

Alternative Performance Measures: A New Zealand user-needs survey

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Survey summary
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Survey: Introduction

- The XRB surveyed users of financial reports to find out whether they find Alternative Performance Measures (APMs) useful
 - Took place between November 2016 and January 2017
 - Web-based survey (SurveyMonkey) containing 24 questions
 - Respondents could supplement their responses with additional comments
 - In the survey, APMs are stated to be performance measures other than those reported in an entity's financial statements
- For the full report: <https://www.xrb.govt.nz/dmsdocument/2317>

Survey: Objective

- The objective of the survey was to determine:
 - whether external users of company reports find APMs useful, or are confused by the reported APM information
 - whether and how the presentation and disclosure of company performance to external users can be improved
 - whether external users understand the specific APMs and related information that are disclosed by companies

Participants

- A total of 87 users of financial reports, mainly individual equity investors responded
 - Not all respondents answered every question in the survey
- User groups

| Response | # Responses |
|--------------------------------------|-------------|
| Individual equity investor | 64 |
| Individual debt investor | 9 |
| Institutional equity investor | 4 |
| Institutional debt investor | 2 |
| Intermediary/advisor to investors | 8 |
| Other | 20 |
| Total respondents to question | 75 |

*Participants could select more than one option

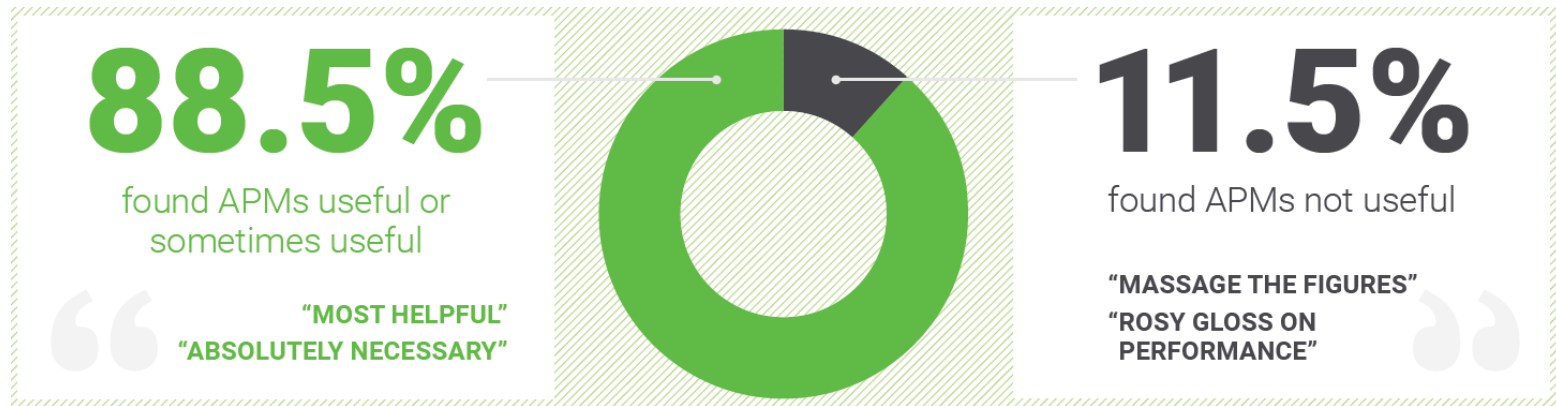
Participants: Experience

- Level of experience of participants [as indicated by participant]



- The survey responses from the majority of both non-expert users and expert users were generally consistent
 - No statistically significant differences in responses between the non-expert and the expert respondents for each question included in this presentation

Are APMs useful for assessing company performance ?



| Response | # Respondents | % |
|--------------------------------------|---------------|-------------|
| Yes | 58 | 66.7% |
| Sometimes | 19 | 21.8% |
| No | 10 | 11.5% |
| Total respondents to question | 87 | 100% |

