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Reporting Update

December 2011, 11RU-020

Regulatory guide on disclosing non-IFRS financial information guidance, effective for 31 December 2011

KEY POINTS

- **ASIC has released guidance on disclosing non-IFRS financial information, including measures like underlying profit**
- **Guidance is effective for 31 December 2011**
- **Guidance applies to all market releases containing non-IFRS financial information, not just financial reports**
- **Guidance also addresses pro forma financial information in transaction documents**

ACTION POINTS

- **Examine current practice of disclosing non-IFRS financial information now and amend as necessary**

ASIC released Regulatory Guide 230 *Disclosing non-IFRS financial information* (regulatory guide or RG230) on 9 December 2011. The regulatory guide is effective for 31 December 2011 and outlines ASIC's views on how non-IFRS financial information, like underlying profits, should be disclosed.

In order to comply with RG230, the majority of entities will need to revise current practices in the following key areas:

- location of disclosures - generally non-IFRS financial information cannot be included on the face of the income statement and can only be included in the notes to the financial statements in very limited circumstances
- explanation and reconciliation - entities will need to provide an explanation of how the measure has been calculated, why it has been selected and how it reconciles back to the equivalent IFRS information

- prominence - IFRS information must be given the same or greater prominence compared to the equivalent non-IFRS financial information
- consistency and unbiased - the same measure should be used year on year, the nature of adjustments should be consistent year on year, and they should be neutral i.e. not being used to avoid presenting 'bad news', and
- assurance disclosure requirements - a statement whether the non-IFRS information is audited or reviewed is now required.

What is non-IFRS financial information?

RG230 defines non-IFRS financial information as "financial information that is presented other than in accordance with all relevant accounting standards". Non-IFRS financial information addressed by the regulatory guide includes:

- *Non-IFRS profit information:* is profit information calculated on a basis other than in accordance with accounting standards, or adjusted from profit calculated under accounting standards in some manner. Such measures are often called underlying profits, and
- *Pro-forma financial information:* financial information intended to present the effects of proposed or completed transactions for illustrative purposes.

While the regulatory guide explicitly addresses these two types of non-IFRS financial information, it is ASIC's intention for the principles of the guidance to be applied to all non-IFRS financial information presented.

Currently, non-IFRS financial information is commonly disclosed in:

- financial reports
- documents other than financial reports and transaction documents, like documents accompanying financial reports (market announcements, analyst briefings, investor presentations) and
- transaction documents such as prospectuses, scheme documents, product disclosure statements and takeover documents.

While RG230 explicitly addresses the disclosure of non-IFRS financial information in these three document types, it is ASIC's intent for the principles of the guidance to be applied to all documents where non-IFRS financial information is presented.

Why has ASIC issued guidance?

The regulatory guide does not seek to prohibit the use of non-IFRS financial information but rather includes guidelines on reducing the risk of disclosures that ASIC considers misleading. As discussed in publication series on underlying profits (*2009*, *2010* and the soon to be released 2011 report) reporting of non-IFRS profit information is common, with 82 percent of ASX100 companies reporting some form of non-IFRS profit information in their financial report or documents accompanying their financial report in 2011. While the reporting of non-IFRS profit information is commonplace, the comparability, consistency and quality of disclosures varies.

ASIC considered regulatory guidance necessary in order to:

- "promote more meaningful communication of non-IFRS financial information to investors and other users of financial reports
- assist directors in ensuring that the information is not misleading and
- provide greater certainty in the market as to ASIC's views on disclosure of the information".

Whilst a regulatory guide does not have the force of law, the regulatory guide outlines ASIC's interpretation of how to comply with Corporations Act requirements for disclosures of non-IFRS financial information. Non-compliance with the regulatory guide resulting in misleading information may result in ASIC taking action.

What does RG230 require?

Types of non-IFRS financial information

Disclosures of financial information which are not calculated in accordance with all applicable Australian accounting standards are considered as non-IFRS financial information.

