



Deloitte's digest  
An overview of  
standard-setting activities



April 30, 2012

At a time when it has become a difficult task to keep up to date with the recent developments in standard-setting activities, the Deloitte Digest presents a useful single source of reference for current financial reporting developments.

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# Summary by standard

From time to time, standard-setters and regulators issue new rules and standards that affect your financial reporting. This document briefly describes these pronouncements and other regulatory and professional developments and indicates their effective date, transition application and entities affected.

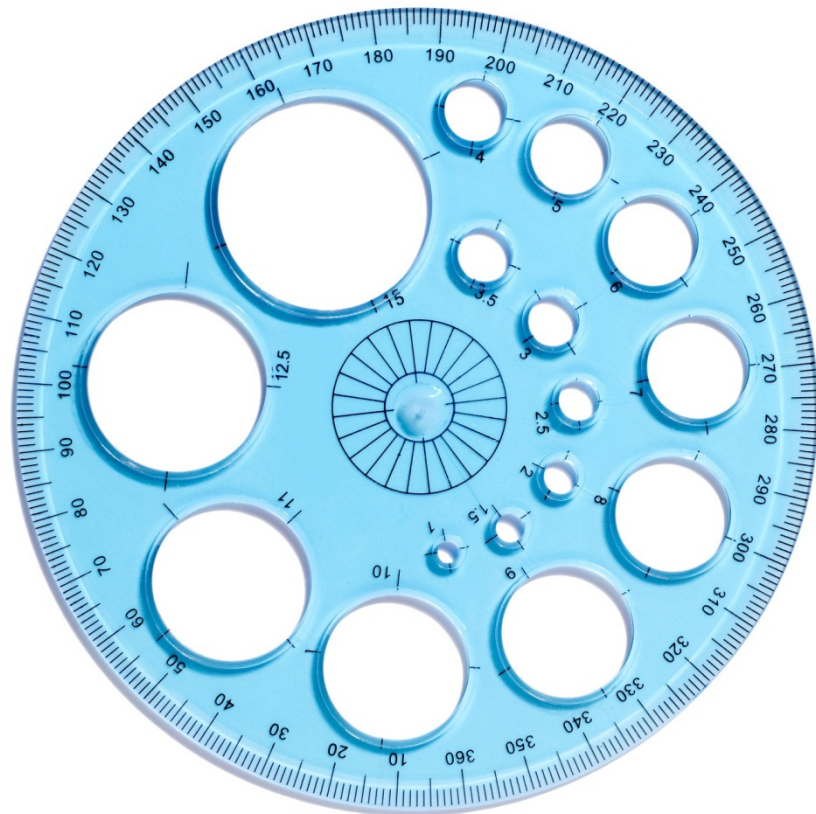
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# Final standards



## AMF 2011 Activity Report Continuous Disclosure Review Program UPDATED

### Issued in December 2011

**Standard:** AMF 2011 Activity Report Continuous Disclosure Review Program

**Transitional provisions:** N/A

**Published by:** AMF

**Last updated:** April 2012

**Applicable to:** All reporting issuers

### Recent activities

In December 2011, the AMF published its 2011 Activity Report where it discusses its principal findings arising from the reviews conducted within the scope of the Continuous Disclosure Review Program (CDR Program) as well as a discussion of the issues related to the changeover to IFRS.

### In summary

This edition of the Continuous Disclosure Review Program Activity Report contains two separate parts: one deals with companies and the other with investment funds. Both parts set out the highlights and the results of the reviews conducted, and they also deal with the significant effects of the changeover to IFRS. Also included is a discussion of certain areas on which the AMF will focus its attention in fiscal 2011-2012.

#### Companies

During the most recently completed financial year, the AMF conducted 64 full reviews and 242 issue-oriented reviews on a sampling of issuers. These reviews covered the following matters, in particular:

- disclosure in the MD&A prior to the adoption of IFRS, regarding the changeover to these new standards;
- certification of disclosure in issuers' annual and interim filings;
- disclosure of corporate governance practices.

Following the full and issue-oriented reviews, 22 documents had to be refiled. Moreover, nearly all the companies selected were required to make changes for purposes of their next filings in order to improve the continuous disclosure presented therein.

Deficiencies identified in the financial statements included:

- Stock-based compensation and other stock-based payments
  - Description of plans and vesting requirements incomplete
  - Number and weighted average exercise prices of options for each group of options omitted
  - Weighted average grant-date fair value of options granted during the year not disclosed
- Financial instruments
  - Sensitivity analysis related to market risk omitted
  - Methods and assumptions used to determine the fair value of each category of financial assets or financial liabilities not disclosed
- Segment disclosures

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- Information about geographic areas incomplete or omitted
  - Information about major customers aggregated or omitted
  - Revenue recognition
    - Description of accounting policy for revenue recognition incomplete
    - Method for attributing revenue from each product or service not disclosed
  - Inventories
    - Amount of inventories recognized as an expense during the period not disclosed
    - Amount of write-down of inventories recognized as an expense during the period not disclosed
    - Circumstances or events having led to the reversal of an inventory write-down not disclosed

### Investment funds

Following the systematic summary reviews conducted during the most recently completed financial year, 16 documents had to be refiled. The principal deficiencies affected the following documents:

- the custodian's compliance report;
- the management report of fund performance.

Most of the 300 funds were targeted by one or more of the full or issue-oriented reviews.

Funds were selected for full reviews using a risk-based approach. This approach takes into account criteria pertaining to financial and non-financial information published by the funds and their manager.

Deficiencies identified in the financial statements included:

- Related party transactions
  - Disclosure of related party transactions incomplete and spread over several notes
- Measurement of financial assets
  - Portfolio securities valued at closing price rather than bid price for purposes of calculating net assets
  - Funds must clearly differentiate between their accounting policies and their policies and procedures for measuring the net asset value.
  - Funds must also present, in a note, a comparison between the net asset value per security and the net assets per security as at the date of the financial statements.
- Accounting policies
  - Methods and assumptions used to determine the fair value of financial instruments listed on an active market and non-listed financial instruments incomplete, incorrect or not in compliance with GAAP
  - Grouping in the same line item of fees that should be presented under separate line items

### Available resources and links

- [AMF 2011 Activity Report \(www.lautorite.qc.ca\)](http://www.lautorite.qc.ca)

## AMF – Reminder of Certain Regulatory Requirements and Accounting Standards for First Annual Financial Statements Prepared under IFRS

NEW

Issued on February 17, 2012

**Standard:** N/A - Reminder of Certain Regulatory Requirements and Accounting Standards for First Annual Financial Statements Prepared under IFRS

**Transitional provisions:** N/A – Effective immediately

**Published by:** AMF

**Last updated:** February 2012

**Applicable to:** All reporting issuers subject to the Securities Act (R.S.Q., c. V-1.1) that are publicly accountable enterprises, but are not investment funds or entities with rate-regulated activities.

