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Keeping your head above water

Recent issues in financial reporting

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In this issue

OK, we need to start off by getting one thing straight. You're dreaming in technicolour if you think that we're going to avoid reminding you about the need to consider the effects inflation, interest rate changes and other economic uncertainties may have on your year-end financial reporting and disclosures. If securities regulators around the world are emphasizing this in their communications, who are we to ignore them? Of course, we've got our own views on what your priorities should be.

Economic uncertainties may be all over the headlines now, but the biggest standard setting projects on the table, by far, are the efforts the International Sustainability Standards Board, the SEC and the European Union's development of sustainability reporting standards on a fast-track basis. How have Canadian Securities Administrators responded to these developments and what are their broader reporting implications in a Canadian context. How close to completion are the ISSB, SEC and EU? What are the major changes they're making to their original proposals? When can you expect to see final standards? When and how will Canadian companies that have international reporting obligations apply them? We attempt answers to all of these questions. Some of the answers you may not want to hear!

On the financial statement reporting side, the issues that dominated proceedings of the International Accounting Standards Board in the past few months are much narrower in scope but are still controversial in their effects. Consider, for example, that the Board has had to deal with the uproar that arose when the IFRS Committee issued a decision suggesting that companies have been prematurely recognizing the collection of receivables and the extinguishment of payables, deciding whether goodwill amortization should be reinstated, and scrambling to rush out proposals to allow companies temporary deferred income tax relief from the upcoming Pillar Two global tax regime. They've also finalized amendments to IFRS mandating significant additional disclosures for supplier finance arrangements. As we shall highlight, an issue connecting most of them is the Board's willingness to include disclosures in financial statements that a North American would ordinarily expect to see in the MD&A. If you're unhappy about the growing volume of IFRS disclosures, be warned, it's only going to get worse.

And there you have it – everything you need to know about the major financial reporting developments affecting Canadian public company financial reporting over the past six months. Could anything be better? Wait. Don't answer that.

Financial Reporting and Disclosure During Economic Uncertainty

"An optimist is someone who believes that the future is uncertain."

– Anonymous

Inflation, interest rate increases, supply chain issues, labour shortages, high energy costs, the global financial climate, war in Ukraine, the actions of central banks, the effects of pandemic hangover, government financing, and other disruptive economic forces have been at the top of everyone's mind these days. It will therefore come as no surprise to hear that securities regulators elected to highlight the financial reporting consequences of these developments in their year-end communications. These regulatory communications range from a seven-page missive from the International Organization of Securities Commissions reminding issuers, audit committees and auditors of their reporting responsibilities, to a few brief paragraphs from Canadian Securities Administrators highlighting key accounting and disclosure issues. While the messages vary in manner, length and depth, they were united in emphasizing the need for:

- Constant vigilance by those responsible for overseeing the financial reporting process,
- Careful consideration of the financial statement implications, and
- Transparent disclosures that clearly explain significant management judgments, assumptions, known risks and uncertainties and how changes in these factors may affect amounts and trends reported in historical financial statements.

What? Is that a yawn we hear?

PwC observation. We get it. It's difficult to avoid being cynical about this type of messaging, first because it's couched in largely unhelpful generalities, and second because it's dusted off dragged out of the files every time the economic skies darken, and uncertainty worsens. Virtually the same sentiments were delivered when the pandemic hit, for instance. Of course, just because you've heard the message before doesn't mean you should be ignoring it, especially because the economic factors giving grief today – inflation, interest rate hikes and so forth – can have such pervasive influences on financial reporting.

