

CSA Staff Notice 52-324
Issues relating to changeover to
International Financial Reporting Standards

Purpose

The Canadian Accounting Standards Board (AcSB) has confirmed that Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011.

This notice is an update on issues related to the changeover to IFRS in Canada, including:

- use of IFRS by a domestic issuer¹ for periods beginning prior to January 1, 2011,
- requirements for interim financial statements in the year of IFRS adoption, and
- reference to IFRS and Canadian GAAP.

Exemptive relief for early adoption of IFRS

Domestic issuers may apply for exemptive relief to prepare their financial statements in accordance with IFRS as issued by the International Accounting Standards Board (IASB) for financial periods beginning before January 1, 2011.

As outlined in our June 2008 notice,² staff of the Canadian Securities Administrators (CSA staff or we) are prepared to recommend exemptive relief on a case-by-case basis. If a domestic issuer previously filed financial statements for interim periods in the first year that the issuer proposed to adopt IFRS, we will recommend as a condition of the exemptive relief that the issuer file revised interim financial statements prepared in accordance with IFRS, revised interim management discussion and analysis, and new interim certificates. Several exemption orders for early adoption of IFRS have been issued with this condition.

On March 12, 2009,³ the AcSB published “Adopting IFRSs in Canada, II”, which provides further details of the AcSB’s strategy to incorporate IFRS into the CICA Handbook – Accounting (Handbook) as Canadian GAAP. In its proposal, the AcSB has stated that it expects to incorporate IFRS into the Handbook in the second half of 2009.

In its proposal, the AcSB states that IFRS as incorporated into the Handbook are effective for publicly accountable enterprises for interim and annual financial statements relating to financial years beginning on or after January 1, 2011 (the mandatory effective date). The proposal also

¹ The term “domestic issuer” in this notice refers to a reporting issuer that is not a “foreign issuer” as defined in NI 52-107. Most domestic issuers are incorporated or organized in a Canadian jurisdiction. Depending on its circumstances, an issuer incorporated or organized in a foreign jurisdiction may not meet the definition of “foreign issuer” and would therefore be considered a “domestic issuer.”

² See CSA Staff Notice 52-321 *Early adoption of International Financial Reporting Standards, use of US GAAP and reference to IFRS-IASB* published June 27, 2008 and CSA Concept Paper 52-402 *Possible changes to securities rules relating to International Financial Reporting Standards* published February 13, 2008

³ The AcSB’s publication “Adopting IFRSs in Canada, II” is available on the AcSB’s website at <http://www.acsbcanada.org>

indicates that an entity may choose to adopt IFRS as incorporated into the Handbook before the mandatory effective date but that an entity choosing this option does not have to apply the standards to interim financial statements in the year of adoption, unless required to do so by another authoritative body.

Securities legislation refers to Canadian GAAP as applicable to public enterprises. It defines Canadian GAAP as generally accepted accounting principles determined with reference to the Handbook. Once the AcSB incorporates IFRS into the Handbook, the Handbook will contain two versions of Canadian GAAP for publicly accountable enterprises:

- IFRS (proposed “Part I” of the Handbook), and
- the standards constituting Canadian GAAP before the mandatory effective date (proposed “Part IV” of the Handbook).

Prior to the mandatory effective date, CSA staff consider the standards in proposed Part IV of the Handbook to be Canadian GAAP as applicable to public enterprises for securities legislation purposes. Therefore, a domestic issuer that wants to use IFRS for periods beginning prior to January 1, 2011 must apply for exemptive relief from the requirement to prepare its financial statements in accordance with Canadian GAAP as applicable to public enterprises. We will use the same approach to these applications as discussed above.

Issuers that are considering early adoption of IFRS should carefully assess the readiness of their staff, board of directors, audit committee, auditors, investors and other market participants to deal with the change. Issuers should also consider how early adoption would affect their obligations under securities legislation, including those relating to certifications, business acquisition reports, offering documents, and previously released material forward-looking information.

Interim financial statements in the year of IFRS adoption

We propose to require an issuer to disclose compliance with International Accounting Standard 34 *Interim Financial Reporting*⁴ in its interim financial statements. The first time a domestic issuer would have to comply with this requirement would be in its first interim financial statements in its financial year beginning on or after January 1, 2011.

