

Regulatory Update from the BCSC

January 17, 2018

Carla-Marie Hait, Chief Accountant & CFO
British Columbia Securities Commission

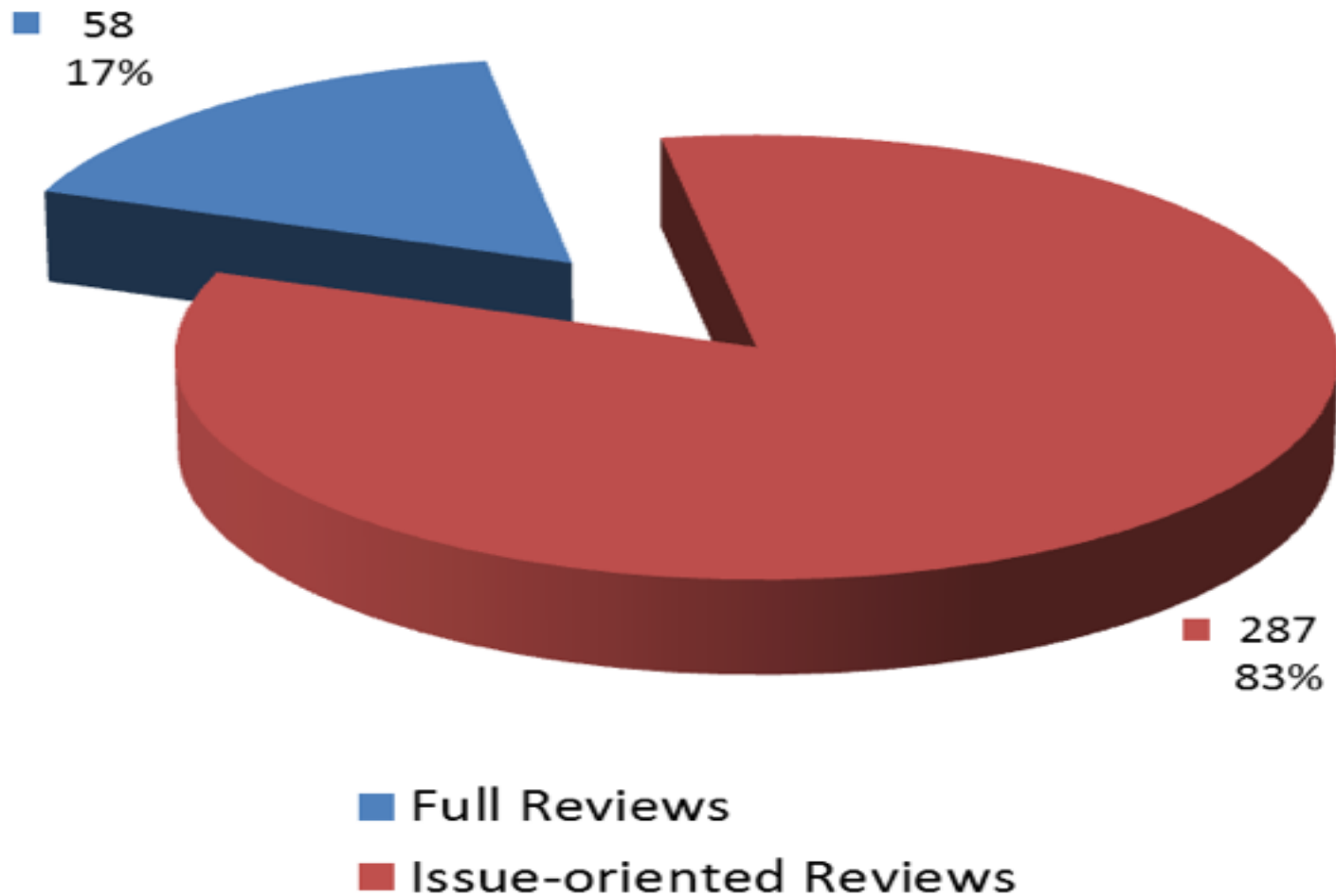


Topics

- Continuous disclosure review findings
- CSA projects:
 - Non-GAAP Financial Measures
 - NI 52-108 – Oversight of Foreign Auditors
 - NI 52-110 – Audit Committee Reporting
 - Reducing Regulatory Burden
- Topical accounting issues:
 - cryptocurrency
 - marijuana
 - leases
 - impact of changes to US tax system

