in addition to those listed in paragraph 3.11(1)(f). Reasons cited include:</p> <ul style="list-style-type: none"> <li>• cost to convert financial statements of acquired business would outweigh the benefits to investors to make investment decisions;</li> <li>• any additional costs borne by the acquiree or auditor to effect conversion will ultimately be borne by shareholders;</li> <li>• PE GAAP was developed based on current Canadian GAAP and will provide sufficiently comprehensive financial information for making investment decisions;</li> <li>• the relatively low significance test</li> </ul>	<p>Please see the response to Item #1 above.</p>

Theme	Comments	Responses
	<p>thresholds of 20% (40% for venture issuers) for acquisition statements do not justify requirements more onerous than those proposed by jurisdictions other than Ontario;</p> <ul style="list-style-type: none"> <li>• an overwhelming majority of private enterprises are expected to adopt PE GAAP, including those whose owners are looking at exit strategies such as a future IPO or a sale of the business to a listed entity;</li> <li>• many auditors who only provide services to private companies cannot justify the investment of time and financial resources necessary to be IFRS subject-matter experts, thus if IFRS statements are required, the incumbent auditors may either resign from the engagement or be compelled to engage a third-party auditor with IFRS expertise to assist in the audit of acquisition statements;</li> <li>• the acquiree may need to engage outside consultants to facilitate a conversion from PE GAAP to IFRS;</li> <li>• some information required to restate historic balances to IFRS may not be available or may never have been obtained in prior years if it was not required for PE GAAP reporting;</li> <li>• the process of preparing IFRS financial statements by the acquired entity would entail complying with IFRS 1, which raises a number of accounting and reporting complexities;</li> <li>• the 75-day deadline for submitting business acquisition reports amplifies the challenge for private enterprises that report under PE GAAP to convert to IFRS, particularly if the conversion process requires third-party valuations or analysis of historical data that may not be easily obtainable and the acquiree's management and auditors are not familiar with the difference between PE GAAP and IFRS;</li> <li>• if PE GAAP is not permitted that may act as a deterrent for merger and acquisition activity for certain issuers;</li> </ul>	

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	<ul style="list-style-type: none"> <li>• acquiring enterprise will generally have access to proprietary and industry-specific information that is not disclosed in the financial statements of the acquiree, thus converting to IFRS will not add tangibly to the information flow available to enterprise management when making an acquisition decision; and</li> <li>• in most cases acquisition statements become available after completion of the acquisition, making any potential benefits of using IFRS less relevant when considering the additional time and cost burden.</li> </ul> <p>Five commenters believe that the PE GAAP Proposal strikes an appropriate balance between the information needs of investors to make investment decisions and the costs to prepare the information.</p> <p>Four commenters had concerns about the length of time needed to convert acquisition statements into IFRS:</p> <ul style="list-style-type: none"> <li>• the 75-day deadline for the submission of the acquisition statements amplifies the challenges for private enterprises to convert to IFRS, and in some instances may prove impracticable;</li> <li>• most companies in Canada have been working on IFRS conversion for over two years, with another fifteen months of effort still required before the first public reporting under IFRS, whereas management of a private acquiree will be compelled to do in a matter of weeks what Canadian reporting issuers are being given years to accomplish;</li> <li>• the complexity of the conversion task was recognized by the CSA in proposing a 30-day delay for filing the first interim report for reporting issuers.</li> </ul> <p>Three commenters believe that acquisition statements prepared in accordance with PE GAAP with specified conditions, in conjunction with the other <i>pro forma</i> information required in</p>	

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	<p>the business acquisition report, will provide sufficient information, or the most useful information, to investors. Reasons cited include:</p> <ul style="list-style-type: none"> <li>• <i>pro forma</i> financial statements will provide financial information regarding the acquired business that has been prepared using accounting principles consistent with the accounting standards of the issuer (i.e. IFRS);</li> <li>• <i>pro forma</i> financial information will include reconciliation of the significant financial information within the acquisition statements to the appropriate figures using acquirer’s accounting principles;</li> <li>• <i>pro forma</i> financial statements reflect new fair value measurements for the assets and liabilities of the target entity, which may pertain to possible differences between historical PE GAAP and IFRS accounting that would not need to be dealt with;</li> <li>• the issuer will file actual interim or annual financial statements shortly after the date the BAR is required to be filed, and these financial statements will include the financial performance and financial position of the acquired business and include note disclosure of changes significant to the combined business from the last reporting period; and</li> <li>• one commenter’s understanding is that both the United Kingdom and South Africa have requirements similar to this proposal that will only require <i>pro forma</i> financial statements to be prepared in accordance with IFRS.</li> </ul> <p>One commenter believes that the presentation of the IFRS <i>pro forma</i> financial statements could be designed to assist with the understanding of the adjustments which relate to the acquisition and the adjustments which relate to accounting differences between IFRS and PE GAAP, to help ensure investors receive sufficiently comprehensive financial information for making investment decisions. For example, there could</p>	

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	<p>be a column showing adjustments for IFRS compliance and a second column showing the adjustments made to the historical PE GAAP statements as a result of the acquisition.</p> <p><u>Comments on the specified conditions proposed</u>  One commenter notes agreement with the proposed conditions that must be applied when preparing acquisition statements in accordance with PE GAAP.</p> <p>Two commenters strongly supports the required condition to consolidate subsidiaries and apply the equity method to joint ventures, and notes that this is a necessary condition for the acceptance of PE GAAP.</p> <p>One commenter recommends that a condition be included to use tax allocation accounting because the rigour of identifying, understanding and accounting for the differences between book and tax value is important both to the business acquisition due diligence process and the acquirer’s purchase price allocation process and subsequent accounting. The commenter examined the remaining differential options embedded in PE GAAP, and some of the new options being proposed in PE GAAP, and felt they could be adequately addressed in the <i>pro forma</i> financial statements.</p> <p><u>Comments that do not support the PE GAAP Proposal</u>  Four commenters do not agree with the proposal. Reasons cited include:</p> <ul style="list-style-type: none"> <li>• the proposal does not support the securities commissions’ primary objective of investor protection;</li> <li>• the proposal is inconsistent with the current requirements of having to present acquisition statements prepared in accordance with accounting standards applicable for public companies;</li> <li>• not convinced that the burden on issuers to restate previously issued results outweighs the reduction in related benefit to the investor;</li> <li>• investor interests are best served by full</li> </ul>	

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	<p>disclosure, with auditor assurance, rather than an approach which addresses some, but not all, of the potentially material considerations;</p> <ul style="list-style-type: none"> <li>• PE GAAP was not developed for general use in the capital markets;</li> <li>• cost-benefit for each and every disclosure requirement in public GAAP has already be explicitly considered for both IFRS and existing Canadian GAAP, and the AcSB already have taken into account the balance between user needs against preparer costs;</li> <li>• PE GAAP permits or mandates reduced disclosure and, in some cases, simplified recognition of assets, liabilities, income and expenses because these standards assume the users are able to ask for and receive additional information to permit them to make capital allocation decisions;</li> <li>• PE GAAP would have an unacceptable negative impact on the quantity and quality of information users of financial statements have available to them to make informed financial decisions;</li> <li>• analysts need to have sufficient information in order to reset their financial models, with historical income and cash flow information on a comparable basis being a requirement (and for the acquiring public entity the only comparable basis will be IFRS);</li> <li>• potentially material adjustments for items such as stock-based compensation, income taxes, employee benefits, etc., will not be addressed, which would reduce the decision making relevance of the financial statements included in a BAR to an unacceptably low level;</li> <li>• if an acquisition is sizable enough to trigger the requirement for a BAR, investors should be able to understand the relative importance and historical results of the target using a comparable and transparent reporting model understood by user's of the financial statements;</li> </ul>	

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	<ul style="list-style-type: none"> <li>• the proposal does not provide audited information for the development of the <i>pro forma</i> financial statements;</li> <li>• <i>pro forma</i> information is not a substitute for a quantitative reconciliation of IFRS differences or full IFRS financial statements that would be in the best interest of investors;</li> <li>• presentation of measurement differences uniquely in <i>pro forma</i> financial statements will be difficult to understand and would compromise the quality of information otherwise required to be presented to market participants;</li> <li>• may result in a lack of comparability between the results and financial position of the issuer and acquiree in the financial statements;</li> <li>• the significant changes in operations that result from a material acquisition require considerable information presented on a consistent basis in order for users to be able to separate out and fully understand the impact of changes from the acquisition from the annual changes in results of existing operations;</li> <li>• does not provide relevant and transparent information to users;</li> <li>• not convinced that the proposal provides any benefit to investors or any significant costs savings to issuers since much of the cost of converting will need to be paid in any case since opening balance sheet information using IFRS for the acquired company is effectively required, accounting policy decisions and system changes going forward will need to be made in most cases within the next reporting period, and management's acquisition analysis will be the impact of the merger on financial statements would be the impact of the merger on financial statements going forward which would likely use historical income statement information using PE GAAP adjusted for the expected impact of reporting under IFRS;</li> <li>• proposal applies a lower audit standard</li> </ul>	