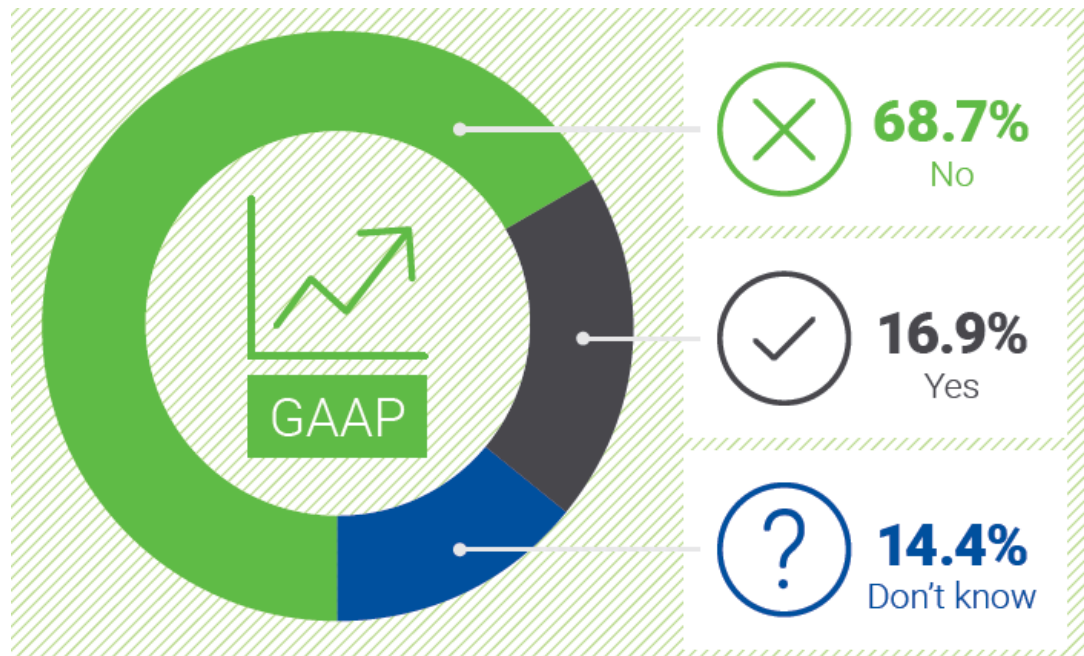
Which of the following APM(s) would be useful for a company to disclose?

| Response | # Responses |
|---|-------------|
| “Underlying” or “normalised” profit/ earnings (profit for the year less non-recurring, infrequently occurring and/or unusual items) | 59 |
| EBITDA | 57 |
| EBITDAF | 45 |
| Other | 14 |
| Total respondents to question | 86 |

*Participants could select more than one option

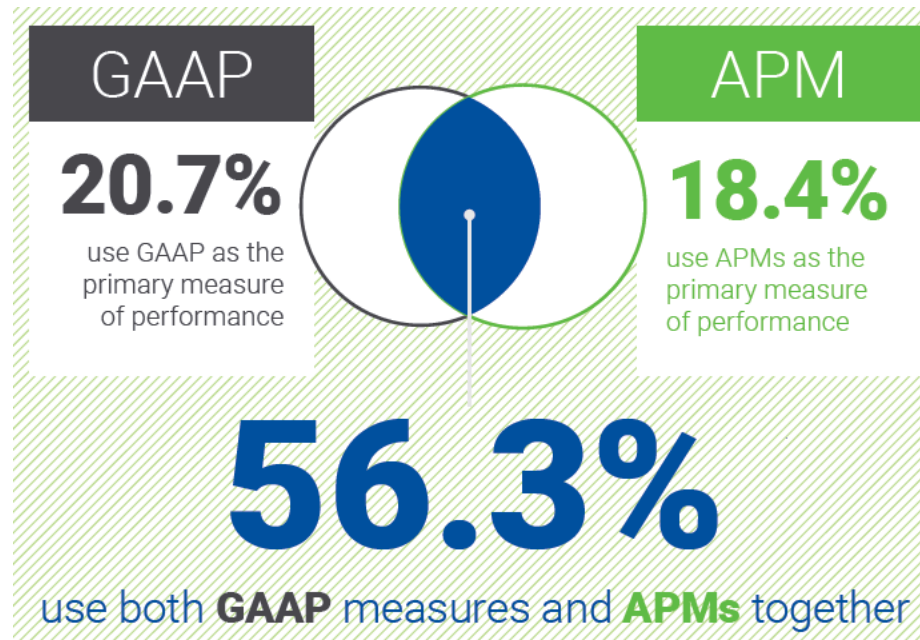
- Some respondents consider different APMs have their use depending on the company and/or industry

