OSC Staff Notice 52-723

Office of the Chief Accountant

Financial Reporting Bulletin

November 2016

OSC ONTARIO SECURITIES COMMISSION

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Introduction

The Office of the Chief Accountant (OCA) of the Ontario Securities Commission (OSC) is publishing this bulletin to highlight observations about various financial reporting topics relevant to reporting issuers that prepare financial statements in accordance with International Financial Reporting Standards (IFRS). The objective of this bulletin is to provide useful information to market participants that may assist in preparing future financial reports.

Executive Summary

Staff of the OCA (we or Staff) want to:

- communicate considerations for disclosure effectiveness
- share our observations on recent areas of focus
- highlight our expectations for implementation of several new accounting standards.

Considerations for disclosure effectiveness

When disclosing financial information, we encourage reporting issuers to:

- take a "fresh look" at their financial statement disclosures, and consider how information could be more effectively and efficiently presented
- consider financial reports as communication documents as opposed to a "compliance exercise".

A reporting issuer's management, audit committee, and external auditor each has an important role to play in contributing to disclosure effectiveness.

Recent areas of focus

Our observations in the area of **going concern** are as follows:

- quality of disclosures required by IAS 1 *Presentation of Financial Statements* (IAS 1) varied, with some reporting issuers providing generic and boilerplate information about the material uncertainties that cast significant doubt on the entity's ability to continue as a going concern
- instances of inadequate disclosures with respect to the significant judgements made in concluding that there are no material uncertainties.

An ongoing area of focus continues to be **non-GAAP financial measures,** including application of [CSA Staff Notice 52-306 (Revised) *Non-GAAP Financial Measures*] (CSA SN 52-306). Recent observations in this area include:

- inappropriate prominence of disclosure given to non-GAAP financial measures related to earnings when compared to the prominence of earnings measures specified, defined, or determined under a reporting issuer's GAAP
- numerous non-GAAP financial measures presented in the same disclosure document, increasing the potential for investors to be confused and/or material information to be obscured
- non-GAAP financial measures, particularly those presented in press releases, not reconciled to the most comparable GAAP measure.

Our observations in the area of **fair value measurement** are as follows:

- most disclosures required by IFRS 13 *Fair Value Measurement* (IFRS 13) were appropriately provided by the reporting issuers examined; however, the quality of disclosures varied, with some reporting issuers providing less entity specific information than others
- opportunities for improvement exist with certain disclosures pertaining to fair value measurements categorized within level 3 of the fair value hierarchy
- instances where the disclosures for instruments categorized within level 2 of the fair value hierarchy did not provide enough detail about the specific observable inputs.

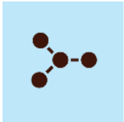
Expectations for implementation of several new accounting standards

Several new accounting standards have been issued by the International Accounting Standard Board (IASB) that may significantly affect the financial statements of many reporting issuers, specifically IFRS 9 *Financial Instruments* (IFRS 9), IFRS 15 *Revenue from Contracts with Customers* (IFRS 15), and IFRS 16 *Leases* (IFRS 16).

Generally, we expect that:

- reporting issuers have begun or will soon commence the work necessary to implement the new accounting standards
- audit committees be actively engaged in oversight of the implementation processes relating to the new accounting standards
- auditors consider their role in evaluating the reporting issuer's compliance with disclosure requirements relating to the future impact of the new accounting standards
- reporting issuers provide increasingly detailed disclosure about the expected effects of the new accounting standards as they make progress in their implementation efforts and the effective dates approach.

We intend to monitor the quality and extent of disclosure in financial reports leading up to the adoption of the new accounting standards, and may raise questions with reporting issuers if there is an inadequate level of transparency in this area.



Disclosure Effectiveness

In December 2014, the IASB issued amendments to IAS 1 that include the following clarifications:

- an entity should not reduce the understandability of its financial statements by obscuring material information with immaterial information
- an entity does not need to provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and conversely, an entity should provide additional disclosure if compliance with the specific IFRS disclosure requirements is insufficient
- an entity should present notes in a systematic manner, taking into consideration the effect on the understandability and comparability of its financial statements.

