

**Statement**  
**On NON-GAAP Financial Measures**

**Final Report**



**IOSCO**

**THE BOARD OF THE  
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS**

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# **International Organization of Securities Commissions**

## **Statement on Non-GAAP Financial Measures**

**June 2016**

### **I. Introduction**

Financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) provide investors, analysts, and other users with a defined basis for conducting financial analysis and comparison among different entities.<sup>1</sup> IOSCO recognises that in addition to GAAP based financial statements, issuers also convey financial information using financial measures other than those that are specified, defined or determined by GAAP, commonly referred to as non-GAAP financial measures or alternative performance measures.

Non-GAAP financial measures can be useful to issuers and investors because they can provide additional insight into an issuer's financial performance, financial condition and/or cash flow. The use of non-GAAP financial measures also can provide issuers with flexibility in communicating useful, entity-specific information. Problems can arise, however, when non-GAAP financial measures are presented inconsistently, defined inadequately, or obscure financial results determined in accordance with GAAP. Furthermore, non-GAAP financial measures typically lack a standardised meaning and, if so, are generally not comparable from one issuer to the next.

### **II. IOSCO's Work on Non-GAAP Financial Measures**

In 2002, IOSCO issued a release entitled "Cautionary Statement Regarding Non-GAAP Results Measures" to alert issuers, investors and other users of financial information about disclosures of earnings measurements other than those prescribed by GAAP.<sup>2</sup> In that release, IOSCO urged issuers, investors and other users of financial information to use care when presenting and interpreting non-GAAP results measures.

Since 2002, IOSCO has continued to take note of how issuers present non-GAAP financial measures. IOSCO has observed that, for example, issuers sometimes present non-GAAP financial measures inconsistently over time or explain them inadequately. Also, the lack of standardised meanings for non-GAAP financial measures may lead to a lack of comparability across issuers. As a result of these considerations, and informed by further analysis and discussions with stakeholders, IOSCO has developed this Statement, which replaces the 2002 release.

### **III. Purpose**

This Statement is intended to assist issuers in providing clear and useful disclosure for investors and other users of non-GAAP financial measures, and to help reduce the risk that such measures are presented in a

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<sup>1</sup> All references to financial statements mean financial statements and the notes thereto.

<sup>2</sup> The release is available at: <https://www.iosco.org/news/pdf/IOSCONEWS4.pdf>

way that could be misleading. Although this Statement is intended to help investors by reducing the risk of misleading disclosure, investors and other users of financial information should continue to exercise care when interpreting non-GAAP financial measures in order to understand how the issuer is using them.

#### **IV. Scope**

This Statement is intended for both an issuer that prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) and an issuer that prepares financial statements using a financial reporting framework other than IFRS. It applies to any non-GAAP financial measure that an issuer discloses outside of the financial statements. Non-GAAP financial measures are commonly presented in press releases, periodic reports including Management's Discussion and Analysis (MD&A) or Operating and Financial Review (OFR), disclosure documents filed with securities regulators and stock exchanges, and other communications to shareholders and market participants.

For the purposes of this Statement, a non-GAAP financial measure is a numerical measure of an issuer's current, historical or future financial performance, financial position or cash flow that is not a GAAP measure.<sup>3</sup> For example, a non-GAAP financial measure may exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable GAAP measure calculated and presented in the issuer's financial statements. An operating or statistical measure that is not a financial measure (such as numbers of stores or number of units) is not within the scope for purposes of this Statement. However, if a non-GAAP financial measure is used to calculate an operating or statistical measure (such as an 'adjusted earnings' financial measure used to calculate an 'adjusted earnings per unit' measure), then the Statement would apply to that non-GAAP financial measure.

Common terms used to identify non-GAAP financial measures include, among others, 'underlying earnings', 'normalised profit', 'pro forma earnings', 'cash earnings', 'adjusted earnings', and 'earnings before non-recurring items'.<sup>4</sup> Different issuers may use the same term to refer to different calculations.

