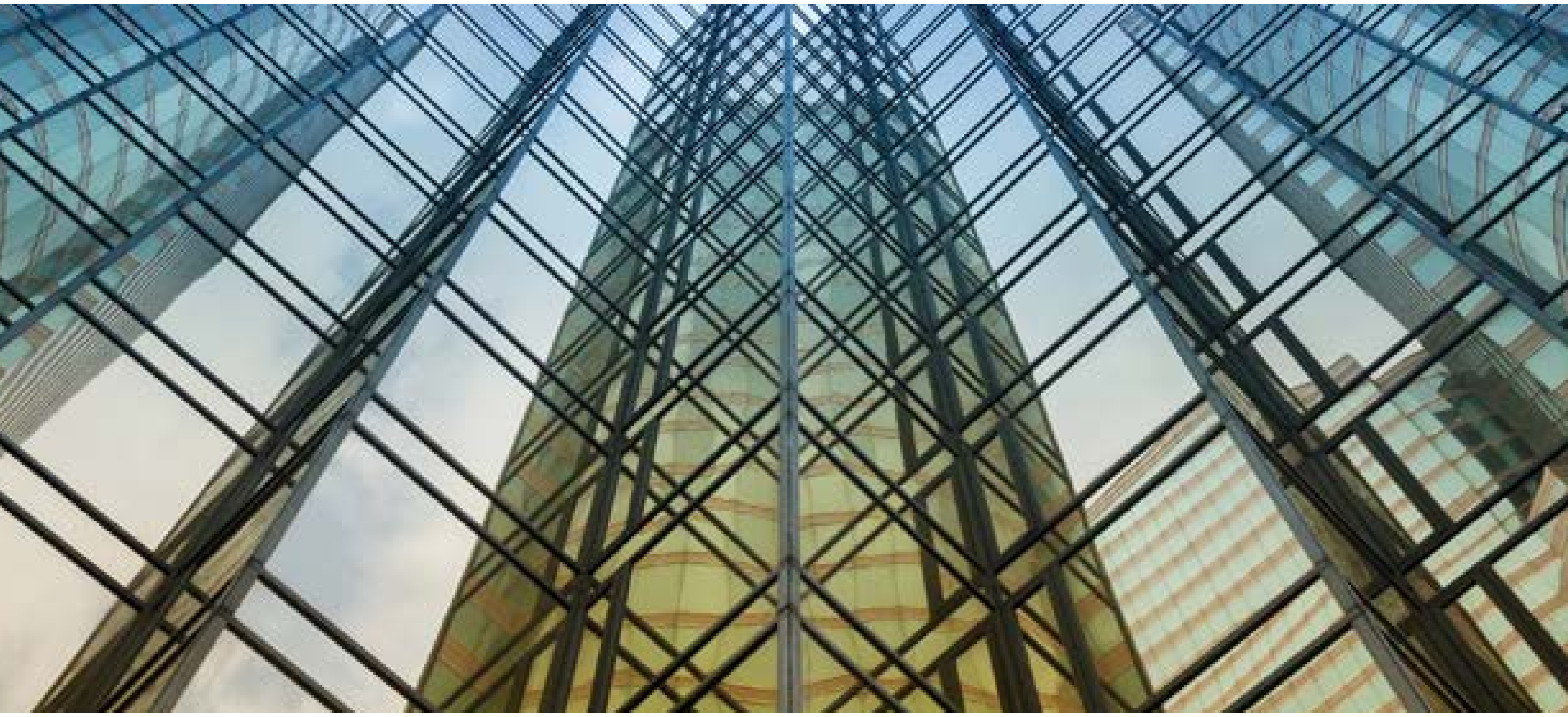
Interim Reporting Strategies



CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

CIRI Canadian Investor Relations Institute

Interim Reporting Strategies

Preface

This Discussion Brief *Interim Reporting Strategies* is a joint publication from the Chartered Professional Accountants of Canada (CPA Canada), and the Canadian Investor Relations Institute (CIRI).