These amendments were effective for annual periods beginning on or after January 1, 2016.

Securities regulators often hear concerns from both the investor community as well as preparers about "disclosure overload" and the large amount of information provided in financial statements and annual reports that have made it difficult to distinguish what is relevant and important. This can result in boilerplate immaterial information that provides little value, "clutters" the financial statements and imposes additional costs on reporting issuers in the time and resources spent on preparing the information.

The IAS 1 amendments are a useful step forward in addressing this "disclosure overload". The amendments underscore the point about not requiring immaterial disclosures, which is consistent with the regulatory approach towards materiality and the "regulatory lens" we look through when examining financial statements. Both IFRS and securities regulations refer to principles of materiality. When effectively applied, the materiality concept should result in more concise, effective and relevant information provided to investors.

Consider and assess:

- Are the financial reports providing insights into the business?
- Is the information clear and concise?
- Is the information entity-specific?
- Is information carried forward from prior year financial reports still relevant and necessary for compliance with IFRS?
- Is relevant information being obscured by a large amount of irrelevant and immaterial information?

When preparing financial information, Staff encourage reporting issuers to take a "fresh look" at their financial statement disclosures, and consider how information could be more effectively and efficiently presented. Reporting issuers should consider their financial reports as important communication documents as opposed to a "compliance exercise".

A reporting issuer's management, audit committee, and external auditor each has an important role to play in contributing to the objective of providing investors with clear and concise information about the financial affairs of the entity.

We encourage readers to assess all content in this bulletin against the above considerations.

Going Concern

As previously communicated in our OSC Staff Notice 52-720 *Financial Reporting Bulletin* February 2012, going concern disclosures are important to investors as they provide warnings about significant risks that the reporting issuer is facing. This continues to be an important area in the current economic environment, and has resulted in continued regulatory scrutiny on disclosures surrounding material uncertainties that may affect the going concern assessment of an entity.

IAS 1.25 notes that "when management is aware, in making its assessment [of the entity's ability to continue as a going concern] of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties".

The IFRS Interpretation Committee (IFRIC) clarified in its July 2014 IFRIC Agenda Decision that if management considers events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, but concludes, after considering all relevant information, including the feasibility and effectiveness of any planned mitigation that there is no going concern uncertainty, disclosure should nonetheless be provided, in circumstances where that conclusion was a "close call", under the requirements in IAS 1.122 about significant judgements.

As a result of this IFRIC Agenda Decision, Staff have been examining financial statements from reporting issuers in various industries (e.g., merchandising, junior natural resource, oil & gas, real estate, technology, consumer products, etc.) to understand the extent of disclosure provided with respect to going concern.

Going concern disclosures in accordance with IAS 1.25

Staff noted that amongst reporting issuers that disclosed material uncertainties that cast significant doubt on the entity's ability to continue as a going concern in accordance with IAS 1.25, the level of disclosures varied. Examples of good disclosures included detailed information about the uncertainties relating to operations, funding, cash flows and how

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each is mitigated. Staff also noted examples of poor disclosures that provided boilerplate information about the material uncertainties that cast significant doubt on the entity's ability to continue as a going concern. Such disclosures also provided limited information about management's plans to mitigate any material uncertainties.

Example: Description of material uncertainties that did not meet Staff's expectation

Problem:

- Non-specific

The Company has incurred significant losses and at December 31, 2015, had an accumulated deficit of $xx million, and a working capital deficiency of $xx million. The Company has insufficient working capital to fund its ongoing operating costs. The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds, and/or raise equity to meet current and future obligations.

