IAS 10: Reissuing Financial Statements in Connection with an Offering Document

Excerpt, IFRS Discussion Group Report on Meeting – January 12, 2012

An entity involved in the issuance of its securities is required by securities legislation to provide financial and non-financial information to investors through various types of securities offering documents, including prospectuses, private placement offering memoranda, issuer bid circulars and information circulars. In practice in Canada and the United States, an entity may need to revise its previously issued annual financial statements in connection with an offering document. Also, the entity's auditor needs to provide consent to the inclusion or incorporation by reference of its audit report on the annual audited financial statements in that offering document.

Current practice in Canada and the United States typically results in the Company revising its previously issued annual financial statements to reflect a change in reportable segments, a discontinued operation, or a retroactive change in accounting policy on a basis that is comparable to its most recently filed interim financial statements. Generally, no other type of subsequent event triggers the reissuance of the previously issued annual financial statements. In the past, an auditor would "double date" the audit report to communicate that the audit work was extended only to audit the effects of the subsequent event that triggered the reissuance. This approach is based on the guidance in Section 7110 of the CICA Handbook – Assurance, *Auditor Involvement with Offering Documents of Public and Private Entities*.

The issue considered by the Group was how subsequent events should be reflected in financial statements prepared in accordance with IFRSs that are reissued in connection with securities offering documents filed in Canada or the United States.

Fact Pattern:

Company A's facts are as follows:

December 31, 2011	Year end
February 15, 2012	2011 audited financial statements under IFRSs filed with regulator
March 15, 2012	Operation discontinued (qualifies as discontinued operation)
March 16, 2012	Company receives final tax assessment for prior years from the Canada Revenue Agency that results in a material charge in first quarter profit or loss
March 31, 2012	First quarter end
April 15, 2012	Files first quarter interim financial statements (reflects the discontinued operation and the tax charge)

Source: www.frascanada.ca/ifrs-discussion-group

May 30, 2012	Files prospectus in Canada and the United States and reissues annual financial statements for the 2011 year end to reflect the discontinued operation

Upon reissuance of the annual audited financial statements for inclusion in a prospectus offering, does Company A need to restate its 2011 annual financial statements for subsequent events other than the discontinued operation (namely, the settlement of the final tax assessment related to prior years), which occurred subsequent to the original date the financial statements were authorized for issue (date of authorization)?

View A – Refiled financial statements are not reopened for subsequent events other than a change in reportable segments, a discontinued operation, or a retroactive change in accounting policy

IAS 10 *Events after the Reporting Period* does not explicitly provide guidance on reissuance of financial statements (and specifically in the context of preparing financial statements for inclusion or incorporation by reference in offering documents). Therefore, other applicable frameworks and guidance should be considered, including the specific guidance contained in US literature on reissuance, which is very similar to current Canadian auditing literature and regulatory practice.

View B – Refiled financial statements are reopened for all subsequent events

Since IAS 10 requires a single date of authorization, all adjusting subsequent events through to that date of authorization are required to be adjusted regardless of whether any interim financial statements reflecting such subsequent events have been published. The reissuance prompts the company to update the original date of authorization, which requires that management consider all events occurring up to the revised date of authorization in the preparation of the financial statements.

The Group's Discussion

Group members noted that the issue arises, in part, because of the interaction between the requirements in IAS 10 and Canadian securities law. However, Group members observed that IAS 10 is silent on reissuances. Group members observed that in many jurisdictions an entity is not permitted by law to reissue financial statements and, as a result, IAS 10 was likely not written in the context of reissuing financial statements in connection with an offering document in a North American environment.

Although several Group members noted that it is difficult to support View A based on IAS 10, they expressed concern over the implications of adopting View B in practice in Canada. Some Group members noted that View B could have a significant negative effect in Canada, including delays in the ability to access capital markets and investor confusion due to increases in the number of financial statements that need to reissued.

Group members questioned whether other actions can be taken in Canada to mitigate this issue and provide an interim solution for Canadian entities. The Auditing and Assurance Standards Board staff indicated consideration could be given to several suggestions.

Some Group members expressed concern that these suggestions would not resolve this issue for entities in Canada and other jurisdictions that are registered with the US Securities and Exchange Commission. Some Group members observed that there is well-established practice in North American capital markets for treating subsequent events in accordance with View A. As a result, some Group members were concerned that without an accounting solution to this issue, significant diversity in practice in Canada and other jurisdictions will emerge. Group members noted that this issue is widespread when considering that the issue has implications for entities filing offering documents in Canada or the United States.

As a result, the Group recommended that the AcSB refer this issue to the IFRS Interpretations Committee. Also, Group members observed that the IASB staff has started work on reissuance in the past and directed the AcSB staff to determine the status of this work.