

December 2010

ACTIVITY REPORT CONTINUOUS DISCLOSURE REVIEW PROGRAM

Companies

Investment Funds

Legal deposit – Library and Archives Canada, 2010
Legal deposit – *Bibliothèque et Archives nationales du Québec*, 2010

ISSN 1913-7478 (Online)

This document is available on the website of the *Autorité des marchés financiers*
at www.lautorite.qc.ca.

Also available in French

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Message from the Superintendent, Securities Markets

It is with great pleasure that I share with you the fruits of the labour of my continuous disclosure review team in this 8th edition of the *Continuous Disclosure Review Program Activity Report* for the fiscal year ended March 31, 2010. The report includes the 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 International Financial Reporting Standards (IFRS).

The report is intended to serve as a reference to facilitate the preparation of your continuous disclosure documents. I urge you to take advantage of the information it contains. We believe that the quality and transparency of continuous disclosure documents, including the financial statements, management's discussion & analysis (MD&A) and management reports of fund performance, are essential for the efficient operation of the markets.

The CDR Program is one of the AMF's means for achieving its mission of regulating the securities markets. It is designed to make reporting issuers aware of their continuous disclosure obligations and to ensure that they fulfill them.

I hope this report will be useful for you and guide you towards a higher degree of compliance. It is essential that the information communicated to investors be reliable and of the highest quality!



Louis Morisset

Superintendent, Securities Markets

Introduction

For the past eight years, the *Autorité des marchés financiers* (AMF) has published the results of the reviews conducted within the scope of the Continuous Disclosure Review Program (CDR Program).¹ This CDR Program Activity Report covers the period from April 1, 2009 to March 31, 2010.

The CDR Program was established by the AMF to review the compliance and general quality of the continuous disclosure documents of reporting issuers whose head office is in Québec.² The AMF's aim is to help reporting issuers have a better understanding of their continuous disclosure obligations.

Reporting issuers can be divided into two groups: companies and investment funds.³ Under the Act and the regulations,⁴ these reporting issuers must file a number of continuous disclosure documents. As part of the CDR Program, the AMF reviews the following documents in particular:

- › financial statements;
- › management's discussion & analysis (MD&A) or management reports of fund performance;
- › annual information forms (AIF);
- › information circulars;
- › material change reports;
- › technical reports; and
- › certificates.

The CDR Program activities specifically related to companies fit within the harmonized continuous disclosure review program established by the Canadian Securities Administrators (CSA). The AMF has actively participated in the harmonized program since 2004. More information on the CSA harmonized continuous disclosure review program is available in [CSA Staff Notice 51-312 \(Revised\), *Harmonized Continuous Disclosure Review Program*](#) on the AMF's website.

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 International Financial Reporting Standards (IFRS). Also included is a discussion of certain areas on which we will focus our attention in fiscal 2010-2011.

1 Additional information on the CDR Program is available on the AMF's website at www.lautorite.qc.ca.

2 In the case of investment funds, the targeted issuers are those whose managers have their head office in Québec.

3 In this report "companies" means those issuers contemplated in [Regulation 51-102 respecting Continuous Disclosure Obligations](#) and "investment funds" or "funds" means those issuers contemplated in [Regulation 81-106 respecting Investment Fund Continuous Disclosure](#) or the [Regulation respecting Development Capital Investment Fund Continuous Disclosure](#).

4 In this report, "the Act and the regulations" means the [Securities Act, R.S.Q., c. V-1.1](#), as well as the [regulations and other texts](#) setting out continuous disclosure requirements. A list of the principal regulations and other texts is annexed in an appendix.



Continuous Disclosure Review Program Companies

This part deals with companies subject to *Regulation 51-102 respecting Continuous Disclosure Obligations* (“Regulation 51-102”). These companies are required to provide continuous disclosure regarding their activities on a timely basis. In addition to the continuous disclosure obligations set out in Regulation 51-102, companies must also comply with the continuous disclosure obligations set forth in the following regulations:

- › *Regulation 52-109 respecting Certification of Disclosure in Issuers’ Annual and Interim Filings* (“Regulation 52-109”);
- › *Regulation 52-110 respecting Audit Committees* (“Regulation 52-110”);
- › *Regulation 58-101 respecting Disclosure of Corporate Governance Practices* (“Regulation 58-101”);
- › *Regulation 43-101 respecting Standards of Disclosure for Mineral Projects* (“Regulation 43-101”).

Using the reviews conducted under the CDR Program, the AMF can determine whether or not companies are complying with the Act and the regulations. When deficiencies relating to the application of the Act, the regulations or an accounting standard are identified, the AMF requires companies to amend their documents. The required improvements are generally prospective changes. However, when material deficiencies are identified, the incorrect information must be re-stated and the amended documents re-filed. Furthermore, any continuous disclosure document that has not been filed must be filed in compliance with the Act and the regulations.

HIGHLIGHTS

During the most recently completed fiscal year, 55 full reviews and 110 issue-oriented reviews were conducted. In the issue-oriented reviews, the focus was on compliance with specific obligations recently adopted by the CSA, in particular:

- › disclosures in the MD&A regarding the changeover to International Financial Reporting Standards (IFRS);
- › executive compensation disclosure; and
- › certification of disclosure in issuers’ annual and interim filings.

