CFA Institute

CFA INSTITUTE MEMBER SURVEY REPORT

Alternative Performance Measures—The Latest on Investor Use and Desire for Standardization

CFA INSTITUTE MEMBER SURVEY REPORT

Investor Expectations: The Way Forward on APMs

EXECUTIVE SUMMARY

What is the best way forward on the contentious topic of alternative performance measures (APMs)? APMs include non-GAAP financial measures (NGFMs) that are reported within and outside the primary financial statements (e.g., earnings before interest, tax, depreciation and amortization (EBITDA); Adjusted Net Income) as well financial and nonfinancial key performance indicators (KPIs) that are reported outside the primary financial statements (e.g., same-store/like-for-like sales).

The prevalence of APMs—coupled with their often incomparable, inconsistent, unreliable, and not fully transparent reporting—has seen accounting, auditing standard setters, regulators, investors, and other financial-reporting stakeholders continue to grapple with figuring out the best way of ensuring that APMs are not just wishful thinking and totally misleading to investors.

With the continued prevalence of APMs and questions on whether or not to attempt some effort at standardization of these measures, CFA Institute, through a February 2018 survey, sought to feel the pulse of investors on their views of the way forward for APMs.In summary, the survey results show that:

- A majority of respondents (55%) support the continued expansion of APMs, with much more pronounced support from the Asia-Pacific (APAC) region (78%) than from the Americas (46%).
- A majority of respondents (63%) expect that APMs should be regulated and adhere to formal standards, with more pronounced support from the APAC region (81%) than from the Americas (60%) and the Europe, Middle East, and Africa (EMEA) (58%) region.

- A majority of respondents (59%) expect that official standard setters should have responsibility for setting APM standards. A significant minority (32%) expect it to be a private sector organization that develops the APM standards.

The survey also sought to establish whether the demand for APMs would lessen if more timely audited financial statement information was available. There was no majority view (i.e., >50%) but more respondents (49%) disagreed than agreed (30%) with the question “Would the need for APMs lessen with more timely audited financials?” A significant proportion (21%) of respondents had no opinion on the matter.

This result suggests that the lack of timeliness of audited information is not the reason for the interest in nonstandardized APMs. APMs are popular regardless of whether audited information is stale or the APM information itself has minimal or no assurance as to its validity. In other words, one can infer that many investors use (rely on) APMs for the incremental information contained within them relative to GAAP/IFRS information, period.

The takeaway from the survey results is that APMs have a distinct role that is valued by investors, many of whom support the expansion of these measures. At the same time, on balance, respondents appear to have an expectation that more needs to be done to standardize and improve the comparability of APMs and that, ideally, such standardization should be shepherded by the authoritative bodies responsible for accounting and disclosure requirements.

The detailed results breakdown and contextualizing comments are included in the full report that follows.

1 OVERVIEW

Alternative performance measures (APMs), including non-GAAP financial measures (NGFMs), continue to be a contentious topic. A 2016 CFA Institute publication[1], based on member survey results, showed that NGFMs are widely reported and highly valued by many investors. The 2016 survey showed that 64% of respondents always or often use NGFMs. Other investor-related surveys[2] have similarly shown the common use of APMs and NGFMs. Yet, these measures are often reported in an inconsistent, difficult to compare, misleading, confusing, and often untruthful manner. They go beyond being supplemental measures and instead are communicated in a manner that likely diminishes, even undermines the portrayal of performance by GAAP/IFRS information.

Due to the prevalence use of NGFMs and their misreporting, regulators across the globe (International Organization of Securities Commissions, European Securities and Markets Authority) and various national authorities (US SEC, UK Financial Reporting Council, New Zealand Financial Markets Authority, Canada Ontario Securities Commission, SIX Swiss Stock Exchange) have issued or plan to issue related guidance. The high-level regulatory guidance requires interperiod consistency in the calculation of these measures, transparency in how they are calculated, the presentation of a reconciliation to the most directly comparable GAAP/IFRS line item, and subtotals or totals; it prohibits the presentation of these measures with greater prominence than GAAP/IFRS information.

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[1] Vincent.T.Papa and Sandra.J.Peters,. *Investor Uses, Expectations and Concerns on Non-GAAP Financial Measures* (Charlottesville, VA: CFA Institute, 2016) https://www.cfapubs.org/doi/pdf/10.2469/ccb.v2016.n11.1

[2] The following studies show investor support for APMs/NGFMs:

a) Cascino, S., M. Clatworthy, B.G. Osma, J. Gassen, S. Imam, and T. Jeanjean. 2016. “Professional Investors and the Decision Usefulness of Financial Reporting.” European Financial Reporting Advisory Group, Scottish Accountancy Trust for Education & Research, and Institute of Chartered Accountants of Scotland (December). http://www.loyolaandnews.es/wp-content/uploads/2016/05/Professional-investors-and-the-decision-usefulness-of-financial-reporting.pdf- Interviews with 81 institutional investors found EBITDA to be the second-most relevant performance measure after revenue.

b) CFA Society of the UK. 2015. “Non-IFRS Earnings and Alternative Performance Measures: Ensuring a Level Playing Field” (https://secure.cfauk.org/assets/1345/Non_IFRS_Earnings_and_Alternative_Performance_Measures___FINAL_web.pdf). A 2014 survey of 262 investors showed that 61% apply NGFMs.

c) PwC. 2014. “Corporate Performance: What Do Investors Want to Know? Reporting Adjusted Performance Measures.” July 2014. https://www.pwc.com/gx/en/audit-services/corporate-reporting/assets/pdfs/pwc-reporting-adjusted-performance-measures.pdf- A survey of 85 investors showed that 50% found NGFMs useful for analysis.

How successfully or consistently any of this guidence is actually monitored and regulated is an open quesiton. But, since issuing the compliance and disclosure interpretation (C&DI) requirements in May 2016, the US SEC has stepped up its scrutiny of NGFMs as evidenced by the rise of comment letters sent to companies on the topic as well as by its enforcement actions[3]. As shown in **Table 1**, the subject of NGFMs has risen from the topic with the sixth highest level of scrutiny as of 30 June 2014 to the topic with the highest level of scrutiny as of 30 June 2017, in terms of the proportion of registrants that received related comment letters (over 700 comment letters were issued to companies[4]).

Table 1: US SEC Comment Letter Analysis

Ranking Across Top-10 Covered Topics[5]	
Year	*Rank*
For the year ending June 30, 2017	1
For the year ending June 30, 2016	2
For the year ending June 30, 2015	4
For the year ending June 30, 2014	6
Comments as Percentage of Registrants that Received Comment Letters	
Period	*%*
2017/16	40
2016/15	18
2015/14	15

Source: Ernst and Young, SEC Comments and Trends 2017, 2016 and 2015[6]

Notwithstanding the step-up in apparent regulatory interest, our 2016 survey results[7] showed that only a minority of investors considered existing regulatory guidance to be adequate and that many urge further strengthening of APM-related guidance by accounting standard setters.

[3] Morris Foerster, "Non-GAAP Explained," *International Financial Law Review* (October 2017), http://www.iflr.com/pdfs/IFLR-MoFo-non-GAAP-Report.pdf. The report highlights the US SEC's legal action against a REIT CFO in September 2016 and another enforcement action in January 2017. Prior to the C&DI, the last US SEC enforcement action was in 2009 against SafeNet.
[4] Foerster (2017).
[5] The other nine topics that attract US SEC comment letters include management, discussion, and analysis (MD&A); fair value measurements; segment reporting; revenue recognition; intangible assets and goodwill; income taxes; state sponsors of terrorism; acquisitions and business combinations; and executive compensation.
[6] Ernst and Young, "*SEC Comments and Trends- An analysis of current reporting issues*" (September 2017) http://www.ey.com/ul/en/accountinglink/publications-library-sec-comments-and-trends
[7] Vincent T. Papa and Sandra J. Peters, *Bridging the Gap: Ensuring Effective Non-GAAP and Performance Reporting* (Charlottesville, VA: CFA Institute, 2016), https://www.cfapubs.org/doi/pdf/10.2469/ccb.v2016.n12.1

TO STANDARDIZE OR NOT TO STANDARDIZE?

