STAFF PAPER

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IASB Meeting

Project	Disclosure Initiative		
Paper topic	Principles of Disclosure—Supporting Material for Papers 11A, 11B and 11C		

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Non-IFRS Information—Supporting material

- Extract from IAS 1 on the objective of financial statements and fair presentation
- Illustrative examples of additional disclosures in the primary financial statements that are not specified in IFRS
- Extracts from regulatory guidance regarding non-GAAP and non-IFRS measures, with reference to the financial statements

Extract from IAS 1 on the objective of financial statements and fair presentation

9 Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's:

a) assets;

b) liabilities;

c) equity;

d) income and expenses, including gains and losses;

e) contributions by and distributions to owners in their capacity as owners; and

f) cash flows.

This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Fair presentation and compliance with IFRSs

15 Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework*.[1] The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

16 An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs.

17 In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity:

(a) to select and apply accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. IAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of an IFRS that specifically applies to an item.

(b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

(c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

18 An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.

19 In the extremely rare circumstances in which management concludes that compliance with a requirement in an IFRS would be so misleading that it would conflict with the objective

[1] Paragraphs 15–24 contain references to the objective of financial statements set out in the *Framework [for the Preparation and Presentation of Financial Statements]*. In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*, which replaced the objective of financial statements with the objective of general purpose financial reporting: see Chapter 1 of the *Conceptual Framework*.

of financial statements set out in the *Framework*, the entity shall depart from that requirement in the manner set out in paragraph 20 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.

20 When an entity departs from a requirement of an IFRS in accordance with paragraph 19, it shall disclose:

(a) that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;

(b) that it has complied with applicable IFRSs, except that it has departed from a particular requirement to achieve a fair presentation;

(c) the title of the IFRS from which the entity has departed, the nature of the departure, including the treatment that the IFRS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the *Framework*, and the treatment adopted; and

(d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

21 When an entity has departed from a requirement of an IFRS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 20(c) and (d).

22 Paragraph 21 applies, for example, when an entity departed in a prior period from a requirement in an IFRS for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.

23 In the extremely rare circumstances in which management concludes that compliance with a requirement in an IFRS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

(a) the title of the IFRS in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the *Framework*; and

(b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.

24 For the purpose of paragraphs 19–23, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements. When assessing whether complying with a specific requirement in an IFRS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, management considers:

(a) why the objective of financial statements is not achieved in the particular circumstances; and

(b) how the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the *Framework*.

Illustrative examples of additional disclosures in the primary financial statements that are not specified in IFRS

Example 1

Group Income statement

	Notes	Year 02	Year 01
Revenue	#	***X***	***X***
Cost of revenue	#	(X)	(X)
Gross profit	#	***X***	***X***
Admistrative expenses	#	(X)	(X)
Operating profit	#	***X***	***X***
Finance income	#	X	X
Finance cost	#	(X)	(X)
Profit before tax	#	***X***	***X***
Taxation	#	(X)	(X)
Profit	#	***X***	***X***
- attributable to owners		X	X
- attributable to non-controlling interest		X	X
Earning per share			
- basic		X.XX	X.XX
- diluted		X.XX	X.XX

Non-GAAP measure: underlying profit before tax

	Notes	Year 02	Year 01
Profit before tax		X	X
Adjustments for:			
- Amortisation of intangible assets from business combination	#	X	X
- Financial instruments remeasurement	#	X	X
One-off costs			
- Integration and restructuring cost	#	X	X
- Impairment of goodwill	#	X	X
Underlying profit before tax		X	X

Example 2

Statement of profit or loss	**Year 01**			
	Manufacturing and sales	**Finance business**	**Eliminations**	**Total**
Sales and revenue (Note #)	***X***	***X***	***X***	***X***
Cost of goods and services sold	(X)	(X)	X	(X)
Selling, general and administrative expenses	(X)	(X)	-	(X)
Recurring operating income	***X***	***X***	-	***X***
Non-recurring operating income (Note #)	X	-	-	X
Non-recurring operating expenses (Note #)	(X)	-	-	(X)
Operating income	***X***	***X***	-	***X***
Interest income	X	-	-	X
Finance costs (Note #)	(X)	-	-	(X)
Income (loss) before tax of fully consolidated companies	***X***	***X***	-	***X***
Current taxes	(X)	(X)	-	(X)
Deferred taxes	(X)	(X)	-	(X)
Income taxes (Note #)	***(X)***	***(X)***	-	***(X)***
Profit	***X***	***X***	-	***X***
- attributable to owners				X
- attributable to non-controlling interest				X
Earning per share				
- basic				X.XX
- diluted				X.XX

