

Securities Alert

OSC Guidance on Environmental Disclosure

March 2008

When preparing financial statements, MD&A and AIFs, issuers should consider whether their environmental disclosure meets the guidelines provided in a staff notice recently issued by the Ontario Securities Commission.

OSC Staff Notice 51-716 *Environmental Reporting* was issued following a targeted review of 35 issuers (22 TSX and 13 TSX Venture Exchange) engaged in the environmental services, industrial products, mining, oil and gas, steel, transportation services and utilities businesses. The OSC found the environmental reporting to be deficient in many instances, often because the disclosure was boilerplate in nature and did not contain quantification of estimates.

The following is a brief summary of the principal comments of the OSC contained in the notice:

- In order to meet the obligation to make disclosure of critical accounting estimates, issuers must quantify the accounting estimates of environmental liabilities where quantitative information is reasonably available and would provide material information to investors. Disclosure should also be made of the uncertain nature of the estimates together with a detailed discussion of the estimates, including sensitivity analysis or disclosure of the upper and lower range of the estimates.
- A discussion of material contingent environmental liabilities should be included in the MD&A or AIF whether or not the liability has been accrued in the financial statements or has been disclosed in the notes to the financial statements.
- Asset retirement obligations should be recognised in financial statements once a reasonable estimate can be made. Where these obligations are material, supplemental disclosure should also be made of items such as material commitments, events or uncertainties. If asset retirement obligations are material long terms obligations, TSX listed issuers should include such obligations in the contractual obligations table in the MD&A.
- The AIF should include a quantification of the costs associated with environmental protection requirements, where reasonably available, and the impact or potential impact of these costs on financial and operational results.
- When discussing environmental policies fundamental to their operations, issuers should evaluate and describe the potential impact of these policies on their operations. This may include a quantification of the costs associated with such policies, where quantitative information is reasonably available and would provide meaningful information.
- If risks relating to environmental laws (in Canada or other countries) are material to an issuer, these risks should be discussed in detail, including a discussion of whether the issuer is in compliance with such laws and the cost of compliance.

In addition, the notice states that the OSC staff is of the view that meaningful discussion of material environmental matters in the MD&A or AIF is important to achieve a fair presentation of the issuers' financial condition in all material respects. This must be borne in mind in relation to the certification obligations of officers pursuant to MI 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*.

The notice also references MI 52-110 *Audit Committees* and notes that audit committee oversight of financial reporting related to material environmental matters is an important aspect of meeting its responsibilities.

Please contact any member of the Macleod Dixon LLP Securities Group if you have any questions with respect to the notice.