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	<p>than now exists under Canadian GAAP and is merely a deferral of the cost and effort to convert to IFRS;</p> <ul style="list-style-type: none"> <li>• because the accounting framework of PE GAAP would not be respected when applied to public enterprises, a properly prepared auditors' opinion would always be a "qualified opinion" for these financial statements; and</li> <li>• the most relevant and important information for investors and analysts may well be the information that is the most difficult or time consuming for the issuer to provide, and thus a policy decision on disclosure matters of this type should focus on the utility of the information to users rather than on the difficulty posed to preparers.</li> </ul> <p>One commenter believes that, although the proposal may appear to reduce the time and effort required to prepare acquisition financial statements, the target company will still be required to identify, recognize and measure differences between PE GAAP and the issuer's GAAP for purposes of preparing pro-forma information.</p> <p><u>Other considerations</u></p> <p>One commenter believes that permitting the use of PE GAAP statements would result in an inconsistency in NI 51-102 for completed acquisitions under a BAR and probable acquisitions under Part 14.2 of NI 51-102 which require prospectus level disclosure in an Information Circular where a security-holder vote is needed with respect to an acquisition transaction. This effectively means in situations where an issuer is acquiring a Canadian private company and is required to complete an Information Circular for voting purposes, the rules will require three years of financial statements in accordance with IFRS, whereas PE GAAP would be permitted for consummated transactions in both prospectus documents and BARs. The commenter recommends that the CSA consider whether this inconsistency is conceptually appropriate.</p>	

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	<p>One commenter recommends that the CSA closely monitor the developments surrounding the use of PE GAAP, even if it chooses to permit its use. The commenter suggests that one possible method of monitoring such performance would be to require reconciliation to IFRS as a provisional measure, with a view to revisiting this requirement at a specified date in the future.</p> <p>One commenter recommends that if the CSA choose to not permit PE GAAP, it should set a specified timeframe on which this decision would be revisited, based on the observed performance of PE GAAP.</p>	
<p>3. Not permitting acquisition statements prepared in accordance with PE GAAP (IFRS Proposal)</p>	<p>* <i>By not permitting acquisition statements to be prepared in accordance with PE GAAP, an acquired domestic private company that used PE GAAP prior to the acquisition would need to prepare financial statements using an acceptable GAAP under 3.11 of NI 52-107. In most instances this would result in the domestic private company preparing financial statements in accordance with Canadian GAAP for publicly accountable enterprises and disclosing compliance with IFRS. The summary of comments in this section have been prepared based on this assumption.</i></p> <p><u>Comments supporting the IFRS Proposal</u> Two commenters support the IFRS Proposal.</p> <p>One commenter recommends that it may be prudent to only restate the most recently completed financial year and interim period (if applicable) for which financial statements are required to be presented. Reasons cited:</p> <ul style="list-style-type: none"> <li>• recent period is likely to contain the most relevant information; and</li> <li>• lessen the burden on issuers.</li> </ul> <p><u>Comments that do not support the IFRS Proposal</u> Eleven commenters do not agree with the IFRS Proposal of not permitting acquisition statements to be prepared in accordance with PE GAAP. The reasons cited are consistent with those discussed above in the “<i>Comments supporting</i></p>	<p>Please see the response to Item #1 above.</p>

Theme	Comments	Responses
	<p><i>the PE GAAP Proposal” section.</i></p> <p><u>Other considerations</u>  One commenter recommends that the CSA further explore the burdens that would result from not permitting PE GAAP, and whether it would ever cause an issuer to avoid completing an acquisition transaction they may have otherwise considered if not for the reporting obligations. The commenter recommends that this examination be completed prior to adopting the IFRS proposal.</p> <p>One commenter notes that a detailed cost/benefit analysis and impact assessment would be needed in order to conclude that the IFRS proposal is appropriate. A comparison to the experiences and requirements in other jurisdictions would also be useful.</p>	
<p>4. Other options for acquisition statements that meet needs of investors to make investment decisions</p>	<p><u>Do not support an audited reconciliation with disclosure approach (Ontario alternative suggested in the September 25, 2009 Notice)</u>  Four commenters support the PE GAAP proposal and do not support the alternative approach cited in question 3 of that Notice of an audited reconciliation quantifying and explaining material differences from PE GAAP to IFRS and providing material IFRS disclosures.</p> <p>One commenter supports the IFRS proposal and does not support the alternative approach cited in question 3 of an audited reconciliation quantifying and explaining material differences from PE GAAP to IFRS and providing material IFRS disclosures because it would reduce investor protection unacceptably.</p> <p><u>Permit PE GAAP financial statements with a reconciliation to IFRS</u>  Four commenters recommend an approach that results in acquisition statements being prepared in accordance with PE GAAP with an accompanying audited reconciliation to IFRS. Reasons cited:</p> <ul style="list-style-type: none"> <li>• addresses concerns related to cost and time by not requiring preparation of financial statements that are fully compliant with Canadian GAAP</li> </ul>	<p>Please see the response to Item #1 above.</p>

Theme	Comments	Responses
	<p>applicable to publicly accountable enterprises;</p> <ul style="list-style-type: none"> <li>• provides sufficient audited information to investors to understand material GAAP differences;</li> <li>• audited reconciliation provides important audited information for the development of <i>pro forma</i> financial statements;</li> <li>• consistent with the rules for acquisition statements prepared using another set of acceptable accounting standards;</li> <li>• provides important comparable information to the issuer’s IFRS financial statements; and</li> <li>• enhanced usefulness will exceed incremental efforts and cost to prepare a reconciliation note.</li> </ul> <p>One commenter believes that an audited reconciliation quantifying and explaining the material differences to IFRS will strike the appropriate balance of providing investors with important audited information to assess material GAAP differences while at the same time addressing cost and time concerns.</p> <p>Seven commenters believe that the cost and time of preparing PE GAAP financial statements that are accompanied by an audited reconciliation quantifying and explaining material differences from PE GAAP to IFRS and providing material IFRS disclosures would not be significantly less than the cost and time to prepare and present converted IFRS financial statements.</p> <p>Three commenters recommend that the reconciliation to IFRS only quantify the material differences from PE GAAP to IFRS, and should not include reconciliation of all material IFRS disclosures. Reasons cited:</p> <ul style="list-style-type: none"> <li>• not significantly less than cost and time to prepare and present IFRS financial statements; and</li> <li>• since the issuer’s GAAP will be adopted by the acquiree and that accounting for the acquisition will have a material impact, it is likely that the “material IFRS disclosure” are less relevant to the</li> </ul>	

Theme	Comments	Responses
	<p>investor with respect to historical financial statements presented.</p> <p>One commenter believes that, although <i>pro forma</i> information reconciled back to the issuer’s GAAP may provide certain relevant information to users, <i>pro forma</i> information is often presented in a condensed and aggregated manner which is not as transparent as providing such a reconciliation in the notes to the acquisition statements.</p> <p>One commenter notes that the inclusion of a reconciliation to the issuer’s GAAP in the notes to the acquisition statements could be subject to audit or review by an acquired entity’s auditor, consistent with existing requirements in NI 52-107, which is not the case for <i>pro forma</i> information.</p>	
<p>5. Considerations if a reconciliation is permitted</p>	<p><i>* The harmonized solution described in the response to item #1 above requires non-venture issuers to provide a reconciliation to the issuer’s GAAP for all financial years presented and the most recently completed interim period. The comments and responses in this section have been separately categorized in order to respond to comments about the use of a reconciliation approach</i></p> <p>Three commenters recommend that clear and explicit guidance be provided regarding the form and content of the reconciliation. One commenter further notes that the form and content will impact whether the basis of presentation will be IFRS or a described basis of presentation which is in accordance with regulatory requirements. Another commenter suggests that the context of reconciliations for foreign accounting principles to U.S. GAAP for SEC Foreign Private Issuers, under Item 17 of Form 20-F, could be considered</p> <p>If guidance on form and content of a reconciliation is provided, one commenter recommends that it address the following:</p> <ul style="list-style-type: none"> <li>• which statements require reconciliation and the preferred format for presentation;</li> </ul>	<p>We have described the form and content of the reconciliation requirement in subparagraph 3.11(1)(f)(iv) and provide additional guidance in sections 2.14 and 2.15 of the Policy.</p> <p>Subparagraph 3.11(1)(f)(iv) requires that the information for all financial years and the most recently completed interim period presented must be reconciled to the issuer’s GAAP. Section 2.14 of the Policy includes</p>