The following table sets out the breakdown of the requests for changes made by the AMF based on the nature of the deficiency identified and the type of review. The requests are divided into three categories and the percentages are expressed on the basis of the number of reviews conducted.

BREAKDOWN OF THE REQUESTS FOR CHANGES ACCORDING TO THE TYPE OF REVIEW

Nature of the request	Full review	Issue-oriented review
Filing of a missing document	13%	5%
Re-statement and re-filing of a document	20%	30%
Improvements required when next filing one or more documents	100%	40%
Number of reviews conducted	55	110

After completion of the reviews, a vast majority of companies had no changes to make to the documents filed. However, most of the companies were required to make improvements when next filing their documents. The main deficiencies noted during fiscal 2009-2010 related to accounting requirements and recent regulatory provisions.

However, most of the companies were required to make improvements when next filing their documents.

Principal improvements required

- › financial statement disclosure about financial instruments and stock-based compensation and other stock-based payments;
- › the analysis to be provided in the MD&A regarding the results of operations, the company’s liquidity and the changeover to IFRS;
- › the information contained in the executive compensation disclosure presented in the information circular;
- › certification of disclosure in issuers’ annual and interim filings.

We remind companies of the importance of fully understanding the applicable obligations under the Act and the regulations and, if necessary, of seeking out expert advice so as to provide the market with high quality continuous disclosure and avoid having to re-state continuous disclosure documents.

REVIEW RESULTS

This section presents the deficiencies most frequently identified in the financial statements, the MD&A and certain other continuous disclosure documents during the reviews conducted over the course of the most recently completed fiscal year. Under each heading, particular attention has been paid to deficiencies arising from recent obligations, given that these are most frequent. Tables group together other deficiencies often identified and with respect to which particular attention is required.

On July 9, 2010, the CSA published *CSA Staff Notice 51-332, Continuous Disclosure Review Program Activities for the fiscal year ended March 31, 2010*. The notice summarizes the consolidated results of the Canada-wide harmonized company continuous disclosure review program.

Main deficiencies identified in the financial statements

The reviews conducted during the most recently completed fiscal year allowed the AMF to assess, in particular, whether the financial statements of companies were compliant with generally accepted accounting principles (GAAP). Deficiencies in respect of the primary reference framework, namely the *CICA Handbook*, are identified each year. The majority of the AMF's requests sought prospective improvements to financial statement disclosure. Some of the deficiencies most often identified are explained more fully below:

Financial instruments

CICA Handbook Section 3862, "Financial instruments – Disclosures"

CICA Handbook Section 3855, "Financial instruments – Recognition and measurement"

- › Information on the categories of financial instruments, as defined in Section 3855 of the *CICA Handbook*, was sometimes omitted or incomplete.
The financial statements must clearly identify the category in which a financial instrument is classified.
- › Information regarding the methods used to determine the fair value of each category of financial instruments and the assumptions applied by the company when a valuation technique was used was sometimes omitted or incomplete.
Companies should present the method used to determine the fair value of each category of financial instruments and, if applicable, specify the assumptions applied.
- › Market risk disclosure was sometimes omitted or incomplete.
Sensitivity analyses should consider all relevant elements, including financial derivatives used by the company.
- › Credit risk disclosure, particularly when a company held significant past due financial assets that had not been depreciated, was sometimes omitted or incomplete.
The information presented by companies on the credit risk related to past due financial assets that are significant and have not been depreciated should allow readers to understand why the assets have not been depreciated.

OTHER DEFICIENCIES IDENTIFIED IN THE FINANCIAL STATEMENTS

CICA Handbook standard

Description of deficiencies

3870 – Stock-based compensation and other stock-based payments	Description of plans and vesting requirements incomplete 3870.67
	Weighted average grant-date fair value not disclosed 3870.68 (b)
	Factors to consider in calculating expected volatility not considered 3870.A14
1701 – Segment disclosures	Factors used to identify reportable segments not disclosed 1701.29
	Information about geographic areas incomplete 1701.40
	Information about major customers aggregated or omitted 1701.42
1400 – General standards of financial statement presentation	Inconsistencies between disclosure in the financial statements and the notes 1400.04
	Disclosure lacking clarity and comprehensibility 1400.04

Main deficiencies identified in the MD&A

The MD&A remains the continuous disclosure document with the most deficiencies. Too often, the MD&As still present a superficial analysis with boilerplate language and data already presented in the financial statements.

The MD&A remains the continuous disclosure document with the most deficiencies.

In accordance with the requirements set out in *Form 51-102F1, Management's Discussion and Analysis of Regulation 51-102 respecting Continuous Disclosure Obligations* ("Form 51-102F1"), the MD&A is a narrative explanation, through the eyes of management, of how the company performed during the period covered by the financial statements, and of the company's financial condition and future prospects. The MD&A must allow current and prospective investors to properly understand the financial statements. It must also provide information about the quality, and potential variability, of the company's earnings and cash flow. Some of the deficiencies most often identified are explained more fully below:

Changes in accounting policies (IFRS)

Item 1.13 of Form 51-102F1

CSA Staff Notice 52-320, Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards ("CSA Notice 52-320")

- › Disclosure with respect to the changeover to IFRS was broached in overly general terms.
The IFRS changeover plan as well as its key elements and timing should be presented in detail.

