

1.1.3 CSA Staff Notice 52-306 (Revised) – Non-GAAP Financial Measures



Canadian Securities
Administrators

Autorités canadiennes
en valeurs mobilières

CSA Staff Notice 52-306 (Revised) Non-GAAP Financial Measures

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I. Purpose

The primary purpose of this notice is to provide guidance to an issuer that discloses non-GAAP financial measures. The guidance applies both to an issuer that uses International Financial Reporting Standards (IFRS) and to an issuer that uses accounting principles other than IFRS. Non-GAAP financial measures may mislead investors if they are not accompanied by the appropriate disclosure. Therefore, staff will monitor disclosure accompanying non-GAAP financial measures.

The notice also provides guidance on additional subtotals presented in the financial statements but disclosed before the financial statements are filed, and additional subtotals presented in the statement of cash flows for IFRS financial statements.

The guidance is intended to help ensure that the information disclosed does not mislead investors.

Staff cautions issuers that regulatory action may be taken if an issuer discloses information in a manner considered misleading and therefore potentially harmful to the public interest.

II. Non-GAAP Financial Measures

For the purpose of this notice, a non-GAAP financial measure is a numerical measure of an issuer's historical or future financial performance, financial position or cash flow that is not specified, defined or determined under the issuer's GAAP (as that term is defined in National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards*) and is not presented in an issuer's financial statements. A non-GAAP financial measure excludes amounts that are included in, or includes amounts that are excluded from, the most directly comparable measure specified, defined or determined under the issuer's GAAP.

Some issuers disclose non-GAAP financial measures in press releases, management's discussion and analysis, prospectus filings, websites and marketing materials.

Many non-GAAP financial measures are derived from profit or loss determined under an issuer's GAAP and, by omission of selected items, present a more positive picture of financial performance. Terms used to identify non-GAAP financial measures may include "pro forma earnings", "cash earnings", "free cash flow", "distributable cash", "Adjusted EBITDA", "adjusted earnings", and "earnings before non-recurring items". Many of these terms lack standard meanings and different issuers may use the same term to refer to different calculations.

Staff is concerned that investors may be confused or even misled by non-GAAP financial measures. Staff is also concerned about the prominence of disclosure given to non-GAAP financial measures related to earnings compared to the prominence of earnings measures specified, defined or determined under an issuer's GAAP. In staff's view, these concerns can be addressed by appropriate disclosure accompanying non-GAAP financial measures.

Some issuers disclose performance measures that are calculated without using financial measures (for example, number of units or number of subscribers). Some issuers disclose performance measures that are calculated using financial information presented in the financial statements (for example, sales per square foot, where the sales figure is extracted directly from the financial statements). In both of the preceding scenarios, such performance measures are not considered to be non-GAAP financial measures. However, if a non-GAAP financial measure is used to calculate a performance measure (such as an "adjusted earnings" financial measure used to calculate an "adjusted earnings per unit" measure), then that non-GAAP financial measure should be disclosed and Section III of this notice applies to that non-GAAP financial measure.

III. Disclosure Accompanying Non-GAAP Financial Measures

Financial statements prepared in accordance with an issuer's GAAP provide investors with a clear basis for financial analysis and comparison among issuers. Staff recognizes that non-GAAP financial measures may provide investors with additional information to assist them in understanding critical components of an issuer's financial performance. However, an issuer should not present a non-GAAP financial measure in a way that confuses or obscures the most directly comparable measure specified, defined or determined under the issuer's GAAP presented in its financial statements.

Staff reminds issuers of their responsibility to ensure that information they provide to the public is not misleading. Staff also reminds certifying officers of their obligations under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* to make certifications regarding misrepresentations, fair presentation, and disclosure controls and procedures. A

non-GAAP financial measure may be misleading if it includes positive components of the most directly comparable measure specified, defined or determined under the issuer's GAAP presented in its financial statements but omits similar negative components.

