



Canadian Accounting Standards Board
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Submitted by e-mail to comment@osc.gov.on.ca and consultation-en-cours@lautorite.qc.ca

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission (New Brunswick)
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Dear Sirs,

Re: CSA Second Notice and Request for Comment: Proposed National Instrument 52-112 Non-GAAP and Other Financial Measures Disclosure

This letter is the response of the [Canadian Accounting Standards Board](http://www.frascanada.ca) (AcSB) to the Canadian Securities Administrator's (CSA) Second Notice and Request for Comment, "Proposed National Instrument 52-112 Non-GAAP and Other Financial Measures Disclosure", issued in February 2020.

Our process

As part of developing our response for these proposals, we consulted with Canadian stakeholders as well as our [IFRS® Discussion Group](#) and [User Advisory Committee](#). We considered the results of these discussions when developing this letter.

Our view

The AcSB appreciates the opportunity to comment on the revised version of the Proposed National Instrument as we support all efforts to improve the quality of financial information that Canadian investors rely on to make decisions. We commend the CSA for taking into consideration the comments received on the first version of the Proposed National Instrument to improve the application of these proposals. We continue to support the CSA's objective of ensuring investors receive appropriate disclosure without unduly increasing regulatory burden on issuers.

Interaction of these proposals with the IASB's Primary Financial Statement project

The IASB released its Exposure Draft, *General Presentation and Disclosures* (ED) in December 2019. Overall, we support the IASB's initiatives to introduce the proposals in its ED to improve global financial reporting. Furthermore, we understand that not all jurisdictions have robust non-GAAP guidance. The proposals in the IASB's ED, if approved, will change the structure and content of income statements and result in some financial performance measures being included in the notes to the financial statements. The IASB's proposal to include management performance measures (MPMs) in the financial statements is expected to give rise to uncertainty about whether such measures should be treated as a specified financial measure as defined in the CSA's Proposed National Instrument. The current definitions of MPMs in the IASB's ED and non-GAAP financial measures in the Proposed National Instrument are different. Based on our outreach with both financial statement preparers and users, the distinction between these definitions and their interaction is not clear.

The AcSB appreciates the concerns raised by Canadian stakeholders about the interaction of the CSA's and IASB's proposals and stands ready to work with stakeholders and the CSA to help clarify application challenges that may arise. We think that collaboration between the AcSB and CSA may focus on helping issuers better understand how to apply both the CSA's and IASB's proposals by clarifying the interaction between them. The AcSB will also continue to raise awareness with the IASB and encourage them to consider the interaction of their proposals with securities regulations on non-GAAP measures in jurisdictions around the world. Overall, we think that clarifying the interaction between these documents will ensure they complement each other and will enhance the quality and consistency of information provided to users.

As such, we look forward to ongoing conversations with the CSA as we work together to deliver clear guidance to Canadian stakeholders on how the Proposed National Instrument and the finalized *General Presentation and Disclosures* Standard will interact when both are effective. We think this work should start as soon as the IASB moves to finalize its proposals under the Primary Financial Statements project to ensure that we are able to respond in a timely manner to issues that Canadian stakeholders may encounter.

Effective date

We commend the CSA for taking into consideration the need for a long transition period leading up to the effective date to ease the transition burden on issuers. We agree that the CSA should consider making the instrument effective for the beginning of an annual financial reporting period to ensure consistent and comparable reporting over periods.

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Furthermore, we understand the CSA's need to finalize the Proposed National Instrument. However, we encourage the CSA to carefully consider the burden to issuers of adopting these proposals if the proposals are to be subsequently revised when the IASB finalizes its *General Presentation and Disclosures* standard. Therefore, we recommend that the CSA assess whether the costs of having issuers transition to the revised Proposed National Instrument in advance of adopting the IASB's proposals exceeds the benefits of an earlier effective date. Should the costs exceed the benefits, we encourage the CSA to consider whether aligning the effective dates of its proposals and the IASB's proposal would help reduce the regulatory burden on issuers.

Our responses to your questions

[The Appendix](#) to this letter responds to the questions posed in the **Request for Comments** and expands on the points raised above.

We also note the helpful comments set out in the Canadian Auditing and Assurance Standards Board's response to the Proposed National Instrument.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Kelly Khalilieh, Director, Accounting Standards (+1 416 204-3453 or email kkhalilieh@acsbcanada.ca) or Jayshal Daya, Principal, Accounting Standards (+1 416 204-3501 or email jrdaya@acsbcanada.ca).

