CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

CSA NOTICE OF

NATIONAL INSTRUMENT 52-107
ACCEPTABLE ACCOUNTING PRINCIPLES AND AUDITING STANDARDS

AMENDMENTS TO NATIONAL INSTRUMENT 14-101 *DEFINITIONS*

AND

OTHER RELATED AMENDMENTS TO RULES, COMPANION POLICIES AND OTHER INSTRUMENTS

Introduction

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

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

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

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

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

Contents of this Notice

The Notice consists of the following 6 sections:

1. Background
2. Substance and Purpose of the Instrument
3. Summary of Changes from the Proposed Materials

4. Other Amendments
5. Summary of Comments and CSA Responses
6. Questions

The Notice also contains the following Appendices:

- Appendix A *List of Commenters*
- Appendix B *Summary of Comments and CSA Responses*
- Appendix C *Summary of Changes in Final Materials*
- Appendix D *The Instrument*
- Appendix E *The Policy*
- Appendix F *Amendments to NI 14-101*
- Appendix G *IFRS-Related Amendments to Rules*
- Appendix H *IFRS-Related Amendments to Policies*
- Appendix I *Adoption Procedures*
- Appendix J containing local material where applicable

1. Background

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

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

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

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

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

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

2. Substance and Purpose of the Instrument

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

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

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

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

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

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

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

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

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

3. Summary of Changes from the Proposed Materials

a) Acquisition statements

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

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

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

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

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

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

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

b) Use of different accounting principles for different periods

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

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

c) Financial reporting framework

i) Registrants

We have modified the description of the accounting framework used to prepare a registrant's financial statements and interim financial information. Generally, the required framework is Canadian GAAP applicable to publicly accountable enterprises except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27. Separate financial statements are sometimes referred to as non-consolidated financial statements. A registrant's annual financial statements must describe the financial reporting framework used. We have also explained in the Policy that the exceptions and exemptions included as Appendices in IFRS 1 *First-time Adoption of International*

Financial Reporting Standards (IFRS 1) would be relevant for determining the opening statement of financial position at the date of transition.

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

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

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

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

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

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

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

regulation, as defined in Part V of the Handbook and that is permitted under Canadian GAAP to apply Part V of the Handbook.

4. Other Amendments

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

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

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

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

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

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

6. Questions
Please refer your questions to any of:

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APPENDIX A
List of Commenters

Company	Name of commenter/commenters
ACM Advisors Ltd	Marco Faccone
Canadian Advocacy Council	Robert F. Morgan and Ross E. Hallett
Canadian Public Accountability Board	Brian Hunt
Connacher Oil and Gas Limited	Richard R. Kines
Deloitte & Touche LLP	J. Andrew Cook
Ernst & Young LLP	Douglas Cameron and Guy Jones
Financial Executives International Canada	Victor Wells
Grant Thornton LLP and Raymond Chabot Thornton	Jeremy Jagt and Gilles Henley
KPMG LLP	Alan Van Weelden and Laura Moschitto
Ontario Bar Association	Carole J. Brown and Christopher Garrah
Ordre des comptables agréés du Québec	Marc Giard
PricewaterhouseCoopers LLP	Robert J. Muter
Stikeman Elliott LLP	Simon A. Romano and Ramandeep K. Grewal
TMX Group Inc.	Ungad Chadda and John McCoach
TransCanada Corporation	Glenn Menuz
Vaillancourt Lavigne & Associé LLP	Michel Lavigne

APPENDIX B
Summary of Comments and CSA Responses

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

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J. Section 3.15 Acceptable Accounting Principles for Foreign Registrants
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K. Part 4: Rules Applying to Financial Years Beginning Before January 1, 2011
1. General comments

Companion Policy 52-107CP
1. Explicit reference to Canadian GAAP for publicly accountable enterprises
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Amendments to National Instrument 14-101 *Definitions*
1. General comments

Comments on IFRS terminology changes
1. IFRS terminology changes

Comments Pertaining to National Instrument 41-101 *General Prospectus Requirements*
1. General comments
2. Form 41-101F1 comments
3. Companion policy 41-101CP

Comments Pertaining to NI 51-102 *Continuous Disclosure Obligations*
1. General comments
2. Business acquisition reporting
3. General drafting comments

Comments Pertaining to NI 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*
1. General comments

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
GENERAL COMMENTS		
A. <u>General Comments</u>		
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.
SPECIFIC REQUEST FOR COMMENT		
B. <u>Specific Request for Comment</u>		
1. Request for harmonized approach to securities regulation	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: • an unharmonized approach is contrary to efforts to create a comprehensive national continuous disclosure regime and to harmonize and streamline securities law in Canada; • a uniform set of rules is simpler to understand, more cost effective to apply; • an unharmonized approach produces an uneven playing field and will result in unnecessary complexity for private entities looking to be acquired by public companies; • capital markets generally benefit from a harmonized approach; • an inconsistent approach by CSA members may weaken Canada's reputation internationally. 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	We thank the commenters and acknowledge their request for a harmonized approach on acceptable accounting principles for acquisition financial statements. 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. 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

Theme	Comments	Responses
	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	must prepare *pro forma* financial statements using principles consistent with the issuer's GAAP We developed different requirements for venture and non-venture issuers after considering the costs to prepare reconciliations and the information needs of investors and their advisors. We believe the requirements appropriately respond to cost – benefit considerations for venture and non-venture issuers. We acknowledge that 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.
2. Permitting acquisition statements prepared in accordance with PE GAAP, with specified conditions (PE GAAP Proposal)	<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: • cost to convert financial statements of acquired business would outweigh the benefits to investors to make investment decisions; • any additional costs borne by the acquiree or auditor to effect conversion will ultimately be borne by shareholders; • PE GAAP was developed based on current Canadian GAAP and will provide sufficiently comprehensive financial information for making investment decisions; • the relatively low significance test	Please see the response to Item #1 above.

Theme	Comments	Responses
	thresholds of 20% (40% for venture issuers) for acquisition statements do not justify requirements more onerous than those proposed by jurisdictions other than Ontario; • 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; • 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; • the acquiree may need to engage outside consultants to facilitate a conversion from PE GAAP to IFRS; • 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; • 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; • 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; • if PE GAAP is not permitted that may act as a deterrent for merger and acquisition activity for certain issuers;	

Theme	Comments	Responses
	• 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 • 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. 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. Four commenters had concerns about the length of time needed to convert acquisition statements into IFRS: • 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; • 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; • 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. Three commenters believe that acquisition statements prepared in accordance with PE GAAP with specified conditions, in conjunction with the other *pro forma* information required in	

Theme	Comments	Responses
	the business acquisition report, will provide sufficient information, or the most useful information, to investors. Reasons cited include: • *pro forma* 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); • *pro forma* financial information will include reconciliation of the significant financial information within the acquisition statements to the appropriate figures using acquirer's accounting principles; • *pro forma* 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; • 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 • one commenter's understanding is that both the United Kingdom and South Africa have requirements similar to this proposal that will only require *pro forma* financial statements to be prepared in accordance with IFRS. One commenter believes that the presentation of the IFRS *pro forma* 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	

Theme	Comments	Responses
	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. Comments on the specified conditions proposed One commenter notes agreement with the proposed conditions that must be applied when preparing acquisition statements in accordance with PE GAAP. 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. 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 *pro forma* financial statements. Comments that do not support the PE GAAP Proposal Four commenters do not agree with the proposal. Reasons cited include: • the proposal does not support the securities commissions' primary objective of investor protection; • the proposal is inconsistent with the current requirements of having to present acquisition statements prepared in accordance with accounting standards applicable for public companies; • not convinced that the burden on issuers to restate previously issued results outweighs the reduction in related benefit to the investor; • investor interests are best served by full	

Theme	Comments	Responses
	disclosure, with auditor assurance, rather than an approach which addresses some, but not all, of the potentially material considerations; • PE GAAP was not developed for general use in the capital markets; • 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; • 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; • 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; • 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); • 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; • 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;	

Theme	Comments	Responses
	• the proposal does not provide audited information for the development of the *pro forma* financial statements; • *pro forma* 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; • presentation of measurement differences uniquely in *pro forma* financial statements will be difficult to understand and would compromise the quality of information otherwise required to be presented to market participants; • may result in a lack of comparability between the results and financial position of the issuer and acquiree in the financial statements; • 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; • does not provide relevant and transparent information to users; • 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; • proposal applies a lower audit standard	

Theme	Comments	Responses
	than now exists under Canadian GAAP and is merely a deferral of the cost and effort to convert to IFRS; • 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 • 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. 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. Other considerations 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.	

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	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. 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.	
3. Not permitting acquisition statements prepared in accordance with PE GAAP (IFRS Proposal)	* *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.* <u>Comments supporting the IFRS Proposal</u> Two commenters support the IFRS Proposal. 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: • recent period is likely to contain the most relevant information; and • lessen the burden on issuers. <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 "*Comments supporting*	Please see the response to Item #1 above.

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	the PE GAAP Proposal" section. <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. 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.	
4. Other options for acquisition statements that meet needs of investors to make investment decisions	<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. 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. <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: • addresses concerns related to cost and time by not requiring preparation of financial statements that are fully compliant with Canadian GAAP	Please see the response to Item #1 above.

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	applicable to publicly accountable enterprises; • provides sufficient audited information to investors to understand material GAAP differences; • audited reconciliation provides important audited information for the development of *pro forma* financial statements; • consistent with the rules for acquisition statements prepared using another set of acceptable accounting standards; • provides important comparable information to the issuer's IFRS financial statements; and • enhanced usefulness will exceed incremental efforts and cost to prepare a reconciliation note. 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. 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. 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: • not significantly less than cost and time to prepare and present IFRS financial statements; and • 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	

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	investor with respect to historical financial statements presented. One commenter believes that, although *pro forma* information reconciled back to the issuer's GAAP may provide certain relevant information to users, *pro forma* 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. 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 *pro forma* information.	
5. Considerations if a reconciliation is permitted	* *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* 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	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.
	If guidance on form and content of a reconciliation is provided, one commenter recommends that it address the following: • which statements require reconciliation and the preferred format for presentation;	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

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	• which periods require reconciliation and what is the transition date; • whether IFRS note disclosures are required; • which, if any, exemptions and exceptions to IFRS 1 may be applied when the basis of presentation is in accordance with regulations; and • explicit disclosure that the basis of presentation is not IFRS when there is less than full compliance with IFRS.	guidance for each of the remaining items noted in the comment.
	If the form and content of the reconciliation is prescribed by securities regulators, one commenter suggests the following • reporting under a fair presentation framework is possible provided the basis of presentation of the reconciliation note is sufficiently clear; • 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 • 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.	We provide the following response to the comment: • 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. • 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. • 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.
	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: • recent period is likely to contain the most relevant information; and • lessen the burden on issuers.	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.

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	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.	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.
	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 > 50% significant), type of issuers (i.e., venture issuers vs. non-venture issuers), or some other predetermined threshold.	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.
	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.	We have not included the requested guidance. The AASB provides guidance on the form and content of an auditor's report.

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INSTRUMENT COMMENTS		
C. <u>Section 3.2 Acceptable Accounting Principles – General Requirements</u>		
1. Financial statement preparation and disclosure requirements	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: • 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; • 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; • only in the extreme and most unlikely circumstances would the AcSB contemplate any requirement in conflict with IFRS; and • 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.	We thank the commenter for its support.
	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	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.

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	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. One commenter recommends that the CSA recognize the possibility that in the most extreme and unlikely circumstances, Canadian GAAP and IFRS might not converge.	 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.
2. Accounting framework for registrants	<u>Request to reconsider IFRS for certain domestic registrants</u> 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. One commenter recommends that PE GAAP be an available option for registrants in the circumstances noted above for the following reasons: • there is no shareholder or public benefit in complying with IFRS; • the maintenance of GAAP is best suited for the needs of private shareholders and stakeholders; and	CSA Staff Notice 33-314 *International Financial Reporting Standards and Registrants*, 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.

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	• IFRS does not currently cater to private companies, with the IASB only recently publishing an exposure draft intended to address this deficiency. <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): • the use of an "*IFRS except that*" statement is inappropriate since IAS 1.16 states that "*an entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs*"; • 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; • 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; • 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 • 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	 We acknowledge the noted concerns with the proposed accounting framework for registrants. In response to some concerns we have made the following revisions: • 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). • 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. • 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. We do not agree with some concerns and proposed recommendations. A

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	framework established by regulation, and that a fair presentation framework is not achieved. In order to address the commenter's concerns noted above, they recommend the following amendments in order to allow appropriate reporting under CAS 800 *Special Considerations – Audits of financial statements prepared in accordance with special purpose frameworks* following a compliance framework: • replace paragraph 3.2(3)(a) to say "*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*"; • replace paragraph 3.2(3)(b) to say "*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*"; • add paragraph 3.2(3)(c) to say "*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*"; • clearly state in the Policy that a compliance framework is acceptable; • modify subparagraph 3.3(1)(a)(iii) such that it is clear that a registrant that does	response to these items is included below: • 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. • 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 *Consolidated and Separate Financial Statements*, appropriately describes our expectations.

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	comply with IFRS can deliver a financial statement prepared in accordance with a fair presentation framework; and • 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. 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: • replace paragraph 3.2.(4)(b) with "*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)*". We believe the basis of presentation note should then fully describe the regulations that were complied with. 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.	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. 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.
3. Use of different	Two commenters support the provision in	We have removed subsection 3.2(6),

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accounting principles for different periods	subsection 3.2(6), which could result in financial statements for the earliest of three years prepared using current Canadian GAAP. Reasons cited: • provides material information; • current Canadian GAAP financial statements are readily available; • current Canadian GAAP financial statements will be understood by Canadian prospective investors and financial analysts; and • it will be difficult for companies to prepare comparative information prior to their transition date in accordance with IFRS. 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: • 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; • 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; • 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: • four years instead of three years	and will not permit the presentation of a single set of financial statements in a format that contains a mixed presentation of accounting principles. 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: (i) present a fourth year of information as a comparative period using the accounting principles in Part 4 of NI 52-107, or (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. 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.

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	of financial information, which creates a significant incremental disclosure and audit requirement for the additional year without any clear incremental benefit, or • 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. In order to address the noted concerns, the following alternatives have been suggested: • 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; • require three years of IFRS financial information in initial public offerings; or • 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. 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: • such presentation may be confusing since the presentation of such amounts in columnar format would create an impression that the amounts are comparable; • notes to financial statements to explain the presentation would likely be confusing; and • a more direct approach (e.g., 2011 & 2010 financial statements prepared in	

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	accordance with IFRS and 2010 & 2009 financial statements prepared in accordance with current Canadian GAAP) would clearly differentiate the presentation and avoid the risk of investor confusion. Two commenters recommend that guidance be included in the Policy regarding how to apply subsection 3.2(6) in practice.	
D. <u>Section 3.3 Acceptable Auditing Standards – General Requirements</u>		
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.
E. <u>Section 3.6 Credit Supporters</u>		
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.
F. Section 3.7 Acceptable Accounting Principles for SEC Issuers		
1. General comments	One commenter supports the proposal to maintain the option for domestic issuers that are SEC registrants to use U.S. GAAP. 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.	We thank the commenters for their support.
G. Section 3.9 Acceptable Accounting Principles for Foreign Issuers		
1. Removal of “same core subject matter” concept	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. 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&A document be created, that explains how to deal with this issue.	We thank the commenter for its support. 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.

