



cutting through complexity

A step towards global transparency

Communicating through non-GAAP measures

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“A global consensus on the regulation of non-GAAP information will benefit all stakeholders in the financial reporting process. The IOSCO statement is a step forward.”

– Mark Vaessen
KPMG's global IFRS network leader

Investors are demanding more than GAAP is delivering

GAAP rarely tells the whole story of a company's performance. To bridge the gap, companies and investors communicate through key performance indicators (KPIs)¹, alongside the GAAP numbers. This topic has prompted much debate, primarily concerning whether KPIs enhance GAAP, and so aid communication, or present a confusing or overly optimistic picture.

To date, varied regulatory approaches to non-GAAP measures have resulted in inconsistent global requirements. But there seems to be a consensus building globally that this inconsistency needs to be addressed. The International Organization of Securities Commissions (IOSCO) has issued a proposed statement for comment on its expectations for the presentation of non-GAAP financial measures.² This follows proposals from the European regulator ESMA³, which, as we reported in our [In the Headlines \(2014/03\)](#), highlighted the growing importance of this topic.

1 Such KPIs are referred to, interchangeably, as 'non-GAAP measures' and 'alternative performance measures' (APMs).

2 *Proposed Statement on Non-GAAP Financial Measures*.

3 European Securities and Markets Authority; *Guidelines on Alternative Performance Measures*.

IOSCO's membership comprises most of the world's securities commissions and its proposed statement will therefore be followed with interest globally as a possible future direction of national requirements.

Building global consensus towards transparency

IOSCO, like ESMA, acknowledges that non-GAAP financial measures can be useful to investors and that potential issues are created by inconsistent use, inadequate definition and undue prominence. Balancing these factors, IOSCO, like ESMA, proposes a solution based on enhanced transparency and comparability (see 'Key facts'). However, while there are many similarities, there are still some differences.

Views on prominence and scope differ

IOSCO proposes that GAAP measures are presented with *equal or greater* prominence than non-GAAP, whereas ESMA is in favour of greater prominence. The scope of the IOSCO statement also differs from that of ESMA: both seem to apply to a wide set of public documents, but IOSCO's specifically do not apply to non-GAAP financial measures in financial statements. IOSCO's proposals also apply to a narrower set of 'financial measures'.

Defining the documents and measures to which any such proposals would apply is inherently difficult; but perhaps this definition is unnecessary if GAAP and non-GAAP disclosures are subject to similar requirements of transparency.

So, what more is needed?

IOSCO's statement begins to address one of the items that we raised in our *In the Headlines* on ESMA's proposals, namely global harmonisation. A number of other actions that we noted in that publication remain to be addressed – e.g. investors considering whether the level of consistency, transparency and reliability is sufficient, and standard setters considering how GAAP itself could change to deliver more information that investors demand.

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What is clear is that non-GAAP information is of growing importance and that transparency will be key.

Key facts

Under IOSCO's proposed statement, issuers would:

- present non-GAAP financial measures with GAAP information that is given equal or more prominence;
- reconcile non-GAAP financial measures to the most directly comparable GAAP measure presented in the financial statements, with adjustments explained;
- define each non-GAAP financial measure and provide a clear explanation of the basis of calculation and the reason for presenting it, with a clear and meaningful label;
- present comparatives, disclosing non-GAAP financial measures consistently over time; and
- explain changes in the composition of a non-GAAP financial measure, or the reason why it is no longer presented.

IOSCO's definition of a non-GAAP financial measure

A numerical measure of an issuer's current, historical or future earnings, financial performance, financial position or cash flow that is not determined by the GAAP used to prepare the issuer's financial statements and is reported outside of the financial statements.

Next steps

IOSCO has requested comments from all stakeholders by 5 December 2014. For more information, go to the [IOSCO press release](#) or speak to your usual KPMG contact.

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