

International Financial Reporting Standards (IFRS) Transition Disclosure Update

Issuers filing financial statements and management's discussion and analysis (**MD&A**) for the financial year ending December 31, 2009 are required to provide disclosure on their progress towards IFRS adoption. The Ontario Securities Commission (**OSC**) recently published pertinent advice on IFRS-related disclosure expectations for forthcoming MD&A.

Staff Notice 52-718 *IFRS Transition Disclosure Review* (the **New Notice**) summarizes the results of an OSC review of IFRS-related disclosure in issuers' MD&A, and provides additional guidance on disclosure expected in future MD&A. Previous guidance on IFRS disclosure standards for MD&A is contained in CSA Staff Notice 52-320 *Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards* (the **Previous Notice**). The Previous Notice directed issuers to consider how the transition to IFRS will affect all business functions that rely on financial information and how to communicate this to investors.

The New Notice states that reporting issuers are generally not adequately discussing, in MD&A, the key elements of their IFRS changeover plan or their progress towards achieving this plan. Proper disclosure of an IFRS changeover plan allows stakeholders to assess the readiness of an issuer to transition to IFRS and the potential impact that IFRS adoption may have on the business and operations of the issuer. Failure to meet disclosure obligations may result in re-filing requests or other regulatory action, whether from the OSC or other Canadian securities regulators.

Key Elements to be Addressed

The Previous Notice provided that compliance with MD&A form requirements may include disclosure of the impact of IFRS on the following key elements of an IFRS changeover plan:

- 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 (**DCP**), including investor relations and external communication 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.

Proper disclosure includes guidance on the applicability of each key element to an issuer's specific circumstances, and a description of significant milestones and anticipated timelines for each element. Boilerplate discussion lacking entity-specific information does not allow a reader to assess the current status of an issuer's conversion efforts, and is not satisfactory disclosure.

The New Notice contains examples of suitable disclosure addressing the key elements intended to provide stakeholders with the information necessary to assess an issuer's IFRS transition progress and readiness to meet the changeover to IFRS.

Business Activity Considerations

In addition to IFRS-related disclosure, any business activity that relies on financial information will need to be considered in light of IFRS conversion, including debt covenants, capital requirements and compensation arrangements. Disclosure of issuer-specific impacts of IFRS changeover will be useful to external stakeholders, and aid understanding of the impact of IFRS on material contracts and the issuer's operations, and how the impact is being addressed in advance of the IFRS transition.

Specific Disclosure Requirements in annual MD&A

For annual MD&A two years before changeover to IFRS (i.e. the financial year ended December 31, 2009 for issuers transitioning to IFRS for the financial year beginning January 1, 2011), issuers should provide a progress update on their previously-disclosed conversion plan, including a description of major identified accounting differences between current accounting policies and those to be applied under IFRS. Issuers should be able to provide significant details of their changeover plan and information about key decisions on policy choices in their 2010 MD&A disclosure.

While such information may be only narrative at this point, it may enable investors to understand the key elements of the issuer's financial statements that will be affected by the changeover to IFRS. As the changeover date approaches, the issuer should be able to more clearly quantify and communicate the effect of IFRS changeover on its accounting practices and financial statements. It is important to provide external stakeholders with enough information to assess the impact of IFRS adoption on an issuer's financial statements prior to transition.

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This memorandum provides general information only and is not intended to constitute legal advice to be relied upon in any particular circumstance. We are pleased to answer any questions on these obligations, and to provide assistance in meeting any of them. Please feel free to contact any of our lawyers with whom you usually deal, or any member of our Corporate Finance and Securities Group, listed below.

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