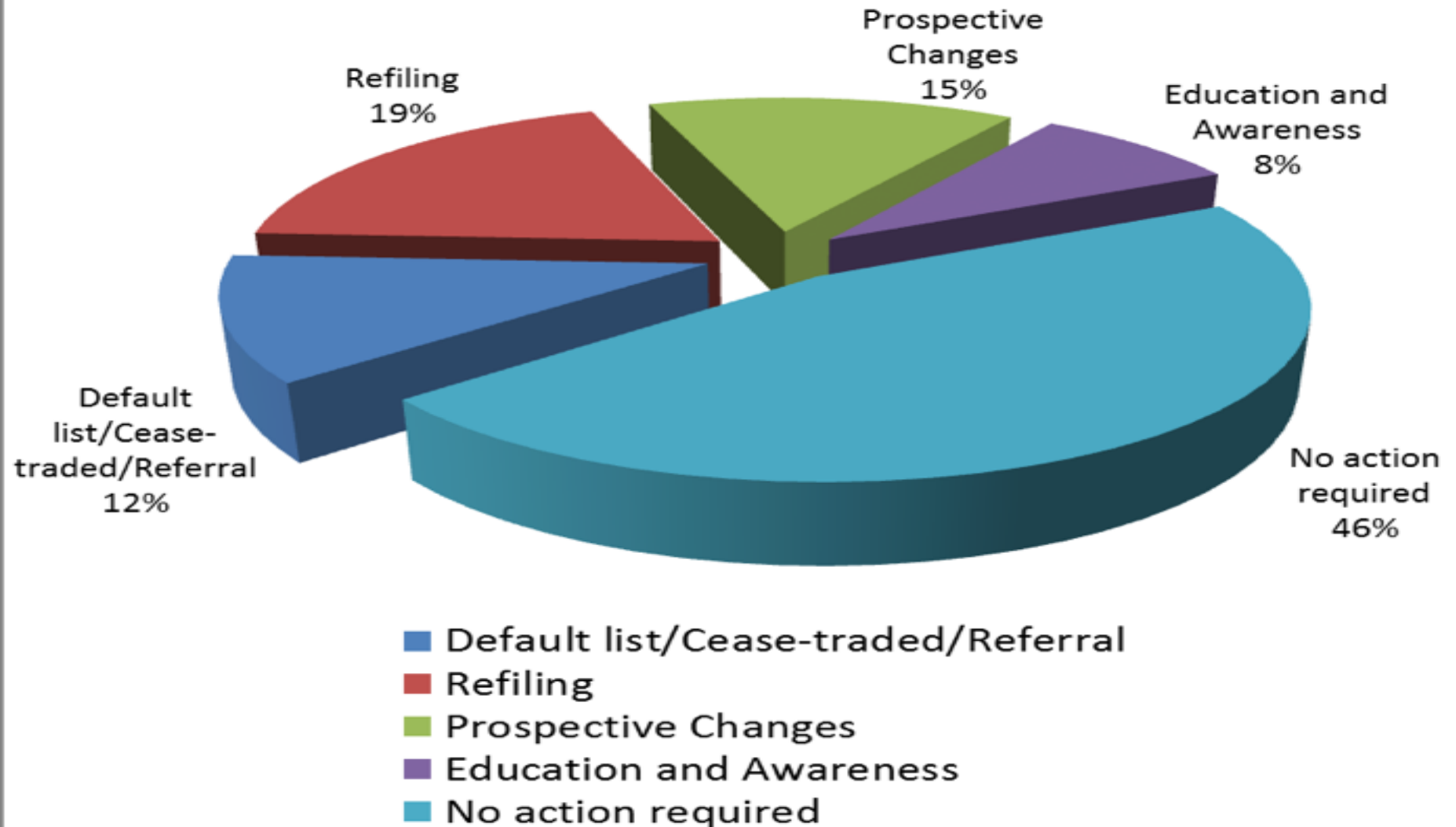
Continuous disclosure review findings

BCSC - CD Reviews for Fiscal 2017 (345 reviews in total)



