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Project	**Primary Financial Statements**		
Paper topic	EBITDA		
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Purpose of this paper

1. In response to Board members' suggestions at the November 2018 Board meeting,[1] this paper considers:

    (a) whether the Board should describe EBITDA;

    (b) if so, how the Board should describe EBITDA; and

    (c) whether the Board should add EBITDA to the list of measures that are not considered to be management performance measures.

Summary of staff recommendations

2. The staff recommend that the Board:

    (a) describe EBITDA as 'operating profit before depreciation and amortisation';

    (b) add EBITDA (as described by the Board) to the list of measures that are not considered to be management performance measures; and

[1] See November 2018 AP21A and November 2018 IASB *Update*.

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(c) update its tentative decision on labelling of EBIT, clarifying that using the 'EBIT' label for performance measures included in the financial statements is potentially misleading.

Structure of paper

3. This paper is structured as follows:

   (a) Background (paragraphs 4–8)

   (b) Approach A— add 'operating profit before depreciation and amortisation' to the list of measures that are not considered to be management performance measures (paragraphs 9–10)

   (c) Approach B— describe EBITDA and add EBITDA to the list of measures that are not considered to be management performance measures (paragraphs 11–26)

      (i) How could the Board describe EBITDA? (paragraphs 12–23)

      (ii) Advantages of Approach B (paragraph 24)

      (iii) Disadvantages of Approach B (paragraphs 25–26)

   (d) Do we need to amend the Board's previous tentative decision on EBIT? (paragraphs 27–30)

   (e) Appendix A—Summary of research and outreach on EBITDA

   (f) Appendix B—Illustration of presentation of EBITDA as a subtotal in the statement(s) of financial performance

   (g) Appendix C— Summary of June 2018 CMAC/GPF meeting discussion on EBITDA

Background

4. At the November 2018 Board meeting the Board tentatively decided not to require presentation of EBITDA in the statement(s) of financial performance, and not to require its disclosure in the notes.

5. However, the Board asked staff to come back with a proposed description or definition of EBITDA with a view to adding EBITDA to the list of measures that are not considered to be management performance measures. Some Board members suggested that the description or definition of EBITDA could be based on the proposed operating profit subtotal, adjusted for the effect of depreciation and amortisation.

6. Board members identified the following objectives of providing guidance in this area:

   (a) to avoid requiring the disclosure of the effect on income tax and non-controlling interests of depreciation and amortisation. Information about these effects is unlikely to be useful for users, because it is unlikely users would want to calculate a performance measure before depreciation and amortisation that is after tax and attributable to owners of the parent.

   (b) to eliminate the current diversity in how measures labelled 'EBITDA' are calculated in financial statements (see research findings in paragraph A9 of Appendix A). Incorporating 'EBITDA' into IFRS terminology and assigning it to an IFRS-described measure would mean that one of the most commonly used labels for a measure of financial performance could only be used to present a measure that is described in IFRS Standards and is comparable across entities. In addition, entities would not be allowed to use the label 'EBITDA' for entity-specific measures that may not be comparable across entities. Such measures could then only be described using labels such as 'adjusted EBITDA'.

7. This paper discusses two approaches for the Board to consider:

   (a) Approach A—adding 'operating profit before depreciation and amortisation' to the list of measures that are not considered to be management performance measures; and

   (b) Approach B—describing EBITDA and adding EBITDA to the list of measures that are not considered to be management performance measures.

8. Approach B corresponds to Board members' suggestion at the November 2018 Board meeting and meets both objectives in paragraph 6. Approach A is a simpler approach that the Board may want to consider, but it only meets the first objective in paragraph 6.

Approach A—add 'operating profit before depreciation and amortisation' to the list of measures that are not considered to be management performance measures

9. Applying this approach, management performance measure (MPM) disclosures would *not* be required for measures calculated as operating profit (as defined by the Board) before depreciation and amortisation. Although MPM disclosures would be required for EBITDA-type measures that are calculated in a different way, in many such cases disclosure of the tax and non-controlling interest effect of depreciation and amortisation would not be required. This is because in many such cases entities would be required to reconcile their EBITDA-type measure to operating profit before depreciation and amortisation. Hence, depreciation and amortisation would not appear in the MPM reconciliation and the tax and non-controlling interest effect of depreciation and amortisation would not have to be disclosed. In other words, this approach meets the objective in paragraph 6(a).