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H. <u>Section 3.11 Acceptable Accounting Principles for Acquisition Statements</u>		
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 "*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*". Reasons cited: • 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	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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	acquisitions without a corresponding benefit; • the *pro forma* 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; • 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; • 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; • 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 • 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)). One commenter recommends that the	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. With regards to the reconciliation requirements for PE GAAP, we refer the reader to the response provided in Section 2 *Specific Request for Comment*. We have also provided additional guidance on preparing reconciliations in sections 2.14 and 2.15 of the Policy.

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	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. 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. 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. 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.	
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 "*which are IFRS incorporated in the Handbook*" 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.
I. <u>Section 3.12 Acceptable Auditing Standards for Acquisition Statements</u>		
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: (i) add an additional subparagraph to 3.3(1)(a) to permit operating statements to prepared in accordance with a compliance framework; (ii) amend subparagraph 3.12(2)(f)(i) to state "*in the case of acquisition statements that are operating statements refer to the requirements of the Regulator*"; (iii) require the issuer to include a basis of presentation note describing the regulation which the financial statements	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).

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	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 (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. 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).	
3. Auditing standards for carve-out financial statements	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: (i) delete subparagraph 3.12(2)(f)(i) and replace with "*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*"; (ii) add subparagraph 3.12(2)(f)(ii) "*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*"; and (iii) provide guidance indicating that the	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). 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.

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	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.	
	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: • 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; • that they have been prepared from the books and records maintained by the larger entity; • include allocations of certain material expenses and the allocation methods used; and • may not be indicative of the results that would have been obtained if the component had operated as an independent entity.	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.
J. <u>Section 3.15 Acceptable Accounting Principles for Foreign Registrants</u>		
1. General Comments	One commenter recommends the following amendments: • replace paragraph 3.15(a) with "*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*"; and • replace paragraph 3.15(b) with "*U.S. GAAP, except that the financial statements or interim financial information must account for*	We do not agree. The existing reference to the requirements for separate financial statements in IFRS, which are included in IAS 27 *Consolidated and Separate Financial Statements*, appropriately describes our expectations.

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	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".	
K. **<u>Part 4: Rules Applying to Financial Years Beginning Before January 1, 2011</u>**		
1. General Comments	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. 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).	We thank the commenter for its support. We have amended Part 4 of NI 52-107 to refer to Part V in all instances.
COMPANION POLICY		
1. Explicit reference to Canadian GAAP for publicly accountable enterprises	One commenter strongly supports the proposal that a reference to Canadian GAAP applicable to public accountable enterprises is optional for issuers and their auditors.	We thank the commenter for its support.
2. Auditor's report – general purpose or specified purpose	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.	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.
3. Transition guidance	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	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

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	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.	using different accounting principles in a prospectus in section 2.8 of the Policy. 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.
AMENDMENTS TO NATIONAL INSTRUMENT 14-101 *DEFINITIONS*		
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.
COMMENTS ON IFRS TERMINOLOGY CHANGES		
1. IFRS terminology changes	English terminology comments 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: • paragraph 13.4(1)(b) - "*income from continuing operations*" was replaced with "*profit or loss from continuing operations*", which could result in different disclosures • paragraph 13.4(1)(c) - "*net earnings*" was replaced with "*profit or loss*", which could result in different disclosures • 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 To address the noted concerns the commenter recommends the following: • for "*net earnings*" replace "*profit or*	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.

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	loss” with “*profit or loss attributable to equity holders*” to achieve the same disclosure if this is desired; • for “*profit or loss from continuing operations*” 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; • 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 • 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.).	
	<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.	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.

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COMMENTS PERTAINING TO NATIONAL INSTRUMENT 41-101 ***GENERAL PROSPECTUS REQUIREMENTS***		
1. General comments	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).	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 *Interim Financial Reporting*. 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.
2. Form 41-101F1 comments	<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	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. 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

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	in a significant compromise of information available to investors in the financial markets.	years would not be confusing to investors as investors already have an understanding of current Canadian GAAP. 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.
	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.	We thank the commenter for its support.
	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: • provides material information; • current Canadian GAAP financial statements are readily available; • current Canadian GAAP financial statements will be understood by Canadian prospective investors and financial analysts; and • it will be difficult for companies to prepare comparative information prior to their transition date in accordance with IFRS.	We thank the commenters for their support.

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	<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".	We agree with the commenter's suggestion and have amended the first sentence of subsection 5.1(1) of Form 41-101F1to 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.
	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).	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.
	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 "*interest expense in accordance with GAAP*". The commenter recommends that further guidance be provided.	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.
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,	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." We agree with the commenter that this

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	is a sufficient response. 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. To address the concern the commenter recommends that further discussion be provided to address the following: • clarify that the requirement to distinguish the correction of errors only exists when the error is material; • 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	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 refiling, of prior period financial statements under previous accounting principles will meet its obligations under applicable securities legislation, policies and practices.
COMMENTS PERTAINING TO NI 51-102 *CONTINUOUS DISCLOSURE OBLIGATIONS*		
1. General comments	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 *Statement of Cash Flow* for presentation of a statement of cash flows for only year-to-date amounts in the interim reports.	We thank the commenter for its support.
2. Business acquisition reporting	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	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

Theme	Comments	Responses
	information.	IFRS and determine at that time whether the business acquisition requirements should be reviewed.
3. General drafting comments	One commenter recommends that the word "*annual*" be inserted before "*financial statements*" in the definition of "disagreement" in subsection 4.11(1) of NI 51-102. One commenter recommends that "*loss*" be replaced with "*loss, adjusted to exclude discontinued operations and income taxes*" in subsection 8.3(7) of NI 51-102 to be consistent with the definition of acquisition test profit or loss. One commenter recommends that the words "*has been filed*" should follow "*under paragraph 9.2(6)(a)*" in paragraph 9.4(9)(a) of NI 51-102.	We agree and have amended subsection 4.11(1) of NI 51-102. We agree and have amended subsection 8.3(7) of NI 51-102. We disagree. We believe the proposed wording is technically correct.
COMMENTS PERTAINING TO NI 52-109 *CERTIFICATION OF DISCLOSURE IN ISSUERS' ANNUAL AND INTERIM FILINGS*		
1. General comments	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. Two commenters recommend amending section 13.1 of the Companion Policy 52-109CP to substitute "*not accounted for by consolidation or the equity method*" "*not accounted for by consolidation, <u>proportionate consolidation</u> or the equity method*".	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. We agree and have amended section 13.1 of Companion Policy 52-109.

APPENDIX C
Summary of Changes in Final Materials

A. TERMINOLOGY CHANGES

Accounting Terms or Phrases

We replaced the following terms and phrases used in the rules with comparable terms or phrases used in IFRS or International Standards on Auditing.

Original Term or Phrase	IFRS Term or Phrase
Measurement Currency	Functional Currency
Reporting Currency	Presentation Currency
Does not contain a reservation	Expresses an unmodified opinion
Balance sheet	Statement of financial position
Canadian GAAP as applicable to public enterprises	Canadian GAAP applicable to publicly accountable enterprises (post changeover to IFRS)
Canadian GAAP as applicable to public enterprises	Canadian GAAP – Part V (pre-changeover accounting standards)
Net income	Profit or loss
Cash flow statement	Statement of cash flows
Interim financial statements	Interim financial report
Operating results	Financial performance
Former auditor	Predecessor auditor

Other Changes to Accounting and Auditing References

Term	Explanation of Change
Public enterprise	Definition in Current NI 52-107 of "public enterprise" included in Part 4 of the Instrument.
Publicly accountable enterprise	"Publicly accountable enterprise" definition inserted in Part 3 of the Instrument.
Private enterprise	"Private enterprise" definition inserted in Part 3 of the Instrument.
Canadian auditor's report	Removed "Canadian auditor's report" from NI 14-101.
U.S. AICPA GAAS and U.S. PCAOB GAAS	U.S. GAAS differentiated between auditing standards of the American Institute of Certified Public Accountants (for non-SEC registrants) and U.S. PCAOB GAAS which are auditing standards of the Public Company Accounting Oversight Board (United States) for SEC registrants. The words "as amended from time to time" added to ensure the definitions apply on a dynamic basis.

Term	**Explanation of Change**
IFRS	Definition of IFRS inserted into NI 14-101 as follows: "IFRS" means the standards and interpretations adopted by the International Accounting Standards Board, as amended from time to time;
International Standards on Auditing	Definition of International Standards on Auditing inserted into NI 14-101 as follows: "International Standards on Auditing" means auditing standards set by the International Auditing and Assurance Standards Board, as amended from time to time.
Financial statements	"Financial statements" inserted into definitions in Part 1 of the Instrument and includes interim financial reports (IFRS reference) to be consistent with NI 51-102.
Annual financial statements, interim financial reports, and *pro forma* financial statements	Instrument revised to be applicable to all financial statements (includes annual and interims) and *pro forma* financial statements.

B. OTHER CHANGES

Explanation of Change
Identification of accounting principles – Removed the requirement to identify accounting principles used to prepare financial statements. The following requirements created: o Issuers must make an unreserved statement of compliance with IFRS in the notes to the annual financial statements and an unreserved statement of compliance with IAS 34 in its interim financial report. o Auditors' reports must be in the form specified by Canadian GAAS for financial statements prepared in accordance with a fair presentation framework and refer to IFRS.
Same core subject matter – Foreign issuers currently are permitted to use accounting principles that cover substantially the "same core subject matter as Canadian GAAP". Removed "same core subject matter" exemptions.
Identification of auditing standards – Audit reports on financial statements audited in accordance with U.S. AICPA GAAS, U.S. PCAOB GAAS and International Standards on Auditing must identify the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements.

Explanation of Change
Applicability to registrants – Subsection 3.2(3) and (4) of the Instrument added so that financial statements filed pursuant to NI 31-103 must be prepared in accordance Canadian GAAP applicable to publicly accountable enterprises except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27. For financial statements, registrants must include a statement disclosing the framework and a description of the framework.
Presentation currency – Must be prominently displayed in the financial statements – previously was required to be disclosed on the face page of the financial statements or notes unless prepared in accordance with Canadian GAAP and the reporting currency is the Canadian dollar. IFRS requires disclosure.
Predecessor auditor's reports – If an issuer or registrant has changed its auditor and that comparative period(s) is audited by a predecessor auditor, must provide the predecessor auditor's report on the comparative periods. Alternatively, except in the case of a prospectus or take-over bid circular, the new auditor's report may refer to the predecessor auditor's report on the comparative periods.
Acceptable Accounting Principles for SEC Issuers –Eliminated reconciliation from U.S. GAAP to Canadian GAAP for an SEC issuer reporting in accordance with U.S. GAAP who has previously filed financial statements prepared in accordance with Canadian GAAP.
Acquisition statements: o Permitted GAAPs are Canadian GAAP applicable to publicly accountable enterprises, IFRS, U.S. GAAP, SEC accounting principles for foreign private issuers, Canadian GAAP applicable to private enterprises (which is accounting standards for private enterprises in Part II of the Handbook) with specified conditions, and designated foreign issuer accounting principles. o Canadian GAAP applicable to private enterprises is permitted if - the acquisition statements consolidate any subsidiaries and account for significantly influenced investees and joint ventures using the equity method, - financial statements for the business were not previously prepared using the other accounting principles permitted for acquisition statements, - the acquisition statements are accompanied by a notice - identifying the accounting principles used, - stating that Canadian GAAP applicable to private enterprises differ from Canadian GAAP applicable to publicly accountable enterprise, - indicating that the *pro forma* financial statements include adjustments relating to the business and present *pro forma* information prepared using accounting policies that are consistent with the issuer's GAAP, and - in the case of an issuer that is not a venture issuer and is not an IPO venture issuer, accompanied by a reconciliation to the issuer's GAAP and a description of material differences between the issuer's GAAP and the

Explanation of Change
accounting principles used, as well as material inputs or assumptions. o Added requirements related to the financial reporting frameworks for acquisition statements that are an operating statement for an oil and gas property that is an acquired business or a business to be acquired, and for carve-out financial statements. o Removed the option to prepare acquisition statements using accounting principles that cover substantially the "same core subject matter as Canadian GAAP".
Acceptable Accounting Principles for SEC Issuers –Subsection 4.7(2) applies if an SEC issuer changes from Canadian GAAP to U.S. GAAP in 2010. Reconciliation for a one-year period required in this case.
Pro forma financial statements – Clarified that generally the accounting policies used to prepare *pro forma* financial statements must be consistent with the issuer's GAAP. If the accounting principles used to prepare an issuer's most recent annual financial statements differ from the accounting principles used to prepare the issuer's most recent interim financial report, the *pro forma* financial statements may be prepared using the accounting policies that are consistent with those used to prepare the interim financial report.
Option for early transition to IFRS – Issuers and registrants provided option to transition to IFRS for a financial year that begins before January 1, 2011 if the immediately preceding financial year ends no earlier than December 21, 2010.
Option to delay transition to IFRS for qualifying entities – Where permitted by Canadian GAAP to apply Part V of the Handbook, those entities which have activities subject to rate regulation (as defined in Part V of the Handbook) provided with the option of delaying their transition to IFRS for up to one year.

C. HOUSEKEEPING CHANGES

Explanation of Change
“Alternative credit support” inserted into the definitions related to credit support in NI 52-107. The credit support section does not currently refer both to the possibility that either the subsidiary entity or the parent can be a guarantor and the requirement that the appropriate entity submit financial statements. This section is revised to reflect current practices.
“Accounting principles” definition revised from “mean a body of accounting principles that are generally accepted…” to “mean a body of principles relating to accounting that are generally accepted….”. This is required to avoid the circularity of using “accounting principles” to define the same expression.
“Acquisition statements” definition expanded to make reference to all the rules where they are required.
“Inter-dealer bond broker” definition reference to “Investment Dealers Association” revised to “Investment Industry Regulatory Organization of Canada”.
“U.S. GAAP” definition revised to remove reference to repealed Regulation S-B under the 1934 Act and added “as amended from time to time” to apply the definition on a dynamic basis.
References to “owned, directly or indirect” replace by references to “beneficially owned” in light of existing statutory measures piercing the corporate veil and the ambiguity as to the meaning of “indirect”.
In subparagraph 3.9(1)(c)(ii) and 4.9(c)(ii) of the Instrument, the words “of the issuer” have been added for greater clarity. They were missing from subparagraph 5.1(c)(ii) of Current NI 52-107.
In accordance with new CSA drafting guidelines, full names of referenced rules are used in the Instrument rather than defined acronyms.

