

**6.1.2 Proposed National Instrument 52-107 Acceptable Accounting Principles, Auditing Standards and Reporting Currency and Companion Policy 52-107CP Acceptable Accounting Principles, Auditing Standards and Reporting Currency**

**PROPOSED NATIONAL INSTRUMENT 52-107  
ACCEPTABLE ACCOUNTING PRINCIPLES, AUDITING STANDARDS AND REPORTING CURRENCY**

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**PROPOSED NATIONAL INSTRUMENT 52-107  
ACCEPTABLE ACCOUNTING PRINCIPLES,  
AUDITING STANDARDS AND REPORTING CURRENCY**

**PART 1  
DEFINITIONS AND INTERPRETATION**

**1.1 Definitions –** In this Instrument:

“accounting principles” mean a body of accounting principles that are generally accepted in a jurisdiction of Canada or a foreign jurisdiction and include, without limitation, Canadian GAAP, US GAAP and International Financial Reporting Standards;

“acquisition statements” means the financial statements of an acquired business or a business to be acquired that are required to be filed under National Instrument 51-102 or that are included in a prospectus under National Instrument 41-102 or National Instrument 44-101;

“auditing standards” mean a body of auditing standards that are generally accepted in a jurisdiction of Canada or a foreign jurisdiction and include, without limitation, Canadian GAAS, US GAAS and International Standards on Auditing;

“business acquisition report” means a completed Form 51-102F4 *Business Acquisition Report*;

“Canadian GAAP” means generally accepted accounting principles for public enterprises, as determined with reference to the Handbook;

“convertible security” means a security of an issuer that is convertible into, or carries the right of the holder to acquire, or of the issuer to cause the acquisition of, a security of the same issuer;

“designated foreign issuer” means an eligible foreign issuer:

- (a) that does not have a class of securities registered under section 12 of the 1934 Act and is not required to file reports under section 15(d) of the 1934 Act;
- (b) that is subject to foreign disclosure requirements; and
- (c) for which the total number of equity securities owned, directly or indirectly, by residents of Canada does not exceed ten per cent, on a fully-diluted basis, of the total number of equity securities of the issuer, calculated in accordance with sections 1.2 and 1.3;

“designated foreign jurisdiction” means Australia, France, Germany, Hong Kong, Italy, Japan, Mexico, The Netherlands, New Zealand, Singapore, South Africa, Spain, Sweden, Switzerland or the United Kingdom of Great Britain and Northern Ireland;

“eligible foreign issuer” means an issuer, other than an investment fund, that is not incorporated or organized under the laws of Canada or a jurisdiction of Canada, except an issuer that satisfies the following conditions:

- (a) outstanding voting securities carrying more than 50 per cent of the votes for the election of directors are owned, directly or indirectly, by residents of Canada; and
- (b) any one or more of the following is true:
  - (i) the majority of the executive officers or directors of the issuer are residents of Canada;
  - (ii) more than 50 per cent of the assets of the issuer are located in Canada; or
  - (iii) the business of the issuer is administered principally in Canada;

“eligible foreign registrant” means a registrant that is not incorporated or organized under the laws of Canada or a jurisdiction of Canada, except a registrant that satisfies the following conditions:

- (a) outstanding voting securities carrying more than 50 per cent of the votes for the election of directors are owned, directly or indirectly, by residents of Canada; and

- (b) any one or more of the following is true:
- (i) the majority of the executive officers or directors of the registrant are residents of Canada;
  - (ii) more than 50 per cent of the assets of the registrant are located in Canada; or
  - (iii) the business of the registrant is administered principally in Canada;

“equity security” means any security of an issuer that carries a residual right to participate in earnings of the issuer and, on the liquidation or winding-up of the issuer, in its assets;

“exchangeable security” means a security of an issuer that is exchangeable for, or carries the right of the holder to acquire, or of the issuer to cause the acquisition of, a security of another issuer;

“exchange-traded security” means a security that is listed on a recognized exchange or is quoted on a recognized quotation and trade reporting system or is listed on an exchange or quoted on a quotation and trade reporting system that is recognized for the purposes of National Instrument 21-101 *Marketplace Operation* and National Instrument 23-101 *Trading Rules*;

“executive officer” of an issuer or registrant means an individual who, at any time during the year, was:

- (a) a chair of the issuer or registrant, if that individual performed the functions of the office on a full-time basis;
- (b) a vice-chair of the issuer or registrant, if that individual performed the functions of the office on a full-time basis;
- (c) the president of the issuer or registrant;
- (d) a vice-president of the issuer or registrant in charge of a principal business unit, division or function including sales, finance or production;
- (e) an officer of the issuer or registrant or any of its subsidiaries who performed a policy-making function in respect of the issuer or registrant; or
- (f) any other person who performed a policy-making function in respect of the issuer or registrant;

“foreign disclosure requirements” means the requirements to which an eligible foreign issuer is subject concerning disclosure made to a foreign regulatory authority:

- (a) relating to the eligible foreign issuer and the trading in its securities; and
- (b) that is made publicly available in the foreign jurisdiction under:
  - (i) the securities laws of the foreign jurisdiction in which the principal trading market of the eligible foreign issuer is located; or
  - (ii) the rules of the marketplace that is the principal trading market of the eligible foreign issuer;

“foreign regulatory authority” means a securities commission, exchange or other securities market regulatory authority in a designated foreign jurisdiction;

“group scholarship plan” means a scholarship plan the securities of which entitle the beneficiaries, who are designated in connection with the acquisition of the securities that have the same year of maturity, to a scholarship award proportionate to the value of the securities in respect of which they are designated, on or after maturity of the securities;

“inter-dealer bond broker” means a person or company that is approved by the Investment Dealers Association under IDA By-Law No. 36 *Inter-Dealer Bond Brokerage Systems*, as amended, and is subject to IDA By-Law No. 36 and IDA Regulation 2100 *Inter-Dealer Bond Brokerage Systems*, as amended;

