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Canadian regulators delay plan to toughen rules on companies' use of non-GAAP measures

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Canadian regulators have delayed a plan that would allow them to push companies to clean up the way they report their numbers to investors.

The Canadian Securities Administrators (CSA) has guidelines on how companies can use what are called “non-GAAP measures.” These are numbers – often calculations of profit – that deviate from generally accepted accounting principles. The concern is that in crafting their own financial metrics, companies could mislead investors about their true health.

In September, 2018, the CSA, an umbrella group for all the provincial securities regulators, rolled out a plan to turn its existing non-GAAP guidelines into rules, with the power of enforcement behind them. That would put Canada on par with the United States, where the Securities and Exchange Commission’s non-GAAP regulations allow it to pursue companies for what it sees as misleading disclosure.

But after a series of comments and feedback sessions from companies, accounting firms and others, the regulators have gone back to the drawing board. That means new rules likely won’t be in place in 2020.

Hilary McMeekin, a spokeswoman for the Alberta Securities Commission, one of two provincial bodies leading the effort, said the proposal has been revised, the provincial securities regulators are working through their internal approval process, and it will be republished for a second comment period at a yet to be determined time. “We continue to work towards our original intent, which was to establish requirements,” she said.

While the U.S. has wrestled with the issue for some time, the non-GAAP conversation got louder in Canada in September, 2016, when The Globe and Mail published the results of a [report by Veritas Investment Research](#). *Veritas* found 70 per cent of the members of the S&P/TSX 60 stock index of large public companies used some form of “non-GAAP” metric in their results – and many seemed to be violating the CSA’s guidance on how to report them.

The dialogue has expanded since then. The Accounting Standards Board (AcSB) of Canada introduced a framework in 2018 for how all entities, from companies to non-profits, should use numbers that are non-GAAP.

Financial Executives International (FEI), a trade group for chief financial officers and other corporate leaders, is preparing to release its own guidance on “alternative performance measures.” In the document, seen by The Globe and Mail, FEI is urging boards to take a strong role in overseeing the measures, and company management to develop better policies and procedures for their use.

And the Canadian Coalition on Good Governance, a group of institutional investors, will make companies' use of non-GAAP, particularly as it relates to setting executive compensation, one of its focus areas for 2020, executive director Catherine McCall said.

In addition to the 42 comment letters the CSA received in December, 2018, the group conducted 38 outreach sessions in seven cities, according to a September presentation by Janice Anderson, then the acting chief accountant of the Alberta Securities Commission, to a conference of accountants. Most respondents did not object to the development of a rule, she said, but there was concern that it "appears inconsistent with the objective of reducing regulatory burden."

Also, Ms. Anderson said, there was concern about "the expansion of its scope to other financial measures." The CSA's proposal went beyond the SEC rules and included regulation of numbers that, while non-GAAP, are not typically used as alternative profit measures. (One example: same-store sales, a revenue number for restaurants or retail locations open one year or more.)

Veritas's chief executive, Anthony Scilipoti, expressed hope that the ultimate proposal will be at least as strong as the U.S. measures, and will be completed soon. "With each passing day, this puts investors at a disadvantage, because our regulatory framework is more lax than that of the U.S., for example, because we don't have regulations. [The CSA] went for more of a Hail Mary pass to get other numbers included, but now they've run into all kinds of headwinds."

Linda Mezon, chair of the AcSB, said she hopes that the CSA rules reflect recent guidance from the International Accounting Standards Board, which released proposals on "non-GAAP transparency" on Dec. 17. Ms. Mezon said one of her top priorities in 2020 will be communicating the IASB's views to the Canadian public companies that use International Financial Reporting Standards. "We know people are going to use these metrics. What we want is quality and oversight over them."

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