

IIROC NOTICE

Rules Notice Request for Comments

Dealer Member Rules

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11-0083

February 28, 2011

Response to comments on proposed amendments to Form 1 to adopt IFRS for regulatory reporting purposes

On August 27, 2010, IIROC staff published for public comment the proposed amendments to Form 1 to adopt IFRS for regulatory reporting purposes in Notice 10-0230. IIROC staff received four public comment letters over the 60-day comment period. Our responses to those comments are enclosed as Attachment #1.



#	Commenter		Comment	IIROC response	IIROC action
1.	Citigroup Global Markets Canada Inc.	Dealer Member	<p>Statement G requires that we roll forward our equity position from the December 31, 2010 audited annual Form 1 as filed under CGAAP to opening retained earnings using IFRS for our January 2011 Form 1 (MFR). The issue is that January 2011 MFR will use December 2010 MFR closing equity as its opening balance which often would be different from the audited annual 2010 Form 1 because there are often income statement adjustments made between the December MFR and annual Form 1 as there is more time available to file the latter. Such adjustments are made to true up the balances that were not known at the time of filing of December 2010 MFR.</p> <p>If we take the retained earnings reported in the December 2010 MFR and simply add IFRS adjustments, the numbers will not reconcile to the new, IFRS compliant Form 1 set of numbers. We would suggest making appropriate changes to allow users to include above noted adjustments as well to ensure that the CGAAP retained earnings tie out to audited Statement A as at December 2010 prior to making any IFRS related adjustments.</p> <p>We would ask that you please advise in the revised set of instructions how we should be addressing this issue.</p>	<p>As this is a SIRFF IT implementation issue, any instruction should not be part of the amended Form 1. Instead, any instruction will be part of the SIRFF filing instructions.</p> <p>At the IFRS conversion date, a Dealer Member will move from the current (CGAAP-based) SIRFF platform to the new (IFRS-based) SIRFF platform. There is no need to reflect the year-end audit adjustments to the first MFR under IFRS. This is because the opening IFRS retained earnings would have incorporated all adjustments – both the IFRS adjustments and the year-end audit CGAAP adjustments.</p>	To communicate to the Dealer Member and panel auditor

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2.	National Bank Financial (NBF)	Dealer Member	<p>IIROC had proposed several amendments which have been classified as minor because they do not impact on the calculation of RAC and early warning tests. Given the nature of these amendments we propose that the following <u>amendments become in effect as of immediately:</u></p> <ul style="list-style-type: none"> • List of unresponsive brokers to year-end audit confirmation requires: the Dealer Members are already required to reconcile broker account statement balances on a monthly basis and capital penalties arise if there are unreconciled differences. • List of unresponsive guarantors to year-end audit confirmation request: the Dealer Members are already required to obtain a confirmation from guarantors and capital penalties arise if there is an unconfirmed balance. • Lists of other acceptable foreign securities locations: given that Dealer Members are required to reconcile their custody holdings on a monthly basis with all custodial locations and to provide 100% margin for any unresolved differences 	No. Any early implementation will require a separate rule change proposal to the current CGAAP-based Form 1.	No further action required



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			<ul style="list-style-type: none"> Statement of Changes in Subordinated Loans in its entirety. This statement is no longer needed as IIROC obtains all necessary details of the subordinated loans outstanding at each Dealer Member at the time IIROC approves changes to such loans. 		
			We have noticed a typo with regards to Form 1- Part I – Statement F line 6 “closing balance” it is referenced to A-73 “total reserves”, when in fact should be referenced to A-71.	Noted	To correct Status: Done
3.	Casgrain & Company Limited	Dealer Member	Under IFRS (IAS 39), we may use the trade-date or settlement date accounting method for reporting purposes. Therefore, Note 6 under GENERAL NOTES in Form 1 “General Notes and Definitions” which requires the selection of trade date reporting should be reclassified in Note 3 (Prescribed Accounting Treatment).	No. AG 53 of IAS 39 paragraph 38 specifically refers to <i>regular way purchase or sale of a financial asset</i> .	No further action required
			The word “are only required at the audit date” in Note 8 under GENERAL NOTES in Form 1 “General Notes and Definitions” should be removed as the audit date is the only date where Form 1 filing is mandatory.	No. Other than the fiscal year-end date, Form 1 can be filed in certain situations, such as an amalgamation or resignation.	No further action required
			The definition of market value of securities as defined under paragraph (g) DEFINITIONS in Form 1 “General Notes and Definitions” refers to “In a fully	The “market value of securities” definition remains unchanged from the pre-IFRS changeover Joint Regulatory Financial Questionnaire	No further action required