In addition to the various aspects of misreporting (e.g., lack of interperiod consistency, lack of clarity on definitions), the key challenge with APMs arises from the nearly complete lack of comparability in their reporting. The lack of comparability in APM reporting in large part occurs because, by the very definition of APMs, companies have flexibility in how they define these measures to bolster the communication of aspects of entity-specific performance (financial and nonfinancial) that are not or cannot be reflected through GAAP/IFRS information. The result of APMs being intended to convey the bespoke story of companies is that many investors are comfortable with APMs being treated as nonstandardized measures. The reality is, they are only used to show the company in a better light than actual, regulated accounting. One would expect this is grounds for deep professional skepticism.

As a result, there are more frequent calls from investors for some degree of standardization that would increase the comparability of APMs across similar business models. A majority of investors who responded to the 2016 CFA Institute survey[8] supported enhancements to the income statement and statement of cash flows (e.g., increased disaggregation, the definition of subtotals) to improve comparability of NGFMs. Similarly, the Public Company Accounting Oversight Board Investor Advisory Group session held in October 2017 echoed the sentiment that the Financial Accounting Standards Board ought to enhance its definitions of key performance measures.

APM standardization can only occur if there are (1) mandatory requirements or (2) well-developed and widely accepted voluntary industry-specific requirements (e.g., the Nareit definitions of funds flow from operations and net operating income developed for real estate investment trust reporting). There is also an assumption that standardized definitions of APMs may enable an increased level of assurance for and greater reliability of APMs, particularly if these measures are located within the financial statements.

[8] Ibid.

In sum, the prevalence of reported APMs and their widespread application by investors, countervailed by the continued misreporting and lack of comparability of these measures and the ongoing quest for a solution by the rulemaking bodies, has investors, and other stakeholders engaged. These matters are the backdrop to the present CFA Institute member survey.

SURVEY DETAILS AND METHODS

In this survey, CFA Institute sought to take the pulse of investors regarding their big-picture expectations on APM reporting, including if and how they might be regulated. This survey built on perspectives obtained from the 2016 CFA Institute survey on NGFMs[9] and posed to respondents the following high-level questions.

- Did they support or oppose the continued expansion of APMs?
- What level of regulation should APMs be subject to?
- If at all, which type of organization/institution (accounting standard setter or private sector body) should set APMs guidance?
- Would the earlier release/availability of audited GAAP/IFRS information influence the need for APMs?

The survey, administered in February 2018, had 639 respondents, representing a response rate of 2% with a margin of error of 3.84%. The survey was primarily targeted at buy-side portfolio managers and research analysts, sell-side analysts, credit analysts, and corporate financial analysts. The appendix to this report highlights the breakdown of respondents by major region (Americas, APAC, and EMEA), functional role (portfolio manager versus research analyst), and type of institution (buy side versus sell side). Respondents were mostly (60%) from the Americas, were mostly (61%) portfolio managers, and were dominated by those who exclusively work in the buy side (76%).

[9] Papa and Peters (2016).

2 EXPECTATIONS ON ROLE OF APMs

Figures 1, **2**, and **3** show the levels of support from respondents for the expansion of APMs. The survey results are provided by region, functional role, and type of institution.

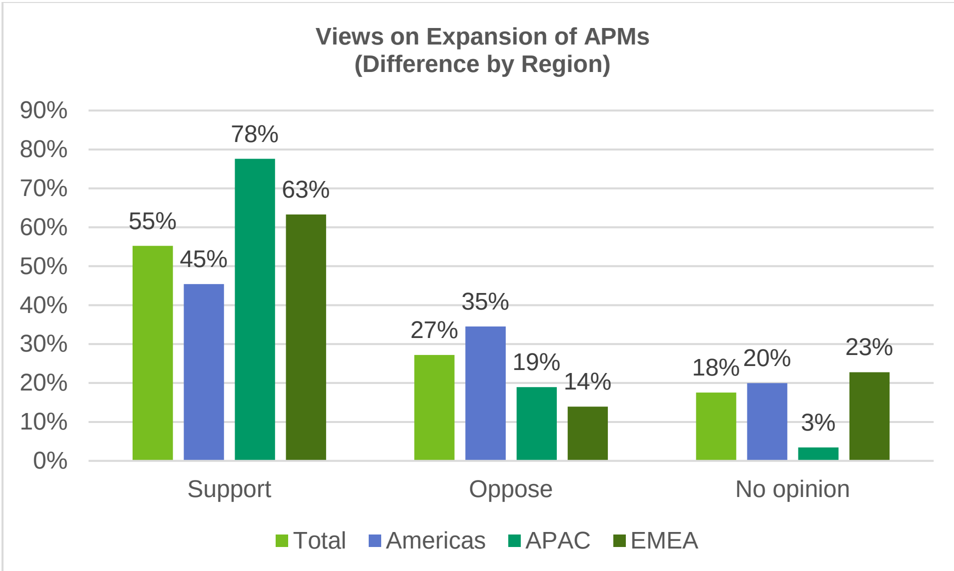


Figure 1: Views on Expansion of APMs—Difference by Region (n = 639)

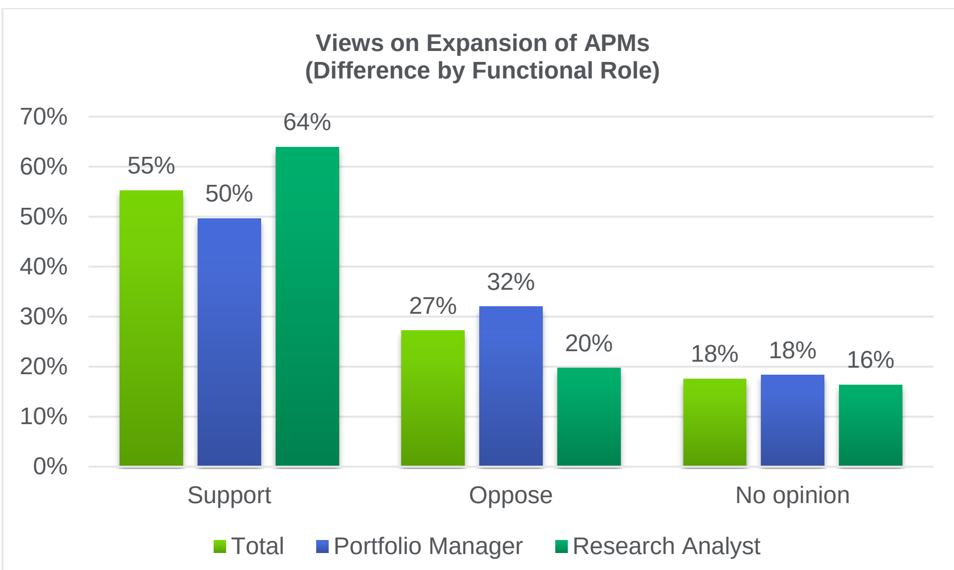


Figure 2: Views on Expansion of APMs—Difference by Functional Role (n = 639)