APPENDIX D
The Instrument

TABLE OF CONTENTS

National Instrument 52-107
Acceptable Accounting Principles and Auditing Standards

PART 1: DEFINITIONS AND INTERPRETATION

1.1 Definitions — In this Instrument:

"accounting principles" means a body of principles relating to accounting that are generally accepted in a jurisdiction of Canada or a foreign jurisdiction and includes, without limitation, IFRS, Canadian GAAP and U.S. GAAP;

"acquisition statements" means financial statements of an acquired business or a business to be acquired, or an operating statement for an oil and gas property that is an acquired business or a business to be acquired, that are

(a) required to be filed under National Instrument 51-102 *Continuous Disclosure Obligations*,

(b) included in a prospectus pursuant to Item 35 of Form 41-101F1 *Information Required in a Prospectus*,

(c) required to be included in a prospectus under National Instrument 44-101 *Short Form Prospectus Distributions*, or

(d) except in Ontario, included in an offering memorandum required under National Instrument 45-106 *Prospectus and Registration Exemptions*;

"auditing standards" means a body of standards relating to auditing that are generally accepted in a jurisdiction of Canada or a foreign jurisdiction and includes, without limitation, Canadian GAAS, International Standards on Auditing, U.S. AICPA GAAS and U.S. PCAOB GAAS;

"business acquisition report" means a completed Form 51-102F4 *Business Acquisition Report*;

"convertible security" means a security of an issuer that is convertible into, or carries the right of the holder to acquire, or of the issuer to cause the acquisition of, a security of the same issuer;

"credit support issuer" means an issuer of securities for which a credit supporter has provided a guarantee or alternative credit support;

"credit supporter" means a person or company that provides a guarantee or alternative credit support for any of the payments to be made by an issuer of securities as stipulated in the terms of the securities or in an agreement governing rights of, or granting rights to, holders of the securities;

“designated foreign issuer” means a foreign issuer

(a) that does not have a class of securities registered under section 12 of the 1934 Act and is not required to file reports under section 15(d) of the 1934 Act,

(b) that is subject to foreign disclosure requirements in a designated foreign jurisdiction, and

(c) for which the total number of equity securities beneficially owned by residents of Canada does not exceed 10%, on a fully-diluted basis, of the total number of equity securities of the issuer, calculated in accordance with sections 1.2 and 1.3;

“designated foreign jurisdiction” means Australia, France, Germany, Hong Kong, Italy, Japan, Mexico, the Netherlands, New Zealand, Singapore, South Africa, Spain, Sweden, Switzerland or the United Kingdom of Great Britain and Northern Ireland;

“exchangeable security” means a security of an issuer that is exchangeable for, or carries the right of the holder to acquire, or of the issuer to cause the acquisition of, a security of another issuer;

“exchange-traded security” means a security that is listed on a recognized exchange or is quoted on a recognized quotation and trade reporting system or is listed on an exchange or quoted on a quotation and trade reporting system that is recognized for the purposes of National Instrument 21-101 *Marketplace Operation* and National Instrument 23-101 *Trading Rules*;

“executive officer” means, for an issuer, an individual who is

(a) a chair, vice-chair or president;

(b) a vice-president in charge of a principal business unit, division or function including sales, finance or production; or

(c) performing a policy-making function in respect of the issuer;

“financial statements” includes interim financial reports;

“foreign disclosure requirements” means the requirements to which a foreign issuer is subject concerning disclosure made to the public, to securityholders of the issuer or to a foreign regulatory authority

(a) relating to the foreign issuer and the trading in its securities, and

(b) that is made publicly available in the foreign jurisdiction under

(i) the securities laws of the foreign jurisdiction in which the principal trading market of the foreign issuer is located, or

(ii) the rules of the marketplace that is the principal trading market of the foreign issuer;

"foreign issuer" means an issuer that is incorporated or organized under the laws of a foreign jurisdiction, unless

(a) outstanding voting securities of the issuer carrying more than 50% of the votes for the election of directors are beneficially owned by residents of Canada, and

(b) any of the following apply:

(i) the majority of the executive officers or directors of the issuer are residents of Canada;

(ii) more than 50% of the consolidated assets of the issuer are located in Canada; or

(iii) the business of the issuer is administered principally in Canada;

"foreign registrant" means a registrant that is incorporated or organized under the laws of a foreign jurisdiction, unless

(a) outstanding voting securities of the registrant carrying more than 50% of the votes for the election of directors are beneficially owned by residents of Canada, and

(b) any of the following apply:

(i) the majority of the executive officers or directors of the registrant are residents of Canada;

(ii) more than 50% of the consolidated assets of the registrant are located in Canada; or

(iii) the business of the registrant is administered principally in Canada;

"foreign regulatory authority" means a securities commission, exchange or other securities market regulatory authority in a designated foreign jurisdiction;

"IAS 27" means International Accounting Standard 27 *Consolidated and Separate Financial Statements*, as amended from time to time;

"IAS 34" means International Accounting Standard 34 *Interim Financial Reporting*, as amended from time to time;

"inter-dealer bond broker" means a person or company that is approved by the Investment Industry Regulatory Organization of Canada under its Rule No. 36 *Inter-Dealer Bond Brokerage Systems*, as amended, and is subject to its Rule No. 36 and its Rule 2100 *Inter-Dealer Bond Brokerage Systems*, as amended from time to time;

"IPO venture issuer" has the same meaning as in section 1.1 of National Instrument 41-101 *General Prospectus Requirements*;

"issuer's GAAP" means the accounting principles used to prepare an issuer's financial statements, as permitted by this Instrument;

"marketplace" means

(a) an exchange,

(b) a quotation and trade reporting system,

(c) a person or company not included in paragraph (a) or (b) that

(i) constitutes, maintains or provides a market or facility for bringing together buyers and sellers of securities,

(ii) brings together the orders for securities of multiple buyers and sellers, and

(iii) uses established, non-discretionary methods under which the orders interact with each other, and the buyers and sellers entering the orders agree to the terms of a trade, or

(d) a dealer that executes a trade of an exchange-traded security outside of a marketplace,

but does not include an inter-dealer bond broker;

"multiple convertible security" means a security of an issuer that is convertible into, or exchangeable for, or carries the right of the holder to acquire, or of the issuer to cause the acquisition of, a convertible security, an exchangeable security or another multiple convertible security;

"principal trading market" means the published market on which the largest trading volume in the equity securities of the issuer occurred during the issuer's most recently completed financial year that ended before the date the determination is being made;

"published market" means, for a class of securities, a marketplace on which the securities have traded that discloses, regularly in a publication of general and regular paid circulation or in a form that is broadly distributed by electronic means, the prices at which those securities have traded;

"recognized exchange" means

(a) in Ontario, an exchange recognized by the securities regulatory authority to carry on business as a stock exchange,

(b) in Québec, a person or company authorized by the securities regulatory authority to carry on business as an exchange, and

(c) in every other jurisdiction of Canada, an exchange recognized by the securities regulatory authority as an exchange, self-regulatory organization or self-regulatory body;

"recognized quotation and trade reporting system" means

(a) in every jurisdiction of Canada other than British Columbia, a quotation and trade reporting system recognized by the securities regulatory authority under securities legislation to carry on business as a quotation and trade reporting system, and

(b) in British Columbia, a quotation and trade reporting system recognized by the securities regulatory authority under securities legislation as a quotation and trade reporting system or as an exchange;

"SEC issuer" means an issuer that

(a) has a class of securities registered under section 12 of the 1934 Act or is required to file reports under section 15(d) of the 1934 Act, and

(b) is not registered or required to be registered as an investment company under the *Investment Company Act of 1940* of the United States of America, as amended from time to time;

"SEC foreign issuer" means a foreign issuer that is also an SEC issuer;

"underlying security" means a security issued or transferred, or to be issued or transferred, in accordance with the terms of a convertible security, an exchangeable security or a multiple convertible security;

"U.S. GAAP" means generally accepted accounting principles in the United States of America that the SEC has identified as having substantial authoritative support, as supplemented by Regulation S-X under the 1934 Act, as amended from time to time;

"U.S. AICPA GAAS" means auditing standards of the American Institute of Certified Public Accountants, as amended from time to time;

"U.S. PCAOB GAAS" means auditing standards of the Public Company Accounting Oversight Board (United States of America), as amended from time to time;

"venture issuer",

(a) in the case of acquisition statements required by National Instrument 51-102 *Continuous Disclosure Obligations*, has the same meaning as in subsection 1.1(1) of that Instrument, and

(b) in the case of acquisition statements referred to in paragraph (b), (c) or (d) of the definition of "acquisition statements", has the same meaning as in section 1.1 of National Instrument 41-101 *General Prospectus Requirements*.

1.2 Determination of Canadian Shareholders for Calculation of Designated Foreign Issuer and Foreign Issuer —

(1) For the purposes of paragraph (c) of the definition of "designated foreign issuer" in section 1.1 and for the purposes of paragraphs 3.9(1)(c) and 4.9(c), a reference to equity securities beneficially owned by residents of Canada includes

(a) any underlying securities that are equity securities of the foreign issuer, and

(b) the equity securities of the foreign issuer represented by an American depositary receipt or an American depositary share issued by a depositary holding equity securities of the foreign issuer.

(2) For the purposes of paragraph (a) of the definition of "foreign issuer" in section 1.1, securities represented by American depositary receipts or American depositary shares issued by a depositary holding voting securities of the foreign issuer must be included as outstanding in

determining both the number of votes attached to securities beneficially owned by residents of Canada and the number of votes attached to all of the issuer's outstanding voting securities.

1.3 Timing for Calculation of Designated Foreign Issuer, Foreign Issuer and Foreign Registrant — For the purposes of paragraph (c) of the definition of "designated foreign issuer" in section 1.1, paragraph (a) of the definition of "foreign issuer" in section 1.1, and paragraph (a) of the definition of "foreign registrant" in section 1.1, the calculation is made

(a) if the issuer has not completed one financial year, on the earlier of

(i) the date that is 90 days before the date of its prospectus, and

(ii) the date that it became a reporting issuer; and

(b) for all other issuers and for registrants, on the first day of the most recent financial year or interim period for which financial performance is presented in the financial statements or interim financial information filed or delivered or included in a prospectus.

1.4 Interpretation —

(1) For the purposes of this Instrument, a reference to "prospectus" includes a preliminary prospectus, a prospectus, an amendment to a preliminary prospectus and an amendment to a prospectus.

(2) For the purposes of this Instrument, a reference to information being "included in" another document means information reproduced in the document or incorporated into the document by reference.

PART 2: APPLICATION

2.1 Application —

(1) This Instrument does not apply to investment funds.

(2) This Instrument applies to

(a) all financial statements and interim financial information delivered by registrants to the securities regulatory authority or regulator under National Instrument 31-103 *Registration Requirements and Exemptions*,

(b) all financial statements filed, or included in a document that is filed, by an issuer under National Instrument 51-102 *Continuous Disclosure Obligations* or National Instrument 71-102 *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*,

(c) all financial statements included in

(i) a prospectus, a take-over bid circular or any other document that is filed by or in connection with an issuer, or

(ii) except in Ontario, an offering memorandum required to be delivered by an issuer under National Instrument 45-106 *Prospectus and Registration Exemptions*,

(d) any operating statement for an oil and gas property that is an acquired business or a business to be acquired, that is

(i) filed by an issuer under National Instrument 51-102 *Continuous Disclosure Obligations*,

(ii) included in a prospectus, take-over bid circular or any other document that is filed by or in connection with an issuer, or

(iii) except in Ontario, included in an offering memorandum required to be delivered by an issuer under National Instrument 45-106 *Prospectus and Registration Exemptions*,

(e) any other financial statements filed, or included in a document that is filed, by a reporting issuer,

(f) summary financial information for a credit supporter or credit support issuer that is

(i) filed under National Instrument 51-102 *Continuous Disclosure Obligations*,

(ii) included in a prospectus, take-over bid circular or any other document that is filed by or in connection with an issuer, or

(iii) except in Ontario, included in an offering memorandum required to be delivered by an issuer under National Instrument 45-106 *Prospectus and Registration Exemptions*,

(g) summarized financial information of an acquired business or business to be acquired that is, or will be, an investment accounted for by the issuer using the equity method, that is

(i) filed by an issuer under National Instrument 51-102 *Continuous Disclosure Obligations*,

(ii) included in a prospectus, take-over bid circular or any other document that is filed by or in connection with an issuer, or

(iii) except in Ontario, included in an offering memorandum required to be delivered by an issuer under National Instrument 45-106 *Prospectus and Registration Exemptions*, and

(h) *pro forma* financial statements

(i) filed, or included in a document that is filed, by an issuer under National Instrument 51-102 *Continuous Disclosure Obligations* or National Instrument 71-102 *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*,

(ii) included in a prospectus, take-over bid circular or any other document that is filed by or in connection with an issuer, or

(iii) otherwise filed, or included in a document that is filed, by a reporting issuer.

PART 3:
RULES APPLYING TO FINANCIAL YEARS BEGINNING ON OR AFTER JANUARY 1, 2011

3.1 Definitions and Application —

(1) In this Part:

"publicly accountable enterprise" means a publicly accountable enterprise as defined in the Handbook;

"private enterprise" means a private enterprise as defined in the Handbook.

(2) This Part applies to financial statements, financial information, operating statements and *pro forma* financial statements for periods relating to financial years beginning on or after January 1, 2011.

3.2 Acceptable Accounting Principles – General Requirements —

(1) Financial statements referred to in paragraphs 2.1(2)(b), (c) and (e), other than acquisition statements, must

(a) be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises, and

(b) disclose

(i) in the case of annual financial statements, an unreserved statement of compliance with IFRS, and

(ii) in the case of an interim financial report, an unreserved statement of compliance with IAS 34.

(2) Despite subsection (1), in the case of an interim financial report that is not required under securities legislation to provide comparative interim financial information,

(a) the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and explanatory notes must be prepared in accordance with IAS 34 other than the requirement in IAS 34 to include comparative financial information; and

(b) the interim financial report must disclose that

(i) it does not comply with IAS 34 because it does not include comparative interim financial information, and

(ii) the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and explanatory notes have been prepared in accordance with IAS 34 other than the requirement in IAS 34 to include comparative financial information.

(3) Financial statements and interim financial information referred to in paragraph 2.1(2)(a) must

(a) be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises, except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27, and

(b) in the case of annual financial statements,

(i) include the following statement:

> These financial statements are prepared in accordance with the financial reporting framework specified in [*insert* "paragraph 3.2(3)(a) ", "subsection 3.2(4)" *or* "section 3.15" *as applicable*] of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants.

and

(ii) describe the financial reporting framework used to prepare the financial statements.

(4) Despite paragraph (3)(a), financial statements and interim financial information referred to in paragraph 2.1(2)(a) for periods relating to a financial year beginning in 2011 may be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises, except that

(a) any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27,

(b) comparative information relating to the preceding financial year must be excluded, and

(c) the first day of the financial year to which the financial statements or interim financial information relates must be used as the date of transition to the financial reporting framework.

(5) Financial statements must be prepared in accordance with the same accounting principles for all periods presented in the financial statements.