In order to ensure that a non-GAAP financial measure does not mislead investors, an issuer should:

1. state explicitly that the non-GAAP financial measure does not have any standardized meaning under the issuer's GAAP and therefore may not be comparable to similar measures presented by other issuers;
2. name the non-GAAP financial measure in a way that distinguishes it from disclosure items specified, defined or determined under an issuer's GAAP and in a way that is not misleading. For example, in presenting EBITDA as a non-GAAP financial measure, it would be misleading to exclude amounts for items other than interest, taxes, depreciation and amortization;
3. explain why the non-GAAP financial measure provides useful information to investors and the additional purposes, if any, for which management uses the non-GAAP financial measure;
4. present with equal or greater prominence to that of the non-GAAP financial measure, the most directly comparable measure specified, defined or determined under the issuer's GAAP presented in its financial statements;
5. provide a clear quantitative reconciliation from the non-GAAP financial measure to the most directly comparable measure specified, defined or determined under the issuer's GAAP and presented in its financial statements, referencing to the reconciliation when the non-GAAP financial measure first appears in the document, or in the case of content on a website, in a manner that meets this objective (for example, by providing a link to the reconciliation);
6. ensure that the non-GAAP financial measure does not describe adjustments as non-recurring, infrequent or unusual, when a similar loss or gain is reasonably likely to occur within the next two years or occurred during the prior two years; and
7. present the non-GAAP financial measure on a consistent basis from period to period; however, where an issuer changes the composition of the non-GAAP financial measure, explain the reason for the change and restate any comparative period presented.

IV. Disclosing Additional Subtotals before Filing Financial Statements

An issuer's GAAP may require the presentation of additional subtotals in the financial statements when such presentation is relevant to an understanding of the issuer's financial position or financial performance. An example of this requirement is found in paragraphs 55 and 85 of IAS 1 *Presentation of Financial Statements* (IAS 1). An issuer may choose to present these additional subtotals in a press release or some other location outside of an issuer's financial statements before filing on SEDAR its financial statements. In order to avoid any confusion about these additional subtotals, management should explain their composition. This may be accomplished by:

- including a copy of the statement that contains these additional subtotals (for example, the statement of profit or loss and other comprehensive income), or
- reconciling these additional subtotals to the most directly comparable line item specified or defined by IFRS that will be presented in financial statements (for example, profit or loss).

V. Presentation of Additional Subtotals in the Statement of Cash Flows for IFRS Financial Statements

IAS 1 includes requirements that apply to additional subtotals presented in the statement of financial position and statement of profit or loss and other comprehensive income (see paragraphs 55A, 85A and 85B of IAS 1). The practices outlined in the paragraphs noted, will also help ensure that additional subtotals presented in the statement of cash flows do not mislead investors.

In addition, if an issuer chooses to present additional subtotals from the statement of cash flows in a press release or some other location outside of an issuer's financial statements before filing on SEDAR its financial statements, then in order to avoid any confusion about these additional subtotals, management should explain their composition (as discussed in Section IV of this notice).

VI. Distributable Cash

National Policy 41-201 *Income Trusts and Other Indirect Offerings* provides additional guidance on measures of cash available for distribution.

VII. Forward-Looking Information

The contents of this notice apply equally to disclosure of forward-looking non-GAAP financial measures.

VIII. Revision and Republication

Staff updated this notice on November 9, 2010 to reflect the changeover to IFRS.

Staff updated this notice on February 17, 2012 to provide further guidance on accompanying disclosure for additional line items, headings or subtotals presented in financial statements and additional financial measures presented in notes to financial statements under IFRS.

Staff updated this notice on January 14, 2016 to reflect amendments to IAS 1 regarding additional subtotals presented in the financial statements.

IX. Questions

Please refer your questions to any of the following individuals:

Carla-Marie Hait
Chief Accountant
British Columbia Securities Commission
Phone: (604) 899-6726
E-mail: chait@bcsc.bc.ca

Anita Cyr
Associate Chief Accountant
British Columbia Securities Commission
Phone: (604) 899-6579
E-mail: acyr@bcsc.bc.ca

Lara Gaede
Chief Accountant
Alberta Securities Commission
Phone: (403) 297-4223
E-mail: lara.gaede@asc.ca

Brian Banderk
Associate Chief Accountant
Alberta Securities Commission
Phone: (403) 355-9044
E-mail: brian.banderk@asc.ca

Cameron McInnis
Chief Accountant
Ontario Securities Commission
Phone: (416) 593-3675
E-mail: cmcinnis@osc.gov.on.ca

Ritika Rohailla
Accountant
Ontario Securities Commission
Phone: (416) 595-8913
E-mail: rrohailla@osc.gov.on.ca

Hélène Marcil
Chef Comptable
Autorité des marchés financiers
Phone: (514) 395-0337 ext. 4291
Email: Hélène.marcil@lautorite.qc.ca

Josée Deslauriers,
Directrice principale de l'information continue
Autorité des marchés financiers
Phone: (514) 395-0337 ext. 4371
Email: josee.deslauriers@lautorite.qc.ca