#### **V. Frame of Reference for Disclosure of Non-GAAP Financial Measures**

IOSCO believes that sufficient information should accompany non-GAAP financial measures or be provided by reference to where the information is available. This will help provide investors and other users with an understanding of the messages that the measures are intended to convey, such that investors and users are not confused or misled if they rely on them. Based on the collective experience of its members with issuer reporting of non-GAAP financial measures, IOSCO has identified the following

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<sup>3</sup> For the purposes of this Statement, a GAAP measure is a measure that is specified, defined or determined pursuant to the issuer's financial reporting framework. The content of financial statements, including the notes thereto, is determined by the relevant accounting standard setting bodies and/or securities regulators, therefore disclosures contained within the financial statements are not within the scope of this Statement.

<sup>4</sup> A financial measure required by law or a regulatory body is not within the scope of this Statement.

elements as a frame of reference for the disclosure of non-GAAP financial measures. These elements, if present, would contribute to the reliability and comparability over time of non-GAAP financial measures and reduce the potential for misleading disclosure.

### ***Defining the Non-GAAP Financial Measure***

1. Define each non-GAAP financial measure presented and provide a clear explanation of the basis of calculation.
2. Non-GAAP financial measures should be clearly labelled in a way such that they are distinguished from GAAP measures. Labels should be meaningful and should reflect the composition of the measure.
3. Explain the reason for presenting the non-GAAP financial measure including an explanation of why the information is useful to investors, and for what additional purposes, if any, management uses the measure.
4. Explicitly state that the non-GAAP financial measure does not have a standardised meaning prescribed by the issuer's GAAP and therefore may not be comparable to similar measures presented by other issuers.

### ***Unbiased Purpose***

5. Non-GAAP financial measures should not be used to avoid presenting adverse information to the market.

### ***Prominence of Presentation of GAAP measures versus Non-GAAP Financial measures***

6. When an issuer presents non-GAAP financial measures, those measures should not be presented with more prominence than the most directly comparable measure calculated and presented in accordance with GAAP. Presentation of non-GAAP financial measures, including information provided by reference, should not in any way confuse or obscure the presentation of the GAAP measures.

### ***Reconciliation to Comparable GAAP Measures***

7. Provide a clear and concise quantitative reconciliation from the non-GAAP financial measure to the most directly comparable GAAP measure presented in the financial statements. The adjustments should be explained.
8. If the reconciling items are derived from items reported in the GAAP financial information, they should be reconcilable to the financial statements. When a reconciling item cannot be extracted directly from the financial statements, the reconciliation should show how this figure is calculated.

### ***Presentation of Non-GAAP Financial Measures Consistently Over Time***

9. If an issuer chooses to present non-GAAP financial measures, it should provide the measure for comparative periods.
10. The non-GAAP financial measures presented by an issuer should generally be presented consistently from period to period. Further:
  - If an issuer chooses to change the composition of the non-GAAP financial measure, the issuer should explain any changes and the reason for making them, and provide comparative figures for the prior period with such figures adjusted to reflect the change in composition.
  - If an issuer determines it will no longer present a particular non-GAAP financial measure, the reason for this determination should be explained.

### ***Recurring Items***

11. In presenting non-GAAP financial measures, issuers sometimes seek to adjust for items that are reasonably likely to recur in the foreseeable future, or are activities that affected the entity in the recent past. In IOSCO's experience there are rarely circumstances where a sufficient explanation could be provided that results in restructuring costs or impairment losses being described as non-recurring. Such items should not be described as non-recurring, infrequent or unusual without sufficient explanation.

### ***Access to Associated Information***

12. The information that issuers provide regarding non-GAAP financial measures should be readily and easily accessible to investors and other users of financial information. Information is readily and easily accessible if it accompanies the non-GAAP financial measure or a reference is provided to where the information is available.