(6) Financial information referred to in paragraphs 2.1(2)(f) and (g) must

(a) present the line items for summary financial information or summarized financial information required by National Instrument 45-106 *Prospectus and Registration Exemptions* or National

Instrument 51-102 *Continuous Disclosure Obligations*, as the case may be, and

(b) in the case of summarized financial information of an acquired business or business to be acquired that is, or will be, an investment accounted for by the issuer using the equity method,

(i) be prepared using accounting policies that

(A) are permitted by one of Canadian GAAP applicable to publicly accountable enterprises, IFRS, U.S. GAAP or Canadian GAAP applicable to private enterprises, and

(B) would apply to the information if the information were presented as part of a complete set of financial statements,

(ii) include the following statement:

> This information is prepared in accordance with the financial reporting framework specified in subsection 3.2(6) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for summarized financial information of a business accounted for using the equity method.

and

(iii) describe the accounting policies used to prepare the information.

3.3 Acceptable Auditing Standards – General Requirements —

(1) Financial statements, other than acquisition statements, that are required by securities legislation to be audited must

(a) be audited in accordance with Canadian GAAS and be accompanied by an auditor's report that

(i) expresses an unmodified opinion,

(ii) identifies all financial periods presented for which the auditor has issued an auditor's report,

(iii) is in the form specified by Canadian GAAS for an audit of financial statements prepared in accordance with a fair presentation framework, and

(iv) refers to IFRS as the applicable fair presentation framework if the financial statements are prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises, and

(b) if the issuer or registrant has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by a predecessor auditor, be accompanied by the predecessor auditor's reports on the comparative periods.

(2) Paragraph (1)(b) does not apply to financial statements referred to in paragraphs 2.1(2)(a) and (b) if the auditor's report described in paragraph (1)(a) refers to the predecessor auditor's reports on the comparative periods.

3.4 Acceptable Auditors — An auditor's report filed by an issuer or delivered by a registrant must be prepared and signed by a person or company that is authorized to sign an auditor's report under the laws of a jurisdiction of Canada or a foreign jurisdiction, and that meets the professional standards of that jurisdiction.

3.5 Presentation and Functional Currencies —

(1) The presentation currency must be prominently displayed in financial statements.

(2) Financial statements must disclose the functional currency if it is different than the presentation currency.

3.6 Credit Supporters —

(1) Unless subsection 3.2(1) applies, if a credit support issuer files, or includes in a prospectus, financial statements of a credit supporter, the credit supporter's financial statements must

(a) be prepared in accordance with the accounting principles and audited in accordance with the auditing standards that would apply under this Instrument if the credit supporter were to file financial statements referred to in paragraph 2.1(2)(b), and

(b) identify the accounting principles used to prepare the financial statements.

(2) If a credit support issuer files, or includes in a prospectus, summary financial information for the credit supporter or credit support issuer,

(a) the summary financial information must, in addition to satisfying other requirements in this Instrument

(i) prominently display the presentation currency, and

(ii) disclose the functional currency if it is different from the presentation currency, and

(b) the amounts presented in the summary financial information must be derived from financial statements of the credit supporter or credit support issuer that, if required by securities legislation to be audited, are audited in accordance with the auditing standards that would apply under this Instrument if the credit supporter or credit support issuer, as the case may be, were to file financial statements referred to in paragraph 2.1(2)(b).

3.7 Acceptable Accounting Principles for SEC Issuers —

(1) Despite subsection 3.2(1), an SEC issuer's financial statements referred to in paragraphs 2.1(2)(b), (c) and (e) and financial information referred to in paragraphs 2.1(2)(f) and (g) that are filed with or delivered to a securities regulatory authority or regulator, other than acquisition statements, may be prepared in accordance with U.S. GAAP.

(2) The notes to the financial statements referred to in subsection (1) must identify the accounting principles used to prepare the financial statements.

3.8 Acceptable Auditing Standards for SEC Issuers —

(1) Despite subsection 3.3(1), an SEC issuer's financial statements referred to in paragraphs 2.1(2)(b), (c) and (e) and financial information referred to in paragraphs 2.1(2)(f) and (g) that are filed with or delivered to a securities regulatory authority or regulator, other than acquisition statements, and that are required by securities legislation to be audited, may be audited in accordance with U.S. PCAOB GAAS if the financial statements are accompanied by

(a) an auditor's report prepared in accordance with U.S. PCAOB GAAS that

(i) expresses an unqualified opinion,

(ii) identifies all financial periods presented for which the auditor has issued an auditor's report, and

(iii) identifies the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements, and

(b) the predecessor auditor's reports on the comparative periods, if the issuer has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by the predecessor auditor.

(2) Paragraph (1)(b) does not apply to financial statements referred to in paragraph 2.1(2)(b) if the auditor's report described in paragraph (1)(a) refers to the predecessor auditor's reports on the comparative periods.

3.9 Acceptable Accounting Principles for Foreign Issuers —

(1) Despite subsection 3.2(1), a foreign issuer's financial statements referred to in paragraphs 2.1(2)(b), (c) and (e) that are filed with or delivered to a securities regulatory authority or regulator, other than acquisition statements, may be prepared in accordance with

(a) IFRS,

(b) U.S. GAAP, if the issuer is an SEC foreign issuer,

(c) accounting principles that meet the disclosure requirements for foreign private issuers, as that term is defined for the purposes of the 1934 Act, if

(i) the issuer is an SEC foreign issuer,

(ii) on the last day of the most recently completed financial year the total number of equity securities of the issuer beneficially owned by residents of Canada does not exceed 10%, on a fully-diluted basis, of the total number of equity securities of the issuer, and

(iii) the financial statements include any reconciliation to U.S. GAAP required by the SEC, or

(d) accounting principles that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer is subject, if the issuer is a designated foreign issuer.

(2) The notes to the financial statements must identify the accounting

principles used to prepare the financial statements.

3.10 Acceptable Auditing Standards for Foreign Issuers —

(1) Despite subsection 3.3(1), a foreign issuer's financial statements referred to in paragraphs 2.1(2)(b), (c) and (e) that are filed with or delivered to a securities regulatory authority or regulator, other than acquisition statements, that are required by securities legislation to be audited may be audited in accordance with

(a) International Standards on Auditing if the financial statements are accompanied by

(i) an auditor's report that

(A) expresses an unmodified opinion,

(B) identifies all financial periods presented for which the auditor has issued the auditor's report,

(C) identifies the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements, and

(D) is prepared in accordance with the same auditing standards used to conduct the audit, and

(ii) the predecessor auditor's reports on the comparative periods, if the issuer has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by the predecessor auditor,

(b) U.S. PCAOB GAAS if the financial statements are accompanied by

(i) an auditor's report that

(A) expresses an unqualified opinion,

(B) identifies all financial periods presented for which the auditor has issued the auditor's report,

(C) identifies the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements, and

(D) is prepared in accordance with the same auditing standards used to conduct the audit, and

(ii) the predecessor auditor's reports on the comparative periods, if the issuer has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by the predecessor auditor, or

(c) auditing standards that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer is subject if

(i) the issuer is a designated foreign issuer,

(ii) the financial statements are accompanied by an auditor's report prepared in accordance with the same auditing standards used to conduct the audit, and

(iii) the auditor's report identifies the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements.

(2) Subparagraph (1)(a)(ii) or (b)(ii) does not apply to financial statements referred to in paragraph 2.1(2)(b) if the auditor's report described in subparagraph (1)(a)(i) or (b)(i), as the case may be, refers to the predecessor auditor's reports on the comparative periods.

3.11 Acceptable Accounting Principles for Acquisition Statements —

(1) Acquisition statements must be prepared in accordance with one of the following accounting principles:

(a) Canadian GAAP applicable to publicly accountable enterprises;

(b) IFRS;

(c) U.S. GAAP;

(d) accounting principles that meet the disclosure requirements for foreign private issuers, as that term is defined for the purposes of the 1934 Act, if

(i) the issuer or the acquired business or business to be acquired is an SEC foreign issuer,

(ii) on the last day of the most recently completed financial year the total number of equity securities of the SEC foreign issuer beneficially owned by residents of Canada does not exceed 10%, on a fully-diluted basis, of the total number of equity securities of the SEC foreign issuer, and

(iii) the financial statements include any reconciliation to U.S. GAAP required by the SEC;

(e) accounting principles that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer or the acquired business or business to be acquired is subject, if

(i) the issuer or business is a designated foreign issuer, and

(ii) in the case where the issuer's GAAP differs from the accounting principles used to prepare the acquisition statements, for the most recently completed financial year and interim period presented, the notes to the acquisition statements:

(A) describe the material differences between the issuer's GAAP and the accounting principles used to prepare the acquisition statements that relate to recognition, measurement and presentation, and

(B) quantify the effect of each difference referred to in clause (A) and include a tabular reconciliation between profit or loss reported in the acquisition statements and profit or loss computed in accordance with the issuer's GAAP;

(f) Canadian GAAP applicable to private enterprises if

(i) the acquisition statements consolidate any subsidiaries and account for significantly influenced investees and joint ventures using the equity method,

(ii) financial statements for the acquired business or business to be acquired were not previously prepared in accordance with one of the accounting principles specified in paragraphs (a) to (e) for the periods presented in the acquisition statements,

(iii) the acquisition statements are accompanied by a notice stating:

These financial statements are prepared in accordance with Canadian GAAP applicable to private enterprises, which are Canadian accounting standards for private enterprises in Part II of the Handbook.

The recognition, measurement and disclosure requirements of Canadian GAAP applicable to private enterprises differ from those of Canadian GAAP applicable to publicly accountable enterprises, which are International Financial Reporting Standards incorporated into the Handbook.

The *pro forma* financial statements included in the document include adjustments relating to the [*insert* "acquired business" *or* "business to be acquired" *as applicable*] and present *pro forma* information prepared using principles that are consistent with the accounting principles used by the issuer.

and

(iv) in the case of acquisition statements included in a document filed by an issuer that is not a venture issuer, and is not an IPO venture issuer, for all financial years and the most recently completed interim period presented, the notes to the acquisition statements

(A) describe the material differences between the issuer's GAAP and the accounting principles used to prepare the acquisition statements that relate to recognition, measurement and presentation,

(B) quantify the effect of each difference referred to in clause (A), and include a tabular reconciliation between profit or loss reported in the acquisition statements and profit or loss computed in accordance with the issuer's GAAP, and

(C) for each difference referred to in clause (A) that relates to measurement, disclose and discuss the material inputs or assumptions underlying the measurement of the relevant amount computed in accordance with the issuer's GAAP, consistent with the disclosure requirements of the issuer's GAAP.

(2) Acquisition statements must be prepared in accordance with the same accounting principles for all periods presented.

(3) Acquisition statements to which paragraph (1)(a) applies must disclose

(a) in the case of annual financial statements, an unreserved statement of compliance with IFRS, and

(b) in the case of interim financial reports, an unreserved statement of compliance with IAS 34.

(4) Unless paragraph (1)(a) applies, the notes to the acquisition statements must identify the accounting principles used to prepare the acquisition statements.

(5) Despite subsections (1), (2) and (4), if acquisition statements are an operating statement for an oil and gas property that is an acquired business or business to be acquired

(a) the operating statement must include at least the following line items:

(i) gross revenue;

(ii) royalty expenses;

(iii) production costs;

(iv) operating income;

(b) the line items in the operating statement must be prepared using accounting policies that

(i) are permitted by one of Canadian GAAP applicable to publicly accountable enterprises, IFRS, U.S. GAAP or Canadian GAAP applicable to private enterprises, and

(ii) would apply to those line items if those line items were presented as part of a complete set of financial statements, and

(c) the operating statement must

(i) include the following statement:

This operating statement is prepared in accordance with the financial reporting framework specified in subsection 3.11(5) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for an operating statement.

and

(ii) describe the accounting policies used to prepare the operating statement.

(6) Despite subsections (1), (2) and (4), if the acquisition statements are based on information from the financial records of another entity whose operations included the acquired business or the business to be acquired and there are no separate financial records for the acquired business or the business to be acquired,

(a) the acquisition statements must be prepared in accordance with one of Canadian GAAP applicable to publicly accountable enterprises, IFRS, U.S. GAAP or Canadian GAAP applicable to private enterprises and, in addition, must include

(i) all assets and liabilities directly attributable to the acquired business or business to be acquired,

(ii) all revenue and expenses directly attributable to the acquired business or business to be acquired,

(iii) if there are expenses for the acquired business or business to be acquired that are common expenses shared with the other entity, a portion of those expenses allocated on a reasonable basis to the acquired business or business to be acquired, and

(iv) income and capital taxes calculated as if the entity had been a separate legal entity and had filed a separate tax return for the period presented,

(b) the acquisition statements must include the following statement:

The financial statements are prepared in accordance with a financial reporting framework specified in subsection 3.11(6) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for carve-out financial statements.

(c) the acquisition statements must describe the financial reporting framework used to prepare the acquisition statements, including the method of allocation for each significant line item, and

(d) in the case of acquisition statements prepared in accordance with Canadian GAAP applicable to private enterprises

(i) the acquisition statements must consolidate any subsidiaries and account for significantly influenced investees and joint ventures using the equity method,

(ii) the acquisition statements must be accompanied by a notice stating:

> These financial statements are prepared in accordance with Canadian GAAP applicable to private enterprises, which are Canadian accounting standards for private enterprises in Part II of the Handbook.
>
> The recognition, measurement and disclosure requirements of Canadian GAAP applicable to private enterprises differ from those of Canadian GAAP applicable to publicly accountable enterprises, which are International Financial Reporting Standards incorporated into the Handbook.
>
> The *pro forma* financial statements included in the document include adjustments relating to the [*insert* "acquired business" *or* "business to be acquired" *as applicable*] and present *pro forma* information prepared using principles that are consistent with the accounting principles used by the issuer.

and

(iii) in the case of acquisition statements included in a document filed by an issuer that is not a venture issuer, and is not an IPO venture issuer, for all financial years and the most recently completed interim period presented, the notes to the acquisition statements must

(A) describe the material differences between the issuer's GAAP and the accounting principles used to prepare the acquisition statements that relate to recognition, measurement and presentation,

(B) quantify the effect of each difference referred to in clause (A), and include a tabular reconciliation between profit or loss reported in the acquisition statements and profit or loss computed in accordance with the issuer's GAAP, and

(C) for each difference referred to in clause (A) that relates to measurement, disclose and discuss the material inputs or assumptions underlying the measurement of the relevant amount computed in accordance with the issuer's GAAP, consistent with the disclosure requirements of the issuer's GAAP.

3.12 Acceptable Auditing Standards for Acquisition Statements —

(1) Acquisition statements that are required by securities legislation to be audited must be accompanied by an auditor's report and audited in accordance with one of the following auditing standards:

(a) Canadian GAAS;

(b) International Standards on Auditing;

(c) U.S. PCAOB GAAS;

(d) U.S. AICPA GAAS, if the acquired business or business to be acquired is not an SEC issuer;

(e) auditing standards that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer is subject, if the issuer is a designated foreign issuer.

