



## How Company Financial Disclosures Often Mislead Investors

### Description

One of the tools we as investors often use to measure a stock's worth is company financial statements, including earnings disclosures. You would think all of the major companies listed on the TSX would use GAAP (Generally Accepted Accounting Principles) to create these documents, right? Not necessarily.

Official financial statements are audited and use GAAP, but companies often like to provide additional information to their shareholders. One estimate I've read this week states that more than 85% of this additional financial information used by investors is not independently audited. Public companies are often using their own calculations to come up with the sunniest results to present to investors. They also sometimes use one set of calculations for investors and a different set for management compensation and bonuses. That sounds a little alarming, doesn't it?

Veritas Investment Research, a Canadian investment research company, recently completed a study on the use of non-GAAP measures among TSX companies. After analyzing 2015 and 2016 numbers, the company found over 30 potential violations. Which stock does Veritas think is the biggest violator? **Metro, Inc.** ([TSX:MRU](#)).

### What does this mean for investors?

If you rely on financial statements and earnings disclosures to make your investing decisions, you should know that the numbers might be at least a little skewed. As companies will usually skew these results in their favour, you may be seeing numbers that are too optimistic.

### Are regulators doing anything about this?

So far, we've seen only guidelines about this type of reporting. The Canadian Securities Association (CSA) issued guidelines in 2016 about best practices for reporting non-GAAP numbers, but the guidelines have no teeth. Companies don't have to follow them, although that might change next year. The CSA plans to work with other provincial regulators to create formal rules surrounding this practice. The new rules should help regulators keep companies in line and allow them to go after companies that skirt the rules. Only time will tell exactly what these rules look like, however.

## What can investors do in the meantime?

Look closely at any results you see. You can find full financial documents from company websites or [sedar.ca](#). Read the fine print to see what standards are used if you are worried about a particular company. (See our recent articles about using [income statements](#) and [balance sheets](#) to help you make investing decisions.) Your best bet is to look at the official, audited statements of any company to get a full and accurate financial picture. Also, keep your eyes open for news on the regulations the Ontario Securities Commission is seeking to create.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:MRU (Metro Inc.)

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

## Category

1. Investing

## Date

2025/07/06

## Date Created

2017/12/21

## Author

sportelance

default watermark

default watermark