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Project	Primary Financial Statements		
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CONTACT(S)	Nick Barlow	nbarlow@ifrs.org	+44 (0) 20 7246 6499
	Aida Vatrenejak	avatrenejak@ifrs.org	+44 (0) 20 7246 6456

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Objective

1. This paper analyses feedback from comment letters and outreach on the proposals relating to management performance measures set out in the Exposure Draft *General Presentation and Disclosures*. This paper also discusses fieldwork findings. Review of academic literature related to this topic is included in Agenda Paper 21L *Literature Review*.

Key messages

2. Many respondents, including almost all users, agreed with the Board's proposals to require the disclosure of management performance measures in the notes to the financial statements. These respondents said that including these measures in the financial statements would provide useful information and that the proposed disclosure requirements would bring needed discipline and transparency.
3. However, most respondents, including users, that agreed with requiring management performance measures in the financial statements, raised concerns about the definition of management performance measures. The two most significant concerns of respondents were:
 - (a) requiring disclosure of all management performance measures used in 'public communications' is too wide in scope. Most respondents that raised this

concern requested additional guidance or suggested a narrower definition of public communications.

- (b) management performance measures do not include measures that would, in their view, equally benefit from being disclosed in the financial statements. Most respondents that raised this concern suggested revising the definition to include other measures such as those based on items presented in the statement of financial position or the statement of cash flows. Many of these respondents said that in their opinion the benefits of the proposals would not be realised without including these additional measures.
4. Some respondents disagreed with including management performance measures in the financial statements stating the following reasons:
 - (a) in their view non-GAAP measures are either outside the scope of financial statements or do not achieve the objective of financial statements in IAS 1 *Presentation of Financial Statements* or in the Exposure Draft;
 - (b) including management performance measures in the financial statements would increase the costs of preparing financial statements; or
 - (c) it may be challenging to audit such measures.
 5. A few respondents disagreed with including management performance measures in the financial statements because many of these measures are subjective.
 6. Most respondents agreed with the majority of the Board’s proposed disclosure requirements. Many respondents, including all users, said the requirement to reconcile management performance measures to the most directly comparable subtotal specified in IFRS Standards would increase the transparency and usefulness of information about these measures. Some respondents, particularly users, said the disclosure requirements that would apply when a management performance measure is changed or removed would be particularly useful.
 7. However, there was mixed feedback on the Board’s proposal to require the disclosure of the tax and non-controlling interest effects of reconciling items between the management performance measure and the most directly comparable subtotals

specified in IFRS Standards. While many users agreed with the disclosure requirements, some other respondents said that it would be:

- (a) costly to obtain the information.
 - (b) a more onerous disclosure requirement than the disclosures required for items in the statement of profit and loss. or
 - (c) contrary to management performance measures communicating a management view to require the information. It would be contrary to communicating a management view because information about tax and non-controlling interest effects is not always used by management.
8. Most respondents, including most users, agreed with the Board’s proposal not to define earnings before interest, tax, depreciation and amortisation (EBITDA). These respondents said they agreed that there was no consensus on what EBITDA represents, that its use varies widely and that it is not applicable to some industries.
9. However, some respondents, including some users, disagreed saying the Board should define EBITDA because it is a widely used measure that would benefit from a consistent definition.

Structure of the paper

10. This paper is structured as follows:
- (a) Proposals in the Exposure Draft (paragraphs 12–21);
 - (i) Management performance measures (paragraphs 12–19); and
 - (ii) EBITDA (paragraphs 20–21);
 - (b) Comment letter and outreach feedback (paragraphs 22–100);
 - (i) Including management performance measures in the financial statements (paragraphs 23–33);
 - (ii) Definition of management performance measures (paragraphs 34–58);
 - (iii) Location of management performance measures (paragraphs 59–67);
 - (iv) Disclosure requirements (paragraphs 68–89); and

- (v) EBITDA (paragraphs 90–100); and
 - (c) Fieldwork findings (paragraphs 101–118).
11. Appendix A—Questions in the Exposure Draft.

