

Canadian Securities Administrators' Staff Notice 52-306 (REVISED)

Non-GAAP Financial Measures and Additional GAAP Measures

Revision and Republication

Staff updated this notice on November 9, 2010 to reflect the changeover to International Financial Reporting Standards (IFRS).

Staff updated this notice on February 16, 2012 to provide further guidance on disclosure of additional GAAP measures presented under IFRS.

I. Purpose

This notice provides guidance to an issuer that discloses non-GAAP financial measures or additional GAAP measures, as those terms are described in this notice.

A non-GAAP financial measure is not presented in financial statements, whereas an additional GAAP measure is presented in financial statements.

The notice applies both to an issuer that uses IFRS as well as an issuer that uses accounting principles other than IFRS.

II. Non-GAAP Financial Measures

For the purpose of this staff 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 does not meet one or more of the criteria of an issuer's GAAP for presentation in financial statements, and that either:

- (i) excludes amounts that are included in the most directly comparable measure calculated and presented in accordance with the issuer's GAAP, or
- (ii) includes amounts that are excluded from the most directly comparable measure calculated and presented in accordance with the issuer's GAAP.

Non-GAAP financial measures are not presented in an issuer's financial statements.

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

Many non-GAAP financial measures are derived from profit or loss determined in accordance with an issuer's GAAP and, by omission of selected items, present a more positive picture of financial performance. A ratio such as return on assets that uses an amount for assets, profit or loss that differs from the amounts presented in the issuer's financial statements is also a non-GAAP financial measure. Terms used to identify non-GAAP financial measures may include "pro forma earnings", "cash earnings", "free cash flow", "distributable cash", "EBITDA", "adjusted earnings", and "earnings before non-recurring items". These terms generally lack standard meanings. Different issuers may use the same term to refer to different calculations or one issuer may vary its definition of a particular term from one period to another period.

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 profit or loss determined in accordance with an issuer's GAAP. In staff's view, these concerns can be addressed by appropriate disclosure accompanying non-GAAP financial measures.

III. Disclosure Accompanying Non-GAAP Financial Measures

Financial statements prepared in accordance with an issuer's GAAP provide investors with a clearly defined 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 calculated in accordance with the issuer's GAAP and 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 calculated in accordance with the issuer's GAAP and presented in its financial statements but omits similar negative components. 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.

In order to ensure that a non-GAAP financial measure does not mislead investors, an issuer should clearly define the measure and explain its relevance. As well, an issuer should present the measure on a consistent basis from period to period or explain any changes. Specifically, an issuer should:

1. state explicitly that the non-GAAP financial measure does not have any standardized meaning prescribed by the issuer's GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers;
2. present with equal or greater prominence to that of the non-GAAP financial measure, the most directly comparable measure calculated in accordance with the issuer's GAAP and presented in its financial statements;
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. provide a clear quantitative reconciliation from the non-GAAP financial measure to the most directly comparable measure calculated in accordance with 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);
5. explain any changes in the composition of the non-GAAP financial measure when compared to previously disclosed measures.

In staff's view, non-GAAP financial measures generally should 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.

IV. Additional GAAP Measures Presented under IFRS

For the purpose of this staff notice, an additional GAAP measure presented in financial statements under IFRS is:

- (i) a line item, heading or subtotal that is relevant to an understanding of the financial statements and is not a minimum line item mandated by IFRS (see IAS 1 *Presentation of Financial Statements* (IAS 1) paragraphs 55 and 85), or
- (ii) a financial measure in the notes to financial statements that is relevant to an understanding of the financial statements and is a measure not presented elsewhere in the financial statements (see IAS 1 paragraph 112(c)).

IFRS mandates certain minimum line items for financial statements and requires presentation of additional line items, headings and subtotals when such presentation is relevant to an understanding of an entity's financial position and performance. IFRS also requires the notes to financial statements to provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of them. Because IFRS requires such additional GAAP measures, they are not non-GAAP financial measures.

Similarly, IFRS permits certain financial measures such as alternative earnings per share if certain conditions are met. Because IFRS expressly permits such measures, they are not non-GAAP financial measures.

IFRS requires fair presentation, which includes the faithful representation of transactions, other events and conditions. A fair presentation also requires issuers to present financial information in a manner that is relevant, reliable, understandable, comparable and consistent period over period. An issuer should consider these requirements when determining whether and how to present additional GAAP measures.