This frame of reference does not affect the ability that a jurisdiction has to develop and implement its own requirements for the presentation of non-GAAP financial measures in meeting its disclosure objectives. Thus, IOSCO reminds issuers of their obligation to comply with any domestic regulatory requirements and laws to which they are subject. Presentation of non-GAAP financial measures in accordance with this Statement is not a substitute for that compliance.

IOSCO also reminds issuers of their responsibility in all instances to provide information that is not misleading.

**International Organization of Securities Commissions**  
**Feedback Statement on the Public Comments received by the IOSCO Board on the**  
**proposed *Statement on Non-GAAP Financial Measures***

**June 2016**

Responses were submitted by the following organisations to the IOSCO Board (the Board) on the proposed *Statement on Non-GAAP Financial Measures* (the Proposed Statement).<sup>5</sup> The deadline for comments was 5 December 2014.

1. Accounting Standards Committee of Germany
2. Association of British Insurers
3. Association of Chartered Certified Accountants
4. Association of Investment Companies
5. Bank of Russia
6. Canadian Bankers Association
7. CFA Society of the UK
8. Chris Barnard
9. Deloitte
10. Ernst & Young
11. European Financial Reporting Advisory Group
12. Federation of European Accountants
13. Financial Reporting Council
14. German Insurance Association
15. IFAC
16. Institute of Chartered Accountants of England Wales
17. Institute of International Finance
18. Insurance Europe
19. KPMG
20. PricewaterhouseCoopers (PWC)
21. The 100 Group of Finance Directors

The IOSCO Board took these comments into consideration in preparing the *Statement on Non-GAAP Financial Measures* (the Statement). This feedback statement discusses the comments received and the IOSCO Board's responses to those comments.

**I. Background**

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<sup>5</sup> The Proposed *Statement on Non-GAAP Financial Measures* is available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD447.pdf>. Responses from commenters are available at [http://www.iosco.org/publications/?subsection=public\\_comment\\_letters](http://www.iosco.org/publications/?subsection=public_comment_letters).

In September 2014 the IOSCO Board published the Proposed Statement, which set out IOSCO's proposed expectations for issuers with respect to their presentation of financial measures "other than those prescribed and/or defined by Generally Accepted Accounting Principles (GAAP)."<sup>6</sup> These financial measures are commonly referred to as "non-GAAP" financial measures.

The IOSCO Board requested comment on the Proposed Statement with the intention of publishing a final statement that would assist issuers in providing clear and useful disclosure for investors and other users of non-GAAP financial measures, and to help reduce the risk that such measures are presented in a way that could be misleading.

The Board found all of the comments received from the public consultation to be helpful and has addressed some of the comments received in the Statement. Other comments did not result in revision but did provide valuable input for consideration.

This Feedback Statement explains the reasons underlying significant revisions that were made to the Statement when compared to the Proposed Statement, as well as why in some cases certain comments raised by respondents were not incorporated into or addressed in the Statement.

## **II. Comments Received and the Responses to those Comments**

### **A. Scope**

A number of respondents suggested that the Proposed Statement could be further improved by putting more emphasis on the objective and being clearer about the scope of the Statement.

For the purposes of the Statement, a non-GAAP financial measure is a numerical measure of an issuer's current, historical or future financial performance, financial position or cash flow that is not a GAAP measure. Accounting standard setters provide the financial reporting framework for measures reported inside the financial statements. The Board is of the view that accounting standard setting bodies should determine the disclosure principles necessary to help readers of financial statements to understand a financial measure being presented inside of the financial statements. For International Financial Reporting Standards (IFRS) the International Accounting Standards Board (IASB) is focusing on this matter in its Principles of Disclosure project and has issued amendments to IAS 1, *Presentation of Financial Statements*. The Board is of the view that a measure specified, defined or determined under the issuer's financial reporting framework should be considered to be a GAAP financial measure for purposes of the Statement.