“investment fund” means a mutual fund, a non-redeemable investment fund or a group scholarship plan;

“issuer’s GAAP” means the accounting principles used to prepare an issuer’s financial statements, as permitted by this Instrument;

“marketplace” means:

- (a) an exchange;
- (b) a quotation and trade reporting system;
- (c) a person or company not included in paragraph (a) or (b) that:
  - (i) constitutes, maintains or provides a market or facility for bringing together buyers and sellers of securities;
  - (ii) brings together the orders for securities of multiple buyers and sellers; and
  - (iii) uses established, non-discretionary methods under which the orders interact with each other, and the buyers and sellers entering the orders agree to the terms of a trade; or
- (d) a dealer that executes a trade of an exchange-traded security outside of a marketplace, but does not include an inter-dealer bond broker;

“multiple convertible security” means a security of an issuer that is convertible into, or exchangeable for, or carries the right of the holder to acquire, or of the issuer to cause the acquisition of, a convertible security, an exchangeable security or another multiple convertible security;

“non-redeemable investment fund” means an issuer:

- (a) whose primary purpose is to invest money provided by its security holders;
- (b) that does not invest for the purpose of exercising effective control, seeking to exercise effective control or being actively involved in the management of the issuers in which it invests, other than mutual funds or other non-redeemable investment funds; and
- (c) that is not a mutual fund;

“National Instrument 41-102” means National Instrument 41-102 *General Prospectus Requirements*;

“National Instrument 44-101” means National Instrument 44-101 *Short Form Prospectus Distributions*;

“National Instrument 44-102” means National Instrument 44-102 *Shelf Distributions*;

“National Instrument 44-103” means National Instrument 44-103 *Post-Receipt Pricing*;

“National Instrument 51-102” means National Instrument 51-102 *Continuous Disclosure Obligations*;

“National Instrument 71-102” means National Instrument 71-102 *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*;

“principal trading market” means the published market on which the largest trading volume in the equity securities of the issuer occurred during the issuer’s most recently completed financial year that ended before the date the determination is being made;

“published market” means, for a class of securities, a marketplace on which the securities have traded that discloses, regularly in a publication of general and regular paid circulation or in a form that is broadly distributed by electronic means, the prices at which those securities have traded;

“recognized exchange” means:

- (a) in Ontario, an exchange recognized by the securities regulatory authority to carry on business as a stock exchange; and
- (b) in every other jurisdiction of Canada, an exchange recognized by the securities regulatory authority as an exchange, self-regulatory organization or self-regulatory body;

“recognized quotation and trade reporting system” means:

- (a) in every jurisdiction of Canada other than British Columbia, a quotation and trade reporting system recognized by the securities regulatory authority under securities legislation to carry on business as a quotation and trade reporting system; and
- (b) in British Columbia, a quotation and trade reporting system recognized by the securities regulatory authority under securities legislation as a quotation and trade reporting system or as an exchange;

“SEC issuer” means an issuer that:

- (a) has a class of securities registered under section 12 of the 1934 Act or is required to file reports under section 15(d) of the 1934 Act; and
- (b) is not registered or required to be registered as an investment company under the *Investment Company Act* of 1940 of the United States of America;

“SEC foreign issuer” means an eligible foreign issuer that is also an SEC issuer;

“underlying security” means a security issued or transferred, or to be issued or transferred, in accordance with the terms of a convertible security, an exchangeable security or a multiple convertible security;

“US GAAP” means generally accepted accounting principles in the United States of America that the SEC has identified as having substantial authoritative support, as supplemented by Regulation S-X and Regulation S-B under the 1934 Act; and

“US GAAS” means generally accepted auditing standards in the United States of America, as supplemented by the SEC’s rules on auditor independence.

**1.2 Determination of Canadian Shareholders for Calculation of Designated Foreign Issuer and Eligible Foreign Issuer –**

- (1) For the purposes of paragraph (c) of the definition of “designated foreign issuer” and paragraph 5.1(c), a reference to equity securities owned, directly or indirectly, by residents of Canada, includes:
  - (a) the underlying securities that are equity securities of the eligible foreign issuer; and
  - (b) the equity securities of the eligible foreign issuer represented by an American depositary receipt or an American depositary share issued by a depositary holding equity securities of the eligible foreign issuer.
- (2) For the purposes of paragraph (a) of the definition of “eligible foreign issuer”, securities represented by American depositary receipts or American depositary shares issued by a depositary holding voting securities of the eligible foreign issuer must be included as outstanding in determining both the number of votes attached to securities owned, directly or indirectly, by residents of Canada and the number of votes attached to all of the issuer’s outstanding voting securities.

**1.3 Timing for Calculation of Designated Foreign Issuer and Eligible Foreign Issuer –** For the purposes of paragraph (c) of the definition of “designated foreign issuer” and paragraph (a) of the definition of “eligible foreign issuer”, the calculation is made:

- (a) if the issuer has not completed one financial year, on the earlier of
  - (i) the date that is 90 days before the date of its prospectus, and
  - (ii) the date that it became a reporting issuer; and
- (b) for all other issuers, on the first day of the most recent financial year or year-to-date interim period for which operating results are presented in the financial statements filed or included in the issuer’s prospectus.

**1.4 Interpretation of “Prospectus” –** For the purposes of this Instrument, the term “prospectus” includes:

- (a) a preliminary prospectus, a prospectus, an amendment to a preliminary prospectus and an amendment to a prospectus; and

- (b) a prospectus filed under National Instrument 41-102, National Instrument 44-101, National Instrument 44-102, and National Instrument 44-103;

and the phrase “included in a prospectus” refers to information reproduced in a prospectus and any documents incorporated into a prospectus by reference.