- › The impact of IFRS on each of the key elements of the plan was not described.
The impact of the changeover to IFRS on internal control over financial reporting, accounting policies and financial reporting expertise should be described exhaustively.
- › The description of the major differences between the company's current accounting policies and those it is required to apply in preparing IFRS-compliant financial statements was incomplete.
Information regarding the differences between the accounting policies should be communicated and tailored to the context and particular characteristics of the company so as to enable investors to properly understand the key elements of the financial statements that will be affected by the changeover to IFRS.
- › Numerical data on the impact of the changeover to IFRS on each financial statement line item was not provided.
If the company has data on the impact of the changeover to IFRS on each financial statement line item, it should communicate the data.

The *Notice of Autorité des marchés financiers related to disclosure by reporting issuers on changeover to international financial reporting standards*, published on February 5, 2010, sets out the disclosure to be included in the MD&A three years before the changeover to IFRS.

CSA Staff Notice 52-326, IFRS Transition Disclosure Review, published on July 23, 2010, sets out the disclosure to be included in the MD&A two years before the changeover to IFRS. This notice indicates that companies have improved the quality and amount of disclosure provided on the transition to IFRS. Furthermore, it sets out examples of disclosure to be provided on accounting methods and details about certain industry-specific accounting methods.

Reminder regarding the guidance in CSA Notice 52-320

Investors must be fully informed of the possible impact of the changeover to IFRS on a company's financial reporting. CSA Notice 52-320, published on May 9, 2008, provides guidance on the information to be communicated in this regard in the MD&A. More specifically, during the fiscal year immediately preceding the changeover to IFRS, a company should indicate the decisions made relating to accounting policies in light of the policy choices available under IFRS 1, *First-time Adoption of International Financial Reporting Standards* (IFRS 1) and other individual IFRS standards that are relevant to the issuer. In addition, if a company has quantified information about the impact of the adoption of IFRS on the key line items in its financial statements, it should include this information in its MD&A.

OTHER DEFICIENCIES IDENTIFIED IN THE MD&A

Subject of the regulatory provision	Description of deficiencies
Results of operations	Analysis of net sales and factors that caused variations incomplete Item 1.4 (a) of Form 51-102F1 Analysis of gross profit incomplete Item 1.4 (c) of Form 51-102F1
Liquidity Sources of funding	Analysis of liquidity and sources of funding incomplete Items 1.6 and 1.7 of Form 51-102F1
Non-GAAP financial measures	Information on non-GAAP financial measures incomplete CSA Staff Notice 52-306 (Revised), Non-GAAP Financial Measures and Additional GAAP Measures

Examples of the type of analysis expected in the MD&A are available in the 2009 edition of the [Continuous Disclosure Review Program Activity Report](#).

Main deficiencies identified in the other documents

Deficiencies were also identified in other continuous disclosure documents, including circulars, certificates, press releases, AIFs and technical reports. These documents are all required under the Act and the regulations and form an integral part of a company's continuous disclosure record. Some of the deficiencies most often identified are explained more fully below:

Statement of executive compensation

Form 51-102F6, Statement of Executive Compensation (in respect of financial years ending on or after December 31, 2008) of Regulation 51-102 respecting Continuous Disclosure Obligations ("Form 51-102F6")

- › Analysis of executive compensation did not include a description of its objectives.
The analysis of executive compensation should clearly describe and explain all significant elements of compensation, including how each element is determined. If the company's process for determining executive compensation is very simple, for example, the company relies solely on board discussions without any formal objectives, criteria or analysis, this should be made clear in the discussion.
- › Benchmark and benchmark components not specified.
A company must explain its benchmarking method and draw up a list of the companies comprising the benchmark.
- › Grant date fair value of option-based and share-based awards omitted or inaccurate.
The fair value of option-based and share-based awards should be presented in the summary compensation table and determined as at the grant date.
- › Disclosure of director compensation incomplete.
Director compensation must be presented in accordance with the provisions of Item 7 of Form 51-102F6.

CSA Staff Notice 51-331, *Report on Staff's Review of Executive Compensation Disclosure*, published on November 20, 2009, presents a detailed report of the results of the review of executive compensation disclosure.

Certification of disclosure in issuers' annual and interim filings

Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings

- › The conclusions of the certifying officers about the effectiveness of the disclosure controls and procedures (DC&P) or the internal control over financial reporting (ICFR) were not presented in the annual MD&A.
The annual MD&A of companies other than venture issuers must always include the conclusions of the certifying officers about the effectiveness of the DC&P and the ICFR.

- › The certifying officers made significant changes to the wording of the certificate, in particular, by omitting paragraphs and adding text.
The Policy Statement to Regulation 52-109 specifies that the certificates must have the exact wording prescribed by the forms in Regulation 52-109.

CSA Staff Notice 52-325, *Certification Compliance Review*, published on September 11, 2009, and [CSA Staff Notice 52-327, *Certification Compliance Update*](#), published on October 15, 2010, present a detailed report of the results of the review of certification of disclosure in issuers' annual and interim filings. They also set out examples.