Interim reporting is an important aspect of the financial reporting process. Timely and reliable interim reports improve stakeholders' ability to understand an entity's capacity to generate earnings and cash flows and its financial condition and liquidity. This Discussion Brief advocates that the choices involved in interim reporting should be regarded as a strategic matter. That is, management should consider what approach to interim reporting will maximize the credibility of and stakeholder confidence in its interim communications, including conference calls and information placed on an entity's website. As well, the brief considers how to maximize value with an outlook and discussion of progress against strategy. It also includes considerations about materiality and the interim report's review by the entity's auditor.

This Discussion Brief is based primarily on a review of 27 companies' 2012 third quarter and annual financial statements and MD&A, supplemented by discussions with analysts and research of relevant material. The sample included TSX and TSX-V listed Canadian companies having market capitalizations of $1 million to $74 billion. Our review was not intended to assess compliance with reporting requirements[1], but rather to develop observations for management and directors to consider on an ongoing basis, in their discussions about and reviews of interim reports.

1 International Accounting Standard 34 (IAS 34) prescribes the minimum content for an interim financial report (defined as a financial report containing either a complete set of financial statements or a set of condensed financial statements, as described in that Standard, for an interim period) and prescribes the principles for recognition and measurement in complete or condensed financial statements for an interim period. Form 51-102F1 of National Instrument 51-102 Continuous Disclosure Obligations (NI 51-102F1) prescribes most of the minimum contents for annual and interim Management's Discussion and Analysis (MD&A) to be filed by Canadian reporting issuers.

The material is directed primarily toward public entities reporting under International Financial Reporting Standards (IFRSs). However, aspects of the guidance may also be relevant for private entities reporting on an interim basis under Accounting Standards for Private Enterprises.

CPA Canada's involvement with the Discussion Brief has been through its Canadian Performance Reporting Board. The CPRB's mandate is to advance the measurement and reporting of organizational performance. In fulfilling its mandate, the CPRB publishes guidance documents and awareness-raising reports. CIRI is dedicated to advancing the practice of investor relations, the competency of its members, and the stature of the investor relations profession. The CPRB and CIRI mandates result in a close alignment of interests with respect to communicating financial and business information.

The material represents the views of the CPRB and CIRI, but is not authoritative. The Canadian Securities Administrators have not reviewed this material and accordingly have not provided an opinion on its appropriateness.

We hope this publication will be useful for senior management and investor relations officers.

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Approach to interim reporting

The content for interim reporting is less fully defined than that for annual reporting. Although both IFRSs and Canadian securities law contain specific requirements for the content of interim financial statements and MD&A respectively, these requirements are not as extensive as those applying to annual reporting, and leave more room for judgment. For example, entities differ greatly in the extent to which they choose to repeat aspects of the most recent annual disclosure in their interim filings, even if the information is essentially unchanged from what it previously reported.

The optimum approach to interim reporting may differ from one company to the next, for example:

Approach to updating

For a long-standing and relatively stable industrial entity, subject to largely predictable operating cycles and with well-defined relationships with its investors, the emphasis may be on updating rather than on repetition, on highlighting matters that may have differed from investors' expectations, and on reporting against established key performance indicators.

In contrast, an entity in the development stage, and still working on establishing credibility and relationships with investors, might detect greater value in reporting in detail each period on specific areas crucial to its success, even if this entails some degree of repetition from previous reporting.

Periods to be reported on

Income statement

IFRSs and securities regulations require providing a statement of profit or loss and other comprehensive income for the current interim period and cumulatively for the current financial year to date, with comparatives for the corresponding periods in the preceding year. For an established entity, perhaps subject to recurring seasonal impacts, this information may provide a sufficient perspective on performance for the current year.

In contrast, an entity in the development stage, or in a volatile environment, might choose to supplement this required information by also comparing key performance measures for the current quarter—such as the amount of development expense, or key liquidity ratios—against the *immediately preceding* period. This might be particularly useful, for instance, where the entity's success depends on a single active project, and expenditures on that project necessarily occur unevenly, or where the entity is experiencing major changes (positive or negative) in some of those key measures.