(2) The auditor's report must,

(a) if paragraph (1)(a) or (b) applies, express an unmodified opinion,

(b) if paragraph (1)(c) or (d) applies, express an unqualified opinion,

(c) unless paragraph (1)(e) applies, identify all financial periods presented for which the auditor's report applies,

(d) identify the auditing standards used to conduct the audit,

(e) identify the accounting principles used or, if subsection 3.11(5) or (6) applies, the financial reporting framework used, to prepare the acquisition statements, unless the auditor's report accompanies acquisition statements prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises and audited in accordance with Canadian GAAS, and

(f) if paragraph (1) (a) or (b) applies and subsection 3.11(5) does not,

(i) be in the form specified by the standards referred to in paragraph (1)(a) or (b), as applicable, for an audit of financial statements prepared in accordance with a fair presentation framework, and

(ii) refer to IFRS as the applicable fair presentation framework if the financial statements are prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises.

(3) Despite paragraphs (2)(a) and (b), an auditor's report that accompanies acquisition statements may express a qualification of opinion relating to inventory if

(a) the issuer includes in the business acquisition report, prospectus or other document containing the acquisition statements, a statement of financial position for the acquired business or business to be acquired that is for a date that is subsequent to the date to which the qualification relates, and

(b) the statement of financial position referred to in paragraph (a) is accompanied by an auditor's report that does not express a qualification of opinion relating to closing inventory.

3.13 Financial Information for Acquisitions Accounted for by the Issuer Using the Equity Method —

(1) If an issuer files, or includes in a prospectus, summarized financial information of an acquired business or business to be acquired that is, or will be, an investment accounted for by the issuer using the equity method, the financial information must

(a) meet the requirements in subsections 3.11(1), (2) and (4) if the term "acquisition statements" in those subsections is read as "summarized financial information", and

(b) disclose the presentation currency for the financial information, and disclose the functional currency if it is different than the presentation currency.

(2) If the financial information referred to in subsection (1) is required by securities legislation to be audited or derived from audited financial statements, the financial information must

(a) either

(i) meet the requirements in section 3.12 if the term "acquisition statements" in that section is read as "summarized financial information", or

(ii) be derived from financial statements that meet the requirements in section 3.12 if the term "acquisition statements" in that section is read as "financial statements from which is derived summarized financial information", and

(b) be audited, or derived from financial statements that are audited, by a person or company that is authorized to sign an auditor's report under the laws of a jurisdiction of Canada or a foreign jurisdiction, and that meets the professional standards of that jurisdiction.

3.14 Acceptable Accounting Policies for *Pro Forma* Financial Statements —

(1) An issuer's *pro forma* financial statements must be prepared using accounting policies that

(a) are permitted by the issuer's GAAP, and

(b) would apply to the information presented in the *pro forma* financial statements if that information were included in the issuer's financial statements for the same period as that of the *pro forma* financial statements.

(2) Despite subsection (1), if an issuer's financial statements include, or are accompanied by, a reconciliation to U.S. GAAP, the issuer's *pro forma* financial statements for the same period as the issuer's financial statements may be prepared using accounting policies that

(a) are permitted by U.S. GAAP, and

(b) would apply to the information presented in the *pro forma* financial statements if that information were included in the reconciliation.

(3) Despite subsection (1), if the accounting principles used to prepare an issuer's most recent annual financial statements differ from the accounting principles used to prepare the issuer's interim financial report for a subsequent period, the issuer may prepare a *pro forma* income statement for the same period as that of its most recent annual financial statements using accounting policies that

(a) are permitted by the accounting principles that were used to prepare the issuer's interim financial report, and

(b) would apply to the information presented in the *pro forma* income statement if that information were included in the issuer's interim financial report.

3.15 Acceptable Accounting Principles for Foreign Registrants — Despite paragraph 3.2 (3)(a), financial statements and interim financial information delivered by a foreign registrant may be prepared in accordance with

(a) IFRS, except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27,

(b) U.S. GAAP, except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27, or

(c) accounting principles that meet the disclosure requirements of a foreign regulatory authority to which the registrant is subject, if it is a foreign registrant incorporated or organized under the laws of that designated foreign jurisdiction.

3.16 Acceptable Auditing Standards for Foreign Registrants —

(1) Despite subsection 3.3(1), financial statements referred to in paragraph 2.1(2)(a) that are delivered by a foreign registrant and required by securities legislation to be audited may be audited in accordance with

(a) International Standards on Auditing if the financial statements are accompanied by

(i) an auditor's report that

(A) expresses an unmodified opinion,

(B) identifies all financial periods presented for which the auditor has issued the auditor's report,

(C) identifies the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements, and

(D) is prepared in accordance with the same auditing standards used to conduct the audit, and

(ii) the predecessor auditor's reports on the comparative periods, if the foreign registrant has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by the predecessor auditor,

(b) U.S. PCAOB GAAS or U.S. AICPA GAAS if the financial statements are accompanied by

(i) an auditor's report that

(A) expresses an unqualified opinion,

(B) identifies all financial periods presented for which the auditor has issued the auditor's report,

(C) identifies the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements, and

(D) is prepared in accordance with the same auditing standards used to conduct the audit, and

(ii) the predecessor auditor's reports on the comparative periods, if the foreign registrant has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by the predecessor auditor, or

(c) auditing standards that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the registrant is subject if

(i) it is a foreign registrant incorporated or organized under the laws of that designated foreign jurisdiction,

(ii) the financial statements are accompanied by an auditor's report prepared in accordance with the same auditing standards used to conduct the audit, and

(iii) the auditor's report identifies the accounting principles used to prepare the financial statements.

(2) Subparagraph (1)(a)(ii) or (b)(ii) does not apply if the auditor's report described in subparagraph (1)(a)(i) or (b)(i), as the case may be, refers to the predecessor auditor's reports on the comparative periods.

PART 4: RULES APPLYING TO FINANCIAL YEARS BEGINNING BEFORE JANUARY 1, 2011

4.1 Definitions and Application —

(1) In this Part:

"Canadian GAAP - Part V" means generally accepted accounting principles determined with reference to Part V of the Handbook applicable to public enterprises;

"public enterprise" means a public enterprise as defined in Part V of the Handbook.

(2) This Part applies to financial statements, financial information, operating statements and *pro forma* financial statements for periods relating to financial years beginning before January 1, 2011.

4.2 Acceptable Accounting Principles – General Requirements —

(1) Financial statements, other than financial statements delivered by registrants and acquisition statements, must be prepared in accordance with Canadian GAAP – Part V.

(2) Financial statements and interim financial information delivered by a registrant to the securities regulatory authority, must be prepared in accordance with Canadian GAAP – Part V except that the financial statements and interim financial information must be prepared on a non-consolidated basis.

(3) Financial statements must be prepared in accordance with the same accounting principles for all periods presented in the financial statements.

(4) The notes to the financial statements must identify the accounting principles used to prepare the financial statements.

4.3 Acceptable Auditing Standards – General Requirements — Financial statements, other than acquisition statements, that are required by securities legislation to be audited must be audited in accordance with Canadian GAAS and be accompanied by an auditor's report that

(a) expresses an unmodified opinion,

(b) identifies all financial periods presented for which the auditor has issued an auditor's report,

(c) refers to the predecessor auditor's reports on the comparative periods, if the issuer or registrant has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by the predecessor auditor, and

(d) identifies the accounting principles used to prepare the financial statements.

4.4 Acceptable Auditors — An auditor's report filed by an issuer or delivered by a registrant must be prepared and signed by a person or company that is authorized to sign an auditor's report under the laws of a jurisdiction of Canada or a foreign jurisdiction, and that meets the professional standards of that jurisdiction.

4.5 Measurement and Reporting Currencies —

(1) The reporting currency must be disclosed on the face page of the financial statements or in the notes to the financial statements unless the financial statements are prepared in accordance with Canadian GAAP – Part V and the reporting currency is the Canadian dollar.

(2) The notes to the financial statements must disclose the measurement currency if it is different than the reporting currency.

4.6 Credit Supporters —

(1) Unless subsection 4.2(1) applies, if a credit support issuer files, or includes in a prospectus, financial statements of a credit supporter, the credit supporter's financial statements must

(a) be prepared in accordance with the accounting principles and audited in accordance with the auditing standards that apply under this Instrument if the credit supporter were to file financial statements referred to in paragraph 2.1(2)(b),

(b) identify the accounting principles used to prepare the financial statements, and

(c) disclose the reporting currency for the financial statements, and disclose the measurement currency if it is different than the reporting currency.

(2) If a credit support issuer files, or includes in a prospectus, summary financial information for the credit supporter or credit support issuer,

(a) the summary financial information must

(i) be prepared in accordance with the accounting principles that this Instrument requires to be used in preparing financial statements if the credit supporter or credit support issuer, as the case may be, were to file financial statements referred to in paragraph 2.1(2)(b),

(ii) identify the accounting principles used to prepare the summary financial information, and

(iii) disclose the reporting currency for the financial information, and disclose the measurement currency if it is different than the reporting currency, and

(b) the amounts presented in the summary financial information must be derived from financial statements of the credit supporter or credit support issuer that, if required by securities legislation to be audited, are audited in accordance with the auditing standards that apply under this Instrument if the credit supporter or credit support issuer, as the case may be, were to file financial statements referred to in paragraph 2.1(2)(b).

4.7 Acceptable Accounting Principles for SEC Issuers —

(1) Despite subsections 4.2(1) and (3), financial statements of an SEC issuer that are filed with or delivered to a securities regulatory authority or regulator, other than acquisition statements, may be prepared in accordance with U.S. GAAP provided that, if the SEC issuer previously filed or included in a prospectus financial statements prepared in accordance with Canadian GAAP – Part V, the SEC issuer complies with the following:

(a) the notes to the first two sets of the issuer's annual financial statements after the change from Canadian GAAP – Part V to U.S. GAAP and the notes to the issuer's interim financial statements for interim periods during those two years

(i) explain the material differences between Canadian GAAP – Part V and U.S. GAAP that relate to recognition, measurement and presentation,

(ii) quantify the effect of material differences between Canadian GAAP – Part V and U.S. GAAP that relate to recognition, measurement and presentation, including a tabular reconciliation between net income reported in the financial statements and net income computed in accordance with Canadian GAAP – Part V, and

(iii) provide disclosure consistent with disclosure requirements of Canadian GAAP – Part V to the extent not already reflected in the financial statements;

(b) financial information for any comparative periods that were previously reported in accordance with Canadian GAAP – Part V are presented

(i) as previously reported in accordance with Canadian GAAP – Part V,

(ii) as restated and presented in accordance with U.S. GAAP, and

(iii) supported by an accompanying note that

(A) explains the material differences between Canadian GAAP – Part V and U.S. GAAP that relate to recognition, measurement and presentation, and

(B) quantifies the effect of material differences between Canadian GAAP – Part V and U.S. GAAP that relate to recognition, measurement and presentation, including a tabular reconciliation between net income as previously reported in the financial statements in accordance with Canadian GAAP – Part V and net income as restated and presented in accordance with U.S. GAAP, and

(c) if the SEC issuer has filed financial statements prepared in accordance with Canadian GAAP – Part V for one or more interim periods of the current year, those interim financial statements are restated in accordance with U.S. GAAP and comply with paragraphs (a) and (b).

(2) The comparative information specified in subparagraph (1)(b)(i) may be presented on the face of the balance sheet and statements of income and cash flow or in the note to the financial statements required by subparagraph (1)(b)(iii).

4.8 Acceptable Auditing Standards for SEC Issuers — Despite section 4.3, financial statements of an SEC issuer that are filed with or delivered to the securities regulatory authority or regulator, other than acquisition statements, and that are required by securities legislation to be audited, may be audited in accordance with U.S. PCAOB GAAS if the financial statements are accompanied by an auditor's report prepared in accordance with U.S. PCAOB GAAS that

(a) expresses an unqualified opinion,

(b) identifies all financial periods presented for which the auditor has issued an auditor's report,

(c) refers to the predecessor auditor's reports on the comparative periods, if the issuer has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by the predecessor auditor, and

(d) identifies the accounting principles used to prepare the financial statements.

4.9 Acceptable Accounting Principles for Foreign Issuers — Despite subsection 4.2(1), financial statements of a foreign issuer that are filed with or delivered to a securities regulatory authority or regulator, other than acquisition statements, may be prepared in accordance with one of the following accounting principles:

(a) U.S. GAAP, if the issuer is an SEC foreign issuer;

(b) IFRS;

(c) accounting principles that meet the disclosure requirements for foreign private issuers, as that term is defined for the purposes of the 1934 Act, if

(i) the issuer is an SEC foreign issuer,

(ii) on the last day of the most recently completed financial year the total number of equity securities of the issuer beneficially owned by residents of Canada does not exceed 10%, on a fully-diluted basis, of the total number of equity securities of the issuer, and

(iii) the financial statements include any reconciliation to U.S. GAAP required by the SEC;

(d) accounting principles that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer is subject, if the issuer is a designated foreign issuer;

(e) accounting principles that cover substantially the same core subject matter as Canadian GAAP – Part V, including recognition and measurement principles and disclosure requirements, if the notes to the financial statements

(i) explain the material differences between Canadian GAAP – Part V and the accounting principles used that relate to recognition, measurement and presentation,

(ii) quantify the effect of material differences between Canadian GAAP – Part V and the accounting principles used that relate to recognition, measurement and presentation, including a tabular reconciliation between net income reported in the issuer's financial statements and net income computed in accordance with Canadian GAAP – Part V, and

(iii) provide disclosure consistent with Canadian GAAP – Part V requirements to the extent not already reflected in the financial statements.

4.10 Acceptable Auditing Standards for Foreign Issuers — Despite section 4.3, financial statements of a foreign issuer that are filed with or delivered to a securities regulatory authority or regulator, other than acquisition statements, that are required by securities legislation to be audited may, if the financial statements are accompanied by an auditor's report prepared in accordance with the same auditing standards used to conduct the audit and the auditor's report identifies the accounting principles used to prepare the financial statements, be audited in accordance with

(a) U.S. PCAOB GAAS, if the auditor's report

(i) expresses an unqualified opinion,

(ii) identifies all financial periods presented for which the auditor has issued an auditor's report, and

(iii) refers to the predecessor auditor's reports on the comparative periods, if the issuer has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by the predecessor auditor,

(b) International Standards on Auditing, if the auditor's report is accompanied by a statement by the auditor that

(i) describes any material differences in the form and content of the auditor's report as compared to an auditor's report prepared in accordance with Canadian GAAS, and

(ii) indicates that an auditor's report prepared in accordance with Canadian GAAS would express an unmodified opinion, or

(c) auditing standards that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer is subject, if the issuer is a designated foreign issuer.