Theme	Comments	Responses
	<ul style="list-style-type: none"> <li>• which periods require reconciliation and what is the transition date;</li> <li>• whether IFRS note disclosures are required;</li> <li>• which, if any, exemptions and exceptions to IFRS 1 may be applied when the basis of presentation is in accordance with regulations; and</li> <li>• explicit disclosure that the basis of presentation is not IFRS when there is less than full compliance with IFRS.</li> </ul> <p>If the form and content of the reconciliation is prescribed by securities regulators, one commenter suggests the following</p> <ul style="list-style-type: none"> <li>• reporting under a fair presentation framework is possible provided the basis of presentation of the reconciliation note is sufficiently clear;</li> <li>• it would be inappropriate in most circumstances to describe the basis of presentation of the reconciliation note as IFRS given that the reconciliation does not represent compliance with IFRS; and</li> <li>• an emphasis of matter paragraph should be included in the auditor’s report highlighting the basis of presentation of the reconciliation and the fact that it is not IFRS.</li> </ul> <p>One commenter recommends that it may be prudent to only reconcile the most recently completed financial year and interim period (if applicable) for which financial statements are required to be presented. Reasons cited:</p> <ul style="list-style-type: none"> <li>• recent period is likely to contain the most relevant information; and</li> <li>• lessen the burden on issuers.</li> </ul>	<p>guidance for each of the remaining items noted in the comment.</p> <p>We provide the following response to the comment:</p> <ul style="list-style-type: none"> <li>• We agree that reporting under a fair presentation framework is possible, and require in subparagraph 3.12(2)(f)(i) an audit report in the form specified for an audit of financial statements prepared in accordance with a fair presentation framework.</li> <li>• We agree that it would be inappropriate to include an explicit and unreserved statement of compliance with IFRS for a reconciliation, and have clarified this in 2.15 of the Policy.</li> <li>• With regard to the need for an emphasis of matter paragraph, the AASB provides guidance on the form and content of an auditor’s report.</li> </ul> <p>We do not agree. We believe that when a non-venture issuers provides acquisition statements in accordance with PE GAAP, a reconciliation for all financial years presented is needed to provide sufficient information to a reader based on the issuer’s GAAP.</p>

Theme	Comments	Responses
	<p>One commenter recommends that the reconciliation requirements should be the same regardless of whether the acquisition statements are prepared in accordance with IFRS, U.S. GAAP, PE GAAP, or other accounting principles acceptable in the circumstances.</p> <p>One commenter recommends that the CSA consider whether it is appropriate to establish a threshold level for which reconciliations are required. Such a threshold could be based on numeric significance levels (i.e., acquisitions &gt; 50% significant), type of issuers (i.e., venture issuers vs. non-venture issuers), or some other predetermined threshold.</p> <p>If an audit of the reconciliation is required, one commenter recommends that the CSA provide guidance as to what is meant by an “audited reconciliation”. For example, would the audit report make specific mention of the reconciliation, or rather is this terminology intended to mean that the reconciliation would simply form part of the footnotes, without any specific reference in the audit opinion? The commenter recommends the latter approach.</p>	<p>We do not agree. We believe there are unique considerations in respect of acquisition statements prepared in accordance with PE GAAP because those standards are designed for the needs of private enterprises.</p> <p>Under our harmonized approach we have determined that 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. Venture issuers will not be required to provide a reconciliation.</p> <p>We have not included the requested guidance. The AASB provides guidance on the form and content of an auditor’s report.</p>

Theme	Comments	Responses
<b>INSTRUMENT COMMENTS</b>		
<b>C. <u>Section 3.2 Acceptable Accounting Principles – General Requirements</u></b>		
1. Financial statement preparation and disclosure requirements	<p>One commenter supports the proposal that domestic issuers prepare their financial statements in accordance with Canadian GAAP for publicly accountable enterprises and that the notes contain an explicit and unreserved statement with IFRS. Reasons cited:</p> <ul style="list-style-type: none"> <li>• a high degree of confidence in the ability of the IASB to continue its objective to develop IFRS as a set of global, high quality, transparent financial accounting and reporting standards;</li> <li>• support mandate of AcSB and its objective that Canadian enterprises be in a position to make an unqualified statement of compliance with IFRS after the changeover to IFRS;</li> <li>• only in the extreme and most unlikely circumstances would the AcSB contemplate any requirement in conflict with IFRS; and</li> <li>• in light of federal, provincial and territorial laws, regulatory rules and other such requirements, IFRS as a practical matter will need to be described as Canadian GAAP for some time after the changeover date to IFRS.</li> </ul> <p>One commenter recommends that financial statements be permitted to be prepared in accordance with IFRS as well as Canadian GAAP for publicly accountable enterprises. The terminology may pose problems for issuers that are also reporting in the U.S. or other foreign jurisdictions and need to confirm that their financial statements have been prepared in accordance with IFRS. The commenter notes that acquisition statements may be prepared in accordance with Canadian GAAP or IFRS and audited in accordance with Canadian GAAS or International Standards on Auditing, which would be functionally equivalent once IFRS is adopted in Canada. The commenter recommends that the same options noted for acquisition statements be made explicitly available under the</p>	<p>We thank the commenter for its support.</p> <p>We disagree. Our preparation requirements should not pose problems in other foreign jurisdictions since we will require the disclosure of compliance with IFRS. For example, in the U.S., the SEC permits foreign private issuers to use IFRS if the financial statements disclose “compliance with IFRS as issued by the IASB”. The SEC does not include a preparation requirement.</p>

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	<p>principal reporting requirements so that it is clear for issuers having to report in, and/or rely on exemptions in, other jurisdictions that reporting under NI 52-107 is in compliance with IFRS and International Standards on Auditing as the CICA terminology may not be recognized.</p> <p>One commenter recommends that the CSA recognize the possibility that in the most extreme and unlikely circumstances, Canadian GAAP and IFRS might not converge.</p>	<p>The AcSB incorporated IFRS into the Handbook in full and without modification. The AcSB has stated that it will deviate from this guiding principle only if there are compelling arguments as to why a standard or interpretation would lead to inappropriate results if applied in Canada. If the AcSB were to deviate from their guiding principle we would consider the effect on our existing requirements at that time.</p>
<p>2. Accounting framework for registrants</p>	<p><u>Request to reconsider IFRS for certain domestic registrants</u></p> <p>Two commenters note that subsection 3.2(3) proposes to require that all annual financial statements delivered by registrants to the securities regulatory authority or regulator be in compliance with IFRS. Since there may be situations where a registrant will not meet the definition of “publicly accountable enterprise” as currently proposed by the AcSB (e.g., an exempt market dealer who does not hold or have access to trust funds), and would have a choice of PE GAAP or IFRS if not for the explicit requirement in the proposed instrument, the commenters believe some consideration should be given to these types of registrants.</p> <p>One commenter recommends that PE GAAP be an available option for registrants in the circumstances noted above for the following reasons:</p> <ul style="list-style-type: none"> <li>• there is no shareholder or public benefit in complying with IFRS;</li> <li>• the maintenance of GAAP is best suited for the needs of private shareholders and stakeholders; and</li> </ul>	<p>CSA Staff Notice 33-314 <i>International Financial Reporting Standards and Registrants</i>, identifies this issue and notes our conclusion that all non-SRO registrants be required to use IFRS. We considered the cost and benefit aspects of permitting both PE GAAP and IFRS for registrants that do not meet the definition of “publicly accountable enterprise”, and concluded that consistent reporting using IFRS for all registrants is appropriate.</p>

