

# CSA UPDATES GUIDANCE ON DISCLOSURE OF NON-GAAP FINANCIAL MEASURES

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**Categories:** [Insights](#), [Publications](#)

On January 14, 2016, the Canadian Securities Administrators (CSA) updated [Staff Notice 52-306: Non-GAAP Financial Measures and Additional GAAP Measures](#) (Notice 52-306) to provide further guidance on disclosure of non-GAAP financial measures and to reflect the amendments to IAS 1 – *Presentation of Financial Statements* ([IAS 1](#)) [concerning additional subtotals presented in financial statements](#). Notice 52-306 applies to both an issuer that uses International Financial Reporting Standards (IFRS) and to an issuer that uses accounting principles other than IFRS.

## Non-GAAP Financial Measures

A "non-GAAP financial measure" assesses an issuer's historical or future financial performance, financial position or cash flow that is not calculated in accordance with GAAP. As such, a non-GAAP financial measure shows what is not presented in an issuer's financial statements. It does so by inversely excluding and including amounts that are calculated, or not calculated, by the most directly comparable GAAP metric.

However, non-GAAP financial measures may mislead or confuse investors as they can lack standard meanings. Issuers in the same industry may even use the same term to refer to different calculations. Nonetheless, CSA recognizes that non-GAAP financial measures can provide investors with additional information to assist them in understanding critical components of an issuer's financial performance.

CSA provides the following guidelines to ensure that a non-GAAP financial measure does not mislead or confuse investors. Issuers should:

1. state explicitly that the non-GAAP financial measure does not have a standardized meaning 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 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 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 the non-GAAP financial measure with equal or greater importance to the most directly comparable GAAP metric as presented in its financial statements;
  5. provide a clear quantitative reconciliation from the non-GAAP financial measure to the most directly comparable GAAP metric as presented in its financial statements, referencing 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 objection;
  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 or explain the reason for the change and restate any comparative period presented if an issuer changes the composition of the non-GAAP financial measure.

### **Disclosing Additional Subtotals**

CSA recognizes that GAAP may require the presentation of additional subtotals in the financial statements when such presentation is relevant to understand the issuer's financial position or financial performance. In scenarios where issuers publish additional subtotals in a press release or outside of the financial statements before being filed on SEDAR, issuers should explain the composition of the subtotals to avoid any confusion. Notice 52-306 states that this may be accomplished by:

1. including a copy of the statement containing the additional subtotals; or
2. reconciling the additional subtotals to the most directly comparable line item specified or defined by IFRS that will be presented in financial statements.

Lastly, issuers who present additional subtotals in the statement of financial position and statement of profit or loss and other comprehensive income for IFRS financial statements will also need to comply with the requirements found in IAS 1.

by Marina Tran

### **A Cautionary Note**

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

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The logo for mcmillan, featuring the word in a lowercase, sans-serif font. The 'm' and 'c' are in a dark red color, while the 'm', 'i', 'l', 'l', 'a', and 'n' are in a light blue color. The logo is positioned in the upper left corner of the page.

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