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British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Nunavut

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario M5H 3S8

c/o Anne-Marie Beaudoin, Secrétaire
Autorité des marchés financiers
Tour de la Bourse
800, square Victoria
C.P. 246, 22e étage
Montreal, Québec, H4Z 1G3

Ladies and Gentlemen:

Re: Notice and Request for Comments – Proposed National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* and Companion Policy 52-107CP *Acceptable Accounting Principles and Auditing Standards* and Proposed Amendments to National Instrument 14-101 *Definitions*

We have read the Notice and Request for Comments and provide you with our comments in this letter. Capitalized terms in this letter have the same meaning as those in the Notice and Request for Comments, except as otherwise indicated.

We have restricted our comments to those matters in the proposals which we believe are the most significant.

Proposed Changes to Requirements for Acquisition Financial Statements

Canadian GAAP for Private Enterprises

We recognize that the issues surrounding whether the new Canadian GAAP for private enterprises provides an acceptable basis for acquisition financial statements are complex. However, we do not think that the CSA should proceed with a rule amendment which would result in the requirements for Ontario differing from those for every other jurisdiction. Therefore, we strongly encourage the CSA to come to agreement on this key matter, to ensure a level field in this regard for all reporting issuers.

In response to the specific questions relating to this matter raised in the Request for Comments, we have provided our views below.

Question 1: Do you agree with the proposal of jurisdictions other than Ontario that acquisition statements should be permitted to be prepared in accordance with Canadian GAAP for private enterprises where the specified conditions are met in accordance with paragraph 3.11(1)(f)? Please give reasons for your response.

We agree with the proposal of jurisdictions other than Ontario that acquisition statements should be permitted to be prepared in accordance with Canadian GAAP for private enterprises when the specified conditions are met.

We expect that the use of this new framework by private Canadian enterprises will become commonplace. Accordingly, we expect that in many cases, Canadian private enterprise targets, in the event of an acquisition by a Canadian public entity, will have no other financial information readily available. If acquisition financial statements were not permitted to be prepared in accordance with Canadian GAAP for private enterprises, the costs for completing acquisitions of such entities will increase substantially.

While we acknowledge that Canadian GAAP for private enterprises may in some cases represent a less robust basis for financial decision making than IFRS, the conditions in paragraph 3.11(1)(f) will improve their usefulness. Additionally, we believe that the additional cost of preparing IFRS financial statements will exceed any incremental benefits to investors.

In our view, the pro forma financial statements, as opposed to the historical financial statements, will provide the most useful information to investors, since the pro forma financial statements provide better information regarding the financial position and results of operations of the combined entity. The pro forma financial statements would be prepared in accordance with the issuer's GAAP, which in many cases will be IFRS. As the pro forma financial statements reflect new fair value measurements for the assets and liabilities of the target entity, many possible differences between IFRS and private enterprise GAAP need not be dealt with in the pro forma financial statements. For example, some target entities may have amortized their long-lived assets under CICA 3061 *Property, Plant and Equipment* at a level determined to not comply with IAS 16 *Property, Plant and Equipment.* As long-lived assets will be recorded in the pro forma financial statements at their acquisition date fair value, issuers need not determine the retrospective impact of this accounting policy difference in relation to the preparation of the pro forma financial statements.

We agree that non-consolidated financial statements would not provide sufficient information for investor decision making, and we believe that the requirement to consolidate subsidiaries and apply the equity method to joint ventures is a necessary condition for the acceptance of private enterprise GAAP.

We understand that the CSA may wish to closely monitor developments surrounding the use of private enterprise GAAP, even if it chooses to permit its use. One possible method of monitoring such performance would be to require reconciliation to IFRS as a provisional measure, with a view to revisiting this requirement at a specified date in the future.

If the CSA chooses to not permit private enterprise GAAP (as is currently proposed by Ontario), we would suggest that the CSA set a specified timeframe on which this decision would be revisited, based on the observed performance of private enterprise GAAP.

Question 2: Do you agree with Ontario's proposal that acquisition statements should be permitted to be prepared only in accordance with a set of accounting principles specified in paragraphs 3.11(1)(a) to (e)? Please give reasons for your response.

Please refer to our comments above in response to Question 1.

Question 3: Do you think that any other options would better balance the cost and time for issuers to provide acquisition statements and the needs of investors to make investment decisions? For example, one option identified by Ontario would be to permit acquisition statements to be prepared in accordance with Canadian GAAP applicable to private enterprises where they are accompanied by an audited reconciliation quantifying and explaining material differences from Canadian GAAP applicable to private enterprises to IFRS and providing material IFRS disclosures. Please give reasons for your response.

Please refer to our comments above in response to Question 1.

GAAP Reconciliation Requirements

We noted in Part 3.11(6) of the proposed National Instrument 52-107 that, for acquisition statements, a reconciliation to the issuer's GAAP be provided for the most recent annual and interim periods, unless the acquisition statements are prepared in accordance Canadian GAAP applicable to private enterprsises or in accordance with the issuer's GAAP. We do not agree with this element of the Proposed Instrument.

First, we believe that the reconciliation requirements, or lack thereof, should be the same, regardless of whether the acquisition statements are prepared in accordance with IFRS, U.S. GAAP, private enterprise GAAP, or another GAAP acceptable in the circumstances. Should any of the CSA jurisdictions determine that they will permit private enterprise GAAP acquisition statements without reconciliation to the issuer's GAAP, we do not believe a reconciliation requirement should be imposed with respect to other acceptable GAAPs.

