FINANCIAL REPORTING DEVELOPMENTS

Public companies (IFRS reporting)

November 20, 2024

Building a better working world

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AGENDA

01 **Regulatory Update**
Ontario Securities Commission

02 **IFRS 18 Presentation and Disclosure in Financial Statements**

03 **Accounting Implications of Recent Tax Legislation**
- EIFEL Rules
- Taxes on Share Buyback

04 **AI in Finance & Responsible AI**

REGULATORY UPDATE

Ontario Securities Commission

Ontario Securities Commission

Regulatory Update

Ontario Securities Commission

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Agenda

Climate-related Matters

Financial Reporting Trends and Focus Areas

Regulatory Perspective – New IFRS Accounting Standards

Climate-related Matters

Climate Related Disclosures Journey: Rule-making

Oct. 2021
Proposed National Instrument 51-107 published for comment

Mar. 2022
Proposed SEC rules and ISSB exposure drafts published for comment

Oct. 2022
CSA update to the market

Apr. 2023
CSSB chair and initial members appointed

June 2023
Final ISSB standards published and CSSB became operational

July 2023
CSA welcomes ISSB standards and IOSCO endorsement

Oct. 2023
CSA update to the market

Climate Related Disclosures Journey: Rule-making (cont.)

Feb. 2024
ISSB issues preview of adoption guide

Mar. 2024
SEC approves climate rules

Mar. 2024
CSSB publishes exposure drafts for comment

Mar. 2024
CSA welcomes CSSB consultation and sets out rule-making process

Apr. 2024
SEC stays rules pending resolution of litigation

June 2024
Comment period closes for CSSB consultation

Climate – Canadian Path Forward

1. We are engaging with the CSSB

2. We intend to conduct further consultations to adopt disclosure standards based on ISSB standards, with modifications as necessary

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Climate – Key Rule-Making Considerations

- Policy rationale for approach
- Proportionality and scalability
- Quantitative disclosures
- Liability considerations

Financial Reporting Trends and Focus Areas

Business Combinations

Observation:

Business combinations based on exchanging significant amounts of equity interests and recording mainly goodwill or intangible assets at the acquisition date

	Areas of Deficiency
Financial Statements	• Qualitative description of the factors that make up the goodwill balance *[IFRS 3 B64(e)]*
MD&A Disclosure	• Why did management decide to pay a significant amount over the fair value of the net identifiable assets? • Discuss specifics of intangible assets to explain what it represents, including material components and stage of development
Other	• If record impairment loss for goodwill or intangible assets within 12 months from date of acquisition, substantial MD&A disclosure needed: ○ What were circumstances leading to the impairment ○ What key inputs or assumptions that changed for impairment compared to purchase price allocation

Goodwill Impairment Considerations

Observation:

Issuers do not provide sufficient information about CGUs

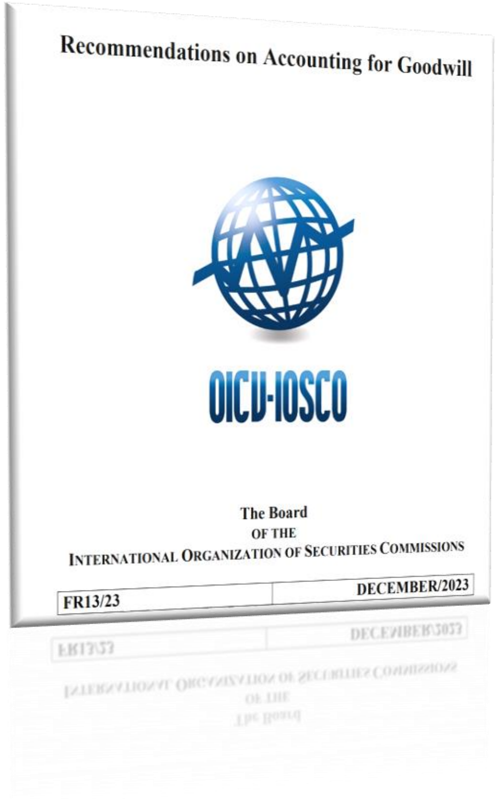
Issuers do not provide required disclosure for instances where a reasonably possible change to key assumption(s) would cause CGU carrying amount to exceed the recoverable amount.

	Areas of Deficiency
Financial Statements	• Description of CGU required when impairment loss recognized or reversed *[IAS 36.130(d)(i)]* • If goodwill in a CGU represents a significant portion entity's total goodwill, additional information required about the CGU and recoverable amount determination *[IAS 36.134]*

MD&A Disclosure	• Overall performance discussion should:
	  • Discuss reasons leading to the impairment at the CGU level
	  • How continuing operations contributed to the recoverable amount being lower than carrying amount
	  • Information on 'close call' results from impairment assessment that indicate limited headroom remaining for goodwill

Other	• IOSCO paper – Recommendations on Accounting for Goodwill

IOSCO Publication – Recommendations on Accounting for Goodwill


Recommendations on Accounting for Goodwill

OICU-IOSCO

The Board
OF THE
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

FR13/23 DECEMBER/2023

- Publication was motivated by:
  - Risk of unrecognized impairment on accumulated goodwill balances (‘too little, too late’)
  - Limited or no disclosure of ‘close call’ scenarios
  - Inadequacy of disclosures of key assumptions and questionable validity of assumptions underlying estimated cash-flows used to test for impairment
- Report includes ***recommendations for issuers, audit committees, and external auditors*** that aim to enhance the reliability, faithful representation and transparency of goodwill recorded and disclosed by issuers
- Topic of goodwill impairment continues to be an area of priority and focus for the regulatory community

Expected Credit Losses (ECL)

Observation:

Issuers do not disclose enough information to enable investors to understand nature and extent of credit risk arising from its financial assets

	Areas of Deficiency
Financial Statements	• Disclose key inputs and assumptions, including how forward-looking information has been incorporated into the determination of ECL *[IFRS 7.35G]* • Disclose more information about collateral and how it is impacting the ECL assessment for financial assets *[IFRS 7.35K]*
MD&A Disclosure	• Discuss information necessary to enhance a user's understanding of the issuer's financial position and performance ○ Carefully consider further disclosure on the impact of the economic environment on the factors used to measure ECL • If there are liquidity risks associated with financial assets, issuers should discuss these as part of its liquidity analysis
Other	• Challenges with the timeliness of identifying when there has been a significant increase in credit risk

Disaggregation of Revenue

Observation:

Issuers do not disaggregate revenues in a manner that allows readers to understand how nature, amount, timing and uncertainty of revenue affected by economic factors.

