FASB Invitation to Comment

Issued: November 14, 2024
Comments Due: April 30, 2025

Financial Key Performance Indicators for Business Entities

Comments should be addressed to:

Technical Director
File Reference No. 2024-ITC100

Financial Accounting Standards Board

Notice to Recipients of This Invitation to Comment

The Board invites feedback on all matters in this Invitation to Comment. We request comments by April 30, 2025, by one of the following methods:

- Emailing comments to director@fasb.org, File Reference No. 2024-ITC100
  or
- Sending a letter to "Technical Director, File Reference No. 2024-ITC100, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

A copy of this Invitation to Comment is also available at www.fasb.org.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

Invitation to Comment

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PURPOSE, SCOPE, AND BACKGROUND

Purpose

This Invitation to Comment (ITC) is being issued as part of the Financial Accounting Standards Board's (FASB or Board) research project on financial key performance indicators (Financial KPIs) for business entities. An ITC is a staff document prepared at the direction of the FASB chair in which the Board does not express any preliminary views. Responses to the questions in this ITC will help inform the Board as it considers whether to add a project on Financial KPIs to its technical agenda and, if added, to determine the objective and scope of the project.

In previous outreach, including the 2021 Invitation to Comment, *Agenda Consultation*, the FASB received feedback from stakeholders that a project on Financial KPIs should be considered. However, respondents expressed diverse views on the nature and extent of the perceived issues, whether the Board should add a project to its technical agenda, and, if a project is added, the objective of the project. While a potential project on Financial KPIs was often highlighted as a priority by investors, it was rarely cited as a priority by preparers.

The FASB staff is issuing this ITC to solicit additional feedback on potential standard setting for Financial KPIs, including the following:

1. Should Financial KPIs be standardized and, if so, which ones?
2. Should Financial KPIs be required or permitted to be disclosed in an entity's generally accepted accounting principles (GAAP) financial statements and, if so, when and for what types of entities?

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:

a. Academic
b. Investor, other allocator of capital, or other financial statement user, such as:
    i. Equity analyst: buy side
    ii. Equity analyst: sell side
    iii. Credit-rating agency analyst
    iv. Fixed-income analyst
    v. Accounting analyst
    vi. Quantitative analyst
    vii. Portfolio manager
    viii. Private equity
    ix. Individual investor
    x. Lender
    xi. Long-only focus
    xii. Long/short focus

    xiii. Other
c. Practitioner/auditor
d. Not-for-profit organization preparer
e. Private company preparer
f. Public company preparer
g. Regulator
h. Standard setter
i. Other.

Scope

Financial KPIs

For purposes of this document, a Financial KPI[1] is 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. This includes:

1. Measures derived from amounts presented in the financial statements (for example, a current ratio calculated using current assets and current liabilities as presented in a classified balance sheet)
2. Measures derived from adjusting amounts presented in the financial statements (for example, adjusted net income, adjusted revenue, and adjusted earnings per share (EPS))
3. Measures derived from or calculations based on other information included in financial statements or other financial records (for example, earnings before interest, taxes, depreciation, and amortization *(*EBITDA), free cash flow (FCF), organic sales growth, and funds from operations (FFO)).

Financial Statement Performance Measures, Totals, and Subtotals

The financial statements include certain financial performance measures, totals, and subtotals that appear directly in the financial statements. Current GAAP requires certain performance measures (for example, EPS), totals (for example, revenue), and subtotals (for example, net income or current liabilities in a classified balance sheet), and entities may also provide certain other subtotals on a voluntary

[1]The FASB is aware that other definitions of Financial KPIs may exist. However, for the purposes of this ITC the term *Financial KPIs* is used as described within this document.

basis (for example, gross profit).[2] Those financial reporting measures, totals, and subtotals presented in the financial statements are *not* Financial KPIs as described in this ITC and are not the subject of this ITC.

Nonfinancial KPIs

Some business entities also provide measures or ratios not derived directly from information in the financial statements or underlying accounting records (for example, same-store sales, number of subscribers, and churn). For purposes of this document, these are referred to as Nonfinancial KPIs. Those measures are *not* Financial KPIs for purposes of this ITC.

