CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

CSA Staff Notice 51-337
Continuous Disclosure Review Program Activities for the fiscal year ended March 31, 2012

July 19, 2012

Purpose of this Notice

Reliable and accurate information by reporting issuers (issuers) is critical for investor confidence and to promote efficient capital markets. The CSA's continuous disclosure (CD) review program is designed to identify material disclosure deficiencies that affect the reliability and accuracy of an issuer's disclosure record, and has two fundamental objectives: education and compliance. The objectives of this notice are to:

- help issuers understand and comply with their obligations;
- summarize the results of the CD review program for the fiscal year ended March 31, 2012 (fiscal 2012); and
- provide examples of areas of common deficiencies.

To assist issuers in better understanding their continuous disclosure obligations, we have provided guidance and examples of common deficiencies in the following areas:

- Appendix A – Financial Statement Deficiencies
- Appendix B – Management's Discussion and Analysis (MD&A) Deficiencies
- Appendix C – Other Regulatory Deficiencies

For further details on the program, see CSA Staff Notice 51-312 – *(Revised) Harmonized Continuous Disclosure Review Program*.

International Financial Reporting Standards

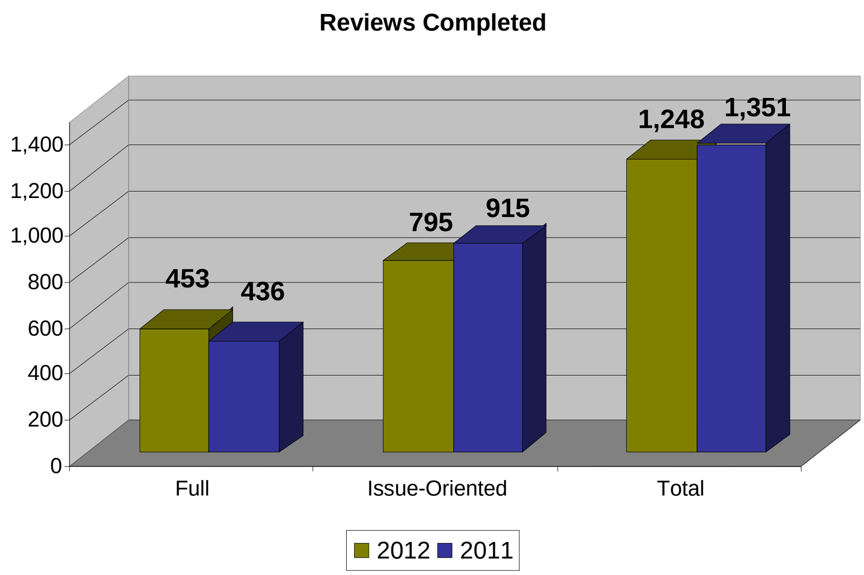
Most issuers are now required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) for fiscal years beginning on or after January 1, 2011.

Bulletins and IFRS-related content were provided on many jurisdictions' websites to assist issuers in their transition to IFRS. These jurisdictions updated this IFRS-related content during the year by proactively communicating with issuers and their advisors on IFRS-related securities law changes and transition issues.

In fiscal 2012, we conducted reviews that focused on issuers' first IFRS interim financial reports. The results of the IFRS transition reviews were generally positive. Compliance was better than expected based upon the results of earlier IFRS targeted reviews. Approximately 5% of issuers were required to refile financial statements due to basic transition issues.

Year in Review – fiscal 2012

There are approximately 4,200 issuers in Canada[1]. We use a high level screening system that considers risk factors to select issuers for review and to determine the type of review to conduct (full or issue-oriented). We apply both qualitative and quantitative criteria in determining the level of review required. The criteria are updated as market conditions change. We focus on accounting and disclosure issues where either non-compliance is probable or a need for increased compliance is foreseen.



The above chart illustrates the composition of the type of reviews we conducted in fiscal 2012 compared to fiscal 2011. The number of full reviews conducted in fiscal 2012 increased by 4% from the previous year. The number of issue-oriented reviews decreased by 13%. The decrease in issue-oriented reviews is primarily the result of the fact that we concentrated our resources on IFRS by:

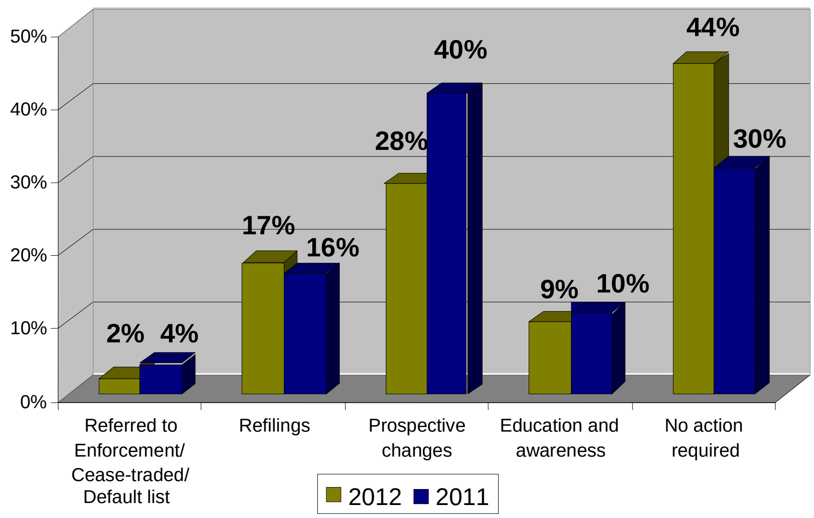
- conducting full reviews;
- focusing on IFRS issue-oriented reviews that were more complex and comprehensive than those done in fiscal 2011; and
- communicating more frequently with issuers to assist them in their IFRS transition.

Outcomes for fiscal 2012

Given our high level screening system that considers risk factors for the selection of issuers, we select issuers with higher risk of non-compliance. In fiscal 2012, 56% of our review outcomes required issuers to take action to improve disclosure, compared to 70% in fiscal 2011.

[1] Excluding investment funds and issuers that have been cease-traded.

Review Outcomes 2012



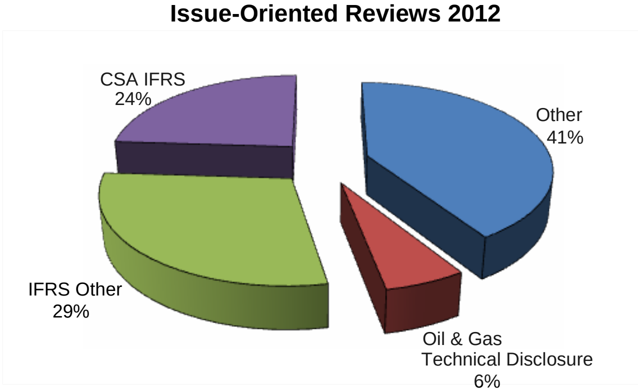
The increase of outcomes in the no action required category is mainly due to the increase in the number of issue-oriented reviews conducted that did not result in a letter being sent to the issuer. These issue-oriented reviews were completed to gather information on the IFRS transition, to identify industry trends and to identify differences between pre-changeover Canadian Generally Accepted Accounting Principles (GAAP) and IFRS that resulted in adjustments to reported results and disclosures.

We classified the outcomes of the full and issue-oriented reviews in the five categories described in Appendix D. More than one category of outcome could have been generated by a CD review. For example, an issuer could be required to refile certain documents as well as make certain changes on a prospective basis.

Issue-oriented reviews

An issue-oriented review is an in-depth review focusing on a specific accounting, legal or regulatory issue that we believe warrants regulatory scrutiny.

Issue-Oriented Reviews 2012



The “Other” category includes reviews of:
- Auditor Review of Interim Reports;
- Complaints;
- Environmental disclosure;
- Press releases;
- Executive compensation;
- Audit Committee;
- Certification;
- MD&A; and
- Cash Flow.

In fiscal 2012, 64% of the reviews (as compared to 68% of the reviews in fiscal 2011) were issue-oriented reviews. The following issue-oriented reviews were completed by one or more of the jurisdictions:

CSA IFRS Issue-oriented Review

The CSA conducted a CSA IFRS issue-oriented review. We reviewed the financial statements of selected issuers in addition to their MD&A. We examined these reports to determine whether the issuers provided information to enable readers to analyze and understand how the transition to IFRS affected the issuers' financial position, financial performance and cash flow.

We reviewed 164 issuers and noted that compliance was generally positive.

- 72% of reviews required no action.
- When we noted deficiencies, we sent comment letters asking issuers for clarification.
- The most common MD&A deficiency was issuers not clearly labelling and identifying the accounting principles used when they presented a mix of financial information in accordance with pre-changeover Canadian GAAP and IFRS. We reminded issuers of this requirement and asked them to comply in future MD&A.
- We found that issuers commonly did not include a statement of changes in equity for the comparative interim periods as required by subsection 4.3 (2) (b) of National Instrument 51-102, *Continuous Disclosure Obligations*.