## **PART 2 APPLICATION**

### **2.1 Application – This Instrument applies to:**

- (a) all annual, interim and *pro forma* financial statements filed or included in a document that is filed under National Instrument 51-102 or National Instrument 71-102;
- (b) all annual, interim and *pro forma* financial statements included in a prospectus that is filed under National Instrument 41-102, National Instrument 44-101, National Instrument 44-102, or National Instrument 44-103;
- (c) all annual and interim financial statements delivered by registrants to a securities regulatory authority; and
- (d) any other annual, interim or *pro forma* financial statement filed by a reporting issuer, other than an investment fund, with a securities regulatory authority.

## **PART 3 GENERAL RULES**

### **3.1 Acceptable Accounting Principles –**

- (1) Financial statements, other than acquisition statements, must be prepared in accordance with Canadian GAAP.
- (2) Financial statements must be prepared in accordance with the same accounting principles for all periods presented.
- (3) The notes to the financial statements must identify the accounting principles used to prepare the financial statements.

### **3.2 Acceptable Auditing Standards –**

- (1) Financial statements, other than acquisition statements, that are required by securities legislation to be audited must be audited in accordance with Canadian GAAS.
- (2) Audited financial statements, other than acquisition statements, must be accompanied by an auditor's report prepared in accordance with Canadian GAAS and the following requirements:
  - 1. The auditor's report must not contain a reservation.
  - 2. The auditor's report must identify all financial periods presented for which the auditor has issued an auditor's report. If the issuer or registrant has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by a different auditor, the auditor's report must refer to any former auditor's report(s) on the comparative periods.
  - 3. The auditor's report must identify the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements.

### **3.3 Acceptable Auditors –**

- (1) An auditor's report must be prepared and signed by a person or company that is authorized to sign an auditor's report by the laws and professional standards of a jurisdiction of Canada or a foreign jurisdiction.
- (2) Despite subsection (1), if an issuer or registrant
  - (i) is incorporated or organized in a jurisdiction of Canada; or

- (ii) is not an eligible foreign issuer nor an eligible foreign registrant;

and has prepared its financial statements in accordance with Canadian GAAP and intends to have those financial statements audited in accordance with Canadian GAAS, the auditor's report must be prepared and signed by a person or company that is authorized to sign an auditor's report by the laws and professional standards of a jurisdiction of Canada.

### 3.4 Measurement and Reporting Currencies –

- (1) The reporting currency must be disclosed on the face page of the financial statements or in the notes to the financial statements unless the financial statements are prepared in accordance with Canadian GAAP and the reporting currency is the Canadian dollar.
- (2) The notes to the financial statements must disclose the measurement currency if it is different from the reporting currency.

## PART 4 EXEMPTIONS FOR SEC ISSUERS

### 4.1 Acceptable Accounting Principles for SEC Issuers –

- (1) Despite subsection 3.1(1), and subject to subsection (2), financial statements filed by an SEC issuer, other than acquisition statements, may be prepared in accordance with US GAAP.
- (2) If an SEC issuer that previously filed or included in a prospectus financial statements prepared in accordance with Canadian GAAP relies on subsection (1), the notes to the first two sets of the issuer's annual financial statements after the change from Canadian GAAP to US GAAP and the notes to the issuer's interim financial statements for interim periods during those two years must:
  - (a) explain the material differences between Canadian GAAP and US GAAP that relate to recognition, measurement and presentation;
  - (b) quantify the effect of material differences between Canadian GAAP and US GAAP that relate to recognition, measurement and presentation, including a tabular reconciliation between net income reported in the financial statements and net income computed in accordance with Canadian GAAP; and
  - (c) provide disclosure consistent with Canadian GAAP requirements to the extent not already reflected in the financial statements.
- (3) Despite subsection 3.1(2), where an SEC issuer previously used Canadian GAAP and has used US GAAP to prepare the financial information for the most recent period presented in its financial statements, the issuer must present financial information for the comparative periods as follows:
  - (a) as previously reported in accordance with Canadian GAAP;
  - (b) as restated and presented in accordance with US GAAP; and
  - (c) supported by an accompanying note that
    - (i) explains the material differences between Canadian GAAP and US GAAP that relate to recognition, measurement and presentation; and
    - (ii) quantifies the effect of material differences between Canadian GAAP and US GAAP that relate to recognition, measurement and presentation, including a tabular reconciliation between net income as previously reported in the financial statements in accordance with Canadian GAAP and net income as restated and presented in accordance with US GAAP.
- (4) The comparative information specified in paragraph (a) of subsection (3) may be presented on the face of the balance sheet and statements of income and cash flows or in the note to the financial statements required by paragraph (c) of subsection (3).

- (5) If an SEC issuer that previously filed or included in a prospectus financial statements prepared in accordance with Canadian GAAP relies on subsection (1) and has filed financial statements prepared in accordance with Canadian GAAP for one or more interim periods of the current year, those interim financial statements must also be restated in accordance with US GAAP and comply with subsections (2), (3) and (4).

#### 4.2 Acceptable Auditing Standards for SEC Issuers –

- (1) Despite subsection 3.2(1), and subject to subsection (2), financial statements filed by an SEC issuer, other than acquisition statements, that are required by securities legislation to be audited may be audited in accordance with US GAAS.
- (2) Despite subsection 3.2(2), if an SEC issuer relies on subsection (1), the financial statements must be accompanied by an auditor's report prepared in accordance with US GAAS and the following requirements:
1. The auditor's report must contain an unqualified opinion.
  2. The auditor's report must identify all financial periods presented for which the auditor has issued an auditor's report. If the issuer has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by a different auditor, the auditor's report must refer to any former auditor's report(s) on the comparative periods.
  3. The auditor's report must identify the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements.