Background

At its December 2021 and May 2022 Board meetings, the Board considered stakeholders' feedback received on the 2021 Agenda Consultation, which included feedback on Financial KPIs (see Appendix B for a summary of the feedback and recent investor outreach). The Board did not add a project on Financial KPIs to its technical agenda at that time for the following reasons:

1. The Board expressed a need for additional information on the perceived issues and potential solutions.
2. The Board discussed a desire to evaluate whether further progress on the Disaggregation of Income Statement Expenses project would address some or all of the perceived issues related to Financial KPIs.
3. The Board voiced concerns about the feasibility of creating standardized definitions of Financial KPIs that would be broadly meaningful across entities and industries.

The FASB chair added a project on Financial KPIs to the research agenda to explore the pervasiveness of the perceived issues related to Financial KPIs and whether technically feasible solutions exist.

Other FASB Projects on Presentation of Financial Performance

Since the issuance of the 2021 Agenda Consultation, the FASB has made progress on other improvements that will provide investors with more disaggregated financial information about an entity's performance, for example:

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[2]Additionally, the U.S. Securities and Exchange Commission (SEC) requires minimum captions and other presentation requirements in the financial statements of registrants and most other entities who file with or furnish GAAP financial statements to the SEC.

1. Disaggregation of Income Statement Expenses. The amendments in Accounting Standards Update No. 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses,* require that public business entities disclose detailed information about the types of expenses (including employee compensation, depreciation, and amortization) in commonly presented expense captions (such as cost of sales; selling, general, and administrative expenses; and research and development).
2. Segment Reporting. The amendments in Accounting Standards Update No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures,* require that public entities disclose more information about a reportable segment's expenses.

In addition, the FASB continues to work on projects on the statement of cash flows that are exploring potential updates to provide investors with additional information about an entity's cash flows. The Board is developing targeted improvements to the statement of cash flows for financial institutions, and separately has a research project on the statement of cash flows to further explore potential improvements to that statement.

Perceived Issues with Financial KPIs

When evaluating potential projects to add to its technical agenda, the Board considers whether there is an identifiable and sufficiently pervasive need to improve GAAP. In other words, the Board considers what improvement is needed and if there are feasible standard-setting solutions at a reasonable cost.

In outreach performed as part of the 2021 Agenda Consultation and as part of the FASB's research project on Financial KPIs, the FASB sought to understand, at a more granular level, the perceived issues related to Financial KPIs. That research suggested that there is an increase in the use of Financial KPIs that reduces comparability because standardized definitions of Financial KPIs do not exist.

Increase in the Use of Financial KPIs

To better understand the perceived issues related to the increase in Financial KPIs, the FASB staff researched the prevalence of entities reporting Financial KPIs.[3] From 2013 to 2022, the proportion of SEC filers reporting a Financial KPI increased from 36 percent to 53 percent. Among the S&P 500, which reflects large

[3]The FASB staff used data from Calcbench. Calcbench is a data provider that collects data on SEC filers' Financial KPI reporting from Form 8-K filings or flash news articles (like Business Wire). If Calcbench does not track a particular Financial KPI, or an entity does not appear in the Calcbench data set, it is not reflected in the statistics discussed in this ITC.

public companies, the increase was from 65 percent to 85 percent over the same period. Those increases in Financial KPI reporting also were present across most industry sectors. From 2013 to 2022, all but one industry (drugs, soaps, perfumes, and tobacco) saw double digit growth in the presentation of Financial KPIs.[4]

The table below lists the five most common Financial KPIs that SEC filers and companies in the S&P 500 presented in 2022:[5]

Financial KPI	**Percentage of SEC Filers Reporting Measure**	**Percentage of S&P 500 Reporting Measure**
EBITDA or adjusted EBITDA	33%	28%
Adjusted EPS	31%	68%
Adjusted net income	31%	54%
Adjusted operating income	14%	30%
FCF or adjusted FCF	12%	27%

See Appendix E for a summary of other commonly reported Financial KPIs.

In addition to entities reporting Financial KPIs, there are financial data services that also provide Financial KPIs to their clients. For example, a well-known data service calculates and provides EBITDA for entities in all sectors except banking. In addition to the data service's standard EBITDA calculation, the data service also provides certain industry-specific EBITDA measures. See Appendix E for a summary of additional Financial KPIs provided by that data provider.

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.

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

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[4]For this analysis, the FASB used the Fama French 17 industry definitions.