Respondents had varying views on what they considered to be a non-GAAP financial measure for purposes of the Statement. In particular, some respondents believed that the scope of the Statement should be broadened to address the idea of presenting so called "non-GAAP" financial measures within the financial statements and notes. The Board maintained that the focus of IOSCO's message in the

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<sup>6</sup> As described below in Section II.A., in response to comments on the Proposed Statement, the Statement has been clarified to refer to non-GAAP measures as "financial measures other than those that are specified, defined or determined by GAAP."

Statement is on what issuers report outside the financial statements hence the Board decided to maintain the scope of the Statement as proposed. However, additional discussion was included in the Statement on what constitutes a GAAP measure.

Some of the other respondents asked specific questions about whether certain types of items, such as measures based on future projections and key performance indicators are within the scope. The Board did not make any additional changes for projections as it believes future based measures should be within the scope and that the guidance is equally applicable, for example, to a projection of EBITDA. Clarifying edits to the Statement have been made to clearly convey the intent for operating measures and statistics which would include key performance indicators.

Some respondents requested clarity on whether certain measures, such as operating statistics, were non-GAAP financial measures. In response to the comments the Statement clarifies that a non-GAAP financial measure may exclude operating statistics, such as a number of stores or units.

Some respondents questioned why measures required by other regulators (such as bank or insurance regulators) or, more generally, measures governed by specific laws were within the proposed scope while requirements by securities regulators were not. In response to the comments the Board decided to reduce the scope of the Statement, such that it would not apply to any non-GAAP financial measure specified by law or required to be disclosed by a regulatory body.

## **B. Applicability**

Some respondents were of the view that the Statement should apply to prospectuses, whereas other respondents were of the view that it should not. The Board determined that the Statement should continue to apply to any non-GAAP financial measure presented in disclosure documents filed with securities regulators and stock exchanges, such as prospectuses. However, since the Statement was revised to no longer apply to a non-GAAP financial measure specified by law or required to be disclosed by a regulatory body, the Board is of the view that the underlying concerns of respondents with applying the Statement to prospectuses has generally been addressed. In considering whether the principles in the Statement apply to a measure in a prospectus, readers are reminded that consideration should be given to whether there are any laws or requirements in that jurisdiction that result in the financial measure being outside the scope of the Statement.

## **C. The Results of IOSCO's Work on the Presentation of Non-GAAP Financial Measures**

Some respondents suggested that the expectations in the Proposed Statement are too detailed and that a more general approach be considered, or certain expectations be removed, in order to reduce the potential for boiler-plate or unnecessarily lengthy disclosures. The Board disagrees with the notion that the provisions are too detailed, and that they will instead assist an issuer in focusing on information about a non-GAAP financial measure that is relevant to investors and other users.

Some respondents asked for clarification regarding how issuers should consider IOSCO's expectations, as set out in the Proposed Statement, in light of existing national laws and regulatory requirements that address the reporting of non-GAAP financial measures. The Board revised the final Statement to make



clear that the Statement contained a frame of reference for issuers based upon IOSCO member experiences versus serving as a substitute for domestic requirements. In this regard, this section has been renamed “Frame of Reference for Disclosure of Non-GAAP Financial Measures” to reflect that the Statement provides a frame of reference for good presentations of non-GAAP financial measures based on the experiences of the IOSCO members.

Many respondents encouraged the Board to liaise and coordinate with other regulatory organizations and with the IASB to ensure that a consistent approach is developed with regard to the definition and presentation of non-GAAP financial measures. IOSCO representatives have had discussions with the IASB staff as part of developing the Proposed Statement and subsequently. While encouraging the coordination of guidance and requirements in order to promote a consistent approach, the Board remains sensitive to the challenges of creating a standardized approach agreed to by all organizations. Accordingly, this Statement reflects IOSCO member experiences, which may or may not be the same as that of other organizations. The Board is confident that the frame of reference set out in the Statement is presented in a manner that will assist issuers in providing clear and useful disclosure for investors and other users now and in the future.