Issuers must exercise judgement to determine whether a measure qualifies as an additional GAAP measure. As noted in section III of this notice relating to non-GAAP financial measures, issuers have a responsibility to ensure that information they provide to the public is not misleading. In addition, certifying officers have 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. The following practices will help issuers and certifying officers address these obligations in relation to additional GAAP measures:

1. name an additional GAAP measure in a way that distinguishes it from minimum disclosure items required by IFRS and is meaningful given the composition of the additional GAAP measure. For example, the name "income before the undernoted items" is generally not meaningful because "undernoted items" does not sufficiently describe the elements that are missing from "income". In addition, it does not facilitate a cross-reference to MD&A or other documents. Similarly, an unnamed subtotal is not meaningful;
2. avoid using IFRS terms within a name for an additional GAAP measure unless the IFRS meaning applies. For example, the name "profit before tax" would be appropriate only if the IFRS meaning of profit applies;
3. present an additional GAAP measure in a manner that does not confuse, obscure, or exceed the prominence of, minimum disclosure items required by IFRS on the face of financial statements or in the notes to financial statements;
4. explain in either the notes to financial statements or in corresponding MD&A why the additional GAAP measure provides useful information to investors and the purposes, if any, for which management uses the measure;
5. ensure a reader can easily determine how the additional GAAP measure is calculated in relation to minimum disclosure items required by IFRS on the face of financial statements or in the notes to financial statements;
6. present additional GAAP measures consistently over time or explain any change and the reason for the change in the notes to financial statements.

Form 51-102F1 *Management's Discussion and Analysis* discusses management's objective when preparing the MD&A, and states that the MD&A should help current and prospective investors understand what the financial statements show and do not show. Generally, in order to meet this objective, an issuer's MD&A should discuss and analyze additional GAAP measures.

EBITDA and EBIT

As discussed in section II of this notice, terms used to identify non-GAAP financial measures may include EBITDA. While EBITDA is generally a non-GAAP measure presented outside the financial statements, in some cases it may be possible for an issuer to present EBITDA as a subtotal in its statement of comprehensive income, i.e. as an additional GAAP measure. Similarly, it may be possible to present EBIT as a subtotal in the statement of comprehensive income. Consistent with practice 5 above, presenting EBIT or EBITDA as a subtotal would only be appropriate if the amounts for interest, taxes, depreciation and amortization, as applicable, are clearly identified on the statement of comprehensive income and presented below the subtotal. These amounts will not be clearly identifiable on the statement of comprehensive income if, for example, an entity classifies expenses according to their function.

Consistent with practice 1 above, it would be misleading to exclude amounts for items such as restructuring expenses, fair value changes or impairment losses in calculating EBITDA or EBIT.

Results from Operating Activities

Some issuers present a line item named “results from operating activities” or similar subtotals in their statements of comprehensive income. We remind issuers of the material on this topic in IAS 1 Basis for Conclusions, paragraph 56 which states:

“The Board recognizes that an entity may elect to disclose the results of operating activities, or a similar line item, even though this term is not defined. In such cases, the Board notes that the entity should ensure that the amount disclosed is representative of activities that would normally be regarded as “operating”. In the Board’s view, it would be misleading and would impair the comparability of financial statements if items of an operating nature were excluded from the results of operating activities, even if that had been industry practice. For example, it would be inappropriate to exclude items clearly related to operations (such as inventory write-downs and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve cash flows, such as depreciation expense and amortization expenses.”

Adjusted Statement of Comprehensive Income and Additional Columns

Staff have observed instances of issuers providing an “adjusted” statement of comprehensive income that omits certain items from the statement of comprehensive income that are required by IAS 1. IFRS and securities legislation specify the individual statements and periods for which information must be included in annual financial statements and interim financial reports. Staff is concerned that investors may be confused or even misled by presentation of an adjusted statement of comprehensive income or additional columns within the statement of comprehensive income.

V. Disclosing an Additional GAAP Measure Before Filing Financial Statements

An issuer may present an additional GAAP measure in a press release or some other location outside of an issuer’s financial statements or MD&A before filing on SEDAR its financial statements that include the additional GAAP measure. In order to avoid any confusion about the additional GAAP measure, management should describe the additional GAAP measure and explain its composition. This may be accomplished by:

- reconciling the additional GAAP measure to the most directly comparable minimum line item that will be presented in financial statements (for example, profit or loss or cash flows from operating activities), or
- including a copy of the statement that contains the additional GAAP measure (for example, the statement of financial position or the statement of comprehensive income).

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. Questions

Please refer your questions to any of the following individuals:

Louis Auger
Analyste en valeurs mobilières
Autorité des marchés financiers
Phone : (514) 395-0337 ext. 4383
E-mail : louis.auger@lautorite.qc.ca

Nicole Parent
Analyste en valeurs mobilières
Autorité des marchés financiers

Phone: (514) 395-0337 ext. 4455
E-mail: nicole.parent@lautorite.qc.ca

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

Marion Kirsh
Associate Chief Accountant
Ontario Securities Commission
Phone : (416) 593-8282
E-mail : mkirsh@osc.gov.on.ca

Mark Pinch
Senior Accountant
Ontario Securities Commission
Phone : (416) 593-8057
E-mail: mpinch@osc.gov.on.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

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

Manuele Albrino
Associate Chief Accountant
British Columbia Securities Commission
Phone: (604) 899-6641
E-mail: malbrino@bcsc.bc.ca