To give you some idea of how pervasive they can be, our research shows that inflation and interest rate changes can impact over one hundred IFRS accounting or disclosure requirements, some in very subtle ways indeed. (Check out our publication, *Navigating IFRS Accounting Standards in periods of rising inflation*, for our discussion of these effects.) Nobody's going to be subject to every IFRS requirement, of course, but somebody's still going to have to wade through them all to identify which are relevant and consider the implications. While it's true that some economic effects will be obvious (e.g., the impact of interest rate changes on profitability and fair value calculations), others will be much more challenging to identify and address in the current environment. Consider, for example, that predictions of future cash flow may require specific assumptions about price increases over relevant periods, such as rises in energy costs or the impact of volatile foreign exchange rates, limits on the extent to which an entity can pass those price increases on to its customers, changes in customer behaviour and preferences, and the likelihood of financial difficulty of an entity, its customers, suppliers or other counterparties. Scenario analysis may be necessary. Disclosure is another matter altogether. It's no secret that practice in this area has been, well, let's just say, less than impressive, with risk and uncertainty disclosure in financial statements often limited to identifying sources of estimation uncertainty without any quantification of their nature and extent. Whether that's good enough in the present circumstances will depend, of course, but the chances that supplementing that information with specific details surely are much higher than they would be in more benign economic times. Disclosure about key judgments, assumptions and estimates, especially where measurement is very sensitive to such assumptions, needs thoughtful consideration with investors now interested in understanding where estimate lies in the range of possible outcomes as the amount of the estimate itself. Some of these disclosures may be so important that they become Key Audit Matters in auditors' opinions.

CSA Climate-Related Reporting Developments

"I welcome change so long as nothing is altered or different."

– Anonymous

Are Canadian Securities Administrators about to join the ranks of those subscribing to the International Sustainability Standards Board ("ISSB")? Maybe. Sort of.

Recall that late in 2021, the CSA proposed a one-size-fits-all rule for climate-related disclosures – Canadian public companies other than investment funds would have to comply with the recommendations of the Task Force on Climate-Related Disclosures ("TFCD") except that quantification of GHG emissions and scenario analysis showing a company's resiliency to climate change would be optional. We think it's fair to say that the proposal provoked relief about its leniency in some quarters, despair in others.

But that was then. Last October, the CSA announced a major change to its approach in light of international developments. The priority now is on developing climate-related disclosures that support a comprehensive global baseline, but which are proportional to the size and capabilities of Canadian issuers. The CSA therefore will be considering ISSB and SEC developments to see how they might inform and impact their requirements and in particular reviewing Canadian stakeholder responses to those proposals. They'll also be relooking at in more detail the responses received on their own proposals that supported international convergence.

PwC observation. It remains to be seen exactly how supportive the CSA will be of a global baseline modelled after ISSB standards. An obvious issue is that the CSA's objective is to address climate-related reporting only, while the baseline requires disclosure of all sustainability-related risks and opportunities. Although some believe that a broader E, S & G focus would be beneficial for Canada given Canada's strong performance across most of those metrics. A second issue is that the CSA expressed major concerns about certain major aspects of the ISSB's original climate-related proposals. The good news on this score is that the ISSB may have ameliorated at least some of those concerns by softening some of its requirements in its redeliberation of its proposals – see the page after the next. A third issue the CSA may have to address is the possibility of significant differences emerging between the SEC's and the ISSB's climate-related disclosures. For example, what would the CSA's response be if rumours in the US prove to be true that the SEC is about to drop its proposed Scope 3 GHG emissions disclosure requirement? We suspect that the CSA global allegiance might not extend to imposing such obligations on Canadian issuers if they don't apply in the US. An option would be for the CSA to adopt the ISSB standards accepting certain qualifications. When might the CSA introduce its new rules? All we can say is that it can't happen before the ISSB, and SEC complete theirs. Stay tuned.

International Sustainability Reporting Developments

"No problem is so big or so complicated that it can't be run away from!"

– Charlie Brown

For Canadian companies with international operations or listed on foreign exchanges, CSA climate-related requirements won't be the only thing governing their sustainability reporting obligations – complying directly with ISSB, SEC or EU standards may be necessary as well, at either the top company or subsidiary level (see the next page). That factor throws into sharp relief questions that otherwise would be of academic interest. Why might companies be caught? How close to completion are the standards? When can you expect them to be published and what will their effective dates be? How do their underlying frameworks compare? What changes can you expect from the exposure drafts? We address these questions on the following page.

Of course, the publication of these standards is only the beginning. You can expect a second wave of copycat sustainability reporting requirements in the next few years as other jurisdictions consider, adopt and adapt them for local reporting purposes. China and the UK among others, for example, have already announced that they'll be adopting ISSB standards, and many others are considering this option. Canadian entities will be affected to the extent that the top company or any subsidiaries in these jurisdictions are required to file sustainability reports in accordance with these requirements.

