THE GLOBE AND MAIL

December 12, 2018

Regulators move ahead with changes to how companies report non-GAAP results to investors

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Canadian regulators and rule makers are pushing ahead with their efforts to clean up the way companies report their numbers to investors.

The Accounting Standards Board (AcSB) of Canada will debut its framework on Wednesday for how all entities, from companies to non-profits, should use numbers that are "non-GAAP" – deviating from generally accepted accounting principles.

Meanwhile, the Canadian Securities Administrators (CSA) has collected its first round of comments from the industry on a proposal to turn its existing non-GAAP guidelines into rules, with the power of enforcement behind them.

The double-barrelled effort is designed to give investors and other readers of financial statements a better understanding of what, exactly, companies are talking about when they depart from something such as "net income," which is calculated in accordance with accounting rules, and throw out terms such as "adjusted net earnings," which has no standard definition.

To date the conversation has been dominated by the cops. The AcSB, which works on how international accounting standards get used in Canada, issued its draft framework in June to promote a conversation about better financial reporting. The CSA, seemingly frustrated by the number of companies stepping outside its guidelines, stepped up its efforts in September to make things more explicit and powerful.

Now, however, the folks who put out the financial statements will speak – and there's some concern. In a comment to the CSA, three executives from Pembina Pipeline Corp. said "there's a risk that issuers will resort to limiting disclosure now available to readers versus complying with the extensive disclosure and reconciliations. This unintended consequence may be at the detriment to the readers."

Or, as Air Canada chief financial officer Michael Rousseau told an audit-committee conference put on by CPA Canada last week: "Non-GAAP measures are not going away … From management's perspective, this is what our shareholders are asking for and what we think reflect the trends and the health of the business."

The AcSB conducted a round of discussions and surveys and took written feedback, including a lengthy response from the CSA, before revising its framework into the document released today. Linda Mezon, chair of the AcSB, said it harmonized its language with existing CSA guidance and stands prepared to make more changes once the new CSA regulations are finished. "It's complementary to securities law, but broader," she said in an interview. "We didn't want to create unnecessary noise in the marketplace."

While the United States has wrestled with the issue for some time, the non-GAAP conversation got louder in Canada in September, 2016, when The Globe and Mail published the results of a report by *Veritas Investment Research*. *Veritas* found 70 per cent of the members of the S&P/TSX 60 stock index of large public companies used some form of "non-GAAP" metric in their results – and many seemed to be violating regulatory guidance on how to report them.

Veritas has now completed its third annual look at the use of non-GAAP in Canada and found that it has declined – to where it's on par with the United States, with about 60 per cent of the members of the S&P/TSX 60 using non-GAAP numbers in regulatory filings. When all communications are considered, more than 95 per cent of TSX 60 members use some kind of non-GAAP metric to describe performance.

Veritas, which "welcome[s] the efforts to improve the financial reporting system in Canada," says the proposed new regulations have a broader scope than the U.S. Securities and Exchange Commission's "Regulation G," which covers non-GAAP in the United States. "If the provisions … become too onerous, companies may simply scale back their non-GAAP disclosures in response, which may not leave readers of the financial statements better off."