10. We considered this approach because it does not use the term 'EBITDA' and thereby avoids describing EBITDA in a way that does not match what the acronym stands for (see paragraph 25(a) for further discussion). However, the staff recommend the Board does not pursue this approach because it does not meet the objective in paragraph 6(b).

Approach B—describe EBITDA and add EBITDA to the list of measures that are not considered to be management performance measures

11. Applying approach B, the Board could:

    (a) describe EBITDA; and

    (b) add EBITDA (as described by the Board) to the list of measures that are not considered to be management performance measures.

How could the Board describe EBITDA?

12. Users use EBITDA for different purposes (see paragraph A6 of Appendix A) and there does not appear to be a single underpinning concept for EBITDA. Consequently, we think the Board should take a pragmatic approach to describing EBITDA.

What should be the starting point for EBITDA?

13. We first consider what should be the 'starting point' for calculating EBITDA, in other words what is the measure that is adjusted for depreciation and amortisation. This starting point could be:
    (a) one of the three subtotals tentatively defined by the Board:
        (i) operating profit;
        (ii) operating profit and the share of profit or loss of integral associates and joint ventures; or
        (iii) profit before financing and income tax; or
    (b) profit or loss before all interest income and interest expenses and income tax—in line with what the acronym 'EBIT' stands for.

14. An EBITDA measure described using operating profit as the starting point could be presented as a subtotal in the statement(s) of financial performance if (see illustration in Appendix B):
    (a) the measure complies with the requirements in paragraphs 85 and 85A of IAS 1 *Presentation of Financial Statements*—including that presentation of the measure must be relevant to an understanding of the entity's financial performance; and
    (b) the entity presents an analysis of expenses by nature.

15. If these conditions are not met, such EBITDA measures, if provided, would be disclosed in the notes. If any of the other starting points in paragraph 13 are used, the resulting EBITDA measures would always be disclosed in the notes.

16. The staff recommend using operating profit, rather than any of the other measures listed in paragraph 13, as the starting point for the calculation of EBITDA, because users generally prefer EBITDA to exclude the share of profit or loss of *all* associates and joint ventures and income and expenses from other investments

(see paragraph A12(a) of Appendix A). This is because they want to value such items separately.

17. This would mean that, if entities disclose an EBITDA-type measure that includes the share of profit of associates and joint ventures—which some entities do, see paragraph A9(c)(i) of Appendix A—it would be considered a management performance measure. However, in such cases, we think the MPM disclosures will not be difficult or costly to prepare, because there would be no tax or NCI effect to disclose for the share of profit or loss of associates and joint ventures.

What should be the 'DA' in EBITDA?

18. The staff have identified two questions that arise in determining what is 'DA' in EBITDA:
    (a) does 'DA' include impairment of non-financial assets? (paragraphs 19–20)
    (b) what is the depreciation and amortisation expense used in 'DA'? (paragraphs 21–23)

19. The Board could consider including impairment of non-financial assets in the description of 'DA' because:
    (a) our research shows that many entities adjust for impairment in the calculation of EBITDA (see paragraph A9(a) of Appendix A);
    (b) some investors adjust for impairment in the calculation of EBITDA (see paragraph A13 of Appendix A); and
    (c) impairment is a non-cash expense, and in that sense similar to depreciation and amortisation for non-financial assets.

20. However, the staff think the Board's description of 'DA' in EBITDA should not include impairment (in other words, the Board's description of EBITDA should be *after* impairment expense), because if the Board's description of EBITDA is *before* impairment expense:
    (a) the tax and NCI effect of impairment would not be disclosed. However, unlike for depreciation and amortisation, users may want to understand the effect on tax and non-controlling interests of impairment.

(b) the resulting MPM reconciliation would be counterintuitive in some cases. For example, if an entity chooses to present an EBITDA-type MPM that is after impairment expense, that entity may be required to reconcile that MPM to:

   (i) EBITDA meaning the entity would disclose 'impairment' as an MPM adjustment and provide the tax and NCI effect of impairment; or

   (ii) 'operating profit' meaning, depreciation and amortisation would appear in the reconciliation, which means the objective in paragraph 6(a) is not met.