Example 3

CONSOLIDATED STATEMENTS OF INCOME	**Year 1**		
CU millions	**Before IAS 41**	**IAS 41**	**IFRS**
Revenue	***X***	***X***	***X***
Cost of goods and services sold	(X)	X	(X)
Variation of assets		X	X
Selling, general and administrative expenses	(X)		(X)
Operating income	***X***	***X***	***X***
Interest income	X		X
Finance costs	(X)		(X)
Income before tax	***X***	***X***	***X***
Current taxes	(X)	(X)	(X)
Deferred taxes	(X)		(X)
Income taxes	***(X)***	***(X)***	***(X)***
Share in net earnings of companies at equity	X		X
Profit	***X***	***X***	***X***
Owners	(X)	X	(X)
Non-controlling interest	(X)	X	(X)
Earnings per share			***X***
Basic			X.XX
Diluted			X.XX

Example 4

Income Statement			
CU million	Notes	**Year 01**	**Year 02**
Sales	#	***X***	***X***
Revenue from non-core activities		X	X
Net sales		***X***	***X***
Costs of goods sold		(X)	(X)
Gross margin		***X***	***X***
Commercial and administrative costs		(X)	(X)
Other operating gains and losses	#	(X)	(X)
Earnings from associates and joint ventures accounted for using equity method	#	X	X
REBIT		***X***	***X***
Non-recurring items	#	(X)	(X)
EBIT		***X***	***X***
- Cost of borrowings	#	(X)	(X)
- Interest on lendings and short term deposits	#	X	X
- Other gains and losses on net indebtness	#	(X)	(X)
- Cost of discounting provisions	#	(X)	(X)
- Income/loss from available-for-sale investments		X	(X)
Results from taxes		*X*	*X*
Income taxes	#	(X)	(X)
Results from continuing operations		*X*	*X*
Result from discontinued operations	#	X	X
Net Income for the year	#	*X*	*X*
Non-Controlling Interests		(X)	(X)
Net Income	#	*X*	*X*
Earnings per Share	#	***X.XX***	**X.XX**
Basic		X.XX	X.XX
Diluted		X.XX	X.XX
RATIOS			
Gross Margin as a % of sales		X	X
Interest coverage ration		X	X
Income taxes/Result before taxes (in %)		X	X
REBITDA	#	***X***	***X***
Adjusted net income	#	X	X

Extracts from regulatory guidance regarding non-GAAP and non-IFRS measures, with reference to the financial statements

Australian Securities & Investments Commission (ASIC)—Regulatory Guide 230-Disclosing non-IFRS financial information[2]

> Non-IFRS financial information is any financial information that is presented other than in accordance with all relevant accounting standards.
>
> Non-IFRS profit information is a type of non-IFRS financial information. It is profit information calculated on a basis other than IFRS or calculated in accordance with IFRS and then adjusted.
>
> Pro-forma financial information is non-IFRS financial information that is intended to show the effects of proposed or completed transactions for illustrative purposes. It is often used in transaction documents.
>
> [...]
>
> Statutory financial reports provide historical financial information that is prepared in accordance with accounting standards and other financial reporting requirements of the Corporations Act. The objective of these requirements is to ensure consistent and comparable information over time and between entities that is not misleading to users.
>
> Non-IFRS financial information must not be presented as additional columns in the financial statements. Non-IFRS profits may not be presented as line items or subtotals in the statement of comprehensive income.
>
> In rare cases, compliance with accounting standards will not give a true and fair view of the financial position and performance of an entity, as required by the Corporations Act. In those cases, additional information to give a true and fair view will need to be disclosed in the notes, which might include non-IFRS financial information in some cases.
>
> We may provide relief to allow inclusion of pro forma or other non-IFRS financial information in financial reports, but we are likely to do so only in exceptional circumstances. Where we give relief, the information will need to be audited or reviewed, consistent with the financial report.

[2] For the full text of RG 230 and impact statement: http://www.asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-230-disclosing-non-ifrs-financial-information/

US Securities and Exchange Commission (US SEC)—Conditions for Use of Non-GAAP Financial Measures[3]

§ 228.10 (Item 10) General.

