



December 5, 2018

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

Care of:

The Secretary Ontario Securities Commission  
[comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca)

Me Anne-Marie Beaudoin Corporate Secretary Autorité des marchés financiers [consultation-encours@lautorite.qc.ca](mailto:consultation-encours@lautorite.qc.ca)

**Re: Proposed National Instrument 52-112 Non-GAAP and Other Financial Measures Disclosure and the related proposed Companion Policy, Consequential Amendments and Changes**

We would like to thank the Canadian Securities Administrators (“CSA”) for the opportunity to comment on proposed National Instrument 52-112 and its Companion Policy and related Consequential Amendments. We believe additional guidance for issuers will contribute to meaningful disclosure of non-GAAP information and therefore we support the CSA’s rule making initiative in this area.

We have responded to your detailed questions in the Appendix to this letter, but we also have some general observations that we wish to share.

We believe that non-GAAP and other financial measures are most useful when used to explain changes between financial periods of a GAAP performance measure rather than as a standalone metric or as a substitute for GAAP information. For example, a non-GAAP measure may be useful as part of an explanation of why GAAP income has increased or decreased during a period.

IFRS and US GAAP already provide some latitude for disclosing performance through the eyes of the Chief Operating Decision Maker within segmented information.

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This disclosure should be based on the metrics management of an issuer uses to evaluate segment performance even if the policies applied in evaluating segment performance differ from GAAP. We encourage issuers to continue to assess whether their segment measures reflect the key performance measures used by management and to provide reconciliations within the segmented reporting note to the primary financial statements.

We also believe investors value consistency in non-GAAP information disclosed amongst issuers. While we agree with the CSA proposals that do not mandate consistency amongst issuers in the disclosure of non-GAAP information, we encourage industry accounting groups to continue to discuss non-GAAP measures, provide thought leadership, and to survey whether there is consistency between reporting of such measures within a particular industry or identify where there is divergence.

In addition to the authoritative rules, we also believe it will be important and helpful for the CSA members to publicly report overall findings on compliance with the final national instrument and provide early warning of concerns it identifies through issue oriented reviews and examples of best practice.

We believe that in establishing the effective date for these proposals, the CSA should provide sufficient time for issuers to fully consider and implement the proposals. Because this proposal is so pervasive, it is difficult to identify all unintended consequences that might arise. Therefore, it would also be helpful for the CSA to field test these proposals.

Should you have any questions regarding our response please contact Michael Walke (416) 815 5011 or Scott Bandura (403) 509 6659.

Yours truly,

*PricewaterhouseCoopers LLP*  
**Chartered Professional Accountants**



## Appendix - Responses to Specific Questions

1. *Does the proposed definition of a non-GAAP financial measure capture (or fail to capture) specific financial measures that should not (or should) be captured? Please explain using concrete examples.*
  - Mutual fund managers frequently use Assets under Management (AUM) based on net asset values of underlying funds under management as a key performance metric. Although these numbers are stated as dollar amounts they do not relate to assets consolidated by the fund manager. Based on the current definition of a “non-GAAP financial measure” these may be captured, but as there is no directly comparable measure presented in the financial statements it would not be possible to provide a reconciliation. A similar issue may arise in other situations where an issuer acts as an agent for revenue recognition but reports underlying volumetric information or for certain financial information for underlying investees reported at fair value (e.g. for certain investment companies). We believe that the final instrument should consider the appropriate disclosure in cases where it is not possible to provide a reconciliation because there is not a comparable GAAP measure.
  - The proposed instrument includes new disclosure requirements where segment measures are disclosed outside of the financial statements including a reconciliation requirement to the most comparable measure presented in the primary financial statements. We have several concerns with these proposals:
    - IFRS 8.28 already requires a reconciliation of total segment revenues, income, assets and liabilities and every other material item of information disclosed to the corresponding amount for the entity. Accordingly, we do not believe it is necessary to duplicate such reconciliations in other continuous disclosure documents. It may be appropriate however to identify which note in the financial statements such information appears, the first time in a document such information is disclosed.
    - The proposals refer to “total of segment measures”, but this term is not defined. We presume that this is meant to be the total of an individual segment measure rather than the total of all segments. Issuers often discuss the results of individual segments in the context of explaining the overall performance for a reporting period and may not discuss the total of all segment measures. We believe it would be helpful to have a clear definition of what constitutes a “total of segment measures”.
    - We note that IFRS 8 requires that the reconciliation be performed between the aggregate of the segmented measures and the primary financial statements. For example, if an entity has three segments: A, B, and C then IFRS 8 would require the summation of the profit measure of all three segments to be reconciled to net income before taxes appearing in the primary financial statements. It is unclear whether the proposed instrument requires individual reconciliations for individual segment totals if they appear separately in the document (e.g. that the individual profit measure for segment A be reconciled to net income before taxes). We believe individual reconciliations of such figures will be voluminous and will not be useful for a reader. For example, to reconcile segment A’s measure of profit to total net income for the entity it will be necessary to include the aggregate results of segment B+C as a reconciling item.