21. The staff think the amount of 'depreciation and amortisation' used to calculate EBITDA should be the amount of depreciation and amortisation recognised in profit or loss in the period,[2] which will be:

(a) presented in the statement(s) of financial performance for entities that present their primary analysis of expenses by nature; and

(b) disclosed as part of the analysis of expenses by nature required for entities that present their primary analysis of expenses by function.[3]

22. The amount recognised in profit or loss may be different from the amount of depreciation and amortisation disclosed in the reconciliations from opening to closing balance for property, plant and equipment and intangible assets, because some depreciation and amortisation may have been allocated to inventory.

23. Some preparers have told us that they may find it difficult or costly to provide the amount in paragraph 21(b), because their accounting systems are currently unable to track the nature of expenses when expenses are allocated to inventory.[4] The staff are planning to perform further analysis on this issue as part of our work on disaggregation that we plan to discuss at a future meeting.

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[2] See V. Papa and S. Peters, 'Investor uses, expectations and concerns on non-GAAP financial measures', CFA Institute, 2016, p. 22, available at: https://www.cfainstitute.org/en/advocacy/policy-positions/investor-uses-expectations-and-concerns-on-non-gaap-financial-measures

[3] See September 2017 AP21B and the September 2017 IASB *Update*.

[4] See paragraph 38 of the June 2018 CMAC/GPF minutes, available at: https://www.ifrs.org/-/media/feature/meetings/2018/june/cmac-and-gpf/cmac-gpf-june-2018-summary-1-august-2018.pdf

Advantages of Approach B

24. The advantages of this approach are:

    (a) it avoids requiring the disclosure of the effect on income tax and non-controlling interests of depreciation and amortisation (ie this approach would meet the objective in paragraph 6(a)).

    (b) the Board would take ownership of the label 'EBITDA', thereby achieving the objective in paragraph 6(b).

    (c) it responds to the demand from stakeholders to define EBITDA, including:

        (i) some respondents of the 2017 *Disclosure Initiative—Principles of Disclosure* Discussion Paper who supported the Board defining EBITDA (and EBIT) because they said such measures are useful to users and need to be comparable across entities.

        (ii) some CMAC and GPF members who have expressed support for the Board defining EBITDA, for the reasons described in paragraph C2(a) of Appendix C. Some CMAC members reiterated this view at the November 2018 CMAC meeting.

        (iii) a CFA investor survey[5] found that 55.1% of 405 respondents expect standard-setters to define key subtotals including EBITDA.

        (iv) the European Securities and Markets Authority have expressed the view that: 'ESMA and European enforcers believe that further guidance from the IASB on the definitions of some subtotals (such as operating profits and EBITDA) with its consequent labelling would be desirable to address diversity in practice and to improve comparability of financial statements'.[6]

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[5]See V. Papa and S. Peters, 'Bridging the Gap: Ensuring Effective Non-GAAP and Performance Reporting', CFA Institute, 2016, p. 29, available at: https://www.cfainstitute.org/en/advocacy/policy-positions/bridging-the-gap-ensuring-effective-non-gaap-and-performance-reporting

[6] See paragraph 16 of the ESMA report on *Enforcement and Regulatory Activities of Accounting Enforcers in 2017*, available at: https://www.esma.europa.eu/sites/default/files/library/esma32-63-424_report_on_enforcement_activities_2017.pdf

Disadvantages of Approach B

25. The disadvantages of this approach are:

    (a) the description of EBITDA as ‘operating profit before depreciation and amortisation’ does not match what the acronym stands for (‘earnings before interest, tax, depreciation and amortisation’), because ‘operating profit before depreciation and amortisation’:

        (i) may include some interest, for example interest income recognised to reflect a significant financing component of a customer contract applying IFRS 15 *Revenue from Contracts with Customers*; and

        (ii) excludes items other than ‘ITDA’, for example, the share of profit or loss of associates and joint ventures and income/expenses from investments.