PwC observation. By far the biggest issues investors and companies have expressed about a tripartite model of sustainability reporting is, of course, having to cope with the differences between them. In response, the ISSB, SEC and EU have worked to align their requirements and improve their interoperability (e.g., use same definitions, terminology and metrics) as much as possible. This has been so successful that the European Financial Reporting Advisory Group, the EU body responsible for drafting EU standards, now expects that complying with its standards means that you will have automatically complied with the ISSB's too (the reverse, alas, may not necessarily be true). Another response in some jurisdictions has been to provide, or consider providing, interjurisdictional exemptive relief. For example, in its original proposals the SEC asked constituents for views on whether it should be exempting companies that report under EU standards and proposed exempting Canadian MJDS registrants from its MD&A disclosures (but not necessarily its financial statement reporting requirements). Also, as we shall see on the next page, under EU legislation a non-EU company will satisfy any EU reporting requirements that otherwise would apply if it's following standards that are equivalent to the EU's. Warning. The EU has yet to decide the criteria that have to be satisfied to establish equivalency, but whatever they might be there's considerable skepticism that complying with CSA or SEC climate-related only reporting requirements will be sufficient to pass the test. That's a problem whose only solution may be capitulation.

International Sustainability Standards Overview – Key Issues

	ISSB	SEC	EU
Potential impact on Canadian public company reporting requirements	CSA is assessing how ISSB developments might inform and impact their own reporting requirements. Foreign subsidiaries may be required to meet local jurisdictional requirements based on ISSB standards.	CSA is assessing how SEC developments might inform and impact their reporting requirements. SEC requirements will apply to Canadian SEC Form 20F filers and Canadian issuers that voluntarily comply with SEC reporting rules. Whether MJDS filers are exempt from the non-financial reporting aspects will depend on the SEC's analysis of feedback.	Canadian companies to file sustainability reports on worldwide operations under EU rules if they have listed securities on EU exchange or subsidiaries or branches that meet certain size tests unless Canadian reporting is equivalent. EU reporting for EU subsidiaries and branches necessary if the Canadian parent doesn't follow EU reporting. See Appendix.
Stage of development	Expected to be published as soon as possible in 2023. IOSCO expected to endorse promptly.	Staff still reviewing responses to proposed rules.	CSRD framework adopted by EU Council. Detailed standards submitted to EU with approval expected by June 30, 2023.
Standards/rules to be issued	General requirements and disclosures for disclosure of sustainability-related risks and opportunities Climate-related	Climate-related.	General requirements General disclosures Climate Pollution Water & marine resources Biodiversity & ecosystems Resources & circular economy Own workforce Workers in value chain Affected communities Customers & end users
When effective	Expected to be available for adoption in 2024.	Originally proposed for 2023-2025 depending on size but seems likely there will be some delay.	2024-2028. See Appendix.
Materiality principle	Investor focused.	Investor focused.	Investors and broader stakeholders.
Incorporates TFCD recommendations and architecture (governance, strategies, risk management, targets, and metrics)?	Yes	Yes, except does not require disclosure of climate-related opportunities.	Yes
Requires Scope 3 GHG emissions as well as 1 & 2?	Yes	Yes	Yes
Requires financial statement climate-related disclosures?	No	Yes (both IFRS and GAAP)	No
Major changes to original proposals that have been announced	Improved scalability, SASB industry-specific disclosures must be considered but are not mandatory for the required industry-specific disclosures, softened scenario analysis disclosure, possible relief for application of GHG Protocol Standards in specific circumstances, possible of Scope 3 GHG disclosure, e.g., effective date and safe harbours, possible short term transition relief to allow delayed reporting, and clarifying disclosures relating to emissions targets.	None.	Disclosures cut by half, eliminated rebuttable materiality presumption, established three-year phase in for certain disclosures, not requiring reporting by value chain partners during this period.
Next standards to be developed	ISSB is considering.	?	Two sector standards covering ten industries plus ESRS for SMEs.

Derecognizing Receivables and Payables

"The first thing we do, let's kill all the lawyers."