Continuous disclosure review findings

BCSC - Review Outcomes for Fiscal 2017 (all reviews)



Issue-oriented reviews

- Quarterly highlights and Exec. Compensation
- Cyber-security
- Rights offerings
- Mining Technical, & Oil and Gas Disclosure ~50%

Continuous disclosure review findings

Financial statements

- Business combinations
- Recognizing goodwill and intangibles
- Contingent consideration
- Operating segments
- Disclosure of change in accounting policies
- Fair value measurement

Continuous disclosure review findings

A person in a dark suit and black shoes is walking from left to right, carrying a black briefcase. The background is a dark, textured surface. Overlaid on the image is a line graph with three lines: a green line, a yellow line, and a blue line. The green line starts high and trends downwards with some fluctuations. The yellow line starts lower and trends downwards more steeply. The blue line starts low and trends upwards. The lines are semi-transparent and overlap each other.

MD&A

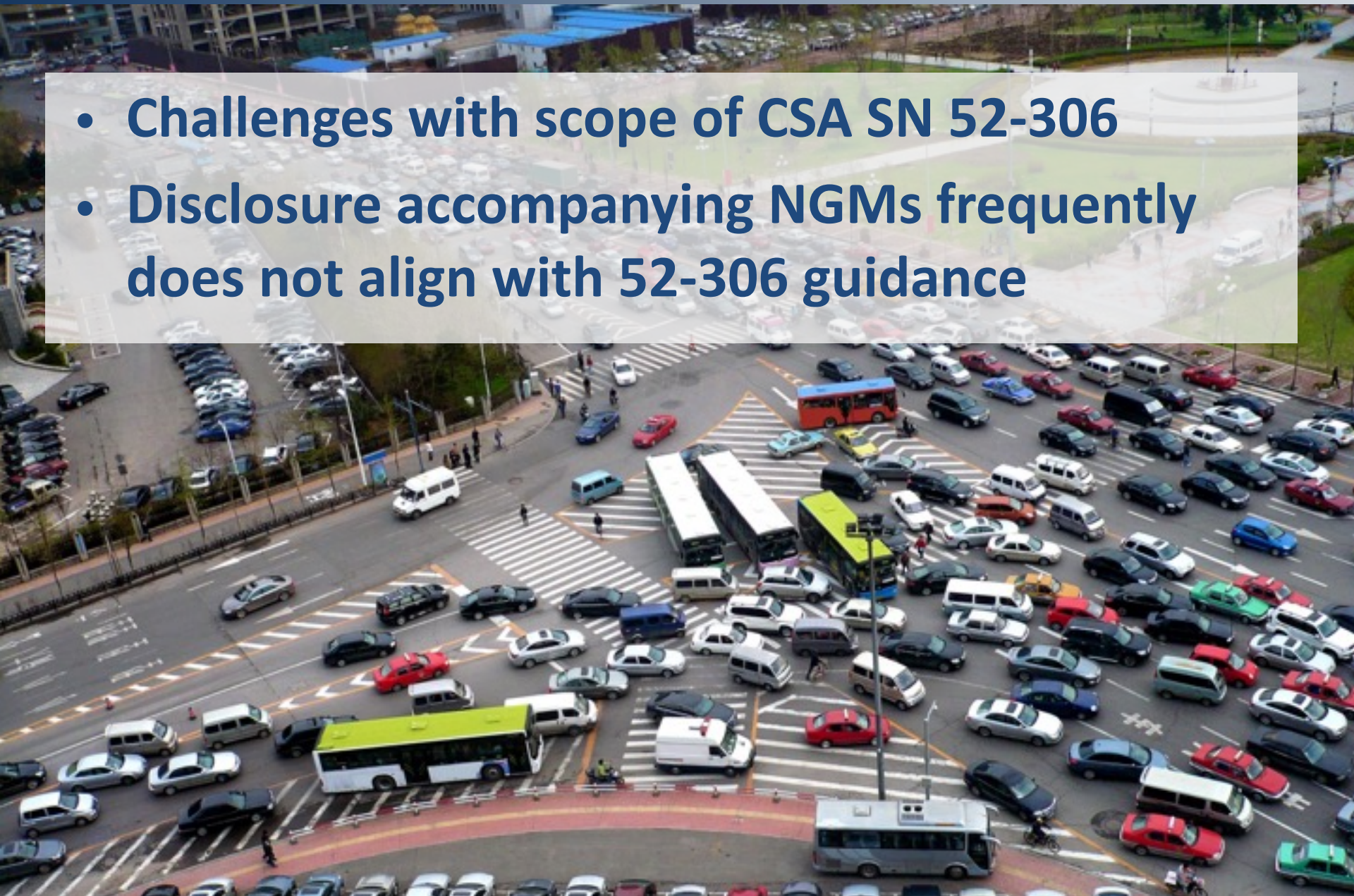
- Liquidity and capital resources
- Overall performance
- Non-GAAP measures and forward-looking information