	Areas of Deficiency
Financial Statements	• Preparers are not adequately considering whether multiple categories of disaggregation may be needed *[IFRS 15.114]* • Preparers need to consider how revenue is presented for other purposes, such as disclosure outside of financial statements *[IFRS 15 B88]* • Presenting one reportable segment does not exempt an issuer from required revenue disaggregation disclosure.
MD&A Disclosure	• Analysis should be provided for each category of disaggregated revenue
Other	• Neither IFRS 15 or MD&A requirements contain an exemption from disclosing information because preparer is of view that it is “commercially sensitive”.

Overly Promotional Disclosure

Observations:

- Promotional activities that are untrue or unbalanced to the extent that investors may be mislead
- Notable areas of concern are ‘greenwashing’ and ‘AI washing’

	Key Considerations
Greenwashing	• Disclosing net-zero target with no indication what is included in target and no credible plan to achieve target • Claiming product or service ESG “friendly” or “compliant” without disclosure citing basis for claim
AI Washing	• Unsubstantiated statements about use of AI technology ○ “Company uses most advanced AI technology” ○ “Company leading competitors in use of AI to support its business”

Regulatory Perspectives

New IFRS Accounting Standards

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IFRS 18 Presentation and Disclosure in Financial Statements

Responds to investors demands

All entities affected

Disclosing the impact of IFRS 18

- Progressively more detailed as effective date approaches

Non-GAAP financial measures

- Reflect on number disclosed *outside* financial statements

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IFRS 19 Subsidiaries without Public Accountability: Disclosures

- Permits certain subsidiaries of reporting companies to voluntarily provide reduced financial statement disclosures.
- Entities "without public accountability".

Acceptance in Regulatory Filings	
Reporting Issuer Financial Statements	X
Issuer Financial Statements: IPO, Short-Form Prospectus, or Information Circular	X
Acquisition Financial Statements[1]	+
Registrant Financial Statements	X
Financial Statements Filed under an Existing Undertaking	X

[1] If eligible subsidiary, additional disclosure considerations.

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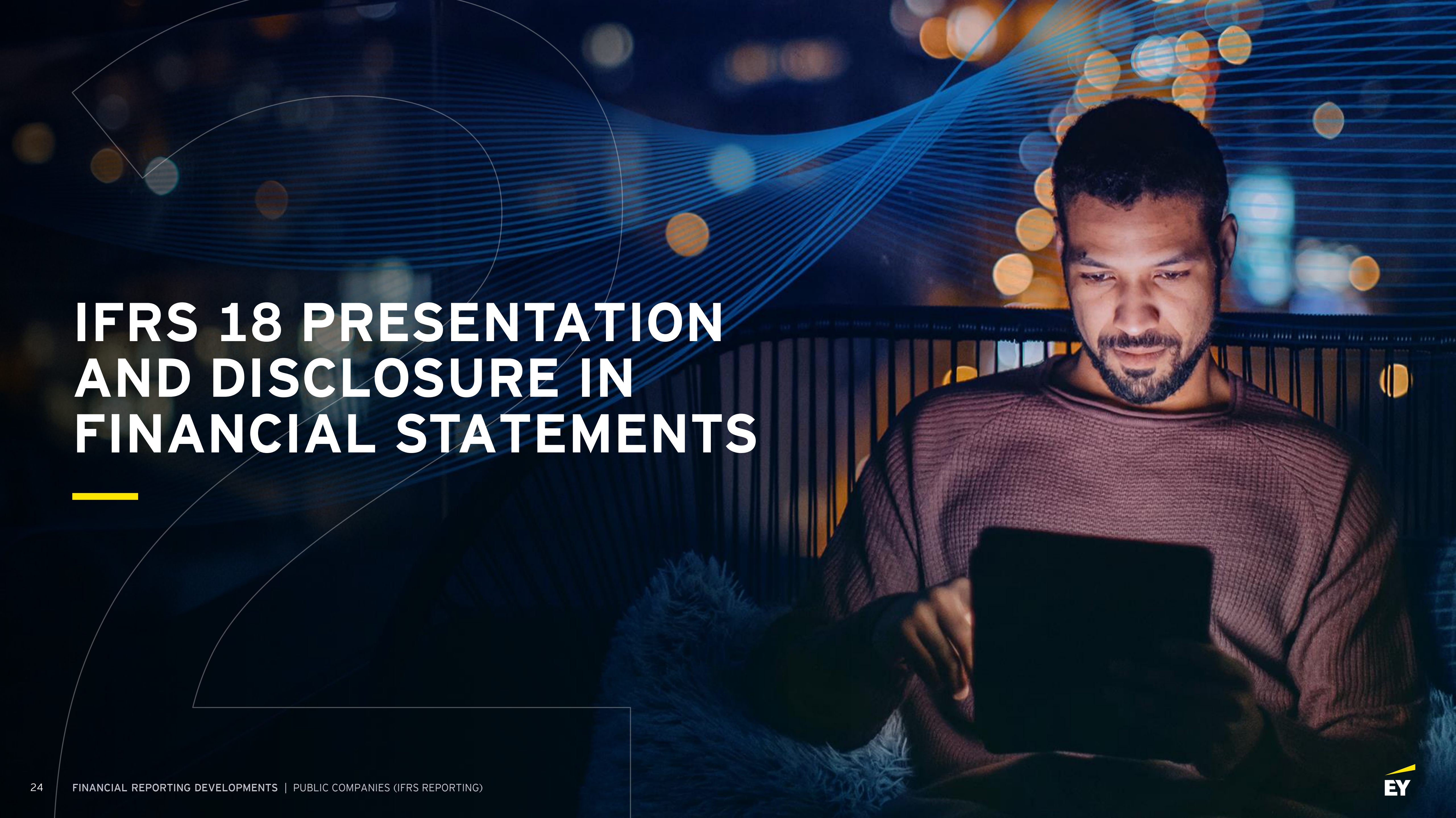
Questions?



IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

IMPACT ON THE COMPLETE SET OF FINANCIAL STATEMENTS

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

PRIMARY FINANCIAL STATEMENTS

- Statement of financial position (Minimal changes)
- Statement of profit or loss (Significant changes)
- Statement presenting comprehensive income (Minimal changes)
- Statement of changes in equity (Minimal changes)
- Statement of cash flows (Some changes)

NOTES TO THE FINANCIAL STATEMENTS

- Management defined performance measures (Significant changes)
- Disclosure of expenses aggregated in the operating category by function (Some changes)
- Other disclosures carried forward to IFRS 18 or IAS 8 (Minimal changes)
  - Material accounting policies
  - Sources of estimation uncertainty
  - Capital management
  - Debt covenants
  - Going concern uncertainty
  - Fair presentation
  - Compliance with IFRS Accounting Standards

Significant changes | Some changes | Minimal changes

OVERVIEW OF THE NEW REQUIREMENTS

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

New categories and required subtotals in statement of profit or loss

Disclosures about management-defined performance measures (MPMs)

Enhanced requirements:

- on aggregation and disaggregation
- presentation and disclosure of expenses classified in the operating category

CATEGORIES AND SUBTOTALS IN THE STATEMENT OF PROFIT OR LOSS

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

Revenue	Operating
Cost of sales	
Gross profit	
Other operating income	
Selling expense	
Research and development expenses	
General and administrative expenses	
Goodwill impairment loss	
Other operating expenses	
Operating profit	
Share of profit from associates and joint ventures	Investing
Gains on disposals of associates and joint ventures	
Profit before financing and income tax	
Interest expense on borrowings and lease liabilities	Financing
Net interest expense on net defined benefit liability (or asset)	
Profit before income tax	
Income tax expense	Income taxes
Profit from continuing operations	
Loss from discontinued operations	Discontinued operations
Profit for the year	

Some companies, such as banks and investment property companies, will classify income and expenses in their operating profit that other companies would classify in the investing or financing categories.

This will allow such entities to report key performance metrics within the operating section.

NEW ITEMS

REQUIRED ITEMS

CATEGORIES IN THE STATEMENT OF PROFIT OR LOSS: INVESTING

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

WHAT IS TYPICALLY INCLUDED IN THE INVESTING CATEGORY?

Income and expenses from assets that generate a return individually and largely independently of other resources held by an entity

- Rental income and remeasurements of investment property
- Interest income and fair value changes on financial assets
- Dividends and fair value changes on non-consolidated equity investments

Income and expenses from investments in unconsolidated subsidiaries, associates and joint ventures accounted for using the equity method

Income and expenses from cash and cash equivalents

CATEGORIES IN THE STATEMENT OF PROFIT OR LOSS: FINANCING

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

WHAT IS TYPICALLY INCLUDED IN THE **FINANCING** CATEGORY?

All income and expenses from liabilities from transactions that involve only the raising of finance

- Receipt and return of cash or company's own shares
- Debt instruments that will be settled in cash e.g., bank loans

Interest income and expenses and effects of changes in interest rates from other liabilities (Note that this is not an exhaustive list.)

- Lease liabilities
- Defined benefit pension liabilities
- Decommissioning or asset restoration provision
- Litigation provision

CATEGORIES IN THE STATEMENT OF PROFIT OR LOSS: OPERATING

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

WHAT IS TYPICALLY INCLUDED IN THE OPERATING CATEGORY?

Income and expenses:

- From an entity's main business activities
- Not classified in other categories (residual category)
- Also includes volatile and unusual income and expenses

Provides a picture of the entity's operations

SPECIFIED MAIN BUSINESS ACTIVITIES

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

IFRS 18 REQUIRES AN ENTITY TO ASSESS WHETHER IT

- Invests in assets to generate a return individually and largely independently of other resources held by an entity as a main business activity?
- Provides financing to customers as a main business activity?

WHETHER AN ENTITY HAS SPECIFIED MAIN BUSINESS ACTIVITIES

- Is a matter of fact and not merely an assertion
- Entity uses judgement to assess
- Based on observable evidence to the extent available
- Assessed for the reporting entity as a whole

THE ASSESSMENT IS A CONTINUOUS ONE AND MAY CHANGE OVER TIME

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MANAGEMENT-DEFINED PERFORMANCE MEASURES (MPMs): DEFINITION

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

Subtotals of income and expenses not specified by IFRS Accounting Standards

Used in public communications outside financial statements

Measures that communicate management's view of an entity's financial performance

WHAT ARE MPMs?

