



Canadian Securities
Administrators

Autorités canadiennes
en valeurs mobilières

CSA STAFF NOTICE 52-306 (REVISED)

NON-GAAP FINANCIAL MEASURES AND ADDITIONAL GAAP MEASURES

November 9, 2010

Revision and republication

Staff have updated this notice to reflect the changeover to International Financial Reporting Standards (IFRS). The notice continues to apply to issuers who use other accounting principles.

Purpose

This notice provides guidance to an issuer who discloses financial measures other than those prescribed by the accounting principles the issuer used to prepare its financial statements (issuer's GAAP).

Non-GAAP Financial Measures

For the purpose of this staff notice, a non-GAAP financial measure is a numerical measure of an issuer's historical or future financial performance, financial position or cash flow, that is not required by an issuer's GAAP and that either:

- (i) excludes amounts that are included in the most directly comparable measure calculated and presented in accordance with the issuer's GAAP, or
- (ii) includes amounts that are excluded from the most directly comparable measure calculated and presented in accordance with the issuer's GAAP.

Non-GAAP financial measures do not meet one or more of the criteria of an issuer's GAAP for presentation in financial statements. Therefore, an issuer should not include non-GAAP financial measures in its financial statements.

Some issuers disclose non-GAAP financial measures in press releases, management's discussion and analysis (MD&A), prospectus filings, websites and marketing materials.

Many non-GAAP financial measures are derived from profit or loss determined in accordance with an issuer's GAAP and, by omission of selected items, present a more positive picture of financial performance. A ratio such as return on assets that uses an amount for assets, profit or loss that differs from the amounts presented in the issuer's financial statements is also a non-GAAP financial measure. Terms used to identify non-GAAP financial measures may include "pro forma earnings", "cash earnings", "free cash flow", "distributable cash", "EBITDA", "adjusted earnings", and "earnings before non-recurring items". These terms generally lack

standard meanings. Different issuers may use the same term to refer to different calculations or one issuer may vary its definition of a particular term from one period to another period.

Staff is concerned that investors may be confused or even misled by non-GAAP financial measures. Staff is also concerned about the prominence of disclosure given to non-GAAP financial measures related to earnings compared to the prominence of profit or loss determined in accordance with an issuer's GAAP. In staff's view, these concerns can be addressed by appropriate disclosure accompanying non-GAAP financial measures.

Disclosure Accompanying Non-GAAP Financial Measures

Financial statements prepared in accordance with an issuer's GAAP provide investors with a clearly defined basis for financial analysis and comparison among issuers. Staff recognizes that non-GAAP financial measures may provide investors with additional information to assist them in understanding critical components of an issuer's financial performance. However, an issuer should not present a non-GAAP financial measure in a way that confuses or obscures the most directly comparable measure calculated in accordance with the issuer's GAAP and presented in its financial statements.

Staff reminds issuers of their responsibility to ensure that information they provide to the public is not misleading. Staff also reminds certifying officers of their obligations under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* to make certifications regarding misrepresentations, fair presentation, and disclosure controls and procedures. A non-GAAP financial measure may be misleading if it includes positive components of the most directly comparable measure calculated in accordance with the issuer's GAAP and presented in its financial statements but omits similar negative components. Staff cautions issuers that regulatory action may be taken if an issuer discloses information in a manner considered misleading and therefore potentially harmful to the public interest.

In order to ensure that a non-GAAP financial measure does not mislead investors, an issuer should clearly define the measure and explain its relevance. As well, an issuer should present the measure on a consistent basis from period to period or explain any changes. Specifically, an issuer should:

1. state explicitly that the non-GAAP financial measure does not have any standardized meaning prescribed by the issuer's GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers;
2. present with equal or greater prominence to that of the non-GAAP financial measure, the most directly comparable measure calculated in accordance with the issuer's GAAP and presented in its financial statements;
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. provide a clear quantitative reconciliation from the non-GAAP financial measure to the most directly comparable measure calculated in accordance with the issuer's GAAP and presented in its financial statements, referencing to 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 objective (for example, by providing a link to the reconciliation);
5. explain any changes in the composition of the non-GAAP financial measure when compared to previously disclosed measures.