[5]Calcbench tracks Financial KPI reporting for (a) adjusted cost of sales, (b) adjusted EPS, (c) adjusted gross profit, (d) adjusted gross profit percentage, (e) adjusted net income, (f) adjusted operating cash flow, (g) adjusted revenue, (h) EBITDA or adjusted EBITDA, (i) FCF or adjusted FCF, (j) FFO or adjusted FFO, (k) FFO per share or adjusted FFO per share, and (l) operating income or adjusted operating income.

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?

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?

Lack of Comparability Among Financial KPIs

To better understand the perceived issues related to comparability, the FASB staff researched a sample of public companies that report EBITDA. Among those companies, the companies' definitions of earnings, interest, depreciation, and amortization were different. Some companies included interest income in their definitions of interest while others did not. Other companies combined amortization and depreciation into a single amount, making it challenging to determine what those companies considered to be amortization or depreciation. It also was unclear whether a consistent definition of amortization is used and how the capitalization of costs (for example, depreciation that is capitalized into inventory) affects depreciation. Finally, among entities with income attributable to a noncontrolling interest, some excluded the noncontrolling interest from their definition of earnings while others did not.

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?

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, how do you know that those Financial KPIs are calculated on a comparable basis?

Addressing Perceived Issues with Financial KPIs

Over the years, the FASB staff has received diverse feedback about addressing the perceived issues with Financial KPIs. Some stakeholders support the FASB defining certain commonly used Financial KPIs, such as EBITDA, because those measures are viewed as widely applicable across many sectors and can provide a useful starting point for comparison among entities. In addition, some stakeholders noted that if a common definition is included in the financial statements, any non-GAAP disclosure of an adjusted figure would need to be reconciled to the closest GAAP requirement (for example, adjusted EBITDA presented outside the financial statements would be reconciled to EBITDA as included in the financial statements).

Some stakeholders support increased transparency surrounding Financial KPIs in the financial statements rather than standardization. Those stakeholders noted that Financial KPIs are important tools that allow management to articulate its specific view of an entity's performance and by design should be entity specific.

Other stakeholders do not support the FASB undertaking a project on Financial KPIs. Some of those stakeholders indicated that even if certain commonly used Financial KPIs were defined, many entities would continue to present adjusted versions, potentially diminishing the benefit of a standardized definition. Furthermore, a small number of investors indicated that current GAAP totals and subtotals (for example, net income and cash flow from operations) are sufficient and that elevating any Financial KPIs to the GAAP financial statements would give those measures undue prominence.

This ITC is intended to gather information about those diverse views to aid the Board and the FASB staff in determining next steps.

POTENTIAL APPROACHES

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

One approach for a potential project would be to define certain commonly used Financial KPIs (for example, EBITDA and/or FCF) and require or permit disclosure of those measures in an entity's GAAP financial statements.

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

Which Financial KPIs Should Be Defined?

The first decision to make under Approach 1 would be to choose which Financial KPIs to define. One possible alternative would be to define Financial KPIs that are commonly used by investors or commonly presented by entities. On the basis of preliminary investor outreach, EBITDA and FCF are commonly used Financial KPIs by investors. Similarly, entities commonly present a form of EBITDA or FCF (28 and 27 percent of entities in the S&P 500 during 2022, respectively).

An alternative would be to define Financial KPIs that are common within specific industries, but not necessarily common across all entities. For example, FFO in the real estate industry; earnings before interest, taxes, depreciation, amortization, and exploration (EBITDAX) and refining margin in the oil and gas industry; or return on invested capital in the retail industry.

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?

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

Should Disclosure of Defined Measures Be Required or Optional?

The second decision to make under Approach 1 would be to determine whether disclosing the defined measures should be required or optional in an entity's GAAP financial statements.

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.

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).

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?

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

Another approach for a potential project would be to require or permit an entity to disclose Financial KPIs that management presents outside the financial statements. This approach could be similar to the presentation requirements for management performance measures (MPMs) under International Financial Reporting Standards (IFRS) 18, *Presentation and Disclosure in Financial Statements*. See Appendix D for a summary of the IFRS 18 reporting requirements for MPMs.

What Financial KPIs Would Be Subject to Disclosure?

The key decision to make under Approach 2 would be to establish the specific criteria to determine if an entity would be required or permitted to disclose a Financial KPI within its GAAP financial statements. One alternative would be to require or permit disclosure within GAAP financial statements of all Financial KPIs that entities present outside the financial statements, regardless of the venue or format. Another alternative would be to require or permit disclosure within GAAP financial statements any Financial KPIs that entities present in their earnings announcements or other regulatory filings.

