ONTARIO SECURITIES COMMISSION STAFF NOTICE 52-701 - INITIAL REPORT ON STAFF=S REVIEW OF REVENUE RECOGNITION, CONTINUOUS DISCLOSURE TEAM, CORPORATE FINANCE BRANCH, FEBRUARY 2001

1. PURPOSE

The purpose of this notice is to report the preliminary findings and comments of staff of the Continuous Disclosure Team of the Corporate Finance Branch (the Astaff@) arising from staff=s review of the practices of a sample of Canadian reporting issuers in recognizing, measuring, presenting and disclosing revenue (the Areview@).

2. SCOPE OF REVIEW

The review commenced in August 2000 with the objective of identifying whether the accounting practices of Canadian issuers in recognizing, measuring, presenting and disclosing revenue reflect an appropriate application of the standards set out in the Handbook of The Canadian Institute of Chartered Accountants (the ACICA HB@).

In a letter sent to a sample of 75 reporting issuers, staff asked for a detailed explanation of how the issuers apply revenue recognition policies in their financial statements. Staff also asked the issuers to provide the following information:

- for revenue recognition on the sale of goods, an explanation of how the issuers deal with retained risks or obligations; including customer right of return, obligations under maintenance contracts and obligations to provide complimentary upgrades;
- a description of how revenue is accrued for service contracts;
- whether any portion of the issuer=s reported revenue represents the Agross@ amount of sales transactions in which the issuer acts essentially as an agent or broker rather than as principal and for which it is compensated on a commission or fee basis; and
- whether, and if so how, the issuer compared its revenue recognition accounting practices with those applied generally within the industry in which it operates or by specific issuers within that industry.

Staff=s choice of revenue recognition as the subject for its earnings management review was influenced by numerous factors. Clearly, revenue is a highly significant element of financial reporting because of its direct effect on reported earnings. In addition, some users of financial statements are placing increased emphasis on revenue growth as a key indicator of value and performance, particularly for companies in the technology sector.

Canadian accounting standards set out the principles governing recognition of revenue of all types but provide relatively little detailed and specific guidance on how those principles should be applied in specific circumstances. In a business environment in which revenue-generating transactions may involve complex combinations of customized technology and services, as well as new forms of product delivery and distribution channels, questions arise as to whether revenue recognition practices reflect a rigorous application of the relevant standards.

Staff=s objectives for the review are to ensure that the standards are being applied appropriately and to identify any areas in which more specific guidance may be required, for example, in the form of new standards, or interpretations issued by the Emerging Issues Committee (AEIC@) of The Canadian Institute of Chartered Accountants.

The issuers chosen for review were primarily in the technology and related industries. Of the sample chosen:

- 38% were software providers;
- 25% were service providers (technology, internet, data processing and e-commerce);
- 24% sold hardware products (which could include software as a component); and
- 13% of the issuers were in some other industry.

91% of the issuers were listed on the Toronto Stock Exchange. 27% of the issuers were listed or quoted on an exchange or market in the United States (AUS@) and therefore reconciled their financial results to accounting principles generally accepted in the United States (AUS GAAP@).

3. SUMMARY OF FINDINGS AND COMMENTS

5% of the issuers provided sufficient information in response to staff=s questions and did not generate any follow-up questions.

35% of the responses generated follow-up questions or comments on disclosure issues only. These are discussed further in Part 4 of this notice.

60% of the responses generated follow-up questions on recognition, measurement or presentation issues. These are discussed further in Part 5 of this notice.

The initial results of the review suggest a need for significant improvement in the nature and extent of disclosure in both the financial statements and Management=s Discussion and Analysis (AMD&A@). Staff have also identified certain situations in which they are continuing to investigate whether particular revenue recognition, measurement and presentation practices reflect an appropriate application of the relevant standards.

