OSC Corporate Finance – IFRS Release No. 1

FILING DEFICIENCIES IN ISSUERS' FIRST IFRS INTERIM FINANCIAL REPORTS

Many Ontario reporting issuers have begun to file their first International Financial Reporting Standards (IFRS) interim financial reports for the quarter ended March 31, 2011. In order to alert market participants in a timely manner about certain deficiencies in these filings, staff of the OSC's Corporate Finance Branch is issuing this communication based on our preliminary review of the filings to date. Reporting issuers that file documents with these deficiencies will be requested to refile their interim financial reports, along with revised CEO/CFO certificates. For those issuers that have yet to file their first IFRS interim financial report, we urge the issuer's management, audit committee members and their advisors to review this release and to ensure that the first IFRS filing does not contain any of these deficiencies.

Summary of Filing Deficiencies

We have identified the following recurring deficiencies made in IFRS filings to date:

- **Missing IFRS 1 reconciliations** – Some issuers did not include all of the required IFRS 1 reconciliation disclosures as required by paragraph 32 of IFRS 1 *First Time Adoption of International Financial Reporting Standards*. Some issuers omitted certain of the periods required for the equity or total comprehensive income reconciliations, while other issuers included only a reconciliation for net profit but not for total comprehensive income. These reconciliation disclosures are essential to investors in understanding the effect and implications of the transition to IFRS. For a calendar year-end issuer, the required reconciliations for the first interim period are as follows:

Reconciliations for:	
Equity:	***Total comprehensive income:***
• January 1, 2010, • December 31, 2010, and • March 31, 2010.	• The year ended December 31, 2010, and • The three months ended March 31, 2010.

- **Missing opening IFRS statement of financial position** – Some issuers failed to include on the face of the financial statements the opening statement of financial position as at the date of transition to IFRS (generally January 1, 2010 for calendar year-end issuers) as required by subsection 4.3(2)(e) of National Instrument 51-102 *Continuous Disclosure Obligations* (NI 51-102). This opening IFRS statement of financial position is the starting point for an issuer's accounting under IFRS and provides critical information to investors.

- **Missing statement of changes in equity** – Some issuers failed to include the statement of changes in equity for the three month comparative period ended March 31, 2010 as required by subsection 4.3(2)(b) of NI 51-102 and paragraph 20(c) of IAS 34 *Interim Financial Reporting*.

The interim financial report remains the responsibility of the issuer. However, we did note that the majority of these deficient filings appear to have been reviewed by the issuer's auditor, since these filings did not include an accompanying notice that is required by subsection 4.3(3) of NI 51-102 when an interim review has not been performed.

Impact of IFRS Transition on the Certification Process

As the above deficiencies highlight, issuers need to ensure that their internal control over financial reporting (ICFR) and disclosure controls and procedures (DC&P) are robust enough to address changes resulting from IFRS transition. This includes the preparation and filing of the first IFRS interim financial report, including related note disclosures and the accompanying management's discussion and analysis. Where necessary, issuers should establish or modify specific ICFR and DC&P in order to prepare its financial statements in accordance with IFRS and securities legislation.

Regulatory Consequences and Remedies

It is a fundamental responsibility of every issuer to meet its continuous disclosure reporting obligations. An issuer that has filed an interim financial report that does not comply with securities legislation will be placed on the list of defaulting reporting issuers maintained on the OSC website until the default is remedied. To remedy the default, the issuer will have to refile the interim financial report on SEDAR, together with a news release and revised interim CEO/CFO certificates. As a result of the refiling, the issuer will also be placed on the Refilings and Errors list on the OSC website for a period of three years from the date of refiling.

Further OSC Guidance

For further guidance, issuers' management, audit committee members and their advisors should refer to the OSC Issuer Guide – *Top 10 Tips for Public Companies Filing Their First IFRS Interim Financial Report* available at www.osc.gov.on.ca/IFRSGuide.

Conclusion

Converting from Canadian generally accepted accounting principles to IFRS represents a fundamental change to reporting standards that issuers will continue to experience as they adopt IFRS on varied timelines throughout 2011. For those issuers that have yet to report under IFRS, we trust that their management, audit committee members and advisors will find this release helpful when preparing the first IFRS interim financial report. We will continue to update this release with additional observations as our reviews continue.

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Avoid Restatements!

Ensure that your interim financial report meets the requirements of IFRS and securities legislation.

Questions

Questions may be referred to:

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