Common types of non-IFRS financial information

ASIC notes "non-IFRS financial information may exclude certain transactions or present transactions or balances on a different recognition and measurement basis from that required or permitted by accounting standards".

Type of non-IFRS financial information	Examples
Additional columns in the financial statements	Columns showing the financial performance in another currency
Subtotals or line items on a primary financial statement	Subtotal on the income statement showing profit before 'investment experience' Subtotal on the income statement showing profit before non-recurring items
Information presented in a form similar to the primary financial statements, but not prepared in accordance with all Australian accounting standards	Disclosing profit adjusted for / excluding certain items (e.g. impairment, ineffective hedging instruments) Disclosing an additional statement of comprehensive income on a proportionate consolidation basis (when such basis is not permitted under accounting standards)
A separate disclosure below a primary financial statement	A section below the statement of comprehensive income that adjusts IFRS profit to arrive at a 'bottom line' non-IFRS profit
Presentation of financial information in other GAAPs	Disclosure of profit as calculated under US GAAP
Restating financial information for changes in prices or rates	Presentation of current or prior year performance on a constant currency basis
Ratios calculated on an adjusted basis	Disclosure of interest cover ratio using interest expense adjusted for certain items
Hypothetical figures	Disclosure of financial information based on an average of prior period profits

Items not considered non-IFRS financial information

The regulatory guide also explicitly notes the following are not considered non-IFRS financial information, consequently the requirements of the regulatory guide do not apply to their disclosure.

Information	Examples
Non-financial information	Number of employees, number of subscribers
Statutory information required by another regulator	Capital adequacy information required by APRA
Information required by accounting standards including: • AASB 8 *Operating Segments* disclosures • AASB 133 *Earnings per share* disclosures	Segment measure of profit or loss Alternative earnings per share (e.g. underlying profit per share)
More detailed information calculated in accordance with accounting standards and presented in an operating and financial review	Quarterly financial information, provided that all periods are presented with equal prominence
Separate analysis on individual components of IFRS profit	More detailed analysis of impairment losses
Certain primary statement subtotals	EBIT as this can be useful in assessing interest cover
Information to explain compliance with terms of an agreement or legislative requirements, provided the information is not represented as an alternative to IFRS profit, is not given undue prominence or on the face of the financial statements	Explanation of lending covenant requirements with reference to a non-IFRS financial ratio Basis for calculating director and executive performance (as required by the remuneration report) Calculation of cash distributions by a managed investment scheme
Comparisons of IFRS financial information to non-financial information	Sales revenue per unit

KPMG Comment

The regulatory guide provides scope for companies to make disclosures in the notes to the financial statements under the requirements of AASB 8 and AASB 133 that are not considered non-IFRS financial information. However companies will need to be mindful of ASIC's interpretation of AASB 8 disclosures as discussed later in this publication.

ASIC's view is that presenting non-IFRS profit information as subtotal information on the face of the primary financial statements is not in compliance with AASB 101 *Presentation of Financial Statements* and therefore not appropriate. However, ASIC consider the disclosure of EBIT as sub-total information on the face of the income statement may be useful in assessing interest cover.

ASIC have not provided any further examples of acceptable subtotals on the face of the financial statements. In our view, entities should be mindful of the principles of the regulatory guide when considering if the presentation of a subtotal contravenes the guide requirements. Companies should be particularly mindful of the regulatory guide principles when considering subtotals such as 'EBITDA'.

Location of non-IFRS financial information

The regulatory guide specifically considers the location and presentation of non-IFRS financial information in financial reports, documents accompanying financial reports and transaction documents. ASIC's intention is that the location and presentation requirements within RG230 apply to all documents where non-IFRS financial information is disclosed.