#### **i. Prominence of Presentation of GAAP Measures versus Non-GAAP Financial Measures**

The Proposed Statement included the expectation that when an issuer presents non-GAAP financial measures, it should include with equal or greater prominence a presentation of the most directly comparable measure calculated and presented in accordance with GAAP.

Some respondents disagreed with this prominence expectation. One respondent stated their view that for some industries the non-GAAP financial measure may be widely used and be more useful than the GAAP measure. Another respondent was of the view that the prominence expectation would effectively result in imposing a form of ‘ceiling’ on the amount of voluntary information that an entity is allowed to disclose regardless of whether such information is useful to investors. Another respondent was of the view that this expectation would hinder effective communication with stakeholders. Despite concern from some respondents, the Board decided to continue to include this disclosure element based on IOSCO members experience in this area because of the importance of ensuring there is equal or greater emphasis placed on financial measures that are comparable and calculated in a manner prescribed by a recognized framework. The Board is confident that entities would be able to provide descriptive and meaningful discussion of non-GAAP financial measures that are useful to stakeholders, while continuing to provide equal or greater prominence to measures that are presented in an entity’s financial statements.

Some respondents communicated their agreement with the general expectation on prominence, but recommended alternative wording that shifts the focus of the expectation on ensuring that non-GAAP financial measures are not presented with undue prominence. In response to these comments the Board decided to amend the provision in the Statement to state that non-GAAP financial measures should not be presented with more prominence than the most directly comparable measure calculated in accordance with GAAP.

## **ii. Reconciliation**

The Proposed Statement included an expectation that an entity provide a clear and concise quantitative reconciliation from a non-GAAP financial measure to the most directly comparable GAAP measure presented in the financial statements.

Some respondents did not support this expectation, noting views that a quantitative reconciliation can be overly burdensome, expensive, result in unhelpful disclosures to investors and would not be relevant for all non-GAAP financial measures. Other respondents stated their view that there could be practical concerns with meeting this expectation, with one respondent suggesting that in certain cases a qualitative disclosure may provide more practical and relevant information. The Board does not agree that a quantitative reconciliation is burdensome or impracticable, and is of the view that the presentation of reconciling items provides context for investors and other users to understand how a non-GAAP financial measure is calculated and how it can be compared to a GAAP measure. The Board further notes that some of the concerns expressed above may be alleviated in light of the clarification in the Statement that a non-GAAP financial measure may exclude an operating statistic.

## **iii. Recurring items**

The Proposed Statement included an expectation that adjusting items that are reasonably likely to recur in the foreseeable future, or are typical activities of the entity in the recent past, should not be described as non-recurring, infrequent or unusual.

Some respondents questioned why the labelling of certain information as non-recurring, infrequent, or unusual was being prohibited. One respondent suggested that instead the expectation be that such labelling is permitted provided that sufficient explanation is disclosed to enable investors to understand the nature of the items and why it has been separately identified. In response to the comments the Board revised the Statement to emphasize the need for a sufficient explanation as to why an item has been identified as non-recurring, infrequent or unusual if it is reasonably likely to recur in the foreseeable future, or is an activity that affected the entity in the recent past (such as restructuring costs or impairment losses). The Board agreed to amend the wording to underline that in IOSCO members' experience there are rarely circumstances where a sufficient explanation could be provided that results in restructuring costs or impairment losses being described as non-recurring.

## **iv. Access to Information**

Some respondents requested clarification on the Board's views on referencing, and how the expectation is consistent with the expectation to present the most directly comparable GAAP measure with equal or greater prominence. In response to the comments the Board clarified that presentation of information about a non-GAAP financial measure could accompany the measure or be provided by reference, however the information should be readily and easily accessible and not in any way confuse or obscure the presentation of the GAAP measures.