

Regulatory Update – Ontario Securities Commission

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February 2022

Disclaimer

The views we are about to express are our own, and are not necessarily representative of the Ontario Securities Commission or its staff.

Agenda

- **COVID-19 Financial Reporting Considerations**
- **National Instrument 52-112 *Non-GAAP and Other Financial Measures***
- **Climate Related Disclosures**
- **Regulatory Burden Reduction**

COVID-19 Financial Reporting Considerations

CSA Staff Notice 51-362: Some Key Areas of Financial Reporting Focus

Significant Judgements & measurement uncertainty

Going Concern Assessments

Impairment assessments of non-financial assets

Government assistance

Amendments to IFRS 16

- Include **entity-specific** disclosure for significant judgments or measurement uncertainties
- For close call disclosures, provide **mitigating actions** that impacted the determination that the issuer is a going concern
- Update **disclosures and assumptions impacted by COVID-19** (e.g., goodwill and intangible impairment tests, ECL models)
- Identify specific **reasons for impairment** of non-financial assets
- Disclose the **nature and extent of government assistance** or the accounting policy adopted
- Disclose whether the **practical expedient** was applied

CSA Staff Notice 51-362

Non-GAAP Financial Measures (NGFMs)

Observation

- Some isolated instances of potentially misleading NGFMs in relation to COVID-19. For example:
 - adjusting for expenses attributable to COVID-19 without adjusting for government subsidies, or
 - 'normalizing' revenue or expenses for the year-to-date period based on more positive results for one quarter

Reminders

- A loss or expense should not be described 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.
 - Uncertainty in the current environment, means there may be a **limited basis** for management to conclude that a loss or expense is non-recurring, infrequent or unusual.
- Misleading to describe an adjustment as COVID-19 related, if **management does not explain how the adjustment amount was specifically associated with COVID-19.**

CSA Staff Notice 51-362

MD&A Disclosures

Operations

- **Discuss issuer specific impacts** of COVID-19 on the issuer's operations, including impacts on distribution channels, supply chains and planned developments or projects
- **Quantify** impact of each material factor causing variance in financial performance metrics, where possible

Liquidity & Capital Resources

- **Discuss** ability to generate sufficient amounts of cash in the short-term and long-term to maintain capacity or meet planned growth
- **Discuss trends** or expected fluctuations in liquidity
- **Discuss significant risk of defaults or arrears** on debt covenants or debt payments

Forward-Looking Information

- **Disclose forward-looking information** (FLI) only if the issuer has a reasonable basis for the FLI
- Updates to or **notification that FLI is being withdrawn** must be included in the MD&A or in a news release.

National Instrument 52-112 *Non-GAAP and Other Financial Measures Disclosure*

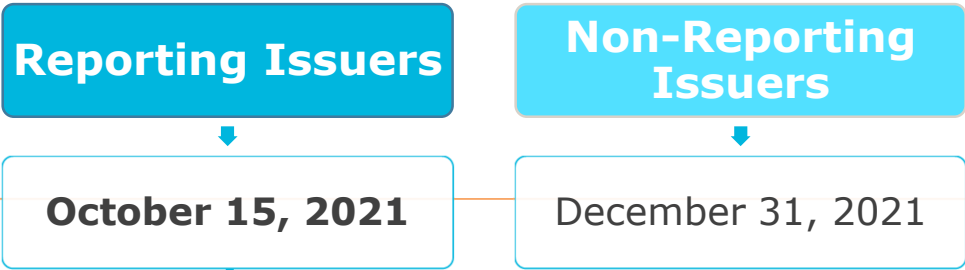
National Instrument 52-112 Non-GAAP and Other Financial Measures Disclosure

- **New** securities law
 - non-GAAP
 - other financial measures
- **Replaces** Staff Notice 52-306 *Non-GAAP Financial Measures*
- Disclosures **outside financial statements** (e.g., in MD&A, press release, social media, AIF etc.)