Below is a summary of different documents in which non-IFRS financial information is currently being disclosed and whether it continues to be appropriate under the regulatory guide:

Location	Disclosure allowed (within RG230 guidelines)	Disclosure not allowed
Financial report		
Income statement and other primary statements		✗
Operating segment and Earnings per share notes	✓	
Other notes to the financial statements		✗
Directors' report	✓	
Transaction documents	✓	
Documents accompanying financial reports (e.g. market releases, analysts briefings, investor presentations)	✓	

Directors' report

Directors' reports are required by the Corporations Act to include an operating and financial review (OFR). The OFR outlines the company's operations, activities, financial position, business strategies and prospects for future financial years. RG230 notes "an effective OFR can reduce the need to present non-IFRS profit information". However, the regulatory guide does not preclude the disclosure of non-IFRS profit information in the OFR if the presentation and disclosure requirements outlined later in this publication are adhered to.

Financial report

The regulatory guide requires the financial report, being the primary financial statements, notes to the financial statements and directors' declaration cannot include non-IFRS financial information. Companies who wish to include additional information in their financial report regarding non-IFRS financial performance may consider the requirements of Corporations Act sections 295(3)(c) and 303(3)(c), that allow for the presentation of additional information in the financial report in order to give a true and fair view. It is ASIC's view that disclosure of non-IFRS financial information to give a true and fair view would only be in extremely rare and unusual circumstances.

KPMG Comment

It is highly unlikely that companies will obtain agreement from ASIC that disclosure of non-IFRS financial information in the financial report is required for a true and fair view under the Corporations Act.

Companies should be mindful that disclosures under the requirements of AASB 8 and AASB 133 are not considered non-IFRS financial information. AASB 8 and AASB 133 provide scope for the disclosure of financial information in the notes to the financial statements on a basis different to that required by other accounting standards. As such, there is scope for companies to disclose financial information similar to non-IFRS financial information in the Operating Segments and Earnings per share notes.

The regulatory guide notes ASIC's expectation that the disclosure under AASB 8 of "profit or loss for segments based upon the measure reported internally to management" in most cases should be the same as the non-IFRS profit information disclosed by the company. If the operating segment profit or loss differs to the non-IFRS profit information, then additional disclosure is required justifying why operating segment and non-IFRS profit information differ unless "the differences comprise only normal intersegment eliminations or corporate expense allocations".

KPMG Comment

Currently some operating segment disclosures are completed to a segment EBIT level with adjustments to reach a non-IFRS profit amount and further adjustments to reconcile to IFRS profit. In contrast to the draft regulatory guide Consultation Paper 150 *Disclosing financial information other than in accordance with accounting standards,* the final regulatory guide is not explicit as to whether such sub-total non-IFRS profit information in the segment note is appropriate.

One possible view is that as the guide is not explicit, then this may be permissible. Another possible interpretation is that such information should not be included in the financial statements, not even in the segment note as it is non-IFRS financial information. It is currently unclear, what ASIC's intention in this regard is.

What is clear, is the requirement to justify the difference between non-IFRS profit and segment profit or loss.

Location in transaction documents and other documents where non-financial information is disclosed

Non-IFRS financial information may be disclosed throughout transaction and other documents provided the requirements around presenting and disclosing non-financial information is followed.

Presentation and disclosure of non-IFRS financial information other documents

Where non-IFRS financial information is presented, RG230 requires the non-IFRS financial information to comply with the below presentation and disclosure requirements. The regulatory guide allows for disclosure of non-IFRS financial information in the directors' report, transaction documents or any other document, including profit announcements, analyst briefings, investor presentations and other market announcements. The below requirements are applicable for companies wishing to disclose non-IFRS financial information in such other documents. Specific presentation and disclosure requirements exist for the publication of pro forma financial information in transaction documents. These requirements are discussed later in this publication.

Prominence

IFRS financial information should be presented with equal or greater prominence, emphasis or authority compared to non-IFRS financial information. Considerations include:

- order in which IFRS and non-IFRS financial information is presented
- similar levels of information and commentary on reconciling items between IFRS and non-IFRS financial information is given to components of non-IFRS measures based upon their relevance and materiality
- emphasis between IFRS and non-IFRS financial information should not change (i.e. emphasis should not be given to whichever figure gives the most favourable outcome) and
- impact on the overall document.