– Henry VI, Shakespeare

In the summer we told you about the IFRS Interpretations Committee agenda decision whose implication is that companies often have been prematurely recognizing the collection of receivables and the extinguishment of payables and their related cash consequences. Such was the wailing and gnashing of teeth that arose in response that the Board had to step in to calm things down.

Here's what it did:

- In September it postponed deciding whether to ratify the Committee's decision. Good thing, too. Otherwise, companies would have had to get onside with the Committee's decision as soon as possible, e.g., for 2022 year-ends.

- In November, it agreed to issue an exposure draft proposing to amend IFRS derecognition requirements. It's proposing two changes. The first is to make it explicit that you've got to wait until the rights of the creditor to receive cash and the obligation of the debtor to deliver it have been satisfied before you can derecognize receivables and payables, unless the Board tells you can do something else. Why such an amendment is necessary if, as the Committee has pointed out, IFRS already requires this accounting? It's not. Rather, it's just the IASB wanting to make sure that it's got your attention, like the sergeant getting in the recruit's face and yelling "Do you understand!". The second change is to allow companies to derecognize payables before they're settled if payment is made via electronic fund transfers. Absent such relief, a company often would have to set up a one-, two- or three-day receivable from a bank, assuming the company's payable is settled only when the funds hit the creditor's bank account. This relief would take the form of an accounting policy choice (similar to how there is a policy choice for regular way trades of securities allowing companies to choose between trade & settlement date accounting) and certain criteria have to be met to apply it. These include, importantly, not having the ability to revoke a transfer once you've initiated it. What about relief for payables settled by cheque or collection of receivables? You're stuck with the settlement date approach (i.e., no more "deposit in transit" or "outstanding cheque" type items in bank reconciliations).

The exposure draft will have a comment period of 120 days. When the amendments are passed, the Board has announced that the Committee's agenda decision summary will be dropped on the basis that it's been superseded.

PwC observation. In practice, companies often have been derecognizing receivables and payables immediately upon receiving or writing a cheque or initiating an electronic funds transfer. This is derived from the historical view that such actions necessarily increase the recipient's cash and reduce cash controlled by the writer. If these actions are sufficient to affect cash, so the argument goes, logically they surely must also result in the extinguishment of the related receivable or payable – how, for example, can you say that you've got the cash from a receivable but still have the receivable? Waiting until settlement to record these transactions means, of course, that you've got to identify when settlement happens by assessing the terms and conditions of the underlying contracts and the laws and regulations governing them, which often will mean bringing in lawyers. Why then did the Board not propose the same relief for receivables or payables that are settled by cheque that it's offering for payables settled by electronic cash transfer? The Board thought the real issue for receivables is whether they can be presented as cash or cash equivalents. As to cheques, it felt it wasn't possible to develop appropriate relief, and anyway, cheques are a dying breed. Although the Board refused to address when a receivable might be classified as cash, IASB staff highlighted that the IFRS definition of cash includes only demand deposits. This raises the question whether existing practices that take a more expansive view of cash should be reconsidered, e.g., the classification merchant's credit card receivables from banks.

Goodwill Amortization and Business Combination Disclosure

"Never say never again."

– James Bond

Extra! Extra! Read all about it. The IASB has joined the FASB in deciding not to reintroduce goodwill amortization.

The Board decided against reintroducing goodwill amortization on the basis that there wasn't sufficient evidence justifying changing the existing rules. Effectively the Board adopted the rule in sports, where the call on the field is overturned only if the evidence is unambiguous that it was wrong.

The Board's now pressing on with the other main part of its project – improving business combination disclosures. A few months ago, it agreed, tentatively, that the acquirer should disclose the following information for these transactions.

- The strategic rationale.
- In the year of the combination, quantitative information about the expected synergies.

And significantly…

- For strategically important business combinations, management's objectives for the combination, the metrics and targets that it will use to monitor whether the objectives are being met, and in subsequent periods for as long as management monitors the combination against those objectives, the extent to which objectives and targets are being met using those metrics.

A strategically important business combination is one where the acquiree's operating profit, revenue or total assets are greater than 10% of the acquirer's at the acquisition date, or when the entity enters new geographical area of operations or a new major line of business.