### Recent activities

On February 17, 2012, the AMF Staff has issued a reminder of certain regulatory requirements for issuers filing their first annual financial statements prepared under IFRS.

### In summary

The AMF Staff Notice reminds issuers of certain matters as follows:

#### No filing deadline extension

There is no extension of the filing deadline for issuers' first annual financial statements prepared under IFRS. Therefore, issuers must comply with the filing deadlines for annual financial statements set out in section 4.2 of Regulation 51-102 respecting Continuous Disclosure Obligations. Issuers are encouraged to consult the calendar Financial Reporting Deadlines – Year of IFRS Adoption.

#### Reconciliations of financial statements prepared in accordance with previous GAAP to financial statements prepared under IFRS

Issuers are reminded that, in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards* (IFRS 1), they must explain, in the first annual financial statements prepared under IFRS, the effect of the transition from previous GAAP to IFRS. Therefore, comparative disclosures in the first annual financial statements prepared under IFRS must include reconciliations of equity reported in accordance with previous GAAP to equity in accordance with IFRS. They must also include a reconciliation of total comprehensive income reported in accordance with previous GAAP to total comprehensive income in accordance with IFRS.

#### Regulation 52-107 respecting Acceptable Accounting Principles and Auditing Standards

According to section 3.2 of Regulation 52-107 respecting Acceptable Accounting Principles and Auditing Standards, the first annual IFRS financial statements must, in particular:•

- - be prepared in accordance with Part I of the CICA Handbook;
- - disclose an unreserved statement of compliance with IFRS; and
- - be prepared using the same accounting principles for all accounting periods presented in the financial statements.

#### Changes in accounting policies or use of IFRS 1 exemptions during the changeover year to IFRS

If an issuer changes its accounting policies or its use of IFRS 1 exemptions during the changeover year

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to IFRS, IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, does not apply. The issuer must apply paragraph 27A of IFRS 1. In accordance with this paragraph, the issuer's first annual IFRS financial statements, must:

- explain how the changes in accounting policies between its first interim IFRS financial report and its first annual IFRS financial statements resulting from the transition to IFRS have affected its reported financial position, financial performance and cash flows;
- update reconciliations of its equity reported in accordance with previous GAAP to its equity under IFRS at the date of transition and the reporting date of the latest annual financial statements prepared in accordance with previous GAAP;
- update, for the comparative annual period, the reconciliation between total comprehensive income reported in accordance with previous GAAP to total comprehensive income in accordance with IFRS.

### **Opening IFRS statement of financial position and comparative information**

Under section 4.1 of Regulation 51-102 respecting Continuous Disclosure Obligations, the first annual financial statement prepared under IFRS must include the opening IFRS statement of financial position. In addition, in accordance with paragraph 21 of IFRS 1, the first IFRS compliant financial statements must include at least three statements of financial position (including the opening IFRS statement of financial position), two statements of comprehensive income, two separate income statements (if presented), two statements of cash flows and two statements of changes in equity and notes, including comparative information.

Therefore, the opening IFRS statement of financial position must be presented in the first annual IFRS financial statements by adding a third column to the statement of financial position.

### **Reminder of terminology changes pertaining to new certificates**

Considering the terminology changes to Regulation 52-109 respecting Certification of Disclosures in Issuers' Annual and Interim Filings, annual certificates for financial years beginning on or after January 1, 2011 must be filed in accordance with the new certificates that came into effect on January 1, 2011.

### **Reminder of certain Canadian Securities Administrators (CSA) staff notices that may apply to first annual financial reports prepared under IFRS**

- CSA Staff Notice 52-328: Disclosures about Accounting Policies in the Year of Changeover to International Financial Reporting Standards (IFRS), published on April 8, 2011.
- CSA Staff Notice 52-306 (Revised): Non-GAAP Financial Measures and Additional GAAP Measures (Notice 52-306), amended February 17, 2012.

### **Available resources and links**

- [AMF Reminder Notice](#)

## CSA/IROC New Regulatory Framework in respect of Dark Liquidity

NEW

### Issued on April 13, 2012

**Standard:** New Regulatory Framework in respect of Dark Liquidity

**Transitional provisions:** Effective October 10, 2012

**Published by:** CSA/IROC

**Last updated:** April 2012

**Applicable to:** All reporting issuers

### Recent activities

On April 13, 2012, the CSA and IROC announced that they are implementing a new regulatory framework for the use of orders entered without pre-trade transparency (dark orders).

### In summary

The Canadian Securities Administrators (CSA) and the Investment Industry Regulatory Organization of Canada (IIROC) are implementing a new regulatory framework for the use of orders entered without pre-trade transparency (dark orders).

To implement the framework, amendments have been made to National Instrument 21-101 Marketplace Operation and to the Universal Market Integrity Rules (UMIR), approved by the CSA on March 30, 2012. The framework is comprised of the following key elements:

- Visible order priority – Visible orders will have execution priority over dark orders on the same marketplace at the same price;
- Meaningful price improvement – In order to trade with a dark order, smaller orders must receive a minimum level of price improvement, which is defined as one trading increment or half a trading increment for securities with a bid-ask spread of one trading increment; and
- Minimum size – IIROC has the ability to designate a minimum size for dark orders. It is not doing so at this time, but the CSA and IIROC will monitor market developments closely to consider whether and when IIROC should implement a minimum size.

Effective October 10, 2012, the UMIR provisions will introduce a comprehensive and proactive regulatory approach to safeguard the price discovery process in Canadian equity markets.