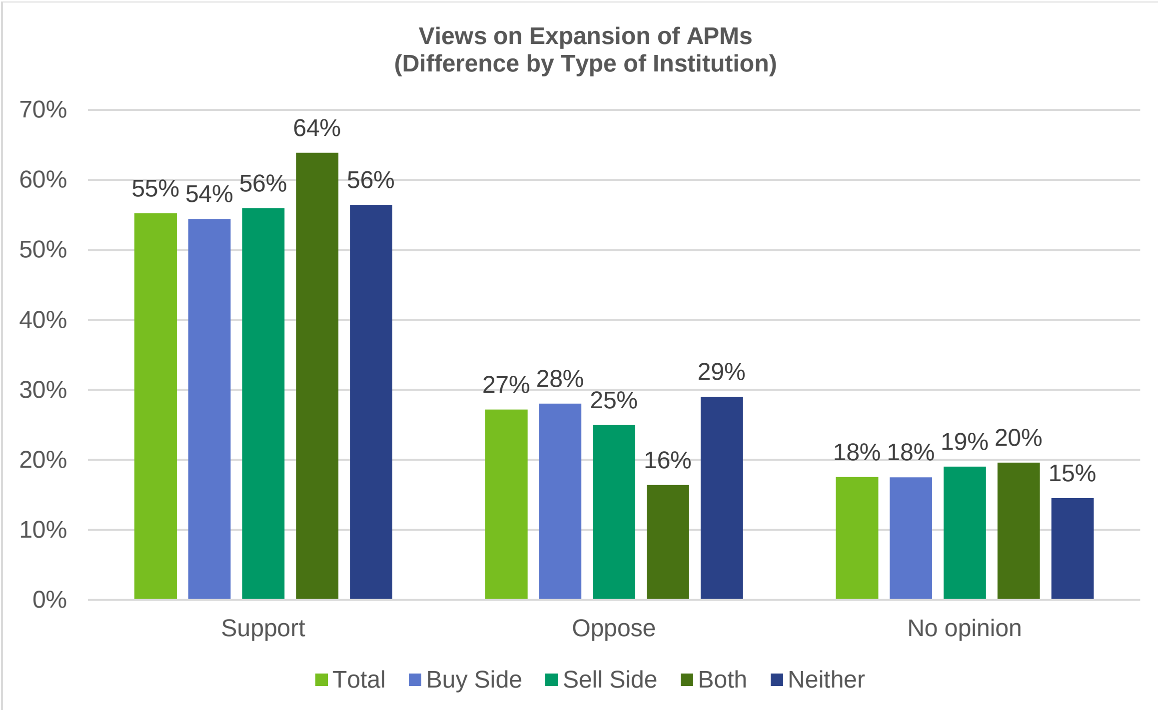


Figure 3: Views on Expansion of APMs—Difference by Type of Institution (n = 639)

The results are consistent with the findings from the CFA Institute 2016 survey.[10]

The respondent comments that follow provide context for the survey results regarding support for the expansion of APMs.

USEFULNESS OF APMs

> *I think the reporting of APMs is appropriate and can help to understand the company's business. The problems occur when each company reports the measure a different way, when they change the way the APM is calculated, and when there is no transparency. The company defines the measure and has the auditor sign off.*

> *I'm concerned that GAAP measures (except cash flow) increasingly do not get to the heart of key valuation drivers for many companies. APMs are extremely helpful. Audited APMs would be more trustworthy.*

[10] Papa and Peters (2016).

I appreciate businesses providing alternative reporting that makes their business more analyzable (for instance, the use of annual contract value, ACV, for recurring revenue). However, when possible, reconciliation with GAAP should occur. It is, however, naive to view GAAP as the purest or most decision-actionable way to present the results or achievements of every business.

Business models vary widely—certain APMs can be very helpful in certain industries for individual company analysis but don't help in peer analysis due to difficulty in their comparability. If a company uses an APM, they should fully, transparently, and in simple language disclose the methodology for computing it.

There are situations where GAAP accounting does not accurately reflect the true performance or outlook of the business. In my opinion, the more information that is available, the better. The work of an analyst is to assess all information for the appropriateness of APMs and other non-GAAP measures.

I think APMs help with company analysis by providing additional information that isn't always available in financial reporting, but it needs to be standardized across the industry.

Given that IFRS and GAAP accounting often does not reflect the economic reality for real estate entities, we view APMs as a better indicator of operating performance. We encourage companies under our coverage to adhere to industry-standard definitions wherever possible.

They can be helpful, especially if they are measures that are actually used by management in running and monitoring the business.

They help analyze the underlying performance of the business and sometimes are key to understand what is going on. However, I think companies should disclose how they calculate these measures so every investor can understand them. Regulated financial info is still relevant, especially when comparing several companies.

APMs relate to idiosyncrasies with individual companies or industries. Analysts must try to understand what they mean and hold management accountable as appropriate.

However, they still have the GAAP-based measures as another piece of data to triangulate assessment.

APMs provide insight that is different from currently required reporting. Would like to see APMs standardized and included with financial statements.

You need to distinguish between two different types of APMs. Some are adjustments of GAAP metrics—so ex-items EPS or EBITDA with add backs. As we all know, the value of an equity is the value of a discounted stream of cash flows. Companies often times have events that may affect one year of the stream, but not all years. As a result, while GAAP requires disclosing those in the numbers, understanding how the earnings power of the business is or isn't affected is what is most relevant for valuing the equity. The second type are additional performance measures like same-store sales, pricing trends, volume trends, unit sales data, time utilization, etc. This is vital information for understanding current operating performance and generally is used to build out revenue forecasts for the future.

GENERAL CONCERNS WITH APMs—MISLEADING NATURE

Companies should report GAAP performance in their headlines ... adjusted earnings have become an excuse or form of window dressing. Companies should be able to disclose the puts and takes ... but if forced to publicize GAAP first some of the dubious adjustments might go away, leading to overall cleaner and more transparent financial statements. Amortization related to purchase accounting and "recurring" restructuring costs seem to be particularly large bottomless buckets...!

A fully detailed set of financial statements with footnotes allows the analyst to make the proper adjustments for comparability within and across industries. APMs too often gloss over items that truly are expenses that are the result of management errors in judgment and that may reoccur.

APM can be valuable but in moderation. The increasing proliferation of APMs seems to be a tactic by some companies to obscure areas of their business. Education of *professionals should be all the more focused on understanding and analysis of traditional GAAP-based metrics.*

Should not be allowed to formally be used in earnings reports and analysts should be required to only estimate GAAP earnings in their reports. Non-GAAP earnings confuse and often mislead the public.

3 APM REGULATION AND STANDARDS

SHOULD APM REGULATION AND STANDARDS BE SET?

A Majority of Investors Believe Formal Regulation/ Guidance on APMs Needed

Figures 4, **5**, and **6** show that investors have an appetite for further regulation of APMs. Sixty-three percent of respondents believe that APMs should be regulated and adhere to formal reporting standards. The survey results are provided by region, functional role, and type of institution.

