

May 1, 2025

Jackson M. Day
Technical Director
Financial Accounting Standards Board
801 Main Avenue (P.O. Box 5116)
Norwalk, CT 06856-5116

RE: File Reference No. 2024-ITC100

Dear Mr. Day:

CFA Institute¹, in consultation with its Corporate Disclosure Policy Council (“CDPC”)², appreciates the opportunity to comment and provide our perspectives on the Financial Accounting Standards Board’s (the “Board”) [*Invitation to Comment - Financial Key Performance Indicators for Business Entities*](#) (“Invitation to Comment” or “ITC”).

CFA Institute has a long history of promoting fair and transparent global capital markets and advocating for strong investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures and the related audits provided to investors and other end users are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally.

Our Focus on Non-GAAP Financial Measures Within Financial KPIs

The ITC defines Financial KPI as “any financial measure that is calculated or derived from the financial statements and/or underlying accounting records that is not presented in the GAAP financial statements.”³ Appendix A of the ITC provides a non-exhaustive list of examples of Financial KPIs. Our understanding of the ITC’s definition and examples is that Financial KPIs includes non-GAAP financial measures⁴ and ratios of GAAP and non-GAAP financial measures. Our comments primarily focus on non-GAAP financial measures because they account for the majority of Financial KPIs disclosed by entities in practice, are the subject of much greater scrutiny by regulators, and are the primary focus of our body of survey work on this topic. We

¹ With offices in Charlottesville, VA; New York; Washington, DC; Brussels; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program. For more information, visit www.cfainstitute.org or follow us on LinkedIn and X.

² The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners’ perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

³ ITC page 2.

⁴ As defined in Regulation G and Item 10e of Regulation S-K of the Securities and Exchange Commission.

have also surveyed members on non-financial KPIs as part of the broader population of alternative performance measures, which we reference in our comments later.

Prevalence, Usefulness and Challenge of Non-GAAP Measures for Investors

Disclosure of non-GAAP financial measures has grown significantly since the 1990s.⁵

Non-GAAP financial measures are useful to investors in various ways, especially when they disaggregate truly “non-recurring” and “non-core” items from GAAP measures. Guidance from the SEC, enforced by the Division of Corporation Finance, has helped to improve the usefulness of non-GAAP financial measures. However, non-GAAP financial measures still pose problems for investors in terms of how the measures are calculated and how they are communicated, including:⁶

- ***Questionable adjustments***, especially as managers have become increasingly likely to exclude recurring costs (e.g., stock-based compensation) from non-GAAP earnings measures⁷;
- ***Lack of comparability*** across entities and reporting periods;
- ***Lack of transparency*** regarding the meaning and amounts of various adjusting items and their location on the financial statements; and
- ***Inappropriate prominence*** of non-GAAP measures relative to GAAP.

Not only do these problems affect investment decision-making, but they also impact governance decisions because most public entities use non-GAAP financial measures in determining executive compensation.⁸

Alternative performance measures (APMs), which include Financial KPIs and non-financial KPIs (e.g., same-store sales, average revenue per user) are of such importance that investor organizations have proposed a dedicated standard setting board for them.⁹

The Ordering of Our Response to the ITC

Over the last decade, we have studied the use of non-GAAP financial measures and APMs broadly and surveyed our members’ views on the topic. Our response is informed by that body of work which included in **Appendix I** for your reference.

In **Appendix II**, we provide our answers to the questions posed to respondents in the ITC.

⁵ In 1996, 59% of S&P 500 companies disclosed at least one non-GAAP financial measure and each public company disclosed, on average, 2.5 measures. By 2020 those figures rose to 94% and 7.5, respectively. [PwC Viewpoint \(Jan 2021\)](#)

⁶ [Investor Uses, Expectations and Concerns on Non-GAAP Financial Measures](#), page 9

⁷ [Black, Dirk E. and Christensen, Theodore E. and Ciesielski, Jack T. and Whipple, Benjamin C., Non-GAAP Reporting: Evidence from Academia and Current Practice](#) (May 11, 2017).

⁸ Asher Curtis & Valerie Li & Paige H. Patrick, 2021. "The use of adjusted earnings in performance evaluation," Review of Accounting Studies, Springer, vol. 26(4), pages 1290-1322, December.

⁹ The Industry Standards Reporting Research Council (ISRRRC) was established as part of a global project to improve corporate disclosure. This initiative aims to address systemic issues in how companies disclose information and measure performance. ISRRRC’s primary purpose is to determine the need and process for developing standards for Alternative Performance Measures, helping to ensure that corporate reporting is consistent, transparent, and comparable across different companies and industries.

Below we provide a summary of what we believe is the best path forward for the FASB.

Our View on the Path Forward

Our suggested path forward for the Board, supported by a majority of investors in our surveys, is twofold:

1. **Standardize widely used Financial KPIs**, primarily on an *industry-specific basis*, and **subject them to independent assurance** by including them in the financial statements; and
2. **Improve GAAP** (e.g., better presentation of the income statement and statement of cash flows) to address some of the unmet needs that non-GAAP reporting is responding to.

This comment letter focuses on the first point, Financial KPIs.

We have a rich body of work on the second point¹⁰, which we contributed to the Board's multi-decade [project on Financial Performance Reporting](#) that we won't repeat here. We believe that projects to standardize widely used Financial KPIs and improve GAAP could and should proceed in parallel.

Regarding Financial KPIs, based on our prior work and investor surveys¹¹, we recommend that the Board pursues a combination of Approaches 1 and 2 as described in the ITC to define and require entities to disclose:

- **Operating profit or loss** and **organic revenue** growth by all entities.
- **The most widely used Financial KPIs on an industry-specific basis**. We believe EBITDA, free cash flow, and net debt would be included among these for most, but not all, industries and that the Board could use common definitions for such measures.

And to require entities to disclose:

- **Non-GAAP financial measures**, if an entity presents those measures outside the financial statements, **in the notes to the financial statements** with complementary disclosures including a quantitative reconciliation to the most directly comparable GAAP financial measure.