“The Canadian capital markets are developing rapidly and it’s incumbent on regulators to set high standards to ensure these changes are in the best interests of investors and the markets,” said Bill Rice, Chair of the CSA and Chair and CEO of the Alberta Securities Commission. “This new regulatory framework strikes an appropriate balance that will allow for continued innovation while maintaining fair and efficient capital markets.”

“The new rule framework recognizes the increasing use of dark liquidity and balances displayed and dark liquidity for healthy price discovery,” added Susan Wolburgh Jenah, IIROC President and Chief Executive Officer. “These proposals are intended to ensure Canadian equity markets continue to evolve in a fair and competitive manner that strengthens market integrity and investor protection.”

- The initiative follows extensive consultations with industry and stakeholders that began in 2009. The rules are designed to enable institutional traders to continue to execute large orders with minimal market impact, while ensuring that investors with smaller orders receive meaningful price improvement when they trade with dark orders.

## Available resources and links

- [CSA Press Release](#)

## CSA Amendments to National Instrument 81-102, Mutual Funds

**Issued on February 9, 2012**

**Standard:** CSA National Instrument 81-102 (Amended), Mutual Funds

**Transitional provisions:** Subject to ministerial approval, the amendments will come into force April 30, 2012. The new requirements for money market funds will come into force following a transition period.

**Published by:** CSA

**Last updated:** February 2012

**Applicable to:** All reporting issuers

### Recent activities

On February 9, 2012, the CSA announced the completion of the first phase of its “Modernization Project”, which seeks to update the product regulation of publicly offered investment funds. The purpose of the Project is to modernize investment fund regulation, making it more effective and relevant in today’s more diverse and increasingly innovative retail marketplace.

### In summary

The Amendments to NI 81-102 codify exemptive relief that is frequently granted to mutual funds and exchange-traded mutual funds under NI 81-102 and other investment fund rules. They reflect the current views of the CSA and help to modernize investment fund rules by making the requirements more effective and relevant in today’s more diverse and increasingly innovative retail fund marketplace. The Amendments also include a number of minor drafting changes generally intended to clarify and update NI 81-102.

### ETFs

Since the coming into force of NI 81-102 in February 2000, the range of publicly-offered investment fund products governed by the NI 81-102 regime has expanded. ETFs in continuous distribution have proliferated, with assets under management growing from approximately \$6 billion in December 2000 to approximately \$40 billion in September 2011. ETFs not in continuous distribution, which are mutual funds that issue a finite number of securities under an initial public offering, have also gained popularity with retail investors.

The Amendments are intended to accommodate the different operations and distribution of ETFs within the NI 81-102 regime. They achieve this by eliminating the need for ETFs to routinely seek exemptive relief from certain prescribed purchase and redemption processes and other operational requirements designed primarily for open-end conventional mutual funds sold through the mutual fund dealer network. The CSA anticipates the Amendments will benefit ETFs and their investors by eliminating the regulatory costs and delays associated with obtaining exemptive relief. This more expeditious access to market will promote market efficiency.

### Short-selling and specified derivatives

The Amendments add new section 2.6.1 of NI 81-102 which permits mutual funds to short sell securities subject to a cap of 20% of their net asset value. The ability to use this investment strategy, previously permitted through exemptive relief, may be beneficial for mutual funds by giving them the potential to earn returns in declining markets. In connection with this change, the CSA is adding a custodial requirement relating to short sales, and is amending the relevant prospectus forms under NI 81-101 and NI 41-101 to require disclosure of the use of short-selling strategies and of the related risks.

The Amendments also provide mutual funds with more flexibility in their use of specified derivatives by expanding what qualifies as cash cover for such purposes and by removing term limits on specified

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derivatives. The expanded range of cash cover, which now includes securities of money market funds and certain floating rate notes, will allow mutual funds to more effectively manage their cash cover by enabling them to hold additional instruments that are diversified, cost-effective and that potentially have a higher yield.

### **Fund of fund**

The Amendments revise section 2.5 of NI 81-102 to now permit mutual funds to invest in underlying mutual funds that are reporting issuers in the local jurisdiction, as opposed to only those with a current offering prospectus. They also give mutual funds the ability to invest in a two-tier mutual fund provided this fund is a 'clone fund' whose objective is to track the performance of one underlying mutual fund.

### **Money market funds**

The Amendments introduce new investment restrictions for money market funds under new section 2.18 of NI 81-102. That section includes new liquidity provisions requiring a money market fund to have at least 5% of its assets in cash or readily convertible to cash within one day and 15% of its assets in cash or readily convertible to cash within one week. It also includes a new dollar-weighted average term to maturity limit of 180 days that is to be calculated based on the actual term to maturity of all securities in a money market fund portfolio.

These new requirements are intended to respond to the 2008/2009 credit crisis and its specific impact on Canadian money market funds and also keep pace with similar regulatory changes implemented for money market funds in other major markets. The CSA anticipates the new requirements will benefit Canadian money market funds by making them more resilient to certain short-term market risks, including interest rate risk, liquidity risk and credit risk. The CSA will continue to monitor ongoing regulatory developments impacting money market funds in other global jurisdictions and consider the need for similar changes in Canada.

Related to the new money market fund requirements is an amendment to NI 81-106 which now no longer permits an investment fund to aggregate certain types of short-term debt in the fund's statement of investment portfolio. This change will increase the transparency of investment fund portfolio holdings and allow investors to better evaluate the risks associated with an investment fund's short-term holdings.

### **Mutual fund dealers**

The Amendments exempt principal distributors and participating dealers that are members of the MFDA, as well as mutual fund dealers in Québec, from the requirements of sections 11.1 and 11.2 of NI 81-102, which include the requirement to segregate client money relating to mutual fund transactions from sums relating to other types of investment transactions, as well as the requirement to allocate and pay out interest earned on such client money held in a trust account. Under MFDA rules however, these principal distributors and participating dealers will continue to hold client assets in a trust account and separate from their own assets. They will also have discretion as to whether to pay interest on client cash held in trust, subject to conditions.

The Amendments also exempt those same principal distributors and dealers from the requirement under section 12.1 of NI 81-102 to annually report their compliance with the applicable requirements of Parts 9, 10 and 11 of NI 81-102. The MFDA will however continue to assess its members' compliance with such requirements.

