

## Corporate Securities Law

October 27, 2010

### CSA Approves Amendments Related to Implementation of International Financial Reporting Standards

#### Background

In March 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards (IFRS) will apply to most Canadian public issuers and registrants for financial years beginning on or after January 1, 2011. As one of the final steps towards the implementation of IFRS, on October 1, 2010, the Canadian Securities Administrators (“CSA”) approved a new National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* (“NI 52-107”), which, effective January 1, 2011, is to replace the existing National Instrument 52-107. Amendments to other national instruments, rules and policies have also been approved to accommodate the transition in Canada to IFRS.

#### Existing National Instrument 52-107

The current National Instrument 52-107 sets out acceptable accounting principles and auditing standards to be applied by issuers and registrants for financial statements filed with Canadian securities regulatory authorities. Under the current instrument, domestic issuers and domestic registrants<sup>1</sup> must use Canadian GAAP, subject to certain limited exceptions.

#### New National Instrument 52-107

Under the new NI 52-107, the following requirements 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 IFRS;
- 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 Standards on Auditing (which have been incorporated into Canadian Generally Accepted Auditing Standards (“Canadian GAAS”)); 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.

Domestic registrants are generally subject to the same requirements as those applicable to domestic issuers, except that:

- Any investments in subsidiaries, jointly controlled entities and associates must be accounted for in non-consolidated financial statements; and
- 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.

#### Other Related Amendments

The CSA has approved amendments to other instruments, policies and rules to reflect the adoption of IFRS in Canada and the new NI 52-107 as it relates to matters addressed in such instruments, policies and rules.

The purpose of a significant majority of these amendments is to update the accounting terms and references contained in the instruments, policies and rules.

However, the amendments to the national instruments

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<sup>1</sup> A “domestic issuer” or “domestic registrant” is an issuer or registrant that is incorporated or organized under the federal or provincial laws of Canada. An issuer or registrant that is incorporated or organized under the laws of a foreign jurisdiction may also be considered a “domestic issuer” or “domestic registrant” if (i) 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 (ii) any of the following apply (A) the majority of the executive officers or directors of the issuer or registrant are residents of Canada; (B) more than 50% of the consolidated assets of the issuer are located in Canada; or (C) the business of the issuer is administered principally in Canada.

# Goodmans<sup>LLP</sup> Update

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relating to each of continuous disclosure matters and prospectus requirements contain more substantive changes. Generally, with limited exceptions, any financial statement included in an issuer's continuous disclosure documents or prospectus must comply with IFRS.

## *Acquisition Statements*

The amendments address requirements relating to the preparation of comparative financial statements, *pro forma* financial statements and financial statements in the context of a business acquisition. In particular, subject to certain conditions, for financial years beginning on or after January 1, 2011, the following applies to the preparation of financial statements for an acquired business:

- *Canadian/US Acquisition Targets:* Where acquisition statements are prepared in accordance with Canadian GAAP (incorporating IFRS), IFRS or US GAAP, there is no longer a requirement for reconciliation to the issuer's GAAP.
- *Foreign Acquisition Targets:* Where acquisition statements are prepared in accordance with disclosure requirements of a designated foreign jurisdiction that differ from the issuer's GAAP, the financial statements for the most recently completed financial year and interim period must be reconciled to the issuer's GAAP.
- *Privately-Held Targets:* For non venture issuers, where acquisition statements are prepared in accordance with Canadian GAAP for private enterprises, the financial statements for all financial years presented and the most recent interim period must be recon-

ciled to the issuer's GAAP, and the reconciliation for the most recently completed financial year must be audited. This requirement does not apply to venture issuers.

- All issuers must prepare their pro forma statements in accordance with the issuer's GAAP.

## *Extension Interim Report Filing Deadline*

The amendments to the continuous disclosure rules provide for a 30 day extension to the filing deadline for the first interim financial report in the year of adopting IFRS in respect of an interim period beginning on or after January 1, 2011. It is important to note that the extension only applies if the issuer is disclosing, for the first time, compliance with International Accounting Standard 34 *Interim Financial Reporting* and has not previously filed statements that disclosed compliance with IFRS.

As a result of the extension, a non venture issuer may file its first interim financial report that complies with IFRS for an interim period beginning on or after January 1, 2011 on or before the earlier of (i) 75 days after the end of the interim period, and (ii) the date it has filed such interim report in a foreign jurisdiction. A venture issuer may file on or before the earlier of (i) 90 days after the end of the interim period, and (ii) the date it has filed such interim report in a foreign jurisdiction.

Please contact any member of Goodmans' Corporate Securities Group to discuss these amendments.