As a result of the review, a number of issuers will be required to provide significantly more detailed disclosure in their financial statement notes or MD&A. Staff recommend that issuers review the quality of their disclosures with a view to implementing immediate improvements, taking into account the commentary and guidance provided in Part 4 of this notice. Where an issuer has not previously disclosed its accounting policies or other significant information regarding revenue, it should consider providing that information in a press release pending the release of the issuer=s next financial statements.

Other issuers may be required, following further investigation and discussion, to revise their accounting policies or to restate previously issued financial statements to address the recognition and measurement issues raised in this report. Staff continues to correspond with issuers on many of the specific issues identified in this notice, and will issue a final report following the resolution of all matters. Where issues have been identified for follow up and an issuer files a prospectus, staff will require the issuer to address and resolve these matters prior to a final receipt being issued. The major issues identified to date are summarized in Part 5 of this notice. The issues are typical of matters that will be questioned by staff on an ongoing basis as part of the continuous disclosure review program described in Staff Notice 51-703, *Implementation of Reporting Issuer Continuous Disclosure Review Program* and in the context of offering document reviews.

Staff recommend that Boards and Audit Committees evaluate and regularly reassess whether:

! management has established and is following a set of revenue recognition policies that is sufficiently comprehensive to provide sound practices across the issuer=s full range of activities; and

! management has sufficient controls in place to monitor, report and respond to the key factors and functions that affect revenue recognition. Such controls would include, for instance, controls to ensure the appropriate coordination between the issuer=s sales and accounting departments on major contractual items that impact the amount of revenue recognized and the timing of recognition.

Staff remind issuers that more detailed accounting literature exists in the US and elsewhere, providing a valuable point of reference in considering accounting treatments under Canadian GAAP. Specifically, in the Spring 2000 issue of *OSC Perspectives*, staff made the following statement:

> A(The) fundamental accounting concepts pertaining to revenue recognition are similar under both US and Canadian GAAP. Accordingly, Canadian issuers and their auditors should consider carefully the basis in Canadian authoritative literature for all revenue recognition policies that differ from the interpretations set out in SEC Staff Accounting Bulletin (ASAB@) No. 101. Where a policy adopted under Canadian GAAP differs from the requirements of SAB No. 101, and the difference cannot be justified with specific reference to underlying authoritative literature, or to clearly established practice that is consistent with fundamental accounting concepts, staff will be likely to take the view that the policy is not in accordance with Canadian GAAP.@

Staff believe that analyses built on the criteria outlined in SAB 101 will generally be consistent with the requirements of Canadian GAAP as set out in CICA HB 3400, *Revenue*. As discussed in more detail below, the initial results of this review suggest that in many cases issuers have not looked to all appropriate sources of accounting literature when applying Canadian GAAP.

4. SIGNIFICANT DISCLOSURE ISSUES

4.1 Revenue Recognition Policies

Staff identified some issuers that provided no disclosure of revenue recognition policies in the notes to the financial statements. CICA HB 1505, *Disclosure of Accounting Policies*, requires "a clear and concise description of the significant accounting policies of an enterprise". Staff believe that the degree of judgement involved in determining the appropriate application of revenue recognition principles for the specific circumstances of a particular business is such that revenue recognition policies should always be viewed as significant and therefore disclosed.

When revenue recognition policies were disclosed, they were often limited to vague or boilerplate language that provided little information relevant to the issuer=s specific circumstances. For example, the disclosure stated merely that revenue is recognized when earned. It is staff=s view that such disclosure provides no useful information and does not meet the requirements of CICA 1505.

For the sale of goods, the disclosure often stated only that revenue is recognized when goods are shipped. Staff view such disclosure as insufficiently specific in cases where the issuer does not always sell its product directly to end users. For issuers that use distribution channels such as resellers, distributors, e-tailers or retailers, a reader of the financial statements would not be able to determine whether revenue was recognized on shipment to the distributor or only on shipment to the end-user.