        This is inconsistent with the proposed guidance on the use of the label ‘EBIT’ developed at the October 2018 Board meeting (see paragraph 27(b)).

    (b) there is diversity in how preparers and users calculate EBITDA today. Many entities’ and users’ definitions of EBITDA are different from ‘operating profit before depreciation and amortisation’, for example:

        (i) some entities include the share of profit of associates and joint ventures (see paragraph A9(c) of Appendix A).

        (ii) some entities’ EBITDA-type measures are before impairment (see paragraph A9(a) of Appendix A).

        For those entities, the proposals will result in a change in practice. However, given the diversity in practice today, any description of EBITDA would result in a change in practice for many entities.

    (c) it provides a special treatment for EBITDA compared to other performance measures. This may not be appropriate considering the concerns some stakeholders have raised about the validity of EBITDA as a measure of performance (see paragraph A8 of Appendix A). Some CMAC/GPF members were concerned that the Board defining EBITDA might promote the use of EBITDA (see paragraph C2(b)(i) of Appendix C). However, EBITDA is one of the most commonly used measures in the financial statements.

(d) we will need to consider the interaction of the Board's description of EBITDA with definitions of EBITDA provided by regulators, such as the Securities and Exchange Commission of Brazil.[7] However, regulators may choose to amend or withdraw such guidance if the Board describes EBITDA in IFRS Standards. The staff are conducting outreach with regulators to better understand the expected consequences.

26. Overall, the staff think the advantages of Approach B in paragraph 24 outweigh the disadvantages in paragraph 25 and therefore recommend Approach B. However, the staff think the Board should address the issue around terminology discussed in paragraph 25(a), as explained in the next section.

Question 1

Does the Board agree with the staff recommendation to:

(a) describe EBITDA as 'operating profit before depreciation and amortisation'; and

(b) add EBITDA (as described by the Board) to the list of measures that are not considered to be management performance measures?

Do we need to amend the Board's previous tentative decision on EBIT?

27. At the October 2018 meeting, the Board tentatively decided to clarify, possibly through the use of an example in any revised Standard, that:

(a) the label 'earnings before interest and taxes' (EBIT) would not be a faithful representation of profit before financing and income tax.

(b) any management performance measure labelled as 'earnings before interest and taxes' should faithfully represent what is included in that management performance measure. This means that an EBIT label can only be used to describe a measure that has been calculated as 'profit or loss plus all interest income/expenses and income tax expense'—in

[7] See http://www.cvm.gov.br/export/sites/cvm/legislacao/instrucoes/anexos/500/inst527.pdf

other words, measures labelled 'EBIT' should be calculated in line with the acronym.

28. The staff think that the clarification that the label EBIT is not a faithful representation of profit before financing and income tax in paragraph 27(a) remains applicable. However, the staff think that the clarification in paragraph 27(b) needs to be updated if the Board decides to describe EBITDA as proposed in this paper.

29. The staff propose to include discussion along the following lines in the Basis for Conclusions of a revised IAS 1:

    (a) the Board has responded to stakeholders' requests to describe EBITDA. The Board has described EBITDA in a pragmatic way as 'operating profit before depreciation and amortisation'. This means the Board's description of EBITDA may not match the acronym for the reasons set out in paragraph 25(a).

    (b) use of the term 'EBIT' to describe the operating profit subtotal could potentially be misleading for the reasons set out in paragraph 25(a).

    (c) other uses of the term 'EBIT', for example as a label for management performance measures, may also be misleading, particularly when an entity discloses EBITDA. This is because users would assume the only difference between EBIT and EBITDA is depreciation and amortisation, which would not be the case.

30. Alternatively (ie instead of the proposed discussion in paragraph 29(b)), the Board could consider allowing entities that disclose or present EBITDA in the financial statements to use 'EBIT' as an additional label for operating profit (for example by adding it in parentheses next to the 'operating profit' label), if it helps them communicate their performance. However, the staff do not recommend this approach because we consider using the term 'EBIT' to describe the operating profit subtotal is potentially misleading.

Question 2

Does the Board agree with the staff recommendation that the Board should update its tentative decision on EBIT, clarifying that using the 'EBIT' label for performance measures included in the financial statements is potentially misleading?