Example: Improved description of material uncertainties

Improvements:

- Greater specificity about the material uncertainties
- Discusses management's plans to mitigate the material uncertainties

During the year ended December 31, 2015, the Company had a net loss of $xx million, negative cash flow from operation of $xx million, and a negative working capital of $xx million. The Company currently has insufficient cash to fund its operations for the next 12 months. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future, which was at least, but not limited to, the twelve month period following December 31, 2015. The Company and a special committee of the board is currently implementing various financing strategies, including the following:

- Subsequent to year-end, the Company issued approximately xx million shares to repay amounts outstanding under the line of credit.
- The Company is actively monitoring cash forecasts and managing performance against its forecasts. The Company has identified various cost-reduction initiatives as a result.
- The Company has a plan in place to issue additional shares under a non-brokered private placement to raise additional proceeds.
- The Company has entered into a debt-restructuring arrangement with its debenture holders to, amongst other things, defer the payment of its 2016 interest payments and extend the maturity date of the debentures.

The Company believes that based on the financial strength of its existing shareholder base, and previous success in raising capital, any shortfall in its operating plan may be met through one or more of the above strategies.

Disclosures of significant judgements made in concluding that there were no material uncertainties

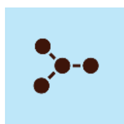
Staff observed that some reporting issuers had strong indicators of financial difficulty but the financial statements did not include disclosures about material uncertainties. In such cases, it would appear that management has concluded that there were no material uncertainties that cast significant doubt on the entity's ability to continue as a going concern that would require disclosures under IAS 1.25. In reaching that conclusion, significant judgement was applied (given the strong indicators of financial difficulties), but there were no disclosures related to such judgement.

A reporting issuer's management, audit committee, and external auditor has an important role to play to ensure that investors are provided with timely and accurate information related to going concern risks. If significant judgement was applied in concluding that there were no material uncertainties that may cast significant doubt upon a reporting issuer's ability to continue as a going concern, disclosures about the significant judgments made in these "close call" situations provide useful information to users.

Consider and assess:

Are investors receiving adequate level of information about:

- Significant going concern risks?
- Relevant management judgements being exercised?
- Mitigating factors that are being considered by management in making these assessments?



Non-GAAP Financial Measures

Many reporting issuers include non-GAAP financial measures in press releases, MD&A, prospectus filings, website, and marketing materials. While Staff recognise that non-GAAP financial measures may provide investors with additional insight into a reporting issuer's financial performance, financial condition and/or cash flow, Staff continue to see potentially misleading disclosures with respect to non-GAAP financial measures. Some common areas of concerns include:

- **The prominence of the disclosure given to non-GAAP financial measures in comparison to the GAAP financial measures:** Staff continue to observe reporting issuers that present their non-GAAP earnings before their GAAP earnings in their MD&A or press releases, or that focus their discussion of performance on the non-GAAP earnings, providing a less fulsome discussion of their GAAP earnings.

- **A large number of non-GAAP financial measures being used in the MD&A:** the presentation and discussion of an extensive number of non-GAAP financial measures can obscure GAAP results. Often, the greater the number of measures, the more potential there is for confusion, or for material information to be obscured.

- **Non-GAAP financial measures not reconciled to the most directly comparable GAAP measures:** Staff continue to identify instances where non-GAAP financial measures, particularly those presented in press releases, are not reconciled to the most comparable GAAP measures. In order to help ensure that a non-GAAP financial measure does not mislead investors, a reporting issuer should provide a clear quantitative reconciliation from the non-GAAP financial measure to the most directly comparable GAAP measure and reference the reconciliation when the non-GAAP financial measure first appears in the document.

Staff will be actively monitoring this area in the coming fiscal year, and caution reporting issuers about the potential for regulatory action if a reporting issuer discloses information in a manner considered misleading and therefore potentially harmful to the public interest.

Consider and assess:

- Is my GAAP measure presented first in my disclosure documents?
- Are too many non-GAAP measures being presented such that material information is being obscured?
- Is my non-GAAP financial measure reconciled to the most directly comparable GAAP measure?

Fair Value Measurements

As the capital market continues to experience fluctuations, fair value measurements and related disclosures in the financial statements are an important source of information to help investors understand the financial performance and financial position of a reporting issuer. As a result, the disclosure requirements of IFRS 13 have been a recent area of focus for Staff.

As part of this activity, Staff have primarily focused on fair value measurement disclosures in the financial statements of real estate and investment fund reporting issuers because these reporting issuers typically measure a substantial portion of their assets at fair value.