4.11 Acceptable Accounting Principles for Acquisition Statements —

(1) Acquisition statements must be prepared in accordance with one of the following accounting principles:

(a) Canadian GAAP – Part V;

(b) U.S. GAAP;

(c) IFRS;

(d) accounting principles that meet the disclosure requirements for foreign private issuers, as that term is defined for the purposes of the 1934 Act, if

(i) the issuer or the acquired business or business to be acquired is an SEC foreign issuer,

(ii) on the last day of the most recently completed financial year the total number of equity securities of the SEC foreign issuer beneficially owned by residents of Canada does not exceed 10%, on a fully-diluted basis, of the total number of equity securities of the SEC foreign issuer, and

(iii) the financial statements include any reconciliation to U.S. GAAP required by the SEC;

(e) accounting principles that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer or the acquired business or business to be acquired is subject, if the issuer or business is a designated foreign issuer;

(f) accounting principles that cover substantially the same core subject matter as Canadian GAAP – Part V, including recognition and measurement principles and disclosure requirements.

(2) Acquisition statements must be prepared in accordance with the same accounting principles for all periods presented.

(3) The notes to the acquisition statements must identify the accounting principles used to prepare the acquisition statements.

(4) 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 and the notes to the acquisition statements must

(a) explain the material differences between the issuer's GAAP and the accounting principles used to prepare the acquisition statements that relate to recognition, measurement, and presentation,

(b) quantify the effect of material differences between the issuer's GAAP and the accounting principles used to prepare the acquisition statements that relate to recognition, measurement and presentation, including a tabular reconciliation between net income reported in the acquisition statements and net income computed in accordance with the issuer's GAAP, and

(c) provide disclosure consistent with the issuer's GAAP to the extent not already reflected in the acquisition statements.

(5) Despite subsections (1) and (4), if the issuer is required to reconcile its financial statements to Canadian GAAP – Part V, the acquisition statements for the most recently completed financial year and interim period that are required to be filed must be

(a) prepared in accordance with Canadian GAAP – Part V, or

(b) reconciled to Canadian GAAP – Part V and the notes to the acquisition statements must

(i) explain the material differences between Canadian GAAP – Part V and the accounting principles used to prepare the acquisition statements that relate to recognition, measurement, and presentation,

(ii) quantify the effect of material differences between Canadian GAAP – Part V and the accounting principles used to prepare the acquisition statements that relate to recognition, measurement and presentation, including a tabular reconciliation between net income reported in the acquisition statements and net income computed in accordance with Canadian GAAP – Part V, and

(iii) provide disclosure consistent with disclosure requirements of Canadian GAAP – Part V to the extent not already reflected in the acquisition statements.

4.12 Acceptable Auditing Standards for Acquisition Statements —

(1) Acquisition statements that are required by securities legislation to be audited must be audited in accordance with one of the following auditing standards:

(a) Canadian GAAS;

(b) U.S. PCAOB GAAS;

(c) U.S. AICPA GAAS, if the acquired business or business to be acquired is not an SEC issuer.

(2) Despite subsection (1), acquisition statements filed by or included in a prospectus of a foreign issuer may be audited in accordance with

(a) International Standards on Auditing, if the auditor's report is accompanied by a statement by the auditor that

(i) describes any material differences in the form and content of the auditor's report as compared to an auditor's report prepared in accordance with Canadian GAAS, and

(ii) indicates that an auditor's report prepared in accordance with Canadian GAAS would express an unmodified opinion, or

(b) auditing standards that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer is subject, if the issuer is a designated foreign issuer.

(3) Acquisition statements must be accompanied by an auditor's report prepared in accordance with the same auditing standards used to conduct

the audit and the auditor's report must identify the accounting principles used to prepare the acquisition statements.

(4) If acquisition statements are audited in accordance with paragraph (1)(a), the auditor's report must express an unmodified opinion.

(5) If acquisition statements are audited in accordance with paragraph (1)(b) or (c), the auditor's report must express an unqualified opinion.

(6) Despite paragraph (2)(a) and subsections (4) and (5) an auditor's report that accompanies acquisition statements may express a qualification of opinion relating to inventory if

(a) the issuer includes in the business acquisition report, prospectus or other document containing the acquisition statements, a balance sheet for the acquired business or business to be acquired that is for a date that is subsequent to the date to which the qualification relates, and

(b) the balance sheet referred to in paragraph (a) is accompanied by an auditor's report that does not express a qualification of opinion relating to closing inventory.

4.13 Financial Information for Acquisitions Accounted for by the Issuer Using the Equity Method —

(1) If an issuer files, or includes in a prospectus, summarized financial information as to the assets, liabilities and results of operations of an acquired business or business to be acquired that is, or will be, an investment accounted for by the issuer using the equity method, the financial information must

(a) meet the requirements in section 4.11 if the term "acquisition statements" in that section is read as "summarized financial information", and

(b) disclose the reporting currency for the financial information, and disclose the measurement currency if it is different than the reporting currency.

(2) If the financial information referred to in subsection (1) is for any completed financial year, the financial information must

(a) either

(i) meet the requirements in section 4.12 if the term "acquisition statements" in that section is read as "summarized financial information", or

(ii) be derived from financial statements that meet the requirements in section 4.12 if the term "acquisition statements" in that section is read as "financial statements from which is derived summarized financial information", and

(b) be audited, or derived from financial statements that are audited, by a person or company that is authorized to sign an auditor's report under the laws of a jurisdiction of Canada or a foreign jurisdiction, and that meets the professional standards of that jurisdiction.

4.14 Acceptable Accounting Principles for *Pro Forma* Financial Statements —

(1) *Pro forma* financial statements must be prepared in accordance with the issuer's GAAP.

(2) Despite subsection (1), if an issuer's financial statements have been reconciled to Canadian GAAP – Part V under subsection 4.7(1) or paragraph 4.9(e), the issuer's *pro forma* financial statements must be prepared in accordance with, or reconciled to, Canadian GAAP – Part V.

(3) Despite subsection (1), if an issuer's financial statements have been prepared in accordance with the accounting principles referred to in paragraph 4.9(c) and those financial statements are reconciled to U.S. GAAP, the *pro forma* financial statements may be prepared in accordance with, or reconciled to, U.S. GAAP.

4.15 Acceptable Accounting Principles for Foreign Registrants —

(1) Despite subsection 4.2(2), and subject to subsection (2), financial statements delivered by a foreign registrant may be prepared in accordance with one of the following accounting principles:

(a) U.S. GAAP;

(b) IFRS;

(c) accounting principles that meet the disclosure requirements of a foreign regulatory authority to which the registrant is subject, if it is a foreign registrant incorporated or organized under the laws of that designated foreign jurisdiction;

(d) accounting principles that cover substantially the same core subject matter as Canadian GAAP – Part V, including recognition and measurement principles and disclosure requirements, if the notes to the financial statements, interim balance sheets, or interim income statements

(i) explain the material differences between Canadian GAAP – Part V and the accounting principles used that relate to recognition, measurement and presentation,

(ii) quantify the effect of material differences between Canadian GAAP – Part V and the accounting principles used that relate to recognition, measurement, and presentation, and

(iii) provide disclosure consistent with disclosure requirements of Canadian GAAP – Part V to the extent not already reflected in the financial statements, interim balance sheets or interim income statements.

(2) Financial statements, interim balance sheets, and interim income statements delivered by a foreign registrant prepared in accordance with accounting principles specified in paragraph (1)(a), (b) or (d) must be prepared on a non-consolidated basis.

4.16 Acceptable Auditing Standards for Foreign Registrants — Despite section 4.3, financial statements delivered by a foreign registrant that are required by securities legislation to be audited may, if the financial statements are accompanied by an auditor's report prepared in accordance with the same auditing standards used to conduct the audit and the auditor's report identifies the accounting principles used to prepare the financial statements, be audited in accordance with

(a) U.S. PCAOB GAAS or U.S. AICPA GAAS if the auditor's report expresses an unqualified opinion,

(b) International Standards on Auditing, if the auditor's report is accompanied by a statement by the auditor that

(i) describes any material differences in the form and content of the auditor's report as compared to an auditor's report prepared in accordance with Canadian GAAS, and

(ii) indicates that an auditor's report prepared in accordance with Canadian GAAS would express an unmodified opinion, or

(c) auditing standards that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the registrant is subject, if it is a foreign registrant incorporated or organized under the laws of that designated foreign jurisdiction.

PART 5: EXEMPTIONS

5.1 Exemptions —

(1) The regulator or securities regulatory authority may grant an exemption from this Instrument, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.

(2) Despite subsection (1), in Ontario, only the regulator may grant an exemption.

(3) Except in Ontario, an exemption referred to in subsection (1) is granted under the statute referred to in Appendix B of National Instrument 14-101 *Definitions* opposite the name of the local jurisdiction.

5.2 Certain Exemptions Evidenced by Receipt —

(1) Subject to subsections (2) and (3), without limiting the manner in which an exemption may be evidenced, an exemption from this Instrument as it pertains to financial statements or auditor's reports included in a prospectus, may be evidenced by the issuance of a receipt for the prospectus or an amendment to the prospectus.

(2) A person or company must not rely on a receipt as evidence of an exemption unless the person or company

(a) sent to the regulator or securities regulatory authority, on or before the date the preliminary prospectus or the amendment to the preliminary prospectus or prospectus was filed, a letter or memorandum describing the matters relating to the exemption application, and indicating why consideration should be given to the granting of the exemption, or

(b) sent to the regulator or securities regulatory authority the letter or memorandum referred to in paragraph (a) after the date of the preliminary prospectus or the amendment to the preliminary prospectus or prospectus has been filed and receives a written acknowledgement from the securities regulatory authority or regulator that issuance of the receipt is evidence that the exemption is granted.

(3) A person or company must not rely on a receipt as evidence of an exemption if the regulator or securities regulatory authority has before, or concurrently with, the issuance of the receipt for the prospectus, sent notice to the person or company that the issuance of a receipt does not evidence the granting of the exemption.

(4) For the purpose of this section, a reference to a prospectus does not include a preliminary prospectus.

5.3 Financial Years ending between December 21 and 31, 2010 — Despite subsections 3.1(2) and 4.1(2), Part 3 may be applied by an issuer or registrant to all financial statements, financial information, operating statements and *pro forma* financial statements for periods relating to a financial year that begins before January 1, 2011 if the immediately preceding financial year ends no earlier than December 21, 2010.

5.4 Rate-Regulated Activities —

(1) Despite subsections 3.1(2) and 4.1(2),

(a) Part 3 may be applied by a qualifying entity to all financial statements, financial information, operating statements and *pro forma* financial statements as if the expression "January 1, 2011" in subsection 3.1(2) were read as "January 1, 2012", and

(b) if the qualifying entity relies on paragraph (a) in respect of a period, Part 4 must be applied as if the expression "January 1, 2011" in subsection 4.1(2) were read as "January 1, 2012".

(2) For the purposes of subsection (1), a "qualifying entity" means a person or company that

(a) has activities subject to rate regulation, as defined in Part V of the Handbook, and

(b) is permitted under Canadian GAAP to apply Part V of the Handbook.

PART 6: REPEAL, TRANSITION AND EFFECTIVE DATE

6.1 Repeal — National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*, which came into force on March 30, 2004, is repealed.

6.2 Effective Date — This Instrument comes into force on January 1, 2011.

6.3 Existing Exemptions — A person or company that has obtained an exemption from National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*, in whole or in part, is exempt from any substantially similar provision of this Instrument to the same extent and on the same conditions, if any, as contained in the exemption, unless the regulator or securities regulatory authority has revoked that exemption.

APPENDIX E
The Policy

Companion Policy 52-107CP
Acceptable Accounting Principles and Auditing Standards

PART I: INTRODUCTION AND DEFINITIONS

1.1 Introduction and Purpose — This Companion Policy provides information about how the securities regulatory authorities interpret or apply National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* (the Instrument). The Instrument is linked closely with the application of other national instruments, including National Instrument 51-102 *Continuous Disclosure Obligations* (NI 51-102) and National Instrument 71-102 *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers* (NI 71-102). These and other national instruments also contain a number of references to International Financial Reporting Standards (IFRS) and the requirements in the Handbook of the Canadian Institute of Chartered Accountants (the Handbook). Full definitions of IFRS and the Handbook are provided in National Instrument 14-101 *Definitions*.

The Instrument does not apply to investment funds. National Instrument 81-106 *Investment Fund Continuous Disclosure* applies to investment funds.

1.2 Multijurisdictional Disclosure System — National Instrument 71-101 *The Multijurisdictional Disclosure System* (NI 71-101) permits certain U.S. incorporated issuers to satisfy Canadian disclosure filing obligations, including financial statements, by using disclosure documents prepared in accordance with U.S. federal securities laws. The Instrument does not replace or alter NI 71-101. There are instances in which NI 71-101 and the Instrument offer similar relief to a reporting issuer. There are other instances in which the relief differs. If both NI 71-101 and the Instrument are available to a reporting issuer, the issuer should consider both instruments. It may choose to rely on the less onerous instrument in a given situation.

1.3 Calculation of Voting Securities Owned by Residents of Canada — The definition of “foreign issuer” is based upon the definition of foreign private issuer in Rule 405 of the 1933 Act and Rule 3b-4 of the 1934 Act. For the purposes of the definition of “foreign issuer”, in determining the outstanding voting securities that are beneficially owned by residents of Canada, an issuer should

(a) use reasonable efforts to identify securities held by a broker, dealer, bank, trust company or nominee or any of them for the accounts of customers resident in Canada,

(b) count securities beneficially owned by residents of Canada as reported on reports of beneficial ownership, including insider reports and early warning reports, and

(c) assume that a customer is a resident of the jurisdiction or foreign jurisdiction in which the nominee has its principal place of business if, after reasonable inquiry, information regarding the jurisdiction or foreign jurisdiction of residence of the customer is unavailable.

This method of calculation differs from that in NI 71-101 which only requires a calculation based on the address of record. Some SEC foreign issuers may therefore qualify for exemptive relief under NI 71-101 but not under the Instrument.

1.4 Exemptions Evidenced by the Issuance of a Receipt — Section 5.2 of the Instrument states that an exemption from any of the requirements of the Instrument pertaining to financial statements or auditor's reports included in a prospectus may be evidenced by the issuance of a receipt for that prospectus. Issuers should not assume that the relief evidenced by the receipt will also apply to financial statements or auditors' reports filed in satisfaction of continuous disclosure obligations or included in any other filing.

1.5 Filed or Delivered — Financial statements that are filed in a jurisdiction will be made available for public inspection in that jurisdiction, subject to the provisions of securities legislation in the local jurisdiction regarding confidentiality of filed material. Material that is delivered to a regulator, but not filed, is not required under securities legislation to be made available for public inspection. However, the regulator may choose to make such material available for inspection by the public.

1.6 Other Legal Requirements — Issuers and auditors should refer to National Instrument 52-108 *Auditor Oversight* for requirements relating to auditor oversight by the Canadian Public Accountability Board. In addition, issuers and registrants are reminded that they and their auditors may be subject to requirements under the laws and professional standards of a jurisdiction that address matters similar to those addressed by the Instrument, and which may impose additional or more onerous requirements. For example, applicable corporate law may prescribe the accounting principles or auditing standards required for financial statements. Similarly, applicable federal, provincial or state law may impose licensing requirements on an auditor practising public accounting in certain jurisdictions.