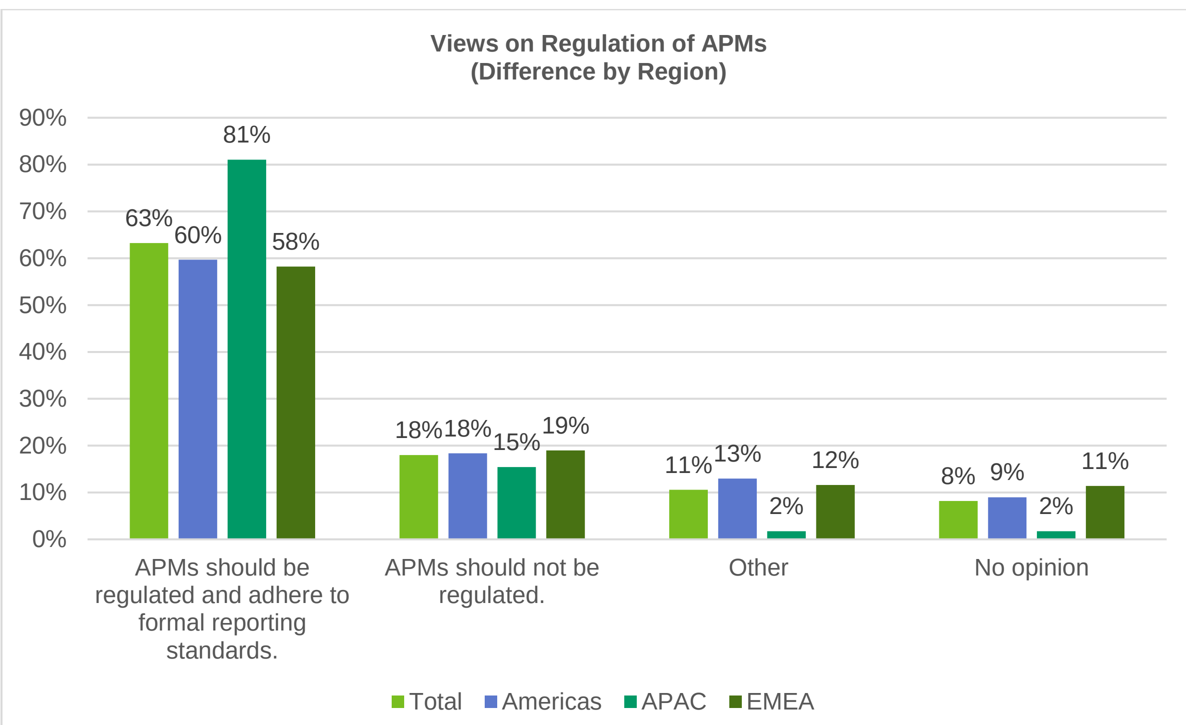


Figure 4: Views on Regulation of APMs—Difference by Region (n = 639)

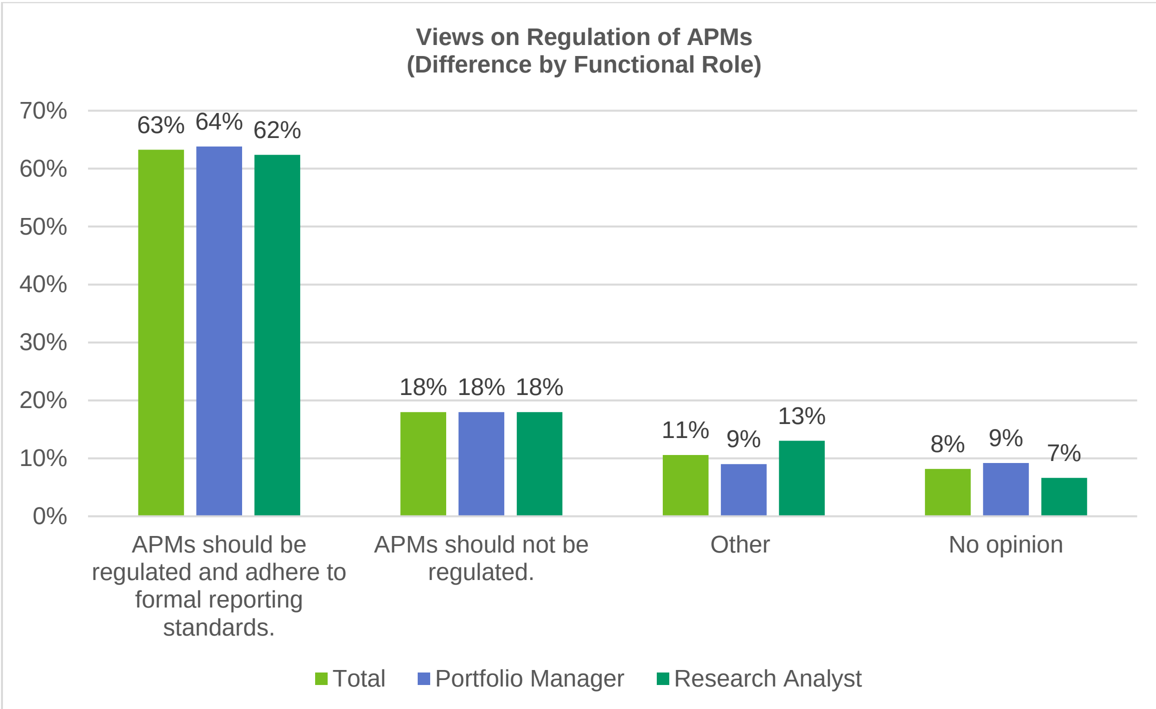


Figure 5: Views on Regulation of APMs—Difference by Functional Role (n = 639)

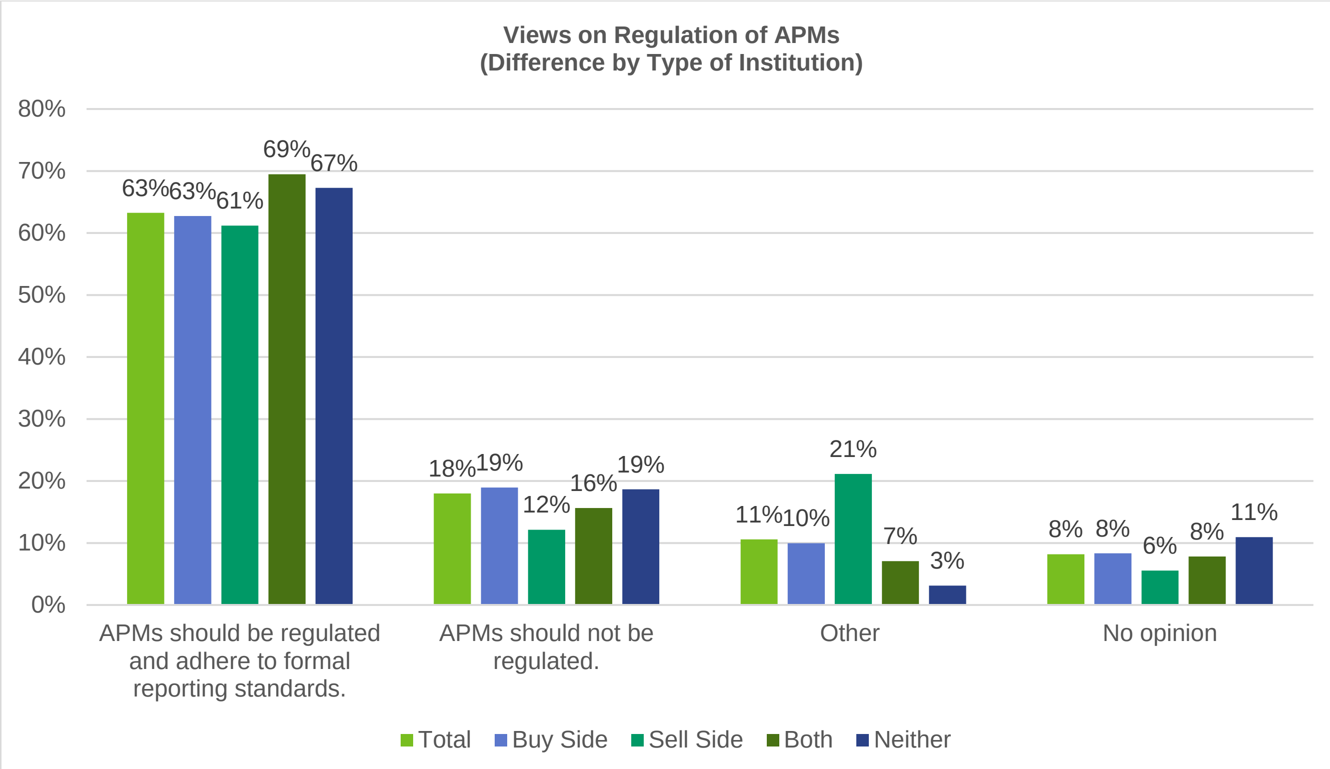


Figure 6: Views on Regulation of APMs—Difference by Type of Institution (n = 639)

The respondent comments that follow contextualize the reasons underpinning the support for regulation and standardization. We also include comments from those who do not support the regulation of APMs.