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

PERFORMANCE MEASURES

FINANCIAL PERFORMANCE MEASURES

SUBTOTALS OF INCOME & EXPENSES

- Adjusted profit or loss
- Adjusted operating profit
- Adjusted EBITDA

- Operating profit
- Operating profit before depreciation amortisation and specified impairments

Other measures that are not subtotals of income and expenses

- Free cash flow
- Return on equity
- Net debt
- Adjusted revenue

Non-financial performance measures

- Number of subscribers
- Customer satisfaction score
- Store surface

IDENTIFYING AN MPM

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

Is the measure a subtotal of income and expenses? — NO →

Is the measure used in public communications outside financial statements? — NO →

Is the measure included in the list of subtotals in IFRS 18 that are not MPMs or specifically required to be presented or disclosed by IFRS Accounting Standards? — YES →

Does the measure communicate management's view?*

YES

Is there reasonable and supportable information to rebut the presumption?* — YES →

MPM – disclosure requirements for MPMs are applied to that measure

NOT AN MPM – DISCLOSURE REQUIREMENTS FOR MPMS ARE NOT APPLICABLE

*It is presumed that a subtotal of income and expenses used in public communications communicates management's view; a company is not required to consider whether to rebut the presumption

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MPMs: REQUIRED DISCLOSURES

IFRS 18 introduces requirement to disclose in a single note:

- Explanations of why, in the management's view, the MPM provides useful information about the entity's financial performance.
- How the MPM is calculated
- A reconciliation between the MPM and the most directly comparable subtotal or total defined in IFRS
- The income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation and description of how the entity determined the income tax effect
- Label and describe each MPM in a clear and understandable manner that does not mislead users
- Any changes in MPMs shall be explained and comparative information shall be restated to reflect the change

AGGREGATION AND DISAGGREGATION

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

Roles of primary financial statements and the notes

- Primary financial statements are to provide a useful structured summary
- Notes are to provide further information and supplement the primary financial statements

Principles for aggregation and disaggregation

Considering similar and dissimilar characteristics

- in the primary financial statements would result in a useful structured summary
- in the notes would result in material information

Aggregating items and using meaningful labels

Use meaningful labels

- Use the label 'other' only when unable to find a more informative label
- Label as precisely as possible

Additional disclosures required if aggregated amounts of immaterial items are sufficiently large that users might question whether the amount includes material items

DISCLOSURE OF EXPENSES CLASSIFIED IN THE OPERATING CATEGORY

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

If one or more line items comprising expenses classified by function are presented in the operating category an entity shall disclose

In a single note the total of each:

- Depreciation
- Amortisation
- Employee benefits
- *Impairment losses and reversals*
- *Write-downs and reversals on inventories*

A qualitative description of the nature of expenses included in each function line item

Also, required to disclose

- *Amount related to each line item in the operating category*
- *List of any line items outside the operating category that also include amounts relating to the total*

Items in *italics* are new requirements

CONSEQUENTIAL AMENDMENTS TO OTHER STANDARDS

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

NARROW-SCOPE AMENDMENTS MADE TO:

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

- Name changed to IAS 8 Basis of Preparation of Financial Statements
- Some requirements previously included within IAS 1 moved to IAS 8

IAS 34 *Interim Financial Reporting*

- Amended to require disclosure of MPMs

IAS 33 *Earnings per Share*

- Restrict the types of additional earnings per share measures that entities can disclose

IAS 7 *Statement of Cash Flows*

- Require the use of 'operating profit or loss' as the mandatory starting point for entities using the indirect method
- Largely remove the current optionality for classifying cash flows from interests and dividends

TRANSITION

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

EFFECTIVE DATE	Reporting periods beginning **on or after 1 January 2027**
EARLY APPLICATION	PERMITTED
APPLICATION	RETROSPECTIVELY

- In the year of adoption and thereafter, entities that prepare condensed interim financial statements in compliance with IAS 34 must present the same headings and subtotals it expects to use in their annual financial statements and will also need to include disclosures on management-defined performance measures.
- Use of "IFRS Accounting Standards" when referring to IFRSs regarding accounting standards issued by the IASB

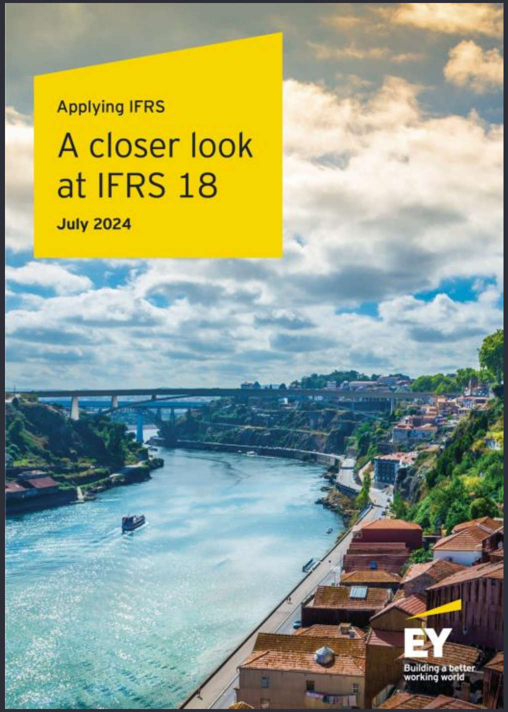
CONSIDERATIONS WHEN IMPLEMENTING IFRS 18

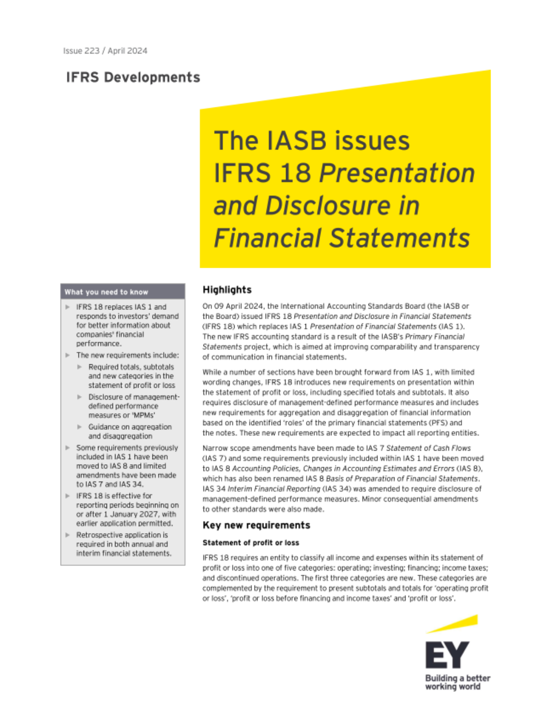
IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

