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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
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Re: Response to 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* *(collectively, the "Proposed Materials")*

We are writing in response to the request for public comment made by the members of the Canadian Securities Administrators ("CSA") on the Proposed Materials that relate primarily to the upcoming changeover to IFRS in Canada.

ACQUISITION STATEMENTS

We believe there are positive aspects to each of the proposals put forth by 1) jurisdictions other than Ontario to allow the use of GAAP applicable to private enterprises (hereafter referred to "GAAP for Private Enterprises") for acquisition financial statements, and 2) Ontario's proposal to not allow GAAP for Private Enterprises for acquisition financial statements ("Ontario's Proposal"). However, as

discussed below, we also consider that each of the proposals have drawbacks. Additionally, we do not see any benefit in having different rules across different jurisdictions within Canada and do not see how such diverging rules would benefit investors or enhance our capital market credibility.

We appreciate that the proposal put forth by jurisdictions other than Ontario is intended to provide relief to the financial statement preparers from the complexity of converting from GAAP for Private Enterprises to Canadian GAAP applicable to publicly accountable enterprises (hereafter referred to as "IFRS") in a short period of time; however, we believe it is important for the CSA to have a clear vision with respect to the identity of the users of acquisition financial statements and their perceived information needs. Ontario's Proposal would appear to be more closely aligned with the perceived needs of the users since this proposal would provide a clearer picture of the financial position and results of the combined entity under a common GAAP framework. However this proposal may prove impracticable for companies to comply with in the relatively short timeframe contemplated by the Business Acquisition Report (BAR) regulations.

In respect to the specific questions within the Proposed Materials, we offer the following thoughts.

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.

This proposal would appear to allow for the easiest compliance, and least effort by issuers, and private companies that have been acquired by issuers. However, because the acquiree financial statements are not prepared in accordance with the same GAAP as the issuer's financial statements (IFRS), and would not require reconciliation under proposed rule NI 52-107 Part 3.11 (6) which specifically scopes out paragraph (f), this may result in a lack of comparability between the results and financial position of the issuer and acquiree.

It is our belief that under this proposal, the pro forma financial statements required under NI 51-102, Part 8.4 (5) would need to include an unaudited reconciliation from GAAP for Private Enterprises to the issuers GAAP. If this proposal is chosen, we believe that the CSA should provide succinct guidance as to the form and content of the reconciliation, including clear guidance related to first time adoption considerations of IFRS.

This proposal is, however, inconsistent with NI 51-102 F5, Part 14.2, which requires prospectus level disclosure in an Information Circular where a security-holder vote is needed with respect to an acquisition transaction. This effectively means in situations where an issuer is acquiring a Canadian private company and is required to complete an Information Circular for voting purposes, the rules require that the private company will generally need to provide three years financial statements in accordance with IFRS. This is in obvious conflict with this proposal that would permit the inclusion of GAAP for Private Enterprises for consummated transactions in both prospectus documents and BARs. We believe the CSA should consider whether it is conceptually appropriate to have different financial statement requirements for completed acquisitions under a BAR, compared to a probable acquisition under an Information Circular.

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.

Ontario's Proposal may result in the most theoretically sound result, as acquisition financial statements would be prepared in accordance with a globally recognized set of accounting standards and would be on the same basis (IFRS) as the issuer's financial statements. However, we also believe that this proposal would result in significant time and effort for an issuer who is acquiring a target entity who applies GAAP for Private Enterprises, to convert such financial statements to IFRS in order to meet its financial reporting requirements. As a result, we believe that it may prove impracticable for companies to comply with this proposal, within the timeframe of a BAR filing.

It is however, unclear to us what this burden may mean to issuers, from the context of non-compliance, or whether it would ever cause an issuer to avoid completing an acquisition transaction they may have otherwise considered due to the reporting obligations. We believe these issues need to be further explored and considered prior to the CSA adopting Ontario's Proposal.

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.

We believe a reconciliation option may better balance the cost and time issues with the needs of investors. We believe there are at least two potential approaches to consider in determining how to structure a reconciliation from GAAP for Private Enterprises to IFRS.

1. The first approach to the reconciliation would consist of a tabular reconciliation to quantify the material differences between the issuer's GAAP and GAAP for Private Enterprises with explanations for the differences. Under this approach, there would be no requirement to include incremental footnote disclosure for any differences in IFRS disclosures that may exist. We believe this approach is a practical solution in that it provides certain of the benefits of Ontario's Proposal (e.g. base level financial information in accordance with IFRS), without the issues surrounding the time and effort required to fully adopt IFRS.

2. The second approach to the reconciliation would consist of a tabular reconciliation (considered in 1 above), as well as all other required material disclosures necessary under IFRS that are not already presented within the base financial statements prepared under GAAP for Private Enterprises. Similar to concerns raised with respect to Ontario's Proposal, we are also of the belief that any reconciliation that also requires full footnote disclosure, as required under IFRS, is equally impractical as asking private companies to fully adopt IFRS, and therefore do not believe that it is a viable alternative.