Entities are exempt from having to disclose information if they meet criteria that demonstrates that doing so would result in competitive harm, but the exemption wouldn't apply to disclosures for periods after the combination occurs.

There's some work for the Board to do before these disclosures find their way into an exposure draft and ultimately a final standard, but be warned, the die is cast.

PwC observation. It would be folly to think that the question of whether goodwill amortization should be reinstated won't be resurrected sometime in the future. As one Board member commented, amortization is almost an article of religious faith for its supporters, just as non-amortization is one for those holding the opposing view. While the question may pop up when the Board undertakes its comprehensive project to revisit intangible assets, our expectation is that the issue has been shelved for at least a decade (it'll take at least that long for the project to get done). The proposed business combination disclosures are a different matter altogether. The central issue here, is whether these disclosures belong in financial statements. The Board was persuaded they do on the grounds that including this information in the MD&A, isn't feasible, first because not everybody in the world has a management commentary, and second because of fear that the information wouldn't be provided on a consistent basis. That decision is consistent with the comments expressed a few years ago by the then Vice Chair of the IASB, who defended the introduction of alternative performance measures in IFRS financial statements on the basis that not every jurisdiction has an SEC to oversee their companies' reporting. The Board arguably playing the dual role of securities regulator and standards setter is one reason the volume of disclosures in IFRS financial statements keeps growing. It is a legitimate question to ask what basis the Board is using to decide what MD&A type information should find its way into the financial statements and what should not.

Accounting for Pillar Two Top-Up Tax on Multi-National Enterprises

"The future ain't what it used to be."
– Yogi Berra

We have good news. The IASB has agreed to provide a temporary exemption from having to recognize any deferred income taxes arising from the new Pillar Two global taxation system. An exposure draft will be coming your way soon.

Under Pillar Two, multi-national enterprises with global revenue of €750 million will be subject to potential top-up income taxes if they operate in any low tax rate jurisdictions that have adopted the Pillar Two regime. The top-up tax to be paid is the amount necessary to bring the entity's effective tax rate for that jurisdiction up to 15%. That rate is calculated considering tax incentives, tax exemptions or additional tax deductions, which means that some enterprises may be required to pay the top up tax on profits earned in Canada. The Board is jumping on this issue because the expectation is that some jurisdictions will adopt Pillar Two in 2023 as early as the first half of the year. Canada has yet to announce when it will.

The IASB decided to provide an exemption for deferred taxes because Pillar Two is a complex set of new rules that wasn't contemplated when IFRS deferred tax rules were established, and no one quite knows how to deal with it yet. Of course, you're not getting off entirely scot-free – the quid pro quo is enhanced disclosure – see the sidebar. As we discuss below, this may constitute the proverbial worm in the apple.

PwC observation. The objective of the disclosures is to provide as much information as possible to financial statement users about the future effects of Pillar Two, recognizing that companies are still evaluating the requirements. The Board believes that disclosure jurisdictions where its existing effective income tax rate is currently below 15% provides an admittedly imperfect proxy of whether a company will have to make a cash top-up in the future and what that payment might be. Whether that is in fact the case, or whether such disclosure may prove to be misleading, is an important question constituents should be focusing on in their response to the exposure draft. The exposure draft will only have a 60-day comment period because the Board wants to amend the deferred tax rules as quickly as possible.

Proposed Pillar Two Disclosures for MNEs

In periods before the Pillar Two model rules are in effect, and for the current period only (i.e., no comparatives):

- Information about legislation enacted—or substantively enacted—to implement the Pillar Two model rules in jurisdictions in which the entity operates.
- Whether the entity (a) operates in jurisdictions in which it reasonably expects to be taxed below the minimum rate and therefore would be subject to top-up tax; or (b) operates in jurisdictions in which its effective tax rate, calculated based on existing requirements, is below 15% for the current period.
- The jurisdictions in which the entity's effective tax rate, calculated based on existing requirements, for the current period is below 15%. For these the entity would also disclose their combined accounting profit before tax, income tax expense and the resulting weighted-average effective tax rate. This would be determined by disaggregating information disclosed in the tax rate reconciliations IFRS requires.
- Whether the work the entity has already done in preparing to comply with Pillar Two indicates that there are jurisdictions in relation to which the entity might be exposed to paying top-up tax and that aren't included in the jurisdictions identified above or might not be exposed to and that are included.

