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FASB Invites Stakeholders to Comment on Financial Key Performance Indicators

Overview

On November 14, 2024, the FASB published an [invitation to comment](#)¹ (ITC) to solicit feedback from stakeholders on financial key performance indicators (“financial KPIs”). Comments on the ITC are due by April 30, 2025. For ease of reference, the ITC’s questions for respondents are reproduced in the [appendix](#) of this *Heads Up*.

Background

The FASB has previously explored the topic of KPIs, most recently in its 2021 [agenda consultation ITC](#),² which generated diverse feedback. Some investors observed that defining KPIs in GAAP would provide “a common starting point” and thereby enhance comparability. Others, including certain preparers, commented that standardization may not be necessary and highlighted that management may be best equipped to determine its KPIs. While at that time the Board decided not to include this topic in its technical agenda, it added the project to its research agenda.

Financial KPIs

The ITC defines a financial KPI as “any financial measure that is calculated or derived from the financial statements and/or underlying accounting records that is not presented in the GAAP financial statements.” An example of this would be a current ratio calculated as current assets

¹ FASB Invitation to Comment, *Financial Key Performance Indicators for Business Entities*.

² FASB Invitation to Comment, *Agenda Consultation*. On June 29, 2022, the FASB released a [report](#) summarizing the stakeholder feedback the Board received during the 2021 agenda consultation project.

divided by current liabilities, which would be derived from amounts presented in a classified balance sheet. Another example would be adjusted earnings per share (EPS), which would be derived from adjustments to amounts presented in the financial statements. Earnings before interest, taxes, depreciation, and amortization (EBITDA) would also be considered a financial KPI because the amount is calculated on the basis of other information included in financial records.



Connecting the Dots

The ITC defines a financial KPI differently from the manner in which the SEC defines non-GAAP measures. For example, a current ratio would be considered a financial KPI but not a non-GAAP measure because the metric is calculated by using two GAAP amounts, current assets and current liabilities, as presented on a classified balance sheet. SEC Regulation G and Regulation S-K, Item 10(e),³ define a non-GAAP measure as follows:

A numerical measure of a registrant's historical or future financial performance, financial position or cash flows that:

- (i) Excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the statement of comprehensive income, balance sheet or statement of cash flows (or equivalent statements) of the issuer; or
- (ii) Includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented.

See Deloitte's Roadmap [Non-GAAP Financial Measures and Metrics](#) for more information about the SEC's requirements related to non-GAAP measures.

Scope of the ITC

Increased Use and Lack of Comparability of Financial KPIs

As part of its research project on financial KPIs, the FASB staff identified an increase in the use of such financial KPIs and concluded that since standardized definitions do not exist, comparability may be reduced. The staff noted that some of the most common financial KPIs are EBITDA (or adjusted EBITDA), adjusted EPS, adjusted net income, adjusted operating income, and free cash flow (or adjusted free cash flow). As a result of its research on a sample of public companies that report EBITDA (the most common measure), the staff determined that such companies define earnings, interest, depreciation, and amortization in different ways, resulting in a lack of comparability. Accordingly, the FASB is seeking information about the use of these financial KPIs to determine the next steps in the research project.

Key Questions

The ITC's 25 questions for respondents (see the [appendix](#)) are intended to solicit feedback on the following two overarching questions:

1. Should Financial KPIs be standardized and, if so, which ones?
2. Should Financial KPIs be required or permitted to be disclosed in an entity's [GAAP] financial statements and, if so, when and for what types of entities?

Potential Approaches

The ITC outlines two approaches for potential projects. The Board seeks feedback on these approaches, a combination thereof, or any other approaches it should consider as well as input on potential disclosures related to financial KPIs that entities should present.

³ SEC Regulation S-K, Item 10(e), "General: Use of Non-GAAP Financial Measures in Commission Filings."

Approach 1

The FASB would define certain commonly used financial KPIs and require or permit disclosure of them in an entity's GAAP financial statements. Under this approach, the Board would first determine which financial KPIs to define. Alternatively, rather than defining financial KPIs that are commonly presented or used, the FASB would define financial KPIs that are common to specific industries. For example, the FASB would define return on invested capital in the retail industry; earnings before interest, taxes, depreciation, amortization, and rent (EBITDAR) in the hospitality industry; or funds from operations (FFO) in the real estate industry. The FASB would also determine whether disclosing the defined measures should be required or optional in an entity's GAAP financial statements.

Approach 2

The FASB would require or permit an entity to disclose in its GAAP financial statements any financial KPIs that are presented outside such statements. In a manner similar to Approach 1, the FASB would still need to determine whether disclosing the defined measures should be required or optional in those statements. However, such determination would be based on the information management presents outside the financial statements. The FASB would need to determine the scope of that information, which could range from all financial KPIs that are presented outside the financial statements to only those financial KPIs that are communicated in earnings announcements and regulatory filings.



Connecting the Dots

In April 2024, the IASB issued IFRS 18,⁴ which is effective for annual reporting periods beginning on or after January 1, 2027. IFRS 18 requires entities to present management-defined performance measures (MPMs) in the notes to the financial statements, including a reconciliation to the nearest IFRS® measure. MPMs consist of a subtotal of income and expenses that an entity uses in public communications outside the financial statements that does not specifically have to be presented or disclosed under IFRS Accounting Standards. The presentation requirements under the Approach 2 above could be aligned with those for MPMs under IFRS 18.

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⁴ IFRS 18, *Presentation and Disclosure in Financial Statements*.

Appendix — ITC's Questions for Respondents

The ITC's questions for respondents are reproduced below for reference.

