

Better Communication

Draft Framework for Reporting Performance Measures

Linda Mezon, Chair

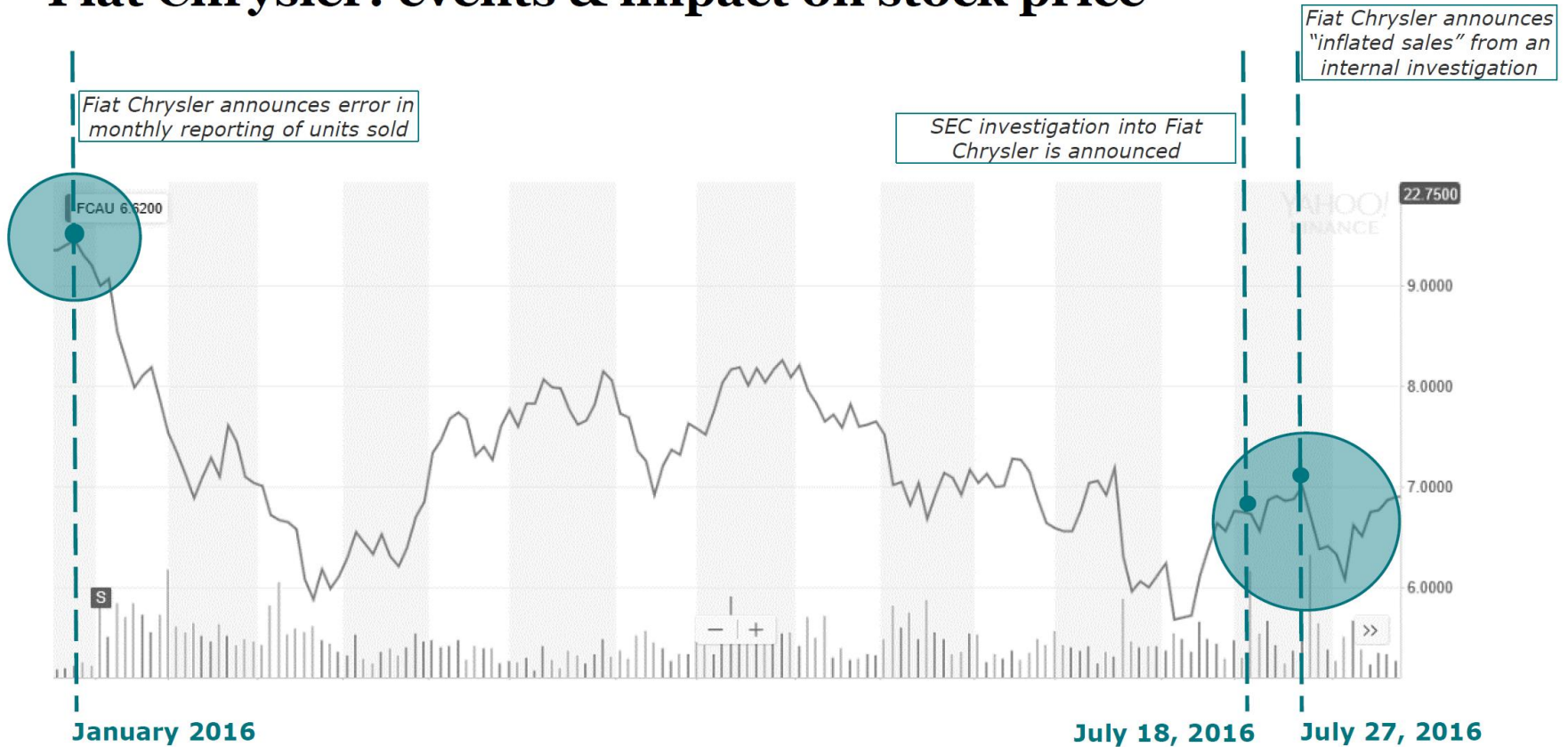
Rebecca Villmann, Director

Purpose

- Provide an overview of a new AcSB initiative
 - To develop a Framework to improve the reporting of performance measures
- Ask ASAF members for feedback on the Draft Framework