PART 2: APPLICATION - ACCOUNTING PRINCIPLES

2.1 Application of Part 3 — Part 3 of the Instrument generally applies to periods relating to financial years beginning on or after January 1, 2011. Part 3 refers to Canadian GAAP applicable to publicly accountable enterprises, which is IFRS incorporated into the Handbook, contained in Part I of the Handbook.

2.2 Application of Part 4 — Part 4 of the Instrument generally applies to periods relating to financial years beginning before January 1, 2011. Part 4 refers to Canadian GAAP-Part V, which is generally accepted accounting principles determined with reference to Part V of the Handbook applicable to public enterprises. These are the pre-changeover accounting standards for public companies. Part V of the Handbook has differing requirements for public enterprises and non-public enterprises. The following are some of the significant differences in Canadian GAAP applicable to public enterprises compared to those applicable to non-public enterprises:

(a) financial statements for public enterprises cannot be prepared using the differential reporting options as set out in Part V of the Handbook;

(b) transition provisions applicable to enterprises other than public enterprises are not available; and

(c) financial statements must include any additional disclosure requirements applicable to public enterprises.

2.3 IFRS in English and French — The Handbook provides IFRS in English and French. Both versions have equal status and effect under Canadian GAAP. Issuers, auditors, and other market participants may use either version to comply with the requirements in the Instrument.

2.4 Reference to accounting principles — Section 3.2 of the Instrument requires certain financial statements to be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises. This section includes requirements for an unreserved statement of compliance with IFRS in annual financial statements, and an unreserved statement of compliance with International Accounting Standard 34 *Interim Financial Reporting* in interim financial reports. These provisions distinguish between the basis of preparation and disclosure requirements.

There are two options for referring to accounting principles in the applicable financial statements and, in the case of annual financial statements, accompanying auditor's reports referred to in section 3.3 of the Instrument:

(a) refer only to IFRS in the notes to the financial statements and in the auditor's report, or

(b) refer to both IFRS and Canadian GAAP in the notes to the financial statements and in the auditor's report.

2.5 IFRS as adopted by the IASB —The definition of IFRS in National Instrument 14-101 *Definitions* refers to standards and interpretations adopted by the International Accounting Standards Board. The definition does not extend to national accounting standards that are modified or adapted from IFRS, sometimes referred to as a "jurisdictional" version of IFRS.

2.6 Presentation and functional currencies — If financial statements comply with requirements contained in IFRS in International Accounting Standard 1 *Presentation of*

Financial Statements and International Accounting Standard 21 *The Effects of Changes in Foreign Exchange Rates* relating to the disclosure of presentation currency and functional currency, then they will comply with section 3.5 of the Instrument.

2.7 Registrants' financial statements and interim financial information — Subsections 3.2(3) and (4) and paragraphs 3.15(a) and (b) of the Instrument mandate accounting for any investments in subsidiaries, jointly controlled entities and associates as specified for separate financial statements in International Accounting Standard 27 *Consolidated and Separate Financial Statements* (IAS 27). Separate financial statements are sometimes referred to as non-consolidated financial statements. These requirements apply regardless of whether a registrant meets the criteria set out in IAS 27 for not presenting consolidated financial statements. Paragraph 3.2(3)(b) also requires a registrant's annual financial statements to describe the financial reporting framework used to prepare the financial statements. The description should refer to the requirement to account for any investments in subsidiaries, jointly controlled entities and associates as specified for separate financial statements in IAS 27, even if the registrant does not have these types of investments. In addition, if annual financial statements for a year beginning in 2011 are prepared using the financial reporting framework permitted by subsection 3.2(4), the description of the framework should explain the lack of comparatives and the date of transition, as specified in paragraphs 3.2(4)(b) and (c).

The financial reporting frameworks prescribed by subsections 3.2(3) and (4) are Canadian GAAP applicable to publicly accountable enterprises with specified differences. Although these frameworks differ in specified ways from IFRS, the exceptions and exemptions included as Appendices in IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1) would be relevant for determining an opening statement of financial position at the date of transition to the financial reporting framework prescribed in subsection 3.2(3) or (4).

Subparagraph 3.3(1)(a)(iii) requires an auditor's report in the form specified by Canadian GAAS for an audit of financial statements prepared in accordance with a fair presentation framework. The financial reporting frameworks prescribed by subsections 3.2(3) and (4) are fair presentation frameworks.

Subsection 3.2(4) of the Instrument allows a registrant to file financial statements and interim financial information for periods relating to a financial year beginning in 2011 that exclude comparative information relating to the preceding year and to use a date of transition to the financial reporting framework that is the first day of the financial year beginning in 2011. When such a registrant prepares the comparative information for financial statements and interim financial information for periods relating to a financial year beginning in 2012, the registrant should consider whether it must adjust the comparative information in order to comply with subsection 3.2(3). Adjustments may be necessary if a registrant changes one or more accounting policies for its year beginning in 2012 compared to its year beginning in 2011.

2.8 Use of different accounting principles — Subsection 3.2(5) of the Instrument requires financial statements to be prepared in accordance with the same accounting principles for all periods presented in the financial statements.

An issuer that is required to file, or include in a document that is filed, financial statements for three years can, except in the situation discussed in section 2.9 of this Companion Policy, choose to present two sets of financial statements. For example, if the earliest of the three financial years relates to a financial year beginning before January 1, 2010, the issuer should provide one set of financial statements that presents information for the most recent two years using the accounting principles in Part 3 of the Instrument and one set of financial statements that either:

(a) presents information for a third and fourth year using the accounting principles in Part 4, or

(b) presents information for a second and third year using the accounting principles in Part 4.

Note that under option (a), a fourth year not otherwise required would be included to satisfy the requirement in the issuer's GAAP for comparative financial statements. Under option (b), information for a second year would be presented in both sets of financial statements. This second year would be included in the most recent set of financial statements using accounting principles in Part 3 of the Instrument and also in the earliest set of financial statements using accounting principles in Part 4 of the Instrument.

If the accounting principles used for the earliest of the three financial years and the most recent two years differ, but both are acceptable in Part 3 of the Instrument, presentation of information for the earliest year would be similar to the example described above.

2.9 Date of transition to IFRS if financial statements include a transition year of less than nine months – Subsection 4.8(6) of NI 51-102 states that if a transition year is less that nine months in length, the reporting issuer must include comparative financial information for the transition year and old financial year in its financial statements for its new financial year. Similarly, subsection 32.2(4) in Form 41-101F1 states that if an issuer changed its financial year end during any of the financial years referred to in section 32.2 and the transition year is less than nine months, the transition year is deemed not to be a financial year for purposes of the requirement to provide financial statements for a specified number of financial years in section 32.2.

If an issuer's first set of annual financial statements with an unreserved statement of compliance with IFRS includes comparatives for both a transition year of less than nine months and the old financial year, the date of transition to IFRS should be the first day of the old financial year. Since subsection 3.2(5) of the Instrument requires financial statements to be prepared in accordance with the same accounting principles for all periods presented in the financial statements, a date of transition to IFRS using the first day of the transition year would not be appropriate.

2.10 Acceptable Accounting Principles — Readers are likely to assume that financial information disclosed in a news release is prepared on a basis consistent with the accounting principles used to prepare the issuer's most recently filed financial statements. To avoid misleading readers, an issuer should alert readers if financial information in a news release is prepared using accounting principles that differ from those used to prepare an issuer's most recently filed financial statements or includes non-GAAP financial measures discussed in CSA Staff Notice 52-306 *Non-GAAP Financial Measures.*

2.11 Financial statements for a reverse takeover or capital pool company acquisition – Subsection 8.1(2) of NI 51-102 states that Part 8 of that rule does not apply to a transaction that is a reverse takeover. Similarly, subsection 35.1(1) in Form 41-101F1 indicates that item 35 of that Form does not apply to a completed or proposed transaction that was or will be accounted for as a reverse takeover. Therefore, if a document includes financial statements for a reverse takeover acquirer, as defined in NI 51-102, for a period prior to completion of the reverse takeover, section 3.11 of the Instrument does not apply to the financial statements. Such financial statements must comply with section 3.2, 3.7, 3.9, 4.2, 4.7 or 4.9 of the Instrument as applicable.

Paragraph 32.1(b) of Form 41-101F1 indicates that financial statements of an issuer required under Item 32 of that Form include the financial statements of a business acquired or business proposed to be acquired by the issuer if a reasonable investor would regard the primary business of the issuer upon completion of the acquisition to be the acquired business or business proposed to be acquired. Consistent with this provision, if a capital pool company acquires or proposes to acquire a business, regardless of whether or not the transaction will be accounted for as a reverse takeover, financial statements for the acquired business or business proposed to be acquired must comply with section 3.2, 3.7, 3.9, 4.2, 4.7 or 4.9 of the Instrument as applicable.

2.12 Acquisition statements prepared using Canadian GAAP applicable to private enterprises – Paragraph 3.11(1)(f) of the Instrument permits acquisition statements to be prepared using Canadian GAAP applicable to private enterprises, which is Canadian accounting standards for private enterprises in Part II of the Handbook.

2.13 Conditions for acquisition statements prepared using Canadian GAAP applicable to private enterprises — Paragraph 3.11(1)(f) of the Instrument specifies certain conditions for the use of Canadian GAAP applicable to private enterprises. One of these conditions, in subparagraph 3.11(1)(f)(ii), is that financial statements for the business were not previously prepared in accordance with any of the accounting principles specified in paragraphs 3.11(1)(a) through (e) for the periods presented in the acquisition statements. Paragraph 3.11(1)(a) refers to Canadian GAAP applicable to publicly accountable enterprises, which is IFRS incorporated into the Handbook contained in Part I of the Handbook. The condition in subparagraph 3.11(1)(f)(ii) does not preclude Canadian GAAP - Part V, as defined in section 4.1 of the Instrument.

2.14 Acquisition statements prepared using Canadian GAAP applicable to private enterprises that include a reconciliation to the issuer's GAAP – If acquisition statements included in a document filed by an issuer that is not a venture issuer and not an IPO venture issuer are prepared using Canadian GAAP applicable to private enterprises, the reconciliation requirement in subparagraph 3.11(1)(f)(iv) applies.

For each difference presented in the quantified reconciliation that relates to measurement, clause 3.11(1)(f)(iv)(C) requires disclosure and discussion of the material inputs or assumptions underlying the measurement of the relevant amount computed in accordance with the issuer's GAAP, consistent with the disclosure requirements of the issuer's GAAP. If the relevant amount was measured using a valuation technique, disclose the valuation technique, and disclose and discuss the inputs used. If changing one or more of the inputs to reasonably possible alternative assumptions would change the measurement significantly, a discussion of that fact and the effect of the changes on the measurement would facilitate readers' understanding of the measurement.

Clause 3.11(1)(f)(iv)(C) does not require disclosure and discussion of all the disclosure elements identified in the issuer's GAAP that relate to a difference presented in the reconciliation. As well, the clause does not require disclosure of information not required by the issuer's GAAP.

As an example of the disclosure required by clause 3.11(1)(f)(iv)(C), if the issuer's GAAP is IFRS and the relevant amount is share based payments measured using an option pricing model, disclose the option pricing model used and the inputs used in the model (i.e., weighted average share price, exercise price, expected volatility, option life, expected dividends, risk-free interest rate and any other inputs to the model). Also, discuss how expected volatility was determined and how any other features of the option grant (e.g., market condition) were incorporated into the measurement of the relevant amount.

If acquisition statements are carve-out statements prepared in accordance with Canadian GAAP for private enterprises, as discussed in section 2.18 of this Companion Policy, subparagraph 3.11(6)(d)(iii) requires reconciliation information for non-venture issuers similar to that required by subparagraph 3.11(1)(f)(iv). The above guidance on subparagraph 3.11(1)(f)(iv) also applies to subparagraph 3.11(6)(d)(iii).

2.15 Acquisition statements prepared using Canadian GAAP applicable to private enterprises that include a reconciliation to IFRS – If the reconciliation requirement in subparagraph 3.11(1)(f)(iv) applies, and the issuer's GAAP requires the annual financial statements to include an explicit and unreserved statement of compliance with IFRS, the reconciliation information in annual and interim acquisition statements must address material differences between Canadian GAAP applicable to private enterprises and IFRS that relate to recognition, measurement and presentation.

Consistent with IFRS requirements, for the purpose of preparing the reconciliation information required by subparagraph 3.11(1)(f)(iv), the date of transition to IFRS would be the first day of the earliest period for which comparative information is presented in the annual acquisition statements. For example, if annual acquisition statements present information for the most recently completed financial year and the comparative year, the date of transition to IFRS would be the first day of the comparative year.

Also consistent with IFRS, for the purpose of preparing the reconciliation, IFRS 1 would be applied to determine the opening IFRS statement of financial position at the date of transition to IFRS. The exceptions and exemptions included as Appendices in IFRS 1 would be relevant for determining the entity's statement of financial position at the date of transition to IFRS.

The opening IFRS statement of financial position is the starting point for identifying material differences from Canadian GAAP applicable to private enterprises. Although an opening IFRS statement of financial position must be prepared in order to prepare the information required by subparagraph 3.11(1)(f)(iv), that subparagraph does not require disclosure of the opening IFRS statement of financial position. Similarly, that subparagraph does not require disclosure of differences relating to equity as at the date of transition to IFRS.

As discussed in section 2.14 of this Companion Policy, clause 3.11(1)(f)(iv)(C) does not require disclosure and discussion of all the disclosure elements identified in the issuer's GAAP that relate to a difference presented in the reconciliation. Therefore, it would be inappropriate to include an explicit and unreserved statement of compliance with IFRS in acquisition statements that include reconciliation information for material differences between Canadian GAAP applicable to private enterprises and IFRS.

2.16 Acquisition statements prepared using Canadian GAAP applicable to private enterprises that do not include a reconciliation to the issuer's GAAP – If acquisition statements included in a document filed by a venture issuer or IPO venture issuer are prepared using Canadian GAAP applicable to private enterprises, the reconciliation requirements in subparagraph 3.11(1)(f)(iv) do not apply. However, subsection 3.14(1) requires *pro forma* financial statements to be prepared using accounting policies that are permitted by the issuer's GAAP and would apply to the information presented in the *pro forma* financial statements if that information were included in the issuer's financial statements for the same time. Companion Policy 51-102CP *Continuous Disclosure Obligations* provides further guidance on preparation of *pro forma* financial statements in this circumstance.

2.17 Acquisition statements that are an operating statement – Subsection 3.11(5) requires the line items in an operating statement to be prepared in accordance with accounting policies that comply with the accounting policies permitted by one of Canadian GAAP applicable to publicly accountable enterprises, IFRS, U.S. GAAP, or Canadian GAAP applicable to private enterprises. For the purpose of preparing the operating statement, 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 to IFRS.

