

Non-GAAP measures – Moving towards global transparency

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IOSCO promotes transparency and comparability in its new statement

Highlights

- Investors are demanding more than GAAP is delivering
- Transparency and comparability are key
- Consensus is starting to build globally
- So, what more is needed?

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. When do KPIs enhance GAAP by aiding communication with users, and when do they present a confusing or overly optimistic picture? To date, varied regulatory approaches have resulted in inconsistent requirements. But there now seems to be consensus building globally.

IOSCO, the international association of regulators, has issued a [statement](#) on non-GAAP financial measures, which brings its approach further in line with the [guidelines](#) issued by ESMA², the European regulator, a year ago.

Transparency and comparability are key

IOSCO, like ESMA, includes in the scope of its statement any non-GAAP financial measure that a company discloses outside of its financial statements. Both bodies acknowledge 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, each organisation is keen to promote a solution based on enhanced transparency and comparability (see Summary of key facts below).

“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.”

1. Such KPIs are referred to, interchangeably, as ‘non-GAAP measures’ and ‘alternative performance measures’ (APMs).
2. European Securities and Markets Authority; *Guidelines on Alternative Performance Measures*.

Another step towards global consistency

IOSCO's statement brings its approach closer to ESMA's in terms of the scope and presentation of non-GAAP financial measures. The general alignment of approach by these two bodies can be seen as a positive step towards global harmonisation.

Furthermore, IOSCO's statement and ESMA's guidelines are broadly similar to the requirements on the presentation of subtotals introduced by the recent [IASB Disclosure Initiative – Amendments to IAS 1](#). As such, consistent disclosure principles will apply to APMs whether they are presented within or outside of financial statements.

So, what more is needed?

Further action is needed from all stakeholders:

- **Investors** might consider whether the level of consistency, transparency and reliability is sufficient and, if not, what more is needed.
- **Standard-setters** could consider how GAAP itself could change to deliver information that addresses investor demands, and provide information that is reliable and relevant. To this end, the IASB is working on a research project [Primary Financial Statements](#) focusing on the structure and content of the statement of profit or loss and OCI, including the possible requirement for a defined subtotal for operating profit and the use of APMs.
- **Preparers** could focus on more effective communications with users by providing APMs that are clearly defined and presented in an unbiased and transparent way.
- **National regulators** might consider how their own guidance is impacted by the global guidelines.
- **Executives and audit committees** might ask whether APMs are subject to sufficiently robust systems and processes.
- **Industry bodies** could step up and deliver sector-specific definitions of key metrics to enhance consistency and comparability.

Summary of key facts

IOSCO's expectations are that companies should:

- 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;
- use the measures with unbiased purpose – i.e. not to avoid presenting adverse information to the market;
- 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 measures presented in the financial statements, with adjustments explained;
- present comparatives, disclosing non-GAAP financial measures consistently over time;
- explain changes in the composition of a non-GAAP financial measure, or the reason why it is no longer presented;
- avoid reference to 'non-recurring' or 'unusual' items when this cannot be sufficiently explained; and
- provide access to information regarding non-GAAP financial measures – i.e. ensure that such information is readily and easily accessible to investors and other users.

IOSCO's definition of a non-GAAP financial measure

A numerical measure of an issuer's current, historical or future financial performance, financial position or cash flow that is not a GAAP measure.