In staff's view, non-GAAP financial measures generally should 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.

Additional GAAP Measures Required by IFRS

IFRS mandates certain minimum line items for financial statements and requires presentation of additional line items, headings and subtotals when such presentation is relevant to an understanding of an entity's financial position and performance. IFRS also requires the notes to financial statements to provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them. IFRS requires issuers to present information in a manner that provides relevant, reliable, comparable and understandable information. For the purpose of this notice, we refer to financial measures included in the notes, as well as additional line items, headings and subtotals, that meet the IFRS criteria for disclosure in the financial statements, as "additional GAAP measures". Because IFRS requires such additional GAAP measures, they are not non-GAAP financial measures.

Similarly, IFRS permits certain financial measures such as alternative earnings per share if certain conditions are met. Because IFRS expressly permits such measures, they are not non-GAAP financial measures.

Form 51-102F1 Management's Discussion and Analysis discusses management's objective when preparing the MD&A, and states that the MD&A should help current and prospective investors understand what the financial statements show and do not show. Generally, in order to meet this objective, an issuer's MD&A should discuss and analyse additional GAAP measures.

Disclosing an Additional GAAP Measure Before Filing Financial Statements

An issuer may present an additional GAAP measure in a press release or some other location outside of an issuer's financial statements or MD&A before filing on SEDAR its financial statements that include the additional GAAP measure. In order to avoid any confusion about the additional GAAP measure, management should describe the additional GAAP measure and explain its composition. This may be accomplished by:

- reconciling the additional GAAP measure to the most directly comparable minimum line item that will be presented in the financial statements (for example, profit or loss or cash flows from operating activities), or

- including a copy of the statement that contains the additional GAAP measure (for example, the statement of financial position or the statement of comprehensive income).

Distributable Cash

National Policy 41-201 *Income Trusts and Other Indirect Offerings* provides additional guidance on measures of cash available for distribution.

Forward-Looking Information

The content of this notice apply equally to disclosure of forward-looking non-GAAP financial measures.

Questions

Please refer your questions to any of the following individuals:

Sylvie Anctil-Bavas
Chef comptable
Autorité des marchés financiers
Phone : (514) 395-0337 ext. 4291
E-mail : sylvie.anctil-bavas@lautorite.qc.ca

Louis Auger
Analyste en valeurs mobilières
Autorité des marchés financiers
Phone : (514) 395-0337 ext. 4383
E-mail : louis.auger@lautorite.qc.ca

Nicole Parent
Analyste en valeurs mobilières
Autorité des marchés financiers
Phone: (514) 395-0337 ext. 4455
E-mail: nicole.parent@lautorite.qc.ca

Cameron McInnis
Chief Accountant
Ontario Securities Commission
Phone : (416) 593-3675
E-mail : cmcinnis@osc.gov.on.ca

Marion Kirsh
Associate Chief Accountant
Ontario Securities Commission
Phone : (416) 593-8282
E-mail : mkirsh@osc.gov.on.ca

Mark Pinch
Senior Accountant
Ontario Securities Commission
Phone : (416) 593-8057
E-mail: mpinch@osc.gov.on.ca

Lara Gaede
Chief Accountant
Alberta Securities Commission
Phone : (403) 297-4223
E-mail : lara.gaede@asc.ca

Brian Banderk
Associate Chief Accountant
Alberta Securities Commission
Phone: (403) 355-9044
E-mail: brian.banderk@asc.ca

Carla-Marie Hait
Chief Accountant
British Columbia Securities Commission
Phone : (604) 899-6726
E-mail : chait@bcsc.bc.ca

Manuele Albrino
Associate Chief Accountant
British Columbia Securities Commission
Phone: (604) 899-6641
E-mail: malbrino@bcsc.bc.ca

Kevin Hoyt
Director, Regulatory Affairs and Chief Financial Officer
New Brunswick Securities Commission
Phone: (506) 643-7691
E-mail: kevin.hoyt@nbsc-cvmnb.ca