IFRS Other Issue-oriented Reviews

a. Education IFRS Transition

In early fiscal 2012, we continued conducting education reviews to assess the level of readiness of issuers to file their first IFRS interim financial report. We reviewed the IFRS transition disclosure provided by issuers in their third interim and/or last annual MD&A before their first IFRS filings. Only a few issuers needed to be followed up with due to their risk of not being ready to file their first IFRS interim financial report on time.

b. IFRS Transition Disclosure

In addition to the CSA IFRS issue-oriented reviews performed, certain jurisdictions carried out further reviews of disclosure provided by issuers in their first IFRS interim financial report, including both the financial statements and the MD&A. The objective of the review was to gather insights on the extent and nature of the disclosures provided by issuers. Information was tracked to provide insight on industry trends, differences between pre-changeover Canadian GAAP and IFRS that resulted in adjustments to reported results, and disclosures. No letters were sent to issuers as a result of this review.

c. Decommissioning Provision

Staff conducted a review of issuers engaged in oil and gas activities to assess appropriate compliance with recognition, measurement and disclosure rules for decommissioning provisions under IAS 37, *Provisions, contingent liabilities and contingent assets* (IAS 37). Based on differences between pre-changeover GAAP and IAS 37, we expected to see IFRS transition adjustments in most cases. While a few issuers failed to appropriately recognize a provision, most complied with the recognition and measurement rules. We did note some general disclosure deficiencies in the following areas:

- inappropriate disclosure of material estimates and assumptions (e.g. discount rate, expected timing of outflows);

- over 50% of issuers reviewed did not disclose the requirement to re-measure the provision at each reporting period in order to reflect rates in effect at the time; and
- over 50% of issuers reviewed provided no disclosure of the discount rates applied on transition to IFRS or in the comparative quarter.

Oil and Gas Technical Disclosure Issue-oriented Review

Annually, staff conducts reviews on issuers engaged in oil and gas activities to assess compliance with requirements set out in National Instrument 51-101, *Standards of Disclosure for Oil and Gas Activities* (NI 51-101). Overall, we were satisfied with the results of our fiscal 2012 reviews. However, areas where we noted deficiencies and expect to see future improvements include:

- disclosure on significant factors and uncertainties as per sections 5.2 and 6.2.1 of Form 51-101F1, *Statement of Reserves Data and Other Oil and Gas Information*;
- use proper terminology set out in the Canadian Oil and Gas Evaluation Handbook (COGEH);
- include all required signatures on Form 51-101F3, *Report of Management and Directors on Oil and Gas Disclosure*, as instructed on subsection 2.1.3(e) of NI 51-101;
- consistently comply with section 5.9 of NI 51-101 and guidance in Revised CSA Staff Notice 51-327, *Guidance on Oil and Gas Disclosure*, concerning the disclosure of resources other than reserves;
- provide appropriate cautionary language concerning the 6:1 boe conversion ratio of natural gas to oil so as to clearly discern between the energy equivalency and the market price equivalency; and
- be consistent and accurate in the use of units of measurement and disclosure of reserves within and between disclosure documents.

Full Reviews

A full review is broad in scope and covers many types of disclosure. It covers the issuer's most recent annual financial statements and interim financial reports (pre-changeover Canadian GAAP) or at least the issuer's first IFRS interim financial reports (IFRS), MD&A, and other disclosure documents[1].

The following table provides a breakdown of these full reviews that have been conducted in fiscal 2012.

Type of review	**Total 2012**	**Total 2011**
Full – pre-changeover Canadian GAAP	120	436
Full – IFRS	333	-
Total Full	**453**	**436**

[1] Other disclosure documents are: technical disclosures, including technical reports for oil and gas, and mining issuers; annual information forms (AIF); annual reports; information circulars; press releases, material change reports and business acquisition reports (BARs); websites; certifications; and material contracts.

Common deficiencies identified

Our reviews focus on identifying material deficiencies and disclosure enhancements. To help issuers better understand their disclosure obligations, we have provided guidance and examples of common deficiencies:

Appendix A: Financial Statement Deficiencies

1. First-time adoption of International Financial Reporting Standards
   a. Reconciliations
   b. Explanations of material adjustments
   c. Accounting policies
2. Classification of a liability as current
3. Business combinations
4. Flow-through shares

Appendix B: MD&A Deficiencies

1. Discussion of Operations
2. Liquidity
3. General Provisions

Appendix C: Other Regulatory Deficiencies

1. Standards of Disclosure for Mineral Projects
2. Statement of Executive Compensation
   a. Summary compensation table
   b. Compensation discussion and analysis
3. Disclosure of corporate governance practices

This is not an exhaustive list of deficiencies noted in our reviews, issuers should be reminded that their CD record must comply with all relevant securities legislation and lengthy disclosure does not necessarily equal full compliance. Examples do not include all requirements that could apply to a particular issuer's situation.

Areas of focus for fiscal year 2013

During fiscal 2013, our focus will be on the first annual IFRS report. We will continue to use a high level screening system that considers risk factors to determine the issuers we will select for review and the type of review required. Some of the topics that may receive greater attention by our CD program include:

- judgments and sources of estimation uncertainty disclosure;
- asset impairments; and
- business combinations.

Results by jurisdiction

The Alberta Securities Commission, the Ontario Securities Commission and the Autorité des marchés financiers publish reports summarizing the results of the CD review program in their jurisdictions. See the individual regulator's website for a copy of its report:

- www.albertasecurities.com
- www.osc.gov.on.ca
- www.lautorite.qc.ca

FOR MORE INFORMATION

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