(h) Use of non-GAAP financial measures in Commission filings.

(1) Whenever one or more non-GAAP financial measures are included in a filing with the Commission:

(i) The registrant must include the following in the filing:

(A) A presentation, with equal or greater prominence, of the most directly comparable financial measure or measures calculated and presented in accordance with Generally Accepted Accounting Principles (GAAP);

(B) A reconciliation (by schedule or other clearly understandable method), which shall be quantitative for historical non-GAAP measures presented, and quantitative, to the extent available without unreasonable efforts, for forward-looking information, of the differences between the non-GAAP financial measure disclosed or released with the most directly comparable financial measure or measures calculated and presented in accordance with GAAP identified in paragraph (h)(1)(i)(A) of this section;

(C) A statement disclosing the reasons why the registrant's management believes that presentation of the non-GAAP financial measure provides useful information to investors regarding the registrant's financial condition and results of operations; and

(D) To the extent material, a statement disclosing the additional purposes, if any, for which the registrant's management uses the non-GAAP financial measure that are not disclosed pursuant to paragraph (h)(1)(i)(C) of this section; and

(ii) A registrant must not:

(A) Exclude charges or liabilities that required, or will require, cash settlement, or would have required cash settlement absent an ability to settle in another manner, from non-GAAP liquidity measures, other than the measures earnings before interest and taxes (EBIT) and earnings before interest, taxes, depreciation, and amortization (EBITDA);

(B) Adjust a non-GAAP performance measure to eliminate or smooth items identified as non-recurring, infrequent or unusual, when the nature of the charge or gain is such that it is reasonably likely to recur within two years or there was a similar charge or gain within the prior two years;

(C) Present non-GAAP financial measures on the face of the registrant's financial statements prepared in accordance with GAAP or in the accompanying notes;

(D) Present non-GAAP financial measures on the face of any pro forma financial information required to be disclosed by Article 11 of Regulation S-X (17 CFR 210.11-01 through 210.11-03); or

(E) Use titles or descriptions of non-GAAP financial measures that are the same as, or confusingly similar to, titles or descriptions used for GAAP measures; and

(iii) If the filing is not an annual report on Form 10-KSB (17 CFR 249.310b), a registrant need not include the information required by paragraphs (h)(1)(i)(C) and (h)(1)(i)(D) of this section if that information was included in its most recent annual report on Form 10-KSB or a more recent filing, provided that the required information is updated to the extent necessary to meet the requirements of paragraphs (h)(1)(i)(C) and (h)(1)(i)(D) of this section at the time of the registrant's current filing.

(2) For purposes of this paragraph (h), a non-GAAP financial measure is a numerical measure of a registrant's historical or future financial performance, financial position or cash flow 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 income, balance sheet or statement of cash flows

[3] http://www.sec.gov/rules/final/33-8176.htm

(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.

(3) For purposes of this paragraph (h), GAAP refers to generally accepted accounting principles in the United States.

(4) For purposes of this paragraph (h), non-GAAP financial measures exclude:

(i) operating and other statistical measures; and

(ii) ratios or statistical measures calculated using exclusively one or both of:

(A) Financial measures calculated in accordance with GAAP; and

(B) Operating measures or other measures that are not non-GAAP financial measures.

(5) For purposes of this paragraph (h), non-GAAP financial measures exclude financial measures required to be disclosed by GAAP, Commission rules, or a system of regulation of a government or governmental authority or self-regulatory organization that is applicable to the registrant. However, the financial measure should be presented outside of the financial statements unless the financial measure is required or expressly permitted by the standard setter that is responsible for establishing the GAAP used in such financial statements.

Canadian Securities Administrators' Staff Notice 52-306 (Revised)–Non-GAAP Financial Measures and Additional GAAP Measures[4]

II. Non-GAAP Financial Measures

For the purpose of this staff notice, a non-GAAP financial measure is a numerical measure of an issuer's historical or future financial performance, financial position or cash flow, that does not meet one or more of the criteria of an issuer's GAAP for presentation in financial statements, and that either:

(i) excludes amounts that are included in the most directly comparable measure calculated and presented in accordance with the issuer's GAAP, or

(ii) includes amounts that are excluded from the most directly comparable measure calculated and presented in accordance with the issuer's GAAP.

Non-GAAP financial measures are not presented in an issuer's financial statements.