Through its review of some issuer response letters, staff established that sales to distribution channels were recognized based on more extensive criteria than merely shipment. In such cases, staff questioned the accuracy of the disclosed policy. For example, one issuer=s response stated that criteria for revenue recognition included agreement in writing by the customer to all terms and conditions, delivery to and acceptance by the customer, and assessment of collection of the sales proceeds as probable. The disclosed policy stated only that such revenues were Arecognized when shipped.@ Staff emphasize that a full discussion of the key criteria assessed in recognizing revenue is necessary for a user to obtain an adequate understanding of the accounting policy applied.

Staff noted that the policies disclosed by issuers commonly failed to address separately major categories of goods or services provided by the issuer. In some cases, the policies had not been updated for recent shifts in the issuer=s products and services. In other cases, the policies disclosed were not consistent with the description of revenue recognition policies submitted in response to the review letter. Issuers should regularly assess their disclosed policies to ensure that they provide a complete and current description of all significant elements of their revenue recognition practices.

4.2 Issuers Reporting in the US

Some issuers prepared and distributed financial statements under both US GAAP and Canadian GAAP. In these cases, staff found that the disclosure of revenue recognition practices provided for US GAAP purposes was generally more detailed than that presented in the Canadian GAAP financial statements. Staff expect a consistent level of disclosure of revenue recognition policies in both sets of statements.

In some cases, issuers that prepared their results solely in accordance with Canadian GAAP nevertheless indicated in their responses to staff=s letter that the accounting principles applied were consistent with certain US pronouncements. Staff believe such information provides a useful insight into the basis of preparation of the financial statements and its disclosure is therefore encouraged. Other Canadian issuers reconciled their financial results to US GAAP without reporting any differences relating to recognition of revenue, but did not address in the financial statements or in their responses to staff which US pronouncements were applied.

Staff remind issuers that, when financial statements contain a reconciliation to US GAAP, staff may as part of the continuous disclosure review and offering document review programs consider whether the reconciling items are indicative of a potential misapplication of Canadian accounting standards .

4.3 Software Revenue Recognition

Many Canadian software vendors stated in their responses that they follow US accounting pronouncements, particularly SOP 97-2, *Software Revenue Recognition*, for Canadian accounting purposes. In some cases, staff asked for additional information on certain key aspects of how these pronouncements were applied. These included questions regarding:

! the terms of multiple element arrangements;
! the determination of vendor-specific objective evidence as a basis for allocating revenue to each element;
! how it was determined that fees are fixed and determinable given the existence of extended payment terms; and
! how it was determined that delivery had occurred when goods were sold to resellers.

Staff believe that information on these matters is important to an adequate understanding of the revenue recognition policy followed by an issuer and should be addressed in the notes to the financial statements.

4.4 Segmented Information

In many cases, the responses provided by issuers contained a description of how the issuers are organized for internal reporting and decision-making purposes. Staff=s review of this information sometimes raised concerns that the issuers might not be providing segment information in accordance with CICA HB 1701, *Segment Disclosures*. CICA HB 1701 requires that segment information be provided based on the way that management organizes the enterprise for its own internal monitoring and decision-making purposes. Staff note that the recent release of EIC No. 115, *Segment disclosure - Application of the aggregation criteria in CICA HB 1701,* provides further guidance on the circumstances in which operating segments may be aggregated for external reporting purposes.

Even where the segment information itself appeared to be provided appropriately, many issuers failed to comply with the requirements of CICA HB 1701.39 that revenue from external customers should be disclosed for each product and service or each group of similar products and services, unless it is impracticable to do so, in which case that fact is required to be disclosed.

4.5 Economic Dependence

Staff identified several situations in which particular customers, distributors or suppliers appeared to generate or provide a significant volume of the issuer's business. In such circumstances, staff remind issuers of the disclosure requirements of CICA HB 1701.42 and 1701.43, regarding information about major customers, and CICA HB 3841, *Economic Dependence*.