DEFICIENCIES RESPECTING STANDARDS OF DISCLOSURE FOR MINERAL PROJECTS

Regulation 43-101 respecting Standards of Disclosure for Mineral Projects (“Regulation 43-101”)

Subject of the regulatory provision	Description of deficiencies
Technical report	Disclosure about material mineral projects incomplete <i>Form 43-101F1, Technical report</i>
Certificates and consents of qualified persons for technical reports	Certificates and consents of qualified persons for technical reports omitted Part 8 of Regulation 43-101
Disclosure of historical estimates	Source and date for historical estimates omitted Paragraph 2.4 (1) (a) of Regulation 43-101 Comments on relevance and reliability of historical estimate omitted Paragraphs 2.4 (1) (b) and 4.2 (2) (b) of Regulation 43-101

One section of the 2009 *Continuous Disclosure Review Program Activity Report* is entirely devoted to mining companies and presents supplementary information about deficiencies related to mineral projects.

DEFICIENCIES REGARDING DISCLOSURE RELATING TO THE AUDIT COMMITTEE AND TO CORPORATE GOVERNANCE PRACTICES

Regulation 52-110 respecting Audit Committees (“Regulation 52-110”)

Regulation 58-101 respecting Disclosure of Corporate Governance Practices (“Regulation 58-101”)

Regulatory provision	Description of deficiencies
Regulation 52-110	Written charter of the audit committee setting out its prescribed responsibilities incomplete Section 2.3 of Regulation 52-110 Audit committee information incomplete <i>Form 52-110F1, Audit Committee Information required in an AIF or Form 52-110F2, Disclosure by Venture Issuers</i>
Regulation 58-101	Code not filed Section 2.3 of Regulation 58-101 Corporate governance disclosure incomplete <i>Form 58-101F1, Corporation Governance Disclosure and Form 58-101F2, Corporate Governance Disclosure (Venture Issuers)</i>

The 2006 to 2009 editions of the *Continuous Disclosure Review Program Activity Report* contain a more detailed report on the results of the review of continuous disclosure regarding audit committees and corporate governance practices.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The date for the changeover to IFRS is quickly approaching. Companies will be required to prepare IFRS-compliant financial statements for fiscal periods beginning as of January 1, 2011.⁵ The CSA followed the implementation of the Accounting Standards Board of Canada's strategic plan and published final texts dealing, in particular, with continuous disclosure obligations, prospectus requirements and exemptions.

You may consult these final texts in the [Bulletin of the AMF dated October 1, 2010](#). Subject to ministerial approval, these final texts should come into force on January 1, 2011. They deal with the necessary changes to terminology required as a result of the changeover of current Canadian GAAP to IFRS. They also contain changes to certain provisions in order to facilitate the changeover to IFRS. Moreover, they take into account the changes made to Canadian Generally Accepted Auditing Standards following the adoption of the International Auditing Standards.

KEY CONSIDERATIONS FOR THE CHANGEOVER TO IFRS

Replacement of current Canadian GAAP terms and expressions with IFRS terms and expressions

Reference: Appendices C to F of the Notice of publication of *Regulation 52-107 respecting Acceptable Accounting Principles and Auditing Standards*.

Amendments to regulatory provisions

For annual periods beginning as of January 1, 2011, companies will have to provide a statement of compliance with IFRS in the notes to their annual financial statements and indicate compliance with International Accounting Standard 34, *Interim Financial Reporting*, in the case of interim financial statements.

Companies required to file a business acquisition report will be entitled to prepare financial statements in accordance with Canadian GAAP as applicable to private enterprises with respect to the significant business acquired, subject to certain conditions.

Transitional provisions

Companies will be able to avail themselves of a 30-day extension for filing their first IFRS-compliant interim financial reports.

In the case of the first interim financial report required to be filed during the annual year of IFRS adoption and in the case of the first IFRS-compliant financial statements filed by a company, the company will be required to file an opening IFRS statement of financial position as at the IFRS transition date.

⁵ Companies with rate-regulated activities will be required to prepare IFRS-compliant financial statements for fiscal periods beginning as of January 1, 2012.



Continuous Disclosure Review Program Investment Funds

This part deals with investment funds governed by *Regulation 81-106 respecting Investment Fund Continuous Disclosure* (“Regulation 81-106”). As part of the CDR Program specific to investment funds, the AMF examines compliance of the continuous disclosure record with the provisions of Regulation 81-106 and the other provisions in force, including, in particular, the provisions of the following regulations:

- › *Regulation 81-102 respecting Mutual Funds* (“Regulation 81-102”);
- › *Regulation 81-107 respecting Review Committee for Investment Funds* (“Regulation 81-107”).

When deficiencies are identified during the reviews, the investment fund managers (the “managers”) are required to amend their documents. If the deficiencies relate to the application of the Act or the regulations or to an accounting standard, prospective improvements are generally required. However, when material deficiencies are identified, the incorrect information must be re-stated and the amended documents re-filed. Furthermore, the AMF requires the filing of any continuous disclosure document that has not been filed in compliance with the Act and the regulations.