Disclosures of fair value measurements in the real estate industry

Internal vs. independent external valuations [IAS 40.75(e)]

Staff observed that most reporting issuers in the real estate industry used a combination of internal and independent external valuations. Paragraph 75(e) of IAS 40 *Investment Property* requires an entity to disclose, among other things, the extent to which the fair value of an investment property has been independently valued. If there has been no such valuation, that fact must be disclosed.

Reporting issuers in the real estate industry generally complied with this requirement; however, the level of disclosure varied. Staff observed that the more useful disclosures included information on:

- the percentage of the investment portfolio that was independently valued
- whether the composition of properties independently valued were reflective of the composition of the overall investment portfolio
- the policy for how often each property is independently valued.

Staff remind reporting issuers that the use of an independent external valuator does not reduce management's ultimate responsibility for the fair value measurements (and related disclosures) in the financial statements. Management must understand the methodologies and assumptions used for each valuation and determine whether the assumptions are reasonable and consistent with the principles of IFRS 13.

Description of the valuation processes [IFRS 13.93(g)]

Staff observed that most reporting issuers provided some level of information about the valuation processes; however, the quality of disclosures varied. Useful disclosures included a discussion about the group responsible for the valuation processes as well as the internal reporting procedures and oversight of that group. This type of information provides users with an understanding of the level of rigor and sophistication that the investment property valuations are subject to.

Example: Description of valuation processes that did not meet Staff's expectation

Problems:

- Lacks substance (boilerplate)
- Vague disclosure to describe valuation processes

Subsequent to initial recognition, investment properties are measured at fair value, based on available market evidence. If market evidence is not available, ABC REIT uses alternative methods. Investment properties are internally and externally valued.

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Example: Improved description of valuation processes

Improvements:
- Greater specificity about the valuation processes, including the internal reporting procedures and oversight

ABC REIT's internal valuation team consists of individuals who are knowledgeable and have recent experience in the fair value techniques for investment properties. The team reports directly to the Executive Vice President of Asset Management and the internal valuation team's valuation processes and results are reviewed by management at least once every quarter.

A leading independent national real estate valuation firm, with representation and expertise across Canada, values approximately 40% of the portfolio (by value) annually. Properties are rotated annually to ensure that approximately 80% of the portfolio (by value) is independently valued over a 2-year period.

On a quarterly basis, for properties that are not independently valued that quarter, the valuation models for those properties are updated by the internal valuation team for current leasing and market assumptions…

The internal valuation team also verifies all major inputs used by the independent valuator in preparing the valuation report, assesses changes to fair value by comparing the current year fair value against the fair value determined in the prior year valuation report, and holds discussions with the independent valuator…

Disclosures for each class of assets [IFRS 13.93 & .94]

IFRS 13.93 requires an entity to disclose certain information for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition.

For investment properties, Staff observed that disclosures by the type of property (e.g., retail, residential, or commercial) and the geographic location of the property were most informative.

Disclosures by the type of property are useful because the nature, characteristics, and risk may be different for a residential property as compared to a commercial property. Disclosures by geographical regions are also relevant because the risks of holding an investment property in Canada may be different from that of the U.S. due to differences in economies, for example.

Description of inputs used in the fair value measurement [IFRS 13.93(d)]

IFRS 13.93(d) requires, among other things, a description of the valuation technique(s) and the inputs used for fair value measurements categorized within level 2 and level 3 of the fair value hierarchy. In examining the description of the inputs used, Staff found that the quality of disclosures varied amongst reporting issuers.

Staff observed that a good description of the inputs included useful information about the basis for those inputs. For example, information about what the discount rate or capitalization rate was based on, and how it was determined.

Example: Description of inputs that did not meet Staff's expectation

Problems:

- Lacks substance (boilerplate)
- Does not describe the inputs

XYZ REIT uses the direct income capitalization method to fair value its investment properties. In applying the direct income capitalization method, the stabilized net operating income of each property is divided by an overall capitalization rate.

