



December 5, 2018

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission (New Brunswick)
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Me Anne-Marie Beaudoin
Corporate Secretary
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Ontario Securities Commission
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Response to the CSA Request for Comment – Proposed National Instrument 52-112 Non-GAAP and Other Financial Measures Disclosure

Dear Sir/ Madam,

We welcome the opportunity to respond to the Proposed National Instrument 52 - 112 *Non-GAAP and Other Financial Measures Disclosure* (the Proposed Instrument) as well as the associated Proposed Companion Policy 52 – 112 *Non-GAAP and Other Financial Measures Disclosure* (the Proposed Companion Policy).

British Columbia Investment Management Corporation (BCI) is an asset manager with more than \$150 billion Canadian dollars in assets under management, making it one of the largest institutional investors in Canada. Our investment activities help finance the pensions of approximately 554,000 people in our province. On behalf of these pension beneficiaries, we provide long term capital to companies around the world that we believe will provide strong and stable financial returns.

As a long-term investor, BCI relies on well-functioning capital markets. We see it as our responsibility to contribute to the overall stability of the financial system. As an active participant in the capital markets, we address systemic risks with the expectation that our efforts will lead to greater stability and integrity within the markets. We regularly engage with regulators and advocate for legal and regulatory changes to ensure that principles of good governance are integrated into the regulatory framework.

As a starting point, BCI would support the assertion made by the Canadian Securities Administrators (CSA) that investors are increasingly concerned with the problematic disclosure practices surrounding non-GAAP financial measures. Our investment professionals in Public Markets have watched this trend grow over the years and we see various levels of disclosure that would be consistent with that suggested by the CSA Staff Notice 52 – 306 (Revised) *Non-GAAP Financial Measures* (SN 52 – 306).

In BCI's view, the increasing quantity and variety of non-GAAP disclosure represents a systemic issue within the capital markets and we encourage the CSA to remain active in the dialogue to resolve it. This is particularly important at a time when several stakeholders continue to weigh in with voluntary standards or guidance on non-GAAP disclosure. Given the potential confusion as noted by the CSA, multi-stakeholder dialogue is critical.

BCI would like to offer our views on the specific questions posed by the CSA while also offering some additional comments for consideration.

Commentary on Specific Questions

In general, BCI views the definitions outlined in the Proposed Instrument and the Proposed Companion Policy to be reasonable. The proposed definitions capture the disclosures that we believe are the most problematic, such as adjusted financial measures which can present financial results in a different way from the audited financial statements. The CSA definition of non-GAAP essentially captures the numbers being presented to investors that have not undergone the scrutiny of an auditor, or numbers that we cannot link back to audited line items.

In terms of additional requirements, we would note that the Proposed Instrument and the Proposed Companion Policy do not provide comparability to investors. While codifying SN52-306 may shed additional light on how companies are arriving at their non-GAAP disclosures, investors will still need to investigate in detail to compare amongst a peer group of companies.

As for clarity, the detailed descriptions and examples found in the Proposed Companion Policy are most helpful and should provide support for issuers when implementing the Proposed Instrument. The exemptions noted for SEC Foreign Issuers and for oral statements also appear to be reasonable, in our view. Both exemptions reduce the overall regulatory burden and provide a practical solution to what could be problematic to enforce.

BCI agrees with the CSA on an application that covers all documents, since investors do not rely on a single source of regulatory filings when making investment decisions. One filing that is not included and may require specific consideration, is the Information Circular. This document contains disclosure on executive compensation, which, by our observation, regularly includes non-GAAP financial performance measures that incorporate several adjustments. The degree to which adjustments are being made and

the rationale for such adjustments are often not transparent to investors. While Canada lacks a mandatory advisory vote on compensation, it should be noted that many issuers provide such a vote voluntarily. Where an advisory vote on compensation is absent, investors may incorporate compensation analysis into director elections. We would encourage the CSA to consider providing further guidance that is specific to the information circular as this document informs investors' voting decisions.

Additional Considerations

As stated earlier, while we support and see the benefits of the CSA's efforts, we believe the consequences of escalating this issue from a Staff Notice to the Proposed Instrument may be more material than initially contemplated. In theory, the Proposed Instrument does not increase the disclosure burden due to its alignment with SN52-306; however, it is apparent that issuers are often not adopting the guidance outlined or the Proposed Instrument would not be necessary. The unintended consequence of this could be a decrease in actual disclosure for investors which we have come to rely on in the capital markets.

If issuers decrease levels of disclosure to avoid enforcement action under the Proposed Instrument, the capital markets will suffer unintended consequences. BCI would encourage the CSA to further assess this and consider an implementation approach that avoids such outcomes.

Finally, as noted at the outset of this letter, many stakeholders are proposing solutions to the problem of non-GAAP reporting. BCI does not believe the introduction of the Proposed Instrument fully resolves this problem. Therefore, we encourage the CSA to remain engaged in dialogue going forward and continue to welcome opportunities for conversation on this topic. BCI appreciated the opportunity to speak directly to representatives of the Alberta Securities Commission and the Ontario Securities Commission during this consultation period.

We appreciate the opportunity to offer our thoughts on the Proposed Instrument and the Proposed Companion Policy and hope they will assist in your discussions.

Please feel free to contact Jennifer Coulson, BCI's Vice President, ESG at jennifer.coulson@bci.ca as you consider these comments, or if you require further clarification.

Regards,



Daniel Garant

Senior Vice President, Public Markets