

CSA Staff Notice 52-320
Disclosure of Expected Changes in Accounting Policies Relating to
Changeover to International Financial Reporting Standards

Purpose

This notice provides guidance to an issuer on disclosure of expected changes in accounting policies relating to an issuer's changeover to International Financial Reporting Standards (IFRS) as the basis for preparing its financial statements. This guidance applies to disclosure relating to each financial reporting period in the three years before the first year for which an issuer prepares its financial statements in accordance with IFRS.

Background

The Canadian Accounting Standards Board recently confirmed January 1, 2011 as the date IFRS will replace current Canadian standards and interpretations as Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable enterprises (which include investment funds and other reporting issuers). As discussed in CSA Concept Paper 52-402 *Possible changes to securities rules relating to International Financial Reporting Standards*, the Canadian Securities Administrators (the CSA) is considering allowing domestic issuers to adopt IFRS at an earlier date.

Changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect an issuer's reported financial position and results of operations. It may also affect certain business functions. Investors and other market participants will need timely and meaningful information about these matters during the reporting periods leading up to an issuer's changeover to IFRS.

Disclosure of changeover to IFRS by issuers other than investment funds

Form 51-102F1 *Management's Discussion & Analysis* (the MD&A form or 51-102F1) requires an issuer to discuss and analyze any changes in the issuer's accounting policies that the issuer has adopted or expects to adopt subsequent to the end of its most recently completed financial year, including changes due to a new accounting standard that the issuer does not have to adopt until a future date. Changes in an issuer's accounting policies that an issuer expects to make on changeover to IFRS are changes due to new accounting standards and therefore fall within the scope of section 1.13(a) of the MD&A form. That section specifies that the discussion and analysis should include:

- a description of the new accounting standard,
- disclosure of methods of adoption permitted and the method the issuer expects to use,
- discussion of expected effects on the issuer's financial statements, and
- potential effects on the issuer's business.

The MD&A form requirements apply to annual and interim MD&A filed by a reporting issuer in compliance with National Instrument 51-102 *Continuous Disclosure*

Obligations as well as MD&A in the form of 51-102F1 that is included in a prospectus filed in compliance with Form 41-101F1 *Information Required in a Prospectus*.

CSA staff recognize that an issuer will likely be able to provide only limited information on the topics specified in section 1.13(a) in its MD&A three and two years before the first day of an issuer's financial year for which financial statements are prepared in accordance with IFRS (issuer's changeover date). An issuer will generally be able to provide more detailed information about the expected effects of IFRS on its specific circumstances in its MD&A for interim and annual periods of the year before the issuer's changeover date. As an issuer moves closer to its changeover date, the issuer should consider how it might make available meaningful quantified information to allow investors to understand the impact of IFRS on the issuer's financial statements. The following sections describe this incremental approach to disclosure for the reporting periods prior to adoption of IFRS.

This guidance applies to an issuer whose changeover date is on or after January 1, 2011. It also applies to an issuer that adopts IFRS earlier if permitted by the CSA, to the extent that the periods referred to in the guidance have not already passed.

While this notice focuses on disclosure in MD&A, we encourage an issuer to consider whether additional disclosure beyond MD&A might contribute to informing investors about how the issuer expects it will be affected by changeover to IFRS. An issuer should also consider whether requirements in securities legislation other than section 1.13 of the MD&A form might also require the issuer to disclose specific information about the broader implications of its changeover to IFRS.

Interim and annual MD&A three years before changeover to IFRS

(e.g., the interim and annual periods of the financial year ending December 31, 2008 in the case of an issuer that will change to IFRS for its financial year beginning January 1, 2011)

If at the time of preparing its MD&A for the interim periods of the financial year beginning three years before the issuer's changeover date, an issuer has developed an IFRS changeover plan, the issuer should discuss in the interim MD&A the key elements and timing of its plan. No later than in its annual MD&A for the year beginning three years before an issuer's changeover date, the issuer should discuss the status of the key elements and timing of its changeover plan. Key elements of an issuer's plan may address the impact of IFRS on:

- accounting policies, including choices among policies permitted under IFRS, and implementation decisions such as whether certain changes will be applied on a retrospective or a prospective basis,
- information technology and data systems,
- internal control over financial reporting,
- disclosure controls and procedures, including investor relations and external communications plans,
- financial reporting expertise, including training requirements, and

- business activities, such as foreign currency and hedging activities, as well as matters that may be influenced by GAAP measures such as debt covenants, capital requirements and compensation arrangements.