Staff encourage issuers, when disclosing such relationships, to provide the desirable disclosures set out in CICA HB 3841.06 and 3841.07, including the amount of the transactions and an explanation of whether the volume is normal for the issuer and the industry in which it operates. Such disclosures appear particularly useful when the stage of development of an issuer=s business is such that it has only a small number of customers, distributors or major suppliers.

4.6 Management=s Discussion and Analysis

Management=s Discussion and Analysis ("MD&A") as required by OSC Rule 51-501, *AIF & MD&A*, effective January 1, 2001 (as prescribed in forms 44-101F1 and 44-101F2 contained in National Instrument 44-101, *Short Form Prospectus Distributions*) requires a discussion, analysis and comparison of an issuer's financial condition, cash flows and results of operations.

In particular, form 44-101F2, Item 4(3) requires Aa discussion of the extent to which any changes in net sales or revenues are attributable to changes in selling prices, to changes in the volume or quantity of goods or services being sold, or the introduction of new products or services@(this requirement was previously contained in OSC Policy 5.10).

It is staff's view that such discussion increases in usefulness when it specifically identifies, analyses and to the extent possible quantifies the significant underlying factors contributing to changes in selling price or in volumes or quantity of goods or services sold. The discussion should provide a full and balanced historical perspective, addressing both the absolute amount of revenue for the year and the change from previous years. In providing this perspective, issuers may find it necessary to address a period longer than two years.

The discussion should also provide a forward-looking assessment of the likely ongoing impact of the significant factors that contributed to changes in selling price or in volumes or quantity of goods or services sold. Staff's review identified many issuers that merely listed various factors underlying the change in revenue without providing any meaningful discussion or sensitivity analysis.

Other common deficiencies noted by staff in reviewing the MD&A of the sample issuers included an absence of discussion or analysis of the following areas:

- changes in revenue by operational or geographic segment;
- the impact of new products or services on reported revenues;
- the issuer's relationships with customers or suppliers representing a significant volume of business; and
- the significance of related parties to the issuer's operations.

Factors that might be identified, analysed and explained include, but are not limited to:

- changes in customer buying patterns due to new technologies, changes in demographics, or other factors;
- changes in selling practices, such as new distribution arrangements or a reorganization of a direct sales force;
- changes in competition, including an assessment of the issuer's resources, strengths and weaknesses relative to those of its competitors;
- the impact of exchange rates on foreign revenues;
- changes in pricing of inputs, constraints on supply, order backlog, or other input-related matters affecting sales volume;
- changes in production capacity due to plant closures, work stoppages or other matters;
- changes in the volume of discounts granted to customers, volumes of returns and allowances, excise and other taxes or other amounts reflected on a net basis against revenues;
- changes in the terms and conditions of service contracts;
- the impact of new products or services, or discontinuances of specific products or services or operations; and
- industry-wide changes, including matters that did not impact on the issuer if such impact might reasonably have been expected to occur.

Staff plan to increase their focus on the quality of MD&A disclosure, including carrying out a future targeted review in the context of continuous disclosure.

4.7 Interim Financial Statements

Staff noted that the interim financial statements of issuers that had changed or expanded their revenue recognition accounting policies during a specific quarter due to a change in their business seldom provided information about the revised accounting policies as required by CICA HB 1750.06(d)(i) (or, for interim periods in fiscal years beginning on or after January 1, 2001, by CICA HB 1751.14(b)). In addition, staff noted that few issuers included the segmented disclosure required by CICA HB 1750.06(e) (or, for interim periods in fiscal years beginning on or after January 1, 2001, by CICA HB 1751.14(e)) *Interim Financial Reporting to Shareholders*.