Quality of performance measures matters

Fiat Chrysler: events & impact on stock price



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Performance measures make headlines

Twitter: a media firestorm

“Twitter admits overstating user numbers for years”, (CNN)

“Twitter says it overstated user numbers for three years”, (CBS News)

“Twitter Overstated Number of Users for Three Years”, (Wall Street Journal)

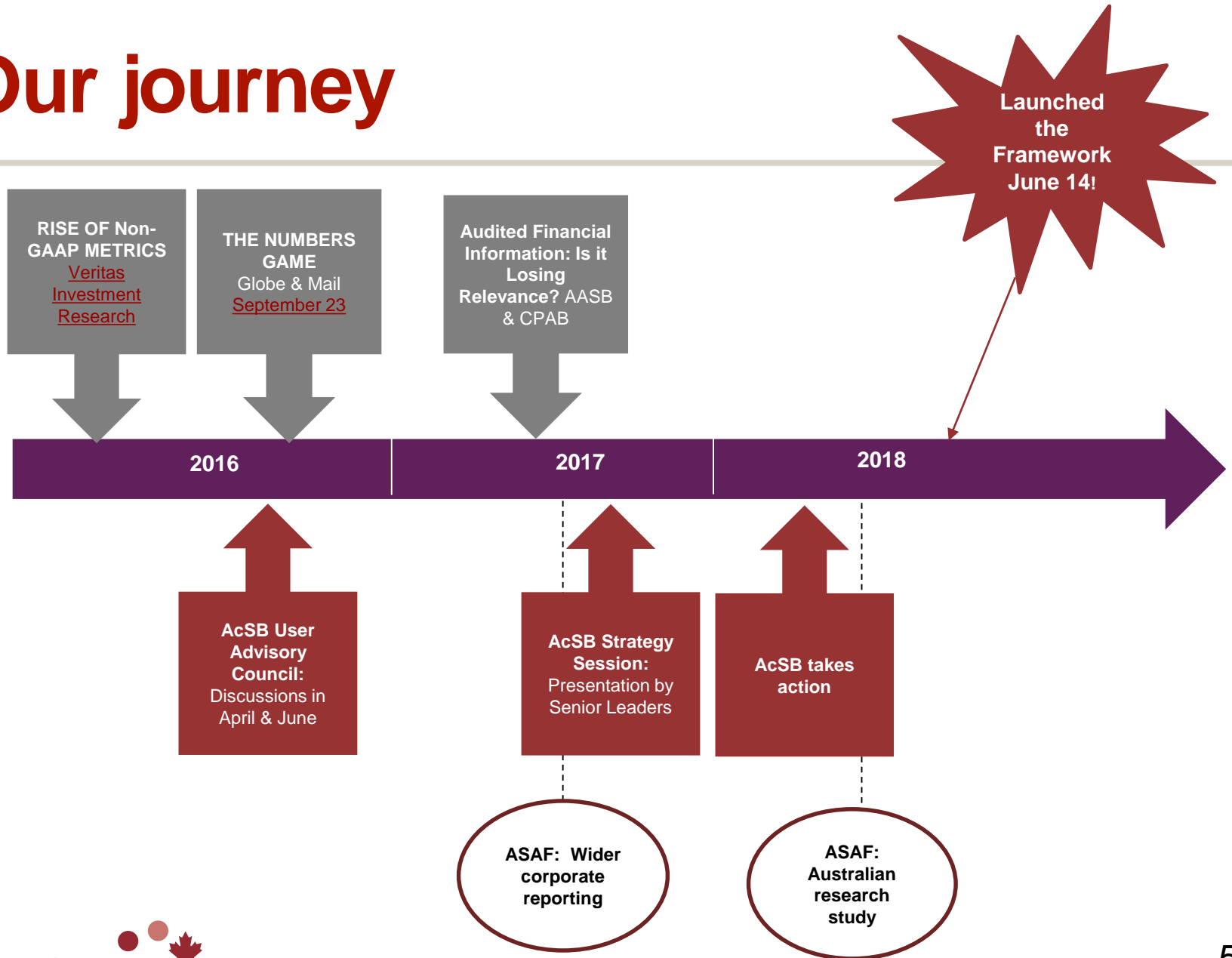
“Twitter says it overstated the size of its user base for years”, (The Washington Post)