### PART 5 EXEMPTIONS FOR ELIGIBLE FOREIGN ISSUERS

#### 5.1 Acceptable Accounting Principles for Eligible Foreign Issuers – Despite subsection 3.1(1), financial statements filed by an eligible foreign issuer, other than acquisition statements, may be prepared in accordance with:

- (a) US GAAP, if the issuer is an SEC foreign issuer;
- (b) International Financial Reporting Standards;
- (c) accounting principles that meet the disclosure requirements for foreign private issuers, as that term is defined for the purposes of the 1934 Act, if the issuer is an SEC foreign issuer and on the last day of the most recently completed financial year the total number of equity securities owned directly or indirectly by residents of Canada does not exceed ten per cent, on a fully-diluted basis, of the total number of equity securities of the issuer, provided that the financial statements include any reconciliation to US GAAP required by the SEC;
- (d) accounting principles that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer is subject, if it is a designated foreign issuer; or
- (e) accounting principles that cover substantially the same core subject matter as Canadian GAAP, including recognition and measurement principles and disclosure requirements, provided the notes to the financial statements:
  - (i) explain the material differences between Canadian GAAP and the accounting principles used that relate to recognition, measurement and presentation;
  - (ii) quantify the effect of material differences between Canadian GAAP and the accounting principles used that relate to recognition, measurement and presentation, including a tabular reconciliation between net income reported in the issuer's financial statements and net income computed in accordance with Canadian GAAP; and
  - (iii) provide disclosure consistent with Canadian GAAP requirements to the extent not already reflected in the financial statements.

#### 5.2 Acceptable Auditing Standards for Eligible Foreign Issuers –

- (1) Despite subsection 3.2(1), financial statements filed by an eligible foreign issuer, other than acquisition statements, that are required by securities legislation to be audited may be audited in accordance with:



- (a) US GAAS;
  - (b) International Standards on Auditing; or
  - (c) auditing standards that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer is subject, if it is a designated foreign issuer.
- (2) Despite subsection 3.2(2), and subject to subsections (3) and (4), if an eligible foreign issuer relies on subsection (1), the financial statements must be accompanied by an auditor's report prepared in accordance with the same auditing standards used to audit the financial statements and the auditor's report must identify the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements.
- (3) If an eligible foreign issuer relies on paragraph (1)(a), the auditor's report must contain an unqualified opinion.
- (4) If an eligible foreign issuer relies on paragraph (1)(b), the auditor's report must be accompanied by a statement by the auditor that describes any material differences in the form and content of the auditor's report as compared to an auditor's report prepared in accordance with Canadian GAAS, and indicates that an auditor's report prepared in accordance with Canadian GAAS would not contain a reservation.

**PART 6**  
**REQUIREMENTS FOR ACQUISITION STATEMENTS**

**6.1 Acceptable Accounting Principles for Acquisition Statements –**

- (1) Acquisition statements included in a business acquisition report or included in a prospectus must be prepared in accordance with one of the following accounting principles:
- (a) Canadian GAAP;
  - (b) US GAAP;
  - (c) International Financial Reporting Standards;
  - (d) accounting principles that meet the disclosure requirements for foreign private issuers, as that term is defined for the purposes of the 1934 Act, if the issuer or the acquired business is an SEC foreign issuer and on the last day of the most recently completed financial year the total number of equity securities owned directly or indirectly by residents of Canada does not exceed ten per cent, on a fully-diluted basis, of the total number of equity securities of the SEC foreign issuer provided that the financial statements include any reconciliation to US GAAP required by the SEC;
  - (e) accounting principles that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer or the acquired business is subject, if the issuer or the acquired business is a designated foreign issuer; or
  - (f) accounting principles that cover substantially the same core subject matter as Canadian GAAP, including recognition and measurement principles and disclosure requirements.
- (2) Acquisition statements must be prepared in accordance with the same accounting principles for all periods presented.
- (3) The notes to the acquisition statements must identify the accounting principles used to prepare the acquisition statements.
- (4) If acquisition statements are prepared using accounting principles that are different from the issuer's GAAP, the acquisition statements for the most recently completed financial year and interim period that are required to be filed must be reconciled to the issuer's GAAP and the notes to the acquisition statements must:
- (a) explain the material differences between the issuer's GAAP and the accounting principles used to prepare the acquisition statements that relate to recognition, measurement, and presentation;
  - (b) quantify the effect of material differences between the issuer's GAAP and the accounting principles used to prepare the acquisition statements that relate to recognition, measurement and presentation,

- including a tabular reconciliation between net income reported in the acquisition statements and net income computed in accordance with the issuer's GAAP; and
- (c) provide disclosure consistent with the issuer's GAAP to the extent not already reflected in the acquisition statements.
- (5) Despite subsections (1) and (4), if the issuer is required to reconcile its financial statements to Canadian GAAP, the acquisition statements for the most recently completed financial year and interim period that are required to be filed must be
- (a) prepared in accordance with Canadian GAAP; or
  - (b) reconciled to Canadian GAAP and the notes to the acquisition statements must
    - (i) explain the material differences between Canadian GAAP and the accounting principles used to prepare the acquisition statements that relate to recognition, measurement, and presentation;
    - (ii) quantify the effect of material differences between Canadian GAAP and the accounting principles used to prepare the acquisition statements that relate to recognition, measurement and presentation, including a tabular reconciliation between net income reported in the acquisition statements and net income computed in accordance with Canadian GAAP; and
    - (iii) provide disclosure consistent with Canadian GAAP to the extent not already reflected in the acquisition statements.