Some issuers disclose non-GAAP financial measures in press releases, management's discussion and analysis (MD&A), prospectus filings, websites and marketing materials.

Many non-GAAP financial measures are derived from profit or loss determined in accordance with an issuer's GAAP and, by omission of selected items, present a more positive picture of financial performance. A ratio such as return on assets that uses an amount for assets, profit or loss that differs from the amounts presented in the issuer's financial statements is also a non-GAAP financial measure. Terms used to identify non-GAAP financial measures may include "pro forma earnings", "cash earnings", "free cash flow", "distributable cash", "EBITDA", "adjusted earnings", and "earnings before non-recurring items". These terms generally lack standard meanings. Different issuers may use the same term to refer to different calculations or one issuer may vary its definition of a particular term from one period to another period.

Staff is concerned that investors may be confused or even misled by non-GAAP financial measures. Staff is also concerned about the prominence of disclosure given to non-GAAP financial measures related to earnings compared to the prominence of profit or loss determined in accordance with an issuer's GAAP. In staff's view, these concerns can be addressed by appropriate disclosure accompanying non-GAAP financial measures.

[…]

IV. Additional GAAP Measures Presented under IFRS

For the purpose of this staff notice, an additional GAAP measure presented in financial statements under IFRS is:

(i) a line item, heading or subtotal that is relevant to an understanding of the financial statements and is not a minimum line item mandated by IFRS (see IAS 1 *Presentation of Financial Statements* (IAS 1) paragraphs 55 and 85), or

(ii) a financial measure in the notes to financial statements that is relevant to an understanding of the financial statements and is a measure not presented elsewhere in the financial statements (see IAS 1 paragraph 112(c)).

IFRS mandates certain minimum line items for financial statements and requires presentation of additional line items, headings and subtotals when such presentation is relevant to an understanding of an entity's financial position and performance. IFRS also requires the notes to financial statements to provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of them. Because IFRS requires such additional GAAP measures, they are not non-GAAP financial measures.

Similarly, IFRS permits certain financial measures such as alternative earnings per share if certain conditions are met. Because IFRS expressly permits such measures, they are not non-GAAP financial measures.

IFRS requires fair presentation, which includes the faithful representation of transactions, other events and conditions. A fair presentation also requires issuers to present financial information in a manner that is

[4] For the full text: http://www.osc.gov.on.ca/en/SecuritiesLaw_csa_20120217_52-306_non-gaap.htm

relevant, reliable, understandable, comparable and consistent period over period. An issuer should consider these requirements when determining whether and how to present additional GAAP measures.

Issuers must exercise judgement to determine whether a measure qualifies as an additional GAAP measure. As noted in section III of this notice relating to non-GAAP financial measures, issuers have a responsibility to ensure that information they provide to the public is not misleading. In addition, certifying officers have obligations under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* to make certifications regarding misrepresentations, fair presentation, and disclosure controls and procedures. The following practices will help issuers and certifying officers address these obligations in relation to additional GAAP measures:

1. name an additional GAAP measure in a way that distinguishes it from minimum disclosure items required by IFRS and is meaningful given the composition of the additional GAAP measure. For example, the name "income before the undernoted items" is generally not meaningful because "undernoted items" does not sufficiently describe the elements that are missing from "income". In addition, it does not facilitate a cross-reference to MD&A or other documents. Similarly, an unnamed subtotal is not meaningful;

2. avoid using IFRS terms within a name for an additional GAAP measure unless the IFRS meaning applies. For example, the name "profit before tax" would be appropriate only if the IFRS meaning of profit applies;

3. present an additional GAAP measure in a manner that does not confuse, obscure, or exceed the prominence of, minimum disclosure items required by IFRS on the face of financial statements or in the notes to financial statements;

4. explain in either the notes to financial statements or in corresponding MD&A why the additional GAAP measure provides useful information to investors and the purposes, if any, for which management uses the measure;

5. ensure a reader can easily determine how the additional GAAP measure is calculated in relation to minimum disclosure items required by IFRS on the face of financial statements or in the notes to financial statements;

6. present additional GAAP measures consistently over time or explain any change and the reason for the change in the notes to financial statements.

Form 51-102F1 *Management's Discussion and Analysis* discusses management's objective when preparing the MD&A, and states that the MD&A should help current and prospective investors understand what the financial statements show and do not show. Generally, in order to meet this objective, an issuer's MD&A should discuss and analyze additional GAAP measures.