Appendix A—Summary of research and outreach on EBITDA

This appendix is the same as Appendix A of November 2018 Agenda Paper 21A, except for changes to paragraphs A9, A10, A12 and A13 to reflect further research.

A1. The staff consulted stakeholders at the June 2018 CMAC/GPF meeting[8] and conducted research to gather information about:

(a) the use of EBITDA by preparers and users of financial statements (paragraphs A2–A5);

(b) the usefulness of EBITDA as a measure of performance (paragraphs A6–A8); and

(c) diversity in EBITDA definitions and labelling (paragraphs A9–A14).

Use of EBITDA

A2. Both our research and outreach confirmed that EBITDA is widely used by:

(a) entities in their financial statements and other financial reporting materials (see paragraph A3–A4);

(b) investors, analysts and lenders in financial analysis (see paragraph A5); and

(c) lenders and borrowers in debt contracting.[9]

A3. The staff reviewed annual reports and other financial reporting materials (for example transcripts and presentations for earnings calls) of 85 entities applying IFRS Standards, across a range of industries (excluding financial entities) and geographies. The staff found that:

(a) 13 entities do not use EBITDA inside or outside the financial statements.

(b) 72 entities use EBITDA. Among these entities:

[8] The full summary of the June 2018 CMAC/GPF discussion is included in Appendix C.

[9] N. Li, 'Performance Measures in Earnings-Based Financial Covenants', *Journal of Accounting Research*, Vol 54 No.4., September 2016.

(i) 41 entities use EBITDA both inside and outside the financial statements;

(ii) one entity uses EBITDA only inside the financial statements; and

(iii) 30 entities use EBITDA only outside the financial statements.

A4. For the 42 entities who use EBITDA inside the financial statements, we found that:

(a) EBITDA was most often used as a segment measure of performance (23 entities) or in disclosures about capital structure and debt (18 entities)—for example describing the requirements of debt covenants or describing a target capital structure (eg net debt/EBITDA < 2);

(b) four entities presented EBITDA as a subtotal in the statement(s) of financial performance;

(c) two entities presented EBITDA as a subtotal in the statement of cash flows using the indirect method; and

(d) 30 entities used the 'function of expense' method (71%), whereas 12 entities use the 'nature of expense' method (29%).

A5. An investor survey by the CFA Institute[10] found that 69.8% use unadjusted EBITDA and 65.9% use adjusted EBITDA. In comparison, 45.9% use EBIT and 38.3% use adjusted EBIT. An investor survey by Cascino et al (2016)[11] also confirmed the popularity of EBITDA as a performance measure among investors, because of its perceived predictive ability.

[10] V. Papa and S. Peters, 2016, p21. The sample of 431 respondents consists of 287 portfolio managers and buy-side analysts and 144 sell-side analysts and other users.

[11] The sample consists of 81 mostly European, professional investors. See S. Cascino, M. Clatworthy, B. Garcia Osma, J. Gassen, S. Imam and T. Jeanjean 'Professional investors and the decision usefulness of financial reporting', 2016, Report prepared for ICAS (The Institute of Chartered Accountants of Scotland) and EFRAG (European Financial Reporting Advisory Group), pp 34-39, accessible at: https://www.icas.com/__data/assets/pdf_file/0010/236764/Professional-investors-and-the-decision-usefulness-of-financial-reporting.pdf

Usefulness of EBITDA

A6. The staff understand that investors, analysts and lenders use EBITDA in similar ways to EBIT, including in:

(a) financial performance comparison—EBITDA is used to compare the historical financial performance of different entities, for example by analysing EBITDA margin (EBITDA/Revenue) and EBITDA growth;

(b) assessing debt service capability (solvency and credit risk), for example by analysing the interest coverage ratio (EBITDA/Interest expense) and net debt/EBITDA ratio. Such ratios based on EBITDA are often included in debt covenants;

(c) multiples analysis—EBITDA is used in calculating the Enterprise Value/EBITDA multiple; and

(d) forecasting—some use EBITDA as a starting point for forecasting operating cash flows.