Such ideas need not be implemented on an "all or nothing" basis. For example, an established entity might provide a period-by-period perspective for a new and evolving operating segment, without doing so for other aspects of its operations.

Cash flow statement

Choices also exist with respect to the statement of cash flows. IFRSs and securities regulations require that an interim financial report include a statement of cash flows cumulatively for the current financial year to date, and for the corresponding cumulative comparative period, but do not require providing a statement of cash flows for the current quarter. However, some entities should also strongly consider providing a statement of cash flows for the current and comparative quarter. This might provide important information, for instance, where investors are particularly focused on the stability of the entity's operating cash flows, or where the income statement does not easily reconcile to the cash flow statement.

Fourth quarter

IFRSs do not require reporting separately on the fourth quarter, and NI 51-102F1 does not require issuing a separate fourth-quarter MD&A. It requires providing summarized information on the fourth quarter in the annual MD&A as part of a summary of quarterly results, and also requires discussing and analyzing fourth quarter events or items that affected financial condition, financial performance or cash flows, year-end and other adjustments, seasonal aspects of the business and dispositions of business segments. In many cases, this means in practice that the fourth quarter results are not explained as fully and clearly as those for other quarters. Entities should consider the benefits of issuing separate fourth-quarter financial reports, or else of increasing the prominence and completeness of fourth-quarter information in the annual

MD&A. This might be particularly valuable to investors in some of the same situations highlighted above, or for instance when the entity's operations are subject to heavy seasonality, typically experiencing a peak of activity toward the end of the year.

Below we provide an extract of quarterly comparisons from the Catalyst Paper 2012 third quarter report. Catalyst chooses to compare the current quarter with the prior quarter and/or with the same quarter in the prior period.

Sales

Q3 2012 vs. Q2 2012

Sales revenues remained flat, with higher paper and pulp sales volumes, and higher average transaction prices for newsprint and lightweight coated being offset by the negative impact of a stronger Canadian dollar, and lower transaction prices for pulp.

Q3 2012 vs. Q3 2011

Sales revenues decreased by 9.1% due to lower sales volumes for pulp, directory paper and uncoated mechanical, and lower average transaction prices in the current quarter for newsprint, lightweight coated, uncoated mechanical and pulp. These factors were partially offset by the positive impact of a weaker Canadian dollar, higher sales volumes for newsprint and lightweight coated, and higher average transaction prices for directory paper.

2012 YTD vs. 2011 YTD

Sales revenues decreased by 1.2% due to lower sales volumes for directory paper, and lower average transaction prices for newsprint, lightweight coated and pulp. This was partially offset by the positive impact of a weaker Canadian dollar, higher sales volumes for newsprint, lightweight coated, uncoated mechanical and pulp, and higher average transaction prices for directory paper and uncoated mechanical.

Timeliness of reporting

Interim reports are required to be filed sooner after the end of the reporting period than annual reports. For investors in some entities, this inherently greater timeliness may often make the interim reports more valuable than the annual reports. For some investors for instance, the fact that interim reports provide a fairly prompt update on strategy and objectives may outweigh their relative lack of detail in other areas. For other entities, such as those with a very low volume of operations, the interim reports may only tend to confirm previously disclosed information without adding significant additional value. The level of investors' interest in an entity's interim reports might affect the resources allocated by the entity to the interim reporting process – for example, in determining whether to make the investment necessary to issue its interim reports sooner after the end of the reporting period, or to enhance other materials provided to investors at interim periods. This may contribute more broadly to the perceived transparency and reliability of the entity's reporting environment.

A strategic determination

We believe management should regard the kinds of choices summarized above as a *strategic* matter. In our view, an entity's interim reporting is most effective when it is based in and responds to a specific understanding of its stakeholders' needs. These needs vary between entities, in line with variations in their objectives and strategies. In all cases, management should consider what approach to interim reporting will maximize the credibility of and stakeholder confidence in its interim communications.