Yours truly,



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About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS® Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS Standards in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Standards as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS Standards

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.

APPENDIX

AcSB Comments on the revised Proposed National Instrument 52-112

Interaction of these proposals with the IASB's Primary Financial Statement project

1. The IASB issued the Exposure Draft, *General Presentation and Disclosures* (ED) in December 2019 relating to its Primary Financial Statements project. The project aims to improve the relevance of information in the financial statements and is part of the IASB's plan to promote better communication in financial reporting. The proposals in the ED, if approved, will change the structure and content of income statements and result in some financial performance measures being included in the notes to the financial statements.
2. The IASB's proposal to include management performance measures (MPMs) in the financial statements is expected to give rise to uncertainty about whether such measures should be treated as a specified financial measure as defined in the CSA's Proposed National Instrument. The current definitions of MPMs in the IASB's ED and non-GAAP financial measures in the Proposed National Instrument are different. Based on our outreach with both financial statement preparers and users, the distinction between these definitions and their interaction is not clear. For example, adjusted EBITDA, which currently meets the definition of a non-GAAP financial measure, may also meet the criteria for an MPM and be included in the financial statements. Thus, this measure may no longer continue to be non-GAAP as a result of it being included in an issuer's financial statements as an MPM. We think the CSA should explicitly state whether financial performance measures included in an issuer's financial statements would be subject to the Proposed National Instrument. This could reduce the need for future revisions to the CSA's Proposed National Instrument should the IASB make further amendments to IFRS® Standards that affect financial performance measures reported in an issuer's financial statements.
3. Further, the lack of consistency in the definition of unusual items under both the IASB's and CSA's proposals may lead to some financial measures being calculated differently under each of the respective proposals. We are concerned that these challenges would unintentionally increase the overall regulatory burden placed on issuers.
4. The AcSB appreciates the concerns raised by Canadian stakeholders about the interaction of the CSA's and IASB's proposals and stands ready to work with the CSA to help clarify application challenges that may arise. We think that collaboration between the AcSB and the CSA, as the AcSB continues its outreach on the IASB proposals, may focus on helping issuers better understand how to apply both the CSA's and IASB's proposals by clarifying the interaction between them. Therefore, the AcSB will continue to raise awareness with the IASB and encourage them to consider the interaction of their proposals with securities regulations on non-GAAP measures in local jurisdictions around the world. Overall, we think that clarifying the interaction between these documents will ensure they complement each other and will enhance the quality and consistency of information provided to users.
5. As such, we look forward to an ongoing conversation with the CSA as we work together to deliver clear guidance to Canadian stakeholders on how the Proposed National Instrument and the finalized *General Presentation and Disclosures* Standard will interact when both are effective. We think this work should start as soon as the IASB moves to finalize its proposals under the Primary Financial Statements project to

ensure that we are able to respond in a timely manner to issues that Canadian stakeholders may encounter.

Illustrative examples

6. We encourage the CSA to develop illustrative examples to reflect the disclosures required by the Proposed National Instrument. These illustrative examples will help facilitate the application and comparability of disclosures provided by issuers under the Proposed National Instrument. These examples may include:
 - a. disclosures required for each of the specified financial measures as defined in the Proposed National Instrument;
 - b. disclosures where a non-GAAP financial measure is presented with no more prominence in the document than that of the most comparable financial measure; and
 - c. illustrating how an issuer may incorporate by reference the information required under provisions 5.1(a)-(e) and the disclosures that should accompany such information.

Incorporating information by reference

7. We welcome the CSA's proposal to permit the incorporation of information required under the provisions of the Proposed National Instrument by reference to the MD&A of the issuer. We agree that this will help reduce the disclosure burden on issuers and that it will be a beneficial feature of the Proposed National Instrument.
8. However, several stakeholders whom we consulted expressed concern that the CSA's Proposed National Instrument does not appear to permit information to be incorporated by reference in news releases issued or filed by the issuer. In order to avoid duplication of information already provided outside the news release, we think that the CSA should consider permitting information to be incorporated by reference in news releases issued or filed by the issuer to help further reduce the disclosure burden on all stakeholders either preparing or using financial information.