If at the time of preparing its MD&A for the interim and annual periods in the financial year beginning three years before an issuer's changeover date, an issuer is well advanced in its IFRS changeover project, then the issuer should discuss the impact of IFRS changeover on its financial reporting.

Interim MD&A two years before changeover to IFRS

(e.g., the interim periods of the financial year ending December 31, 2009 in the case of an issuer that will change to IFRS for its financial year beginning January 1, 2011)

An issuer should provide an update of progress on its IFRS changeover plan and any changes in its plan, in the issuer's MD&A for interim periods of the financial year beginning two years before the issuer's changeover date.

Annual MD&A two years before changeover to IFRS

(e.g., the financial year ending December 31, 2009 in the case of an issuer that will change to IFRS for its financial year beginning January 1, 2011)

To comply with section 1.13 of the MD&A form, an issuer should discuss in its MD&A for the financial year beginning two years before an issuer's changeover date, the issuer's preparations for changeover to IFRS. Relevant details include those discussed in the preceding two sections. In addition, an issuer should describe the major identified differences between the issuer's current accounting policies and those the issuer is required or expects to apply in preparing IFRS financial statements. Such differences include any difference due to an expected change in accounting policy even though the issuer's existing policy under Canadian GAAP is permissible under IFRS. While such information may be narrative only at this stage, it should enable an investor to understand the key elements of the issuer's financial statements that will be affected by the changeover to IFRS. In identifying the accounting policies that an issuer is required or expects to apply under IFRS, an issuer should consider IFRS as they exist at the date the issuer prepares its MD&A. When an issuer believes it is also appropriate to consider the potential impact of projects that the International Accounting Standards Board currently has in process in identifying the accounting policies the issuer expects to apply on initial adoption of IFRS, the issuer should disclose any assumptions made about future changes to IFRS.

Annual and Interim MD&A for the year before changeover to IFRS

(e.g., the interim and annual periods of the financial year ending December 31, 2010 in the case of an issuer that will change to IFRS for its financial year beginning January 1, 2011)

To comply with section 1.13 of the MD&A form, an issuer should provide an updated discussion of the issuer's preparations for changeover to IFRS in its annual and interim

MD&A for the financial year beginning one year before an issuer's changeover date. Relevant details include those discussed in the preceding sections. By this time, an issuer will generally be able to discuss in more detail the key decisions and changes the issuer has made, or will have to make, relating to the changeover to IFRS. The issuer's discussion of changes relating to accounting policies should include decisions about accounting policy choices available under IFRS 1 *First-time Adoption of International Financial Reporting Standards* and other individual IFRS standards that are relevant to the issuer.

IFRS 1 requires disclosure of comparative and reconciliation information in the interim and annual financial statements of the year beginning on an issuer's changeover date. To comply with this requirement, an issuer will need to prepare quantified information about the impact of IFRS on each line item presented in the financial statements for the interim and annual periods of the year preceding changeover (e.g., for the year ending December 31, 2010 in the case of an issuer that will change to IFRS for the financial year beginning January 1, 2011). If an issuer has quantified information about the impact of IFRS on the key line items in the issuer's financial statements available when it prepares its interim and annual MD&A for the financial year beginning one year before an issuer's changeover date, an issuer should include this information in its MD&A.

Disclosure of changeover to IFRS by investment funds

An investment fund that is a reporting issuer is required under item 2.4 of Form 81-106F1 *Contents of Annual and Interim Management Report of Fund Performance* (MRFP) to discuss developments affecting the investment fund. As well, section 2.1(2) of Companion Policy 81-106 *Investment Fund Continuous Disclosure* discusses disclosure in an investment fund's financial statements and indicates that an investment fund should include information necessary to ensure disclosure of all material information concerning the financial position and results of the investment fund. An investment fund should discuss the changeover to IFRS for each fund or fund family in either the MRFP or the notes to the financial statements.

In the annual and interim filings three, two and one year(s) before changeover, as appropriate, an investment fund should disclose relevant information about its changeover to IFRS, including:

- the key elements and timing of its changeover plan,
- impact on business arrangements,
- impact, if any, on net asset value per unit,
- accounting policy and implementation decisions the fund will have to make,
- major differences the fund has identified between its current accounting policies and those it expects to apply under IFRS, and
- progress made on the fund's changeover plan.

In the year before changeover, disclosure should include quantitative impact of the changeover to IFRS. Consistent with Instructions for the MRFP, disclosure should be clear and concise, focusing on specific material information, risks and uncertainties to enable readers to better assess the impact on the investment fund.