## 6.2 Acceptable Auditing Standards for Acquisition Statements –

- (1) Acquisition statements that are required by securities legislation to be audited must be audited in accordance with:
  - (a) Canadian GAAS; or
  - (b) US GAAS.
- (2) Despite subsection (1), acquisition statements filed by or included in a prospectus of an eligible foreign issuer may be audited in accordance with:
  - (a) International Standards on Auditing; or
  - (b) auditing standards that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer is subject, if the issuer is a designated foreign issuer.
- (3) Acquisition statements must be accompanied by an auditor's report prepared in accordance with the same auditing standards used to audit the acquisition statements and the auditor's report must identify the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements.
- (4) If acquisition statements are audited in accordance with paragraph (1)(b), the auditor's report must contain an unqualified opinion.
- (5) If an eligible foreign issuer relies on paragraph (2)(a), the auditor's report must be accompanied by a statement by the auditor that describes any material differences in the form and content of the auditor's report as compared to an auditor's report prepared in accordance with Canadian GAAS, and indicates that an auditor's report prepared in accordance with Canadian GAAS would not contain a reservation.
- (6) An auditor's report that accompanies acquisition statements may contain a qualification relating to inventory if the issuer includes in the business acquisition report, prospectus or other document containing the acquisition statements:
  - (a) a balance sheet for the business that is for a date that is subsequent to the date to which the inventory qualification relates; and

- (b) the subsequent balance sheet referred to in (a) is accompanied by an auditor's report that does not contain a qualification relating to closing inventory.

**PART 7**  
**PRO FORMA FINANCIAL STATEMENTS**

**7.1 Acceptable Accounting Principles for Pro Forma Financial Statements –**

- (1) This section applies to *pro forma* financial statements that must be filed, or included in a document that is filed, under National Instrument 51-102, or that are included in a prospectus under National Instrument 41-102 or National Instrument 44-101.
- (2) *Pro forma* financial statements must be prepared in accordance with the issuer's GAAP.
- (3) Despite subsection (2), if an issuer's financial statements have been reconciled to Canadian GAAP under subsection 5.1(e), the issuer's *pro forma* financial statements must be prepared in accordance with, or reconciled to, Canadian GAAP.
- (4) Despite subsection (2), if an issuer's financial statements have been prepared under subsection 5.1(c) and those financial statements are reconciled to US GAAP, then the *pro forma* financial statements may be prepared in accordance with, or reconciled to, US GAAP.

**PART 8**  
**EXEMPTIONS FOR ELIGIBLE FOREIGN REGISTRANTS**

**8.1 Acceptable Accounting Principles for Eligible Foreign Registrants –** Despite subsection 3.1(1), financial statements delivered by an eligible foreign registrant may be prepared in accordance with:

- (a) US GAAP;
- (b) International Financial Reporting Standards;
- (c) accounting principles that meet the disclosure requirements of a foreign regulatory authority to which the registrant is subject, if it is an eligible foreign registrant incorporated or organized under the laws of that designated foreign jurisdiction; or
- (d) accounting principles that cover substantially the same core subject matter as Canadian GAAP, including recognition and measurement principles and disclosure requirements, provided the notes to the financial statements:
  - (i) explain the material differences between Canadian GAAP and the accounting principles used that relate to recognition, measurement and presentation;
  - (ii) quantify the effect of material differences between Canadian GAAP and the accounting principles used that relate to recognition, measurement, and presentation; and
  - (iii) provide disclosure consistent with Canadian GAAP requirements to the extent not already reflected in the financial statements.

**8.2 Acceptable Auditing Standards for Eligible Foreign Registrants –**

- (1) Despite subsection 3.2(1), financial statements delivered by an eligible foreign registrant that are required by securities legislation to be audited may be audited in accordance with:
  - (a) US GAAS;
  - (b) International Standards on Auditing; or
  - (c) auditing standards that meet the disclosure requirements of a foreign regulatory authority to which the registrant is subject, if it is an eligible foreign registrant incorporated or organized under the laws of that designated foreign jurisdiction;

- (2) Despite subsection 3.2(2), and subject to subsections (3) and (4), if an eligible foreign registrant relies on subsection (1), the financial statements must be accompanied by an auditor's report prepared in accordance with the same auditing standards used to audit the financial statements and the auditor's report must identify the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements.
- (3) If an eligible foreign registrant relies on paragraph (1)(a), the auditor's report must contain an unqualified opinion.
- (4) If an eligible foreign registrant relies on paragraph (1)(b), the auditor's report must be accompanied by a statement by the auditor that describes any material differences in the form and content of the auditor's report as compared to an auditor's report prepared in accordance with Canadian GAAS, and indicates that an auditor's report prepared in accordance with Canadian GAAS would not contain a reservation.

**PART 9  
EXEMPTIONS**

**9.1 Exemptions –**

- (1) The regulator or securities regulatory authority may grant an exemption from this Instrument, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.
- (2) Despite subsection (1), in Ontario, only the regulator may grant such an exemption.

**9.2 Certain Exemptions Evidenced by Receipt –**

- (1) Without limiting the manner in which an exemption may be evidenced, an exemption from this Instrument, in whole or in part, as it pertains to financial statements or auditor's reports included in a prospectus, may be evidenced by the issuance of a receipt for the prospectus or an amendment to the prospectus.
- (2) An exemption under subsection (1) may be evidenced by issuance of a receipt only if:
  - (a) the person or company that sought the exemption:
    - (i) sent to the regulator or securities regulatory authority, on or before the date the preliminary prospectus or the amendment to the preliminary prospectus or prospectus was filed, a letter or memorandum describing the relief sought and the reasons why the relief should be granted; or
    - (ii) sent to the regulator or securities regulatory authority the letter or memorandum referred to in clause (2)(a)(i) after the date of the preliminary prospectus or the amendment to the preliminary prospectus or prospectus has been filed and receives a written acknowledgement from the securities regulatory authority or regulator that the exemption may be evidenced in the manner set out in subsection (1); and
  - (b) the regulator or securities regulatory authority has not before, or concurrently with, the issuance of the receipt for that prospectus, sent notice to the person or company that sought the exemption that the exemption sought may not be evidenced in the manner set out in subsection (1).
- (3) For the purpose of this section, a reference to a prospectus does not include a preliminary prospectus.

**PART 10  
EFFECTIVE DATE**

**10.1 Effective Date –** This Instrument shall come into force on ●.

**10.2 Transition –** Despite section 10.1, this Instrument does not apply

- (a) to prospectuses until National Instrument 41-102 comes into force;
- (b) to National Instrument 44-101 until ●;

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- (c) to National Instrument 44-102 until •; and
- (d) to National Instrument 44-103 until •.