Background

Question 1 (All Respondents): Please describe what type of stakeholder you (or your organization) are from the list below, including a discussion of your background and what your point of view is when responding to this ITC:

- a. Academic
- b. Investor, other allocator of capital, or other financial statement user, such as:
 - i. Equity analyst: buy side
 - ii. Equity analyst: sell side
 - iii. Credit-rating agency analyst
 - iv. Fixed-income analyst
 - v. Accounting analyst
 - vi. Quantitative analyst
 - vii. Portfolio manager
 - viii. Private equity
 - ix. Individual investor
 - x. Lender
 - xi. Long-only focus
 - xii. Long/short focus
 - xiii. Other
- c. Practitioner/auditor
- d. Not-for-profit organization preparer
- e. Private company preparer
- f. Public company preparer
- g. Regulator
- h. Standard setter
- i. Other.

Question 2 (All Respondents): What is the relative priority of a project on Financial KPIs given the FASB's progress on other recent projects, including projects on financial statement disaggregation as well as other recognition and measurement projects? Do you believe the relative priority differs for public entities versus private companies? Please explain why or why not.

Question 3 (Investors): How often, if at all, do you use Financial KPIs in your analysis? If used, which ones?

Question 4 (Investors): If you use Financial KPIs in your analysis, do you calculate the measures yourself, use measures provided by a financial data service, or use the measures provided by management? If provided by management, do you make any additional adjustments before using the Financial KPIs in your analysis?

Question 5 (Preparers): Does your company present Financial KPIs outside the financial statements? Do your company's peers present Financial KPIs outside the financial statements?

Question 6 (Investors): If you use Financial KPIs in your analysis, are the Financial KPIs you use comparable across different entities? If you believe that those Financial KPIs are comparable across different entities, how do you know that those Financial KPIs are calculated on a comparable basis?

Question 7 (Preparers): If your company and your company's peers present Financial KPIs outside the financial statements, are the Financial KPIs comparable? If you believe that the Financial KPIs that are presented are comparable, how do you know that those Financial KPIs are calculated on a comparable basis?

Approach 1: Define and Require (or Permit) Disclosure of Common Financial KPIs

Question 8 (Investors): Would you benefit from standardized GAAP definitions of commonly used Financial KPIs? Please explain why or why not.

Question 9 (All Respondents): If the FASB defines certain Financial KPIs, should the defined Financial KPIs be measures that are commonly used across all entities, measures that are industry-specific, or both? What should the FASB consider in determining which Financial KPIs to define?

Question 10 (All Respondents): Are there certain Financial KPIs you believe that the FASB should define? If so, what are they and why?

Question 11 (All Respondents): Should disclosure of certain defined measures be required or optional? If required, how should that requirement be determined (for example, should all entities be required to disclose the defined measure or only entities in specified industries)? Please explain.

Question 12 (All Respondents): Should the FASB provide criteria for entities to use to determine when a defined Financial KPI needs to be disclosed? For example, an entity could be required to disclose a Financial KPI that has been defined by the FASB in the financial statements if it presents it or an adjusted version outside the financial statements (for example, if EBITDA is defined and an entity presents adjusted EBITDA).

Question 13 (All Respondents): If the FASB defines certain Financial KPIs that are common within specific industries, should all entities within those industries be required to disclose the defined measure?

Approach 2: Require (or Permit) Disclosure of Financial KPIs Presented by Management Outside the Financial Statements

Question 14 (All Respondents): Should an entity be required to disclose a Financial KPI in GAAP financial statements if the entity communicates the Financial KPI elsewhere? If so, what incremental benefits does requiring (rather than permitting) disclosure provide?

Question 15 (All Respondents): If the FASB pursues Approach 2, should the criteria for identifying Financial KPIs that must be (or are permitted to be) disclosed in GAAP financial statements be broad or narrow? For example, should all Financial KPIs communicated outside financial statements be disclosed or should only those communicated in earnings announcements and regulatory filings be disclosed?

Question 16 (All Respondents): Are there other criteria that you believe should be used to identify Financial KPIs that would be required to be (or are permitted to be) disclosed in GAAP financial statements? If so, what are they and why should they be included?

Overall Preferred Approach and Disclosure

Question 17 (All Respondents): Which potential approach for standard setting on Financial KPIs do you prefer and why?

Question 18 (Investors): Would a combined approach that incorporates elements of Approaches 1 and 2 provide decision-useful information that is incremental to either approach in isolation? Please explain how the approaches should be combined, including why that approach would provide incremental decision-useful information.

Question 19 (Preparers and Practitioners): Is either Approach 1 or 2 inoperable? Please explain why or why not.

Question 20 (All Respondents): Are there other approaches that should be considered? If so, please describe and comment on whether (and what) incremental disclosures should be required under an alternative approach.

Question 21 (All Respondents): For any undefined Financial KPIs that must be (or are permitted to be) disclosed in GAAP financial statements, should an entity be required to provide a reconciliation in the financial statements to the most comparable GAAP requirement? Please explain why or why not.

Question 22 (All Respondents): Would disclosure about the components of Financial KPIs and the financial statement line items in which those components are included be useful? Please explain why or why not. If yes, should that disclosure be required?

Question 23 (All Respondents): For any undefined Financial KPIs that must be (or are permitted to be) disclosed in GAAP financial statements, should management be required to explain the element of their performance the undefined Financial KPI is meant to convey and how the undefined Financial KPI is used by management?

Question 24 (All Respondents): If an entity provides comparative financial statements, should it be required to disclose comparative period information for Financial KPIs disclosed? Please explain why or why not.

Question 25 (All Respondents): Are there any other disclosures that you believe should accompany Financial KPIs (defined or undefined) that would be disclosed in GAAP financial statements? If so, what are they and why?

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