This strategic assessment should not be confined to the interim financial statements and MD&A alone, but should encompass all aspects of non-annual reporting to stakeholders. For instance:

Conference calls

Entities employ different approaches to the quarterly earnings conference call. Some entities may not hold such a call at all, or may communicate little more during the call than the contents of the earnings release; others may provide a broader range of information (while remaining alert to regulatory prohibitions on selective disclosure and related matters[2]). An entity's approach to the conference call intertwines with its policy on communicating individually with analysts.

Confidentiality

As a related matter, entities have different degrees of concern about the confidentiality of certain key information. To take one of countless possible examples, one entity may in its MD&A break down and discuss cost of sales and gross margin between operating segments or key product lines; a comparable entity may perceive competitive harm to providing such information, and resist this disclosure (while ensuring, presumably, that it has adequately addressed the basic requirements of NI 51-102F1).

Supplementary information

Some entities might choose to supplement their quarterly filings with other material available on the corporate website. This might constitute more information about the quarter's performance (such as presentations or supplementary data) and/or about shorter periods – companies might for instance choose to provide some level of sales data more often than quarterly. Again, in providing such supplementary information, companies need to remain alert to regulatory prohibitions and guidance.

2 CSA National Policy 51-201 Disclosure Standards provides guidance on "best disclosure" practices relating to selective disclosure and related matters.

Companies have a considerable range of choices in how they approach these matters. The optimum disclosure practices for a particular company may depend on its stage of development, on expectations forged by its main competitors (in Canada or internationally), on the particular demands of its stakeholders, or on a range of other matters. However a particular company's management chooses to strike the balance in its specific circumstances, we believe its overall communication practices will be most effective when they are developed and implemented within a well-articulated policy framework for disclosure, actively monitored by a disclosure committee (or at least, for smaller entities, a formal review process involving senior management), reviewed & approved by an appropriate body (generally the board of directors), and modified when necessary to respond to changing circumstances.

We also believe an entity's disclosures will generally be most effective when users at least have sufficient information to understand the approach taken, in particular when an entity chooses to disclose less information than might be expected by reference to its peers. Users should be able to understand the strategic assessment underlying an entity's disclosure philosophy, and should have confidence that this is based on a sound balancing of all relevant factors, subject to ongoing review and reassessment.

Maximizing value

As in annual financial reporting, an interim MD&A can provide significant additional value, not least by allowing management an opportunity to provide its perspective on the events and transactions reported in the financial statements. In our review of interim MD&A we noticed various recurring weaknesses, flowing in particular from insufficiently detailed information, whether about the reasons for changes in financial performance, about liquidity challenges or other risks, about operations on a segmented basis, or other matters. Analysts also commented on these kinds of deficiencies during our conversations with them, and Canadian securities regulators have made similar comments many times in the past.

Some of the aspects of interim MD&A that appear to be among the most useful to readers are not strictly required for purposes of regulatory compliance, for example:

Outlook

We believe users often place great emphasis on a transparent and well-articulated "outlook" section, summarizing management's expectations for the foreseeable future, in a way that relates to and grows out of the information provided elsewhere in the MD&A. Although NI51-102F1 refers at several points to the importance of assisting readers in forming expectations about the future (for example, stating that an MD&A should include "information about the quality, and potential variability, of your company's profit or loss and cash flow, to assist investors in determining if past performance is indicative of future performance"), it does not specifically require such an outlook section.[3]

Some issuers provide an outlook section in the annual MD&A, but either do not address the subject in their interim MD&A, or else do not update the section comprehensively (perhaps merely stating that there are no major changes from what was previously disclosed, or making a general assertion of optimism). This can undermine the usefulness of the interim report, particularly for example when the company is at a volatile state of development, or is operating in markets where expectations can quickly change. We believe an appropriately detailed, well-balanced outlook section would often enhance the quality of interim MD&A.

