



International Accounting Standards Board
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Via email: commentletters@ifrs.org

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Dear Members of the IASB

The Corporate Reporting Users' Forum (CRUF) Canada would like to provide its viewpoints on the issues associated with the disclosure of financial and non-financial information outside of the financial statements.

Members of the Canadian CRUF met on May 6, 2016 to discuss the disclosure of financial and non-financial information outside of the financial statements. The following summary represents a summary of the views expressed by the Canadian CRUF members in attendance at the meeting:

Sources of information used by analysts and investors:

- Financial statements;
- Management Discussion and Analysis (MD&A);
- Supplementary packages (provide more detail and insight into the numbers reflected in the annual financial statements);
- Investor presentations;
- Corporate presentations;
- Industry conferences (Conferences are useful to align expectations and presentations);
- Companies' visits and "one-on-one" discussions with management;
- Trade magazines (useful to provide insights on industry);
- Conference calls with investors.

Investors are always looking for an edge against their competitors and often this is found in investor presentations rather than MD&A or financial statements

Types of information used by analysts and investors:

- Statutorily required financial disclosures;
- Information used in managing business;



- Operating metrics;
- Financial metrics, not available in the financial statements, specifically debt terms, covenants, segmentations of results, financial ratios, for example debt to EBITDA;
- “Embedded value” in insurance industry (while this is financial information specific to the insurance industry, it is meaningful and very useful).

Common obstacles and issues in obtaining useful information faced by the users:

- Functional limitations of the companies’ reporting systems, which may prevent them from providing the same information as “best in class” competitors;
- Information is not “downloadable” in a user-friendly format, which requires additional time and efforts to get it ready for the analysis. XBRL not that successful in Canada, but that is where some users aim to go;
- Inconsistency of presentation and classification of income statement, which requires significant efforts to reconcile and compare the information;
- Inconsistency of non-GAAP measures calculations, e.g. there are 9 definitions of “cash flows” and almost as many for EBITDA. Without knowledge of the definition used by a company it’s impossible to compare the metrics. While key performance indicators (KPIs), by definition, are closely related to a company’s strategy, certain KPIs are common to most of the companies in a particular industry and could be standardized;
- Reluctance from companies to disclose the true KPIs, which enable the companies to execute their strategy. Companies are reluctant to disclose their KPIs, because they reflect their strategy and could lead to disclosing sensitive information to its competitors.
- The conference calls held with investors become more and more controlled, i.e. the order and the questions that can be raised are predetermined, e.g. there were cases where companies were asking investors to submit questions in writing, which would be answered after the conference call.

Other issues faced by the users of the financial and non-financial information:

- Management’s motivation to conceal trends that are unfavourable, e.g. definition of what is “core” and “non-core” business of the company or emphasize “adjusted” earning per share (EPS), rather than EPS calculated in accordance with GAAP. Financial statements sometimes conceal trends;
- Conflict between “usefulness” of the information and at the same time “consistency” with others.
- Concern that KPIs are not presented continually from period to period when things start to look less good. While there can be good reasons why KPIs are no longer relevant (evolution of the



business etc) the concern is that nothing makes a reporting issuer continue to report a previously reported KPI, and this can lead to a loss of useful/comparable information.

- Any information needs to be trusted – the stronger the framework the less opportunity for management to “game the rules”. If a number presented cannot be verified then investors just have to trust it. If at least there is a clear definition of what that number is, then investors can deal with that appropriately.

Summary of the views/suggestions of the CRUF participants:

- Integration of the information in one place (“integrated reporting”) to assist in speed of finding and processing relevant information;
- Go paperless to the extent possible to facilitate research and analysis (use of technology to integrate information);
- It is essential that reporting issuers clearly describe how KPIs and other measures are developed to facilitate comparability. Not all measures can be usefully reconciled to a “GAAP” measure (embedded value is an example, organic growth is another) but still need to be understood. A good example of providing disclosure on these types of measures is Manulife’s explanation of embedded value (See http://www.manulife.com/public/files/202/1/MFC_2015_EVR.pdf) because it includes a detailed explanation of the measure, assumptions used and sensitivity of those assumptions. Information to assess comparability for these types of metrics is not always available, especially if the metrics are in investor presentations/supplementary information rather than MD&A or financial statements.
- Develop more precise standards on disclosure on the full terms and conditions of debt including covenants. This is significant for many companies and the disclosures are not as extensive and robust. It would help to have a better understanding of the risk of covenant breaches;
- Standardize EBITDA measure inside or outside the financial statements (analogies to EPS, which is a standardized KPI that has been brought into the financial statements). Investors acknowledged that companies should describe and reconcile their EBITDA numbers in the MD&A to closest GAAP numbers, but that having a standardized EBITDA would reduce the complexity of these reconciliations and make it clearer where departures are from the standard.
- Standardization of certain KPIs or other non-GAAP measures may be useful where they are used across a particular industry.
- Assurance over non-GAAP measures would be useful, but would have to be on an industry by industry basis with prescribed definition. Auditors don’t need to agree that the assumptions are “right”, but should be able to state that, given the assumptions, the calculation is appropriately done. Current consistency is brought about by peer pressure or investor pressure but is not always reliable.



Consistency is key to comparability, so need to be able to link measures back to something – whether that is standardized definitions in IFRS or by securities regulators, and then must be either enforced or audited.

About the Corporate Reporting Users' Forum (CRUF) The CRUF came together in 2005 as a discussion forum to help its participants in their approach to the debate on current and future corporate reporting requirements. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters such as the IASB and FASB.

CRUF participants come from all around the world, including individuals from both buy- and sell-side institutions, and from both equity and fixed income markets.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. It does not seek to achieve consensus views, though at times some or all of its participants will agree to make joint representations to standard setters or to the media. It would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative.

A CRUF Canada meeting specifically seeks to explore and understand the differences in opinions of participants. CRUF Canada does not seek to reach a consensus but instead focuses on why reasonable participants can reasonably have different positions. This letter is a summary of the range of opinions discussed at the meeting held on May 6, 2016.

Although this letter was circulated to the participants and further input included, this letter may not reflect correctly all the positions held by the meeting participants. This letter does not represent the position of any individual or sub-group of participants in particular the undersigned. Nonetheless, the undersigned acting as an individual believes this letter represents a fair approximation of the range of positions held.

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