We also propose to require a domestic issuer to include a balance sheet that complies with IFRS as at the issuer’s “transition date” in its first interim financial statements in the first financial year that the issuer adopts IFRS. An issuer’s transition date is the beginning of the earliest comparative period presented in the financial statements. For example, an issuer with a calendar year end will have a transition date of January 1, 2010.

We think that the transition date balance sheet will assist users of an issuer’s interim financial statements in understanding the impact of changeover to IFRS. The transition date balance sheet would be subject to the existing requirements in securities legislation relating to auditor review of interim financial statements. For example, if an auditor has not performed a review of interim financial statements required to be filed under National Instrument 51-102 *Continuous*

⁴ This standard within IFRS prescribes the contents of, and principles for recognition and measurement for, interim financial reports.

Disclosure Obligations, the statements must be accompanied by a notice indicating that fact. A transition date balance sheet presented in an issuer's annual financial statements would be subject to the external audit required for those statements.

We propose similar requirements for interim financial statements of investment funds subject to National Instrument 81-106 *Investment Fund Continuous Disclosure*.

Reference to IFRS and Canadian GAAP

In our June 2008 notice, we stated that we prefer reference to IFRS as issued by the IASB, rather than Canadian GAAP, in both financial statements and audit reports for domestic issuers. We also indicated we would continue to consider issues relating to the availability of an appropriate French translation of IFRS and reference to both IFRS and Canadian GAAP.

We have continued to discuss these issues with AcSB staff, Canadian Auditing and Assurance Standards Board staff, Canadian Public Accountability Board staff, reporting issuers, auditors, other Canadian and foreign regulators, and other stakeholders.

Based on input from stakeholders and the AcSB's proposal, we propose to allow two options for referring to accounting principles in a domestic issuer's financial statements and accompanying auditor's reports:

- refer only to IFRS in the notes to the financial statements and in the auditor's report, or
- refer to both IFRS and Canadian GAAP in the notes to the financial statements and in the auditor's report.

To implement these two options, we propose to distinguish between the basis of preparation and disclosure requirements. We propose the following requirements for domestic issuers for annual and interim financial statements relating to financial years beginning on or after January 1, 2011:

- issuers must prepare their annual and interim financial statements in accordance with Canadian GAAP for publicly accountable enterprises,
- issuers must make an explicit and unreserved statement of compliance with IFRS⁵ in the notes to their annual financial statements, and disclose compliance with International Accounting Standard 34 *Interim Financial Reporting* in their interim financial statements, and
- auditor's reports accompanying an issuer's financial statements must refer to IFRS and be in the form specified by Canadian generally accepted auditing standards for financial statements prepared in accordance with a fair presentation framework.⁶

The AcSB's proposal states that the Handbook provides IFRS in English and French. Therefore, preparers and auditors will be able to use either version to comply with the proposed requirement to prepare financial statements in accordance with Canadian GAAP for publicly accountable enterprises. The proposed requirements ensure reference to IFRS and address the continuing need for some entities to refer to Canadian GAAP to satisfy existing contractual obligations,

⁵ We propose to define IFRS in securities legislation as IFRS as issued by the IASB.

⁶ The term "fair presentation framework" is described in proposed Canadian Auditing Standard 700 - "Forming an Opinion and Reporting on Financial Statements."

other federal, provincial and territorial laws, regulatory rules and other statutory or regulatory requirements.

We propose a similar approach for reference to accounting principles by investment funds subject to National Instrument 81-106 *Investment Fund Continuous Disclosure*.

Relief from using the same accounting principles for all periods

We propose to provide relief from the existing requirement in securities legislation for financial statements to be prepared in accordance with the same accounting principles for all periods presented in the financial statements.⁷

If the periods for the financial information straddle a domestic issuer's adoption of IFRS, the proposed relief would allow the domestic issuer to present financial information in certain offering and continuous disclosure documents in accordance with Canadian GAAP alongside financial information prepared in accordance with IFRS.

Meeting filing deadlines

We are aware of the challenges domestic issuers will face to meet the filing deadline for their first interim financial statements beginning on or after January 1, 2011. We are exploring ways to assist issuers with these challenges, including extending the filing deadline for a domestic issuer's first interim filings for a period beginning on or after January 1, 2011.

Next steps

We expect to publish for comment details of our proposals discussed in this notice later this year.

⁷ See section 3.1 of National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*.

Questions

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