3 NI51-102 does however address forward-looking information more broadly, requiring that a reporting issuer must not disclose forward-looking information unless it has a reasonable basis for the forward-looking information, and setting out the disclosures to accompany such information.

Below we include an example from Nordion's 2012 third quarter MD&A of how it updated its outlook in the third quarter:

2012 financial outlook - update

We continue to expect our top three products (TheraSphere, Co-60, and Mo-99) to contribute approximately 80% of revenues and greater than 90% of segment gross margins. In our Q2 2012 MD&A, we disclosed the revenues and drivers that had changed from our previously published 2012 financial outlook. We continue to expect overall revenue and gross margin for fiscal 2012 to be lower than fiscal 2011.

Targeted Therapies

As discussed in the "Recent business and corporate developments" section of this MD&A, the rate of TheraSphere revenue growth was impacted during 2012 due to several large accounts experiencing resource availability issues. We continue to expect our fiscal 2012 TheraSphere revenue growth to be approximately 15% higher than fiscal 2011. While this revenue growth is lower compared to that in fiscal 2011, we believe that TheraSphere remains a solid platform for Nordion's long-term growth strategy of creating significant value by building a leadership position in the emerging Interventional Oncology market.

Sterilization Technologies

We continue to expect Sterilization Technologies revenue to be approximately 10% lower in fiscal 2012 compared to 2011. This decrease is primarily due to the shipment of two large production irradiators in 2011, whereas we do not expect to ship any production irradiators in 2012.

We continue to expect a similar level of Co-60 revenue compared to 2011. Similar to the 2011 profile, Co-60 revenue is expected to be significantly higher in the second half of 2012 compared with the first half. As disclosed in our Q2 2012 MD&A, our Co-60 shipments in Q3 2012 exceeded our total shipments for the first half of 2012.

Primarily due to Co-60 pricing, we continue to expect overall segment gross margin to be slightly lower in 2012 compared to 2011.

Medical Isotopes

On May 16, 2012, our primary supplier of medical isotopes, AECL, reported that the NRU reactor at Chalk River, Ontario, returned to service from its planned maintenance shutdown, which lasted 31 days. The impact of the one month shutdown, which began April 15, resulted in an interruption in the supply of medical isotopes, primarily Mo-99, during Q2 and Q3 2012. For Q4 2012, we continue to expect Reactor revenue to be approximately the same as Q1 2012, including one-time Reactor revenue expected in Q4 2012.

For the full year 2012, we continue to expect Reactor isotopes revenue to decline by between 10% and 12% compared to 2011 primarily due to the pricing adjustments experienced during the first quarter of 2011 and lower than expected volume in 2012 partly due to the unplanned NRU supply interruptions during Q2 2012.

As disclosed in our Q2 2012 MD&A, Bracco Diagnostics Inc. (Bracco) is currently investigating a variation of measurements in the field with respect to Strontium-82 (Sr-82) that we supplied. Accordingly, we do not currently expect to realize revenue from Sr-82 during Q4 2012, which generated approximately $2 million in revenue in Q3 2012.

Progress against strategy

Similarly, we believe an effective MD&A usually meticulously addresses the issuer's major objectives, the key strategies through which it plans to achieve those objectives, and progress against those objectives. Many issuers do not provide this content, however, even in their annual MD&A; or if they do so, they do not systematically update this material in the interim MD&A. This absence may only leave readers with unanswered questions, particularly again when circumstances create a higher likelihood that strategies would have changed, or that progress is no longer consistent with what was previously disclosed. An interim MD&A will often benefit from addressing this area more thoroughly.

PotashCorp Strategy

We believe that our ability to deliver superior long-term financial returns is the cornerstone of establishing enduring value for all stakeholders. Strong financial performance rewards our shareholders and, at the same time, allows us to focus on our broader social and environmental responsibilities and contribute to the long-term prosperity of our customers, employees, suppliers and communities.