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?

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?

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?

Overall Preferred Approach and Disclosure

Approaches 1 and 2 are not mutually exclusive. The FASB could pursue standard setting that combines elements of Approach 1 and Approach 2.

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

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.

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

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.

What Incremental Disclosures Would Be Useful?

Under any approach to set standards related to Financial KPIs, the accompanying disclosures are also important to consider. For defined Financial KPIs, possible incremental disclosures could include the amounts for each component of the Financial KPI (as defined), the financial statement line item(s) in which those components are included, and the Financial KPI for comparative periods (if an entity provides comparative period financial statements). For undefined Financial KPIs, possible incremental disclosures could include the definition of the Financial KPI, management's considerations for disclosing the Financial KPI, a reconciliation to the most comparable GAAP requirement, and the financial statement line item(s) in which each reconciling item is included.

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.

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?

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?

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.

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?

Appendix A: Examples of Financial KPIs, Financial Statement Performance Measures, Totals, and Subtotals, and Nonfinancial KPIs

The table below provides examples of Financial KPIs, financial statement performance measures, totals, and subtotals, and Nonfinancial KPIs.[6]

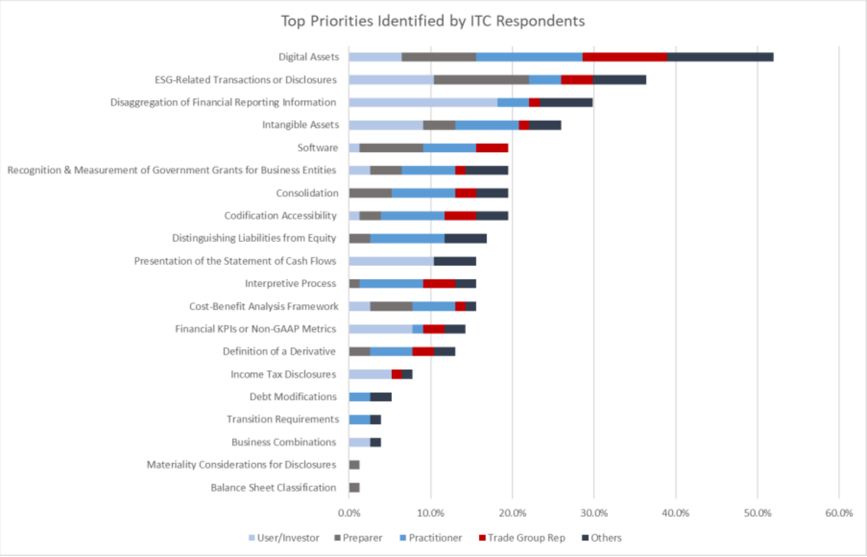
Financial Statement Performance Measures, Totals, and Subtotals	Financial KPIs	Nonfinancial KPIs
• Revenue • Gross profit • Gross margin • Pre-tax income (EBT) • Net income • EPS • Profit margin • Operating cash flows (OCF)	• Return on assets (ROA) • Return on equity (ROE) • Current ratio • Debt-to-equity ratio (D/E) • Adjusted revenue • Adjusted gross profit • Adjusted gross margin • Adjusted EBT • Adjusted net income • Adjusted EPS • Adjusted profit margin • FCF or adjusted FCF • Organic sales growth or adjusted organic sales growth • EBIT or adjusted EBIT • EBITDA or adjusted EBITDA • EBITDAR or adjusted EBITDAR • EBITDAX or adjusted EBITDAX • FFO or adjusted FFO • Refining margin • Return on invested capital (ROIC)	• Churn • Same-store sales • Number of subscribers

[6]The list of examples is not comprehensive and is intended only for illustrative purposes.

Appendix B: Feedback Received on Financial KPIs

The FASB issued the 2021 Agenda Consultation[7] to solicit broad feedback from stakeholders about the FASB's future standard-setting initiatives. Chapter 2, *Emerging Areas in Financial Reporting,* includes a discussion of Financial KPIs. The discussion solicited feedback on the potential standardization of certain non-GAAP KPIs in response to stakeholders' observations about an increasing focus on Financial KPIs combined with a decrease in comparability of those Financial KPIs.