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			transparent market place”. It is not clear what is meant by transparent marketplace. Does it mean an active market as defined under IFRS? If such, the terminology should then be modified for “In an active market”.	and Report (i.e. the CGAAP-based Form 1)	
			In FORM 1 “CERTIFICATE OF UDP AND CFO” and FORM 1 “SEPARATE CERTIFICATE OF UDP AND CFO ON STATEMENT G OF PART I OPENING IFRS STATEMENT OF FINANCIAL POSITION AND RECONCILIATION OF EQUITY”, it is our understanding that these certificates require mandatory signatures by at least two designated persons. Therefore, the reference to “my” in both certifications should be removed.	Noted	To edit text Status: Done
			<p>In FORM 1, Part I – Statement A “Notes and Instructions”, the reference to the use of accrual basis accounting is superfluous, as it is understood that the accrual basis of accounting is mandated under CGAAP or IFRS.</p> <p>In addition, QST (Quebec sales tax) should also be added to Line 14. We would also suggest that rather than identifying GST, HST, and QST separately, we may use the terminology “any Federal or Provincial recoverable sales taxes” which would cover any government changes with regards to adoption of sales taxes policies.</p>	<p>This apparent redundancy was intended to ensure that all Dealer Members understand that accrual basis is applicable for regulatory accounting and reporting.</p> <p>Noted</p>	<p>No further action required</p> <p>To amend</p> <p>Status: Done</p>



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	Casgrain & Company Limited (cont'd)		<p>FORM 1, Part I – Statement E “Notes and Instructions”, in which line, interest revenues on long debt inventory positions and interest expenses (cost of carrying short inventory) related to short debt inventory positions should be reported. In addition, instructions for line 18 with regards to “a specific liability” should be clarified: the reference to a “specific liability” should it be “Asset trading activity”?</p> <p>Clarification provided on Nov 30, 2010: As per the notes and instructions of statement E of je JRFQR, interest revenues on long debt inventory position and the cost of carrying short inventory positions are included in 10(Principal revenue-bonds), as well as the financing cost and revenues to finance the long and short inventory position (repo and reverse repo interest). Under IFRS, it is not clear if we can still offset these sources of interest. The intentions of the accounting authorities are also ambiguous regarding this matter. My intention is to through financial statements of Financial institutions prepared under IFRS GAAP to see if I could find any additional information’s regarding the reporting of those sources of interests.</p>	<p>IAS1.32 states: <i>An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS.</i></p> <p>Additional reference: IFRIC meeting dated September 2006 on the topic – <i>Presentation of “net finance costs” on the face of the income statement (Agenda Paper 8(ii))</i></p>	No further action required
4.	Broker Auditor Committee	External	<i>General Comments</i>	When a need arises to prescribe	No further action

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	advisory group		<p>One point that is not clear in the Notice is how IIROC intends to treat any further departures from IFRS in the future. Standards will continue to develop and there may be a need for further departures over time. You may want to consider the process for communicating this. For example, where IIROC intends to maintain a centralized list for all identified departures for members to reference.</p>	<p>additional regulatory accounting departures from IFRS or to prescribe additional regulatory accounting treatment, IIROC will go through the rule amendment process.</p>	<p>required</p>
			<p><i>Other IFRS Departures</i> General Note #2 of Form 1 states that “the Corporation allows the netting of receivables and payables to the same counterparty”. It is unclear whether this is a policy choice you are permitting member to make or you expect that members should report on a net basis. You may wish to clarify this position.</p>	<p>Noted</p>	<p>To add text for greater clarity</p> <p>Status: Done</p>
			<p><i>Reserves</i> The Instructions for Statement A, Line 71 states that a “Reserve is an amount set aside for future use, expense, loss or claim. It includes an amount appropriated from retained earnings.” We recommend that this definition be amended by adding “in accordance with statute or regulation” after both those sentences. As written, the definition could be confused with certain items which meet the IAS37 criteria for provisions or misconstrued as permitting an entity to “set aside” amounts which</p>	<p>Noted</p>	<p>To add recommended text</p> <p>Status: Done</p>



