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# SECURITIES ALERT

## Enhancing Financial Disclosure for Reporting Issuers

### Some tips from the Ontario Securities Commission (OSC)

The Office of the Chief Accountant of the OSC recently published its observations on various financial reporting topics relevant to reporting issuers. These observations are intended to enhance disclosure effectiveness and to highlight OSC expectations for financial disclosure. In general terms, the OSC is encouraging reporting issuers to take a “fresh look” at their financial statement disclosure and consider how information could be more effectively and efficiently presented. It suggests reporting issuers “consider financial reports as communication documents as opposed to a compliance exercise.” The OSC observations cover a number of topics, two of which are briefly set out here.

**Going concern.** Going concern disclosures are important as they provide warnings to investors about significant risks the reporting issuer may be facing. The OSC will continue to focus on this area in the future. Some specific OSC concerns include:

1. The quality of ongoing concern disclosures, especially where reporting issuers provide generic and boilerplate information about the material uncertainties that cast significant doubt on their ability to continue as a going concern. The OSC expects to see detailed information about the uncertainties relating to operations, funding, cash flows and how each is being mitigated.
2. Instances of inadequate disclosure with respect to the significant judgements made in concluding there are no material uncertainties relating to a reporting issuer's continued existence as a going concern. In cases where reporting issuers have strong indicators of financial difficulty but do not include disclosures about material uncertainties, management should disclose that there are no material uncertainties that cast significant doubt on the issuer's ability to continue as a going concern that would require disclosures and that, in reaching this conclusion, significant judgement was applied (given the strong indicators of financial difficulties), to determine there were no disclosures required related to such judgement.

**Non-GAAP financial measures.** An ongoing area of OSC focus continues to be non-GAAP financial measures, including application of CSA Staff Notice 52-306 (Revised) *Non-GAAP Financial Measures*. The OSC has recently noted inappropriate prominence of disclosure given to non-GAAP financial measures related to earnings when compared to the prominence of earnings measures determined under a reporting issuer's GAAP. Specific concerns include:

1. The prominence of the disclosure given to non-GAAP financial measures in comparison to GAAP financial measures. Some reporting issuers present their non-GAAP earnings before their GAAP earnings in their Management Discussion & Analysis (MD&A) or news releases, or focus their discussion of performance on the non-GAAP earnings, providing a less fulsome discussion of their GAAP earnings.
2. A large number of non-GAAP financial measures being used in the MD&A. The OSC believes the presentation and discussion of an extensive number of non-GAAP financial measures can obscure GAAP results. Often, the greater the number of

measures, the more potential there is for confusion, or for material information to be obscured.

3. Non-GAAP financial measures not reconciled to the most directly comparable GAAP measures: There are instances where non-GAAP financial measures, particularly those presented in news releases, are not reconciled to the most comparable GAAP measures. Reporting issuers should provide a clear quantitative reconciliation from the non-GAAP financial measure to the most directly comparable GAAP measure and reference the reconciliation when the non-GAAP financial measure first appears in a disclosure document.

The above observations and a number of other OSC concerns are more fully discussed in OSC Staff Notice 52-723. Feel free to contact us for further details.

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*Contact us today and speak with a member of our securities law team.*

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