### **Sales communications**

The Amendments introduce new requirements in section 15.3 of NI 81-102 intended to ensure that mutual fund ratings and rankings used in sales communications are objective and consistent, and accompanied by disclosure intended to ensure that the sales communication will not be misleading.

### **Continuous disclosure**

The Amendments introduce a requirement under section 14.2 of NI 81-106 that an investment fund make its net asset value and net asset value per security readily available to the public. This will boost the transparency of fund performance and make it easier for current and prospective investors to determine the net asset value/net asset value per security of an investment fund. The Amendments further require that an investment fund that short sells securities calculate its net asset value on a daily basis.

### **Other**

Finally, the Amendments include a number of minor drafting changes generally intended to clarify and update NI 81-102.

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### Available resources and links

- [Press release](#)
- [CSA National Instrument 81-102 \(Amended\)](#)

## CSA Staff Notice 52-306 (Revised), Non-GAAP Measures and Additional GAAP Measures

**Issued on February 17, 2012**

**Standard:** CSA Staff Notice 52-306 (Revised), Non-GAAP Measures and Additional GAAP Measures

**Transitional provisions:** N/A – Effective immediately

**Published by:** CSA

**Last updated:** February 2012

**Applicable to:** All reporting issuers

### Recent activities

On February 17, 2012, the CSA Staff updated Staff Notice 52-306 to provide further guidance on disclosure of additional GAAP measures presented under IFRS.

### In summary

#### Definition of an additional GAAP Measure

For the purpose of this Staff Notice, an additional GAAP measure presented in financial statements under IFRS is:

- a line item, heading or subtotal that is relevant to an understanding of the financial statements and is not a minimum line item mandated by IFRS (see IAS 1 Presentation of Financial Statements (IAS 1) paragraphs 55 and 85), or
- a financial measure in the notes to financial statements that is relevant to an understanding of the financial statements and is a measure not presented elsewhere in the financial statements (see IAS 1 paragraph 112(c)).

#### Comparison to Requirements under IFRS

IFRS mandates certain minimum line items for financial statements and requires presentation of additional line items, headings and subtotals when such presentation is relevant to an understanding of an entity's financial position and performance. IFRS also requires the notes to financial statements to provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of them. Because IFRS requires such additional GAAP measures, they are not non-GAAP financial measures.

Similarly, IFRS permits certain financial measures such as alternative earnings per share if certain conditions are met. Because IFRS expressly permits such measures, they are not non-GAAP financial measures.

IFRS requires fair presentation, which includes the faithful representation of transactions, other events and conditions. A fair presentation also requires issuers to present financial information in a manner that is relevant, reliable, understandable, comparable and consistent period over period. An issuer should consider these requirements when determining whether and how to present additional GAAP measures.

#### Issuers' Responsibility

Issuers must exercise judgment to determine whether a measure qualifies as an additional GAAP measure. As noted in section III of this notice relating to non-GAAP financial measures, issuers have a responsibility to ensure that information they provide to the public is not misleading. In addition, certifying officers have obligations under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual*

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*and Interim Filings* to make certifications regarding misrepresentations, fair presentation, and disclosure controls and procedures.

### **Recommended Practices**

The following practices will help issuers and certifying officers address these obligations in relation to additional GAAP measures:

- Name an additional GAAP measure in a way that distinguishes it from minimum disclosure items required by IFRS and is meaningful given the composition of the additional GAAP measure. For example, the name "income before the undernoted items" is generally not meaningful because "undernoted items" does not sufficiently describe the elements that are missing from "income". In addition, it does not facilitate a cross-reference to MD&A or other documents. Similarly, an unnamed subtotal is not meaningful;
- Avoid using IFRS terms within a name for an additional GAAP measure unless the IFRS meaning applies. For example, the name "profit before tax" would be appropriate only if the IFRS meaning of profit applies;
- Present an additional GAAP measure in a manner that does not confuse, obscure, or exceed the prominence of, minimum disclosure items required by IFRS on the face of financial statements or in the notes to financial statements;
- Explain in either the notes to financial statements or in corresponding MD&A why the additional GAAP measure provides useful information to investors and the purposes, if any, for which management uses the measure;
- Ensure a reader can easily determine how the additional GAAP measure is calculated in relation to minimum disclosure items required by IFRS on the face of financial statements or in the notes to financial statements;
- Present additional GAAP measures consistently over time or explain any change and the reason for the change in the notes to financial statements.

### **Available resources and links**

- [CSA Staff Notice 52-306 \(Revised\)](#)

## CSA 2011 Enforcement Activity Report

### Issued in February 2012

**Standard:** 2011 Enforcement Activity Report

**Transitional provisions:** N/A

**Published by:** CSA

**Last updated:** February 2012

**Applicable to:** All reporting issuers

### Recent activities

In February 2012, the CSA released a summary of its enforcement and oversight activities for the 2011 calendar year, including summaries of notable cases.

### In summary

On February 22, 2012, the CSA released its 2011 Enforcement Activity Report that outlines how Canadian securities regulators are actively working to protect investors and prevent abusive conduct in the marketplace. Key highlights of the report include proactive measures taken by CSA members, such as using protective orders and communicating with investors, to prevent harm.

“CSA members work to deter wrongdoing and to protect investors through both enforcement efforts and investor education,” said Bill Rice, CSA Chair and CEO and Chair of the Alberta Securities Commission. “This report focuses on the actions our enforcement teams take to respond to violations ranging from illegal insider trading to market manipulation.”

This year’s report demonstrates that enforcement action against wrongdoing in Canada’s capital markets is a top priority for Canadian securities regulators. CSA members concluded a total of 124 cases in 2011, involving 237 individuals and 128 companies. Of these cases, 24 were concluded in court proceedings, which resulted in jail sentences against eight individuals.

Key highlights of the 2011 Enforcement Report:

- 66 of the concluded cases involved illegal distributions, which represented the largest category of concluded cases.
- 124 concluded cases involved a total of 237 individual and 128 companies that resulted in:
  - Fines and administrative penalties of more than \$52 million
  - Nearly \$50 million in restitution, compensation and disgorgement
  - Jail sentences against eight individuals
- 63 interim orders restricting trading and/or freezing the assets against 109 individuals and 108 companies.
- 126 matters commenced against a total of 231 individuals and 121 companies.
- 47 of the 124 concluded cases were concluded by a contested hearing before a tribunal.
- 31 appealed cases, an increasing number.

