

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

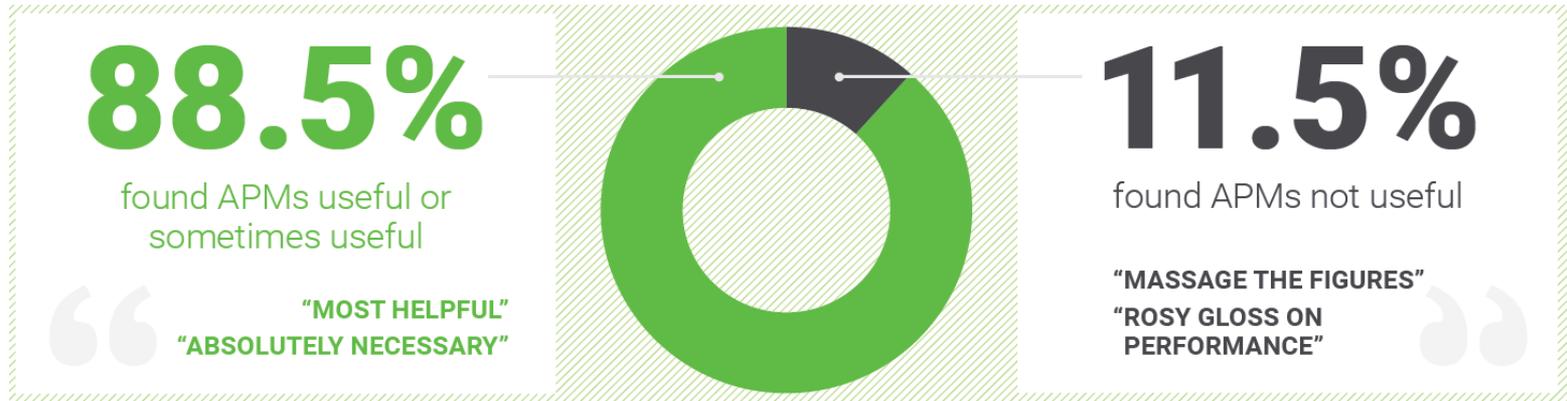
Participants: Experience

- 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 ?



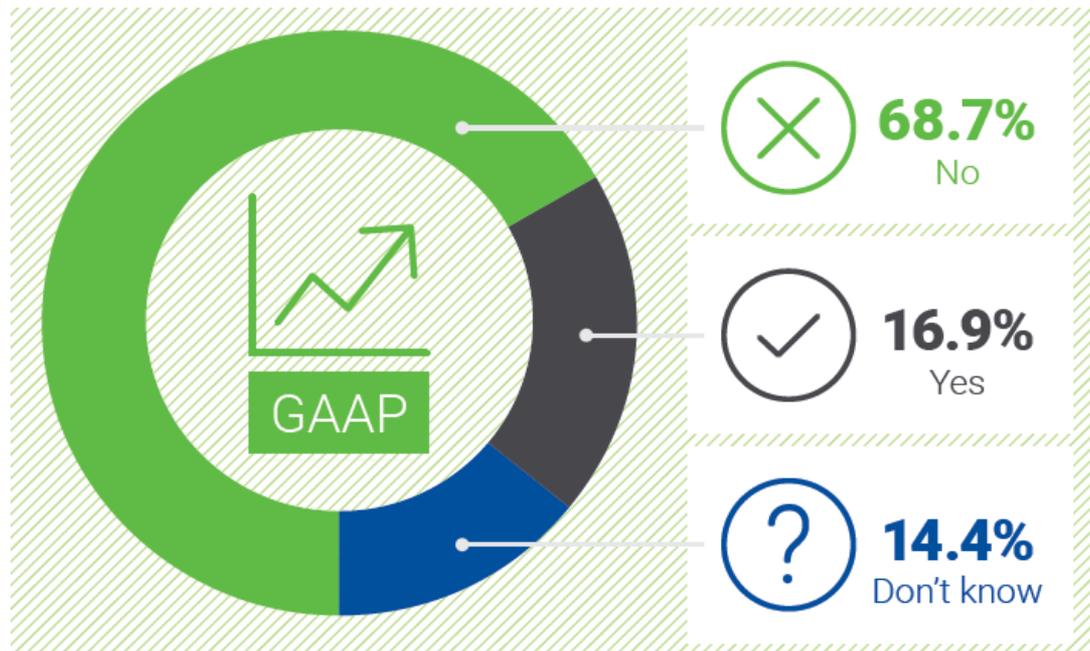
Which of the following APM(s) would be useful for a company to disclose?

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

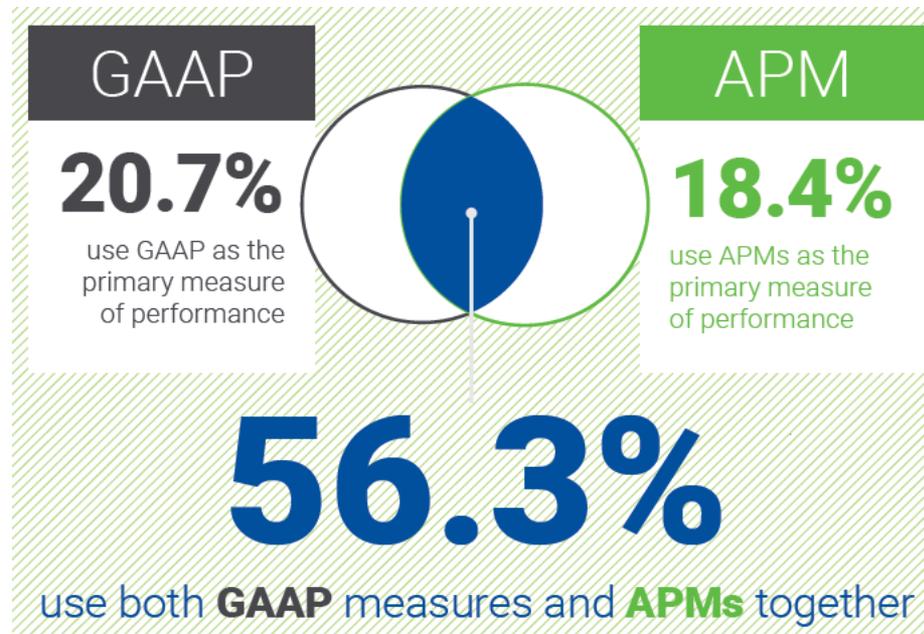
- Some respondents consider different APMs have their use depending on the company and/or industry

Should company performance measures be limited to GAAP measures?



- “Let entities tell their story”

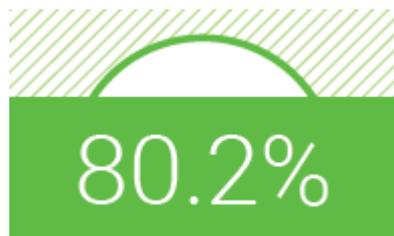
Which is the primary indicator for assessing company performance: APMs or GAAP measures: ?



- “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