¹⁰ See our [Comment Letter to the FASB and IASB on Preliminary Views on Financial Statement Presentation \(FSP\)](#); [Comprehensive Business Reporting Model](#); and [Financial Reporting in the 1990s and Beyond](#).

¹¹ Our recommendations are also consistent with the recommendations of the PCAOB Investor Advisory Group's [Working Group on Non-GAAP Financial Measures](#), pages 16-18.

If you have any questions or seek further elaboration of our views, please contact Sandra J. Peters at sandra.peters@cfainstitute.org and Matthew P. Winters at matt.winters@cfainstitute.org.

Sincerely,



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Senior Head
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CFA Institute

BODY OF WORK THAT INFORMS OUR RESPONSE

Our response draws on a body of work from CFA Institute and others published over the last decade. We cite the following in the footnotes throughout this letter but present a list here for ease of reference.

CFA Institute - Thought Leadership and Surveys

- [Alternative Performance Measures, The Latest on Investor Use and Desire for Standardization](#) (2018)
- [Usefulness of Key Performance Indicators and Other Information Reported Outside Financial Statements](#) (2018)
- [Investor Uses, Expectations and Concerns on Non-GAAP Financial Measures](#) (2016)
- [Bridging the Gap: Ensuring Effective Non-GAAP and Performance Reporting](#) (2016)

CFA Institute – Comment Letters

- [Comment Letter to IASB on its Exposure Draft on General Presentation and Disclosures](#), which became IFRS 18, *Presentation and Disclosure in Financial Statements* (2020)

CFA Institute - Blogs

- [Solving the Conundrum Presented by Non-GAAP Financial Measures](#)
- [Investors Require Improvements in Reporting of Alternative Performance Measures](#),

Other Sources

- [The Information Used in Investment Decisions: Evidence from a Global Survey of Investment Professionals](#) (2025)
- [Non-GAAP Reporting: Evidence from Academia and Current Practice](#) (2017)
- [Report from the PCAOB’s Investor Advisory Group’s Working Group on Non-GAAP Financial Measures](#) (2017)

ANSWERS TO QUESTIONS FOR RESPONDENTS

Background

Question 1 (All Respondents): Please describe what type of stakeholder you (or your organization) are from the list below, including a discussion of your background and what your point of view is when responding to this ITC.

b. Investor, i. Other.

CFA Institute is a global, not-for-profit professional association of more than 190,000 members in 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals.

Our responses are from the perspective of an equity investor employing fundamental analysis.

Question 2 (All Respondents): What is the relative priority of a project on Financial KPIs given the FASB's progress on other recent projects, including projects on financial statement disaggregation as well as other recognition and measurement projects? Do you believe the relative priority differs for public entities versus private companies? Please explain why or why not.

We are conducting a member survey related to the Board's current [Agenda Consultation ITC](#) that asks this question directly. Our survey did not close until the end of April, so we don't have results to respond with here, but we will provide them in our response to the Agenda Consultation ITC.

We believe the relative priority of a project on Financial KPIs is high. In the Board's 2021 Agenda Consultation Report, the project priorities for investors were (in order of frequency of mention as a priority by investors):

1. Disaggregation of Financial Reporting Information
2. Statement of Cash Flows
3. ESG-Related Transactions or Disclosures
4. Intangible Assets
5. Financial KPIs or Non-GAAP Metrics
6. Digital Assets
7. Income Tax Disclosures.

The Board has issued or proposed Accounting Standards Updates related to all but three of these topics since 2021: Statement of Cash Flows (#2 priority), Intangible Assets (#4), and Financial KPIs or Non-GAAP Metrics (#5). Investor interest in ESG-related topics has waned over the past four years¹² while the prevalence and use of non-GAAP financial measures has not.

¹² [U.S. Sustainable Funds Landscape 2024 in Review \(Morningstar\)](#).

We therefore believe a project on Financial KPIs or Non-GAAP Metrics would still be ranked as a top priority by investors for the Board today.

A caveat is that the relative priority of the project depends on its scope and objectives. A project that would deliver new, material information from a broad range of entities would be prioritized highly. In contrast, a project that would only permit entities to bring certain Financial KPIs inside the financial statements from outside the financial statements would be a lower priority because that is less likely to deliver new, material information to investors.

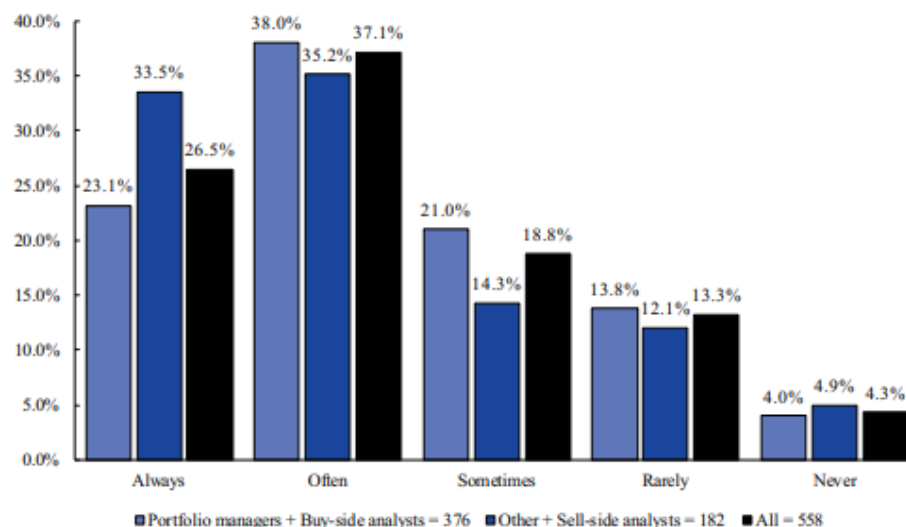
The relative priority for a project on Financial KPIs may be greater for private companies than public entities because public entities must comply with Regulation G, Item 10e of Regulation S-K, and other SEC guidance on non-GAAP financial measures whereas no such requirements exist for private companies.

Question 3 (Investors): How often, if at all, do you use Financial KPIs in your analysis? If used, which ones?

All the time.