A7. The staff understand that some investors, analysts and lenders prefer using EBITDA rather than EBIT in these types of analysis for reasons including the following:

(a) to adjust for non-cash expenses in order to obtain a proxy of operating cash flows; and

(b) to eliminate distortions caused by differences in depreciation policies between entities.

A8. However, some stakeholders and some research highlight concerns about the use of EBITDA for:

(a) assessing debt service capability/solvency—interest coverage based on EBITDA can be overstated because it does not take into account cash needed for capital expenditures.

(b) multiples analysis—the EV/EBIT multiple may be more appropriate than EV/EBITDA when capital intensity varies significantly among the entities being compared.

(c) forecasting operating cash flows—EBITDA may not be a good proxy for operating cash flows. Further adjustments may be required,

including adjustments for working capital movements and other accruals.

Diversity in EBITDA definitions and labelling

Preparers' definitions

A9. Among the 72 entities described in paragraph A3(b) there is diversity in the way entities define EBITDA-type measures:

(a) some entities add back other non-cash expenses as part of 'DA' that are akin to depreciation and amortisation, for example 32 entities added back impairment. There were 14 entities who did not add back impairment, of which 9 had incurred impairment losses during the period. For the remaining 26 entities, no definition was provided, and the staff were not able to assess whether entities' definitions excluded impairment. This mostly included cases where EBITDA was only used outside the financial statements.

(b) similarly to EBIT, there is diversity in the definition of 'I'.[12] For example some include net interest on net defined benefit liabilities in EBITDA, others exclude it.

(c) similarly to EBIT, there is diversity whether the measure includes or excludes the share of profit of associates and joint ventures:

(i) 18 entities included the share of profit of associates and joint ventures in EBITDA;

(ii) 22 entities excluded it from EBITDA; and

(iii) the remaining 32 entities either did not have associates or joint ventures or we were not able to determine whether the share of profit or loss of associates and joint ventures was included in or excluded from EBITDA.

(d) 28 entities made adjustments for unusual or infrequent items.

A10. Among the 72 entities described in paragraph A3(b):

[12] Many entities' definition of 'I' in EBITDA corresponds to their definition of 'finance income and expenses' in the statement(s) of financial performance. Appendix A of the [March 2017 Agenda Paper 21A] includes research findings on the content of 'finance income/expenses' for a sample of 25 entities.

(a) 28 entities used the label 'EBITDA'—among those:

  (i) three entities define EBITDA as operating profit (as defined by the Board) before depreciation and amortisation;

  (ii) two entities define EBITDA as operating profit (as defined by the Board) before depreciation, amortisation and impairment;

  (iii) three entities define EBITDA as operating profit (as defined by the Board) and share of profit or loss of associates and joint ventures, before depreciation and amortisation;

  (iv) four entities define EBITDA as operating profit (as defined by the Board) and share of profit or loss of associates and joint ventures, before depreciation, amortisation and impairment; and

  (v) 16 entities use a different definition of EBITDA. Twelve of these 16 entities excluded unusual or infrequent items.

(b) 18 entities reflected adjustments in the labelling of their EBITDA-type measures—for example referring to their measure as 'adjusted EBITDA' or 'underlying EBITDA'.

(c) for the remaining 26 entities, no definition was provided. This mostly included cases where EBITDA was only used outside the financial statements.

A11. A few respondents to the *Disclosure Initiative—Principles of Disclosure* Discussion Paper reported similar findings as those in paragraph A9.

Users' definitions

A12. The staff have also found diversity in EBITDA definitions used by investors and other users of financial statements such as credit rating agencies. There is diversity in how associates, joint ventures and other investments are treated. For example, we have found that:

(a) some exclude the share of profit or loss of all associates and joint ventures and income from other investments from EBITDA for the purpose of equity valuation;[13]

(b) one data aggregator's definition of EBITDA excludes the share of profit or loss of all associates and joint ventures and income from other investments from EBITDA;

(c) one rating agency[14] replaces the share of profit or loss of associates and joint ventures with dividends received from associates and joint ventures in the calculation of EBITDA;

(d) one rating agency[15] generally excludes the share of profit or loss of associates and joint ventures from EBITDA, except:

  (i) when the relevant industry rating methodology specifies otherwise; or

  (ii) when the associate or joint venture is considered to be an integral part of the company's income-generating operations and the equity-accounted income is deemed to be sufficiently backed by cash distributions from the associates or joint ventures.