HIGHLIGHTS

During the most recently completed fiscal year, 13 reviews were carried out, several of which were full reviews and some of which were issue-oriented reviews.⁶ Most of the 265 funds that are reporting issuers and have a manager with its head office in Québec were targeted by one or more of these reviews. The issue-oriented reviews dealt with fund disclosures in the annual and interim continuous disclosure documents with respect to the changeover to IFRS.

The following table shows the breakdown of the AMF's requests pursuant to the reviews conducted within the scope of the CDR Program. Percentages are expressed in relation to the total requests made by the AMF.

BREAKDOWN OF REQUESTS

Filing of a missing document	3%
Re-statement and re-filing of a document	6%
Improvements required when next filing one or more documents	89%

The reviews conducted led to few requests to file a missing document or to re-state a document that had been filed. However, numerous prospective improvements were required in order to enhance the transparency and clarity of fund disclosures.

However, numerous prospective improvements were required in order to enhance the transparency and clarity of fund disclosures.

Funds were selected for full reviews using a risk-based approach that takes into account criteria pertaining to financial and non-financial information published by the funds and their manager. This selection method explains why the reviews generated a significant number of requests for prospective improvements.

Principal improvements required

- › disclosure regarding the changeover to IFRS in the financial statements or management reports of fund performance;
- › disclosure regarding financial instruments in the financial statements;
- › the use of comparative indices in the management reports of fund performance.

Moreover, in order to offer high quality continuous disclosure to investors and avoid having to re-state continuous disclosure documents, fund managers should fully understand the applicable obligations under the Act and the regulations and, if required, obtain expert advice.

⁶ In the portion of the CDR Program specific to investment funds, a full review may cover several funds within the same fund group and an issue-oriented review may cover a large sampling of funds.

REVIEW RESULTS

The following section sets out the most significant deficiencies identified in the financial statements, the management reports of fund performance, the other continuous disclosure documents and the other communications intended for investors, such as a fund's website.

Main deficiencies identified in the financial statements

The reviews focused in particular on annual and interim financial statement compliance with Canadian generally accepted accounting principles (GAAP) and with parts 2 and 3 of Regulation 81-106. The deficiencies often identified are explained more fully below:

Financial instruments

Section 3.6 of Regulation 81-106

Section 3862 of the *CICA Handbook*, "Financial instruments – Disclosures"

- › Disclosures on the accounting methods used to determine the fair value of money market instruments was omitted.
All accounting methods used should be presented in order to help investors understand the financial statements.
- › The description of the accounting method used to determine the fair value of securities listed on an active market was inaccurate.
Disclosures on the accounting methods used to determine the fair value of each class of financial instruments should be accurate.
- › The assumptions applied in determining the fair value of securities for which there was no active market were omitted when a valuation technique was used.
The assumptions applied by the manager to determine the fair value of securities should be presented in the notes when a valuation technique is used, particularly when there is no active market.

Changes in accounting policies (IFRS)

CSA Staff Notice 52-320, *Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards*

- › Disclosure regarding the IFRS changeover plan was omitted or insufficient.
The IFRS changeover plan as well as its key elements and timing should be presented in detail.
- › The description of the impact of the adoption of IFRS was incomplete.
The impact on the calculation of the net asset value per unit should be provided.
- › The description of the major differences between the fund's current accounting policies and those it is required to apply in preparing IFRS-compliant financial statements was incomplete or omitted.
Information regarding the differences between the accounting policies should be communicated and tailored to the context and particular characteristics of the fund so as to enable investors to properly understand the key elements of the financial statements that will be modified following the adoption of IFRS.

The *Notice of Autorité des marchés financiers related to disclosure by reporting issuers on changeover to international financial reporting standards*, published on February 5, 2010, provides guidance on the AMF's expectations with respect to IFRS changeover disclosure for reporting issuers in upcoming accounting periods.

OTHER DEFICIENCIES IDENTIFIED IN THE FINANCIAL STATEMENTS

Subject of the regulatory provision/ Accounting standard

Description of deficiencies

Statement of operations	Grouping in the same line item fees that should be presented under separate line items Section 3.2 of Regulation 81-106
Statement of investment portfolio	Securities of bankrupt companies not presented in the statement of investment portfolio despite the fact that these securities are still held by the custodian. A security may be withdrawn from the fund's statement of investment portfolio only if it is removed from the custodian's records at the manager's request Section 3.5 of Regulation 81-106
Related party transactions	The manager, trustee and general partner or directors of these entities not identified as being parties related to the fund Paragraph 3840.04 (g) of the <i>CICA Handbook</i>
Auditor's report	Financial periods presented in the auditor's report incorrect or incomplete Paragraph 2.7 (2) 2. of Regulation 81-106

Main deficiencies identified in the management report of fund performance

The management report of fund performance is an important disclosure document because it helps investors understand a fund's financial results and performance. It is therefore essential that the disclosure in this document be complete, accurate and transparent so that investors are in a position to make informed decisions.