CONSIDERATIONS

- Updating processes and IT systems
- Updating chart of accounts
- Updating internal controls over financial reporting
- May affect company's key performance indicators, budgets and forecasts
- Revisiting debt agreements and remuneration policies
- Use of judgment

FOR MORE INFORMATION ON IFRS 18:




Issue 223 / April 2024

IFRS Developments

The IASB issues IFRS 18 *Presentation and Disclosure in Financial Statements*

What you need to know

- IFRS 18 replaces IAS 1 and responds to investors' demand for better information about companies' financial performance.
- The new requirements include:
  - Required totals, subtotals and new categories in the statement of profit or loss
  - Disclosure of management-defined performance measures or 'MPMs'
  - Guidance on aggregation and disaggregation
- Some requirements previously included in IAS 1 have been moved to IAS 8 and limited amendments have been made to IAS 7 and IAS 34.
- IFRS 18 is effective for reporting periods beginning on or after 1 January 2027, with earlier application permitted.
- Retrospective application is required in both annual and interim financial statements.

Highlights

On 09 April 2024, the International Accounting Standards Board (the IASB or the Board) issued IFRS 18 *Presentation and Disclosure in Financial Statements* (IFRS 18) which replaces IAS 1 *Presentation of Financial Statements* (IAS 1). The new IFRS accounting standard is a result of the IASB's *Primary Financial Statements* project, which is aimed at improving comparability and transparency of communication in financial statements.

While a number of sections have been brought forward from IAS 1, with limited wording changes, IFRS 18 introduces new requirements on presentation within the statement of profit or loss, including specified totals and subtotals. It also requires disclosure of management-defined performance measures and includes new requirements for aggregation and disaggregation of financial information based on the identified 'roles' of the primary financial statements (PFS) and the notes. These new requirements are expected to impact all reporting entities.

Narrow scope amendments have been made to IAS 7 *Statement of Cash Flows* (IAS 7) and some requirements previously included within IAS 1 have been moved to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8), which has also been renamed IAS 8 *Basis of Preparation of Financial Statements*. IAS 34 *Interim Financial Reporting* (IAS 34) was amended to require disclosure of management-defined performance measures. Minor consequential amendments to other standards were also made.

Key new requirements

Statement of profit or loss

IFRS 18 requires an entity to classify all income and expenses within its statement of profit or loss into one of five categories: operating; investing; financing; income taxes; and discontinued operations. The first three categories are new. These categories are complemented by the requirement to present subtotals and totals for 'operating profit or loss', 'profit or loss before financing and income taxes' and 'profit or loss'.

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ACCOUNTING IMPLICATIONS OF RECENT TAX LEGISLATION

- EIFEL Rules
- Taxes on Share Buy Back

EXCESSIVE INTEREST AND FINANCING EXPENSE LIMITATION (EIFEL) RULES

1 OBJECTIVE

- To address concerns about taxpayers deducting excessive interest and financing costs.
- Targeted to multinational enterprises with cross border intercompany financing structures but will also apply to purely Canadian businesses.

2 RULES

- Determines the restriction on deductibility of net interest and finance expenses (IFE)

30% of ATI

- Fixed-ratio rules: IFE deduction limited to 30% of "adjusted taxable income" ("ATI", which approximates EBITDA).
- Group-ratio rules: A higher percentage may apply for a consolidated group, subject to certain conditions.

3 CARRYFORWARD

- Disallowed IFE is referred to as restricted IFE or "RIFE".
- Excess capacity (IFE less than 30% of ATI in a year) can be carried forward three years.
- RIFE can be carried forward indefinitely.

EIFEL rules were implemented with enactment of Bill C-59 on June 20, 2024 (substantively enacted on May 28, 2024).

EIFEL - DTA RECOGNITION CONSIDERATIONS

IAS 12.24 - A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

RIFE DTA

- RIFE can be carried forward indefinitely
- Carryforward RIFE can create a DTA

Excess Capacity

- Can be carried forward three years
- Not a temporary difference or a loss carryforward
- No DTA to be recognized

Sources of recoverability for RIFE DTA

- Reversal of taxable temporary differences
- Forecasted income projections
- Tax planning opportunities
- EIFEL excess capacity

EIFEL - REVERSAL OF TAXABLE TEMPORARY DIFFERENCES

Only items impacting ATI to be considered

- Only DTLs that impact ATI/EBITDA may be considered a source of taxable income to support recognition of a DTA related to RIFE
- DTLs related to depreciable assets, intangible assets, and other DTLs where reversal does not impact ATI/EBITDA, would generally not be a source of taxable income to support a RIFE DTA.

Interest deductibility room will only be generated on 30% of ATI

- Not sufficient to conclude that RIFE DTA can be recognized because an entity is in a net DTL position
- 30% ratio must be applied
  - For example, a $2,000 DTL related to a derivative or pension asset (which will impact ATI/EBITDA upon reversal) would support only $600 ($2,000 DTL x 30% limit) of carryforward RIFE.

EIFEL - FORECASTED INCOME

SUBSTITUTION VS REALIZATION

- Cannot recognize DTAs where the utilization of the DTA creates an attribute that itself cannot be recognized
  - Cannot recognize a Net Operating Loss (NOL) where it is being utilized due to increased taxable income resulting from the future denial of interest from EIFEL and the future denied interest (RIFE) cannot be benefited based on forecasts
  - Cannot recognize RIFE where it is projected to be used but would result in the creation of NOLs that cannot be benefited

Forecasts may be used to support the recognition of a deferred tax asset relating to RIFE

Forecasts needs to be supportable and consistent with forecasts used elsewhere by the Company

EIFEL - EXAMPLE: RECOGNITION OF RIFE DTA BY FORECASTED INCOME

ASSUMPTIONS:

- Canco, a Canadian entity, has a calendar year-end.
- Canco's statutory tax rate is 25%.
- In 2024, Canco has RIFE of $200.
- Forecast ATI/EBITDA after 2027 is Nil.
- No other temporary differences or losses carried forward in prior or future years.