The definition of Financial KPI in the ITC includes non-GAAP financial measures (e.g., EBITDA) and ratios of GAAP and non-GAAP financial measures (e.g., return on invested capital).¹³ In our 2016 investor survey, 63.6% of respondents “always” or “often” used non-GAAP measures.¹⁴ Ratios of GAAP and non-GAAP financial measures are very commonly used, perhaps even more than non-GAAP financial measures, hence our statement that investors use Financial KPIs all the time.

Figure 2.1. Use of Non-GAAP Measures



¹³ ITC, page 11.

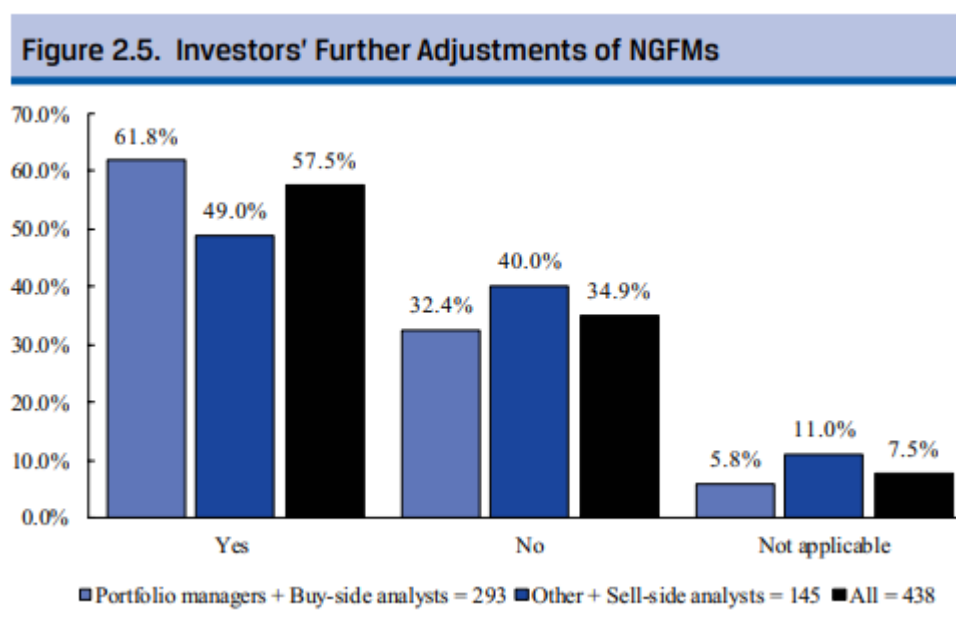
¹⁴ *Investor Uses, Expectations and Concerns on Non-GAAP Financial Measures* page 13.

Question 4 (Investors): If you use Financial KPIs in your analysis, do you calculate the measures yourself, use measures provided by a financial data service, or use the measures provided by management? If provided by management, do you make any additional adjustments before using the Financial KPIs in your analysis?

All the above. Some common use cases for each include:

- *Self-calculated measures* are often used in a discounted cash flow valuation model, including net operating profit after taxes (NOPAT), an after-tax measure of operating profit, and unlevered free cash flow.
- *Measures provided by a financial data service* are often used for efficient screening (e.g., searching for entities in the highest quartile of trailing twelve months' return on invested capital) and charting (e.g., time series of a single entity's return on invested capital) purposes.
- *Measures provided by management* are used in forecasting – especially if management provides guidance using Financial KPIs – and evaluating a company's compliance with a leverage ratio like net debt to adjusted EBITDA based on the definitions of those terms in a disclosed credit agreement under different scenarios.

In our 2016 investor survey, 57.5% of all respondents reported making their own adjustments to non-GAAP financial measures provided by management.¹⁵



We reproduce some of the comments we received from respondents to illustrate this practice:

¹⁵ [Investor Uses, Expectations and Concerns on Non-GAAP Financial Measures](#) pages 23-25.

“Companies present non-GAAP financial measures in the best light for them. I use their adjustments but decide which ones are legitimate. I use the same standard across my universe.”

“I consider as ‘core’ any costs that I view as an ongoing cost of business. For companies where acquisition is core to the business model, I even include intangible amortization. Legal charges, cash restructuring charges, royalty payments, and stock option expenses are examples of items often excluded from “core” earnings but that I include as costs in my own valuations.”

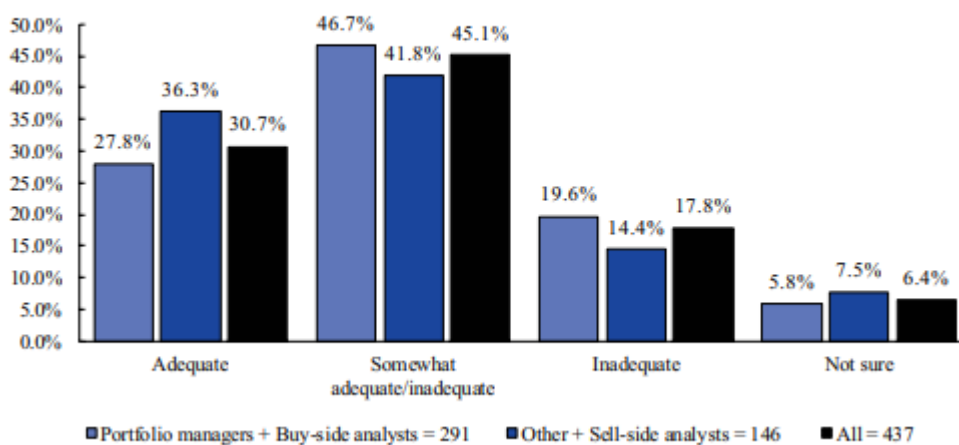
Question 5 (Preparers): Does your company present Financial KPIs outside the financial statements? Do your company’s peers present Financial KPIs outside the financial statements?

N/A. Question addressed to preparers.

Question 6 (Investors): If you use Financial KPIs in your analysis, are the Financial KPIs you use comparable across different entities? If you believe that those Financial KPIs are comparable across different entities, how do you know that those Financial KPIs are calculated on a comparable basis?