2.18 Acquisition statements that are carve-out financial statements – Subsection 3.11(6) specifies the financial reporting framework required for acquisition statements that are based on information from the financial records of another entity whose operations included the acquired business or the business to be acquired, and there are no separate financial records for the business. Such financial statements are commonly referred to as "carve-out" financial statements. Subsection 3.11(6) requires carve-out financial statements to be prepared in accordance with one of Canadian GAAP applicable to publicly accountable enterprises, IFRS, U.S. GAAP, or Canadian GAAP applicable to private enterprises, and in each case include specified line items. For carve-out financial statements prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises or IFRS, 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 to IFRS.

2.19 Preparation of *pro forma* financial statements when there is a change in accounting principles – Subsection 3.14(1) requires *pro forma* financial statements to be prepared using accounting policies that are permitted by the issuer's GAAP and would apply to the information presented in the *pro forma* financial statements if that information were included in the issuer's financial statement for the same period as that of the *pro forma* financial statements. If the accounting principles used to prepare an issuer's most recent annual financial statements differ from the accounting principles used to prepare the issuer's interim financial report for a subsequent period, subsection 3.14(3) provides an issuer the option of preparing its annual *pro forma* income statement using accounting policies that are permitted by the accounting principles used to prepare the interim financial report and would apply to the information presented in the *pro forma* income statement if that information were included in the interim financial report. In this case, the annual *pro forma* income statement should include adjustments to the amounts reported in the issuer's most recent statement of comprehensive income in order to restate the amounts on the basis of the accounting principles used to prepare the issuer's interim financial report. The *pro forma* income statement should present such adjustments separate from other adjustments relating to significant acquisitions.

If an issuer does not use the option provided by subsection 3.14(3), in order to avoid confusion, it would be appropriate to present the issuer's annual and interim *pro forma* financial statements as separate sets of *pro forma* financial statements.

2.20 Reconciliation requirements for an SEC issuer – If financial statements of an SEC issuer, other than acquisition statements, filed with or delivered to a securities regulatory authority or regulator are

(a) for a financial year beginning before January 1, 2011,

(b) prepared in accordance with U.S. GAAP, and

(c) the SEC issuer previously filed or included in a prospectus financial statements prepared financial statements prepared in accordance with Canadian GAAP – Part V,

then subsection 4.7(1) applies. Subsection 4.7(1) requires the notes of the first two sets of the SEC issuer's annual financial statements, and interim financial report during those first two years, to provide reconciling information between Canadian GAAP – Part V and U.S. GAAP that complies with subparagraphs 4.7(1)(a)(i) to (iii).

If an SEC issuer's second set of annual financial statements after a change in accounting principles is for a financial year beginning after January 1, 2011, the reconciliation requirements in subsection 4.7(1) no longer apply. Financial statements for a financial year beginning after January 1, 2011 are required to be prepared in accordance with Part 3 of the Instrument, which does not include any reconciliation requirements when an SEC issuer changes its accounting principles.

PART 3: APPLICATION - AUDITING STANDARDS

3.1 Auditor's Expertise — The securities legislation in most jurisdictions prohibits a regulator or securities regulatory authority from issuing a receipt for a prospectus if it appears to the regulator or securities regulatory authority that a person or company who has prepared any part of the prospectus or is named as having prepared or certified a report used in connection with a prospectus is not acceptable.

3.2 Canadian Auditors for Canadian GAAP and GAAS Financial Statements — A Canadian auditor is a person or company that is authorized to sign an auditor's report by the laws, and that meets the professional standards, of a jurisdiction of Canada. We would normally expect issuers and registrants incorporated or organized under the laws of Canada or a jurisdiction of Canada, and any other issuer or registrant that is not a foreign issuer nor a foreign registrant, to engage a Canadian auditor to audit the issuer's or registrant's financial statements if those statements are prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises and will be audited in accordance with Canadian GAAS unless a valid business reason exists to use a non-Canadian auditor. A valid business reason would include a situation where the principal operations of the company and the essential books and records required for the audit are located outside of Canada.

3.3 Auditor Oversight — In addition to the requirements in sections 3.4 and 4.4 of the Instrument, National Instrument 52-108 *Auditor Oversight* also contains certain requirements related to auditors and auditor reports.

3.4 Modification of opinion — Part 5 of the Instrument permits the regulator or securities regulatory authority to grant exemptive relief from the Instrument, including the requirement that an auditor's report express an unmodified opinion. A modification of opinion includes a qualification of opinion, an adverse opinion, and a disclaimer of opinion. However, staff will generally recommend that relief not be granted if the modification of opinion or other similar communication is:

(a) due to a departure from accounting principles permitted by the Instrument, or

(b) due to a limitation in the scope of the auditor's examination that

(i) results in the auditor being unable to form an opinion on the financial statements as a whole,

(ii) is imposed or could reasonably be eliminated by management, or

(iii) could reasonably be expected to be recurring.

3.5 Identification of the financial reporting framework used to prepare an operating statement or carve-out financial statements– Paragraph 3.12(2)(e) requires an auditor's report to identify the financial reporting framework used to prepare an operating statement or carve-out financial statements as addressed in subsections 3.11(5) and (6). To comply with this requirement, the auditor's report may identify the applicable requirement in the Instrument, and refer the reader's attention to the note in the operating statement or carve-out financial statements that describes the financial reporting framework.

APPENDIX F
Amendments to NI 14-101

1. National Instrument 14-101 Definitions is amended by this Instrument.

2. Subsection 1.1(3) is amended by

a. repealing the definition of "Canadian auditor's report***"; and***

b. adding the following definitions:

"IFRS" means the standards and interpretations adopted by the International Accounting Standards Board, as amended from time to time;

"International Standards on Auditing" means auditing standards set by the International Auditing and Assurance Standards Board, as amended from time to time;

3. This Instrument comes into force on January 1, 2011.

APPENDIX G
IFRS-Related Amendments to Rules

The CSA, except the Autorité des marchés financiers, have approved minor IFRS-related amendments to National Instrument 13-101 *System for Electronic Document Analysis and Retrieval (SEDAR)*, National Instrument 21-101 *Marketplace Operation*, National Instrument 52-110 *Audit Committees*, National Instrument 54-101 *Communication with Beneficial Owners of Securities of a Reporting Issuer.* These amendments are set out in Schedule 1 to this Appendix.

The CSA, except the Autorité des marchés financiers and the Ontario Securities Commission, have approved minor IFRS-related amendments to Multilateral Instrument 11-102 *Passport System* and Multilateral Instrument 62-104 *Take-Over Bids and Issuer Bids.* These amendments are set out in Schedule 2 to this Appendix.

The Autorité des marchés financiers has not yet approved the amendments set out in Schedules 1 and 2 to this Appendix. Instead, it has decided to release Schedules 1 and 2 today for a 30-day comment period. The expectation is that these amendments will be subsequently approved on a sufficiently timely basis so that they will come into force in Québec at the same time as the rest of the CSA jurisdictions.

With regard to the amendments in Schedule 2, the Ontario Securities Commission has not approved these amendments because Ontario is not party to the multilateral instruments referenced in Schedule 2.

Schedule 1 to Appendix G

Amendments to National
Instrument 13-101 *System for Electronic Document Analysis and Retrieval (SEDAR)*

1. National Instrument 13-101 System for Electronic Document Analysis and Retrieval (SEDAR) is amended by this Instrument.

2. Appendix A is amended by replacing "Interim Financial Statements***", wherever the expression occurs, with "***Interim Financial Statements/Report***".***

3. This Instrument only applies to periods relating to financial years beginning on or after January 1, 2011.

4. This Instrument comes into force on January 1, 2011.

Amendment to National Instrument 21-101 *Marketplace Operation*

1. National Instrument 21-101 Marketplace Operation is amended by this Instrument.

2. Item 4 of Exhibit D of Form 21-101F1 is amended by deleting "Such financial statements shall consist, at a minimum, of a balance sheet and an income statement prepared in accordance with, or if the affiliated entity is organized under the laws of a foreign jurisdiction, reconciled with Canadian GAAP.***".***

3. This Instrument only applies to periods relating to financial years beginning on or after January 1, 2011.

4. This Instrument comes into force on January 1, 2011.

Amendments to
National Instrument 52-110 *Audit Committees*

1. National Instrument 52-110 Audit Committees is amended by this Instrument.

2. The definition of "accounting principles" in section 1.1 is amended by replacing "National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*_**" with "**_National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards*_**".**_

3. Subsection 2.3(5) is amended by replacing "interim earnings***" with "***interim profit or loss***".***

4. ***Item 3(b) of Form 52-110FI is amended by replacing “***reserves***” with “***provisions***”.***

5. ***Item 3(b) of Form 52-110F2 is amended by replacing “***reserves***” with “***provisions***”.***

6. ***Sections 3, 4 and 5 of this Instrument only apply to periods relating to financial years beginning on or after January 1, 2011.***

7. ***This Instrument comes into force on January 1, 2011.***

Amendment to National Instrument 54-101
<u>Communication with Beneficial Owners of Securities of a Reporting Issuer</u>

1. ***National Instrument 54-101 Communication with Beneficial Owners of Securities of a Reporting Issuer is amended by this Instrument.***

2. ***Part 2 of the Client Response Form in Form 54-101F1 is amended by replacing “***interim financial statements***” with “***interim financial reports***”.***

3. ***This Instrument only applies to periods relating to financial years beginning on or after January 1, 2011.***

4. ***This Instrument comes into force on January 1, 2011.***

Schedule 2 to Appendix G

<u>Amendments to Multilateral Instrument 11-102 *Passport System*</u>

1. Multilateral Instrument 11-102 Passport System is amended by this Instrument.

2. Appendix D is amended by

- ***a. replacing "***Accounting principles, auditing standards and reporting currency requirements***" under the column named "Provision" with "***Accounting principles and auditing standards requirements***"; and***

- ***b. replacing "***s.3.1 of NI 52-107***", wherever it occurs, with "***s.3.2 of NI 52-107***".***

3. Appendix D is also amended by deleting "s.2(1) of Regulation 1015 (General) and***".***

4. Except as provided by section 5, this Instrument comes into force on January 1, 2011.

5. Section 3 of this Instrument comes into force on the repeal of subsection 2(1) of Regulation 1015 (General) under the Securities Act (Ontario).

Amendments to
<u>Multilateral Instrument 62-104 *Take-Over Bids and Issuer Bids*</u>

1. Multilateral Instrument 62-104 Take-Over Bids and Issuer Bids is amended by this Instrument.

2. Item 19 of Part 2 of Form 62-104F2 is amended by

- ***a. replacing "***interim financial statements are***" with "***interim financial report is***"; and***

- ***b. replacing "***interim financial statements will***" with "***interim financial report will***".***

3. Item 13 of Form 62-104F3 is amended by replacing "interim or annual financial statement***" with "***interim financial report or annual financial statements***".***

4. Item 11 of Form 62-104F4 is amended by replacing "interim or annual financial statement***" with "***interim financial report or annual financial statements***".***

5. This Instrument only applies to periods relating to financial years beginning on or after January 1, 2011.

6. This Instrument comes into force on January 1, 2011.

APPENDIX H
IFRS-Related Amendments to Policies

The CSA have approved minor IFRS-related amendments to National Policy 12-202 *Revocation of a Compliance-related Cease Trade Order* and National Policy 12-203 *Cease Trade Orders for Continuous Disclosure Defaults.* These amendments are set out in Schedule 1 to this Appendix.

The CSA, except for the Ontario Securities Commission, have approved minor IFRS-related amendments to Companion Policy 11-102CP *Passport System.* These amendments are set out in Schedule 2 to this Appendix. The Ontario Securities Commission has not approved these amendments because it is not party to Multilateral Instrument 11-102 *Passport System*.

Schedule 1 to Appendix H

Amendments to
<u>National Policy 12-202 *Revocation of a Compliance-related Cease Trade Order*</u>

1. ***National Policy 12-202 Revocation of a Compliance-related Cease Trade Order is amended by this Instrument.***

2. ***Paragraph 3.1(1)(f) is replaced with the following:***

> (f) National Instrument 52-110 *Audit Committees*; and

3. ***Subsection 3.1(2) is amended by replacing "***interim financial statements***", wherever it occurs, with "***interim financial reports***".***

4. ***Section 4.1 is amended by replacing "***CSA Staff Notice 51-312 *Harmonized Continuous Disclosure Requirements****" with "***CSA Staff Notice 51-312 *(Revised) - Harmonized Continuous Disclosure Requirements*"***.***

5. ***Section 3 of this Instrument only applies to periods relating to financial years beginning on or after January 1, 2011.***

6. ***This Instrument becomes effective on January 1, 2011.***

Amendment to
<u>National Policy 12-203 *Cease Trade Orders for Continuous Disclosure Defaults*</u>

1. ***National Policy 12-203 Cease Trade Orders for Continuous Disclosure Defaults is amended by this Instrument.***

2. ***Paragraph (b) of the definition of "specified requirements" in Part 2 is amended by replacing "***interim financial statements***" with "***an interim financial report***".***

3. ***This Instrument only applies to periods relating to financial years beginning on or after January 1, 2011.***

4. ***This Instrument becomes effective on January 1, 2011.***

Schedule 2 to Appendix H

<u>Amendment to Companion Policy 11-102CP *Passport System*</u>

1. Companion Policy 11-102CP Passport System is amended by this Instrument.

2. Paragraph (d) under the heading “All jurisdictions:” in Appendix A is replaced by the following:

(d) National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards*,

3. This Instrument becomes effective on January 1, 2011.

APPENDIX I
Adoption Procedures

The Instrument will be implemented as

- a rule in each of Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, the Northwest Territories, Nova Scotia, Nunavut, Ontario, Prince Edward Island and Yukon Territory,

- a regulation in Québec, and

- a commission regulation in Saskatchewan.

The amendments to NI 14-101 will be similarly implemented. The material in Appendix G will also be implemented in a similar manner, subject to the considerations referred to in Appendix G in relation to Québec.

The Policy will be adopted as a policy in each of the jurisdictions represented by the CSA. Amendments set out in Appendix H will be similarly implemented.

In Ontario, the Instrument, the amendments to NI 14-101, the relevant amendments in Appendices G and J, and other required materials were delivered to the Minister of Finance on September 29, 2010. If the Minister approves the Instrument and the amendments (or does not take any further action), the Instrument and the amendments come into force on January 1, 2011.

In Québec, the Instrument is a regulation made under section 331.1 of *The Securities Act* (Québec) and must be approved, with or without amendment, by the Minister of Finance. Similarly, the amendments to NI 14-101 form part of such a regulation and likewise must be approved by the Minister of Finance.

In British Columbia, the implementation of the Instrument, the amendments to NI 14-101 and the other amendments in Appendix G are subject to ministerial approval. Provided all the necessary approvals are obtained, British Columbia expects the Instrument and the amendments to come into force on January 1, 2011.

In Alberta, the consequential amendments to National Instrument 52-110 *Audit Committees* reflected in Appendix G are subject to the approval of the Minister of Finance and Enterprise. Provided the necessary approval is obtained, these amendments are expected to come into force on January 1, 2011.