**PROPOSED COMPANION POLICY  
TO NATIONAL INSTRUMENT 52-107  
ACCEPTABLE ACCOUNTING PRINCIPLES, AUDITING STANDARDS AND REPORTING CURRENCY**

**PART ONE      GENERAL**

**1.1 Introduction and Purpose** – This companion policy provides information about how the provincial and territorial securities regulatory authorities interpret National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency* (the Instrument). The Instrument sets out the accounting principles and auditing standards that must be used by

- (a) issuers required to file financial statements under National Instrument 51-102 and National Instrument 71-102,
- (b) issuers required to include financial statements in a prospectus, or
- (c) registrants required to deliver financial statements to a provincial or territorial securities regulatory authority.

Any other financial statement filed by a reporting issuer with a provincial or territorial securities regulatory authority must also be prepared in accordance with this Instrument except for financial statements prepared by issuers that are investment funds.

**1.2 Multijurisdictional Disclosure System** – National Instrument 71-101 *The Multijurisdictional Disclosure System* (NI 71-101) permits certain US incorporated issuers to satisfy Canadian disclosure filing obligations, including financial statements, by using disclosure documents prepared in accordance with U.S. federal securities laws. The Instrument does not replace or alter NI 71-101. There are instances in which NI 71-101 and the Instrument offer similar relief to a reporting issuer. There are other instances in which the relief differs. If both NI 71-101 and the Instrument are available to a reporting issuer, the issuer should consider both instruments. It may choose to rely on the less onerous instrument in a given situation.

**1.3 Calculation of Voting Securities Owned by Residents of Canada** – The definition of “eligible foreign issuer” is based upon the definition of foreign private issuer in Rule 405 of the 1933 Act and Rule 3b-4 of the 1934 Act. For the purposes of the definition of “eligible foreign issuer”, in determining the outstanding voting securities that are directly or indirectly owned by residents of Canada, an issuer should:

- (a) use reasonable efforts to determine securities held by a broker, dealer, bank, trust company or nominee or any of them for the accounts of customers resident in Canada;
- (b) count securities beneficially owned by residents of Canada as reported on reports of beneficial ownership, including insider reports and early warning reports; and
- (c) assume that a customer is a resident of the jurisdiction or foreign jurisdiction in which the nominee has its principal place of business if, after reasonable inquiry, information regarding the jurisdiction or foreign jurisdiction of residence of the customer is unavailable.

This method of calculation differs from that of NI 71-101 which only requires a calculation based on the address of record. Some SEC foreign issuers may therefore qualify for exemptive relief under NI 71-101 but not under this Instrument.

**1.4 Exemptions Evidenced by the Issuance of a Receipt** – Section 9.2 of the Instrument states that an exemption from any of the requirements of the Instrument pertaining to financial statements or auditor’s reports included in a prospectus may be evidenced by the issuance of a receipt for that prospectus. Issuers should not assume that the relief evidenced by the receipt will also apply to financial statements or auditors’ reports filed in satisfaction of continuous disclosure obligations or included in any other filing.

**1.5 Filed or Delivered** – Financial statements that are filed in a jurisdiction will be made available for public inspection in that jurisdiction, subject to the provisions of securities legislation in the local jurisdiction regarding confidentiality of filed material. Material that is delivered to a regulator, but not filed, is not required under securities legislation to be made available for public inspection. However, the regulator may choose to make such material available for inspection by the public.

## **PART TWO ACCEPTABLE ACCOUNTING PRINCIPLES**

**2.1 Acceptable Accounting Principles for Eligible Foreign Issuers** – Appendix A contains a chart outlining the accounting principles permitted for annual and interim financial statements of eligible foreign issuers.

**2.2 Canadian GAAP Applicable to Public Enterprises** - The Instrument defines Canadian GAAP as generally accepted accounting principles for public enterprises, as determined with reference to the Handbook. The following are some of the significant differences in the provisions of Canadian GAAP applicable to public enterprises compared to those applicable to non-publicly accountable enterprises:

- (a) financial statements for public enterprises cannot be prepared using the differential reporting options as set out in the Handbook;
- (b) transition provisions applicable to enterprises other than public enterprises are not available; and
- (c) financial statements must include any additional disclosure requirements applicable to public enterprises.

**2.3 GAAP Reconciliations** – The Instrument specifies that where a reconciliation to Canadian GAAP, the issuer's GAAP or the registrant's GAAP is required, the reconciliation must quantify the effect of material differences between that GAAP and the accounting principles used that relate to recognition, measurement and presentation in the subject financial statements.

While the differences impacting net income must be presented in a tabular format, differences relating to other aspects of the financial statements may be presented in either a tabular reconciliation or some other form of reconciliation.

**2.4 Financial Statements After an SEC Issuer Changes From Canadian GAAP to US GAAP –**

- (1) An SEC issuer may change from Canadian GAAP to US GAAP any time during a year. If, after filing financial statements prepared in accordance Canadian GAAP for one or more interim periods during a year, the issuer decides to adopt US GAAP, the issuer may be required to restate and re-file the interim financial statements for the current year previously filed. An SEC issuer that changes from Canadian GAAP to US GAAP during a year should consult National Instrument 51-102 to determine which financial statements should be restated and re-filed in satisfaction of its continuous disclosure obligations. Similarly, issuers planning to file a prospectus should refer to the prospectus instrument under which the prospectus will be prepared and filed to determine the financial statements that it will be required to restate and re-file.
- (2) Appendix B includes examples of the format for presenting comparatives for both annual and interim financial statements after an SEC issuer changes from Canadian GAAP to US GAAP.

## **PART THREE ACCEPTABLE AUDITING STANDARDS**

**3.1 Summary of Acceptable Auditing Standards** – Appendix C contains a chart outlining the auditing standards permitted for eligible foreign issuers.