Support for Standardization of Definitions

> *Corporations have increasingly used non-GAAP performance measures. The fact they define and disclose them differently is an increasingly disturbing trend and this is due to no regulatory oversight on them. Need either standardization or eliminate them completely.*

> *I deal with REITs. One of the main metrics is FFO (a non-GAAP measure) which is defined by Nareit. I wish Nareit had more standardized APMs as companies seem to make up their own. The APMs are needed as GAAP net income makes no sense from a real estate perspective.*

APMs are helpful but need greater consistency across companies. Some companies exclude acquired amortization and others don't. The same for stock-based compensation, gains on asset sales, tax effects from stock exercises. Stuff like this should be standardized. Also, I think some easy-to-obtain GAAP metrics should be standardized as well. Employee count and labor expense should be in every 10-Q and 10-K, mind-blowing that it's not.

Key metrics that require a regulated definition (in priority order) are: EBITDA, Operating Earnings, One-Time Costs/Income. Also required is the disclosure separation of capital gains/losses (e.g., sale of businesses and major assets) from operating business results. Plus, two mandatory additional note disclosures I would like to see is a five-year financial history of key financial headings and metrics (defined by regulators) - both on an "as originally published" basis, and on the normal "Restated" basis.

APMs have their value. For example, bank loan agreements frequently have EBITDA-related covenants. Nonfinancial metrics help measure the sources of growth (organic vs. acquired; "old store" vs. "new store"). We should push for consistent definitions of these metrics and transparency around their calculations and deviations from "generally accepted" formulas.

Regulated information flow will likely always impose restrictions on issuer-investor dialogue that are in some cases sufficiently limiting that APMs form an important complement. I support the idea of regulating any APMs that become sufficiently well-established, such as like-for-like sales. As a complement, APMs should not be regulated except that they cannot replace required audited information.

APMs are necessary to better understand and track business trends and underlying financial capabilities. The one place that oversight would help would be to provide more alternative measures that had clear, comparable (possibly formally regulated) definitions, e.g., comparable sales, EBITDA, normalized earnings (excluding 1x items). Companies could then choose to use these for additional disclosures vs. creating their own. And investors would reward companies for this choice if it is a reasonable option.

Although I value additional information of the sort provided by APMs, I think their use is dangerous if there are not clear standards associated with them. Without standards/guidelines, how can investors trust the methodology used to generate the APMs period-over-period as companies would be free to change the calculation methods or amount disclosed to favor their interests?

The only times I have seen where APMs can lead to bad behavior are where companies always have 1x items, indicating that they are not in fact 1x in nature. As well, some companies will mess with what goes into a calculation that reduces comparability between two industry participants on the same measure. I think each industry should standardize on additional metrics.

Support for Guidance That Ensures Consistency

The biggest problem with APMs is their irregularity. It is usually possible to clarify how they are calculated (though of course, full disclosure as to what they incorporate is critical to them being useful) but they regularly disappear. Perhaps standards should require that once an APM has been employed it be compulsory reported annually and/or require the company to provide two or three years notice, perhaps along with an explanation, before discontinuing these. Of course, companies would attempt to use APMs that aren't classed APMs by regulators, so some flexible way of catching these. Light regulation in terms of APMs required but once employed the APMs should be clear and consistent on an annual basis.

APM cannot be a substitute for regulated and standardized financial reporting. However, I prefer more information rather than less. Many times standardized reporting does not fully reflect the business or the industry. If an issuer provides this information, it must define it and be legally responsible for its accuracy under the definition. Lastly, an issuer must not pick and choose the period to start and end an APM reporting at random and this part must be regulated. If it chooses to discontinue an APM reporting, it must provide a valid reason.

Support for General Guidance and Clear Signposting of APMs

> *Many APMs are much more useful tools than GAAP. However, regulation or guidance that required notes to explain the differences between and how derived would be constructive.*

> *Standards in terms of disclosure-yes. But trying to capture the full range of alternatives in a regulation would be futile, in my opinion.*

> *Different industries face different needs and business models. Performance measures can diverge when built up, even with the same definition (e.g., does square meter pertain to the whole space, the manufacturing space, the distribution space?). APMs should never be a substitute of regulated financial metrics and shouldn't be disclosed in a way that could lead to misinterpretation by the reader (i.e., mixing up GAAP and non-GAAP information in the same table).*

> *APMs should be accompanied by a clear statement as to whether they are regulated, subject to verification by an independent body (such as CFA Society of the UK) or have no relation to independent standards. Health warnings should be mandated for APMs that do not accord to regulatory or industry standards.*

Some Perceive Limits to Regulation

The survey results also showed that some CFA Institute members (18% of respondents) are opposed to increased regulation of APMs. The comments that follow provide additional details on why that view.

> *APMs provide information that investors might want to look at from time to time. Accounting boards and regulators may be "behind the curve" in regulating them, and by the time they get caught up investors may have moved on to requesting other measures. It will be impossible to keep up with all APMs, so to the extent regulation is required at all (and I'm not saying that it is—more regulation is not the answer to every perceived problem), perhaps what is required is disclosure of what the measure is, that*

is nonstandard and nonregulated, how it is calculated, and what is the significance of the measure. This could even be done as a note in financial reports to allow readers to weigh the figures, assess their relevance, and make adjustments as necessary.

Every time the regulators have tried to add nuance to reporting, they have got it wrong; so now, if I need to worry about a material discrepancy between APMs and regulatory reporting, I go back to cash, which rarely lies. Please don't do a job-creation scheme to send the report and accounts further than it already sits from the people who really need to understand it—the lay investor.

The necessary information to evaluate a business is very different in each industry, making it very difficult to standardize.

Investor Responsibility Rather Than Regulation

One thing we do not need is more regulation. If issuers want to shower analysts with all kinds of measures, fine. It's up to the analysts to wade through the information and determine what is worthwhile. Also, it is up to the analysts (and investors) to speak up on quarterly earnings calls and make their needs known.

APMs are additional information provided beyond what is required. We should not look to regulate every single piece of information, but understand that this is an additional insight into operations that is being offered by an interested party. It should be the analyst's job to verify such information (including verifying and understanding the methodology and data sources behind the measures) and use it accordingly. Attempting to further regulate communication may result in limiting information.

US GAAP is not one size fits all. Alternative measures are totally appropriate. Introducing regulation is not the answer. I've found auditors to be uninformed about a company's business and they're inherently focused on the past. Let investors and analysts push back on management if they are having issues with the quality of APMs.

WHO SHOULD DEVELOP APM GUIDANCE?

Figures 7, **8**, and **9** present the findings on investors' expectations regarding who should develop APM guidance. The survey results are provided by region, functional role, and type of institution.