No, they are generally not comparable across entities, which is the primary motivation for standard setting on this topic. Financial KPIs are not comparable even across reporting for a single entity. In our 2016 investor survey, only 30.7% of respondents considered comparability across reporting periods to be “adequate” for non-GAAP financial measures.¹⁶

Figure 5.1. Views on Period-to-Period NGFM Adjustments



Investors may expect some Financial KPIs across different entities to be reasonably comparable if they are calculated using the same or similarly-titled line items presented on the financial

¹⁶ *Investor Uses, Expectations and Concerns on Non-GAAP Financial Measures* page 61.

statements and the entities under comparison have the same or similar business model (which industry membership is an indicator of) unless there is evidence to the contrary in the accounting policy footnote, non-GAAP reconciliation disclosure, or elsewhere.

For example, Costco Wholesale Corp. and BJ's Wholesale Holdings, Inc., have highly similar business models. Free cash flow calculated as cash flows from operations less additions to property and equipment – two line items presented on both entities' statements of cash flows – for the two entities would be viewed as comparable.

Certain non-GAAP financial measures are intended to be entity-specific (i.e., not comparable), such as “adjusted EBITDA” or “adjusted EPS.” The adjustments made are often not financial line items presented on the financial statements but subsets of them (e.g., “restructuring costs” which may be a component of selling, general, and administrative expenses) with minimal transparency. Despite not being comparable, these measures still have their uses such as highlighting non-recurring or volatile items, but their usefulness could be improved by greater transparency and discipline around their calculation.

For these reasons, we recommend the Board pursues a combination of standard setting Approaches 1 and 2 as identified in the ITC because that would result in the disclosure of comparable, standardized measures across entities and within industries, while maintaining entity-specific measures but subjecting them to greater controls and independent assurance by requiring disclosure in the notes to the financial statements.

Question 7 (Preparers): If your company and your company's peers present Financial KPIs outside the financial statements, are the Financial KPIs comparable? If you believe that the Financial KPIs that are presented are comparable?

N/A. Question addressed to preparers.

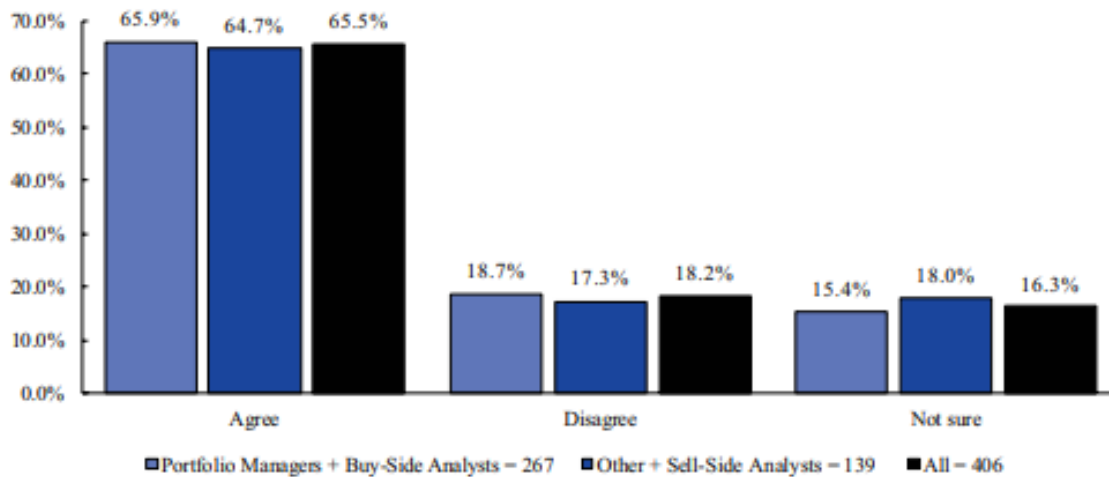
Approach 1: Define and Require (or Permit) Disclosure of Common Financial KPIs

Question 8 (Investors): Would you benefit from standardized GAAP definitions of commonly used Financial KPIs? Please explain why or why not.

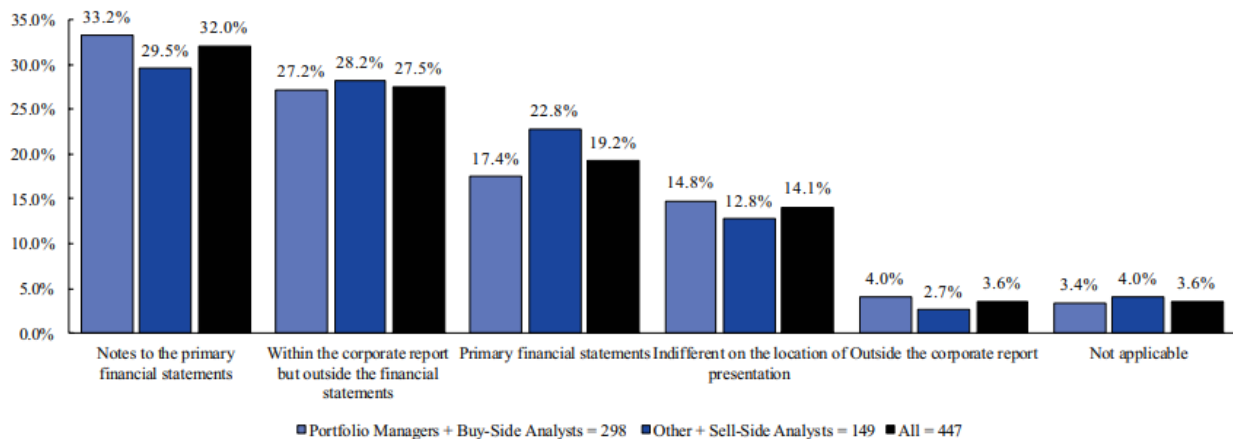
Yes. Standardized GAAP definitions of commonly used Financial KPIs would improve comparability across entities and reporting periods, transparency of calculation, and may improve the quality of the information by bringing Financial KPIs in the scope of the audit.