Second, in our view, a reconciliation requirement to the issuer's GAAP, particularly when the issuer's GAAP is IFRS, has the potential to add substantial additional costs to acquisitions without a substantial corresponding benefit. As noted above, we believe that the pro forma financial statements provide the most useful information regarding the ongoing financial position and results of operations of the combined entity. The reconciliation to the issuer's GAAP

implicitly required for the pro forma financial statements would generally be much simpler than that required for the historical financial statements as a result of the "resetting" of assets and liabilities to fair value in the pro forma financial statements.

Additionally, given the provisions within IFRS governing initial adoption, it is not evident how an IFRS reconciliation would be prepared. Entities that adopt IFRS generally apply the provisions of IFRS 1 *First-time Adoption of International Financial Reporting Standards.* However, IFRS 1 is strictly applicable only to an entity's first full set of IFRS financial statements. Since a reconciliation to IFRS would not constitute a full set of IFRS financial statements, it is not clear that IFRS 1 can be applied. In the event that IFRS 1 was not applicable, it would seem that full retrospective application of IFRS would be required within the reconciliation, which would be very costly and time consuming.

The CSA may wish to consider whether the usefulness of acquisition financial statements prepared in accordance with a GAAP other than the issuer's GAAP could be enhanced in a more cost-effective fashion through the inclusion of a qualitative discussion regarding the significant differences between the issuer's GAAP and the GAAP applied in the acquisition financial statements. This disclosure would alert investors to potential differences without diverting company resources to a full reconciliation activity which may provide only marginal additional benefits.

We also note that the U.S. Securities Exchange Commission (SEC) does not require reconciliations between IFRS and U.S. GAAP, and we presume that the omission of this requirement is for the reasons outlined above.

In the event that the CSA does decide to proceed with the proposals in 3.11(6) of the Proposed Instrument, requiring reconciliation to the issuer's GAAP, we strongly recommend that the CSA clarify the basis of preparation of the reconciliation in the event that the issuer's GAAP is IFRS. In particular, we strongly recommend that the CSA clarify the permissibility of application of the optional and mandatory transition exceptions in IFRS 1. Absent this clarification, we anticipate significant confusion on this matter by issuers and their auditors.

Reconciliation from U.S. GAAP to Canadian GAAP for SEC Issuers

We support the removal of the requirement to reconcile from U.S. GAAP to Canadian GAAP for certain SEC issuers who previously filed Canadian GAAP financial statements.

Use of Different Accounting Principles for Different Periods

We do not agree with the provisions in Part 3.2(6) of the Proposed Instrument that would permit financial information in certain circumstances for financial years beginning before 1 January 2011 to be prepared using the accounting principles in Part 4 of the instrument.

From discussions with the CSA staff, we understand that this proposal is intended to permit financial statements of different GAAP to be combined in the same set of financial statements. For example, we understand that if an issuer were to file a long form prospectus in 2012, the issuer (subject to meeting the criteria in the proposed instrument) would be permitted to prepare financial statements which contained financial information for 2010 and 2011 in accordance with IFRS, but financial information for 2009 in accordance with "old Canadian GAAP". We understand that it would be permissible to show the 2009 column alongside the 2010 and 2011

columns, with 2009 information where required integrated with the 2010 and 2011 notes to the financial statements. We believe that this method of presentation will be highly confusing for investors, and that the 2009 "old Canadian GAAP" financial information will be of very limited value because it will not be comparative to the 2010 and 2011 IFRS financial information. Furthermore, it is not clear what type of audit opinion an auditor may be able to render on such a set of financial statements.

As an alternative, we believe that the Proposed Instrument would also permit the 2009 "old Canadian GAAP" financial statements to be included as a separate set of financial statements. We believe in this case that comparative 2008 financial information would be required in order to comply with Canadian GAAP (since Canadian GAAP financial statements must be comparative), which would mean that an issuer would effectively be including four years instead of three years of financial information. While this would alleviate the issues noted above surrounding confusion where mixed GAAPs are presented in a single set of financial statements, it would create a significant incremental disclosure and audit requirement relating to the fourth oldest year without any clear incremental benefit to investors.

Another possible alternative may be to include 2010 "old Canadian GAAP" financial information along with the 2009 information in a separate set of financial statements. This would result in the 2010 financial information being disclosed twice: once in accordance with IFRS in the IFRS financial statements for 2011 and 2010, and again in accordance with "old Canadian GAAP" in the separate "old Canadian GAAP" financial statements for 2010 and 2009. The reconciliation requirements of IFRS 1 which would be included in the IFRS statements would bridge the 2010 "old Canadian GAAP" results to the 2010 results prepared in accordance with IFRS. However, in initial public offerings, because Canadian GAAP information has not been previously presented, this approach may also be confusing to investors.

If the CSA wishes to provide special one-time relief to Canadian entities from preparing three years of financial information in accordance with IFRS during this period of Canadian transition, we believe the CSA should consider providing this relief through exclusion of the third oldest year (provided that the criteria in the Proposed Instrument are met). We note that the SEC provides relief from the inclusion of the third oldest year for foreign private issuer first time adopters of IFRS. The CSA may also consider expanding the relief from providing the third oldest year to any initial public offering first time adopter of IFRS whose transition date is at the beginning of its first comparative year.

If the CSA is not amenable to the exclusion of the third oldest year, we believe the only realistic alternatives are for the CSA to require either: (a) three years of IFRS financial information in initial public offerings; or (b) two sets of financial statements with an overlap year and IFRS 1 reconciliations bridging the overlap year from "old Canadian GAAP" to IFRS. We note that in some cases, this may require very significant incremental work for issuers and their auditors. However, in our view, permitting mixed GAAPs in the same set of financial statements is not appropriate.

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Should you have any questions or comments on this letter, we would be pleased to hear from you.

Yours sincerely,

Ernst & Young LLP

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