Example: Improved description of inputs

Improvements:

- Describes each significant input

XYZ REIT uses the direct income capitalization method to fair value its investment properties. In applying the direct income capitalization method, the stabilized net operating income of each property is divided by an overall capitalization rate. The significant unobservable inputs include:

- Stabilized net operating income, which is based on the location, type and quality of the properties and supported by the terms of any existing lease, other contracts, or external evidence such as current market rents for similar properties, adjusted for estimated vacancy rates based on current and expected future market conditions after expiry of any current lease and expected maintenance costs.
- Capitalization rate, which is based on location, size and quality of the properties and taking into account market data at the valuation date.

Disclosures of fair value measurements in the investment fund industry

Description of valuation techniques [IFRS 13.93(d)]

IFRS 13.93(d) requires, among other things, a description of the valuation technique(s) and the inputs used for fair value measurements categorized within level 2 and level 3 of the fair value hierarchy.

Staff noted that investment funds with more useful disclosures described the specific valuation techniques for the investments held by the fund, whereas disclosures were considered less useful if the description of the valuation techniques was generic.

A useful description of valuation techniques may include, for example, specific information on comparable recent transactions, references to other instruments that are substantially the same, discounted cash flow analysis, option pricing models, valuation multiples, etc.

Quantitative information about significant unobservable inputs [IFRS 13.93(d)]

IFRS 13.93(d) requires, among other things, disclosure of quantitative information about the significant unobservable inputs used in the fair value measurement categorized within level 3 of the fair value hierarchy.

Unobservable inputs may include, for example, probability of default, prepayment rates, expected volatility, valuation multiples, discounts for lack of marketability, discount rates, etc.

While an entity is not required to create quantitative information if it is not developed by the entity (for example, if pricing information is taken from a third-party without adjustments), Staff observed that some investment funds did not provide any quantitative information about the significant unobservable inputs, even in cases where valuations were performed internally, and that information ought to have been available.

Sensitivity to changes in unobservable inputs [IFRS 13.93(h)]

IFRS 13.93(h) requires, among other things, a description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity should also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Staff observed that some investment funds did not provide any information about the impact of changes to specific unobservable inputs used in the fair value measurement, including interrelationships between those inputs and how those interrelationships might magnify or mitigate the effect of the changes in unobservable inputs on the fair value measurement.

Example: Sensitivity analysis that did not meet Staff's expectation

Problems:

- Does not specify which unobservable input cause the sensitivity
- Does not identify the interrelationships between unobservable inputs

XYZ investment fund holds debt securities. An x% increase or decrease in the fair value of the securities would have resulted in an equivalent percentage change to the net assets of the entity.

Example: Improved disclosure of sensitivity to changes in unobservable inputs

Improvements:

- Greater specificity about the interrelationships between unobservable inputs and their impact on the fair value

ABC investment fund holds debt securities that consist of Australian corporate bonds. ABC investment fund fair values these securities using the net present value of estimated future cash flows. For these debt securities, the most significant unobservable inputs are the cost of capital and probability of default. Increases in these variables would lead to a decrease in the fair value. These variables are interrelated such that a change in the assumption used for the probability of default is expected to be accompanied by a change in the same direction in the cost of capital.

		Reasonably possible change in unobservable input value	Impact on Fair Value
Cost of capital	8%	+/- 3%	+/-25
Default probability	12%	+/- 5%	+/-50

Categorization of equity instruments within level 2 of the fair value hierarchy

Staff observed that for investment funds that held material equity investments categorized within level 2 of the fair value hierarchy, the disclosure often did not describe, in sufficient detail, the specific observable inputs that support the categorization as level 2. For example, it would not be sufficient to simply refer to the use of observable market data; the disclosure should describe the specific observable inputs (e.g., recent sale price of similar shares in an active market).

Furthermore, the description of the valuation techniques for these investments sometimes called into question whether there were one or more unobservable inputs that were significant to the entire fair value measurement, which would result in the fair value measurement being categorized within level 3 of the fair value hierarchy.

If management has made significant judgements in determining the appropriate categorization of a fair value measurement, disclosure of such judgements facilitates an investor's understanding of the measurement approach.