Year	2025	2026	2027
Forecasted ATI/EBITDA	1,000	1,200	1,500
Forecasted Interest Expense	350	350	350

- When only relying on forecasted income, can any of the $200 RIFE carryforward be recognized?

EIFEL - EXAMPLE: RECOGNITION OF RIFE DTA BY FORECASTED INCOME (CONT'D)

Year	2025	2026	2027
Forecasted ATI/EBITDA	1,000	1,200	1,500
EIFEL Inclusion Rate	30%	30%	30%
IFE Deduction Capacity	300	360	450
Forecasted Interest Expense (IFE)	350	350	350
Excess Capacity / (RIFE)	(50)	10	100
Total Net Room / (Utilization)			60
Existing RIFE Carryforward			200
DTA Recognized (60 * 25% tax rate)			15
DTA Unrecognized ([200 – 60] * 25% tax rate)			35

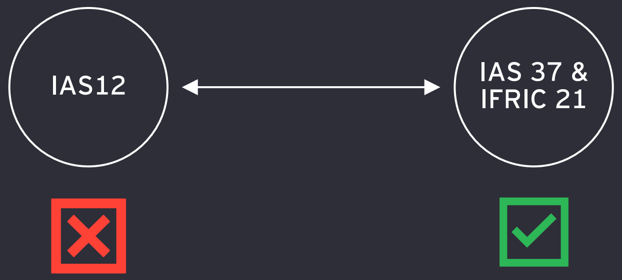
TAXES ON SHARE BUY BACK

Bill C-69: TAX ON NET SHARE REPURCHASES

2% tax

- Enacted on June 20, 2024
- 2% tax applicable to value of net share repurchases greater than $1 million, occurring on or after January 1, 2024.

ACCOUNTING CONSIDERATIONS



- Outside scope of IAS 12.
- Accounted for as a "levy" in accordance with IAS 37 and IFRIC 21.
- The tax is calculated based on **net** share repurchases at the end of a reporting period.
- Not appropriate to anticipate future share issuances to reduce the liability on repurchases made to date.
- The tax is treated as a direct incremental cost to acquiring own equity instruments and would be recognized as a deduction from equity (IAS 32.37).

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AI IN FINANCE & RESPONSIBLE AI

Technology Risk

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GENAI HAS DIFFERENT CAPABILITIES THAN TRADITIONAL AI SYSTEMS

Traditional AI

Traditional AI systems involve models that are trained to perform a single, specific task using defined algorithms, rules and data sets.

Traditional AI applications

- Calculations/ predictions
- Classification
- Recommendations
- Anomaly detection

GenAI

GenAI ascertains patterns or distributions of labeled and unlabeled data provided during model training to generate new content. The generated content can take several forms:

GenAI modalities

- Text
- Code
- Audio
- Image
- Video
- 3D/specialized

AI USE IS NOT WITHOUT ITS CHALLENGES …

Joint tech/strategic thinking

Selecting use cases necessitates joint knowledge of AI technology and business models, current market opportunities and forecasts, and competitive landscapes.

Future-proofing investments

Organizations need to be sure before undertaking prototypes and deployments that sizable investments will not be rendered obsolete.

Right-sizing projects

Models should be carefully selected to maximize performance for a given budget; extremely high-performance models should be deployed judiciously.

Model proliferation

Organizations have difficulty keeping track of the veritable selection of current generative models across different modalities, with new ones being released each day.

Rapid tech development

It can be daunting to keep track of new technical milestones, progress and capabilities across different open-source and private enterprises.

Lack of deep technical talent

Few organizations have the necessary expertise in computer science, machine learning, AI and data engineering to successfully deploy at scale.

Balancing impact and risks

When considering customer-facing applications and integration with enterprise systems, potential risks should be weighed against and market impact to ensure a balanced approach.

Ethical and legal landscape

Attention must be paid to the quickly evolving landscape around GenAI including intellectual property, privacy and copyright infringement.

Unintended consequences

Unexpected, disastrous, non-performative, and/or embarrassing outcomes should be anticipated and monitored closely.

GLOBAL TRENDS: AI REGULATORY INSIGHTS

First, we need to ask whether countries will regulate AI before we address how they will regulate.

37 AI bills were enacted globally in 2022 and rising in 2023.

75% of the global population will have its personal data covered under privacy regulations by 2024.

The EU AI Act Is positioned to become the global standard once passed, similar to GDPR.

United States

- The White House issued an AI Executive Order (EO), and multiple states are regulating AI
- Sector-based AI regulation
- Pre-national legislative acts: AI Bill of Rights, National Institute of Standards and Technology (NIST) framework, Big Tech voluntary agreements

European Union

- EU AI Act is primarily concerned with unacceptable/high-risk activities
- Spain, the first EU member to establish an AI regulatory body, known as the Spanish Agency for the Supervision of AI

Rest of world

- G7 AI Guiding Principles and Code of Conduct/recent UN AI guidance
- Japan – copyrighted content can be used to train AI systems
- China AI regulations only apply to the private sector, not the government; aligns with China's 2030 Next Generation AI Development Plan

HEIGHTENED RISKS OF THE USE OF AI

Risk carried over from existing AI models

Data/technology risk Data capability Existing data capabilities (e.g., data modeling, storage, processing) and data governance (e.g., lineage and traceability) may not be sufficient for fine-tuning and business use of LLM.	**Data/technology risk** Technology capability LLM adoption increases the computational needs and therefore potentially impact the current use of infrastructure by other business use.
Cyber risk Cyber attack and adversarial attack Training data and trained LLM model may be leaked out of the institution or vendor platform due to cyber attack or adversarial prompt engineering.	**Conduct/compliance risk** Bias/fairness Large volume of training data used in pre-training may introduce bias and unfairness. Complex model (~100bn parameters) and training processes make it hard to identify and control bias.
Operational risk Business continuity Heavy reliance on third-party pre-trained complex LLM, may aggravate the business continuity.	**Model risk** Explainability The large number of model parameters makes the LLM a black box and lack of explainability.