Proposals in the Exposure Draft

Management performance measures

12. The Exposure Draft proposed that an entity disclose ‘management performance measures’ in a single note to the financial statements. The Exposure Draft defined management performance measures as subtotals of income and expenses that:
- (a) are used in public communications outside financial statements;
 - (b) complement totals or subtotals specified by IFRS Standards; and
 - (c) communicate to users of financial statements management’s view of an aspect of an entity’s financial performance.
13. Totals or subtotals specified by IFRS Standards were specifically stated not to be management performance measures and include:
- (a) totals or subtotals required by the Exposure Draft;
 - (b) gross profit or loss (revenue less cost of sales) and similar subtotals;
 - (c) operating profit or loss before depreciation and amortisation;
 - (d) profit or loss from continuing operations; and
 - (e) profit or loss before income tax.
14. When disclosing management performance measures an entity would also be required to comply with the general requirements in IFRS Standards for information included in financial statements. For example, each management performance measure must faithfully represent an aspect of the financial performance of the entity and be described in a clear and understandable manner that does not mislead users.
15. However, the Exposure Draft did not propose additional restrictions on management performance measures, such as only allowing an entity’s management to provide

measures based on amounts recognised and measured in accordance with IFRS Standards.

16. The Exposure Draft proposed that an entity would be required to disclose specific information about management performance measures, including:
 - (a) a description of why the management performance measure communicates management’s view of performance;
 - (b) a reconciliation to the most directly comparable total or subtotal specified by IFRS Standards;
 - (c) the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation; and
 - (d) how the entity determined the income tax effect for each item disclosed in the reconciliation.

17. If an entity changed the calculation of its management performance measures, introduced a new management performance measure or removed a previously disclosed management performance measure it would be required to:
 - (a) disclose sufficient explanation for users to understand the change, addition or removal and its effects;
 - (b) disclose the reasons for the change, addition or removal; and
 - (c) restate its comparative information, including in the required note disclosures, to reflect the change, addition or removal.

18. The Exposure Draft also proposed that an entity be prohibited from using columns to present management performance measures in the statement(s) of financial performance.

19. The proposed requirements are set out in paragraphs 103–110 of the Exposure Draft and paragraphs BC145–BC180 of the Basis for Conclusions describe the Board’s reasons for the proposals and discuss approaches that were considered but rejected by the Board.

EBITDA

20. The Exposure Draft did not propose defining EBITDA. However, the Board proposed to exempt from the disclosure requirements for management performance measures a subtotal calculated as operating profit or loss before depreciation and amortisation. The Board considered, but rejected, describing the subtotal operating profit or loss before depreciation and amortisation as EBITDA.
21. Paragraphs BC172–BC173 of the Basis for Conclusions explain why the Board has not proposed requirements relating to EBITDA.

Comment letter and outreach feedback

22. The following sections set out the feedback on the main proposals in the Exposure Draft:
 - (a) Including management performance measures in the financial statements (paragraphs 23–33);
 - (b) Definition of management performance measures (paragraphs 34–58);
 - (c) Location of management performance measures (paragraphs 59–67);
 - (d) Disclosure requirements (paragraphs 68–89); and
 - (e) EBITDA (paragraphs 90–100).

Including management performance measures in the financial statements

23. Many respondents, including almost all users, agreed that management performance measures should be included in the financial statements. However, some respondents disagreed.

Agreement

24. Most respondents that agreed with including management performance measures in the financial statements said they agreed because:

- (a) management performance measures provide useful complementary information and including them in the financial statements would enhance the relevance of information in the financial statements; and
 - (b) the proposed disclosures, being in many cases subject to external audit, would improve the transparency of management performance measures and the discipline in their use.
25. Many users expressed agreement with the proposals on management performance measures saying that:
- (a) management performance measures can significantly influence an investor’s perception of the entity; and
 - (b) the proposals respond to the users’ requests over many years for better information about these measures.
26. Some users said that having audited information on management performance measures would be a big improvement. In particular, some users commented on the link between management performance measures and management remuneration in some jurisdictions. When such a link exists, management performance measures can provide important information that is important to assessing management’s stewardship and users said they would welcome the assurance about the measures that audit would provide.
27. A few respondents said that including management performance measures in the financial statements could help make the information presented in the financial statements more consistent with the information presented outside the financial statements.