### Available resources and links

- [Press release](#)
- [2011 CSA Enforcement Activity Report](#)

## CSA National Instrument 51-102, Amendments to Form 51-102F6, Statement of Executive Compensation

**Issued on July 22, 2011**

**Standard:** CSA National Instrument 51-102, Amendments to Form 51-102F6, Statement of Executive Compensation

**Transitional provisions:** Effective for financial years ending on or after October 31, 2011

**Published by:** CSA

**Last updated:** February 2012

**Applicable to:** All reporting issuers

### Recent activities

On July 22, 2011, the CSA issued amendments to Form 51-102F6, *Statement of Executive Compensation*, which are intended to provide investors with enhanced information on the key risks, governance matters and compensation practices of publicly listed companies.

### In summary

On July 22, 2011, the CSA approved amendments to Form 51-102F6, *Statement of Executive Compensation*, effective for financial years ending on or after October 31, 2011.

The amendments are intended to provide investors with greater insight and transparency into the entity's practices for tying managerial compensation to the entity's performance and to highlight any risks that may arise from the compensation plans adopted by the Board of Directors or Compensation Committee.

One of the key amendments is the additional requirement to disclose to investors whether the Board of Directors, or Compensation Committee, adequately considered the implications of the risks associated with the entity's compensation policies and practices.

There is a requirement to disclose: (a) the extent and nature of the Board of Directors' or Compensation Committee's role in risk oversight of the entity's compensation policies and practices; (b) the practices used by the entity to identify and mitigate compensation policies and practices that might encourage "inappropriate or excessive risks" by a named executive officer or individual at a principal business unit or division; and (c) any identified risks arising from the entity's compensation policies and practices that might reasonably have a material adverse effect on the entity.

In addition to the above, the amendments introduced requirements regarding:

- disclosure of compensation governance;
- greater details on the fees paid to outside compensation consultants; and
- whether the members of management are permitted to purchase financial instruments designated to hedge or offset a decrease in the market value of securities granted as compensation or held by management.

In developing the new requirements, the CSA considered the findings of its 2009 targeted compliance review of a sample of public companies' executive compensation disclosure. The CSA also considered a number of recent international developments in executive compensation disclosure.

### Available resources and links

- [News Release](#)
- [Amendments to Form 51-102F6, Statement of Executive Compensation](#)

## CSA Staff Notice 45-308, Guidance for Preparing and Filing Reports of Exempt Distribution, and Multilateral Staff Notice 45-309, Guidance for Preparing and Filing an Offering Memoranda<sup>NEW</sup>

**Issued on April 26, 2012**

**Standard:** CSA Staff Notice 45-308, *Guidance for Preparing and Filing Reports of Exempt Distribution*, and Multilateral Staff Notice 45-309, *Guidance for Preparing and Filing an Offering Memoranda*

**Transitional provisions:** Effective immediately

**Published by:** CSA

**Last updated:** April 2012

**Applicable to:** All reporting issuers

### Recent activities

On April 26, 2012, the CSA issued Staff Notice 45-308, *Guidance for Preparing and Filing Reports of Exempt Distribution*, and Multilateral Staff Notice 45-309, *Guidance for Preparing and Filing an Offering Memoranda*.

### In summary

Securities legislation prohibits issuers and underwriters from distributing securities without a prospectus for which a receipt has been issued. NI 45-106 contains a number of exemptions from the prospectus requirement. Part 6 of NI 45-106 requires issuers or underwriters relying on prospectus exemptions specified in that Part to report exempt distributions, and sets out the form required to be filed and the deadlines for filing. Responsibility for compliance with NI 45-106 rests with the issuer or underwriter purporting to rely on the applicable exemption(s). The use of a prospectus exemption under NI 45-106 is subject to regulatory oversight and monitoring.

The two Notices are aimed at improving market participant compliance with exemptions to prospectus requirements. The Notices primarily focus on Form 45-106F1, *Report of Exempt Distribution*, and Form 45-106F2, *Offering Memorandum for Non-Qualifying Issuers*, and provide guidance on such topics as filing deadlines, correct and consistent reporting, financial statement requirements and adequate disclosure of certain information.

CSA Staff Notice 45-308 discusses the following issues noted by CSA Staff:

1. Failing to use the correct form
2. Failing to file the F1 on time
3. Failing to pay the required fee
4. Failing to include a complete list of purchasers in the F1
5. Failing to reconcile information in the F1
6. Incorrectly identifying the number of purchasers
7. Relying on unavailable exemptions
8. Failing to disclose all commissions and finder's fees
9. Failing to provide complete information regarding convertible or exchangeable securities distributed
10. Improperly reporting distributions under the minimum amount exemption
11. Failing to certify the F1

Multilateral Staff Notice 45-309 discusses the following issues noted by CSA staff:

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1. Failing to file an OM on time
  2. Failing to update the OM when distributions are ongoing
  3. Using an incorrect form of update
  4. Failing to include sufficient information to make an informed investment decision
  5. Inadequately disclosing the issuer's business
  6. Failing to provide balanced disclosure
  7. Inadequately disclosing available funds and use of available funds
  8. Inappropriately reallocating available funds
  9. Omitting key terms of material agreements
  10. Omitting compensation disclosure
  11. Inadequately disclosing management experience
  12. Disseminating material forward-looking information not included in the OM
  13. Omitting required interim financial reports
  14. Omitting key elements of financial statements
  15. Failing to obtain required audits
  16. Omitting required audit reports or including non-compliant audit reports
  17. Inappropriately using a Notice to Reader
  18. Failing to prepare financial statements in accordance with appropriate accounting principles
  19. Improperly certifying the OM.