In our 2016 investor survey, 65.5% of respondents agreed that guidance from accounting standard setters related to non-GAAP financial measures would be beneficial.¹⁷

¹⁷ [Bridging the Gap: Ensuring Effective Non-GAAP and Performance Reporting](#), page 32.

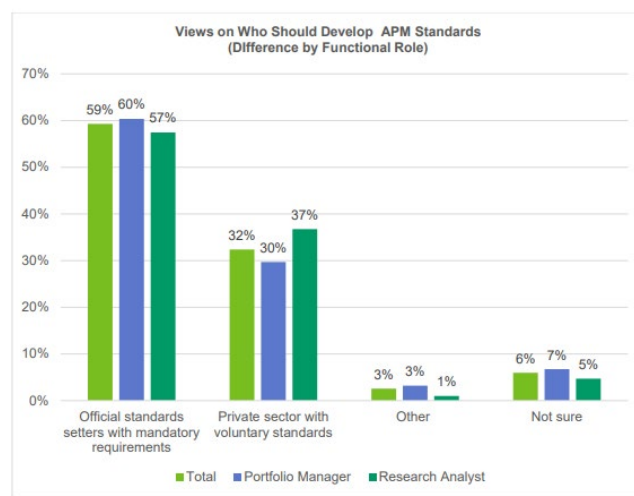
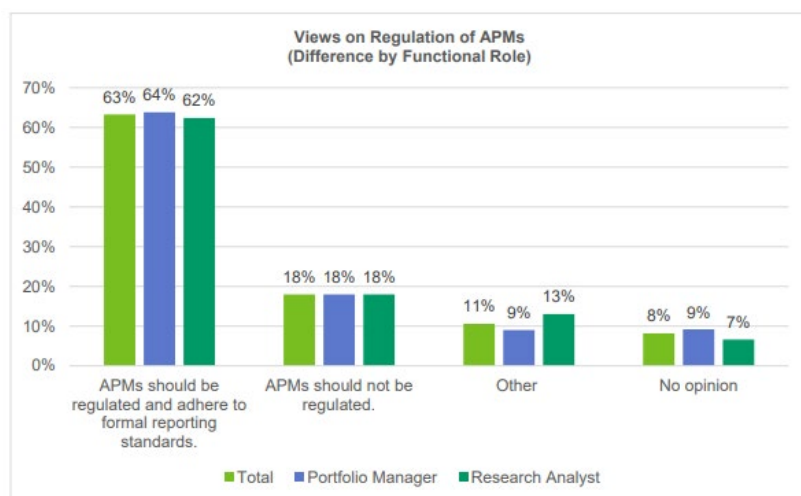
Figure 3.5. Views on Accounting Standard Setter Guidance Related to NGFMs


A majority of survey respondents (51.2%) indicated a preference for non-GAAP financial measures to be included in either the notes to the financial statements (32%) or presented in the primary financial statements (19.2%). Only 31% of respondents wanted non-GAAP financial measures outside the financial statements or corporate reports entirely.

Figure 3.6. Preferred Location of NGFMs


Our 2018 investor survey on this topic had a wider scope – alternative performance measures (APMs) rather than just Financial KPIs or non-GAAP financial measures – but found a similar percentage of respondents who favored greater regulation and reporting standards for APMs

(63%), and 59% of respondents indicated that this should be the responsibility of official standard setters with mandatory requirements.¹⁸



Our survey reports contain a rich selection of survey respondent comments on this question. We reproduce several below:

“The absence of standards on the definition of key items in the income statement and inadequate disaggregation has created a vacuum in which APMs have proliferated. Time for standard setters to re-impose some discipline”

“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.”

Question 9 (All Respondents): If the FASB defines certain Financial KPIs, should the defined Financial KPIs be measures that are commonly used across all entities, measures that are industry-specific, or both? What should the FASB consider in determining which Financial KPIs to define?

Both, but most of the Financial KPIs the Board should define are industry specific.

¹⁸ [Alternative Performance Measures: The Latest on Investor Use and Desire for Standardization](#), pages 12-22.

There aren't many Financial KPIs measured universally across all entities besides simple financial statement ratios that do not require standard setting (e.g., return on equity). Investors primarily compare entities within an industry and value industry-specific information highly.

In the 2024 investor survey facilitated by the Industry Standards Reporting Research Council¹⁹, CFA Institute, and others, industry-specific information was rated 7.7 on average on the scale from 0 ("Not Important") to 10 ("Critical") to investment decision-making.²⁰

In determining which Financial KPIs to define, the Board should select from among the well-established Financial KPIs used in practice that have an identifiable economic meaning. In other words, the Board should determine whether it can identify what aspects of financial performance, condition, or cash flow a measure represents. The Board should not find itself defining "new" Financial KPIs; the Board should standardize the calculation of and add rigor to well-established Financial KPIs.

Question 10 (All Respondents): Are there certain Financial KPIs you believe that the FASB should define? If so, what are they and why?

Yes. We recommend the Board:

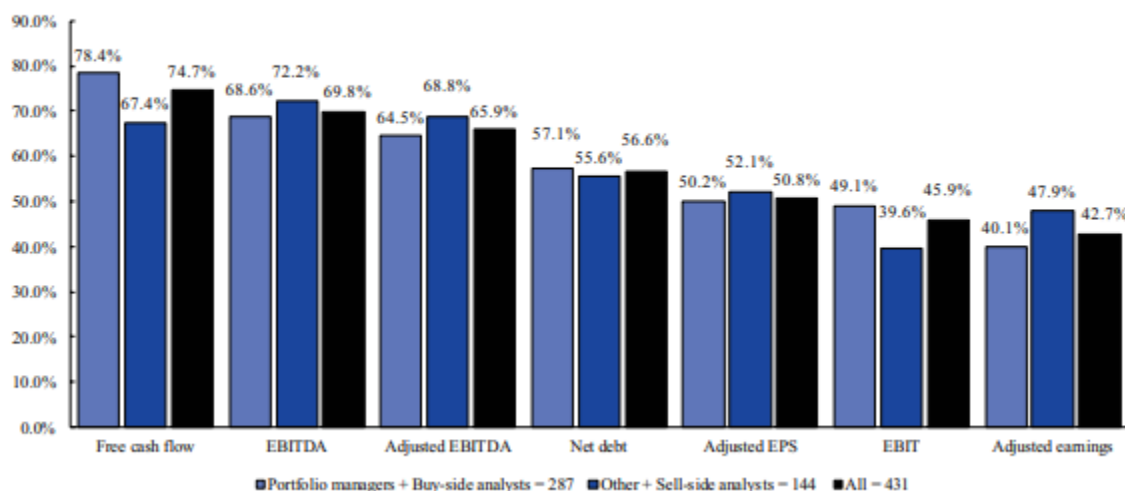
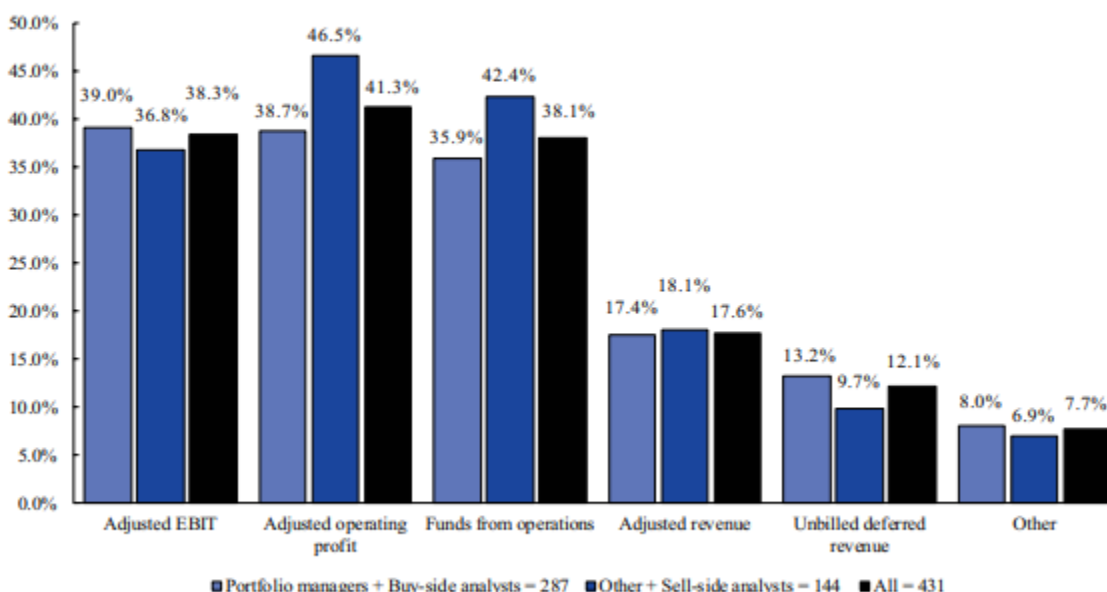
- **Define operating profit or loss and organic revenue growth** and requires presentation (operating profit or loss) and disclosure (organic revenue growth) by all entities. These two measures are widely used – as shown in our surveys – and applicable to a broad range of entities. The Board should leverage the IASB's work in IFRS 18 in defining operating profit or loss.
- **Define and requires the disclosure of the most widely used Financial KPIs on an industry-specific basis.** We believe *free cash flow*, *EBITDA*, and *net debt* would be included among these for most, but not all, industries.²¹
- **Require the disclosure of non-GAAP financial measures**, if an entity presents those measures outside the financial statements, *in the notes to the financial statements* with quantitative reconciliations to the most directly comparable GAAP financial measure and an explanation of how management uses the measure and why management believes their use benefits investors. This recommendation would bring "adjusted" measures of EBITDA, EBIT, earnings/EPS, and so on into the notes to the financial statements but leave their definitions to management.

¹⁹ The Industry Standards Reporting Research Council (ISRRC) was established as part of a global project to improve corporate disclosure. This initiative aims to address systemic issues in how companies disclose information and measure performance. ISRRC's primary purpose is to determine the need and process for developing standards for Alternative Performance Measures, helping to ensure that corporate reporting is consistent, transparent, and comparable across different companies and industries.

²⁰ [The Information Used in Investment Decisions: Evidence from a Global Survey of Investment Professionals](#), page 28.

²¹ EBITDA, free cash flow, and net debt are not commonly used in industries within the Financials and Real Estate sectors, for example.

Our recommendations encompass – as shown in the charts below – the most widely used non-GAAP financial measures based on our investor surveys and are generally consistent with the requirements related to management-performance measures in IFRS 18, *Presentation and Disclosure in Financial Statements*.²²

Figure 2.4. Investor Use of Different NGFMs

Figure 2.4. Investor Use of Different NGFMs (continued)


Source: [Investor Uses, Expectations, and Concerns on Non-GAAP Financial Measures](#), page 21.

²² IFRS 18, *Presentation and Disclosure in Financial Statements* paragraphs 52 and 70 for operating profit or loss subtotal on the income statement and paragraphs 117-125 related to management-defined performance measures.

Table 3: Extent of use of financial and operational metrics

Metric	#	1	2	3	4	5	Av Score	Rank
Non-GAAP financial measures (e.g., EBITDA, free cash flow, core profit, etc.)	209	2%	3%	14%	28%	52%	4.25	1
Comparable or organic sales growth data (e.g., like for like or same-store sales, constant currency sales)	208	2%	4%	15%	35%	43%	4.12	2
Gross margin disaggregation (revenue mix & cost-of-sales mix breakdown)	208	1%	8%	13%	40%	39%	4.10	3
Market share	210	1%	4%	20%	40%	36%	4.05	4
Future revenue potential measures (e.g., contracted sales not yet recognized as revenue, order backlog)	209	2%	8%	25%	41%	24%	3.78	5
Capacity utilization measures	210	1%	6%	30%	40%	23%	3.77	6
Asset utilization (e.g., occupancy)	210	2%	7%	29%	36%	26%	3.77	7
Customer base (numbers, profile)	209	2%	6%	32%	37%	23%	3.72	8
New customers, subscribers	208	3%	9%	26%	39%	22%	3.68	9
Fixed versus variable cost analysis	207	2%	11%	29%	34%	24%	3.67	10
Customer retention rate (e.g., subscriber renewal rate, customer visits, footfall)	208	4%	7%	29%	39%	20%	3.65	11
Sales per unit (e.g., sales per square foot, sales per room)	209	4%	13%	32%	33%	17%	3.45	12
Sales conversion (average revenue per customer, cross-selling measures)	208	5%	15%	33%	31%	16%	3.39	13
Productivity ratios (e.g., employee productivity measures)	208	3%	15%	38%	29%	14%	3.37	14
Customer acquisition costs	210	4%	15%	37%	30%	14%	3.35	15
Customer satisfaction scores	210	9%	27%	39%	19%	7%	2.88	16

