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Flexible reporting standards mean investors know little about when companies used emergency wage subsidies

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Canada's three major telecommunications companies took tens of millions of dollars from Canada's Emergency Wage Subsidy program. For most of the pandemic, their investors knew very little about it.

While acknowledging they were participating in CEWS during the peak of the pandemic, BCE Inc. and Telus Corp. both failed to disclose to shareholders just how much CEWS money was boosting their bottom lines.

In filing its annual report this spring, Rogers Communications Inc. finally told shareholders it participated in 2020, and that its CEWS tally was $91-million. BCE, in response to a query from The Globe and Mail, said it received $122.85-million in CEWS, but did not reveal that number in its shareholder reports. Telus, which did not answer the Globe's queries, reported $41.5-million in payments from Canada Revenue in an obscure Alberta lobbying filing.

The CEWS program, created by the federal government to help protect jobs during the COVID-19 pandemic, allowed employers to receive a 75-per-cent subsidy for payroll costs, with a significant revenue decline among the conditions for receiving it. Citing privacy restrictions protecting tax filers, Ottawa has refused to release a full accounting of CEWS subsidies paid. A Globe and Mail investigation that compared the skimpy federal disclosure with multiple other databases and information sources found nearly 400 publicly traded companies that received CEWS.

Many of those companies acknowledged receiving the subsidy, but did not say how much. Some didn't acknowledge receiving CEWS at all. And that failure of disclosure shows that it's not just taxpayer advocates who aren't getting the full CEWS picture: Investors in Canada's biggest public companies have struggled to understand just how much government largesse has propped up corporate profits.

The problem is at least twofold. International Financial Reporting Standards (IFRS), the accounting rules that Canada's publicly traded companies follow, give some latitude to how government grants are reported. So one company might record the CEWS subsidy in one place in their income statement, while a different company might put the entry in another place altogether. The freedom of choice means investors cannot easily compare the financial statements of two CEWS-taking companies, even if they both disclose CEWS receipts.

But not all do. Canadian companies also have latitude in deciding what is "material," or important enough to disclose to investors. The national policy from the Canadian Securities Administrators (CSA) that governs disclosure standards notes a fact is material when it significantly affects the market price or value of a security, or would reasonably be expected to affect it. Companies that took tens of millions of dollars, and in some cases hundreds of millions of CEWS, apparently decided that failure to disclose the amount of subsidy wouldn't affect the share price, including

Suncor Energy Inc._, which received $358.2-million in CEWS in 2020, and Canadian Natural Resources Ltd._, which collected $192.6-million.

“It obscures the performance and the ability to evaluate the performance trend of the underlying business,” said **Anthony Scilipoti**, chief executive of **Veritas Investment Research**. “I have no opinion about whether they [should have] got the government grant – it’s a whole other argument. Once they got the credit, what should they be doing and others be doing to help the users of the financial statements understand what’s going on with the business?”

The portion of IFRS that governs CEWS is found in its rules on government grants. The Canadian Accounting Standards Board said in May, 2020, that companies should recognize the CEWS benefit and record it as “other income” or deduct it from employee expenses.

The Globe found, in a review of nearly 400 disclosures, that most companies took the latter approach. That meant that for at least one quarter of 2020, most companies deducted the CEWS benefit primarily from two lines of the income statement: the cost of goods sold, and the selling, general and administrative expenses.

Lower costs from the first item improved companies’ gross profit margins, which compares revenue with the costs of the products they sell. Lower costs from both items improved companies’ operating margins, which include administrative expenses and the costs of depreciating equipment. The 2020 margins (both operating and gross profit) were boosted by CEWS when compared with other periods. All three major Canadian telecoms took this approach. BCE, for example, said in a footnote to its financial statements: “Costs reported in 2020 are net of [CEWS] amounts.”

Not all companies took this approach, however. Cameco Corp. ($37.3-million in CEWS), Cenovus Energy Inc. ($40-million in CEWS) and CAE Inc. ($115.7-million in worldwide governmental assistance, including CEWS) all left their expense line items untouched. They instead put the CEWS benefits at the bottom of their profit-loss statement in the “other income” line. By doing so, the companies’ profit margins reflected actual employee costs, regardless of government subsidy.

Cameco spokesman Jeff Hryhoriw said the company chose to report CEWS as a single line item within other income “because we felt this would provide for the best transparency and comparability for year-over-year comparison for our stakeholders and others following along.” CAE and Cenovus declined to comment, citing their coming earnings releases.

The CSA, an umbrella group for provincial regulators, conducted a review of COVID-19 disclosures in the Sept. 30 financial statements of 90 companies. It noted that companies are not only required to disclose their accounting policies for government grants, but also “the nature and extent of government grants recognized in the financial statements.” And many, they noted, were not doing so. Some companies “only disclosed that they have received government grants for pandemic expenses without identifying the amount received [or] naming the specific assistance program.”

The CSA said that after some of its reviews, it requested disclosure enhancements in future filings. In some cases, CSA spokeswoman Ilana Kelemen said, “communication is ongoing to resolve the identified issues.”

To date, however, CEWS amounts remain absent in securities filings – the primary communications vehicle to investors – for many major recipients.

Suncor told investors it had received CEWS, and that it adjusted certain of its financial metrics for it, but did not provide the amount in its financial statements. Instead, Suncor’s $358.2-million CEWS figure was contained in an Alberta Lobbyist Registry form in a section reserved for entities to disclose amounts received from various levels of Canadian government. The Globe also found

CEWS amounts for Canadian Natural Resources, BCE, Telus and other, smaller companies in the Alberta lobbyist forms.

“We disclosed CEWS claims as part of our securities disclosure and our financial statements and other disclosures comply with IFRS and applicable securities regulations,” Suncor spokeswoman Sneh Seetal said.

In 2020, Suncor had $20.5-billion in expenses between the two line items where CEWS would likely be found. The CEWS amount works out to about 23 cents per outstanding Suncor share; the company lost $2.83 a share in 2020, according to S&P Global Market Intelligence.

BCE spokesman Nathan Gibson said his company’s CEWS amount, which he provided in an e-mail, “was not included in BCE’s annual or quarterly financials as it is well below our internal and audit materiality based on percentage of our revenue, net earnings and other financial indicators.”

In its fiscal year ended Dec. 31, 2020, BCE had $13.3-billion in expenses between the two line items where CEWS would likely be found. The CEWS amount works out to about 13 cents per outstanding BCE share, or 5 per cent of the company’s basic earnings per share, according to S&P Global Market Intelligence.

Telus and Canadian Natural Resources did not answer The Globe’s e-mailed questions.

The CSA policy on disclosure standards, issued in 2002, said companies deciding whether something is material must “take into account a number of factors that cannot be captured in a simple bright-line [unambiguous] standard or test” and “avoid taking an overly technical approach to determining materiality.” Says the CSA: “Under volatile market conditions, apparently insignificant variances between earnings projections and actual results can have a significant impact on share price once released.”

“Materiality is a size concept,” said Allison McManus, a partner at KPMG in Canada who led much of the firm’s effort around CEWS. (KPMG audits Rogers, which disclosed, and Suncor, which didn’t. Ms. McManus declined to comment on specific clients.)

“You would think about the size of the amount, but you also think about the nature of the amount and of surrounding circumstances. So people would take into account a number of factors when they’re assessing materiality and it’s not always a linear analysis.”

These “bright-line” tests may not work in real life, according to Veritas’s **Mr. Scilipoti**. “The issue here is about the amount and how it is accounted for so that investors can assess the companies’ operating performance on an economic basis.”