#### **Available resources and links**

- [CSA Staff Notice 45-308, Guidance for Preparing and Filing Reports of Exempt Distribution](#)
- [Multilateral Staff Notice 45-309, Guidance for Preparing and Filing an Offering Memoranda](#)

## OSC Staff Notice 51-719: Emerging Markets Issuer Review

### Issued in March 2012

**Standard:** N/A – Results of the OSC's Emerging Markets Issuer Review

**Transitional provisions:** N/A

**Published by:** OSC

**Last updated:** March 2012

**Applicable to:** All reporting issuers

### Recent activities

On March 20, 2012 the OSC Staff issued a report summarizing the results of their Emerging Markets Issuer Review.

### In summary

On July 5, 2011, the OSC announced the commencement of a regulatory review of emerging market issuers (EM issuers) that would examine a targeted selection of Ontario reporting issuers that were listed on Canadian exchanges and had significant business operations in emerging market jurisdictions. The purpose of the review was to assess the quality and adequacy of selected EM issuers' disclosure and corporate governance practices, as well as the adequacy of the gatekeeper roles played by auditors, underwriters and the exchanges, to identify any broad policy issues and entity-specific concerns.

The OSC Staff selected and reviewed 24 issuers, which represented more than 50% of the EM issuers for which Ontario is the principal regulator. All had operations in emerging market jurisdictions and were listed on Canadian exchanges. The issuers ranged across a number of industries, including mining, forestry, financial services, technology and clean energy, and diversified industries and operated in a variety of countries. The report covers observations and recommendations related to Boards, auditors, underwriters and exchanges.

The OSC Staff expect that EM issuers, their auditors, underwriters and their other advisors, as well as the exchanges, will address the concerns identified in this Report and will, where necessary, take immediate steps to improve their practices to effectively discharge their responsibilities to protect investors in Ontario.

What follows is a list of recommendations for further work needed to address the principal concerns in this Report. In most cases, these recommendations do not involve the creation of new policies or rules but instead involve the development of guidance, best practices or enhanced vigilance to support compliance with current requirements.

#### *EM issuers need to:*

- establish guidance to improve corporate governance practices, particularly in the areas related to the responsibilities of the board and its committees to understand the business, operating environment and risks for issuers whose principal operations are in foreign jurisdictions
- clarify the regulatory expectations of CEOs and CFOs in conducting reasonable due diligence to support their certifications for companies whose principal operations are in foreign jurisdictions
- require better disclosure to investors of complex corporate structures and their purpose
- require better explanations of risk factors relevant to EM issuers
- raise investor awareness of risks associated with investments in issuers whose principal operations are in foreign jurisdictions

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- ensure the maintenance of appropriate books and records in Canada
  - consider a minimum language competency component for Canadian-resident board members in the applicable local language where the issuer's principal business operations are located
  - consider minimum Canadian director residency requirements

*Auditors need to:*

- facilitate access by the OSC to the audit working papers of Ontario reporting issuers
- determine what should be done to address situations where regulators are unable to access foreign audit files relating to reporting issuers
- work with CPAB to analyse whether securities rules can be enhanced to allow more information sharing in connection with the oversight of audit firms
- examine whether suitability standards for auditors of reporting issuers should be developed
- analyse whether auditors should be required to publicly disclose their resignation from a file, and to explain the reasons for that resignation
- develop greater cooperation among securities regulators and audit oversight bodies to monitor the quality of audits of public companies with operations in emerging markets
- continue to discuss the audit-related concerns in this Report with CPAB and audit firms
- bring these concerns to the attention of both the Canadian Audit and Assurance Standards Board and the International Auditing and Assurance Standards Board

*Underwriters need to:*

- establish a consistent and transparent set of requirements for the conduct of due diligence by underwriters
- ensure these requirements include a process that addresses: (i) the issuer's operational structure; (ii) internal controls and risk management; (iii) translation and foreign language issues; (iv) business practices and business environment in which the issuer operates; (v) government relationships; (vi) asset ownership; (vii) CEO/founder shareholdings and RPTs; (viii) cultural norms that affect the issuer's structure, operations, governance and the ability to do business; (ix) review of key documents; (x) review of key members of management; (xi) review of customers, suppliers and other parties relevant to the issuer's business; (xii) reporting on results of site visits
- develop best practices around documentation of all aspects of an underwriter's due diligence
- develop best practices for due diligence calls and site visits

*Exchanges need to:*

- assess whether additional listing requirements are needed for EM issuers to address specific risks associated with them, or if additional exchange review procedures are required to assess if significant risks are present and how those risks could be addressed
- provide greater transparency regarding waivers of any listing requirements
- assess whether the extent of reliance on third parties in conducting due diligence is appropriate in the listings process or whether additional due diligence steps are warranted
- review the role of sponsors (if applicable) in bringing EM issuers to market to ensure that there is adequate accountability placed on the sponsor and if there is an appropriate level of transparency regarding the sponsor's due diligence work

The OSC Staff will continue to work on the issues identified in this Report with other provincial securities regulators, CPAB, IIROC, the exchanges and other interested parties so that they can advance the work they have begun through the EMIR Review. They think it is also important to recognize that some of the policy issues they may pursue from the EMIR Review could have broader applications and a more general benefit to their markets.

#### **Available resources and links**

- [OSC Staff Notice 51-719 \(March 2012\)](#)

## OSC Staff Notice 52-720 - Office of the Chief Accountant Financial Reporting Bulletin (February 2012)

**Issued on February 23, 2012**

**Standard:** N/A – Office of the Chief Accountant Financial Reporting Bulletin

**Transitional provisions:** N/A

**Published by:** OSC

**Last updated:** February 2012

**Applicable to:** All reporting issuers

### Recent activities

On February 23, 2012, the Office of the Chief Accountant has issued a Financial Reporting Bulletin which highlights selected areas of financial reporting under IFRS that have been observed during 2011 and the related findings by the OSC Staff.

### In summary

On February 23, 2012, the Office of the Chief Accountant has issued a Financial Reporting Bulletin which highlights selected areas of financial reporting under IFRS that have been observed during 2011 and the related findings by the OSC Staff. The objective of the bulletin is to provide information to market participants that may be useful in preparing financial reports during 2012.