Forty-one respondents from various stakeholder groups, including practitioners, preparers, trade groups, and state CPA societies, provided feedback on the Financial KPIs discussion in the 2021 Agenda Consultation. The following diagram provides an illustration of the topics that the 77[8] total respondents identified as top priority:



[7]2021 FASB Agenda Consultation Report.

[8]The FASB received 522 total responses to the 2021 ITC. Four hundred and forty-five of these responses solely addressed the accounting for digital assets. The other 77 responses addressed the ITC more broadly. The diagram included in this document provides a breakdown of those 77 respondents who broadly addressed topics in the ITC.

As shown, investors assigned a higher priority to the topic of Financial KPIs than many other topics. However, four other topics were a higher priority for investors than Financial KPIs: disaggregation of financial reporting information, presentation of the statement of cash flows, ESG-related transactions and disclosures, and intangible assets.

Respondents that supported the Financial KPI topic expressed that defining Financial KPIs would provide investors with a common starting point for well understood Financial KPIs and could increase comparability by reducing diversity in practice. However, other respondents, especially preparers, viewed the Financial KPI topic as a low priority. Those respondents expressed concerns about the difficulties in providing standardized measures of Financial KPIs across industries and noted that management is best positioned to define Financial KPIs. Furthermore, some respondents indicated that greater disaggregation of financial reporting information could address many of the relevant issues related to the topic of Financial KPIs. For example, disaggregated income statement information may benefit investors by providing more granular information about the source of common adjustments entities make to create Financial KPIs.

Stakeholders from all groups observed that adjustments made to performance measures are often industry-specific or entity-specific and, therefore, entities are likely to continue making unique adjustments to any standardized Financial KPIs.

Following the issuance of the 2021 Agenda Consultation, the FASB continued its research on Financial KPIs. The FASB discussed the topic with its Investor Advisory Committee in November 2023 and performed additional targeted outreach with different types of investors, including accounting analysts, industry analysts, and credit rating analysts. Feedback received from the Investor Advisory Committee and the investors that participated in targeted outreach was diverse, particularly regarding the prioritization and objective of a project on Financial KPIs.

Appendix C: SEC Guidance for Non-GAAP Financial Measures

The history of the SEC's focus on non-GAAP reporting dates back more than 50 years. In 1973, the SEC issued Accounting Series Release No. 142[9], warning of possible investor confusion from the use of financial measures outside GAAP. In 2001, the SEC provided cautionary advice[10] to registrants on using pro forma financial information in earnings releases. Then, following a mandate under the Sarbanes-Oxley Act of 2002 to issue rules on non-GAAP financial measures, the SEC issued Regulation G[11] and amended Regulation S-K, Item 10[12] in 2003. The SEC staff also has published guidance in its Compliance & Disclosure Interpretations (C&DIs) related to non-GAAP financial measures[13] that were most recently updated in 2022.

Regulation G applies whenever any material information that includes a non-GAAP financial measure is disclosed or released publicly (for example, in press releases). Item 10(e) of Regulation S-K applies to all SEC filings that include non-GAAP financial measures. Item 10(e) of Regulation S-K includes reporting requirements consistent with those under Regulation G, as well as incremental requirements including disclosures focused on why management believes that the non-GAAP financial measure provides investors with useful information and the additional purposes for which management uses the non-GAAP financial measure.

Regulation G and Item 10(e) of Regulation S-K define a non-GAAP financial measure as:

> A numerical measure of a registrant's historical or future financial performance, financial position, or cash flows that:
>
> (i) Excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the statement of comprehensive income, balance sheet or statement of cash flows (or equivalent statements) of the issuer; or

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[9]See SEC Accounting Series Release No. 142, Release No. 33-5337 (Mar. 15, 1973).

[10]See SEC Cautionary Advice Regarding the Use of "Pro Forma" Financial Information, Release 33-8039.

[11]See SEC Regulation G.

[12]See SEC Regulation S-K, Item 10(e).

[13]See SEC Division of Corporation Finance Compliance & Disclosure Interpretations, Non-GAAP Financial Measures.

(ii) Includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented.

Regulation G and Item 10(e) of Regulation S-K also require registrants to reconcile non-GAAP financial measures to GAAP financial measures. For example, Item 10(e) of Regulation S-K requires:

> (1)(i)(b) A reconciliation (by schedule or other clearly understandable method), which shall be quantitative for historical non-GAAP measures presented, and quantitative, to the extent available without unreasonable efforts, for forward-looking information, of the differences between the non-GAAP financial measure disclosed or released with the most directly comparable financial measure or measures calculated and presented in accordance with GAAP.