The reviews examined compliance with *Form 81-106F1, Contents of Annual and Interim Management Report of Fund Performance* (“Form 81-106F1”). The deficiencies often identified are explained more fully below:

Comparative indices

Subsection 4.3 (3) of Part B of Form 81-106F1

The manner in which broad-based securities market indices or non-securities indices were used was such that the comparison with the fund’s performance was inadequate, particularly in the following cases:

- › the selected index was not relevant to the fund’s investment objectives and strategies;
- › the description of the selected index was incomplete;
- › the performance of an index was incorrect;
- › the description of the selected index was omitted;
- › the discussion of the fund’s performance in relation to the index selected was omitted.

The comparison of a fund’s performance with broad-based securities market indices or non-securities indices is useful for comparing its performance to the performance of market sectors in which the fund invests.

OTHER DEFICIENCIES IDENTIFIED IN THE MANAGEMENT REPORT OF FUND PERFORMANCE

Subject of the regulatory provision

Description of deficiencies

Financial highlights	Financial information calculated on the basis of the net asset value rather than the net assets in the table “Net assets per unit/share” Subsection 3.1 (1) of Part B of Form 81-106F1 Portfolio turnover rate omitted or incorrect Instruction (1) of Item 3.1 of Part B of Form 81-106F1
Related party transactions	Transactions between the fund and its related parties not discussed Item 2.5 of Part B of Form 81-106F1
Past performance	Year-by-year returns not presented Item 4.2 of Part B of Form 81-106F1 Annual compound returns calculated with an unauthorized formula Item 4.3 of Part B of Form 81-106F1 Section 15.10 of Regulation 81-102
Results of operations	Failure to explain the nature of and reasons for changes in the fund’s performance Item 2.3 of Part B of Form 81-106F1

Other deficiencies identified

Deficiencies relating to certain regulatory provisions and best practices were also identified during the most recently completed fiscal year. They are explained more fully below:

Continuous disclosure documents posted on the website

Sections 5.5, 6.2 and 10.4 of Regulation 81-106

Section 4.4 of Regulation 81-107

The principal continuous disclosure documents that must be posted on a fund's website, in accordance with Regulation 81-106 and Regulation 81-107, are:

- › the financial statements;
- › the management reports of fund performance;
- › the quarterly portfolio disclosure;
- › the proxy voting record;
- › the report of the independent review committee (IRC) to securityholders.

Sales communications

Part 15 of Regulation 81-102

All sales communications made in a medium available to securityholders or generally available to investors must comply with the provisions relating to sales communications and prohibited representations of Regulation 81-102. Thus, a communication disseminated in a medium addressed primarily to financial sector professionals, but which is accessible to securityholders or investors in general, falls within the definition of "sales communication" for purposes of section 1.1 of Regulation 81-102, even if it is stated to be "for dealers only" or if it contains any other reference aimed at limiting its use to securities dealers. In this regard, you may refer to section 2.4 of the [Policy Statement to Regulation 81-102 respecting Mutual Funds](#).

Conflict of interest matters referred to the independent review committee

Section 5.1 of Regulation 81-107

Section 5.1 of Regulation 81-107 requires a manager to refer all conflict of interest matters, as well as the proposed action in respect thereof, to the IRC for its review and decision.

For example, when a fund pays fees or expenses to a related party in exchange for services rendered, the manager must determine whether this situation falls within the definition of "conflict of interest matter" of section 1.2 of Regulation 81-107. In this regard, you may refer to section 5.1 of the [Policy Statement to Regulation 81-107 respecting Independent Review Committee for Investment Funds](#).

Adjustment to the net asset value

When a manager is required to adjust the net asset value of a fund, the AMF expects the manager to establish rigorous controls in order to replace, in a timely manner, the net asset value incorrectly presented on the fund's website with the amended net asset value. The adjustment should be provided together with an explanation of the correction.

Moreover, in virtue of section 12.14 of *Regulation 31-103 respecting Registration Requirements and Exemptions*, the manager must send to the AMF, no later than 90 days following the end of its fiscal year, a description of any net asset value adjustment made during the fiscal year.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Fiscal 2009-2010 was marked by uncertainty regarding changes to certain IFRS standards related to funds, particularly the IFRS standard on consolidated financial statements. Throughout the fiscal year, AMF staff actively participated in the CSA's analysis of the problem faced by investment funds as a result of the IFRS standard on consolidated financial statements. The AMF supports the development of a solution that favours exempting funds from the requirement to prepare consolidated financial statements.

Based on feedback from commentors regarding exposure draft ED10, *Consolidated Financial Statements*, the International Accounting Standards Board (IASB) reconsidered the application of the consolidation standard to investment companies. To that effect, the IASB indicated its intention to publish an exposure draft exempting investment companies from the consolidation requirement with respect to controlled entities. This exposure draft is expected to be published in the second quarter of 2011. It will propose that investment companies account for controlling interests in other entities at fair value.

Since the IASB will not finalize its draft proposal to exempt investment companies from the consolidation requirement before January 1, 2011, CSA staff supported the decision of the Accounting Standards Board of Canada (AcSB) to defer the adoption of IFRS for investment companies that apply Accounting Guideline AcG 18, Investment Companies, to annual periods beginning on or after January 1, 2012.