The IASB also tentatively decided to require an entity to disclose for all relevant periods:

- That it's applied the temporary exception, and
- Current tax expense related to the Pillar Two top-up tax.

The disclosures to introduce the temporary exception and the fact that the entity has applied it would be effective as soon as the amendments are issued. The remaining disclosures would be effective for annual reporting periods starting on or after January 1, 2023. The exposure draft would have only a 60-day comment period.

Supplier Finance Arrangements

"In the beginning there was nothing. And the Lord said: "Let there be light." And there was still nothing, but now you could see it."

– Terry Pratchett

Supplier finance arrangements aren't popular in Canada, but they've attracted lots of interest elsewhere. This is largely because they have been used for evil as well as good. Evil because some companies by their non-disclosure have been misleading investors about the nature and extent of these arrangements. SFAs have been identified as contributing factors to surprise bankruptcies and liquidity crises in the US, UK and other jurisdictions. The IFRS Interpretations Committee issued clarifying guidance a few years ago, but which had a negligible effect on practice. Now the big guns are stepping in.

SFAs involve a customer entering into an agreement with a finance provider where the financer pays the customer's supplier invoices directly, with the customer paying the financer, either at the invoice date or later, sometimes substantially later. Had the customer borrowed the money from the finance provider and paid the supplier directly, the payment would, of course, reduce operating cash flow. However, the risk is that a purchaser classifies that cash outflow as a financing activity in the statement of cash flows. The result would be that KPIs based on operating cash flows will look better than reality given the company is buying the same inputs used for revenue generating activities.

The IASB has tentatively agreed to amend IFRS to require additional disclosures about supplier finance arrangements. These include:

- Key terms and conditions,
- The carrying amount of the liabilities to finance providers and the line item where they're located on the balance sheet,
- The amount of the above that suppliers have already been paid,
- The range of due dates on payables to the finance provider (e.g., 30, 40, 50 days after the invoice date), and
- The range of due dates on accounts payables to suppliers that aren't part of an SFA.

The Board expects to issue a final standard in the second quarter of 2023.

PwC observation. How do you mitigate the risk that a cash flow statement shows nothing in cash flow operating activities for payments to a supplier? By disclosure of course. Put simply, the Board's objective is to give users enough information to allow them to recast the statement in a way that suits their needs the best, including what the statement would be if the customer had received the funds from the finance provider and paid the supplier directly. This drama is the latest illustration of why the Board needs to revisit the cash flow statement presentation requirements generally, something investors have been demanding for decades given increasing reliance on cash flow KPIs. The IASB added a project to its agenda this year. You might say that it finally saw the light.

CSA Continuous Disclosure Reviews – the Bad and the Ugly

"Nothing travels faster than the speed of light with the possible exception of bad news, which obeys its own special laws."
– Douglas Adams

Every two years we have the melancholy task of reporting on the results of the CSA's continuing disclosure reviews for the last two years. Melancholy, of course, because the CSA necessarily focuses on reporting that which needs improvement. Huzzahs are rare, well, non-existent.

Of the filings reviewed during the 12 months ended March 31, 2022, 10% were referred to enforcement, over 20% required refiling and almost 30% were fixed in future filings. That meant that only 40% of filings got a clean sheet, down by 10% compared to the previous year. The CSA doesn't break down those percentages by size of issuer, but we're willing to bet serious money that the greater proportion of deficiencies were concentrated in smaller issuers.

The CSA program includes special issue-oriented reviews, always a useful barometer for assessing where the CSA sees reporting risks. There was more emphasis on climate change reporting, which isn't surprising, and a substantial increase in focus on technical compliance with special mining and oil and gas special reporting requirements. CSA staff also undertook a review of non-GAAP measures to assess how well companies are applying the CSA new disclosure rules. Deficiencies include:

- Failure to include the required quantitative reconciliations to the nearest GAAP measure;
- Giving more prominence to non-GAAP results than GAAP ones;
- Not providing the total of segment measures or disclosures; or
- Labelling supplementary financial measures confusingly.