We devise strategies and set priorities in each of our nutrient segments that align with our company-wide goals, focusing on the areas that may best support these goals. While each of our nutrients is important to our success, we believe our unique leverage in potash provides the greatest opportunity for growth in the years ahead.

Our strategic approach in potash is to build on our position whenever value-enhancing opportunities arise and match production to market demand (to reduce downside risk and conserve the long-term value of our potash resources). Our strategic approach in phosphate is to optimize product mix (to maximize gross margin and reduce volatility) and focus on environmental initiatives that preserve habitat and promote natural biodiversity in surrounding areas (in order to support the long-term viability of our operations). Our strategic approach in nitrogen is to enhance gross margin and earnings stability by being a lower delivered cost supplier to the large US nitrogen market, supplemented with an emphasis on sales to industrial customers that value long-term secure supply, and to focus on initiatives to improve energy efficiency.

We seek to be the preferred supplier to high-volume, high-margin customers with the lowest credit risk. It is critical to our success that our customers recognize our ability to create value for them based on the price they pay for our products.

As we plan for our future, we carefully weigh our choices for use of our cash flow. We base investment decisions on cash flow return materially exceeding cost of capital, evaluating the best prospects for return on investment that match our strategy. Most of our recent capital expenditures have gone to investments to expand our own potash capacity; however, we also look to increase our existing offshore potash investments and seek other merger and acquisition opportunities related to this nutrient. In addition, we consider share repurchases and increased dividends as ways to maximize shareholder value over the long term.

Key Performance Drivers — Performance Compared to Goals

In all areas of our business, we set goals and design strategies that focus on delivering sustainable value while appropriately balancing stakeholder interests. We demonstrate our accountability by tracking and reporting our progress against targets related to each goal. Our long-term goals and 2012 targets are set out on pages 31 to 42 of our 2011 Annual Report. A summary of our progress against selected goals and representative annual targets is set out below.

Goal	Representative 2012 Annual Target	Performance to September 30, 2012
Create superior long-term shareholder value.	Exceed total shareholder return performance for our sector and the DAXglobal Agribusiness Index.	PotashCorp's total shareholder return was 6 percent in the first nine months of 2012 compared to our sector's weighted average return (based on market capitalization) of 23 percent and the DAXglobal Agribusiness Index weighted average return (based on market capitalization) of 10 percent.
Be the supplier of choice to the markets we serve.	Reduce the number of product tonnes involved in customer complaints below the prior three-year average.	For the first nine months of 2012, product tonnes involved in customer complaints fell 43 percent compared to the average for the first nine months of the prior three years.
Attract and retain talented, motivated and productive employees who are committed to our long-term goals.	Maintain an annual employee turnover rate (excluding retirements) of 5 percent or less.	Employee turnover rate (excluding retirements) on an annualized basis for the first nine months of 2012 was 6 percent, up from 4 percent in the second quarter of 2012, due mainly to a workforce reduction at Aurora.
Achieve no harm to people.	Achieve zero life-altering injuries at our sites.	Sadly, we had a fatality at our Allan potash facility during the second quarter of 2012.
	Reduce total site severity injury rate by 35 percent from 2008 levels by the end of 2012.	Total site severity injury rate was 46 percent below the 2008 annual level for the first nine months of 2012. It was 42 percent below the 2008 annual level for the first nine months of 2011 and 44 percent below the 2008 annual level by the end of 2011.
	Reduce total site recordable injury rate to 1.30 (per 200,000 hours worked) or lower.	During the first nine months of 2012, total site recordable injury rate was 1.29.
Achieve no damage to the environment.	Reduce total reportable incidents (releases, permit excursions and spills) by 10 percent from 2011 levels.	Annualized total reportable incidents were up 71 percent during the first nine months of 2012 compared to 2011 annual levels. Compared to the first nine months of 2011, total reportable incidents were up 64 percent.