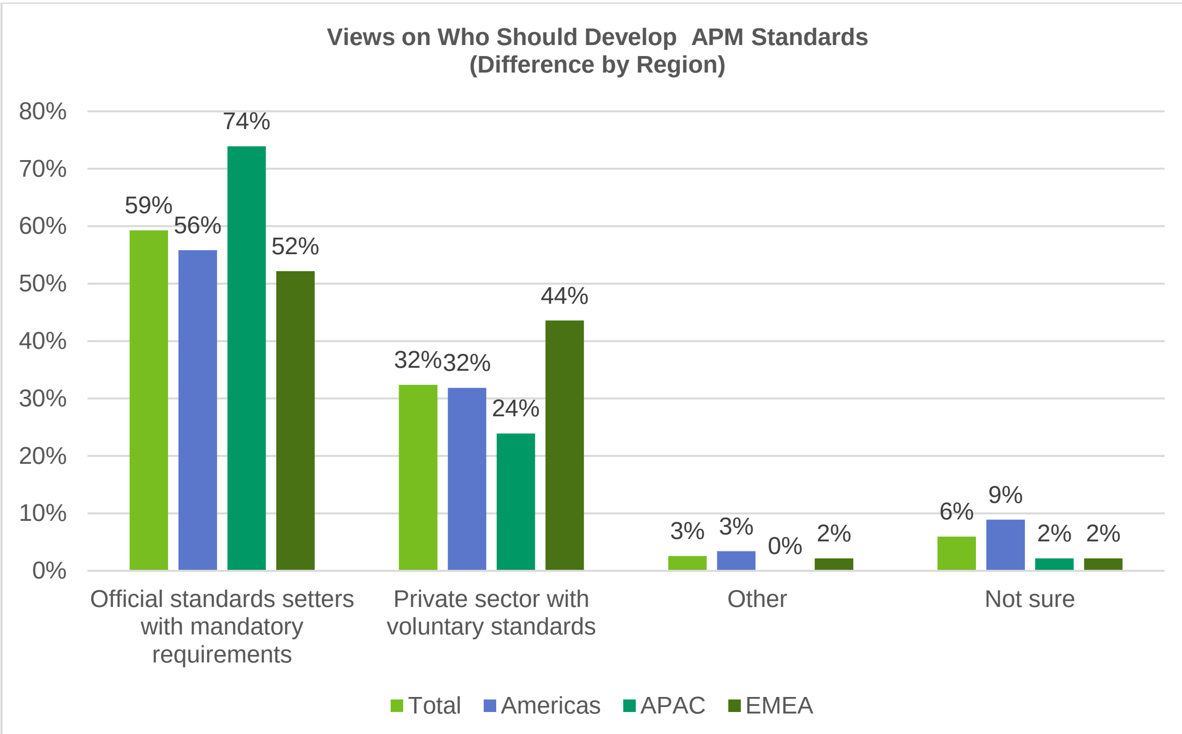


Figure 7: Views on Who Should Develop Standards for APMs—Difference by Region (n = 397)

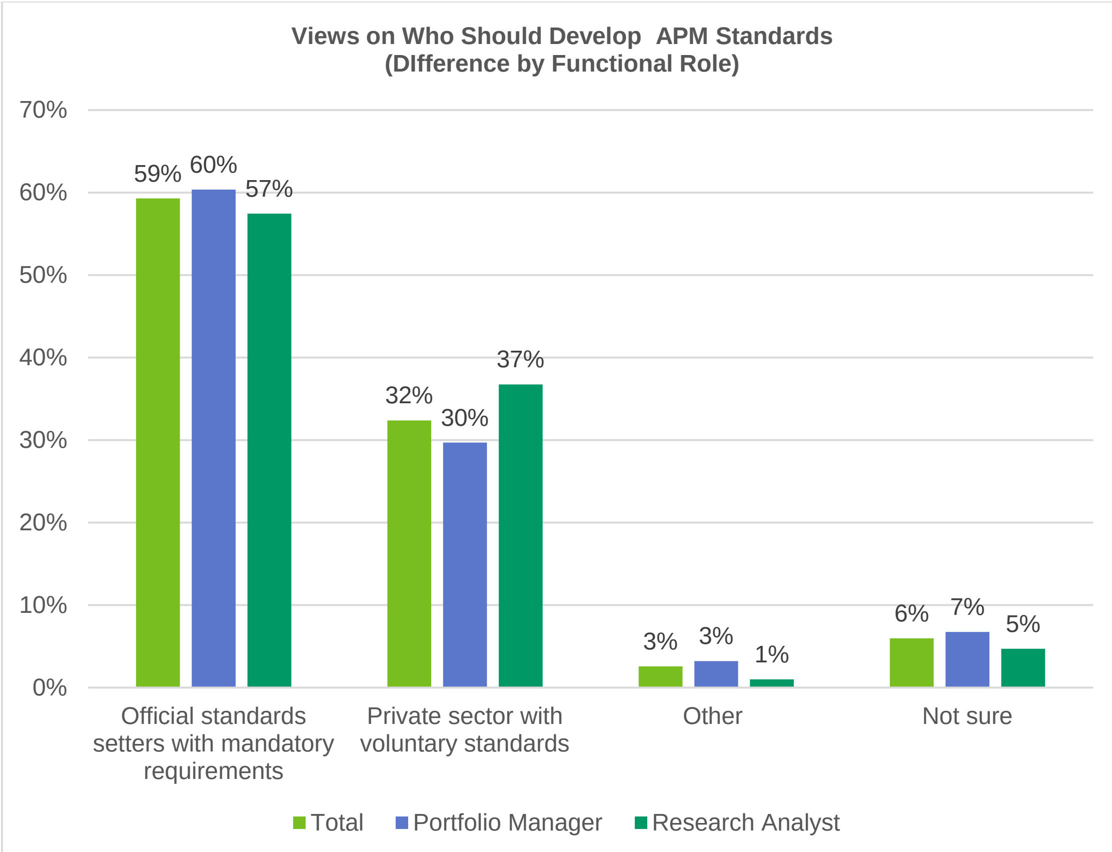


Figure 8: Views on Who Should Develop Standards for APMs—Difference by Functional Role (n = 397)

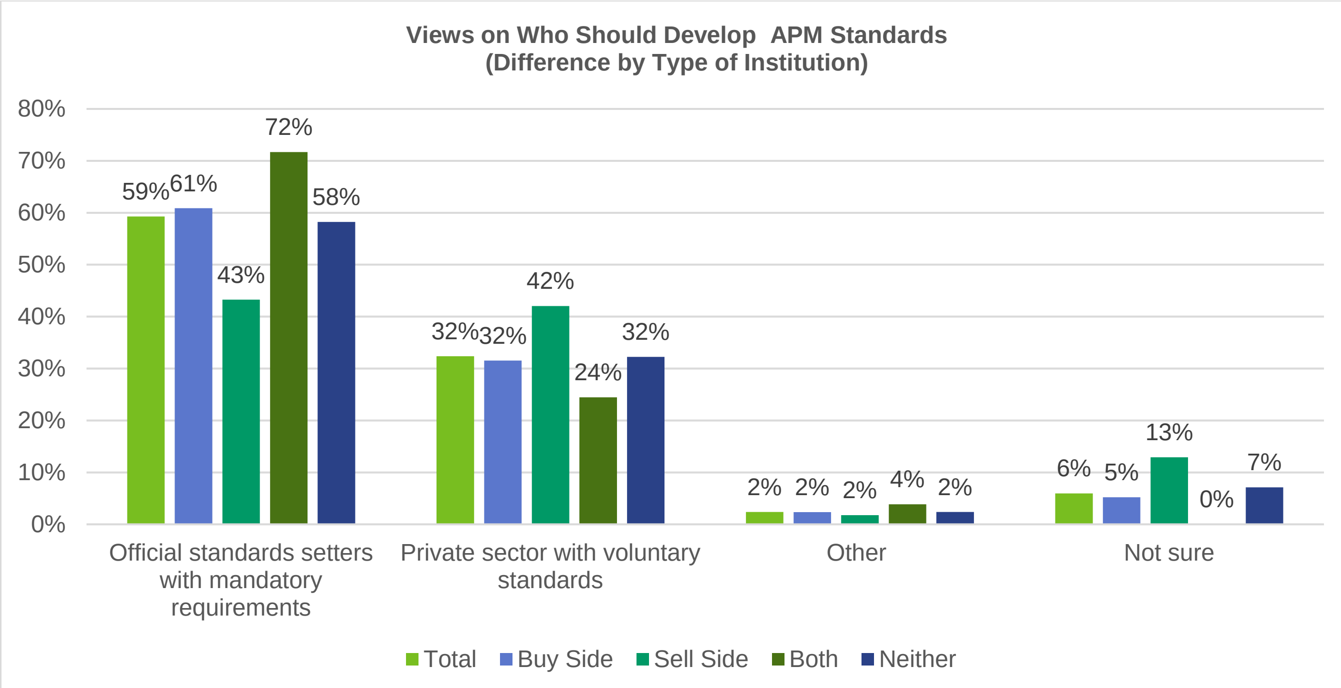


Figure 9: Views on Who Should Develop Standards for APMs—Difference by Type of Institution (n = 397)

The survey results show that 59% of respondents expect official standard setters with formal legal authority, to set APM guidance. The results are consistent with the 2016 CFA survey results,[11] which showed that investment professionals expected accounting standard-setters to provide guidance related to NGFMs (i.e., 65.5% of respondents). It is not surprising that many investors expect the authoritative bodies to be the ones that set APMs standards as companies will be more likely to conform to such standards than if they are developed by the private sector.