## **PART FOUR AUDITORS AND THEIR REPORTS**

**4.1 Auditor's Expertise** – The securities legislation in most jurisdictions prohibits a regulator or securities regulatory authority from issuing a receipt for a prospectus if it appears to the regulator or securities regulatory authority that a person or company who has prepared any part of the prospectus or is named as having prepared or certified a report used in connection with a prospectus is not acceptable.

**4.2 Canadian Auditors** – Subsection 3.3(2) of the Instrument requires issuers and registrants incorporated or organized under the laws of Canada or a jurisdiction of Canada and any other issuer or registrant that is not an eligible foreign issuer nor an eligible foreign registrant, to engage a Canadian auditor to audit the issuer's or registrant's financial statements if those statements are prepared in accordance with Canadian GAAP and will be audited in accordance with Canadian GAAS.

**4.3 Reservations in an Auditor's Report –**

- (1) The Instrument generally prohibits an auditor's report from containing a reservation, qualification, or other similar communication that would constitute a reservation under Canadian GAAS.

- (2) Part 9 of the Instrument permits the regulator or securities regulatory authority to grant exemptive relief from the Instrument, including the requirement that an auditor's report not contain a reservation, qualification or other similar communication that would constitute a reservation under Canadian GAAS. However, staff of the Canadian Securities Administrators (the CSA) believe that such exemptive relief will not be granted where the reservation, qualification or other similar communication is:
- (a) due to a departure from accounting principles permitted by the Instrument; or
  - (b) due to a limitation in the scope of the auditor's examination that:
    - (i) results in the auditor being unable to form an opinion on the financial statements as a whole;
    - (ii) is imposed or could reasonably be eliminated by management; or
    - (iii) could reasonably be expected to be recurring.

**4.4 Auditors' Knowledge of an Issuer's Accounting Principles and Auditing Standards** – A foreign issuer or foreign registrant may have its financial statements prepared and audited in accordance with accounting principles and auditing standards, respectively, that do not correspond to the home jurisdiction of its auditor. In these situations, CSA staff may request, during a review of the issuer's prospectus, continuous disclosure records or other filings, or a registrant's filings, a letter from the foreign auditor describing its expertise in the accounting principles used to prepare the issuer's or registrant's financial statements and the auditing standards applied. A similar request may be made in situations where the issuer or registrant has reconciled its financial statements to a set of accounting principles that are different from those of the auditor's home jurisdiction.



**APPENDIX A**  
**Accounting Principles Permitted for Annual and Interim Financial Statements**  
**of Eligible Foreign Issuers<sup>1</sup>**

Accounting Principles:	Eligible Foreign Issuers <sup>2</sup>		
	SEC Foreign Issuers <sup>2,3</sup>	Designated Foreign Issuers <sup>2,3</sup>	Other Eligible Foreign Issuers <sup>3</sup>
Canadian GAAP	✓ s. 3.1(1)	✓ s. 3.1(1)	✓ s. 3.1(1)
US GAAP	✓ No reconciliation required s. 5.1(a)	✓ Reconciliation to Canadian GAAP may be required <sup>4</sup> s. 5.1(d)	✓ Reconciliation to Canadian GAAP required s. 5.1(e)
International Financial Reporting Standards	✓ No reconciliation required s. 5.1(b)	✓ No reconciliation required s. 5.1(b)	✓ No reconciliation required s. 5.1(b)
Foreign Accounting Principles used in an SEC Filing	✓ Only if ≤ 10% Canadian shareholders  Reconciliation to US GAAP required for Annual Financial Statements s. 5.1(c)		
Accounting Principles Accepted in the Designated Foreign Jurisdiction		✓ No reconciliation required s. 5.1(d)	
Accounting Principles that cover Substantially the Same Core subject matter as Canadian GAAP	✓ Reconciliation to Canadian GAAP required s. 5.1(e)	✓ Reconciliation to Canadian GAAP required s. 5.1(e)	✓ Reconciliation to Canadian GAAP required s. 5.1(e)

**Notes**

- 1 This decision chart provides general guidance and should be read in conjunction with National Instruments 52-107, 51-102 and 71-102 and Companion Policy 71-102CP. The decision chart does not relate to financial statements other than those of reporting issuers.
- 2 These terms are defined in the Instrument.
- 3 The corresponding section references in the Instrument appear in the bottom right-hand corner of each cell.
- 4 A Canadian GAAP reconciliation would not be required if the designated foreign jurisdiction accepts financial statements prepared in accordance with US GAAP. See the second last row of this chart.

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**Appendix B – Presentation of Comparatives after an SEC Issuer Changes from Canadian GAAP to US GAAP**

The following are examples of the format for presenting comparative financial information for both annual and interim financial statements after an SEC issuer changes from using Canadian GAAP to US GAAP.

**1. Annual Financial Statements****(a) Option 1 – All Comparatives Presented on the Face of the Financial Statements****(i) Balance Sheet, Statements of Income and Cash Flow**

<u>Most Recent Year</u> (US GAAP)	Prior Year Comparative <u>Restated</u> (US GAAP)	Prior Year Comparative as <u>Previously Reported</u> (Canadian GAAP)
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Financial statement line items

**(ii) Notes to the Annual Financial Statements**

- explanation of material differences between Canadian GAAP and US GAAP relating to recognition, measurement and presentation
- quantification of the differences relating to recognition, measurement and presentation

**(b) Option 2 – Comparative Figures as Previously Reported in Canadian GAAP Presented in a Note to the Annual Financial Statements****(i) Balance Sheet, Statements of Income and Cash Flow**

<u>Most Recent Year</u> (US GAAP)	Prior Year Comparative <u>Restated</u> (US GAAP)
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Financial statement line items

**(ii) Notes to the Annual Financial Statements**

- explanation of material differences between Canadian GAAP and US GAAP relating to recognition, measurement and presentation
- quantification of the differences relating to recognition, measurement and presentation