Non-GAAP		Other Financial		
Non-GAAP Financial Measure	Non-GAAP Ratio	Total of Segments Measure	Capital Mgmt. Measure	Supp. Financial Measure
Example	Example	Example	Example	Example
Adjusted Net Income	Adjusted Net Income per Share	Total of Segments Adjusted EBITDA	Normalized Debt	Same-Store Sales ^[1]

[1] Assuming "sales" is calculated in accordance with accounting policies used to prepare the sales line item presented in the primary financial statements.

Effective Date



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Year-end	Initially Applied
October 31	Annual Filings - October 31, 2021
December 31	Annual Filings - December 31, 2021
March 31	Annual Filings - March 31, 2022
August 31	Annual Filings - August 31, 2022
September 30	Annual Filings - September 30, 2022

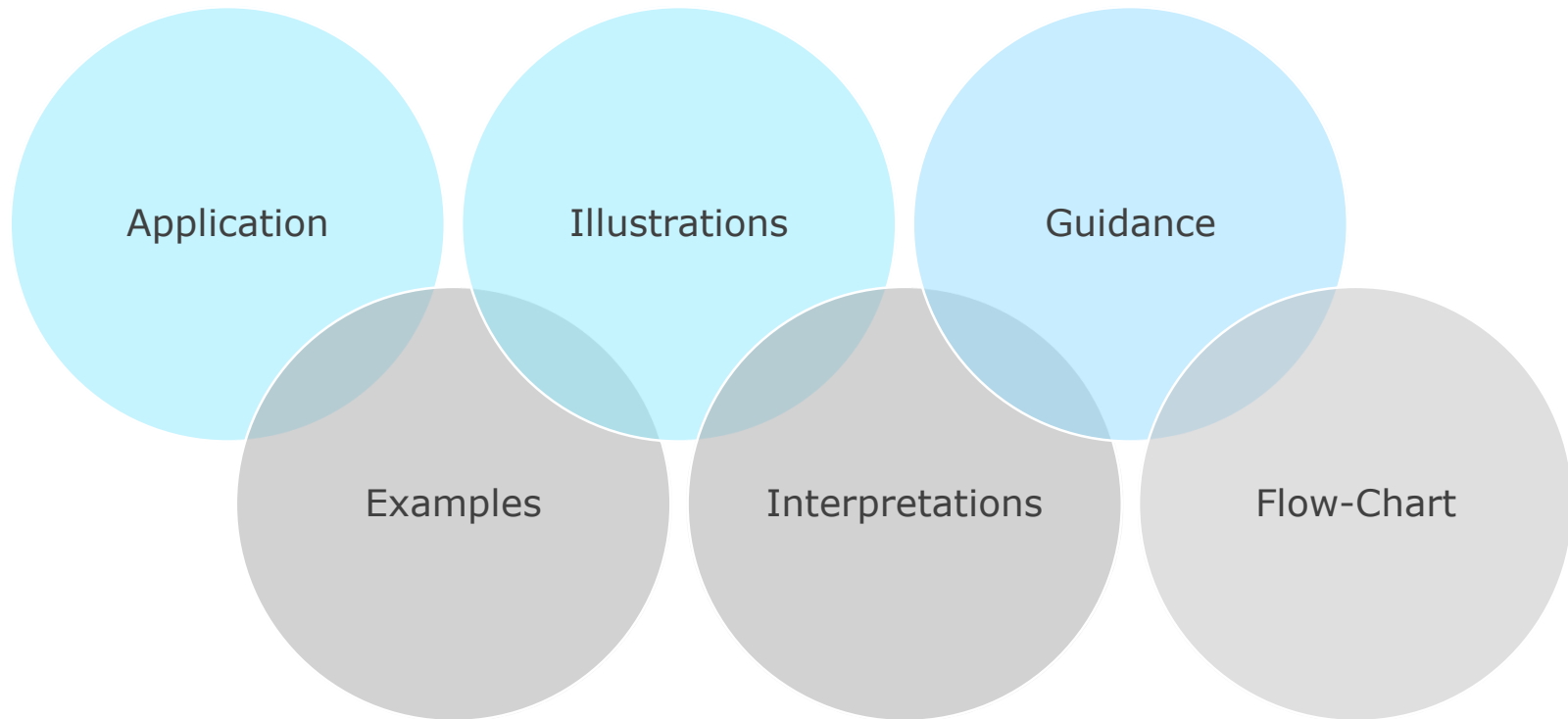
Disclosure Summary

	Attribute	Disclosures	Non-GAAP			Other Financial Measures		
			Historical	Forward-looking	Ratio	Total of Segments Measures	Capital Management Measure	Supp. Fin. Measure
1	Labelling	Label appropriately	X	X	X			X
2	Identification	Identify as such	X					
		Disclose non-GAAP financial measure		X _D	X _F		X _F	
3	Relationship	Disclose most directly comparable primary financial statement measure	X			X		
4	Prominence	Present with no more prominence	X	X	X	X	X	
5	Cautionary	Explain does not have a standardized meaning and may not be comparable	X		X			
6	Comparative	Include comparative period	X _C		X _C	X _C	X _C	
7	Composition	Explain the composition	X _A		X _A		X _{A,G}	X _A
8	Usefulness	Explain how the measure is useful and the additional purposes, if any, for which management uses it	X _A		X _A		X _{A,G}	
9	Reconciliation	Provide a reconciliation to the primary financial statement measure	X _{A,B}	X _{A,B,E}		X _{A,B}	X _{A,B,G}	
10	Changes	Explain reasons for changes	X _A		X _A			

Notes	
A	Ability to incorporate information by reference to the issuer's MD&A.
B	Cannot incorporate information by reference in an earnings release.
C	Comparative information required in MD&A or in an earnings release, subject to certain exceptions.
D	Disclose the equivalent historical non-GAAP financial measure <u>and</u> comply with disclosure requirements for historical non-GAAP financial measures (Section 6).
E	Disclose description of significant differences.
F	Disclose each non-GAAP financial measure used as a component in non-GAAP ratio or capital management measure <u>and</u> comply with requirements for historical non-GAAP financial measures (Section 6).
G	Disclosure not required if such disclosure already made in the notes to the financial statements of the entity to which the measure relates.