“Twitter admits to overstating users for years”, (Market Watch)

“Twitter Says It Overstated Monthly-User Figures for 3 Years”, (The New York Times)

The screenshot shows a news article from The New York Times. The headline is "Twitter Says It Overstated Monthly-User Figures for 3 Years". Below the headline is a photograph of a Twitter logo on a screen. The article text includes: "Twitter's (TWTR) user base wasn't quite as big as it tweeted about in past years. The social media network said it overstated its number of monthly users since 2014, blaming third-party applications that sent authentication messages via texts through Twitter's systems, but which weren't related to activity on its platform. The company restated the number of monthly active users for three quarters, shaving them by between 1 million to 2 million users. Investors shook off the disclosure, sending Twitter shares higher in early trading. The company also reported third-quarter results that exceeded analysts' expectations. The social media network also said it expects to achieve profitability in the fourth quarter. The stock rose \$2.50, or 14.6 percent, to \$19.64 on Thursday morning." The article is attributed to AMEE PICCHI and MONEYWATCH, dated October 26, 2017, 8:21 AM. It also includes a sub-headline: "Twitter Overstated Number of Users for Three Years" and a byline: "By Georgia Wells".

Our journey



AcSB launches new financial-performance reporting guidelines

Article by David Milstead, Globe & Mail

- Canadian Securities Administrators
“In our view, addressing the quality of disclosure surrounding non-GAAP financial measures and other financial measures is important.”
- Anthony Scilipoti, Veritas Investment Research
“the important thing is change is apace, and all the standards-setters and regulators understand the importance of this issue, because they recognize financial statements are at the risk of becoming not relevant.”

AcSB launches new financial-performance reporting guidelines

Article by David Milstead, Globe & Mail (cont'd)

- Richard Talbot, Bristol-Gate Capital Partners

“There should be a follow-on process facilitated by the [AcSB], but that is a heavy collaborative effort with the preparers, the investors and the analysts. You’ll get the industry expertise you need around the table so that you can then come up with a set of standards for all industries, with the independence of a standards-setting body, that would then be picked up by the securities commissions, who would require people to follow the standards.”

AcSB launches new financial-performance reporting guidelines

Article by David Milstead, Globe & Mail (cont'd)

- Linda Mezon, AcSB Chair

“If we can get dialogue started and get people focused on improving the quality of this other financial information that investors say they’re relying on, we think that means people will make better investment decisions because they’ve got better information.”

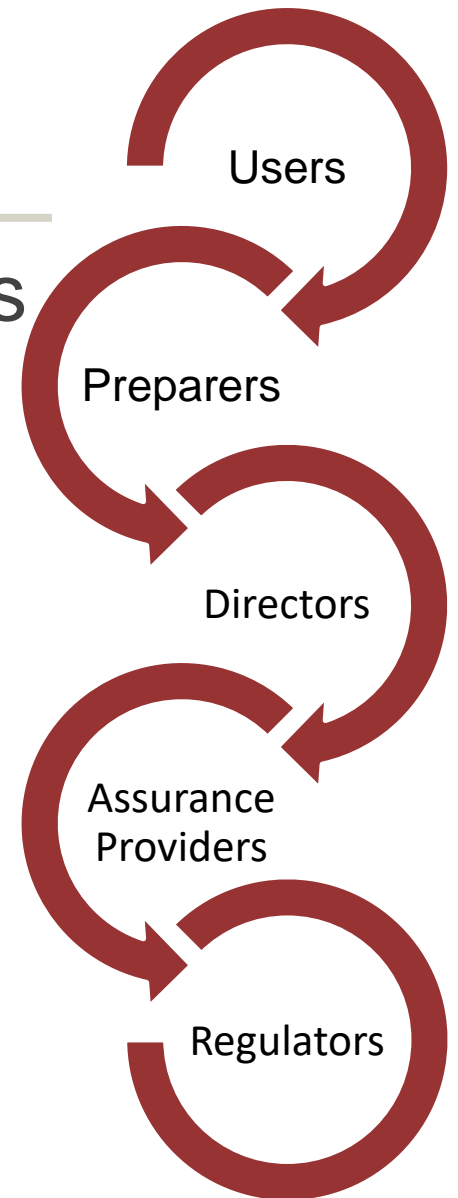
Enhance relevance of financial reporting