The CSA also followed the implementation of the AcSB's strategic plan and published draft texts amending the regulations, including a draft dealing with the continuous disclosure obligations of funds, in view of the changeover to IFRS. The amendments deal with the necessary changes to terminology required as a result of the changeover of current Canadian GAAP to IFRS and propose changes to certain provisions in order to facilitate the changeover to IFRS. Moreover, they take into account the changes made to Canadian Generally Accepted Auditing Standards in connection with the adoption of the International Auditing Standards.

Fund managers are encouraged to consult the [Bulletin of the AMF dated October 16, 2009](#) and the [Bulletin of the AMF dated March 12, 2010](#) to read about all of the proposed changes.

KEY CONSIDERATIONS FOR THE CHANGEOVER TO IFRS

Replacement of current Canadian GAAP terms and expressions with IFRS terms and expressions

Reference: Appendices C to F of the Notice of publication of *Regulation 52-107 respecting Acceptable Accounting Principles and Auditing Standards*.

Amendments to regulatory provisions

As of the date of their changeover to IFRS, funds will have the following obligations, among others:

- Provide a statement of compliance with IFRS in the notes to their annual financial statements and indicate compliance with International Accounting Standard 34, *Interim Financial Reporting*, in the case of interim financial statements.
- File annual financial statements containing the statement of financial position at the beginning of the fiscal year preceding their most recently completed fiscal year, in particular when they apply a change in accounting policy retrospectively or reclassify elements of the financial statements.

Although the adoption of IFRS for investment companies has been deferred by one year, funds will have to pursue their work and, if necessary, adjust their IFRS changeover plan.

In light of the significant impact of certain IFRS standards applicable to funds which are in the process of being amended, the AMF will continue to closely monitor the work of the IASB and the AcSB and participate therein, as necessary.

AREAS OF FOCUS FOR 2010-2011

In order to foster awareness among those responsible for preparing continuous disclosure documents, the following section presents an overview of certain regulatory changes that are underway and a discussion of certain subjects related to upcoming issue-oriented reviews.

COMPANIES

Regulation 43-101 respecting Standards of Disclosure for Mineral Projects

Mining companies are reminded that the [draft regulation to amend Regulation 43-101 respecting Standards of Disclosure for Mineral Projects](#) was published on April 23, 2010. The draft regulation and the consequential amendments propose to eliminate certain obligations or reduce their scope. In particular, there will be greater flexibility in accepting new foreign professional associations and designations. The definition of “historical estimate” has been amended so as to allow funds to present historical estimates established by third parties after 2001. Several changes have also been proposed to the technical report, including the removal of the obligation to file updated certificates and consents from qualified persons if the technical report has previously been filed. To find out about all the proposed changes, market participants active in the mining sector can consult the proposal to repeal and replace *Regulation 43-101 respecting Standards of Disclosure for Mineral Projects* and remain on the lookout for regulatory developments on this subject.

Issue-oriented reviews

In addition to full reviews, in fiscal 2010-2011 the AMF will conduct issue-oriented reviews. The object of these reviews may vary, particularly in light of prevailing economic conditions or the coming into force of new regulations. The following is an overview of the issue-oriented reviews planned for the coming months.

› **Changeover to IFRS**

Particular attention will be paid to the first IFRS interim financial statements. The reviews will target the application of the standards and focus more specifically on compliance.

Until the changeover to IFRS takes place, particular attention will continue to be paid to disclosure in the MD&A about the expected changes in accounting policies.

› **Environmental reporting guidance**

CSA Staff Notice 51-333, *Environmental reporting guidance*, was published on October 27, 2010. The notice clarifies existing disclosure requirements relating to environmental matters. Its aim is to help companies determine what information about environmental matters needs to be disclosed and enhance or supplement such disclosure, as necessary. The CDR Program reviews conducted in fiscal year 2010-2011 will take this guidance into account.

INVESTMENT FUNDS

Regulation 81-106 respecting Investment Fund Continuous Disclosure

Following the AcSB decision to defer the adoption of IFRS for investment companies to annual periods beginning on or after January 1, 2012, the CSA published on October 8, 2010 [CSA Staff Notice 81-320 on the adoption of IFRS by investment funds](#).

In order to have more certainty about the scope and impact of the anticipated exemption from consolidation for investment companies that the IASB is considering, CSA staff will take additional time before seeking approval in each CSA jurisdiction to either republish or finalize IFRS-related amendments to Regulation 81-106 and other instruments related to investment funds. This approval is expected during the second half of 2011, with the goal of having the necessary IFRS-related amendments for investment funds in force by January 1, 2012.

Hedge funds

The AMF participates actively in much of the work of the International Organization of Securities Commissions (IOSCO) whose mission includes fostering cooperation among its members with a view to promoting high standards of regulation so as to maintain fair, efficient and solid financial markets.

In February 2010, IOSCO published a questionnaire to collect information on hedge funds so as to assess potential systemic risks arising in that sector. To that effect, in the fall of 2010 the AMF sent out a questionnaire to the managers of hedge funds whose head office is in Québec in order to obtain specific information about the hedge funds under their management.

Issue-oriented reviews

The following is an overview of the issue-oriented reviews included in the work plan for fiscal 2010-2011.