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	<ul style="list-style-type: none"> <li>• IFRS does not currently cater to private companies, with the IASB only recently publishing an exposure draft intended to address this deficiency.</li> </ul> <p><u>Accounting framework for domestic registrants</u> One commenter notes the following concerns with the proposed accounting framework for registrants in subsection 3.2(3):</p> <ul style="list-style-type: none"> <li>• the use of an “<i>IFRS except that</i>” statement is inappropriate since IAS 1.16 states that “<i>an entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs</i>”;</li> <li>• since the proposed framework will not result in an explicit and unreserved statement of compliance with IFRS, the commenter believes that the exemptions and exceptions available in IFRS 1 cannot be applied by such registrants when converting to IFRS;</li> <li>• in situations where the conditions of IAS 27.10 (use of separate financial statements) are not met, or a cash flow statement is missing when preparing interim financial information, the commenter believes the basis of presentation should be described as following regulatory requirements and then describing such requirements;</li> <li>• in situations where the registrant does not have entities to consolidate or meets all the conditions in paragraph IAS 27.10, they would be in compliance with IFRS for annual financial statements and thus, it would be inappropriate to make the disclosure required in paragraph 3.2(3)(b) as the financial statements would comply with IFRS; and</li> <li>• the required disclosure in paragraph 3.2(3)(b) as currently drafted implies presentation under a fair presentation framework, however the commenter believe that the use of the “except that” language results in a compliance</li> </ul>	<p>We acknowledge the noted concerns with the proposed accounting framework for registrants. In response to some concerns we have made the following revisions:</p> <ul style="list-style-type: none"> <li>• We agree that there are situations where a registrant may be able to state compliance with both IFRS and the financial reporting framework we prescribe. In order to facilitate our review of registrant financial statements we would like the financial statements for all registrants to clearly state that they are prepared using our prescribed basis of accounting. The requirement to make this statement is in subparagraph 3.2(3)(b)(i).</li> <li>• We have included a discussion in section 2.7 of the Policy to clarify that the optional exemptions and exceptions in IFRS 1 can be applied.</li> <li>• We have amended paragraph 3.2(3)(b) to require the financial statements to state that they are “prepared in accordance with the financial reporting framework specified in National Instrument 52-107 for financial statements delivered by registrants” and describe the financial reporting framework used.</li> </ul> <p>We do not agree with some concerns and proposed recommendations. A</p>

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	<p>framework established by regulation, and that a fair presentation framework is not achieved.</p> <p>In order to address the commenter’s concerns noted above, they recommend the following amendments in order to allow appropriate reporting under CAS 800 <i>Special Considerations – Audits of financial statements prepared in accordance with special purpose frameworks</i> following a compliance framework:</p> <ul style="list-style-type: none"> <li>• replace paragraph 3.2(3)(a) to say “<i>be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises and in the case of annual financial statements, disclose that the financial statements comply with IFRS</i>”;</li> <li>• replace paragraph 3.2(3)(b) to say “<i>when the financial statements do not comply with IFRS, be prepared 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 either at cost or in accordance with IAS 39 Financial Instruments: Recognition and Measurement</i>”;</li> <li>• add paragraph 3.2(3)(c) to say “<i>when the financial statements do not comply with IFRS, in the case of annual financial statements, disclose the financial statements were prepared in compliance with NI 52- 107 3.2(3)(b) and as such the financial statements comply with IFRS except that the investments in subsidiaries, jointly controlled entities and associates were accounted for at cost or in accordance with IAS 39 Financial Instruments: Recognition and Measurement</i>”;</li> <li>• clearly state in the Policy that a compliance framework is acceptable;</li> <li>• modify subparagraph 3.3(1)(a)(iii) such that it is clear that a registrant that does</li> </ul>	<p>response to these items is included below:</p> <ul style="list-style-type: none"> <li>• We do not agree that the use of “except that” language results in a compliance framework. We have concluded that the financial reporting frameworks required by paragraph 3.2(3)(b) and subsection 3.2(4) are fair presentation frameworks.</li> <li>• We do not agree with the suggested change to proposed paragraph 3.2(3)(a) to refer to IAS 39. We believe that the reference to the requirements for separate financial statements in IFRS, which are included in IAS 27 <i>Consolidated and Separate Financial Statements</i>, appropriately describes our expectations.</li> </ul>

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	<p>comply with IFRS can deliver a financial statement prepared in accordance with a fair presentation framework; and</p> <ul style="list-style-type: none"> <li>provide guidance indicating that the optional exemptions and exceptions in IFRS 1 can be applied despite the fact when the entity is not making an explicit and unreserved statement of compliance with IFRS in its first IFRS financial statements.</li> </ul> <p>One commenter believes that the required disclosures in paragraph 3.2(4)(b) are misleading since the disclosures imply compliance with IFRS by stating the financial statements comply with IFRS “except that” for certain matters. The commenter recommends the following:</p> <ul style="list-style-type: none"> <li>replace paragraph 3.2.(4)(b) with “<i>in the case of annual financial statements, disclose that the financial statements have been prepared in accordance with the requirements of NI 52-107 clauses 3.2(3)(a)(b)(c), as revised and applicable and 3.2(4)(a)</i>”. We believe the basis of presentation note should then fully describe the regulations that were complied with.</li> </ul> <p>Through the provisions of subsection 3.2(4), it appears the CSA are indicating acceptance of a modified opinion related to non-consolidated financial statements on an on-going basis and a one-time modification for non-comparative information for the year 2011; however, by permitting a transition date that is not consistent with IFRS 1 the financial statements would never be in compliance with IFRS and would appear therefore to require a recurring modified audit opinion, or perhaps a denial of opinion. Without further guidance it is unclear if the proposals are workable within the proposed regulatory environment or equally important, within the professional standards of auditing.</p>	<p>We have amended subsection 3.2(3) to require the financial statements to state that they are “prepared in accordance with the financial reporting framework specified in NI 52-107 for financial statements delivered by registrants”, and describe the financial reporting framework, which is Canadian GAAP applicable to publicly accountable enterprises “except that” for certain matters. We believe that the “except that” language fully describes the prescribed financial reporting framework.</p> <p>We have provided additional guidance in section 2.7 of the Policy to clarify that a registrant who chooses to use the exemption available in subsection 3.2(4) may only do so in its first reporting period it transitions to IFRS. A registrant will need to consider whether it must adjust the comparative information in order to comply with subsection 3.2(3) in its next financial year.</p>
3. Use of different	Two commenters support the provision in	We have removed subsection 3.2(6),

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<p>accounting principles for different periods</p>	<p>subsection 3.2(6), which could result in financial statements for the earliest of three years prepared using current Canadian GAAP. Reasons cited:</p> <ul style="list-style-type: none"> <li>• provides material information;</li> <li>• current Canadian GAAP financial statements are readily available;</li> <li>• current Canadian GAAP financial statements will be understood by Canadian prospective investors and financial analysts; and</li> <li>• it will be difficult for companies to prepare comparative information prior to their transition date in accordance with IFRS.</li> </ul> <p>Two commenters do not agree with the provisions in subsection 3.2(6) that would permit a particular financial year that is the earliest of three financial years to be prepared using the accounting principles in Part 4 of NI 52-107 (current Canadian GAAP) if the most recent of those financial years begins on or after January 1, 2011. Reasons cited:</p> <ul style="list-style-type: none"> <li>• if this provision resulted in a set of financial statements that included different accounting principles (i.e., two most recent years presented in accordance with IFRS and the third year back presented in accordance with current Canadian GAAP), this method of presentation would be highly confusing, the third year back would provide financial information of little value and it is not clear what type of audit opinion an auditor would be able to provide;</li> <li>• permitting information not prepared using the same accounting principles may render the information less relevant or useful than if such information was not included at all;</li> <li>• if the provision resulted in a separate set of financial statements for the third year back, in order to comply with Canadian GAAP the financial statements must include comparatives, which would mean that an issuer would effectively be including either: <ul style="list-style-type: none"> <li>• four years instead of three years</li> </ul> </li> </ul>	<p>and will not permit the presentation of a single set of financial statements in a format that contains a mixed presentation of accounting principles.</p> <p>We have also included additional discussion in section 2.8 of the Policy to clarify that an entity that chooses to present the earliest of three financial years using the accounting principles in Part 4 of NI 52-107 can satisfy the requirement by preparing separate financial statements that either:</p> <ul style="list-style-type: none"> <li>(i) present a fourth year of information as a comparative period using the accounting principles in Part 4 of NI 52-107, or</li> <li>(ii) present the second and third year of information in a separate set of financial statements using the accounting principles in Part 4 of NI 52-107.</li> </ul> <p>We do not agree with the suggestion to provide one-time relief from the requirement to provide three years of information during the Canadian transition to IFRS. We do not believe that investors should receive less historical financial information solely as a result of Canada's transition to IFRS. We also believe that the reconciliation information required in the IFRS financial statements will provide a valuable link between the two sets of financial statements.</p>