**2. Interim Financial Statements****(a) Option 1 - All Comparative Figures Presented on the Face of the Interim Financial Statements and Note Disclosure of Reconciliation Information****(i) Balance Sheet**

<u>Current Interim Period</u> (US GAAP)	Prior Year Comparative <u>Restated</u> (US GAAP)	Prior Year Comparative as <u>Previously Reported</u> (Canadian GAAP)
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Financial statement line items

**(ii) Statements of Income and Cash Flow**

Most Recent Interim Period (3 months) (US GAAP)	Comparative Interim Period (3 months) <u>Restated</u> (US GAAP)	Comparative Interim Period (3 months) as Previously <u>Reported</u> (Canadian GAAP)	Most Recent Year-to-Date Interim Period (US GAAP)	Comparative Year-to-Date Interim Period <u>Restated</u> (US GAAP)	Comparative Year-to-Date Interim Period as Previously <u>Reported</u> (Canadian GAAP)
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Financial statement line items

**(iii) Notes to the Interim Financial Statements**

- explanation of material differences between Canadian GAAP and US GAAP for the comparative interim periods (most recent three months and year-to-date) relating to recognition, measurement and presentation
- quantification of the differences relating to recognition, measurement and presentation

**(b) Option 2 - Comparative Figures as Previously Reported in Canadian GAAP Presented in a Schedule or a Note to the Interim Financial Statements and Note Disclosure of Reconciliation Information****(i) Balance Sheet**

<u>Most Recent Year</u> (US GAAP)	Prior Year Comparative <u>Restated</u> (US GAAP)
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Financial statement line items

**(ii) Statements of Income and Cash Flows**

<u>Current Interim Period (3 months)</u> (US GAAP)	Comparative Interim Period (3 months) <u>Restated</u> (US GAAP)	Most Recent Year-to-Date Interim Period (US GAAP)	Comparative Year-to-Date Interim Period <u>Restated</u> (US GAAP)
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Financial statement line items

**(iii) Schedule or Note to the Interim Financial Statements****(A) Balance Sheet Comparatives**

Prior Year Comparative as  
Previously Reported  
(Canadian GAAP)

Financial statement line items

**(B) Statements of Income and Cash Flow Comparatives**

Comparative Interim Period (3 months) as <u>Previously Reported</u> (Canadian GAAP)	Comparative Year-to-Date Interim Period as <u>Previously Reported</u> (Canadian GAAP)
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Financial statement line items

**(C) Supporting Reconciliation Information**

- explanation of material differences between Canadian GAAP and US GAAP for the comparative interim periods (most recent three months and year-to-date)
- quantification of the differences relating to recognition, measurement and presentation

**(c) Option 3 - Comparative Figures as Previously Reported in Canadian GAAP Presented in a Schedule or a Note to the Interim Financial Statements and Integrated with Reconciliation Information****(i) Balance Sheet**

<u>Most Recent Year</u> (US GAAP)	Prior Year Comparative <u>Restated</u> (US GAAP)
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Financial statement line items

**(ii) Statements of Income and Cash Flow**

<u>Current Interim Period (3 months)</u> (US GAAP)	Comparative Interim Period <u>(3 months) Restated</u> (US GAAP)	Current Year-to-Date Interim Period (US GAAP)	Comparative Year-to-Date Interim Period <u>Restated</u> (US GAAP)
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Financial statement line items

**(iii) Schedule or Note to the Interim Financial Statements - Disclosing the Comparatives as Previously Reported in Canadian GAAP, Reconciling Adjustments, and Comparatives in US GAAP as Restated****(A) Balance Sheet Comparatives and Quantification of Differences**

Prior Year Comparatives as <u>Previously Reported</u> (Canadian GAAP)	<u>Reconciling Adjustments</u>	Prior Year Comparative <u>Restated</u> (US GAAP)
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Financial statement line items

**(B) Statements of Income and Cash Flow Comparatives and Quantification of Differences**

Comparative Interim Period (3 months) as Previously <u>Reported</u> (Canadian GAAP)	<u>Reconciling Adjustments</u>	Comparative Interim Period (3 months) <u>Restated</u> (US GAAP)	Comparative Year- to-Date Interim Period as Previously <u>Reported</u> (Canadian GAAP)	<u>Reconciling Adjustments</u>	Comparative Year-to-Date Interim Period <u>Restated</u> (US GAAP)
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Financial statement line items

**(C) Supporting Reconciliation Information**

- explanation of material differences between Canadian GAAP and US GAAP relating to recognition, measurement and presentation which are quantified in the "Reconciling Adjustments" columns above.

**APPENDIX C**  
**Auditing Standards Permitted for Eligible Foreign Issuers**

Auditing Standards:	Eligible Foreign Issuers <sup>1</sup>		
	SEC Foreign Issuers <sup>1,2</sup>	Designated Foreign Issuers <sup>1,2</sup>	Other Eligible Foreign Issuers <sup>2</sup>
Canadian GAAS	✓ s. 3.2(1)	✓ s. 3.2(1)	✓ s. 3.2(1)
US GAAS	✓ s. 5.2(1)(a)	✓ s. 5.2(1)(a)	✓ s. 5.2(1)(a)
International Standards on Auditing	✓ <sup>3</sup> s. 5.2(1)(b)	✓ <sup>3</sup> s. 5.2(1)(b)	✓ <sup>3</sup> s. 5.2(1)(b)
Auditing Standards Accepted in the Designated Foreign Jurisdiction <sup>4</sup>		✓	

**Notes**

- 1 These terms are defined in the Instrument.
- 2 The corresponding section references in the Instrument appear in the bottom right-hand corner of each cell.
- 3 The audit report must be accompanied by a statement disclosing any material differences in the form and content of the audit report compared to a Canadian GAAS audit report. Refer to section 5.2(4) in the Instrument.
- 4 The auditing standards must meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer is subject. Refer to section 5.2(1)(c) in the Instrument.