Appendix D: IFRS 18, *Presentation and Disclosure in Financial Statements*

IFRS 18 introduced management-defined performance measures (MPM) and is requiring certain disclosures relating to those MPMs under that standard. As part of the IFRS 18 reporting requirements, an entity must disclose:

1. A description of the financial performance aspect that the MPM communicates to users of financial statements
2. How the MPM is calculated
3. A reconciliation between the MPM and the most comparable subtotal of income and expenses specified by IFRS Accounting Standards and, for each reconciling item, the amount(s) related to each line item in the statement(s) of financial performance
4. The income tax effect and noncontrolling interest effect of each item in the reconciliation
5. The method that an entity uses to determine the income tax effect of each reconciling item.

If an entity changes, adds, or removes an MPM from its disclosure, the entity must also communicate the effects of, and rationale for, the change, addition, or removal, as well as restated comparative information.

IFRS 18 requires disclosures only for measures that meet the definition of an MPM. Therefore, it excludes many measures from disclosure, including those that are not solely financial measures (like same-store sales or number of subscribers). Under the guidance in paragraph 117 in IFRS 18, an MPM is a “subtotal of income and expenses that an entity uses in public communications outside financial statements . . . to communicate to users of financial statements management’s view of an aspect of financial performance of the entity as a whole.” MPMs that do not meet this definition are not subject to disclosure in financial statements under the guidance in IFRS 18. The IASB considered expanding the scope of MPMs to incorporate measures based on financial statement elements other than income and expenses but determined that doing so would go beyond the scope of the project’s focus on the reporting of financial performance in the statement of profit or loss and the related notes.

Appendix E: Additional Financial KPI Data

In the Purpose, Scope, and Background section of this document, the FASB staff summarized data reflecting the increase in the presentation of the five most common Financial KPIs by SEC filers and companies in the S&P 500. In this appendix, we have included the 5 most common Financial KPIs (first 5 rows) and summarized the same data for certain other Financial KPIs.

Financial KPI	**Percentage of SEC Filers Reporting Measure**	**Percentage of S&P 500 Reporting Measure**
EBITDA or adjusted EBITDA	33%	28%
Adjusted EPS	31%	68%
Adjusted net income	31%	54%
Adjusted operating income	14%	30%
FCF or adjusted FCF	12%	27%
Adjusted gross profit	10%	15%
Adjusted gross profit %	8%	11%
Adjusted revenue	6%	17%
Adjusted COGS	3%	7%
FFO or adjusted FFO	2%	4%
FFO per share or adjusted FFO per share	1%	4%
Adjusted operating cash flow	1%	2%

Additionally, in the Purpose, Scope, and Background section of this document, the FASB staff observed that, in addition to entities presenting Financial KPIs in public communications, there are financial data services that also calculate and provide Financial KPIs to their clients. We specifically noted one financial data provider that calculates EBITDA for entities in all sectors except banking. Below we have listed examples of additional Financial KPIs that are provided by certain data providers:

- Adjusted revenue
- Adjusted net revenue
- Organic sales growth
- Adjusted net premium earned
- Adjusted gross profit
- Adjusted operating income
- Adjusted EBITDA
- Adjusted net income
- Adjusted EPS
- FCF.

Appendix F: 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:

a. Academic
b. Investor, other allocator of capital, or other financial statement user, such as:
   i. Equity analyst: buy side
   ii. Equity analyst: sell side
   iii. Credit-rating agency analyst
   iv. Fixed-income analyst
   v. Accounting analyst
   vi. Quantitative analyst
   vii. Portfolio manager
   viii. Private equity
   ix. Individual investor
   x. Lender
   xi. Long-only focus
   xii. Long/short focus
   xiii. Other
c. Practitioner/auditor
d. Not-for-profit organization preparer
e. Private company preparer
f. Public company preparer
g. Regulator
h. Standard setter
i. Other.

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.

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

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?

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?

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?

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, how do you know that those Financial KPIs are calculated on a comparable basis?

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.

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?

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

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.

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).

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?

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?

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?

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?

Overall Preferred Approach and Disclosure

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

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.

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

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.

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.

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?

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?

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.

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?