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	<p>of financial information, which creates a significant incremental disclosure and audit requirement for the additional year without any clear incremental benefit, or</p> <ul style="list-style-type: none"> <li>• if the additional year presented is 2010 Current Canadian GAAP this would result in 2010 financial information being disclosed twice, which may be confusing to investors.</li> </ul> <p>In order to address the noted concerns, the following alternatives have been suggested:</p> <ul style="list-style-type: none"> <li>• adopt a transition provision (similar to those adopted by security regulators in other jurisdictions around the world) or provide special one-time relief to Canadian entities from preparing three years of financial information in accordance with IFRS during the period of Canadian transition;</li> <li>• require three years of IFRS financial information in initial public offerings; or</li> <li>• two sets of financial statements with an overlap year and IFRS 1 reconciliations bridging the overlap year from Current Canadian GAAP to IFRS, though in some cases this may require very significant incremental work for issuers and their auditors.</li> </ul> <p>Three commenters recommend that subsection 3.2(6) be amended to prevent a single set of financial statements from being presented in a format which would contain a mixed presentation of GAAP. Reasons cited include:</p> <ul style="list-style-type: none"> <li>• such presentation may be confusing since the presentation of such amounts in columnar format would create an impression that the amounts are comparable;</li> <li>• notes to financial statements to explain the presentation would likely be confusing; and</li> <li>• a more direct approach (e.g., 2011 &amp; 2010 financial statements prepared in</li> </ul>	

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	<p>accordance with IFRS and 2010 &amp; 2009 financial statements prepared in accordance with current Canadian GAAP) would clearly differentiate the presentation and avoid the risk of investor confusion.</p> <p>Two commenters recommend that guidance be included in the Policy regarding how to apply subsection 3.2(6) in practice.</p>	
<b>D. <u>Section 3.3 Acceptable Auditing Standards – General Requirements</u></b>		
1. Audit opinion	One commenter recommends that auditors be required to express an opinion on the basis of the preparation of the financial statements, which is Canadian GAAP, in order to be consistent with the general requirements for acceptable accounting principles.	We require domestic issuers to prepare financial statements in accordance with Canadian GAAP for publicly accountable enterprises and disclose an unreserved statement of compliance with IFRS. As a result, we believe the auditor should express an opinion that refers to IFRS as the fair presentation framework. The requirements do not preclude the auditor’s report from also referring to Canadian GAAP for publicly accountable enterprises if the auditor chooses to, or is engaged to, do so.
2. Auditing standards for registrants	One commenter believes that audit reports for registrants would need to follow clause 3.3(1)(a)(iii)(A) and would refer to a fair presentation framework. The commenter does not foresee any circumstance wherein an auditor would be able to issue an opinion on registrant financial statements in accordance with IFRS as the applicable fair presentation framework (as proposed in clause 3.3(1)(a)(iii)(B)) if the registrant has not consolidated subsidiaries, jointly controlled entities and associates as considered under paragraph 3.2(3)(a), and has not provided comparative information.	We agree that an auditor would not be able to issue an opinion on registrant financial statements that refers to IFRS as the applicable fair presentation framework if the registrant has not consolidated subsidiaries, jointly controlled entities and associates and has not provided comparative information. We have amended subparagraph 3.3(1)(a)(iv) to address this comment.
<b>E. <u>Section 3.6 Credit Supporters</u></b>		
1. Presentation currency and functional currency	One commenter questions why paragraphs 3.6(1)(c) and (d), and subparagraphs 3.6(2)(a)(i) and (ii) are needed since section 3.5 already requires display of presentation currency and	We agree with the commenter that paragraphs 3.6(1)(c) and (d) are not necessary and have deleted the noted subparagraphs.

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	functional currency.	Since subparagraphs 3.6(2)(a)(i) and (ii) refer the summary financial information, and not financial statements, we continue to believe that this requirement is needed.
<b>F. <u>Section 3.7 Acceptable Accounting Principles for SEC Issuers</u></b>		
1. General comments	<p>One commenter supports the proposal to maintain the option for domestic issuers that are SEC registrants to use U.S. GAAP.</p> <p>Three commenters support the proposal to remove the requirement to reconcile from U.S. GAAP to Canadian GAAP for domestic issuers reporting under U.S. GAAP that are also SEC registrants.</p>	We thank the commenters for their support.
<b>G. <u>Section 3.9 Acceptable Accounting Principles for Foreign Issuers</u></b>		
1. Removal of “same core subject matter” concept	<p>One commenter supports the proposal to remove the exemption that currently allows foreign issuers to use accounting principles that cover substantially the same core subject matter as Canadian GAAP.</p> <p>One commenter notes that the removal of the “same core subject matter” concept may result in situations wherein an issuer that is currently permitted to prepare financial statements in accordance with U.S. GAAP would no longer be permitted to do so. For example, currently if a company is doing a joint IPO in both Canada and the U.S. and plans on using U.S. GAAP as their basis of accounting, they would be permitted to use U.S. GAAP in their Canadian IPO document filed with the CSA by relying on the existing “same core subject matter” exemption. Since such concept would no longer exist under the proposed rules, an issuer would need to seek relief to U.S. GAAP in an IPO under the proposed requirements. If the CSA decide to continue to exclude a “same core subject matter” concept, the commenter recommends that the companion policy include guidance, or a separate Q&amp;A document be created, that explains how to deal with this issue.</p>	<p>We thank the commenter for its support.</p> <p>We considered the fact that some issuers rely on the “same core subject matter” concept today, and as a result may need to change the accounting principles they are currently using. We believe this is an appropriate change. Part 5 of NI 52-107 states that an exemption may be granted from NI 52-107. We have not added additional guidance to address this issue.</p>

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<b>H. Section 3.11 Acceptable Accounting Principles for Acquisition Statements</b>		
1. General comments	One commenter notes that subsection 8.4(8) of NI 51-102 sets out a scenario where a reporting issuer may present audited financial statements for more than one related business on a combined basis. Form 41-101F1 Item 32.1 also references a requirement for combined financial statements. Since IFRS does not specifically contain guidance on the preparation of combined statements, the commenter notes that this may be a reporting matter which should be considered by the AcSB.	We have made the AcSB aware of this reporting matter.
2. Acquisition operating statements	One commenter believes that IFRS 1 cannot be applied to the preparation of acquisition operating statements if those statements do not include both a statement of financial position and cash flow statement because their exclusion would not fairly present the financial performance of the acquired oil and gas property in accordance with a financial reporting framework such as IFRS. The commenter believes that IFRS 1 is only appropriate in the first IFRS financial statements which contain an explicit and unreserved statement of compliance to IFRS, and notes that if IFRS 1 is not used then the conversion to IFRS must be done by retrospective restatement. In order to address this issue, the commenter recommends that the CSA explicitly allow certain exemptions and exceptions from IFRS 1 that are relevant to the oil and gas industry if it plans to accept a compliance framework for these statements.	To address the concern, we have added subsection 3.11(5) to NI 52-107, which sets out the financial reporting framework for an operating statement.
3. Reconciliation of accounting principles that differ from the issuer's GAAP	Two commenters do not agree with the proposed requirement in subsection 3.11(6) that " <i>if acquisition statements are prepared using accounting principles that are 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</i> ". Reasons cited: <ul style="list-style-type: none"> <li>• a reconciliation requirement to the issuer's GAAP, particularly when the issuer's GAAP is IFRS, has the potential to add substantial additional costs to</li> </ul>	We acknowledge the concerns relating to the reconciliation of acquisition statements to an issuer's GAAP. In response to these concerns we have removed the reconciliation requirement for acquisition statements prepared in accordance with Canadian GAAP for publicly accountable enterprises (which is IFRS incorporated into the Handbook), IFRS and U.S. GAAP.  We will continue to require

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	<p>acquisitions without a corresponding benefit;</p> <ul style="list-style-type: none"> <li>• the <i>pro forma</i> financial statements provide the most useful information regarding the ongoing financial position and results of operations of the combined entity, and this reconciliation would generally be much simpler than that required for the historical financial statements as a result of the “resetting” of assets and liabilities to fair value;</li> <li>• given the provisions within IFRS governing initial adoption, it is not evident how an IFRS reconciliation would be prepared or how IFRS 1 can be applied;</li> <li>• when an SEC registrant using U.S. GAAP acquires a foreign entity using IFRS, the financial statements do not have to be reconciled to U.S. GAAP, and similarly when a foreign SEC registrant using IFRS acquires an entity using U.S. GAAP, the financial statements of the acquired business do not have to be reconciled to IFRS;</li> <li>• the Alternative Investment Market of the London Stock Exchange accepts IFRS financial statements and Ireland recently introduced legislation permitting Irish public companies to use U.S. GAAP (without any reconciliation), thus if securities regulators are accepting financial statements of reporting issuers without reconciliation it should be even more appropriate to accept acquisition financial statements without reconciliation; and</li> <li>• IFRS will require disclosures in interim and annual financial statements of the combined revenue and combined profit and loss as though the acquisition date for all business combinations effected during the period had occurred at the beginning of the period for material acquisitions (IFRS 3.70 and IAS 34.16(i)).</li> </ul> <p>One commenter recommends that the</p>	<p>acquisition statements prepared in accordance with accounting principles that meet the disclosure requirements of a designated foreign jurisdiction to be reconciled to the issuer’s GAAP.</p> <p>With regards to the reconciliation requirements for PE GAAP, we refer the reader to the response provided in Section 2 <i>Specific Request for Comment</i>.</p> <p>We have also provided additional guidance on preparing reconciliations in sections 2.14 and 2.15 of the Policy.</p>