Should company performance measures be limited to GAAP measures?



- “Let entities tell their story”

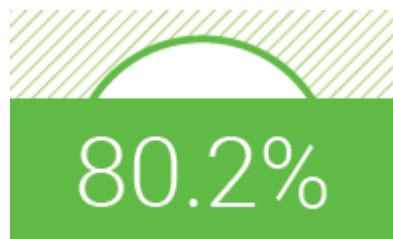
Which is the primary indicator for assessing company performance: APMs or GAAP measures: ?



- “The usefulness of APMs depended on the adjustments made, the frequency of ‘unusual’ or ‘one-off’ items, the company’s situation and the reasons for the APMs.”

Is additional information, reconciliations or explanations between a GAAP measure and an APM useful?

| Response | # Respondents | % |
|--------------------------------------|---------------|-------------|
| Really useful | 30 | 34.9% |
| Usually useful | 39 | 45.3% |
| Less than useful | 11 | 12.8% |
| Not useful | 6 | 7% |
| Total respondents to question | 86 | 100% |



- Found the reconciliation or explanation between an APM and a GAAP measure useful, with many commenting that this information is **essential, vital** or **should be mandatory**

What information, if any, should accompany APMs to improve their quality and usefulness?

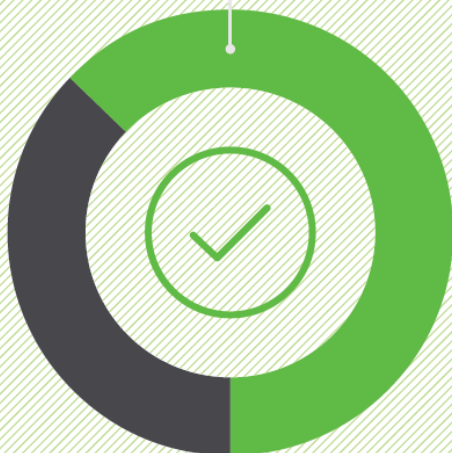
| Response | # Responses |
|---|-------------|
| How the APM is derived/calculated | 69 |
| Comparative for the previous year's APM | 68 |
| Explanation for changing the APM or its calculation from the previous year | 67 |
| Explanation for including or excluding selected components (eg., recurring items or non-recurring items) in calculating the APM | 63 |
| Company's purpose or reason for using the APM as a performance indicator, rather than a GAAP measure | 59 |
| Clear identification of whether the measure is an APM or a GAAP measure | 56 |
| Explanations/reconciliations to the closest equivalent GAAP measure | 51 |
| Statement on whether or not the APM has been subject to any assurance | 50 |
| Other | 6 |
| Total respondents to question | 81 |

*Participants could select more than one option

How could accounting standards improve GAAP measures?

66.3% support

Accounting standards should provide more information about a company's 'core operations' or 'underlying performance'



There was also some support for:



Principle-based definition of operating profit



More subtotals in the income statement



Standardised calculation of selected APMs



More disaggregated information in the income statement



Definitions for non-recurring, one-off, and infrequent items



Standardised definitions for selected APMs, such as EBIT and EBITDA

Overall observations

- APMs are useful, subject to caveats
- APMs are used as a supplement to, or in conjunction with, GAAP measures – not a substitute for GAAP
- APMs must be accompanied by a reconciliation to GAAP and other explanatory information

Questions

