

Proposed Statement on Non-GAAP Financial Measures



IOSCO

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

CR05/14

September 2014

Foreword

The International Organization of Securities Commissions' (IOSCO) Board seeks public comment on its accompanying proposed *Statement on Non-GAAP Financial Measures* (the proposed Statement). This proposed Statement sets out IOSCO's expectations for issuers with respect to their presentation of financial measures other than those prescribed by Generally Accepted Accounting Principles (GAAP). These financial measures are commonly referred to as "non-GAAP" financial measures.

This proposed Statement is intended to assist issuers in providing clear and useful disclosure for investors and other users of non-GAAP financial measures. It is also intended to help reduce the risk that such measures are presented in a way that could be misleading. Nonetheless, IOSCO reminds issuers that while this Statement is intended to assist them in providing clear disclosure of non-GAAP financial measures, their presentation in accordance with the proposed Statement is not a substitute for compliance with national regulatory requirements.

Request for Comment

The IOSCO Board is seeking comment from any interested person on any of the matters covered in the proposed Statement, as well as on any additional related matters that may have an effect on its contents. Comments are most helpful if they contain a supporting analysis and, if appropriate, a discussion of alternatives that the Board should consider.

IOSCO would in particular welcome comments on whether the scope of the proposed Statement is appropriate. For example, respondents may wish to comment on the fact that the disclosures that an issuer makes within its financial statements, including the notes thereto, are not contained within the scope of the proposed Statement.

How to Submit Comments

Comments may be submitted by one of the three following methods **on or before 5 December 2014**. To help us process and review your comments more efficiently, please use only one method.

Important: All comments will be made available publicly, unless anonymity is specifically requested. Comments will be converted to PDF format and posted on the IOSCO website. Personal identifying information will not be edited from submissions.

1. Email

- Send comments to consultation-2014-05@iosco.org
- The subject line of your message should indicate *Statement on Non-GAAP Financial Measures*.

- If you attach a document, indicate the software used (e.g., WordPerfect, Microsoft WORD, ASCII text, etc) to create the attachment.
- Do not submit attachments as HTML, PDF, GIFG, TIFF, PIF, ZIP or EXE files.

2. Facsimile Transmission

Send by facsimile transmission using the following fax number: + 34 (91) 555 93 68.

3. Paper

Send 3 copies of your paper comment letter to:

Mr. Jonathan Bravo
IOSCO General Secretariat
International Organization of Securities Commissions (IOSCO)
Calle Oquendo 12
28006 Madrid
Spain

Your comment letter should indicate prominently that it is a “*Public Comment on the Statement on Non-GAAP Financial Measures.*”

International Organization of Securities Commissions

Statement on Non-GAAP Financial Measures

September 2014

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. IOSCO recognises that in addition to GAAP based financial statements, issuers also convey financial information using financial measures other than those prescribed and/or defined by GAAP, commonly referred to as non-GAAP financial 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 thus 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.¹ 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 measures inconsistently over time or explain them inadequately. Also, the lack of standardised meanings for non-GAAP 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 for public consultation. When final, the Statement will replace the 2002 release.

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 way that could be misleading. Although this Statement is intended to help investors by reducing the risk of

¹ The release is available at: <https://www.iosco.org/news/pdf/IOSCONEWS4.pdf> .

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.

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 accounting principles other than IFRS. It applies to any non-GAAP financial measure wherever the measure is disclosed outside of the financial statements. Non-GAAP financial measures are commonly presented in press releases, periodic reports, 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 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.² 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.

Common terms used to identify non-GAAP financial measures include, among others, 'underlying earnings', 'normalised profit', 'pro forma earnings', 'cash earnings', 'earnings before interest, tax, depreciation and amortisation (EBITDA)', 'adjusted earnings', and 'earnings before non-recurring items'.³ Different issuers may use the same term to refer to different calculations.

III. IOSCO's Expectations for the Presentation of Non-GAAP Financial Measures

This Statement sets out IOSCO's expectations for the presentation of non-GAAP financial measures by issuers. IOSCO believes that sufficient information should accompany non-GAAP financial measures to help provide investors with an understanding of the messages that the measures are intended to convey, such that investors are not confused or misled if they rely on them. It is important that the issuers provide transparency with non-GAAP financial measures and that they clearly disclose how such measures are calculated. Specifically, IOSCO's expectations are as follows:

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 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.

³ A financial measure required by a securities regulator is not within the scope of this Statement.

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

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, it should include with equal or greater prominence a presentation of the most directly comparable measure calculated and presented in accordance with GAAP. Presentation of non-GAAP financial measures should not in any way confuse or obscure the presentation of the GAAP measures.

Reconciliation

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.

Present 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 remain consistent 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 to investors.

Recurring Items

11. In presenting non-GAAP measures, issuers sometimes seek to adjust for items that have affected past periods and which are reasonably likely also to affect future ones (such as restructuring costs or impairment losses). Such items should not be described as non-recurring, infrequent or unusual.

The IOSCO expectations as expressed in this Statement do 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 national 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 reminds issuers of the responsibility in all instances to ensure that the information they provide to the public is not misleading. Issuers are also reminded that information they provide regarding non-GAAP financial measures should be accessible to investors and other users of financial information. The information should either accompany the non-GAAP financial measures or issuers should provide investors with a reference to where this information is available.