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	<p>reconciliation requirement be dropped for acquisition statements prepared in accordance with (i) IFRS, (ii) Canadian GAAP, (iii) U.S. GAAP, (iv) PE GAAP, subject to certain specified conditions, and (v) IFRS for Small and Medium-Sized, Entities, with a condition preventing the use of the exceptions in section 9.3 from presenting consolidated financial statements.</p> <p>One commenter recommends that the reconciliation requirements, or lack thereof, should be applied in the same manner in all circumstances. For example, if any of the CSA jurisdictions determine that it will permit PE GAAP acquisition statements without reconciliation to the issuer's GAAP, the commenter does not believe that a reconciliation requirement should be imposed with respect to other accounting principles.</p> <p>One commenter strongly recommends that, if the CSA decide to proceed with the reconciliation proposals in subsection 3.11(6), it clarify the basis of preparation of the reconciliation in the event that the issuer's GAAP is IFRS, including the permissibility of application of the optional and mandatory transition exceptions in IFRS 1.</p> <p>One commenter recommends that the CSA consider whether the usefulness of acquisition statements prepared in accordance with accounting principles other than the issuer's GAAP could be enhanced in a more cost-effective fashion through the inclusion of a qualitative discussion regarding the significant differences between the issuer's GAAP and the accounting principles applied in the acquisition financial statements. This disclosure would alert investors to potential differences without diverting company resources to a full reconciliation activity which may provide only marginal additional benefits.</p>	
4. Carve-out financial statements	One commenter recommends that the standard clarify whether carve-out financial statements may be prepared in accordance with IFRS. The commenter believes there are situations where IFRS can be applied (i.e., component of a large	To address the concern, we have added subsection 3.11(6) to NI 52-107, which sets out the financial reporting framework for carve-out financial statements.

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	entity organized as a separate legal entity with separate management, books and records and accounting systems from which a complete set of financial statements are prepared), however if the carve-out statements are extracted from the larger entity's records then the statements would need to be prepared in accordance with a described basis of presentation and the rule would need to be amended to address this fact.	We have also included guidance in section 2.18 of the Policy to clarify 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.
5. Other comments	One commenter recommends deleting that phrase " <i>which are IFRS incorporated in the Handbook</i> " subsection 3.11(f)(iii), because the relevant point is PE GAAP differs from accounting principles applicable to publicly accountable enterprises. As well, in future years IFRS for SMEs may exist.	We disagree. We believe it is important that the notice identify that Canadian GAAP applicable to publicly accountable enterprises is IFRS incorporated into the Handbook to avoid confusion. If we choose to permit IFRS for SMEs in the future a revision to this statement will be considered.
<b>I. Section 3.12 Acceptable Auditing Standards for Acquisition Statements</b>		
1. General comments	One commenter supports the proposal to permit International Standards on Auditing to be used on auditor's reports accompanying acquisition statements.	We thank the commenter for its support.
2. Auditing standards for acquisition operating statements	One commenter believes that it is unlikely that the "fair presentation" requirement in paragraph 3.12(2)(f) can be achieved for acquisition operating statements because generally an understanding of other elements contained within the statement of financial position may be required (i.e., to fairly present revenue, an understanding of deferred revenue may be necessary). To address this concern, the commenter recommends the following: <ul style="list-style-type: none"> <li>(i) add an additional subparagraph to 3.3(1)(a) to permit operating statements to prepared in accordance with a compliance framework;</li> <li>(ii) amend subparagraph 3.12(2)(f)(i) to state "<i>in the case of acquisition statements that are operating statements refer to the requirements of the Regulator</i>";</li> <li>(iii) require the issuer to include a basis of presentation note describing the regulation which the financial statements</li> </ul>	To address the concerns, we have amended paragraph 3.12(2)(e) of NI 52-107 to refer to subsection 3.11(5) of NI 52-107, which permits an operating statement to be prepared in accordance with the financial reporting framework described in subsection 3.11(5).

Theme	Comments	Responses
	<p>are prepared in compliance with and including a statement referring to following the requirements in IFRS for the recognition, measurement and disclosure of information; and</p> <p>(iv) provide guidance indicating that the optional exemptions and exceptions in IFRS 1 can be applied despite the fact that the entity is not making an explicit and unreserved statement of compliance with IFRS in its first IFRS financial statements.</p> <p>One commenter believes that the required statement in subparagraph 3.11(1)(f)(iii) is inappropriate for acquisition operating statements since PE GAAP does not address the creation of such statements. The commenter recommends that the financial statements indicate that they were prepared in accordance with regulatory requirements (see comment above).</p>	
<p>3. Auditing standards for carve-out financial statements</p>	<p>One commenter believes that it may not be possible for some carve-out financial statements (i.e., for a component of an entity that does not have separate management, books and records and accounting systems) to refer to a “fair presentation” framework, as required in paragraph 3.12(2)(f). To address this concern, the commenter recommends the following:</p> <p>(i) delete subparagraph 3.12(2)(f)(i) and replace with “<i>in the case of financial statements for a business division when sufficient information is available to allow separation of the component’s financial performance and results from the rest of the entity, refer to IFRS as the fair presentation framework</i>”;</p> <p>(ii) add subparagraph 3.12(2)(f)(ii) “<i>in the case of financial statements for a business division when sufficient information is not available to allow separation of the component’s financial performance and results from the rest of the entity, refer to the requirements of the Regulator as the compliance framework</i>”; and</p> <p>(iii) provide guidance indicating that the</p>	<p>To address the concerns, we have amended paragraph 3.12(2)(e) of NI 52-107 to refer to subsection 3.11(6) of NI 52-107, which permits carve-out financial statements to be prepared in accordance with the financial reporting framework described in subsection 3.11(6).</p> <p>We have also included guidance in section 2.18 of the Policy to clarify 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.</p>

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	<p>optional exemptions and exceptions in IFRS 1 can be applied despite the fact that the entity is not making an explicit and unreserved statement of compliance with IFRS in its first IFRS financial statements.</p> <p>One commenter recommends that NI 52-107 require carve-out financial statements of a business division, or when only a statement of assets acquired and liabilities assumed and a statement of operations is being audited, to disclose in the basis of presentation note the following:</p> <ul style="list-style-type: none"> <li>• what regulation that statement of financial position and statement of comprehensive income are prepared in compliance with and include a statement describing the basis of presentation;</li> <li>• that they have been prepared from the books and records maintained by the larger entity;</li> <li>• include allocations of certain material expenses and the allocation methods used; and</li> <li>• may not be indicative of the results that would have been obtained if the component had operated as an independent entity.</li> </ul>	<p>To address the comment, the financial reporting framework for preparing carve-out financial statements is now included in paragraph 3.11(6)(a) of NI 52-107.</p>
<p><b>J. Section 3.15 Acceptable Accounting Principles for Foreign Registrants</b></p>		
<p>1. General Comments</p>	<p>One commenter recommends the following amendments:</p> <ul style="list-style-type: none"> <li>• replace paragraph 3.15(a) with “<i>IFRS, except that the financial statements or interim financial information must account for investments in subsidiaries, jointly controlled entities and associates at either cost or in accordance with IAS 39 Financial Instruments: Recognition and Measurement</i>”; and</li> <li>• replace paragraph 3.15(b) with “<i>U.S. GAAP, except that the financial statements or interim financial information must account for</i></li> </ul>	<p>We do not agree. The existing reference to the requirements for separate financial statements in IFRS, which are included in IAS 27 <i>Consolidated and Separate Financial Statements</i>, appropriately describes our expectations.</p>