Staff also noted that notes were often not included in the interim financial statements filed by the issuers. Staff remind issuers that for interim periods in fiscal years beginning on or after January 1, 2001, the disclosure requirements for interim financial statements outlined in CICA HB 1751.13 - 1751.15, *Interim Financial Statements,* and OSC Rule 51-501, *AIF & MD&A,* are effective for public enterprises. To comply with these new requirements, issuers will need to provide notes to their interim financial statements.

5. SIGNIFICANT ACCOUNTING ISSUES

The issues are categorized here with reference to the accounting recommendations set out in the CICA HB.

5.1. Transfer of significant risks and rewards of ownership

Revenue should be recognized only when performance of the transaction has been achieved and ultimate collection of the consideration is reasonably assured. CICA HB 3400.07(a) contains the following necessary condition that must be fulfilled if performance is to be regarded as achieved:

> *the seller of the goods has transferred to the buyer the significant risks and rewards of ownership, in that all significant acts have been completed and the seller retains no continuing managerial involvement in, or effective control of, the goods transferred to a degree usually associated with ownership*

The following issues raise concerns regarding the appropriate application of this condition:

<u>5.1 (1) Completion of all Significant Acts</u>

In some cases, revenue was recognized even though all activities had not been completed. For example, one issuer recognized revenue when items were shipped, even though these items were subject to a subsequent installation process to be carried out by the issuer. In other cases, revenue from software products which were not standard and required extensive customization specific to each customer was recognized upon shipment.

There may be limited circumstances in which the additional time and risk associated with an installation process is so minimal as to be insignificant. However, when installation and testing of the product at the customer=s business site are more than non-substantive, staff believe they should be regarded as significant acts, the completion of which are a necessary condition for the recognition of revenue. Staff note that International Accounting Standard IAS 18, *Revenue*, cites an example of a situation in which the installation process is insignificant, a factory tested television receiver which only requires unpacking and connection of power and antennae. Questions as to whether all significant acts have been completed also arise when issuers have continuing obligations to provide free upgrades.

<u>5.1 (2) Delivery and Customer Acceptance</u>

Canadian accounting standards require all significant risks and rewards of ownership to be transferred to the buyer before revenue is recognized. Many issuers follow a policy of recognizing revenue when goods are shipped. In some cases, staff question whether a sufficiently detailed assessment has been made of whether the significant risks and rewards of ownership are in fact transferred at the point of shipment.

Staff note that even when goods have been shipped to the customer, if contractual customer acceptance provisions exist, and there remains some uncertainty regarding the customer=s acceptance of the products, it will often be unlikely that the significant risks and rewards of ownership could be concluded to have been transferred.

<u>5.1 (3) ABill and Hold@ Sales</u>

In some cases, issuers recognized revenue before possession of the goods had been transferred to the customer. Staff questioned in such cases whether all significant risks and rewards of ownership had been transferred and all significant acts completed. In such circumstances, staff will use the following factors as a reference point in assessing whether the risks and rewards of ownership of the goods have passed to the buyer:

! whether the customer has made a fixed commitment to purchase the goods (preferably evidenced in written documentation);

- whether the buyer, rather than the seller, requested that the transaction be on a bill and hold basis, and whether the buyer had a substantial business purpose for ordering the goods on such a basis;
- whether there is a fixed schedule for delivery of the goods that is reasonable and consistent with the buyer's business purpose;
- whether the seller retains any specific performance obligations such that the earning process is not complete;
- whether the ordered goods are segregated from the seller's inventory or are subject to being used to fill other orders; and
- whether the product is complete and ready for shipment.

5.1 (4) Contracts with multiple elements

In some cases, staff noted customer contracts or agreements that had more than one deliverable product or service, each of which was accounted for as a different revenue stream. For example, some contracts for the sale of software also included obligations to provide maintenance, training services or free upgrades. Staff asked issuers to discuss and explain how the revenue allocated to each deliverable was determined. Where the basis of such allocations cannot be supported, staff will question how an issuer concludes that all significant acts pertaining to a particular revenue stream have been completed.

