

# Canadian Securities Administrators' Staff Notice 41-306

## *IFRS Transition – Prospectus Issues*

September 29, 2011

### **Introduction**

This notice responds to inquiries about financial information to be included in a prospectus during the time of an issuer's transition to IFRS.

### **Presentation of IFRS transition information in prospectuses**

When an issuer files a prospectus at a time when the second or third quarter interim financial report is required to be included, requirements for the inclusion of certain IFRS transition information differ between a prospectus for an initial public offering (IPO), and a short form prospectus or a non-IPO long form prospectus.

#### **IPO prospectuses**

If the prospectus is for an IPO, section 32.3(4) of Form 41-101F1 *Information Required in a Prospectus* requires the prospectus to include:

- (1) the opening statement of financial position at the date of transition to IFRS; and
- (2) IFRS 1 reconciliations for the date of transition and the most recent annual period.  
*(For ease of reference, items (1) and (2) together will be called "the Q1 IFRS Transition Information" in this notice.)*

Using a calendar year-end company as an example, the IPO prospectus would include the January 1, 2010 statement of financial position, and IFRS 1 reconciliations of equity for January 1, 2010 and December 31, 2010 and total comprehensive income for the year ended December 31, 2010, in addition to the reconciliations required by IFRS that must be included in an interim report during an issuer's year of transition to IFRS.

To meet the requirements for an interim period, there are two options (as set out below). For purposes of this illustration assume the Q3 interim financial report is required to be included in the prospectus.

### Option 1

Q3 Statement of Financial Position  
Q3 Statement of Comprehensive Income  
Q3 Statement of Changes in Equity  
Q3 Statement of Cash Flows  
IFRS 1 Reconciliations (relating to comparative Q3 interim period if previously presented)

### Option 2

Q3 Statement of Financial Position  
Q3 Statement of Comprehensive Income  
Q3 Statement of Changes in Equity  
Q3 Statement of Cash Flows  
IFRS 1 Reconciliations (relating to comparative Q3 interim period if previously presented)

**PLUS**

**OR**

**PLUS**

The Q1 IFRS Transition Information  
(To be included within the Q3 Interim financial report, as opposed to being included as additional financial information elsewhere in the prospectus)

Entire First IFRS Interim Financial Report (Q1)

### Short form prospectus or non-IPO long form prospectus

The requirement to include the Q1 IFRS Transition Information in a prospectus that includes the second or third quarter interim financial report only applies to an IPO prospectus. So there is no requirement for a short form, or non-IPO long form, prospectus to include or incorporate by reference such information.

### Auditor involvement

The requirement for an auditor review of financial statements included in a prospectus remains unchanged. Any interim financial report(s) included or incorporated by reference in a prospectus is required to be subject to an auditor review.

### Accounting principles for financial statements in prospectuses filed in the year of transition

We have received some inquiries about the acceptability of including in a prospectus an interim financial report prepared using IFRS and annual financial statements prepared using old Canadian GAAP (Part V of the Handbook). To illustrate, assume a company with a calendar year-end that uses old Canadian GAAP (Part V of the Handbook) prior to January 1, 2011 files an IPO prospectus on November 20, 2011. Under the prospectus rules, the company would have to include in the prospectus: annual financial statements for the three years ended December 31, 2008, 2009 and 2010, and an interim financial report for the third quarter ended September 30, 2011. As required by National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* (NI 52-107), the annual financial statements for the three years ended December 31, 2008, 2009 and 2010 would be prepared under old Canadian GAAP. The interim financial report for the third quarter ended September 30, 2011 (with comparative financial statements for Q3

2010) would be prepared in IFRS (see the previous section for the specific requirements for the IFRS interim financial report).

|                |             |             |             |
|----------------|-------------|-------------|-------------|
| <b>Q3 2011</b> | <b>2010</b> | <b>2009</b> | <b>2008</b> |
| IFRS           | CGAAP       | CGAAP       | CGAAP       |

## Accounting principles for financial statements in IPO prospectuses filed in the first year after transition

Prospectus rules require that three years of financial statements be provided in IPO prospectuses. An issuer has three options for presenting these financial statements. The first option involves a date of transition to IFRS earlier than the mandatory date of transition that would otherwise apply. The second and third options, which are discussed in section 2.8 of the Companion Policy to NI 52-107, do not involve an earlier transition date.

Assume a calendar year end company files an IPO prospectus on April 12, 2012. The company would be required to include in the prospectus annual financial statements for the three years ended December 31, 2009, 2010 and 2011. The 2011 annual financial statements (with 2010 comparative information) are required to be prepared using IFRS, whereas the 2009 and 2010 annual financial statements are permitted to be prepared using old Canadian GAAP. There are three options the company can choose to present these financial statements:

|                               |             |             |             |   |             |
|-------------------------------|-------------|-------------|-------------|---|-------------|
| <b>Option 1<sup>1</sup></b>   | <b>2011</b> | <b>2010</b> | <b>2009</b> |   |             |
|                               | IFRS        | IFRS        | IFRS        |   |             |
| <b>Option 2<sup>2</sup></b>   | <b>2011</b> | <b>2010</b> |             | + | <b>2010</b> |
|                               | IFRS        | IFRS        |             |   | CGAAP       |
|                               |             |             |             |   | <b>2009</b> |
|                               |             |             |             |   | CGAAP       |
| <b>Option 3<sup>2,3</sup></b> | <b>2011</b> | <b>2010</b> |             | + | <b>2009</b> |
|                               | IFRS        | IFRS        |             |   | CGAAP       |
|                               |             |             |             |   | <b>2008</b> |
|                               |             |             |             |   | CGAAP       |

1 Note that if this option is chosen, the IFRS transition date would then be January 1, 2009, instead of the transition date of January 1, 2010 under options 2 and 3.

2 The reason for presenting the three years of statements in two separate sets under these two options is to address certain audit reporting requirements.

3 Note this option would require an additional year of information.

## Questions

Please refer your questions to any of the following people:

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