CCGG Statement on Full and Clear Disclosure in Financial Reporting

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Canadian Coalition for GOOD GOVERNANCE

CCGG believes that the accounting standards upon which corporate reporting are based should be principles-based and produce information that is understandable to the financially literate. The application of those principles should produce financial statements that accurately reflect economic reality.

CCGG believes that public companies should explain their financial performance using full and plain disclosure. Consistent with CCGG's policies relating to effective disclosure, financial information should be written and presented in a manner such that it is:

1. easy to find;
2. easy to understand;
3. accurate and complete; and
4. given in context so that the information has meaning.

CCGG expects boards, through their audit committee, to welcome this full and clear reporting standard as a means to further enhance their communication with shareholders. Clear and plain disclosure is an effective and constructive communication tool that will ultimately lead to a better alignment of the interests of shareholders with the interests of the board and management.

In order to achieve full and clear financial disclosure, boards and audit committees must work together with their financial statement preparers to ensure financial reporting meets the four criteria of good disclosure described above. CCGG regards full and clear disclosure as an important part of an integrated approach to good governance. Clarity in disclosure of corporate governance practices, executive compensation plans and financial reporting provide shareholders with the necessary tools to make informed investment and proxy voting decisions.

CCGG recommends that all boards follow this best practice. CCGG intends to monitor issuers' financial reporting and highlight areas that would benefit from more complete and clearer disclosure.

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In particular, CCGG recommends that issuers ensure that they:

- prepare financial statements that are simpler and easier to understand
- clearly identify which pages of the financial statements are audited and which are not
- clearly identify whether quarterly financial statements and financial information contained in press releases have been audited or not
- improve reporting of capital expenditures by:
  - separating them into growth and maintenance
  - better explaining how capital expenditures relate to the ability of a firm to provide goods and services
- fully disclose related parties, related party transactions and conflicts of interest
- follow the CICA's guidance for the disclosure of non-GAAP financial matters and any equivalent guidance that may be issued under IFRS

CCGG will continue to work with the appropriate regulatory bodies and standard setters to improve financial reporting disclosure in the following areas:

- cash flow statements: CCGG believes cash flow statements should be presented using the direct method
- variable interest entities/special purpose entities including all costs and expenses associated with these vehicles
- Increased depth in segment reporting including the provision of both consolidated and unconsolidated financial statements

Issuers should note that the above principles are intended to apply equally to the standards under IFRS and issuers should keep these principles in mind both during and after their conversion to IFRS.