Meanwhile, a significant minority of respondents (32%) prefer some private sector entity rather than authoritative governmental bodies to develop the desired APM guidance.

Below are reasons why some stakeholders may expect solutions to come from outside the authoritative bodies

[11] Papa and Peters (2016)

- ***Accounting standard setters and regulators' requirements not industry specific***. Both accounting standards requirements and securities regulator guidance have limitations in resolving the problem of lack of comparability of APMs. They are both general purpose in nature and not sufficiently industry specific to guide standardized reporting at a business-model level. Hence, standardizing APMs, which are inherently unable to be standardized and of low comparability is likely to be beyond the existing remit of the authoritative securities regulators and accounting standard-setting bodies. In our discussions with these entities, it is generally felt that standardized APMs, at a consistent and meaningful industry-specific level, will be extremely difficult to develop and furthermore, to incorporate within the mandatory reporting and disclosure requirements they now foresee. In other words, these APMs are completely inconsistent with their other standard setting goals and approaches.
- ***Speed-to-market concerns on updates to accounting standard requirements****.* Investors are concerned by the speed to market of accounting standard requirements as developing these requirements is typically a glacial, politicized process that often only partially considers investors' needs.
- ***Limited focus of regulators' requirements on APMs that are not NGFMs****.* Regulators' current attention on APMs is almost entirely on NGFMs. There is only limited and fairly high-level management, discussion, and analysis (MD&A)/narrative reporting guidance related to other financial and nonfinancial KPIs (e.g., operational and customer metrics), notwithstanding that investors rely on these other KPIs. In effect, the current MD&A/narrative reporting guidance is simply not sufficient to ensure high-quality reporting across the wide universe of financial and nonfinancial APMs.

4 TIMELINESS, RELEVANCE VERSUS RELIABILITY

The survey asked whether more timely release of audited reports would improve relevance and reduce investor interest in APMs. The results show that more timely audited financials did little to satisfy APM demand. Interestingly, a significant portion had no opinion. The survey results are provided by region, functional role, and type of institution.

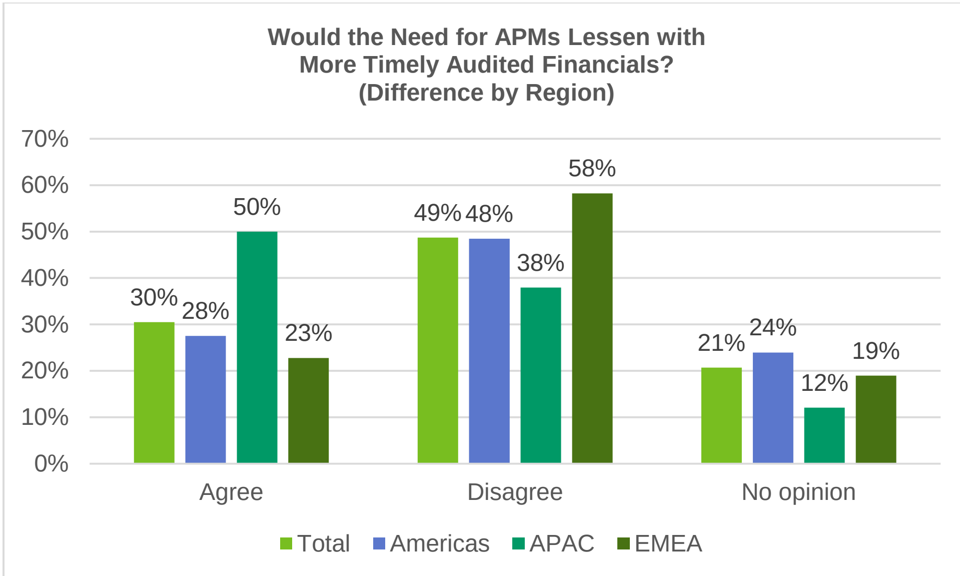


Figure 10: Views on Whether the Need for APMs Would Lessen with More Timely Audited Financials—Difference by Region (n = 639)

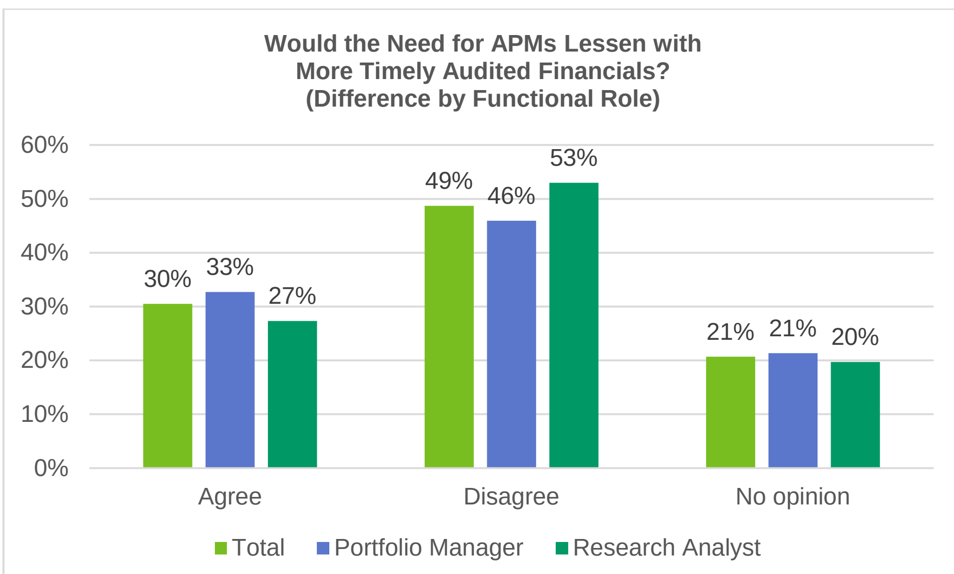


Figure 11: Views on Whether the Need for APMs Would Lessen with More Timely Audited Financials—Difference by Functional Role (n = 639)