Theme	Comments	Responses
	<p><i>investments in subsidiaries, jointly controlled entities and associates following the cost method, equity method or in accordance with IAS 39 Financial Instruments: Recognition and Measurement”.</i></p>	
<p><b><u>K. Part 4: Rules Applying to Financial Years Beginning Before January 1, 2011</u></b></p>		
<p>1. General Comments</p>	<p>One commenter agrees with the structure, which allows issuers and registrants with non-calendar year ends to refer to current Canadian GAAP until their fiscal 2012 year.</p> <p>One commenter notes that the AcSB is now proposing that the section of the Handbook proposed to be referenced in Part 4 of NI 52-107 will be Part V (previously proposed to be Part IV).</p>	<p>We thank the commenter for its support.</p> <p>We have amended Part 4 of NI 52-107 to refer to Part V in all instances.</p>
<p><b>COMPANION POLICY</b></p>		
<p>1. Explicit reference to Canadian GAAP for publicly accountable enterprises</p>	<p>One commenter strongly supports the proposal that a reference to Canadian GAAP applicable to public accountable enterprises is optional for issuers and their auditors.</p>	<p>We thank the commenter for its support.</p>
<p>2. Auditor’s report – general purpose or specified purpose</p>	<p>One commenter recommends that the discussion in section 3.4 be expanded to clarify whether, for acquisition operating statements or carve-out statements for a business or division, CAS 805 is expected to be applied in conjunction with CAS 700 for general purpose financial statements or CAS 800 for special purpose financial statements. The commenter recommends that it be applied as though these types of acquisition statements are general purpose financial statements since they are broadly distributed through prospectuses.</p>	<p>We have removed section 3.4 of from former Companion Policy 52-107CP. The AASB provides guidance on the form and content of an auditor’s report.</p>
<p>3. Transition guidance</p>	<p>One commenter recommends additional guidance on transition provisions of adopting these new proposals, notably for the 2010 calendar year. Without additional guidance on the acceptability of PE GAAP for acquisition statements and how to apply certain CSA</p>	<p>To address the commenter’s concerns on the use of PE GAAP we have provided additional guidance in sections 2.13 to 2.15 of the Policy. We have also provided guidance on the presentation of financial statements</p>

Theme	Comments	Responses
	<p>exceptions such as the presentation for three-year financial statements in prospectuses, financial reporting during the year of transition may become more complex and time-consuming and may result in less than transparent information being released to the markets in the short-term. The commenter also notes that additional guidance for early adopters of IFRS would be helpful.</p>	<p>using different accounting principles in a prospectus in section 2.8 of the Policy.</p> <p>We have not provided any guidance for early adoption of IFRS because the effective date for NI 52-107 is January 1, 2011, and publicly accountable enterprises must comply with IFRS for their first financial year beginning on or after January 1, 2011.</p>
<b>AMENDMENTS TO NATIONAL INSTRUMENT 14-101 DEFINITIONS</b>		
1. General comments	One commenter supports the proposed amendments to NI 14-101, including the definition of IFRS.	We thank the commenter for their support. We have made minor simplifying changes to the definition in response to legal review of the definition.
<b>COMMENTS ON IFRS TERMINOLOGY CHANGES</b>		
1. IFRS terminology changes	<p><u>English terminology comments</u></p> <p>One commenter believes that in a number of instances the proposed wording changes may result in a difference in disclosure or outcome. In particular, when non-controlling interests exist, the amounts that would be disclosed under existing Canadian GAAP and under IFRS would differ. The commenter noted the following examples:</p> <ul style="list-style-type: none"> <li>• paragraph 13.4(1)(b) - “<i>income from continuing operations</i>” was replaced with “<i>profit or loss from continuing operations</i>”, which could result in different disclosures</li> <li>• paragraph 13.4(1)(c) - “<i>net earnings</i>” was replaced with “<i>profit or loss</i>”, which could result in different disclosures</li> <li>• paragraph 8.3(2)(c) - profit or loss test is impacted when non-controlling interests exist and may result in a different outcome when performing a significance test</li> </ul> <p>To address the noted concerns the commenter recommends the following:</p> <ul style="list-style-type: none"> <li>• for “<i>net earnings</i>” replace “<i>profit or</i></li> </ul>	<p>We agree with the commenter and have amended references in areas where non-controlling interests may exist to capture the same transactions and financial information as captured under current Canadian GAAP. In many of these instances we have clarified that the discussion should relate to profit and loss attributable to owners of the parent.</p>

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	<p><i>loss</i>” with “<i>profit or loss attributable to equity holders</i>” to achieve the same disclosure if this is desired;</p> <ul style="list-style-type: none"> <li>• for “<i>profit or loss from continuing operations</i>” continue with the use of the proposed language recognizing that different disclosures may result since the concept of non-controlling interest under IFRS is different that minority interest under existing Canadian GAAP;</li> <li>• for significance tests, continue use of the proposed language recognizing that different outcomes may result because this is consistent with the conceptual change that treats non-controlling interest as part of equity; and</li> <li>• the CSA should review all other replacements of terminology to determine whether they are satisfied with the appropriateness of any possible changes in disclosure or other outcome (e.g., selected annual information and summary of quarter results in Form 51-102F1, summary financial information about scoped out entities under NI 52-109, summary financial information for certain issues of guaranteed securities in Form 41-101F1 and Form 44-101F1, etc.).</li> </ul> <p><u>French terminology comments</u>  One commenter believes that the rules impose an established reporting terminology on Canadian issuers and registrants that complies with IFRSs, however IAS 1.10 states that “an entity may use titles for the statements other than those used in the Standard”. The commenter believes that the French terminology requirements with respect to financial reporting therefore appear to be more stringent than the IFRS provisions, and it could be construed that the use of IFRS terminology is mandatory, which is not so. The commenter requests that amendments be made to propose the use of IFRS terminology for the sake of uniformity, and that it not impose an established terminology.</p>	<p>We do not agree with the concerns raised and the proposed recommendations. We modified our various rules to reflect the new IFRS French terminology. However, the modifications do not mandate use of the new terminology within financial statements. The changes in terminology are meant to provide a more consistent interpretation of our rules.</p>

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<b>COMMENTS PERTAINING TO NATIONAL INSTRUMENT 41-101 GENERAL PROSPECTUS REQUIREMENTS</b>		
1. General comments	<p>One commenter notes that section 8.9 of NI 51-102 contemplates an exemption from providing comparative financial information. Although the circumstances described in this section mirror those in CICA 1751.35, there is no corresponding provision in IAS 34. IAS 34.20 explicitly requires the presentation of comparative information, so the lack of comparative financial statements will represent a departure from GAAP, thus the commenter believes that the requirements under CICA 7050.57 will result in the auditor having to provide an adverse opinion. The commenter recommends the deletion of section 8.9 because in their experience such circumstances are rare and are worthy of a regulatory review of the issuer's application for exemption. The commenter also recommends that a similar approach for prior period information that has not been prepared on a basis consistent with the most recent period (as this also creates the same reporting challenges).</p>	<p>We acknowledge that the exemption from providing comparative financial information in section 8.9 of NI 51-102 is consistent with requirements under current Canadian GAAP and that there is no corresponding provision under IAS 34 <i>Interim Financial Reporting</i>. Given that paragraph 20 of IAS 34 explicitly requires the presentation of comparative financial information, we acknowledge that this may raise reporting issues in situations where the interim financial reports are required to be reviewed by auditors. We have brought the issue to the attention of the AASB, and their Securities Regulation Advisory Group (SRAG), and we understand this issue has been discussed and resolved.</p>
2. Form 41-101F1 comments	<p><u>Financial statement disclosure requirements</u> Two commenters believe that the CSA should consider providing special one-time relief to Canadian entities to permit them to exclude the third oldest year of information, if three year's of financial information are required, rather than permitting the third oldest year to be prepared using the accounting principles in Part 4 of NI 52-107. The commenters also suggest that the CSA consider expanding the relief from providing the third oldest year to any initial public offering first time adopter of IFRS whose transition date is at the beginning of its first comparative year. The commenters note that the SEC provides relief from the inclusion of the third oldest year for foreign private issuer first time adopters of IFRS and securities regulators in other jurisdictions around the world have also eliminated certain requirements for three-year comparatives in the year of transition to IFRS. The commenters believe that a similar exemption would be very beneficial to domestic issuers to ease the burden of transition while not resulting</p>	<p>We have retained the requirement for issuers to include a statement of comprehensive income, a statement of changes in equity, and a statement of cash flows for each of the three most recently completed financial years. We believe three years of information is required for investors to understand the financial history of the issuer and perform trend analysis. We believe that the benefit to investors of having this financial information for three years exceeds any additional cost to issuers of providing this information.</p> <p>In the year of transition to IFRS, the financial information for the earliest of three years may be prepared using current Canadian GAAP. We believe that providing financial statements for the earliest of three years in a different basis of accounting than the first two</p>