ASIC provides numerous examples of disclosures where IFRS information is not given equal or greater prominence, emphasis or authority relative to non-IFRS information. Such examples, amongst others include where:

- the non-IFRS profit information is more prominent than the IFRS profit information on the first page of the document and
- an explanation of the non-IFRS profit figure and a reconciliation to the profit figure do not appear where the non-IFRS profit figure is first used.

ASIC also provides numerous examples of disclosures where IFRS information is given equal or greater prominence, emphasis or authority relative to non-IFRS information. Such examples, amongst others include:

- giving prominence to the IFRS profit figure on the first page of a document but analysing components of the non-IFRS profit figure by segment on subsequent pages and
- including both the non-IFRS profit figure and IFRS profit figure in the headline of an announcement.

Appropriate label

Non-IFRS financial information should be clearly labelled in a way that distinguishes it from related IFRS financial information.

Calculation

The method used to calculate the non-IFRS financial information should be clearly explained.

Reconciliation

A reconciliation between the non-IFRS financial information and related IFRS financial information should be provided, separately itemising and explaining each significant adjustment. Where comparative non-IFRS financial information is provided this should also be reconciled. Considerations include:

- a reconciliation is required for each document where the non-IFRS financial information is disclosed
- a reconciliation is only required once in each document and
- a reconciliation is required in the first instance where the non-IFRS measure is disclosed in each document. This may be a summarised reconciliation cross-referenced to a more detailed reconciliation within the document.

Equivalence with AASB 8 disclosures

ASIC expects that any non-IFRS profit information disclosed will not differ from the segment measure of profit or loss disclosed in the financial report. If these measures differ, and it is due to more than normal intersegment eliminations or corporate expense allocations, then additional disclosures justifying the differences are required.

Why the non-financial information is useful

An entity specific statement regarding why the directors believe the disclosure of non-IFRS financial information is useful for investors is required.

Consistency

A consistent approach should be adopted from period to period. If there is a change, the nature, financial impact and reasons for the change should be disclosed.

KPMG Comment

In our view, when determining whether a change in approach is appropriate, companies may want to analogise to the requirements for a change in accounting policy in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to provide "reliable and more relevant information" and consider making disclosures similar to those required for a change in accounting policy.

Disclosures could include:

- the nature of the change
- the reasons why the new non-IFRS measure provides reliable and more relevant information and
- for the current period and prior period comparatives, the amount of the adjustment.

Adjustments

For each adjustment made to IFRS financial information, corresponding items should be adjusted in any comparative disclosures. Considerations include:

- adjustments should be consistent between periods, for example if unrealised gains are excluded one year they should be excluded in the following period and
- adjustments should be consistent in type, for example if excluding unrealised losses or impairment losses on certain financial assets, realised gains, interest dividends and rent from those financial assets should also be excluded.

Unbiased

Non-IFRS financial information should be unbiased and not used to avoid presenting 'bad news' to the market.

One-off items

Items that have occurred in the past, or are likely to occur in future periods, should not be described as 'one-off' or 'non-recurring'. Considerations include:

- items such as impairments or restructuring costs should not be described as 'non-recurring' as they are generally recurring in nature (albeit they may only arise in some years) and
- companies should avoid using terms such as 'non-recurring', 'exceptional' or 'unusual' as these are synonymous with 'one-off'.

Audited or reviewed

A clear statement should be made about whether the non-IFRS financial information has been audited or reviewed in accordance with Australian Auditing Standards.

KPMG Comment

Companies who choose to have the non-IFRS financial information audited or reviewed should discuss this with their auditors as soon as possible. The requirements of the regulatory guide may have an impact on the form and scope of the engagement letter, representation letter and audit or review report.

Companies should be mindful of the principles of the regulatory guide when considering the above requirements for the presentation and disclosure of non-IFRS financial information. These requirements apply for each non-IFRS measure disclosed.

ASIC does not outline how non-IFRS financial information communicated verbally (such as through an investor briefing), or in media releases discussing items such as new construction contracts secured, should be presented and disclosed. Consideration of the principles contained in the regulatory guide may be appropriate in all communications to the market.