= Number of respondents; 1 = Never use; 2 = Rarely use; 3 = Sometimes use; 4 = Often use; 5 = Always use. Av Score = Average Score—the weighted average of percentage responses to rating 1 to 5.

Source: [Usefulness of Key Performance Indicators and Other Information Reported Outside Financial Statements](#), page 12.

Should Disclosure of Defined Measures Be Required or Optional?

Question 11 (All Respondents): Should disclosure of certain defined measures be required or optional? If required, how should that requirement be determined (for example, should all entities be required to disclose the defined measure or only entities in specified industries)? Please explain.

Required, for two reasons:

- (1) optional disclosure would defeat the purpose of standardization and
- (2) there are legal questions for public entities disclosing non-GAAP financial measures in the financial statements that are permitted but not required under GAAP.²³

²³ See [Hot Topic: Segment reporting - Important SEC clarifications](#) from KPMG for a summary of the interplay between the Board's new segment reporting standard that *permits* additional measures of segment profit or loss which may be non-GAAP measures and Item 10(e) of Regulation S-K that generally prohibits non-GAAP financial measures in the financial statements unless *required* by GAAP.

Question 12 (All Respondents): Should the FASB provide criteria for entities to use to determine when a defined Financial KPI needs to be disclosed? For example, an entity could be required to disclose a Financial KPI that has been defined by the FASB in the financial statements if it presents it or an adjusted version outside the financial statements (for example, if EBITDA is defined and an entity presents adjusted EBITDA).

Yes. Our recommendations and disclosure criteria are as follows.

Financial KPIs	Disclosure Criteria
- Operating profit or loss - Organic revenue growth	All entities.
Industry-specific Financial KPIs, which may include free cash flow, EBITDA, and net debt.	If the consolidated entity or reportable segment of the entity meets the Board's definition of an industry, then disclosure is required by the consolidated entity or reportable segment, as applicable.
Non-GAAP financial measures presented outside the financial statements	If the entity presents non-GAAP financial measures publicly outside the financial statements. Practical exclusions such as oral statements and social media posts can be considered.

The Board should develop guidance to indicate that a Financial KPI need only be disclosed once in the financial statements (i.e., if an entity has two footnote disclosures titled "GAAP KPIs" and "Management-Defined KPIs," KPI disclosures shouldn't appear in both footnotes.)

Question 13 (All Respondents): If the FASB defines certain Financial KPIs that are common within specific industries, should all entities within those industries be required to disclose the defined measure?

If an entity's consolidated operations or a reportable segment meet the definition of an industry, disclosure of that industry's defined measures on a consolidated or reportable segment basis, as appropriate, should be required.

The Board will have to develop industry definitions and thresholds for entities and reportable segments meeting those definitions. This is a well-established field with many commercial and non-commercial industry frameworks available that the Board should leverage.

Depending on the construction of the industry definitions and cutoffs, some entities operating in an industry will not disclose defined measures for that industry. If an entity's operations in an industry are immaterial, then that is reasonable, but the Board may consider a broader principle to permit additional disclosures if they are material.

Approach 2: Require (or Permit) Disclosure of Financial KPIs Presented by Management Outside the Financial Statements

Question 14 (All Respondents): Should an entity be required to disclose a Financial KPI in GAAP financial statements if the entity communicates the Financial KPI elsewhere? If so, what incremental benefits does requiring (rather than permitting) disclosure provide?

Yes. Among our three recommendations is that the Board requires the disclosure of non-GAAP financial measures – if an entity communicates those measures outside the financial statements – in the notes to the financial statements.

We think it's appropriate to use “non-GAAP financial measure” rather than “Financial KPI” in this recommendation because non-GAAP financial measure is a well-understood term in corporate disclosure by preparers, practitioners, and investors. A new term like “Financial KPI” or a subset of non-GAAP financial measures would create confusion, like we expect to result from the new term “management-defined performance measures” introduced in IFRS 18.²⁴

Disclosure in the financial statements will provide much-needed rigor to these measures because they will be subject to internal controls over financial reporting (a higher degree of scrutiny than disclosure controls) and the independent audit.

Requiring (rather than permitting) disclosure is essential for the purposes of improving comparability; optional disclosure would not be much of an improvement over the status quo. Additionally, as discussed above, there are legal questions for public entities disclosing non-GAAP financial measures in the financial statements that are permitted but not required under GAAP.²⁵

In connection with this disclosure requirement, the FASB should provide guidance on the use of the term “non-recurring” in non-GAAP financial measures. This term is highly prevalent in practice, but we observe heterogeneity in its meaning. Some preparers take aggressive and inconsistent approaches as to which costs are “non-recurring” and thus disregarded for non-GAAP purposes, in what appears to be an effort to present more flattering performance.

Question 15 (All Respondents): If the FASB pursues Approach 2, should the criteria for identifying Financial KPIs that must be (or are permitted to be) disclosed in GAAP financial statements be broad or narrow? For example, should all Financial KPIs communicated outside financial statements be disclosed or should only those communicated in earnings announcements and regulatory filings be disclosed?

We recommend a combination of Approaches 1 and 2.

Related to Approach 2, in terms of criteria to identify which measures must be disclosed, the

²⁴ See our [Comment Letter to IASB on its Exposure Draft on General Presentation and Disclosures](#), page 4, for a discussion of how “management-defined performance measures” will result in confusion.

²⁵ See footnote 22.