The usual cast of characters making an appearance in the specific list of other deficiencies the CSA chose to highlight this year, are shown in the sidebar below. These were accompanied by a discussion of the specific problems, the relevant reporting requirements and, in some cases, illustrative examples of poor and good disclosures.

PwC observation. We were surprised to see relatively little in the report about the quality of Canadian company ESG reporting despite the focus in special issue-oriented reviews.

CSA Other Common Reporting Deficiencies	
Financial statements	Revenue recognition matters Disclosures about credit risk exposure, operating segments and business combinations
MD&A	Insufficient information provided by venturers and development stage enterprises about significant projects Assumptions and basis for forward-looking disclosures and updates thereto
Other	Failure to file business acquisition reports Inconsistencies and outdated information in disclosure documents Audit committee composition and responsibilities Greenwashing in news releases Mineral project disclosures Inappropriately incorporating by reference in investor presentations

Appendix

Effective Dates of European Sustainability Reporting Standards ("ESRS") for Non-EU companies and their EU Subsidiaries and Branches

Effective in, first reporting	Applies to	Reporting Basis*
2024, first reporting 2025	Any non-EU parents and EU subsidiaries that are large listed companies, banks or insurance companies that have more than 500 employees and thus are subject to the existing sustainability requirements, the Non-Financial Reporting Directive. Otherwise…	ESRS
2025, first reporting 2026	Non-EU parents or "large"** EU subsidiaries with securities listed on an EU exchange. Non-listed EU subsidiaries at least one of which is large and qualifying EU branches***.	ESRS
2026, first reporting 2027	SMEs listed on an EU exchange, other than micro-enterprises, and certain EU small and non-complex financial institutions and captive insurance undertakings.	ESRS for SMEs
2028, first reporting 2029	Parents that have at least one large subsidiary or qualifying branch and at least €150 million in EU turnover for last 2 years.	"Third country" ESRS standards****

***Reporting required unless sustainability reporting standards to which the parent entity is subject in Canada are equivalent to EU standards. The equivalency exception is not permitted for EU subsidiaries with securities listed on an EU exchange.**

****Large subsidiaries meet two of the following criteria – a balance sheet of more than €20 million, net turnover of €40 million and 250 employees on average in the year.**

*****Turnover more than €40 million.**

******To be developed by EU based on ESRS.**

More details can be found at:
https://viewpoint.pwc.com/dt/us/en/pwc/in_the_loop/in_the_loop_US/whatscsrduscompaniesneed.html

For more information

This newsletter has been prepared for the clients and friends of PwC by National Accounting Consulting Services. For further information on any of the matters discussed, please feel free to contact any member of ACS, or your PwC engagement leader. This newsletter is available from the PwC Canada web site, which is located at https://www.pwc.com/ca/en/services/accounting-advisory-services.html.

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Capital Markets Accounting Advisory Services

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Complex Mergers and Acquisitions

- Carve-out financial statements
- Pro-forma financial information
- Accounting function integration

IPOs and Capital Market Transactions

- Readiness assessments for public reporting
- Advice on regulatory and exchange requirements
- Assistance with financial statements, prospectus and other documents
- Assistance with due diligence process
- Advice on alternatives

Regulatory Issues and Restatements

- Assistance with offering documents
- Support in responding to regulatory comments and requests
- Advice on alternatives

GAAP / IFRS Interpretation and Conversions

- Diagnostic summary of key impacts on transition
- Evaluation and development of accounting policies
- Training development
- Support in analyzing and documenting technical accounting issues

Accounting Standard Adoption

- Adoption of new standards under IFRS, US GAAP and Canadian GAAP for Private Enterprises
- Diagnostic summary of key impacts on adoption
- Evaluation and development of accounting policies
- Training development and implementation
- Support in analyzing and documenting technical accounting issues

Other Services and Products

- On-site assistance / expert secondment
- Quantitative analysis and model development
- Tax Accounting Services
- Viewpoint
- Automated Disclosure Checklists
- PwC IFRS Manual of Accounting

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