Source : PotashCorp 2012 third quarter MD&A

Supplementary performance measures

Many users place much of their emphasis on measures other than those drawn directly from the financial statements. These measures may be specific to a particular industry group ("funds from operations"), or to the company itself; they may carry a familiar label ("EBITDA"; "Interest coverage") but without any assurance that the underlying calculation is consistent with that of other entities reporting apparently similar measures. Of course, these matters are not at all new, and have been addressed many times by regulators and others; most issuers are familiar with the disclosures that should accompany such measures, to meet the expectations of regulators. However, opportunities remain for many issuers to bring greater clarity to some aspects of such disclosures. For example, where industry practice generally applies a particular definition of a particular measure, issuers might consider highlighting when their own calculation departs from that definition, and explain the nature and reasons for the difference. Such disclosures would be as valuable in interim as in annual MD&A.

Considering materiality

The concept of materiality as it applies to interim reporting is not fundamentally different from that applying to annual reporting — in each case, IFRSs define an item as being material if its omission or misstatement could influence the economic decisions of users of the financial statements[4]. However, interim reporting introduces different quantitative and qualitative challenges in applying this concept.

For purposes of this report, we only considered one particular aspect of materiality: the determination of what information must be disclosed in the notes. Many companies knowingly provide more disclosure in the notes to their interim financial reports, at least in certain respects, than is strictly required under IAS 34. For example, they might describe accounting policies that are unchanged since the most recent annual report, or repeat previously-provided details about issuances of share capital and stock options. In some cases, management may find it easier to repeat such information in the interim report than to focus on identifying what constitutes a significant update, or may think there is some value in generating an interim financial report that reduces the need for readers to refer back to the most recent annual report. However, this approach often makes it less easy for users to identify the items of information that constitute significant updates to what was previously reported, and also makes it more difficult to identify which notes to the most recent annual financial report have not been updated.

4 At the time of writing, the International Accounting Standards Board (IASB) is actively studying and commenting on ways of promoting improvements in financial reporting. Although its focus is primarily on annual reporting, many of the points raised in its communications to date are also applicable in concept to interim reporting. For illustration, a recent speech by IASB Chair Hans Hoogervorst included the following as possible areas that, if clarified, might lead to "tangible results in the short run":

- "the materiality principle does not only mean that material items should be included, but also that it can be better to exclude nonmaterial disclosures. Too much detail can make the material information more difficult to understand — so companies should proactively reduce the clutter! In other words, less is often more."
- "a materiality assessment applies to the whole of the financial statements, including the notes. Many think that items that do not make it onto the face of primary financial statements as a line item need to be disclosed in the notes, just to be sure. We will have to make clear that this is not the case. If an item is not material, it does not need to be disclosed anywhere at all in the financial statements.
- "if a Standard is relevant to the financial statements of an entity, it does not automatically follow that every disclosure requirement in that Standard will provide material information. Instead, each disclosure will have to be judged individually for materiality."

Even so, based on the interviews we conducted in developing this report, analysts do not consistently believe the volume of interim reporting by Canadian entities is excessive. This does not necessarily indicate that they claim to obtain value from all the information provided. Some analysts comment that they are practiced in surveying the entire body of material and in focusing on matters of interest while discarding the rest; others comment that it provides some sense of comfort to receive disclosure in excess of what they require, even if they never practically need to draw on the additional information.

Below CGI provides an update on a material acquisition completed in the current quarter in its 2012 third quarter MD&A.

2.1.1. Acquisition of Logica plc

On August 20, 2012, CGI completed its acquisition of Logica for 105 pence ($1.63) per ordinary share which is equivalent to a total purchase price of $2.7 billion plus the assumption of Logica's net debt of $0.9 billion. Subsequent to August 20, 2012, our results incorporated the operations of Logica.

