NOTICE OF AUTORITÉ DES MARCHÉS FINANCIERS RELATED TO DISCLOSURE BY REPORTING ISSUERS ON CHANGEOVER TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Référence : Non disponible

Scope

This Notice is intended for reporting issuers governed by the *Securities Act*, R.S.Q., c. V-1.1.

Introduction

In February 2008, the Accounting Standards Board of Canada ("AcSB") confirmed January 1, 2011 as the date when International Financial Reporting Standards ("IFRS")[1] will replace current Canadian standards and interpretations for publicly accountable enterprises.

In May 2008, the Canadian Securities Administrators ("CSA") published Staff Notice 52-320, *Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards*[2] ("Notice 52-320"). This Notice provides guidance to reporting issuers related to the IFRS changeover disclosure they are required to provide to investors and other market participants.

The *Autorité des marchés financiers* (the "Authority") recently reviewed the IFRS changeover disclosures of reporting issuers, namely, companies and investment funds[3] with head offices in Québec.[4] The review took into account the disclosure guidance provided in Notice 52-320.

Companies are required to provide IFRS changeover disclosure in the Management Discussion & Analysis (MD&A). Investment funds are required to do so either in the Management Report on Fund Performance ("MRFP") or in the notes to the financial statements.

This Notice discusses the results of our review and provides guidance on the Authority's expectations with respect to IFRS changeover disclosure for reporting issuers in upcoming accounting periods.

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[1] Issued by the International Accounting Standards Board.

[2] Notice 52-320 was published in the Bulletin of *the Autorité des marchés financiers* dated May 19, 2008 (Vol. 5, No. 18, section 6.1).

[3] In this Notice, "companies" means reporting issuers contemplated in Regulation 51-102 respecting Continuous Disclosure Obligations and "investment funds" means reporting issuers contemplated in Regulation 81-106 respecting Investment Fund Continuous Disclosure.

[4] In the case of investment funds, "head office" means the head office of the fund manager.

Scope and objective

The Authority's review focused on all reporting issuers whose financial years ended between December 31, 2008 and September 30, 2009, or approximately 350 companies and 225 investment funds.

The primary objective of the review was to raise awareness among reporting issuers about the IFRS changeover and ensure that they were disclosing the prescribed information in the MD&A, in the case of companies, and in the MRFP or the notes to the financial statements in the case of investment funds. The Authority therefore identified issuers that had not provided any IFRS changeover disclosure. Among issuers that had provided such disclosure, the Authority earmarked those that had not specifically discussed the key elements and timing of their changeover plan. Lastly, for approximately 50 companies and all investment funds reviewed, the Authority assessed the extent and quality of their IFRS disclosure based on their progress updates.

Review results

Further to its review, the Authority noted that close to 15% of companies had not provided any disclosure about their changeover to IFRS. Approximately one-third of companies merely provided a generic description of their changeover plan, without specifically addressing the plan's key elements and timing. Some of the companies that discussed IFRS changeover addressed key elements and timing, but did not provide a progress update. Several companies also failed to provide a detailed description of the impact of the adoption of IFRS on each plan element, such as internal control over financial reporting, accounting policies and financial reporting expertise.

Although all the investment funds reviewed provided IFRS changeover disclosure, most did not address key elements or timing of their plan. In addition, disclosure of any impact on net asset value per unit was omitted. The majority of these investment funds did not discuss the principal differences between their current accounting policies and those they intended to apply following the adoption of IFRS.

Lastly, the Authority noted that both companies and investment funds had used generic terms or simply reproduced boilerplate texts, such as excerpts of IFRS application guides developed by accounting firms and disclosures provided by other reporting issuers. The Authority reminds reporting issuers that their disclosures must be entity-specific.

Following are examples of IFRS changeover disclosure that do not comply with the guidance set out in Notice 52-320.

Example 1

On February 13, 2008, the Accounting Standards Board confirmed that publicly accountable enterprises will be required to apply IFRS in 2011. The Company will closely monitor the changes resulting from this changeover to IFRS.

Example 2

In February 2008, the Accounting Standards Board announced that Canadian accounting standards will be converged with IFRS and that publicly accountable enterprises will have to disclose their financial information in accordance with these standards. The Fund is currently reviewing these standards to determine the potential impact of these new requirements on its financial statements.

Example 3

In February 2008, the Accounting Standards Board confirmed the changeover date from Canadian GAAP to IFRS. Therefore, Canadian publicly accountable enterprises must adopt IFRSs for their interim and annual financial statements for financial years beginning on or after January 1, 2011.

The Company expects this changeover to have an impact on accounting methods, financial reporting and information systems. The Company is currently assessing the impact of these new standards on its financial statements.

The disclosures in these examples do not allow investors to adequately assess the impact of the adoption of IFRS on the issuer or the issuer's preparedness for the changeover. For the information to be meaningful, the issuer must provide a more specific discussion of the key elements of its changeover plan. It must also discuss significant milestones and anticipated timelines for each of the elements in the plan. This information must enable investors to understand the importance of each key element of the transition plan in light of the issuer's specific circumstances.

Lastly, if an issuer has not prepared a changeover plan, this information must be disclosed.

Disclosure of changeover to IFRS two years before changeover date

The Authority expects reporting issuers to making increasingly detailed disclosure of the expected effects of IFRS as they move closer to their changeover date. Notice 52-320 states that disclosure by reporting issuers for financial years beginning two years before the changeover to IFRS should include an update of progress on their IFRS changeover plan and a description of major identified differences between their current accounting policies and those they expect to apply when preparing its IFRS financial statements.

This information should enable investors to understand the key items of the issuer's financial statements that will be affected by the changeover to IFRS. This information must also be issuer-specific.

IFRS changeover disclosure must enable investors to evaluate the risk that an issuer may not be able to comply with its disclosure requirements in respect of financial years beginning on or after January 1, 2011. Moreover, quality information enables investors to better understand how changes will impact financial reporting and to distinguish between changes that are directly related to the changeover to IFRS and those related to an issuer's business.

Next steps

From now until the changeover from current Canadian standards to IFRS, the Authority will continue to conduct reviews of reporting issuers' IFRS changeover disclosure. Specifically, the Authority will, together with the other CSA members, review the extent and quality of IFRS changeover disclosure in MD&A filings for financial years beginning two years before the changeover date. The Authority will also review information disclosed by investment funds for the same period.

In the course of these reviews, the Authority will contact reporting issuers that have not made sufficient IFRS changeover disclosure. This intervention may include requesting that the issuer refile continuous disclosure documents.

Ontario Securities Commission

The Ontario Securities Commission today released OSC Staff Notice 52-718, *IFRS Transition Disclosure Review* ("Notice 52-718"), presenting the results of a targeted review of IFRS changeover disclosure by reporting issuers with head offices in Ontario. The Notice also provides examples of appropriate IFRS changeover disclosure. The findings presented in Notice 52-718 are consistent with the findings of the Authority.

Additional Information:

Further information is available from:

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