(e) one rating agency's EBITDA includes the income from other investments. We were not able to determine with certainty how the other rating agency treats income from other investments.

A13. The data aggregator's EBITDA and both rating agencies' EBITDA are before impairment.

A14. In addition, there is diversity in the EBITDA definitions used in loan covenants[16] and documents for marketing debt issuance. EBITDA definitions in these documents often include various forward-looking adjustments (eg future cost savings and synergies) that are loosely defined.[17]

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[13] For example, see page 24 of the Corporate Reporting Users' Forum comment letter on the *Financial Statement Presentation* Discussion Paper and the 2017 UBS publication 'How to analyse and talk the language of multiples.

[14] See Standard & Poor's rating services, 'Corporate methodology: Ratios and adjustments', 2013

[15] See Moody's, 'How Moody's calculates EBITDA under IFRS', 2008.

[16] See N. Li, 2016, p. 1178-1179.

[17] See Standard & Poors, 'When The Credit Cycle Turns: The EBITDA Add-Back Fallacy, 2018.

Appendix B—Illustration of presentation of EBITDA as a subtotal in the statement(s) of financial performance

This appendix is the same as Appendix D of November 2018 Agenda Paper 21A.

Statement of profit or loss presented by nature	
Revenue	15,500
Changes in inventories of finished goods and work in progress	-1,000
Work performed by the entity and capitalised	1,000
Raw material and consumables used	-6,000
Employee benefits expense	-4,000
Impairment of property, plant and equipment	-500
Operating profit before depreciation and amortisation (EBITDA)	**5,000**
Depreciation expense	-1,200
Amortisation expense	-800
Operating profit	**3,000**
Share of profit of **integral** joint ventures and associates	500
Operating profit and share of profit from integral associates and joint ventures	**3,500**
Changes in the fair value of financial assets	250
Dividend income	50
Share of profit of **non-integral** joint ventures and associates	100
Profit before financing and income tax	**3,900**
Interest income from cash and cash equivalents calculated using effective interest method	80
Other income from cash and cash equivalents and financing activities	20
Expenses from financing activities	-1000
Other finance income	50
Other finance expenses	-350
Profit before tax	2,700

Appendix C—Summary of June 2018 CMAC/GPF meeting discussion on EBITDA

This appendix is the same as Appendix C of November 2018 Agenda Paper 21A.

C1. Many members said that EBITDA is widely used by investors, analysts and lenders. However, members expressed mixed views on the usefulness of EBITDA as a performance measure:

(a) some members said EBITDA is a useful starting point for various types of analysis, in particular analysis of creditworthiness, as EBITDA is used as a proxy for operating cash flows.

(b) some members said EBITDA had significant shortcomings as a performance measure. Some GPF members said that EBITDA is a poor proxy for operating cash flows and will become a worse proxy as a result of IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*.

(c) some members said EBITDA can be misleading today as it is frequently adjusted for items other than interest, tax, depreciation and amortisation.

C2. Members expressed mixed views on whether the Board should define EBITDA:

(a) some members supported the Board defining EBITDA because:

(i) given that the Board has already defined a measure that is similar to EBIT (ie profit before financing and income tax), defining EBITDA would be a logical next step and would not require much additional effort.

(ii) there is some diversity in how entities currently calculate EBITDA. Some members said an EBITDA measure defined by the Board would be helpful because it would provide a comparable starting point. Some members said that entities should be allowed to make further adjustments to EBITDA as defined by the Board, but such measures would have to be labelled ‘adjusted EBITDA’.

(b) other members did not support the Board defining EBITDA because:

(i) it would potentially promote the use of EBITDA. They did not support this because they did not consider EBITDA to be a useful performance measure.

(ii) it is a low priority issue; defining EBITDA would not be a good use of the Board's limited time and resources.

C3. Some members said the Board should allow rather than require EBITDA to be disclosed. Some members also said EBITDA should only be allowed to be disclosed in the notes; it should not be presented in the statement(s) of financial performance.