- Targeted review – transition disclosure re IFRS 15 - Revenue from Contracts with customers
- IFRS Discussion Group*, October 2017
 - Q1 2018 disclosure
 - Q2 & Q3 2018 cross-referencing

* <http://www.frascanada.ca/international-financial-reporting-standards/ifrs-discussion-group>

CSA Project - Non-GAAP financial measures

- Challenges with scope of CSA SN 52-306
- Disclosure accompanying NGMs frequently does not align with 52-306 guidance



CSA Project - Non-GAAP financial measures

Non-GAAP financial measure – current definition SN 52-306

- A numerical measure of an issuer's historical or future financial performance, financial position or cash flow that is not specified, defined or determined under the issuer's GAAP and is not presented in an issuer's f/s
- A non-GAAP financial measure excludes amounts that are included in, or amounts that are excluded from, the most directly comparable measure specified, defined or determined under the issuer's GAAP

CSA Project - Non-GAAP financial measures

Staff Notice 52-306 – Disclosure Guidance:

- Warn “No standardized meaning, may not be comparable”
- Name the NGM in a manner that does not mislead and distinguish the NGM from GAAP measures
- Explain why the NGM is useful to investors and how management uses it
- Present the most comparable GAAP measure with equal or greater prominence to that of the NGM
- Reconcile the NGM to the most comparable GAAP measure
- Do not identify adjustments as non-recurring, unusual or infrequent if a similar ones in past/next two years
- Present on a consistent basis, and explain any changes