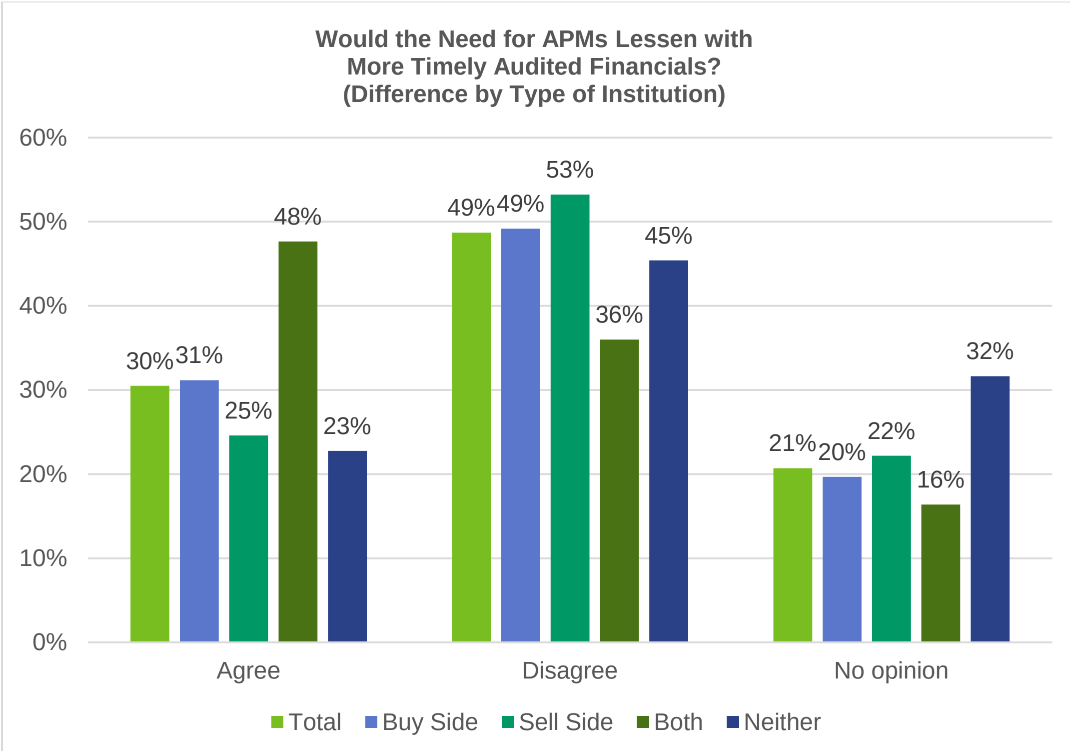


Figure 12: Views on Whether the Need for APMs Would Lessen with More Timely Audited Financials—Difference by Type of Institution (n = 639)

From the above results, which show that the earlier release of audited financial statements is unlikely to lessen investors interest in, and use of, APMs. Timing of audited versus APM information does not seem to be a primary determining factor that underlies the appeal and widespread application of these APM measures by investors. In other words, investors value APMs for the incremental “core earnings” information they get relative to GAAP/IFRS. Unless similar information (e.g., sustainable earnings) was contained within GAAP/IFRS, the demand for APMs would still exist. This finding is consistent with the support for the continued expansion of APMs shown in this survey. As one respondent commented,

> *Timelier availability of regulated and audited financial information will not impact the appeal of APMs, including non-GAAP EPS excluding “non-recurring, one-time” charges.*

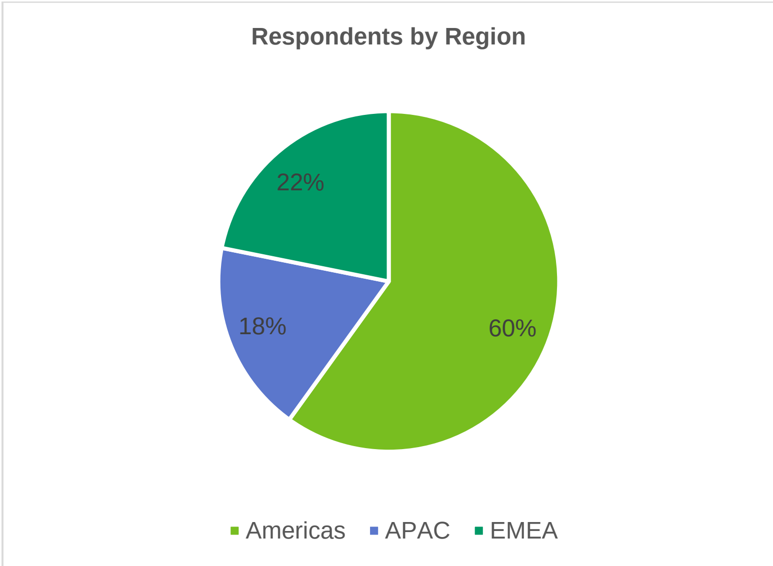
In sum, for many investors, the reliability of standardized, audited information will not negate the need for nonstandardized APMs. They do support more formal rules for higher confidence in the integrity of APM information and we submit, they further support the notion of additional auditor assurance of APMs disclosures. Such views are reflected in other survey results (audit survey[12], 2016 survey[13]) where member views on assurances of APMs were explicitly sought. Those surveys have shown member support for increased assurance on APMs.

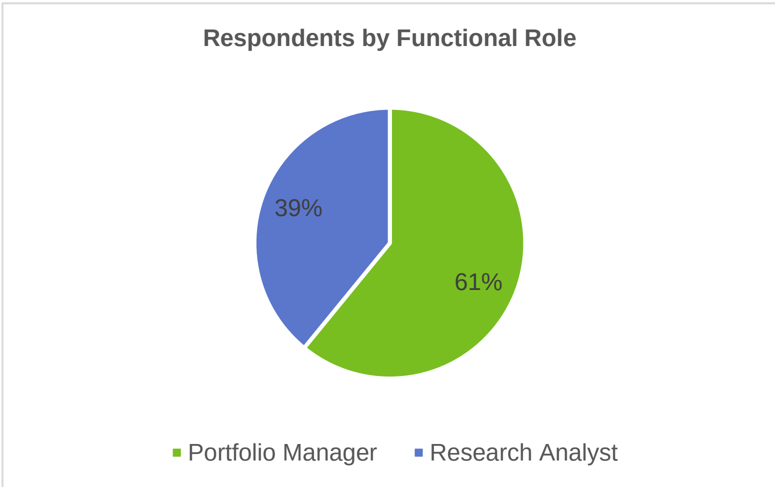
[12] *CFA Institute Member Survey Report: Audit Value, Quality, and Priorities*, https://www.cfainstitute.org/Survey/audit_value_quality_priorities_survey_2018.pdf
[13] Papa and Peters (2016).

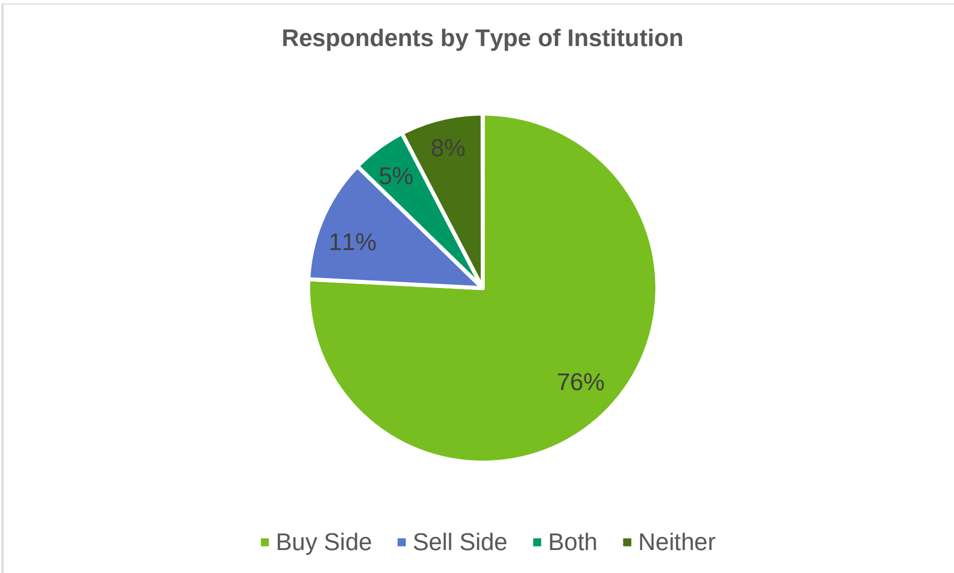
5 APPENDIX

SURVEY PROFILE

Below is a breakdown of respondents by broad region, functional role, andtype of institution.






Respondents by Type of Institution
8%
5%
11%
76%
Buy Side
Sell Side
Both
Neither