Considerations for Implementation of IFRS 9, IFRS 15, and IFRS 16

Several new accounting standards have been issued by the IASB that may significantly affect the financial statements of many issuers, such as:

- IFRS 9 *Financial Instruments* (IFRS 9) - effective for annual reporting periods beginning on or after January 1, 2018
- IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) - effective for annual reporting periods beginning on or after January 1, 2018
- IFRS 16 *Leases* (IFRS 16) - effective for annual reporting periods beginning on or after January 1, 2019

We expect that reporting issuers, including their audit committees, have already begun or will soon begin the work necessary to effectively implement these new standards, and similarly their auditors are now planning their work to ensure compliance with financial statements disclosure requirements relating to the future impact of these new standards.

Disclosures of the impact of new accounting standards

An assessment of the impact of these new standards will need to be conducted by reporting issuers in all industries; however certain reporting issuers and/or industries may be impacted to a greater extent than others. For example, IFRS 15 may have a significant impact on reporting issuers with long-term service contracts, multiple element arrangements, or other complex revenue transactions. Transition may have varying degrees of impact to different reporting issuers; however there are significant disclosure requirements in the new standards that will require careful consideration by all reporting issuers.

Reporting issuers should not underestimate the extent to which these new standards may impact their financial reports and related processes. It is therefore important that reporting issuers conduct an appropriate assessment of the effect of these new standards, giving consideration to decisions such as when and how to effect the transition within the timeframe required by the new standards.

As such, Staff encourage management, audit committees, and auditors of reporting issuers to have extensive discussions about the impact and progress of transition to these new standards. Staff expect audit committees to closely monitor implementation as part of their responsibilities over financial reporting.

When an entity has not applied a new IFRS that has been issued but is not yet effective, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosure of "known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application". These requirements encompass both qualitative and quantitative information, and may require disclosure of the quantified impact well before the first financial report to which a new standard applies.

Consider and assess:

- Is a detailed implementation plan in place?
- Have sufficient resources been allocated to ensure implementation on a timely basis?
- Are IT systems capable of collecting the necessary data for the new reporting requirements?
- How will the new standards impact the company's policies and business practices?
- Is there any impact on debt covenants, capital requirements, or compensation arrangements?
- Is there any impact on the key operating metrics?
- Is there any impact on internal controls? How will this impact the CEO/CFO certifications required under securities regulation?
- What are the areas of significant judgement that will be required to be disclosed in the financial statements upon implementation?
- Has there been sufficient communication with investors to ensure they understand the impact of the new accounting standards on the company's financial performance and position?

Staff expectations

Staff expect to see increasingly detailed disclosure about the expected effects of the new standards as reporting issuers make progress in their implementation efforts and the effective dates approach. As the implementation of these new standards progresses, the impact should become more reasonably estimable and reporting issuers should be able to provide progressively more detailed qualitative and quantitative information.

As many stakeholders are monitoring the impact of the new standards on a reporting issuer's financial position and performance, even when the impact of a new standard is not material, information that there will be no material impact may be important information for investors and other users.

It is reasonable to expect that quantitative information will be available and disclosed for the reporting date that coincides with the start of the comparative period that will be affected in a future financial report (for example, Q1 2017 for reporting issuers with a December 31 year-end that are adopting IFRS 15 on a full retrospective basis).

When the impact of the new standards is not quantified, additional qualitative information should be provided to enable users to understand the expected impact on future financial statements.

Staff also remind reporting issuers of the requirements under Section 1.13 of Form 51-102F1 *Management's Discussion & Analysis* (NI 51-102F1), to discuss and analyze changes resulting from a change in accounting standards such as the methods of adoption that the company expects to use, the expected effect on the company's financial statements, and potential effect on the company's business including changes in business practices.

We intend to monitor the quality and extent of disclosure in financial reports leading up to adoption, and may raise questions with reporting issuers if there is an inadequate level of transparency in this area.

Example: Future changes to accounting standards

The following is an illustrative example of a portion of a reporting issuer's disclosure that provides useful information on the known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements.