Under any reconciliation approach that may be adopted, we believe that the CSA should provide succinct guidance as to the form and content of the reconciliation, including clear guidance related to first time adoption considerations of IFRS. An example of such guidance for reconciliations already

exists in the context of reconciliations for foreign GAAP to US GAAP for SEC Foreign Private Issuers, under Item 17 of Form 20-F.

To the extent the CSA chooses to proceed with a reconciliation approach, the CSA should consider whether it is appropriate to establish a threshold level for which reconciliations are required. Such a threshold could be based on numeric significance levels (for example, acquisitions greater than 50% significant), type of issuers (for example, Venture versus non-Venture issuers), or some other predetermined threshold.

In the context of an audited reconciliation, we also believe that the CSA will need to provide guidance as to what is meant by an "audited reconciliation". Would the CSA expect that the audit report make specific mention of the reconciliation, or rather is this terminology intended to mean that the reconciliation would simply form part of the audited footnotes, without any specific reference within the audit opinion? It is our belief that that latter would be the appropriate approach, wherein the reconciliation would be included within the audited footnotes of the acquiree financial statements prepared in accordance with GAAP for Private Enterprises, however there would be no specific reference to the reconciliation within the audit report.

OTHER CONSIDERATIONS

Domestic Registrants

NI 52-107, Part 3.2 (3) (a) states that that financial statements for registrants must be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises, except that the financial statements must account for investments in subsidiaries, jointly controlled entities and associates as specified for separate financial statements in Canadian GAAP applicable to publicly accountable enterprises. Additionally, the rule requires that the annual financial statements must disclose that they comply with IFRS except that the financial statements account for investments in subsidiaries, jointly controlled entities, and associates as specified for separate financial statements in IFRS. In addition, the proposed rule (Part 3.2 (4)) allows for a transition exemption for financial statements and interim financial information to exclude comparative information during 2011.

Further, Part 3.3 (1) (a) (iii) provides that the audit report for registrants must be either in the form of:

(A) fair presentation framework, or

(B) refer to IFRS as the applicable fair presentation framework.

It is our belief that audit reports would need to follow Part 3.3 (1) (a) (iii) (A) and would refer to a fair presentation framework as defined by NI 52-107. We do not however foresee any circumstance wherein an auditor would be able to issue an opinion on registrant financial statements in accordance with IFRS as the applicable fair presentation framework, if the registrant has not consolidated subsidiaries, jointly controlled entities and associates as considered under Part 3.2 (3) (a), and has not provided comparative information.

Proposed NI 52-107, Part 3.2 (5) & (6)

Part 3.2 (5) provides that financial statements must be prepared in accordance with the same accounting principles for all periods presented, however provides an exception to this general rule under Part 3.2 (6). Part 3.2 (6) allows for the use of current Canadian GAAP for the earliest year presented for years beginning before January 1, 2011, if the year had not otherwise been presented under IFRS.

When read literally, these rules would appear to imply that a Company would be able to present financial statements with different bases of accounting, all within one set of financial statements. For example, for the three years ending December 31, 2011, with both 2010 and 2011 presented in IFRS, and 2009 presented in current Canadian GAAP, Part 3.2 (5) & (6) appear to allow for all three years to be presented within the same set of financial statements.

We do not believe that this would be an appropriate interpretation of the proposed rules as drafted, and do not believe that it would be appropriate to have periods under a different reporting framework presented within a single set of financial statements. We believe the CSA should clarify the language within the proposed rule to make it clear that this literal interpretation is not the appropriate interpretation and clarify, when there is more than one accounting framework applied for different periods, that the CSA would expect to see two distinct set of financial statements; one for the IFRS periods, and one for the current Canadian GAAP periods.

Other

Part 3.9 (1), of the Proposed Materials has removed the "same core subject matter" exemption originally contained in Part 5.1 (e) of NI 52-107, for financial years beginning on or after January 1, 2011. As a result of removing this exemption, there may be situations wherein an issuer that is currently permitted to prepare financial statements in accordance with US GAAP would no longer be permitted to do so. For example, currently if a company is doing a joint initial public offering in both Canada and the US and plans on using US GAAP as their basis of accounting, they would be permitted to use US GAAP in their Canadian IPO document filed with the CSA by relying on the provisions within Part 5.1 (e) of current NI 52-107. Under the Proposed Material, such an exemption does not immediately exist, which would result in an issuer needing to seek relief under the rules to use US GAAP in their initial offering. To the extent the CSA determines it is appropriate to keep the proposed rule change related to the removal of Part 5.1 (e) of current NI 52-107, we ask that the CSA provide clarifying language within the companion policy or within a separate Q&A type document that explains how to deal with this issue.

Should you wish to discuss this response please contact Andrew Macartney at 416-874-3645.

Yours truly,

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

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