Our objectives

- Reporting performance measures
 - Raise awareness of the issues
 - Improve the quality of measures reported
- Support the IASB's Better Communication initiative
 - Primary Financial Statements project
 - Update to Practice Statement *Management Commentary*

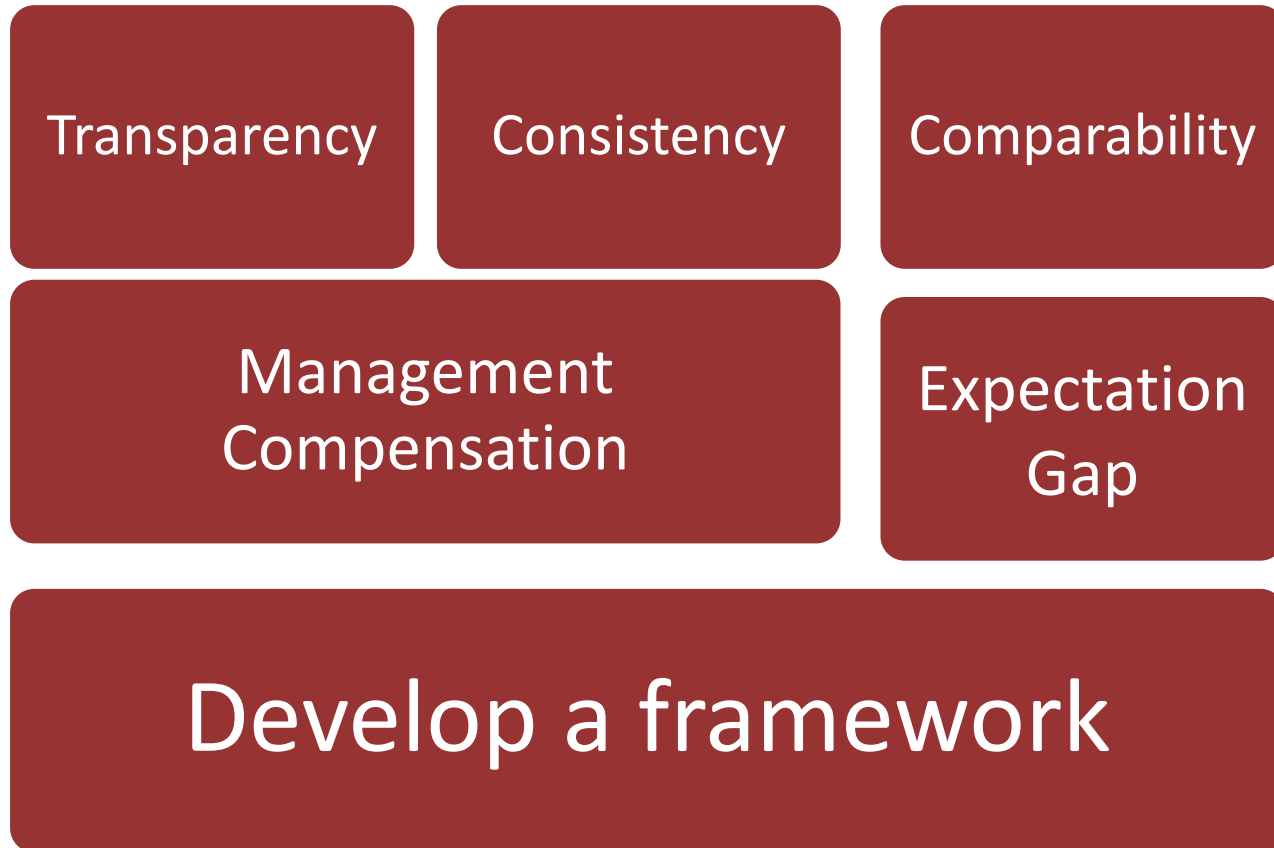
All participants in financial reporting need to play a role