5.1 (5) Issues involving legal title

CICA HB 3400.11 states that, in most cases, revenue is recognized on the passing of possession of goods which, in the case of retail sales, is usually coincident with the passing of legal title. However, it also notes that the passing of legal title may occur at a different time from the passing of possession or of the risks and rewards of ownership. In many cases, staff's review suggested that issuers had not made a detailed assessment of title issues for their various products and how this might impact on their accounting practices.

Traditionally, revenue was considered earned at the point of sale, either when a product was delivered to the customer's delivery site (FOB destination) or when a product was shipped to the customer (FOB shipping point). This practice was based on a traditional business making standardized products with few, if any, obligations to the customer after the sale. A more transaction-specific approach appears to be appropriate when products are more complex and less homogenous, undergo significant customization or involve a greater ongoing collaboration between the seller and the customer. However, as noted previously, such a transaction-specific approach requires adequate controls and established revenue recognition policies that are sufficiently comprehensive to provide sound practices across the issuer's full range of activities.

5.2 Measurement of consideration and assessment of returns

CICA HB 3400.07(b) contains the following further condition that must be fulfilled if performance is to be regarded as achieved:

reasonable assurance exists regarding the measurement of the consideration that will be derived from the sale of goods, and the extent to which goods may be returned

The following issues raise concerns regarding the appropriate application of this condition:

5.2 (1) Right of Return

Staff identified issuers that recognized revenue at the time of product shipment despite being exposed to potentially significant returns which, historically, have large fluctuations. In staff's view, a history of large fluctuations in actual returns raises concerns with regard to the issuer's ability to make reliable estimates of returns and may suggest that the amount of revenue is not measurable with sufficient reliability to be recognized.

CICA HB 3400.18(b) indicates that when the market for a returnable good is untested and when an issuer is subject to significant and unpredictable returns, revenue would not be recognized. When the volume of returns is large relative to the total revenue recognized, staff may also question how the issuer assesses the predictability of returns. Such cases may also call into question whether the significant risks and rewards of ownership have been transferred at the time revenue is recognized.

Issuers should ensure that they have adequate systems in place to support the assumption that returns can be reasonably estimated. Staff note it is particularly difficult to establish a sound basis for predicting the extent of returns in businesses that are characterized by rapid and unpredictable technological change.

CICA HB 3400.18(a) also states that when consideration is not determinable within reasonable limits, for example when payment relating to goods sold depends on the resale of goods by the buyer, revenue would not be recognized. In certain circumstances where an issuer sells its products through resellers rather than directly to end users, staff may question the issuer regarding the terms of its agreements with the resellers, the history of returns or any adjustments that have occurred as a result of these agreements.

5.2 (2) Price protection arrangements

Staff noted cases where revenue was recognized even though the issuer continued to offer price protection with regard to the products in question. Under these arrangements, when an issuer reduces its published price list for products, it provides credit to customers (resellers) for products held in their inventories. It appears to staff that the existence of price protection and inventory credit arrangements raise significant concerns as to whether the issuer has reasonable assurance with respect to the measurement of the consideration that will be derived from the sale of the goods. Further, arrangements that leave the seller exposed to price risk with respect to the products sold may raise questions as to whether the significant risks and rewards of ownership have been substantially transferred to the customer. Such concerns are magnified when the price protection arrangements coexist with right of return provisions or other contractual provisions that might also result in an adjustment to revenue.

5.2 (3) Valuing of Consideration

Staff identified an issuer that receives equity interests in customers as compensation for providing professional services. However, due to uncertainty in the value of the equity interests, the issuer disclosed that no amount had been attributed to those equity interests. Staff questioned this accounting, noting that CICA HB 3830.05, *Non-Monetary Transactions,* requires that such non-monetary exchanges be recorded at the fair value of the asset or service given up or, if more clearly determinable, the fair value of the asset or service received. Where uncertainties exist regarding the computation of fair value, those uncertainties may, if material, be dealt with by disclosure under CICA HB 1508, *Measurement Uncertainty*.