Disclaimer: The above is a very simplified summary of the disclosure requirements. To ensure compliance, reference to the specific National Instrument is required.

Companion Policy



Climate Related Disclosures

Existing Disclosure Requirements

- Issued various Staff Notices (guidance) over the past decade

2010: CSA Staff Notice
51-333 *Environmental
Reporting Guidance*

2018: CSA Staff Notice
51-354 *Report on
Climate Change-related
Disclosure Project*

2019: CSA Staff Notice
51-358 *Reporting of
Climate Change-related
Risks*

- Based on existing securities legislation – requirements (MD&A, AIF) to:
 1. Disclose **material commitments, events, risks or uncertainties** that may affect future performance
 2. Disclose all **material risk factors**
 3. If a company has implemented **environmental policies that are fundamental to operations**, a company must describe those policies and steps taken to implement

Background - Proposed NI 51-107 *Disclosure of Climate Related Matters*

Background

- Recommendations from the **Capital Markets Task Force** and ESG discussed in **March 2021 Ontario Budget**
- **On-going concerns** about climate-related disclosures
 - Completeness, consistency & comparability
 - Limited quantitative information
 - 'Cherry pick' voluntary standards or frameworks
- **Increased focus** on climate-related issues
 - Mainstream business issue
 - Investors are seeking improved disclosure on governance processes and the material risks, opportunities and financial impacts of climate change
- **CSA Review** of Climate Related Disclosures (2021)
 - 48 issuers from S&P/TSX Composite index across a wide range of industries
 - Issuers are providing more climate-related information in continuous disclosure filings and voluntary reports (compared to previous review in 2017)
 - However, 41% of the time disclosures were limited and lacked specificity

Proposed NI 51-107 *Disclosure of Climate Related Matters*

Key Elements

- Disclosures contemplated are **largely consistent with the Task-Force on Climate Related Financial Disclosure (TCFD)** recommendations
 - **Governance** - board's oversight of and management's role in assessing and managing climate-related risks and opportunities
 - **Strategy** - the short, medium, and long-term climate-related risks and opportunities and the impact on business, strategy and financial planning, where such information is material
 - **Risk Management** – how climate related risks are identified, assessed and managed and how these processes are integrated into overall risk management
 - **Metrics & Targets** – the metrics and targets used to assess and manage climate-related risks, opportunities, where information is material