EBITDA and EBIT

As discussed in section II of this notice, terms used to identify non-GAAP financial measures may include EBITDA. While EBITDA is generally a non-GAAP measure presented outside the financial statements, in some cases it may be possible for an issuer to present EBITDA as a subtotal in its statement of comprehensive income, i.e. as an additional GAAP measure. Similarly, it may be possible to present EBIT as a subtotal in the statement of comprehensive income. Consistent with practice 5 above, presenting EBIT or EBITDA as a subtotal would only be appropriate if the amounts for interest, taxes, depreciation and amortization, as applicable, are clearly identified on the statement of comprehensive income and presented below the subtotal. These amounts will not be clearly identifiable on the statement of comprehensive income if, for example, an entity classifies expenses according to their function.

Consistent with practice 1 above, it would be misleading to exclude amounts for items such as restructuring expenses, fair value changes or impairment losses in calculating EBITDA or EBIT.

Results from Operating Activities

Some issuers present a line item named "results from operating activities" or similar subtotals in their statements of comprehensive income. We remind issuers of the material on this topic in IAS 1 Basis for Conclusions, paragraph 56 which states:

> "The Board recognizes that an entity may elect to disclose the results of operating activities, or a similar line item, even though this term is not defined. In such cases, the Board notes that the entity should ensure that the amount disclosed is representative of activities that would normally be regarded as "operating". In the Board's view, it would be misleading and would impair the comparability of financial statements if items of an operating nature were excluded from the results of operating activities, even if that had been industry practice. For example, it would be inappropriate to exclude

items clearly related to operations (such as inventory write-downs and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve cash flows, such as depreciation expense and amortization expenses."

Adjusted Statement of Comprehensive Income and Additional Columns

Staff have observed instances of issuers providing an "adjusted" statement of comprehensive income that omits certain items from the statement of comprehensive income that are required by IAS 1. IFRS and securities legislation specify the individual statements and periods for which information must be included in annual financial statements and interim financial reports. Staff is concerned that investors may be confused or even misled by presentation of an adjusted statement of comprehensive income or additional columns within the statement of comprehensive income.

IOSCO Proposed Statement on Non-GAAP Financial Measures (draft issued in September 2014)[5]

II. IOSCO's Work on Non-GAAP Financial Measures

[…]

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. columns within the statement of comprehensive income.

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. 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.

[5] For the full text: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD447.pdf

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.

ESMA Guidelines on Alternative Performance Measures (draft issued in February 2014)[6]

[…]

V. [Draft] Guidelines on APMs (Background)

Concept and labels of APMs

21. For the purpose of the [draft] guidelines, ESMA considers APMs as any numerical measure of historical, current or future financial performance, which relates to the financial position, comprehensive income or cash flows, other than a measure defined by the applicable financial reporting framework.

22. APMs are usually derived from, or based on, financial statements prepared in accordance with the applicable financial reporting framework, most of the time by adding or subtracting amounts from the figures presented in financial statements. This definition intends to include the following: (i) all measures of financial performance not specifically defined by the applicable financial reporting framework (e.g. EBIT, EBITDA, free cash flow, underlying profit, net debt etc.); (ii) all measures de-signed to illustrate the physical performance of the activity of an issuer's business (e.g. sales per square metre), and (iii) all measures disclosed to fulfil other disclosure requirements (e.g. pro-forma financial information or a profit forecast) included in public documents containing regulated information. If law requires the presentation of an APM and sets out specific requirements that govern its determination, the applicable law must be applied instead of these [draft] guidelines.

23. The term APM as used in the [draft] guidelines is intended to include most measures, including those presented in graphs or tables. When in doubt, issuers should assume a particular measure is included in this definition. ESMA has taken this inclusive approach, and has not chosen to limit APMs in order to avoid controversy over which measures should be included or not.

24. However, these [draft] guidelines may require different treatment for different types of APMs depending on the information they are designed to communicate. For instance, some APMs are de-signed to demonstrate the physical context of an issuer's business (e.g. sales per square meter). ES-MA concedes that when complying with these [draft] guidelines, issuers may not follow all the principles defined therein because it may not be practicable (when the cost of providing this information outweighs the benefit obtained) or the information provided may not be useful to users. In this con-text, ESMA considers that it would not be valuable to users to receive information about how physical performance measures relate to the financial statements as a whole and therefore an issuer com-plying with these [draft] guidelines is released from the need to provide reconciliations between those APMs and figures included in financial statements.