The topics covered by the Bulletin include:

- business combinations;
- common control business combination transactions;
- impairment;
- critical judgments and sources of estimation uncertainty;
- going concern;
- non-GAAP financial measures and additional GAAP measures; and
- areas of interest for 2012

### Available resources and links

- [OSC Financial Reporting Bulletin \(February 2012\)](#)

## OSC Strategic Plan for 2012-2015

**Issued on February 29, 2012**

**Standard:** N/A – OSC Strategic Plan for 2012-2015

**Transitional provisions:** N/A

**Published by:** OSC

**Last updated:** February 2012

**Applicable to:** All reporting issuers

### Recent activities

On February 29, 2012, the OSC has issued its Strategic Plan for 2012-2015.

### In summary

The OSC's Strategic Plan for 2012-2015 was formulated taking into account recommendations from external stakeholders, consultants, and the Commissioners and staff of the OSC.

The OSC will pursue six key strategies to reposition the organization as a more proactive, agile and effective securities regulator that fosters the integrity and quality of Ontario's capital markets, as follows:

- To expand the OSC's research and analytical capability to be able to respond to and keep pace with market developments and investor concerns and to support policy-making.
- To engage investors more effectively.
- To improve internal policy coordination and priority-setting.
- To align all operations and programs with defined OSC goals and priorities and develop and report on key performance indicators.
- To improve risk identification and management.
- To deliver excellence in the execution of OSC operations.

### Available resources and links

- [OSC Strategic Plan 2012-2015](#)

# Proposed standards



## CSA/IIROC Joint Notice 23-312: Trade Transparency

### Comment period ends on May 31, 2012

**Proposed standard:** A joint CSA and IIROC Working Group has been monitoring and reviewing international regulatory approaches to issues arising from short selling and failed trades. The Working Group is seeking feedback on a range of regulatory options aimed at strengthening Canada's regulatory regime, including enhanced disclosure of short sales and some public disclosure of failed trades.

**Proposed effective date:** Not indicated

**Published by:** CSA

**Last updated:** March 2012

**Applicable to:** All reporting issuers

### Recent activities

On March 2, 2012, the CSA and the Investment Industry Regulatory Organization of Canada (IIROC) announced that they are seeking feedback from investors and market participants on appropriate disclosure and transparency measures related to short sales and failed trades in Canada.

### In summary

#### *Introduction*

In recent years, there have been numerous international developments regarding the regulation of short sales and failed trades. A working group (the "Working Group") comprised of staff from the Canadian Securities Administrators ("CSA") and the Investment Industry Regulatory Organization of Canada ("IIROC") has been monitoring these developments and reviewing regulatory approaches to issues arising from short selling and failed trades.

In light of this review, the Working Group is publishing this joint CSA-IIROC Notice ("Joint Notice") to solicit feedback on certain aspects of disclosure and transparency measures regarding short sales and failed trades in Canada.

#### *The Working Group's approach*

The Working Group is examining the issues in a phased approach. The first phase was the publication by IIROC (the "IIROC Notice") of a request for public comment on proposed amendments (the "UMIR Amendments") to the Universal Market Integrity Rules ("UMIR") respecting short sales and failed trades. With a number of minor revisions, the CSA recognizing regulators have approved the UMIR Amendments and IIROC is publishing notice of this approval, which includes a summary of the comments received by IIROC, in conjunction with this Joint Notice. A summary of the UMIR Amendments is contained in Appendix C of this Joint Notice.

The IIROC Notice also described IIROC's plans to enhance transparency of short selling activity and failed trades, which is the second phase. This Joint Notice is intended to complement the discussion and proposals in the IIROC Notice, but is not intended to revisit the UMIR Amendments.

The Working Group is considering other short-selling and failed-trades related issues which may be addressed in future notices. Although this Joint Notice seeks comment on introducing transparency of failed trades, the Working Group is examining issues of trade settlement more broadly and in a larger context. In particular, the Working Group is waiting until IIROC has had more experience with its requirement that Participants report failed trades that have not been rectified by the tenth day following the settlement date (described in section 4 (iii) of this Joint Notice), which became effective on June 1,

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2011.

*The structure of the Notice*

Section 4 of the Joint Notice sets forth the Working Group's discussions and questions. The Working Group has considered the comments received in response to the specific questions in the IIROC Notice. The Working Group now seeks supplementary feedback from stakeholders on a range of additional approaches to enhance disclosure of short sales and to introduce some public disclosure of failed trades.

To assist stakeholders in considering the discussion and questions in Section 4, appendices have been included in the Joint Notice on the following:

- Appendix A -- Background on short sales and failed trades, including existing regulatory provisions in Canada governing these topics;
- Appendix B -- Certain international developments regarding the regulation of short sales and failed trades, including an initiative in 2009 by the International Organization of Securities Commissions ("IOSCO"); and
- Appendix C -- An overview of the UMIR Amendments and other measures described in the IIROC Notice.

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**Available resources and links**

- [Press Release](#)
- [CSA/IIROC Joint Notice](#)

## CSA Consultation Paper 91-404, Derivatives: Segregation and Portability in OTC Derivatives Clearing

**Comment period ends on April 10, 2012**

**Proposed standard:** This is the third of a series of eight consultation papers to be published over the next few months that build on the regulatory proposals contained in Consultation Paper 91-401, *OTC Derivatives Regulation in Canada* published on November 2, 2010.

**Proposed effective date:** Not indicated

**Published by:** CSA

**Last updated:** February 2012

**Applicable to:** All reporting issuers

### Recent activities

On February 10, 2012, the CSA published for comment Consultation Paper 91-404, *Derivatives: Segregation and Portability in OTC Derivatives Clearing*.

### In summary

The global financial crisis brought the over-the-counter (“OTC”) derivatives market into the limelight, and highlighted the considerable risks that OTC derivatives can pose to the financial system. For the past year, the CSA Derivatives Committee (the “Committee”) has been closely following international regulatory proposals and legislative developments, consulting with Canada’s OTC derivatives market participants and collaborating with other Canadian regulators to determine the most appropriate approach to enhancing the regulatory framework for Canadian markets.

This is the third of a series of eight consultation papers to be published over the next few months that build on the regulatory proposals contained in Consultation Paper 91-401, *OTC Derivatives Regulation in Canada* published on November 2, 2010. This paper addresses the segregation of assets put forward as collateral for OTC derivatives transactions cleared through a central counterparty (“CCP”) by customers that access the CCP indirectly through clearing members.