IFRS 15 *Revenue from Contracts with Customers*

…The Company will not be early adopting IFRS 15...The Company has elected to adopt IFRS 15 using the modified retrospective approach. Under this approach the Company will recognise transitional adjustments in retained earnings on the date of initial application (January 1, 2018), without restating…

…We expect the application of IFRS 15 will significantly affect our financial statements, especially with regards to the timing of revenue recognition and treatment of costs incurred in acquiring customer contracts…

…. We anticipate this will most significantly affect our Segment A and Segment B that bundle equipment and service together into monthly service fees, which will result in an increase to equipment revenue recognized at contract inception and a decrease to service revenue recognized over the course of the contracts…

…The treatment of costs incurred in acquiring customer contracts will be impacted as IFRS 15 requires certain contract acquisition costs (e.g., sales commissions) to be recorded as an asset and amortized into expenses over time. Currently, such costs are expensed as incurred…

…Although we have made progress in our implementation of IFRS 15, it is not yet possible to make a reliable estimate of the impact of the new standard on our financial statements as we are required to implement significant changes to our systems and processes across the organization in order to collect the new data requirements…

...We expect to report more detailed information, including estimated quantitative financial effects, in our 2017 financial statements…

As implementation progresses and the effective dates approach, we expect that reporting issuers will be disclosing, in the appropriate financial report, increasingly more detailed qualitative and quantitative information, such as:

- status of transition, including significant milestones and anticipated timelines
- significant implementation matters still to be addressed
- expected changes in accounting policies

- revenue streams and reportable segments that are expected to be most significantly affected
- expected directional impact (e.g., increase or decrease) on relevant financial statement line items
- expected quantitative impact (either as estimated dollar amount or estimated dollar range) on relevant financial statement line items
- potential implications on internal controls over financial reporting, data systems, information technology, as well as financing and compensation arrangements
- potential effects on business practices (e.g., sales, contracting).

The above is not an exhaustive list and other information may be relevant to disclose.

Summary of quarterly results and selected annual results required by NI 51-102F1

Section 1.5 *Summary of Quarterly Results* of NI 51-102F1 dictates specific line items (derived from a reporting issuer's financial statements) to be disclosed and discussed in the MD&A for the eight most recently completed quarters. Total revenue is one of the required items to be disclosed and discussed.

IFRS 15 must be applied retrospectively. With regard to comparative periods, reporting issuers have the option of either applying IFRS 15 on a full retrospective basis or on a modified retrospective basis.

Reporting issuers should carefully consider the needs of investors and other users of the financial statements when selecting a transition method. Regardless of the transition method selected, the MD&A should clearly indicate which quarterly information has (or has not) been restated to reflect the adoption of IFRS 15.

Full retrospective

For reporting issuers that choose to apply IFRS 15 on a full retrospective basis, the summary of quarterly information in the Q1 2018 MD&A must present quarterly information for Q1 2017 that has been restated to reflect the adoption of IFRS 15, consistent with the Q1 2017 comparative information presented in the Q1 2018 quarterly financial statements.

In order to facilitate readers' understanding of variations and assessment of quarterly trends, we also encourage reporting issuers to present in its Q1 2018 MD&A restated quarterly information for Q2 2017, Q3 2017, and Q4 2017. At the minimum, as information is presented in the financial statements, the associated quarterly information in the MD&A should be updated. For example, in Q2 2018, the MD&A should include restated quarterly information for at least Q1 2017 and Q2 2017.

In the summary of quarterly results included in the MD&A, we would not object if a reporting issuer chose not to restate quarterly periods that ended prior to the last comparative period presented in the financial statements.

Modified retrospective

Under the modified retrospective method, reporting issuers will apply IFRS 15 to only the most current period presented in the financial statements (e.g., 2018) without restating prior period comparatives (e.g., 2017).

Section 1.5 *Summary of Quarterly Results* of NI 51-102F1 requires information to be derived from the financial statements and therefore we would expect quarterly information for periods in 2018 to reflect the adoption of IFRS 15 and quarterly information for prior periods to be consistent with what has been previously presented.

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