Heightened risks of LLMs

Model risk Hallucination Pre-train LLMs can cause hallucination due to pre-training process and LLM's heavily reliance on transfer learning.	**Conduct/compliance risk** Toxic information Similar to bias, toxic information can be introduced by training data used in pre-train, which is hard to avoid due to large training data volume and data sources.
Data/technology risk Data host, sharing, retention and security The nature that LLMs are all third-party based leads to concerns of data breach issue for all data used in fine-tuning and input data to the use cases and prompt.	**Data/technology risk** Data privacy and PII data Model fine-tuning may access internal confidential data and PII data for unintendedly. Trained LLM models may contain sensitive/confidential information. Lack of use control may cause data breaches.
Legal/regulator risk Lawsuit and reg penalty The risk in compliance, conduct, data potentially violate laws and regulations. Complex and heterogeneous jurisdictional differences aggravates risks.	**Third-party risk** LLMs provided by third party Pre-trained LLM models are all third-party based and institutional uses will heavily rely on the vendor provided LLM capabilities and release of new version updates.
Legal/regulator risk Copyright The ownership of products generated by LLM may be ambiguous given that GenAI has creative nature.	**Reputational risk** Linked to all other risks All the above risks may lead to reputational damages to the organization.

RESPONSIBLE AI FRAMEWORKS ARE LINKED TO THE ORGANIZATION'S ETHICAL CODE OF CONDUCT

1 Top three priorities of your responsible AI program to support your AI strategy

Purpose – the why?

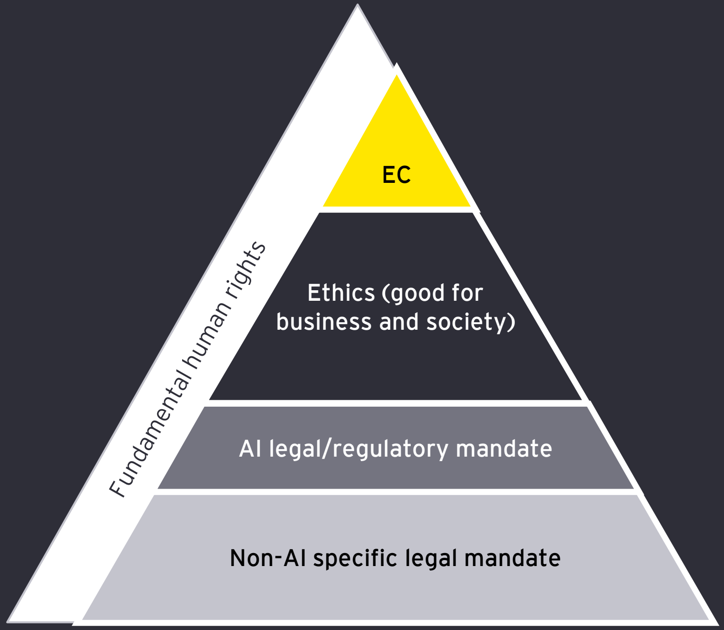
Compete – remove friction and establish networks to accelerate AI innovation speed-to-market and scale

Protect – safeguard the company's assets and preserve value with AI

Accelerate – achieve speed to market while complying with applicable regulations

2 Develop an ethical compass for your AI strategy

Value – the what?



3 Apply the Responsible AI framework

Principles – the how?

Delivered through the enablement of principles:

- Accountability
- Explainability
- Reliability
- Fairness
- Transparency
- Data Protection
- Compliance
- Sustainability
- Security

WHY SHOULD AI ADOPTION START WITH GOVERNANCE?

Why?

Establishing a governance framework **maximizes upside value** and **minimizes downside risk**

Organizations who lead with governance ...

- Understand and mitigate risks of AI before they materialize
- Proactively identify high-value areas for AI deployment
- Scale learnings and best practices discovered in early pilots
- Adopt AI at scale and maximize impact across functions and business units

Organizations who don't lead with governance ...

- Reactively address risks, often inadequately
- Adopt AI in siloes, which limits scale, ROI and visibility
- Create prioritization chaos which results in fragmented investment
- Repeat mistakes across BUs throughout the AI adoption lifecycle, increasing the risk posture of the organization

QUESTIONS?

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APPENDIX A

IASB Workplan (as of October 9, 2024)

IASB WORKPLAN: COMPLETED PROJECTS

Topic		Related Standard	Effective date
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)		IAS 1	January 1, 2024
Non-current Liabilities with Covenants (Amendments to IAS 1)			
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)		IFRS 16	January 1, 2024
Disclosures: Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)		IAS 7 and IFRS 7	January 1, 2024
Lack of exchangeability (Amendments to IAS 21)		IAS 21	January 1, 2025
Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)		IFRS 9, IFRS 7	January 1, 2026
Annual Improvements to IFRS Accounting Standards – Volume 11	Cost Method (Amendments to IAS 7)	IAS 7	January 1, 2026
	Derecognition of Lease Liabilities (Amendments to IFRS 9)	IFRS 9	January 1, 2026
	Determination of a 'De Facto Agent' (Amendments to IFRS 10)	IFRS 10	January 1, 2026
	Disclosure of Deferred Difference between Fair Value and Transaction Price (Amendments to Guidance on implementing IFRS 7)	IFRS 7	January 1, 2026
	Gain or Loss on Derecognition (Amendments to IFRS 7)	IFRS 7	January 1, 2026
	Hedge Accounting by a First-time Adopter (Amendments to IFRS 1)	IFRS 1	January 1, 2026
	Introduction and Credit Risk Disclosures (Amendments to Guidance on implementing IFRS 7)	IFRS 7	January 1, 2026
	Transaction Price (Amendments to IFRS 9)	IFRS 9	January 1, 2026
Presentation and Disclosure in Financial Statements		IFRS 18	January 1, 2027
Subsidiaries without Public Accountability: Disclosures		IFRS 19	January 1, 2027