Based on the impact of the issuance of the new debt and equity and the realization of some of the planned synergies, the transaction was expected to be accretive in the range of 25% to 30% in the first 12 months to CGI's earnings per share excluding acquisition-related and integration costs. As announced last quarter, the company decided to stretch its integration goals increasing the annual savings target from $300 million to $375 million per year. The additional investment being undertaken will drive long-term savings and additional EPS accretion. The one-time cost to accomplish the expanded plan has been increased from $400 million to $525 million; and the company expects to successfully complete the program by the end of fiscal 2014, a year earlier than planned.

CGI incurred $53.5 million in integration costs during the current quarter and $543.3 million in acquisition-related and integration costs since May 31, 2012. Of this $543.3 million, $398.0 million were integration costs. Integration costs include the cost of transforming Logica's operations to the CGI operating model. The acquisition-related costs consist mainly of professional fees incurred for the acquisition. During the quarter the company disbursed approximately $92 million in regards to integration costs and has a remaining provision of nearly $126 million as at June 30, 2013.

Since the date of acquisition, the Company has disbursed approximately $429 million on account of acquisition-related and integration costs. Cash flow from operating activities for the last twelve months was $614.2 million and would have exceeded a billion dollars before acquisition-related and integration costs disbursements, or more than $3.30 per diluted share.

Consistent with our comments above, we believe the assessment of how to apply concepts of materiality to this aspect of interim reporting, given the range of available views and perspectives, should be regarded in part as a strategic one. Whether a particular item of disclosure is material in the context of an interim report – in that its omission or misstatement could influence the economic decisions of users of those financial statements – depends, in large part, on the expectations of users, which flow from the company's state of development, its previous communications, and many other matters. Although the task of complying with IFRSs and with securities law is not necessarily the same thing as generating effective communication, we believe both objectives will be more fully and effectively met when they are approached as related elements within a unified disclosure strategy.

Review by auditors

The Companion Policy to NI51-102 states that the board of directors of a reporting issuer, in discharging its responsibilities for ensuring the reliability of an interim financial report, should consider engaging an external auditor to carry out a review of the interim financial report. However, NI51-102 does not require that an issuer disclose when an auditor has performed a review and provided an unqualified communication; rather, it only requires disclosure if an auditor has *not* performed a review of the interim financial report, or if an auditor was unable to complete a review and why, or if the auditor has performed a review and expressed a reservation in its interim review report. The large majority of issuers on which we based this report did not make any disclosure on the subject, and so had presumably engaged their auditor to carry out a review, which was completed without expressing a reservation. Although issuers could theoretically engage their auditors to audit their interim financial report, we did not identify any examples of this being done in practice.

Some researchers have found that the volatility of quarterly net income is lower in the first three quarters than in the fourth quarter, suggesting in some cases the possibility of earnings management and/or of insufficient care. The potential incremental benefits of engaging the auditor to carry out a review of an interim financial report include a reduced likelihood that material issues will arise only after the end of the year, to be reflected either in fourth-quarter adjustments or in retrospective adjustments, and a corresponding increase in confidence on the part of stakeholders. The benefits for some smaller issuers may be less certain, however, when the accounting issues are relatively simpler and investors perhaps place less emphasis on the entity's formal interim reporting than on its news releases or technical reports or other aspects of its disclosure. The decision not to engage an auditor for this purpose should be considered as an application of the entity's overall philosophy and strategy toward identifying and mitigating risks.

Conclusion — an ongoing assessment

In this report we have attempted to acknowledge the choices that exist with regard to interim financial reporting, and to recognize that the appropriate choices may differ between different entities. Further, the optimum choices may change as the entity itself changes: for example, as an entity moves from the development stage into greater operating stability. Alternatively, the needs and interests of investors may evolve over time, for example because of changes in the shareholder base, or as an entity becomes subject to greater coverage by analysts.

It follows that the board and management should continue to review the effectiveness of an entity's interim reporting practices, and initiate changes whenever required. Such changes should be balanced against stakeholders' interests in comparability and consistency of financial reporting. Whenever an entity's major objectives or strategies change, the assessment of consequences should include the potential consequences for disclosure policies and procedures, both for interim reporting and more generally.

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