CSA Project - Non-GAAP financial measures

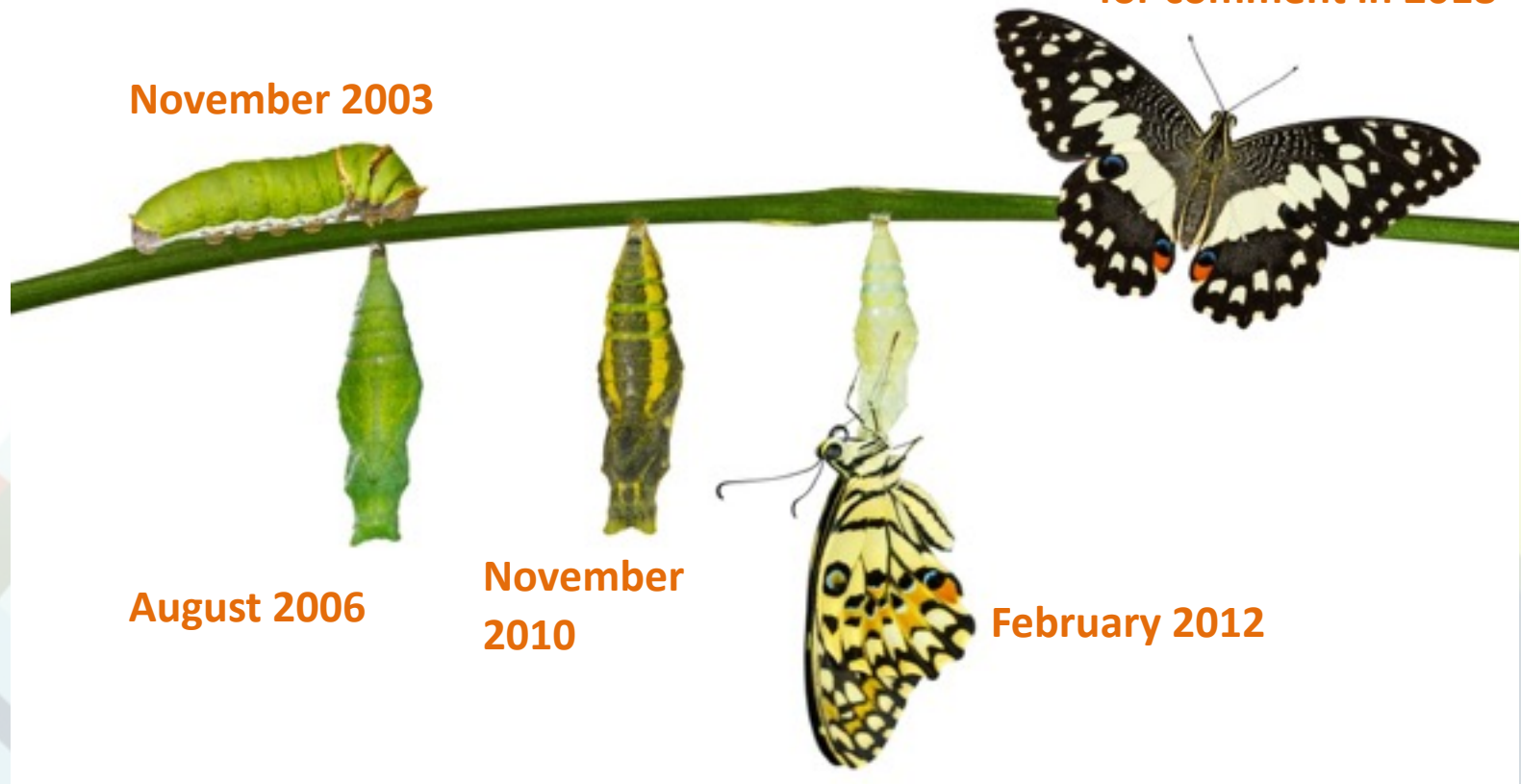
Recent findings and concerns

Identification	Naming	Usefulness
Measure not identified as NGM	Does not convey meaning or distinguish from GAAP measures Inappropriately described as non-recurring, frequent or unusual	No explanation of how the NGM provides useful information.
Prominence	Breadth	Reconciliation
NGM given greater prominence than most comparable GAAP financial measure	Large number of NGMs	No/poor reconciliation of NGM to most comparable GAAP measure

CSA Project - Non-GAAP financial measures

- CSA project to shift from guidance to rule
- Considering scope, terminology, effect on certification of controls

New rule – plan publish for comment in 2018



CSA Project - Non-GAAP financial measures

CSA Chief Accountants Committee comments on the IASB proposals on performance measures (Disclosure Initiative):

- **Do not support permitting an entity to provide information necessary to comply with IFRS Standards outside the f/s**
- **IFRS should define EBIT and EBITDA**
- **Support efforts to delineate unusual or infrequent items**
- **Recommend prohibiting inclusion in f/s of:**
 - **performance measures not relevant to an understanding of the f/s**
 - **financial measures recognized or measured on a different basis than permissible under IFRS**
- **Recommend not permitting presentation of performance measures adjacent to, or alongside, the primary f/s**

CSA Project - Non-GAAP financial measures



CSA Project – 52-108 Auditor Oversight

- **CSA Consultation Paper 52-403 – Auditor Oversight Issues in Foreign Jurisdictions**
 - Component auditor registration with CPAB
 - Public disclosures about CPAB access restrictions
- **CSA Working group is considering comments received and a path forward**