Board should leverage some of the criteria used in IFRS 18 to identify management-defined performance measures to be disclosed²⁶ and focus the criteria on measures communicated publicly in writing and presentations. At the risk of stating the obvious, the criteria should be broad enough to prevent disclosure “evasion” by using alternative forms of communication but not be so broad as to make enforcement impossible.

Question 16 (All Respondents): Are there other criteria that you believe should be used to identify Financial KPIs that would be required to be (or are permitted to be) disclosed in GAAP financial statements? If so, what are they and why should they be included?

No.

Overall Preferred Approach and Disclosure

Question 17 (All Respondents): Which potential approach for standard setting on Financial KPIs do you prefer and why?

We recommend a combination of Approaches 1 and 2. See our responses to Questions 10 and 12.

Question 18 (Investors): Would a combined approach that incorporates elements of Approaches 1 and 2 provide decision-useful information that is incremental to either approach in isolation? Please explain how the approaches should be combined, including why that approach would provide incremental decision-useful information

Yes. We recommend a combination of Approaches 1 and 2. Below we reproduce our recommendation with the disclosure criteria from our response to Question 12.

Financial KPIs	Disclosure Criteria
- Operating profit or loss - Organic revenue growth	All entities.
Industry-specific Financial KPIs, which may include free cash flow, EBITDA, and net debt.	If the consolidated entity or reportable segment of the entity meets the Board’s definition of an industry, then disclosure is required by the consolidated entity or reportable segment, as applicable.
Non-GAAP financial measures presented outside the financial statements	If the entity presents non-GAAP financial measures publicly outside the financial statements. Practical exclusions such as oral statements and social media posts can be considered.

A combined approach would provide more most decision-useful information for investors than Approaches 1 or 2 in isolation.

²⁶ IFRS 18 Basis for Conclusions, paragraphs BC334 – BC342

Approach 1 in isolation would benefit investors with defined all-entity or industry-specific Financial KPIs that improve the comparability and availability of information (if those defined measures are *required* to be disclosed). However, measures communicated outside the financial statements, which are often entity-specific, would continue to cause issues such as questionable adjustments and a lack of transparency.

Approach 2 in isolation would benefit investors with greater rigor and independent assurance applied to Financial KPIs historically communicated only outside the financial statements, but comparability and the availability of information would be unchanged. In fact, information volume could be reduced if managers choose to discontinue communicating rather than comply with disclosure.

Question 19 (Preparers and Practitioners): Is either Approach 1 or 2 inoperable? Please explain why or why not.

N/A; question addressed to preparers and practitioners.

Question 20 (All Respondents): Are there other approaches that should be considered? If so, please describe and comment on whether (and what) incremental disclosures should be required under an alternative approach

No.

What Incremental Disclosures Would Be Useful?

Question 21 (All Respondents): For any undefined Financial KPIs that must be (or are permitted to be) disclosed in GAAP financial statements, should an entity be required to provide a reconciliation in the financial statements to the most comparable GAAP requirement? Please explain why or why not.

Yes. Per our recommendations, undefined Financial KPIs that must be disclosed in GAAP financial statements will encompass non-GAAP financial measures presented outside the financial statements. Today, for public entities, a quantitative reconciliation to the most directly comparable GAAP measure is required in many, but not all, circumstances under Regulation G.²⁷ The quantitative reconciliation is essential to the usefulness of non-GAAP financial measures and a key source of information itself. Without reconciliation, we would expect the trust in and use of non-GAAP financial measures to decline significantly.

²⁷ Regulation G does not require a quantitative reconciliation for non-GAAP financial measures to the most directly comparable GAAP measure in the Compensation Discussion and Analysis section of proxy statements. See pages 5-8 in the [Council of Institutional Investors' September 19, 2024 letter to the SEC on its Reg Flex Agenda](#).

One commenter's views from our 2016 investor survey on non-GAAP financial measures in general and the GAAP reconciliation in particular is useful:

*"The key source of information in non-GAAP metrics are the reconciling items management provides to the GAAP metrics. It is simply another source of information. I then typically construct my own view of normalized earnings/cash flow based on my analysis. Non-GAAP metrics as presented by management (in most circumstances) should not be accepted without question."*²⁸

We would note that the reconciliation needs to be improved by ensure that the reconciliation items reference the financial statement caption to which they relate.

Question 22 (All Respondents): Would disclosure about the components of Financial KPIs and the financial statement line items in which those components are included be useful? Please explain why or why not. If yes, should that disclosure be required?

Yes. Disclosures about the components of Financial KPIs and the financial statement line items in which those components are included are key unmet needs for investors today with non-GAAP financial measures.

Question 23 (All Respondents): For any undefined Financial KPIs that must be (or are permitted to be) disclosed in GAAP financial statements, should management be required to explain the element of their performance the undefined Financial KPI is meant to convey and how the undefined Financial KPI is used by management?

Yes. Per our recommendations, undefined Financial KPIs that must be disclosed in GAAP financial statements will encompass non-GAAP financial measures presented outside the financial statements. Management's explanation of the Financial KPI should highlight the incremental or alternative information offered by the Financial KPI vs. the most directly comparable GAAP measure.

Question 24 (All Respondents): If an entity provides comparative financial statements, should it be required to disclose comparative period information for Financial KPIs disclosed? Please explain why or why not.

Yes. We always support comparative period information because it is essential for financial analysis.

²⁸ [*Investor Uses, Expectations and Concerns on Non-GAAP Financial Measures*](#) page 24.

Question 25 (All Respondents): Are there any other disclosures that you believe should accompany Financial KPIs (defined or undefined) that would be disclosed in GAAP financial statements? If so, what are they and why?

Yes.

If management changes the definition of an undefined Financial KPIs that must be disclosed in GAAP financial statements (per our recommendation, this will encompass non-GAAP financial measures presented outside the financial statements), management should be required to explain why it was changed and to disclose comparative period amounts under the revised definition.

If management discontinues disclosure of an undefined Financial KPIs that must be disclosed in GAAP financial statements (per our recommendation, this will encompass non-GAAP financial measures presented outside the financial statements), management should be required to explain why it was discontinued.