- For profit and not-for-profit entities
 - Enhance the relevance of information users rely on to make resource allocation decisions
 - First step
 - AcSB is leading a new initiative
 - Leverage our strengths
 - Start a conversation



Encourage best practices

- Performance Measures



Framework – For all types of entities

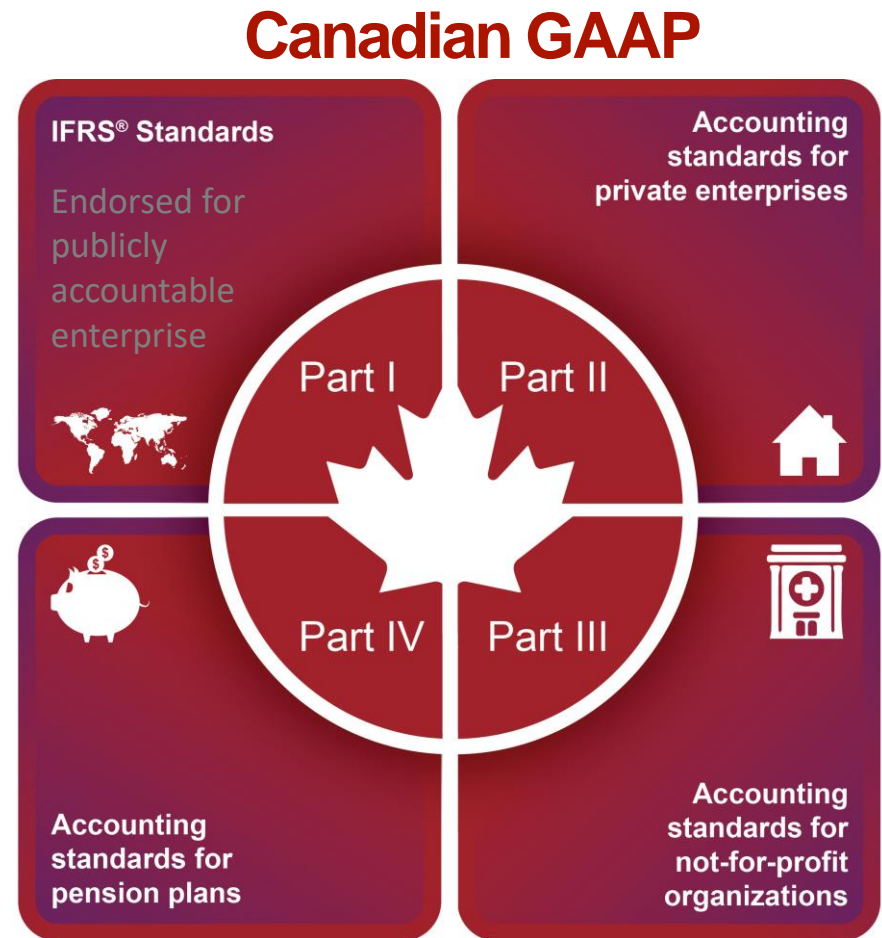
Scope

- Measures reported outside of financial statements

Entities that are

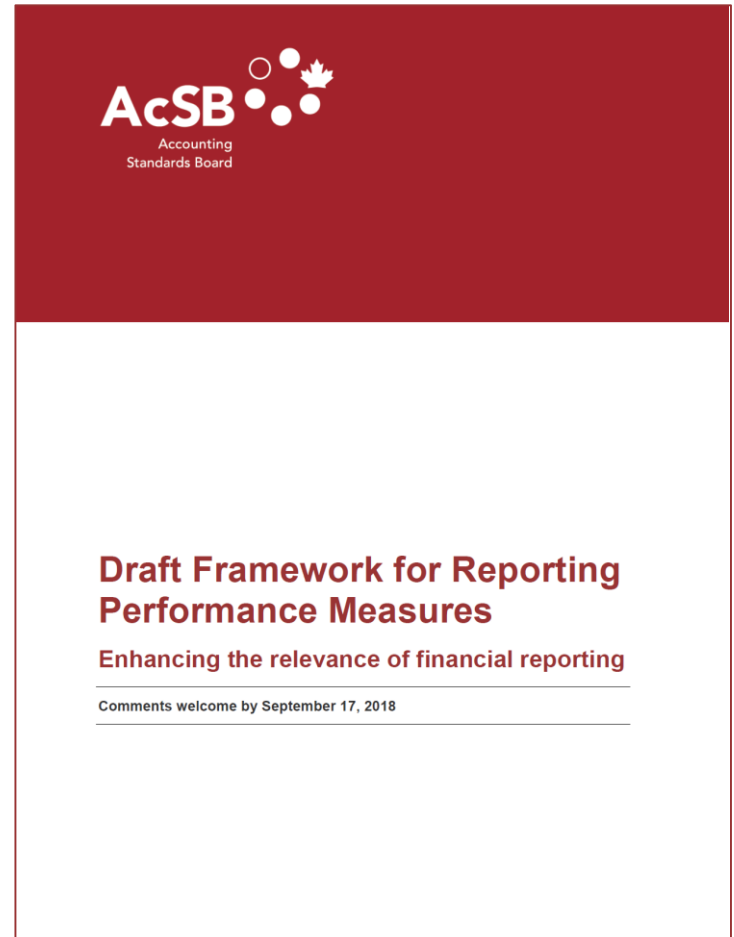
- For profit
- Not-for-profit

Feedback will shape next steps



Approach

- Leveraged