- We believe the proposed instrument should clarify that disclosure of non-GAAP and other financial measures are within the scope of disclosure controls and procedures (“DC&P”) discussed in NI 52-109. The definition of DC&P in NI 52-109 indicates that DC&P relates to information “required to be disclosed by securities legislation”. The proposed national instrument requires disclosure should certain measures be presented outside of the financial statements, but if the underlying non-GAAP measures are provided voluntarily, it may not be clear that NI 52-109 applies to the voluntarily disclosed measure. Therefore we believe that you should clarify whether issuers should establish and maintain DC&P regarding the final version of 52-112 and also clarify that issuers should identify and report material weaknesses in internal controls over DC&P.
  - IFRS 3.B64(q) requires that certain pro-forma information be presented in the notes to the financial statements for business combinations. Furthermore, NI 51-102 requires issuers to present pro-forma information regarding certain significant acquisitions. “Pro forma earnings” is identified in the proposals as a common term used to identify a non-GAAP financial measure, but it is unclear whether the proposed instrument is meant to capture all pro-forma information including where such information is required to be presented in the notes to financial statements or is required and has been disclosed in other documents in accordance with NI 51-102.
2. *Are there any specific additional disclosures not considered in the Proposed Instrument, that would significantly improve the overall quality of disclosure and be of benefit to investors? Please explain using concrete examples.*
- The proposed national instrument discusses changes in a non-GAAP financial measure, but notes that disclosing a particular non-GAAP measure does not generate a requirement to continue disclosing non-GAAP measures in future periods. We believe where a non-GAAP measure is no longer reported, the issuer should disclose its rationale for ceasing to report the non-GAAP measure.
  - Where an entity chooses to cease presenting a non-GAAP measure or changes the method of calculating a non-GAAP measure, we believe (where practicable) the issuer should also be required to disclose the measure on the previously calculated basis for at least 12 months from the date it decides to either change or to cease reporting a non-GAAP measure. This disclosure would allow users to understand what the results would have been under the old methodology and to better understand why the basis of reporting a non-GAAP measure has changed. Where it is not practicable to report this information (e.g. if information technology systems have changed such that certain amounts are no longer captured) we believe the reasons for the impracticality of making this disclosure should be provided.
  - For financial outlooks we believe that sometimes it may be more useful for an issuer to explain the outlook by presenting a reconciliation or bridge analysis to the most recent historical GAAP or non-GAAP information. We believe that there should be flexibility for an issuer to choose this presentation, if the issuer believes it will be more understandable.



- For example, if in August 2018 the entity is forecasting Adjusted EBITDA for the 3 month period ended June 30, 2019 we believe it might be appropriate to present a reconciliation or bridge analysis to either the equivalent historical period (the three months ended June 30, 2018) or to the most recent comparable period (the three months ended March 30, 2019) whichever is better representative of the starting point for their forecast used by management. For example:

Adjusted EBITDA for quarter ended June 30, 2018	\$100
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**Material Assumptions:**

Increase in sales price	\$10
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Increase in sales volume	\$4
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Increase in cost of sales (volume)	(\$8)
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Decrease in cost of sales (input cost)	\$3
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Forecasted adjusted EBITDA for quarter ended June 30, 2019	\$109
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The rationale for each of the significant adjustments would also be provided.

3. *Is specific content in the Proposed Companion Policy unclear or inconsistent with the Proposed Instrument?*
  - Earnings coverage ratios prescribed by 41-101F1 are identified in the proposed companion policy as “specific financial measures” that are not subject to the proposed instrument. It is noted that the list of “specific financial measures” is not exhaustive. However, we believe the list in the companion policy should be expanded to provide other very common measures (e.g. in a prospectus “use of proceeds”, “pro forma capitalization” etc.) as this will avoid confusion over which common measures are within or out of the scope of the standard.
  - It would be helpful to more clearly explain the scope of the exemption for SEC Foreign Issuers giving specific examples of categories of SEC filers and whether they would need to comply (e.g. explaining that issuers reporting annual results using SEC form 40-F are subject to the guidance in the proposed national instrument).
4. *Is the proposed exemption for SEC foreign issuers appropriate? If not, please explain.*
  - As defined SEC Foreign Issuers would not include certain Canadian issuers filing on US domestic forms (or issuers that are SEC registrants outside of the Multi-Jurisdictional Disclosure System) and subject to the US Securities and Exchange Commission’s (“SEC”) guidance on non-GAAP measures. We believe it would be appropriate to exclude a larger class of entities as long as they are required to comply with the SEC’s published guidance on non-GAAP measures (e.g. issuers filing on domestic SEC forms or on form 20-F). This avoids potential conflicts between the proposed national instrument that might arise now or in the future (i.e. where the SEC guidance requires certain disclosure that the proposed national instrument prohibits or vice versa). Furthermore, we believe that the SEC guidance on non-GAAP measures is robust and that providing this exemption would not be prejudicial to the public interest.