Theme	Comments	Responses
	<p data-bbox="386 264 927 327">in a significant compromise of information available to investors in the financial markets.</p> <p data-bbox="386 1037 967 1266">One commenter believes that three years of audited annual financial statements should continue to be required in a long form prospectus filed during and after the changeover to IFRS. The commenter is aware that the SEC made a concession in this area, but does not believe the Canadian circumstances are comparable.</p> <p data-bbox="386 1339 935 1499">Two commenters support the provision in subsection 3.2(6) of NI 52-107, which could result in financial statements for the earliest of three years prepared using current Canadian GAAP. Reasons cited:</p> <ul data-bbox="435 1507 967 1877" style="list-style-type: none"> <li data-bbox="435 1507 846 1539">• provides material information;</li> <li data-bbox="435 1541 883 1604">• current Canadian GAAP financial statements are readily available;</li> <li data-bbox="435 1606 902 1745">• current Canadian GAAP financial statements will be understood by Canadian prospective investors and financial analysts; and</li> <li data-bbox="435 1747 967 1877">• it will be difficult for companies to prepare comparative information prior to their transition date in accordance with IFRS.</li> </ul>	<p data-bbox="995 264 1442 394">years would not be confusing to investors as investors already have an understanding of current Canadian GAAP.</p> <p data-bbox="995 436 1442 999">We acknowledge that the United States Securities and Exchange Commission (SEC) provides relief from the inclusion of financial information for the earliest of three years for foreign private issuers in the first year of reporting under IFRS. However, unlike in Canada, the SEC has not adopted requirements to incorporate IFRS as or into their own accounting standards. The scope of the accommodation provided is limited to foreign private issuers which is a small subset of the SEC's issuer base. The accommodation is not available to the SEC's domestic issuers.</p> <p data-bbox="995 1037 1370 1100">We thank the commenter for its support.</p> <p data-bbox="995 1339 1409 1402">We thank the commenters for their support.</p>

Theme	Comments	Responses
	<p><u>General comments</u>            Since reporting segment is not a defined term within NI 41-101, one commenter recommends changing the first sentence of subsection 5.1(1) to say “describe the business of the issuer and is operating segments that are reportable segments as determined by reference to the issuer’s GAAP”.</p> <p>One commenter recommends changing the final sentence of subsection 8.7 to say “In determining cash flow from operating activities, the issuer must include cash payments related to dividends and borrowing costs”. Similar changes are also recommended for in the companion policy to 41-101 in subsections 4.3(1) and 4.4(1).</p> <p>One commenter notes concern with the Item 9 – Instructions (3) (and Item 6 – instruction 3 in NI 44-101) because issuers may fail to include interest on capital lease obligations, interest on preferred shares classified as debt and capitalized interest because the commenter is not sure borrowing costs will get to same result as saying “<i>interest expense in accordance with GAAP</i>”. The commenter recommends that further guidance be provided.</p>	<p>We agree with the commenter’s suggestion and have amended the first sentence of subsection 5.1(1) of Form 41-101F1 to refer to operating segments that are reportable segments as those terms are described in the issuer’s GAAP. Similar amendments have been made to Item 1.2(a) of Form 51-102F1 and Item 5.1(1) of Form 51-102F2.</p> <p>We agree with the commenter’s suggestion and have amended the last sentence of subsection 8.7 of Form 41-101F1 to refer to cash payments related to dividends and borrowing costs. We have made similar amendments to subsection 4.3(1) of Companion Policy 41-101CP and subsection 4.4(1) of Companion Policy 44-101CP.</p> <p>Revisiting the requirements of earnings coverage disclosure is beyond the scope of this IFRS transition project. We will monitor compliance issues after the implementation of IFRS and determine at that time whether the earnings coverage disclosure requirements should be reviewed.</p>
3. Companion policy	One commenter believes that existing guidance in subsection 5.5(3) of Companion Policy 41-101CP is not sufficiently robust to explain what to do if an issuer becomes aware of errors made under previous accounting principles as part of a reconciliation process to IFRS. For example, in the case of an existing reporting issuer the commenter is concerned that the limited discussion might give the impression that merely disclosing the error in a reconciliation note, and not re-filing previously issued financial statements under previous accounting principles,	<p>We have decided to remove the following sentence from subsection 5.5(3) of Companion Policy 41-101CP: “If the issuer becomes aware of errors made under previous accounting principles, the reconciliations summarized above must distinguish the correction of those errors from changes in the accounting policies.”</p> <p>We agree with the commenter that this</p>

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	<p>is a sufficient response.</p> <p>To achieve transparency, the commenter believes if the financial statements are to be contained in, or incorporated by reference into, a prospectus those financial statements should be corrected directly in respect of material prior period errors, rather than relying on disclosure through a reconciliation note. The commenter also reminds the CSA that because of CICA 7110.52, an auditor would not be able to provide consent to the inclusion of incorporation by reference of an auditor report if such correction was not made.</p> <p>To address the concern the commenter recommends that further discussion be provided to address the following:</p> <ul style="list-style-type: none"> <li>• clarify that the requirement to distinguish the correction of errors only exists when the error is material;</li> <li>• for existing reporting issuers, if the difference in financial information is material, refer to discussion in NI 51-102 on material change reports (Part 7) and re-filing documents (section 11.5), and consider explicitly indicating that the reporting issuer is obliged to consider its disclosure obligation under these requirements</li> </ul>	<p>guidance could give the impression that by simply disclosing the error in a reconciliation note the issuer has satisfied its responsibility to comply with applicable securities legislation, policies and practices. Responsibility remains with the issuer and its advisors to assess the materiality of the error(s) to determine if disclosure in the reconciliation(s) summarized in this subsection or restatement, and in the case of reporting issuers re-filing, of prior period financial statements under previous accounting principles will meet its obligations under applicable securities legislation, policies and practices.</p>
<p><b>COMMENTS PERTAINING TO NI 51-102 <i>CONTINUOUS DISCLOSURE OBLIGATIONS</i></b></p>		
<p>1. General comments</p>	<p>One commenter notes support for (i) the one-time 30-day extension to the filing deadline for the first IFRS interim financial report in respect of an interim period beginning on or after January 1, 2011 and, (ii) the requirement to mirror the provision of IAS 7 <i>Statement of Cash Flow</i> for presentation of a statement of cash flows for only year-to-date amounts in the interim reports.</p>	<p>We thank the commenter for its support.</p>
<p>2. Business acquisition reporting</p>	<p>One commenter recommends that the CSA revisit the business acquisition requirements on a holistic basis before potentially imposing an IFRS requirement on private entities, with a view to understanding how investors use this</p>	<p>Revisiting the requirements of the business acquisition report is beyond the scope of this IFRS transition project. We will monitor compliance issues after the implementation of</p>

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	information.	IFRS and determine at that time whether the business acquisition requirements should be reviewed.
3. General drafting comments	<p>One commenter recommends that the word “<i>annual</i>” be inserted before “<i>financial statements</i>” in the definition of “disagreement” in subsection 4.11(1) of NI 51-102.</p> <p>One commenter recommends that “<i>loss</i>” be replaced with “<i>loss, adjusted to exclude discontinued operations and income taxes</i>” in subsection 8.3(7) of NI 51-102 to be consistent with the definition of acquisition test profit or loss.</p> <p>One commenter recommends that the words “<i>has been filed</i>” should follow “<i>under paragraph 9.2(6)(a)</i>” in paragraph 9.4(9)(a) of NI 51-102.</p>	<p>We agree and have amended subsection 4.11(1) of NI 51-102.</p> <p>We agree and have amended subsection 8.3(7) of NI 51-102.</p> <p>We disagree. We believe the proposed wording is technically correct.</p>
<b>COMMENTS PERTAINING TO NI 52-109 CERTIFICATION OF DISCLOSURE IN ISSUERS’ ANNUAL AND INTERIM FILINGS</b>		
1. General comments	<p>One commenter recommends that section 3.3 of NI 52-109, the certificates and sub-section 13.3(1) of Companion Policy 52-109 be amended to reflect the fact that situations could arise under IFRS where the reporting issuer may need to report a limitation on evaluation of the scope of design of internal control over financial reporting related to a consolidated subsidiary. The commenter believes that under IFRS, situations may arise where a reporting issuer is required to consolidate an entity because of consideration of the existence and effect of potential voting rights that currently are exercisable or convertible (IAS 27.14) but that reporting issuer may not have access to evaluate the effectiveness of the controls, policies and procedures carried out by the underlying entity.</p> <p>Two commenters recommend amending section 13.1 of the Companion Policy 52-109CP to substitute “<i>not accounted for by consolidation or the equity method</i>” “<i>not accounted for by consolidation, <u>proportionate consolidation</u> or the equity method</i>”.</p>	<p>We expect that in most situations access to books and records for consolidation purposes will mean an issuer has access to disclosure controls and procedures and internal control over financial reporting information for purposes of the certification. In unique situations, a reporting issuer can apply for exemptive relief.</p> <p>We agree and have amended section 13.1 of Companion Policy 52-109.</p>