CSA Project - Audit Committee Reporting

- **We asked:**
 1. **Would investors benefit from disclosure about how the AC:**
 - addressed the significant issues in f/s, and
 - oversees the external auditor?
 2. **Would additional disclosure requirements impact AC activities and performance?**
- **CSA decision to not proceed with a concept paper at this time**

CSA Project - Reducing Regulatory Burden



CSA Project - Reducing Regulatory Burden

Key themes from comment letters:

- **Streamline continuous disclosure**
- **Remove or modify criteria to file a Business Acquisition Report**
- **Consider an alternative prospectus model**
- **Enhance electronic delivery**

CSA Project - Reducing Regulatory Burden

Comments from stakeholders on f/s:

- Eliminate overlap between f/s and MD&A
- Put f/s, MD&A and other information (AIF) in one document, similar to the US 10-K
- Support for auditor review of interim f/s in a prospectus
- Mixed views on semi-annual vs. quarterly f/s

Topical Accounting issues

- **Cryptocurrency**
- **Marijuana**
- **Leases**
- **Impact of changes to US tax system**



Cryptocurrency

- Today's discussion is limited to holdings of cryptocurrencies
- Other issues – accounting for:
 - futures in cryptocurrency
 - costs of establishing a distributed ledger (i.e. blockchain)
 - mining activities

Cryptocurrency

- Is cryptocurrency an asset?
- If conclude yes, what standards apply?
 - Intangible asset – IAS 38
 - Financial asset – IAS 32/IAS 7
 - Inventory – IAS 2
 - Analogy to IAS 40 - Investment Property, GAAP hierarchy, and IAS 8.10-12)
- No definitive conclusions – IFRS Discussion Group discussed January 10, 2018

Is cryptocurrency an asset?

- **Asset: resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity**



Cryptocurrency – an intangible asset?

- Intangible asset definition in IAS 38: identifiable, non-monetary asset without physical substance
- IAS 38 scope section refers to IAS 2 Inventories for intangible assets held for sale in the ordinary course of business
- IAS 38: cost model, or revaluation model if there is an active market (gains through OCI, losses through P&L)

Cryptocurrency – an intangible asset?

- **Alternative view - IAS 38 does not apply**
 - IAS 38 assumes intangible assets held to generate cash flows directly as indicated by the examples provided in IAS 38.9-10
 - IAS 1.19: management concludes compliance with a requirement in an IFRS would be so misleading (i.e. measuring cryptocurrency using cost model) that it would conflict with objectives of the Framework

Cryptocurrency – a financial asset?

- **Cash?**
 - **Lacks broad acceptance as a medium of exchange**
- **Other financial asset?**
 - **FI: a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity or a contract that will or may be settled in the entity's own equity instrument**
 - **No “contract”**

Cryptocurrency – inventory?

- **definition of inventory in IAS 2 includes “assets held for sale in the ordinary course of business”**
- **IAS 2 does not apply to inventories held by commodity broker-traders who measure their inventories at FVLCS**

Cryptocurrency holdings – analogize to IAS 40?

- IAS 38 focus - assets used in production of cash flows
- IAS 2 focus is goods sold in ordinary course of business, not items held for investment purposes
- Unlike the approach for intangible assets, IFRS distinguishes between tangible assets held for investment purposes vs. for use or consumption (IAS 40 and IAS 16)

Cryptocurrency – FVTPL?

- Digital currencies may be held for speculative or investment purposes
- Digital currencies have features similar to cash and traditional commodities
- FVTPL may provide comparable, verifiable and understandable information to users
- IFRS 13 guidance on how to measure FV (even in cases of inactive markets)

Cryptocurrency - disclosure considerations

- **Accounting policy for recognition and measurement**
- **Information about holdings and changes**
 - Physical quantities
 - Increases due to mining vs. increases due to acquisitions
 - Disposals
 - Change in value

Disclosure considerations

- If measured at fair value:
 - FVLCS?
 - What level in the hierarchy? Level 1 requires an active market
 - primary market?
 - Valuation technique, sensitivity analysis
 - If mining, revenue recognition policy?