 - Learnings from published guidance & materials
 - Advice from stakeholders
- Qualities of information
 - Based on the IASB's and AcSB's concept statements
 - Similar thought process



Applied elements of due process

Transparency

- Promoted domestically & internationally
- 7 Presentations
- With our peers
- Web presence

Consultation

- Met with experts
- Input from senior directors and leaders
- Feedback on drafts
- Forum with FEI/CFERF

Accountability

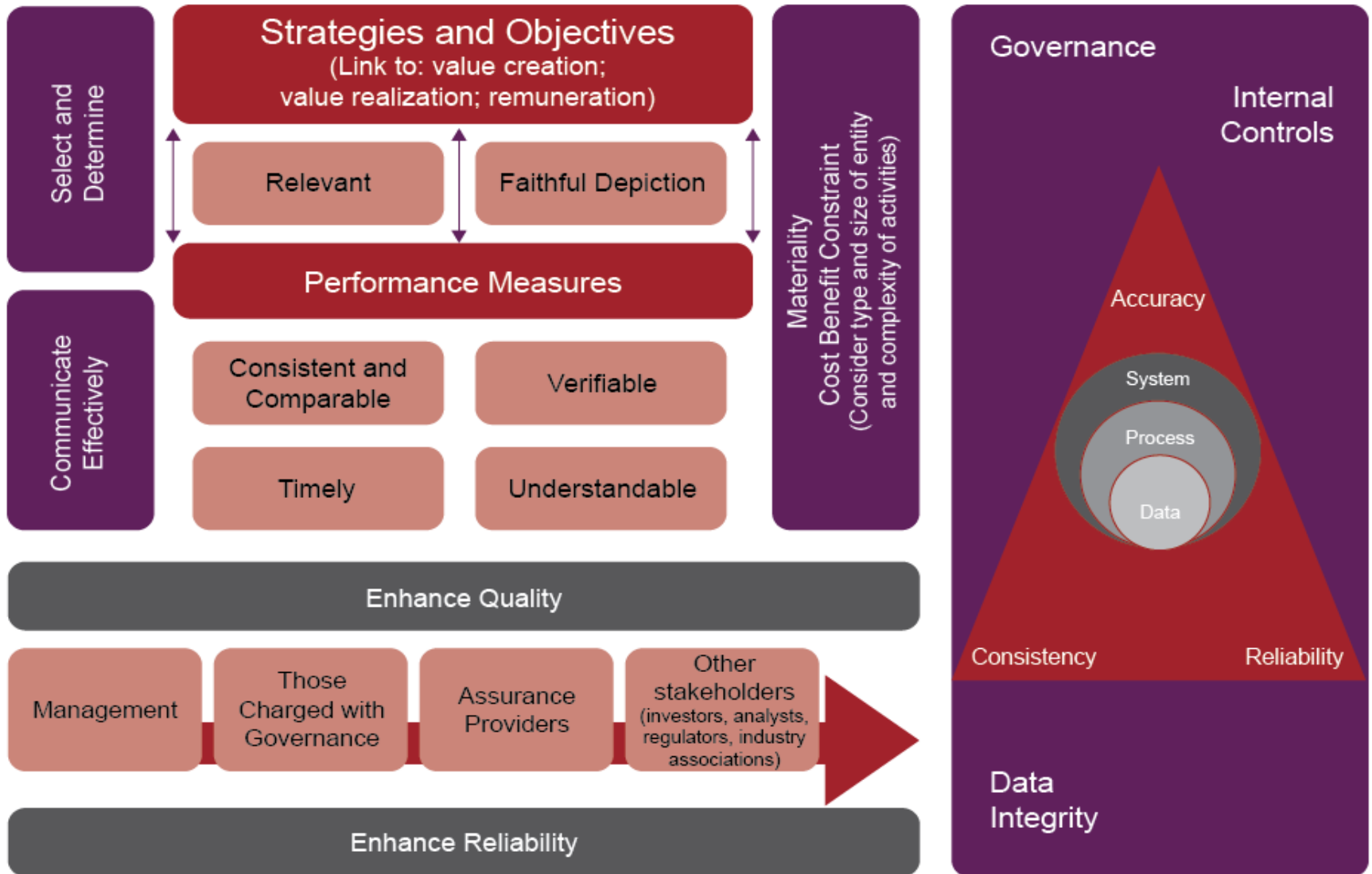
- Reporting to our Oversight Council
- Publishing for comment
- Considering feedback