Proposed NI 51-107 *Disclosure of Climate Related Matters*

Modifications

- Proposed NI 51-107 ***modifies the TCFD recommendations*** in the following ways:
 - ***Scenario Analysis (strategy)***– proposed disclosure exclude the requirements to disclosure 'scenario analysis', which is an issuer's description of the resilience of its strategy within different climate related scenarios, including a 2°C or lower scenario
 - ***GHG Emission Disclosure (metrics & targets)***
 - *Option 1* – Issuers would be required to disclose their Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions and the related risks, or their reasons for not doing so
 - *Option 2* – Issuers would be required to disclose Scope 1 GHG emissions and would have to provide their reasons for not disclosing Scope 2 and Scope 3 GHG emissions if they choose not to disclose these emissions.

Transition

- Proposed Instrument comes into Force December 31, 2022
- ***Phased in Transition:***
 - ***Non-Venture:*** 1 year Transition (disclosure included in annual filings due in 2024)
 - ***Venture:*** 3 year Transition (disclosure included in annual filings due in 2026)

International Developments

International Developments

- IFRS Foundation definitive proposal to establish the International Sustainability Standards Board
 - Montreal to host one of the central ISSB offices
- International Organization of Securities Regulators (IOSCO) – *Technical Experts Group* formed to advise IFRS Foundation on prototype standards
 - The IFRS Foundation published a draft prototype set of sustainability standards in November 2021.

Regulatory Burden Reduction

Regulatory Burden Reduction Update

Business Acquisition Report (BAR) requirements

Amendments in effect November 18, 2020

Complete

Facilitate at-the-market (ATM) offerings

Amendments in effect August 31, 2020

Complete

Enhance electronic delivery of documents

Consultation paper issued in 2020

Potential alternative prospectus model

Proposals published for comment August 2021

Revisit Primary Business requirements

Proposals published for comment August 2021

Streamline continuous disclosure requirements

Proposals published for comment May 2021

Key Changes – OSC Approach to Primary Business

Old approach (Ontario specific)	New proposed approach (harmonized across the CSA)
Sufficient financial statements and disclosure “coverage” was required of the go-forward business	Similar financial statements and disclosure is only required for acquisitions that: <ul style="list-style-type: none"> • Are reverse takeovers or qualifying transactions • Are > 100% significant based on significance tests • Change the primary business of the issuer • Are part of exceptional circumstances
Relief was required for immaterial primary business acquisitions where financial statements and disclosure not provided	Relief will generally not be required or will not be available
Many prospectuses required pre-file discussions and a number of them required very significant engagement with Staff	Only exceptional cases (including certain put together transactions) will require pre-file discussions with Staff

Key Changes – Continuous Disclosure Requirements (Comment period closes Sept 17)



Streamline

Streamline by eliminating, consolidating or clarifying existing requirements

Address
Gaps

Address gaps by introducing a small number of requirements to codify existing guidance

Combine

Combine financial statements, MD&A, and where applicable, AIF into one document

Key Changes - Combine

	Not a Venture Issuer	Venture Issuer
Annual Filings – Annual Disclosure Statement	<ul style="list-style-type: none"> • Annual financial statements • MD&A • AIF 	<ul style="list-style-type: none"> • Annual Financial Statements • MD&A*
Interim Filings – Interim Disclosure Statement	<ul style="list-style-type: none"> • Interim Financial Report • MD&A 	<ul style="list-style-type: none"> • Interim Financial Report • MD&A (or where appropriate, quarterly highlights)

Semi-Annual Reporting – not being proposed at this time, however seeking feedback on proposed framework to allow it on a voluntary, limited basis

**venture issuers may voluntarily file standalone AIF (in addition to combined annual financial statements and MD&A) or combine in one filing annual financial statements, MD&A and AIF.*

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