› **Reconciliation with the custodian**

In the spring of 2010, the AMF conducted an issue-oriented review on the reconciliation of the financial assets and liabilities of funds as recorded in the valuation reports used to calculate the net asset value with the financial assets and liabilities held by their custodians. To that effect, we contacted the custodians directly to obtain official records. Within the scope of the review, we paid particular attention to differences in portfolio securities holdings and in cash balances.

› **Changeover to IFRS**

The AMF will continue to conduct issue-oriented reviews of fund disclosures on the changeover to IFRS in their financial statements or management reports in order to ensure compliance with the requirements of CSA Notice 52-320.

CONCLUSION

Through the activities carried out as part of the CDR Program, the AMF seeks to foster a culture of compliance among reporting issuers, a culture in which compliance with the continuous disclosure requirements of the Act and the regulations is viewed as highly important. This Activity Report is intended to be a useful reference point for companies, investment funds and experts.

Some of the deficiencies identified in this year's report are recurrent, in particular those resulting from our analysis of the MD&A and the management reports of fund performance. Other deficiencies are the result of an inadequate application of new regulatory or accounting requirements. These include deficiencies related to the statement of executive compensation and to disclosure about financial instruments.

In the interest of ensuring the quality of disclosure to investors, we encourage all issuers to use the necessary efforts to make a successful transition to IFRS. We believe it is essential that continuous disclosure documents clearly communicate the impact of the changeover to these new accounting standards.

In connection with this change which, it should be remembered, will be compulsory for fiscal periods beginning as of January 1, 2011, we believe that the financial statements of all Québec reporting issuers should be exemplary. It should be noted that funds and companies with rate-regulated activities will have one additional year within which to make the changeover to IFRS.

The AMF routinely publishes communications related to continuous disclosure obligations, including the CSA staff notices. We invite you to visit the AMF's website (www.lautorite.qc.ca) on a regular basis so as to keep abreast of these communications and thereby enhance your knowledge of the relevant regulatory provisions.

Lastly, the AMF would like to underscore the general quality of the majority of the continuous disclosure records reviewed and the improvements made by companies and funds pursuant to its prospective requests. We are convinced that our exchanges with reporting issuers within the scope of the CDR Program result in the increased reliability of disclosures to investors and ensure the existence of a dynamic framework for monitoring the securities markets.

Appendix – Regulations⁷ and other texts

The following regulations and other texts contain the principal provisions of the continuous disclosure system applicable to companies and investment funds. Others obligations may apply. All of the regulations and other texts can be consulted in the “Laws and regulations” section of the AMF’s website⁸.

- › [*Regulation 43-101 respecting Standards of Disclosure for Mineral Projects*](#)
- › [*Regulation 51-102 respecting Continuous Disclosure Obligations*](#)
- › [*National Policy 51-201, Disclosure Standards*](#)
- › [*CSA Staff Notice 51-330, Guidance Regarding the Application of Forward-looking Information Requirements under Regulation 51-102 regarding Continuous Disclosure Obligations*](#)
- › [*CSA Staff Notice 51-331, Report on Staff’s Review of Executive Compensation Disclosure*](#)
- › [*CSA Staff Notice 51-333, Environmental Reporting Guidance*](#)
- › [*Regulation 52-109 respecting Certification of Disclosure in Issuers’ Annual and Interim Filings*](#)
- › [*Regulation 52-110 respecting Audit Committees*](#)
- › [*CSA Staff Notice 52-306 \(Revised\), Non-GAAP Financial Measures and Additional GAAP Measures*](#)
- › [*CSA Staff Notice 52-320, Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards*](#)
- › [*CSA Staff Notice 52-321, Early adoption of International Financial Reporting Standards, use of US GAAP and reference to IFRS-IASB*](#)
- › [*CSA Staff Notice 52-324, Issues relating to changeover to International Financial Reporting Standards*](#)
- › [*CSA Staff Notice 52-325, Certification Compliance Review*](#)
- › [*Notice of Autorité des marchés financiers related to disclosure by reporting issuers on changeover to international financial reporting standards*](#)
- › [*CSA Staff Notice 52-326, IFRS Transition Disclosure Review*](#)
- › [*CSA Staff Notice 52-327, Certification Compliance Update*](#)
- › [*Regulation 58-101 respecting Disclosure of Corporate Governance Practices*](#)
- › [*Regulation 81-101 respecting Mutual Fund Prospectus Disclosure*](#)
- › [*Regulation 81-102 respecting Mutual Funds*](#)
- › [*Regulation 81-104 respecting Commodity Pools*](#)
- › [*Regulation 81-105 respecting Mutual Fund Sales Practices*](#)
- › [*Regulation 81-106 respecting Investment Fund Continuous Disclosure*](#)
- › [*Regulation 81-107 respecting Independent Review Committee for Investment Funds*](#)
- › [*Regulation respecting Development Capital Investment Fund Continuous Disclosure*](#)

⁷ Also refer to policy statements and forms relating to regulations.

⁸ www.lautorite.qc.ca

We welcome comments on the CDR Program. They contribute to the ongoing improvement of our review process.

For more information or to provide us with your comments, please contact any of the following persons:

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