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			<p>are not in accordance with IFRS.</p> <p>Statement F, Note and Instruction B, states: “General Reserve: A dealer member may want to transfer from retained earnings. The creation of a general reserved gives the dealer member an added measure of protection”.</p> <p>If the intent is to be compliant with IFRS with regard to reserves, then we recommend that the wording of both of the above be clarified. For example, appropriation directly from the income statement is not permitted for general reserves. If there is no legal or regulatory distinction between Retained Earnings and a General Reserve, that fact should be disclosed. The existence or absence of any restrictions on the distribution of a General Reserve should be disclosed.</p>	Noted	<p>To rephrase for greater clarity</p> <p>Status: Done</p>
			<p><i>Reserve – Employee Benefits</i></p> <p>The Notice, Statement F Part B and the notes and instructions to that part all state that “Reserve – Employee Benefits” comprises 2 elements:</p> <ol style="list-style-type: none"> 1. Defined benefit pension plan and 2. Stock option and stock award. <p>We recommend that these be shown separately to comply with IAS1.79(b), or that this be included in the list of</p>	Noted	<p>To amend accordingly</p> <p>Status: Done</p>

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			<p>prescribed departures from IFRS.</p> <p>Also, it should be noted that IFRS2 requires that stock based compensation be recognized as an asset, rather than an expense, if it so qualifies. The wording of Statement F, Note B does not explicitly acknowledge this, though we note that this is unlikely to be an issue for members.</p>	<p>Noted. The purpose of the instructions to Statement F is to provide a general definition of the new terms.</p>	<p>No further action required</p>
			<p><i>Opening Balance sheet and conversion to IFRS</i></p> <p>The instructions to Form 1 to identify that the conversion date for a December 31, 2011 year end is to be January 1, 2011 and therefore the opening balance sheet is to be prepared as at January 1, 2011. This is inconsistent with the guidance in IFRS 1 which would indicate an opening balance sheet should be prepared as at January 1, 2010 and that the 2010 comparative information should be presented under IFRS in its 2011 statements. Therefore this should be discussed as an IFRS departure.</p>	<p>Noted</p>	<p>To add as a prescribed departure</p> <p>Status: Done</p>
			<p>It should be noted that members also prepare standalone financial statements for general purposes. As these statements are for general use, they will be prepared under IFRS with no permitted departures. As a result, members will be required to use a conversion date of January 1, 2010 for the opening balance sheet in those</p>	<p>IIROC is cognizant of the requirements for full IFRS compliance for purposes of the general purpose financial statements and of the one-time application of IFRS1.</p> <p>Form 1, the regulatory financial report, is a special purpose report,</p>	<p>To amend text</p> <p>Status: Done</p>



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			<p>standalone statements. This will likely involve additional work for member to prepare two separate opening balance sheets, one for the Form 1 filing and one for the standalone general purpose statements. There will be significant issues to the extent that IFRS1 exemptions and elections, which are basically only permitted on a “one-time” basis, would have to be as at January 1, 2010 for the IFRS compliant standalone financial statements. Therefore they cannot be determined or measured at January 1, 2011. The instructions state that “the opening IFRS statement A provides a starting point for accounting under IFRS”. This cannot work for an entity which already had a January 1, 2010 starting point. We recommend that the instructions and form be amended to address this situation.</p>	<p>IIROC requires the Dealer Member to provide the opening balance sheet for the first annual Form 1 under IFRS.</p> <p>For certainty, the first sentence of the instruction to Statement G will be amended as follows: <i>The opening IFRS statement of financial position, Statement A of Form 1, provides a starting point for regulatory accounting under IFRS.</i></p>	