Staff noted some issuers that issued warrants or equity instruments to arm's length customers as part of a revenue-generating transaction. Staff take the view that where such instruments are issued to a customer in combination with a sale, then the consideration received would be allocated between the goods or services provided and the warrants or equity issued based on their fair value. In such cases, the issuance of the warrants or equity instruments effectively returns to the customer a portion of the contracted or stated amount of revenue.

5.3 Rendering of Services and Long-Term Contracts

CICA HB 3400.08 states that for the rendering of services and long-term contracts, performance should be determined using either the percentage of completion method or the completed contract method, whichever relates the revenue to the work accomplished. The following issue raises concerns regarding the appropriate application of this principle:

5.3 (1) Up-front fees

Staff noted certain arrangements where up-front fees are received at the inception of a licensing or similar agreement and are accounted for as earned as the products are delivered or services are performed over the term of the arrangement. Staff questioned cases in which these fees appeared to be amortized over a period shorter than that of the term of the arrangement. Staff also questioned cases where such up-front fees were recognized in income immediately by the issuer because they were considered to be non-refundable and not dependent on any subsequent activity to be fully earned. Staff also questioned such treatment where it appeared that the fees were potentially refundable. For example, staff questioned a situation in which an up-front fee, recognized in revenue, appeared to be received in consideration of entering into an exclusive nine-month negotiating period, and would have been refundable if the terms of that agreement were breached.

5.4 Other issues identified

5.4 (1) "Gross vs. Net" Presentation

Staff noted an internet retailer which places a purchase order with a supplier for a product only after a customer of the issuer has placed a sales order; the supplier then ships the product directly to the customer. The issuer acquires title to the product and retains such title during shipment. However, in some respects the issuer's assumption of the risks of ownership of the product is relatively minimal; for instance, it never has any of the risks associated with bringing goods into inventory. When an issuer's interest in a transaction is such that it is not exposed to the significant risks and rewards of ownership of the items that are the subject of the transaction, this may be indicative of an agency type of relationship. In such cases, even where the issuer does not legally act as agent or broker, revenue reported by the issuer should be limited to the amount of the commission earned.
"Gross vs net" issues have recently been considered by the Emerging Issues Task Force in the US. Canadian issuers may find the US guidance helpful. Staff believe that detailed guidance on these issues is required in Canada.

5.4 (2) Evidence Of Arrangement

CICA HB 3400.11 states that Aassessing when the risks and rewards of ownership are transferred to the buyer with sufficient certainty requires an examination of the circumstances of the transaction.@ In staff=s view, to achieve sufficient certainty it is usually necessary to have persuasive evidence regarding the existence and major terms of the transaction. The nature of this evidence would depend largely on the issuer=s business, customers, organization, practices and processes and could take many forms including a final written agreement that is executed and properly authorized by the customer, binding purchase orders from third parties or on-line authorizations that are binding and include terms of sale.

Very few issuers provided contracts or other supporting documentation as part of their response to staff=s letter. Staff expect to request such support as part of its continuing correspondence with certain issuers.

6. CONCLUSION

In many cases, staff continue to correspond with issuers to obtain additional information and resolve the issues identified as a result of the review. A final report will be issued following the resolution of all issues. As mentioned, these issues are typical of matters that will be questioned by staff on an ongoing basis as part of the continuous disclosure review program described in Staff Notice 51-703 and in the context of offering document reviews. Staff encourage issuers to discuss questions and issues with staff on a pre-filing basis.

On completion of this review, staff are planning a targeted review of interim financial statements which will commence in April 2001. These reviews are part of staff=s increasing shift towards the review of more continuous disclosure documents. In addition to targeted reviews, staff carry out a range of other reviews as described in OSC Staff Notice 51-

703.

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