Pro forma financial information in transaction documents

The regulatory guide specifically addresses the presentation and disclosure of pro forma financial information in transaction documents such as prospectuses, PDSs, takeover target and bidder statements, schemes of arrangement documents and notices of meetings.

ASIC considers that users of transaction documents reasonably expect financial information to be presented in accordance with accounting standards to facilitate:

- comparability to other financial periods and other entities and
- users' understanding of the information presented by ensuring it is prepared on a basis consistent with that with which users are accustomed.

However ASIC acknowledges that "there are many instances where providing non-IFRS financial information as pro forma financial information in transaction documents may be useful or necessary to fulfil disclosure obligations". In ASIC's view:

- this pro forma financial information should be presented in accordance with the recognition and measurement requirements of accounting standards subject to relevant notional assumptions and
- the assumptions, and the differences between the pro forma financial information and related IFRS financial information, should be disclosed to avoid the risk of the pro forma financial information being misleading.

Notably, ASIC has not sought to stipulate the nature or types of transactions or events for which adjustment may or may not be made in the preparation of pro forma financial information for inclusion in a transaction document, other than to reiterate the Corporations Act requirement that the resulting pro forma financial information not be misleading.

ASIC has provided the following guidelines for the presentation and disclosure of pro forma financial information in transaction documents.

Guideline	Disclosure requirements
Assumptions	All details of assumptions, including their quantum
Explanation	How the pro forma financial information was calculated and reasons for departures from accounting or industry standards
Reconciliation	Amount and nature of all material adjustments from IFRS financial information and the reasons for the adjustments. This can be disclosed as either: • a line-by-line reconciliation with each adjustment described in footnotes or • a reconciliation of key items such as profit after tax and net assets (suitable when there is a limited number of reconciling items).

Statement of comprehensive income (SCI)	Often the pro forma SCI is presented to an EBIT, EBITDA or FFO level. The regulatory guide recommends entities carefully consider presenting the pro forma SCI to NPAT to assist users to understand the impact of a transaction on the funding and tax position of the entity. Where the pro forma SCI is not presented to NPAT the reasons for this and narrative explanations of the likely impact of the transaction on funding, tax and amortisation should be disclosed.
Statement of financial position	The statement of financial position should, where possible include details of equity as well as disclosing assets and liabilities
Disclosure of range	When a range is disclosed, more favourable information should not be given greater prominence
Audit or review	A statement as to whether the pro forma financial information has been audited or reviewed
Ratios	Where a ratio is calculated using a basis different from that generally used in practice, the ratio generally used should be presented with at least equal prominence, and the basis of and reasons for amending the ratio should be disclosed
Whole transaction	Pro forma financial information must reflect all effects of the transactions the effects of which it is designed to illustrate, not selected aspects of those transactions
Overseas entities	When translation of overseas entity financial information is impractical a 'convenience translation' is acceptable. When presenting information under a foreign GAAP, for differences between the foreign GAAP and Australian accounting standards: • if there is no material difference a statement reflecting this should be disclosed • if there are only limited differences, it may be sufficient to reconcile net assets and NPAT • if there are significant differences, financial information should be disclosed under both foreign GAAP and Australian accounting standards
Inclusion of historical financial information	Where a pro forma historical statement of financial position is disclosed, it should be based upon the most recent audited or reviewed half year or full year statutory statement of financial position. ASIC requires consideration to be given to disclosing pro forma historical statements of comprehensive income for the last two and a half, or three, years, consistent with the requirements of RG 228 in relation to historical statements of comprehensive income.
Hypothetical information	Disclosures based upon hypothetical information should not be provided as they can be misleading to investors

ASIC also accepts that there may be circumstances where complying with all accounting standards may not be possible, such as when the issuer of the transaction document has insufficient access to information when undertaking a hostile takeover. If this is the case, ASIC recommends the issuer discloses in the transaction document the following to ensure that the financial information disclosed is not misleading:

- a statement that the impacts of adjustments cannot be determined and
- why such a determination is not possible.