Types of performance measures

		GAAP Financial Measures	Non-GAAP Financial Measures	Other Financial Measures	Non-financial / Operational Measures
Examples	For profit	Earnings per share	Adjusted earnings	Dollars of order backlog	Barrels of oil equivalent per day
	Not-for-Profit	Excess of revenue over expenses	Revenue by funding source	Cost per dollar raised	Number of clients served
Description		A financial measure presented in the financial statements	A financial measure not presented in the financial statements, that is an adjustment to a GAAP financial measure	A financial measure that is not a GAAP, or non-GAAP financial measure	A non-financial measure

Within the scope of the Framework

Framework: Key elements



Support - Key concerns so far

- Practicality
 - Industry guidance needed to affect practice?
- Applicability
 - Distinguish financial and operational measures?
 - Mandatory or non-mandatory?
- Regulatory compliance
 - Consistency with existing and forthcoming Canadian regulatory requirements?
- Verification - Provide a basis for assurance?

Securities law and regulations

- Canadian Reporting Issuers
 - CSA guidance on Non-GAAP Financial Measures
 - Staff Notice 52-306 (revised)
 - Developing a rule and companion policy
- Foreign Private Issuers
 - U.S. Securities Exchange Commission requirements
 - Conditions for Use of Non-GAAP Financial Measures - Rule
 - Non-GAAP Financial Measures - Interpretations
- Guidance in other jurisdictions

Next steps for the Framework

Transparency

- Press release
- Expanding web presence
- Social media

Consultation

- 5 AcSB Committees
- 2 CPA Canada Committees
- IASB's ASAF in July
- Public discussions
- Field test auditability

Accountability

- Reporting to the Council
- Considering feedback
- Publishing Framework
- Implementing maintenance process

Next steps for Initiative

Feedback will provide a basis for the AcSB to decide on:

- Finalize Framework in early December 2018
- Developing examples
- Assisting on industry and sector guidance
- Other activities



Questions for ASAF

Draft Framework

1. Do you have comments and suggestions on the Framework for us to consider?
2. Do you think a similar framework could be helpful in your jurisdiction? Why or why not?

Questions for ASAF

Securities law and regulations (slide 15)

3. How would a similar framework interact with your local securities law and regulations?

For more information, visit [Reporting Performance Measures](#)

Contact

Rebecca Villmann, CPA
Director, Reporting Initiatives and Research
Accounting Standards Board
Phone: +1 (416) 204-3464
Email: rvillmann@acsbcanada.ca