### Executive Summary

Canadian and international initiatives promoting the clearing of OTC derivative transactions will cause certain market participants, who are not clearing members at a central counterparty (CCP), to clear their OTC derivatives transactions indirectly through intermediaries. Effective segregation and portability mechanisms at CCPs will help to ensure that indirect clearing is done in a manner that protects customer positions and collateral and potentially improves a CCP’s resilience to a clearing member default.

The Consultation Paper includes a summary of the Committee’s key findings and recommendations for segregation and portability contained in this consultation paper for consideration by market participants under the following headings:

- 1) segregation;
- 2) portability;
- 3) segregation models;
- 4) use of customer collateral;
- 5) holding of customer collateral;
- 6) law applicable to customer collateral;

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- 7) CCP disclosure of segregation and portability rules;
  - 8) portability requirements;
  - 9) segregation and uncleared OTC derivatives transactions; and
  - 10) Canadian legal issues relating to segregation and portability

Comments are requested by April 10, 2012

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**Available resources and links**

- [Press Release](#)
  - [Consultation Paper](#)
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## CSA Consultation Paper 91-405 - Derivatives: End-User Exemption

### NEW

**Comment period ends on June 15, 2012**

**Proposed standard:** This is the third of a series of eight consultation papers to be published over the next few months that build on the regulatory proposals contained in Consultation Paper 91-401, *OTC Derivatives Regulation in Canada* published on November 2, 2010.

**Proposed effective date:** Not indicated

**Published by:** CSA

**Last updated:** April 2012

**Applicable to:** All reporting issuers

#### Recent activities

On April 13, 2012, the CSA published for comment Consultation Paper 91--405 - *Derivatives: End-User Exemption*.

#### In summary

The global financial crisis brought the over-the-counter ("OTC") derivatives market into the limelight, and highlighted the considerable risks that OTC derivatives can pose to the financial system. For the past year, the CSA Derivatives Committee ("Committee") has been closely following international regulatory proposals and legislative developments, consulting with Canada's OTC derivatives market participants and collaborating with other Canadian regulators to determine the most appropriate approach to enhancing the regulatory framework for Canadian markets.

This is the third of a series of eight consultation papers to be published over the next few months that build on the regulatory proposals contained in Consultation Paper 91-401, *OTC Derivatives Regulation in Canada* published on November 2, 2010.

#### Executive Summary

The end-user exemption is intended to be available to market participants that are not in the business of derivatives trading but trade in OTC derivatives to mitigate commercial risks related to their business. The exemption recognizes that these end-users typically employ OTC derivatives trading for hedging rather than speculative purposes. The intent of the exemption is to avoid discouraging the use of OTC derivatives by end-users who may otherwise be deterred to trade in standardized cleared derivatives through a registrant because of cost or the absence of a derivatives contract that will effectively manage commercial risk.

The end-user exemption is intended to address a specific segment of the market without compromising the broad objective of increased regulation of OTC derivatives contracts. In order to achieve this intent, the requirements necessary to qualify an end-user as eligible for the exemption need to be precise, but also flexible enough to adapt to changes in markets.

The purpose of this paper is to set out the Committee's position with respect to the application of the end-user exemption; what criteria should be required to determine end-user eligibility; what criteria have been considered but excluded; and what an end-user will need to do to rely on the exemption.

Comments re requested by June 15, 2012.

### Available resources and links

- [Press Release](#)
- [Consultation Paper](#)

# Abbreviations, a list of most commonly used acronyms

AASB	Auditing and Assurance Standards Board
AASOC	Auditing and Assurance Standards Oversight Council
AcSB	Accounting Standards Board
ASC	Alberta Securities Commission
AMF	Autorité des marchés financiers
BCSC	British Columbia Securities Commission
CAS	Canadian Auditing Standard
CPRB	Canadian Performance Reporting Board
CSA	Canadian Securities Administrators
DP	Discussion Paper
ED	Exposure Draft
EIC	Emerging Issues Committee
FAQ	Frequently Asked Questions
FRE	Federally Regulated Entities
OSC	Ontario Securities Commission
OSFI	Office of the Superintendent of Financial Institutions Canada
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IAASB	International Auditing and Assurance Standards Board
IASC	International Accounting Standards Committee
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
IIROC	Investment Industry Regulatory Organization of Canada
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standard on Auditing
ITC	Invitation to Comment
PSAB	Public Sector Accounting Board
SOP	Statement of Principles

# Additional resources

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Thought Leadership

## **Centre for Corporate Governance**

This Web site is specifically designed to help board members with their responsibilities. It provides the latest information on regulatory and legislative developments, accounting and financial reporting, board roles and responsibilities, and best practices.

([www.CorpGov.Deloitte.ca](http://www.CorpGov.Deloitte.ca))

## **Deloitte IFRS e-Learning Program for Directors™**

This learning program provides the flexibility of individual self-study, with the option of group sessions facilitated by a Deloitte IFRS professional.

([http://www.corpgov.deloitte.com/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/CanEng/Page%20Copy/Financial%20Reporting/IFRS/IFRS\\_eLearningForDirectors.pdf](http://www.corpgov.deloitte.com/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/CanEng/Page%20Copy/Financial%20Reporting/IFRS/IFRS_eLearningForDirectors.pdf))

## **Financial Reporting Assessment Tools**

Comprehensive assessment tools to help management and Directors determine whether or not their organizations' financial statements and other financial filings meet all of the continuous disclosure obligations.

(<http://www.corpgov.deloitte.com/site/CanEng/self-assessments-tools-and-other-resources/financial-reporting-tools/>)

Periodicals

## **IFRS in Focus**

We publish *IFRS in Focus* newsletters at the time of release of new and revised Standards and Interpretations, Exposure Drafts and discussion documents, including summaries of the documents and consideration of the principal amendments/proposals.

(<http://www.iasplus.com/en/tag-types/global-publications/ifrs-in-focus-newsletters>)

## **DeloitteLINK**

A weekly e-newsletter that helps you stay on top of standard-setting initiatives.

(<http://www.corpgov.deloitte.com/site/CanEng/deloitte-periodicals/deloittelink/>)

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Our new live webcast series featuring our professionals discussing critical issues that affect your business.

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