Hot Topics - Marijuana

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- A growing industry; media attention; volatility
 - CSA Staff Notice 51-352, Oct. 16, 2017 - disclosure necessary to fairly present material facts, risks & uncertainties re activities in the US
 - Canadian securities regulators statement following rescission of the Cole Memorandum, January 12, 2018

Cannabis growth cycle (simplified)

IAS 41 - Agriculture

IAS 2

Plant seeds

“Biological transformation”

Point of harvest

Inventory



Biological Assets

Agricultural
produce

Recognize changes in fair value

Lower of cost or
net realisable
value

IAS 41 Agriculture

- Recognize biological asset initially at FVLCS (exception IAS 41.30 if FV measures unreliable)
- Subsequent measurement at FVLCS; gains and losses through P&L
- Upon harvest:
 - Becomes agricultural produce (still IAS 41) or transfer into inventory (IAS 2)
 - Transfer at fair value less costs to sell -> becomes deemed cost

IAS 41 Agriculture

- **Production costs incurred during biological transformation**
 - IAS 41 does not prescribe accounting treatment
 - Disclose policy - expense or capitalize; affects the amount of gain/loss arising from changes in fair value of biological assets

IAS 41 Agriculture - disclosure

- **Reconciliation of changes in carrying amount (par. 50):**

opening balance

+ additions

+ changes in fair value during reporting period

- transferred to inventory during period

= ending balance

IAS 41 Agriculture – disclosure

(non-exhaustive list, cont.)

- **Aggregate gain or loss due to changes in FV**
- **Description of each group of biological assets**
- **Nature of activities for each group**
- **Non-financial measures or estimate of the physical quantities of each group of biological asset and output of agricultural produce**
- **Amounts committed for development or acquisition of biological assets**
- **Financial risk management strategies**

IFRS 13 Fair Value Measurement – disclosure

- valuation techniques and inputs used to develop FV measurements
- Level 3 inputs: reflect assumptions that market participants would use when pricing the asset, including assumptions about risk
- Gain/loss included in P&L
- amount of gain/loss included in P&L attributable to the change in unrealized gains or losses
- Sensitivity analysis (narrative)

Marijuana and non-GAAP financial measures



Sample cash cost per gram disclosure

“Non-IFRS Measures: The Company has included certain non-IFRS performance measures throughout this MD&A, including cash cost of sales and cash cost to produce dried cannabis, each as defined in this section. The Company employs these measures internally to measure its operating and financial performance and to assist in business decision making.

The Company believes that these non-IFRS financial measures, in addition to conventional measures prepared in accordance with IFRS, enable investors to evaluate the Company's operating results, underlying performance and future prospects in a manner similar to Aurora management.

As there are no standardized methods of calculating these non-IFRS measures, the Company's methods may differ from those used by others, and accordingly, the use of these measures may not be directly comparable to similarly titled measures used by others.


Accordingly, these non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Sample cash cost per ounce disclosure

“Cash Cost of Sales and Cash Cost to Produce Dried Cannabis

- Cash cost of sales of dried cannabis produced is calculated by taking the total IFRS cost of sales and removing the effect of changes in fair value of biological assets, non-cash production costs, oil conversion costs, cost of sales from service revenue, and purchases from other Licensed Producers, all divided by the total number of grams of dried cannabis produced in the period.
- Cash cost to produce dried cannabis is cash cost of sales of dried cannabis produced less packaging costs (post-production cost).
- Management believes these measures provide useful information as they measure the efficiency of production and may be a benchmark of the Company against its competitors.”

Marijuana - other accounting issues

- **Goodwill vs. intangibles in an acquisition**
 - Is it a business?
 - If no intangible recognized, reasonable? For example, license obtained?
 - Consider whether contingent consideration reflected properly
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Marijuana - other accounting issues

- **Acquisition of a non-reporting marijuana company by an existing reporting issuer**

If the transaction requires shareholder or Exchange approval and “prospectus-level disclosure” required, the marijuana company may be considered the “issuer” under securities law

Other accounting issues

- **Share-based transactions**
 - **IFRS 2, par 10: transactions measured at the FV of the goods or services received unless not reliable**
 - **IFRS 13 use of transaction price as FV only if market participants are independent of each other**

Thank you!

