

***CIRANO Seminar
Non-GAAP Performance
Reporting***

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A little bit of history

This is not a new topic of discussion

SEC: January 2001, warning about *pro forma* financial information

CSA: January 2002, CSA Staff Notice 52-303 *Non-GAAP Earnings Measures*, the predecessor to current CSA Staff Notice 52-306 *Non-GAAP Financial Measures*

IOSCO: May 2002, *Cautionary Statement Regarding Non-GAAP Results Measures*

SEC: January 2003, final rule *Conditions for Use of Non-GAAP Financial Measures*

ESMA: May 2015, *Guidelines on Alternative Performance Measures*

- Regulators have been working for a long time to establish boundaries on the topic.

The Art of Financial Reporting

Performance reporting is more an art than a science

Reporting on the performance of a business remains a social science – there are no universal truths.

Financial reporting has a dual role

- Stewardship about the past
- Managing expectations about the future

Infiltration of fair value in accounting standards

Volatility and non-cash elements

Increasing use of fair value in various accounting topics is likely a driver of Non-GAAP Measures, e.g.

- Stock-based compensation
- Derivatives (stand-alone or embedded) coupled with stringent requirements for hedge accounting
- Intangible assets in business combinations
- Impairments and reversals thereof
- Investment properties

All these elements induce volatility and/or *non-cash elements*, which makes *story telling* more difficult.

Constant “tug of war”

Balancing act between two forces

Leave some “freedom of speech” by allowing management to tell their story.

More information is better than less.

Protect the public against

- Bias
- Lack of reliability
- Obscure methods
- Lack of comparability
- Lack of consistency

Achieving balance is a continuous process...

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