25. Issuers should define the APM used and its components as well as the basis of calculation adopted. APMs should be given meaningful labels reflecting their methodology and basis of calculation in or-der to avoid conveying misleading messages to users. Issuers should disclose all APMs used and their definition in an appendix to the publication.

Reconciliation to amounts presented in the financial statements

26. ESMA believes that understandability and reliability of APMs for users are achieved by providing a reconciliation of the APM to the most relevant amount presented in the financial statements, separately identifying and explaining each reconciling item.

27. The underlying principle of these [draft] guidelines is that information contained in financial statements and prepared in accordance with the applicable financial reporting framework is relevant and reliable and results in the most appropriate information on which users should base their decisions in relation to the performance of an issuer. This is because the applicable financial reporting frame-work prescribes the presentation and calculation of such information. It is also the information that is subject to

[6] For the full text: http://www.esma.europa.eu/system/files/esma-2014-175_cp_on_the_draft_guidelines_on_apms.pdf

the supervision and enforcement of NCAs.

28. In addition, financial information included in the annual financial statements is subject to audit conducted in line with the auditing standards that are applicable on the regulated markets where an issuer's securities are admitted to trading. Consequently these audited figures give users additional assurance on the consistency and the reliability of the amounts presented.

29. It is therefore appropriate that any APM presented is accompanied by reconciliations showing how figures in the financial statements are aggregated, subtracted and/or recalculated to determine APMs.

30. However, if an APM is a total or subtotal presented in the financial statements and includes items that are directly readable from financial statements, the issuer is released from providing reconciliations. ESMA believes that a subtotal or a total that is included in financial statements is, by definition reconciliation, and thus issuers are not required to provide reconciliations between these APMs and the most relevant amount in the financial statements.

Explaining the use, prominence and presentation of APMs

31. ESMA believes that clear disclosure is key for the understandability of an APM and its relevance for users. Therefore, issuers should explain the context of any APM disclosed so that users can under-stand what information the APM concerned is meant to provide them with.

32. For the reasons mentioned in the section above, ESMA believes that APMs that are presented out-side financial statements should be displayed with less prominence, emphasis or authority than measures directly stemming from financial statements prepared in accordance with the applicable financial reporting framework.

33. Should an issuer provide performance analysis using APMs presented outside financial statements a similar analysis should also be presented using corresponding figures stemming from financial statements again with greater prominence than that given to the analysis using APMs.

Comparability and consistency

34. In general, applicable reporting frameworks require the presentation of comparative information in order to enable users to assess the performance of an issuer over time. Similarly, ESMA believes that when an issuer chooses to present APMs, it should also provide comparatives for corresponding previous periods. If reconciliations between an APM and amounts presented in financial statements are required in accordance with these [draft] guidelines, the issuer should also provide reconciliations for the comparatives presented.

35. In situations where APMs are reported in the form of forecasts or estimations the comparatives to be provided should be in relation to the last historical information available.

36. In order to ensure comparability of financial information, the definition and calculation of the APM should be consistent over time. However, if that is not the case, an issuer should explain the reasons for which the definition and/or calculation of an APM has changed.

37. If under any circumstances, an APM is redefined, a prior period is corrected, or the calculation of the APM changes, an issuer should provide additional information to explain those changes, the effect of the change compared to the former APM and restated comparative figures.

38. Hindsight should not be used when presenting restated comparatives. When restating comparatives, an issuer should only use information available at the end of the prior period presented, and should not incorporate effects of events occurred after the end of the prior period presented.

39. If an issuer is not able to provide comparatives or restatements, it should disclose that providing comparatives or restatements is impracticable and explain the reasons.

40. If an APM ceases to be used, the issuer should explain its removal and the reasons for which any newly defined APM replacing the previous one provides more reliable and relevant information on the financial performance compared with the previous one.

41. These [draft] guidelines are intended to assist issuers improving their communication on how they manage their businesses and which indicators they believe should be taken into account by users when analysing their performance.

42. Finally, it is the objective of these [draft] guidelines to foster comparability and unbiased financial information in all documents containing regulated information that are made available by issuers by establishing disclosure principles intended to improve the understanding of users of each performance measure used.

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