IASB WORKPLAN: STANDARD-SETTING PROJECTS

Topic	Next milestone	Expected date
Business Combinations – Disclosures, Goodwill and Impairment	Exposure Draft feedback	October 2024
Second Comprehensive Review of the IFRS for SMEs Accounting Standard	IFRS for SMEs Accounting Standard	Q1 2025
Equity Method	Exposure Draft feedback	Q1 2025
Dynamic Risk Management	Exposure Draft	H1 2025
Management Commentary	Final Revised Practice Statement	H1 2025
Rate-regulated Activities	IFRS Accounting Standard	H2 2025
Financial Instruments with Characteristics of Equity	Final Amendments	2026

IASB WORKPLAN: MAINTENANCE PROJECTS

Topic	Next milestone	Expected date
Provisions – Targeted Improvements	Exposure Draft	November 2024
Power Purchase Agreements	Final Amendments	December 2024
Translation to a Hyperinflationary Presentation Currency (IAS 21)	Exposure Draft Feedback	Q1 2025
Updating IFRS 19 Subsidiaries without Public Accountability: Disclosures	Exposure Draft Feedback	Q1 2025
Addendum to the Exposure Draft Third edition of the IFRS for SMEs (Small and Medium-sized Enterprises) Accounting Standard	IFRS for SMEs Accounting Standard	Q1 2025
Climate-related and Other Uncertainties in the Financial Statements	Exposure Draft Feedback	Q1 2025

IASB WORKPLAN: RESEARCH PROJECTS

Topic	Next milestone	Expected date
Intangible Assets	Review Research	October 2024
Statement of Cash Flows and Related Matters	Review Research	December 2024
Amortised Cost Measurement	Review Research	January 2025
Post-implementation Review of IFRS 16 Leases	Request for Information	H1 2025

APPENDIX B

Recent IFRS Discussion Group Topics

RECENT IFRS DISCUSSION GROUP TOPICS (SEPTEMBER 2023 TO SEPTEMBER 2024)

Topic	Meeting date
IFRS 9 and IFRS 16: Distinguishing between a Lease Modification and an Extinguishment of a Lease Liability Discuss whether, following the amendment to paragraph 2.1(b)(ii) of IFRS 9, Financial Instruments, issued in July 2024, the derecognition requirements in IFRS 9 or the lease modification requirements in IFRS 16, Leases, apply for lessees when there is a change in consideration payable.	September 2024
IFRS 18: Education Session Overview of the key requirements in IFRS 18, Presentation and Disclosure in Financial Statements.	September 2024
IFRS 18: Implementation Issues Discuss the implications of adopting IFRS 18 on an entity's financial statements, including early observations and application challenges, as well as system and process changes to consider as the effective date approaches.	September 2024
IFRS 9: Derecognition of Financial Liabilities Settled Using Electronic Payment Systems Discuss the scope of the May 2024 amendments to IFRS 9 pertaining to the timing of the de-recognition of financial liabilities that are settled using electronic payment systems.	September 2024
IFRS 8: Disclosure of Revenue and Expenses for Reportable Segments Discuss the IFRS Interpretations Committee's agenda decision published in July 2024 about how an entity applies the requirements in paragraph 23 of IFRS 8, Operating Segments, to disclose for each reportable segment specified amounts related to segment profit or loss by an entity. The discussion will primarily focus on the extent of disclosure required by paragraph 23(f) on material items of income and expense.	September 2024

RECENT IFRS DISCUSSION GROUP TOPICS (SEPTEMBER 2023 TO SEPTEMBER 2024)

Topic	Meeting date
IAS 12: Accounting for Deferred Tax Assets under OECD Pillar Two GloBE Rules Discuss the accounting for deferred tax assets when an entity is required to comply with Pillar Two GloBE Rules.	May 2024
IAS 36: Assessment of Cash Generating Units (CGUs) in a Production Facility with Multiple Production Lines When One of the Products Has a Declining Market Demand Discuss the assessment of CGUs in a production facility with multiple production lines when one of the products has a declining market demand. This discussion will focus on identifying CGUs, allocating corporate assets, and other accounting implications.	May 2024

RECENT IFRS DISCUSSION GROUP TOPICS (SEPTEMBER 2023 TO SEPTEMBER 2024)

Topic	Meeting date
Revenue Recognition for Carbon Credits Discuss revenue recognition from the sale of carbon credits when the entity is required to make a long-term commitment with a carbon registry to continue its carbon reduction activities as a condition for the certification of the credits.	December 2023
IAS 1: Classification of Liabilities with Covenants when an Entity is Granted a Waiver or Period of Grace Continue discussion on the application of the 2022 amendments to IAS 1, Presentation of Financial Statements on Non current Liabilities with Covenants when an entity is granted a waiver or period of grace.	December 2023
Year-end Financial Reporting Reminders Discuss various financial reporting matters that entities should consider when preparing for their upcoming year-end.	December 2023

RECENT IFRS DISCUSSION GROUP TOPICS (SEPTEMBER 2023 TO SEPTEMBER 2024)

Topic	Meeting date
Accounting for the Development of Carbon Credits by a Renewable Energy Generator Discuss how a renewable energy generator classifies and measures renewable energy certificates that it produces and sells or uses to offset its carbon reduction obligations.	September 2023
Unit of Account for Lease Modification Accounting Discuss views on whether lease modifications should be assessed at the contract level or separate lease component level.	September 2023
Accounting for Equity Instruments in a Shares-for-debt Transaction ▸ Discuss factors an entity might consider when determining whether a shareholder-creditor is acting in the capacity of a shareholder. ▸ Discuss the accounting for equity instruments issued and for recognizing extinguishment differences in a shares-for-debt transaction when a shareholder-creditor is acting in such a capacity.	September 2023
IAS 1: Classification of Liabilities with Covenants when an Entity is Granted a Waiver or Grace Period Discuss various practical scenarios and examples of the application of the 2022 amendments to IAS 1 Presentation of Financial Statements on Non-current Liabilities with Covenants when an entity is granted a waiver or grace period.	September 2023

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