Concerns

28. Respondents that disagreed with including management performance measures in the financial statements expressed one or more of the following views:
- (a) a few respondents said that non-GAAP measures do not provide information necessary to understand items in the primary financial statements nor do they provide supplemental information and therefore do not fulfil the role of the

notes. A few respondents said that non-GAAP measures are not useful and therefore do not meet the objective of financial statements.

- (b) non-GAAP measures are not within the scope of the financial statements. Some of these respondents also said that it is not the role of the Board to define, restrict or regulate such measures but that this was the role of securities or industry regulators many of whom already provide requirements for such measures.
- (c) it would introduce unnecessary clutter to the financial statements because the interaction with existing regulatory requirements may result in the duplication of disclosures.
- (d) it would result in an increase in the complexity of financial reporting, and hence add to the costs of preparing financial statements. For example, a few respondents were concerned that the difference in scopes between regulatory measures, measures required by IFRS 8 *Operating Segments* and management performance measures may result in three tiers of performance measures each with differing definitions and disclosure requirements.

29. In addition, some respondents said they did not agree with the inclusion of management performance measures in the financial statements because they had concerns relating to the audit of management performance measures:

- (a) some of these respondents said they were concerned that such measures may be difficult or impossible to audit because they may not be based on a defined accounting framework.
- (b) some of these respondents said they were concerned that expanding the scope of audit to management performance measures would increase existing confusion over which parts of an annual report are subject to audit and over the level of verification an audit can provide.
- (c) some of these respondents said they were concerned about the additional costs of auditing management performance measures.

30. A few respondents that disagreed with including management performance measures in the financial statements said they disagreed because of one or both of the following concerns:
- (a) management performance measures are subjective and including them in the financial statements could distort or distract from performance reported using IFRS Standards. Some of these respondents were also concerned that including non-GAAP measures in the financial statements would increase their prominence or legitimacy.
 - (b) disclosures about non-GAAP measures would be more helpful if they were included in the communication in which the non-GAAP measure itself was presented, rather than in the financial statements.

Alternative approaches

31. A few respondents suggested that the management commentary section of annual reports was the best place for non-GAAP measures and that guidance on management performance measures was best addressed in the management commentary project.
32. A few respondents suggested that management performance measures should be permitted in financial statements but that disclosure about such measures should not be required.
33. A few respondents that disagreed with including management performance measures in the financial statements suggested the Board coordinate with local regulators to promote solutions for increasing transparency and discipline of non-GAAP measures outside of the financial statements instead of proposing requirements in the financial statements.

Definition of management performance measures

34. Some respondents agreed with the proposed definition of management performance measures. In contrast, most respondents, including many users, disagreed with one or more aspects of the definition. However, many that disagreed, did so because they said they would prefer the definition to include more non-GAAP measures. Some respondents that disagreed with aspects of the definition agreed with the inclusion of

management performance measures in the financial statements. A few of these respondents were clear that if concerns regarding the definition were not resolved they would not support the proposal to include management performance measures in the financial statements.

Agreement

35. The respondents that agreed with the definition of management performance measures said they agreed because:
- (a) including only subtotals of income and expenses is consistent with the project’s focus on improvements to the statement(s) of financial performance; and
 - (b) disclosing measures reported in public communications in the financial statements would improve the consistency and the transparency of measures currently reported outside financial statements.
36. Some respondents also agreed with the proposal not to apply any specific restrictions on what can be disclosed as a management performance measure (other than limiting them to subtotals of income and expenses). They said any such restrictions might prevent disclosure of useful measures or conflict with communicating a management view of an entity’s performance.

Concerns

37. Most respondents that disagreed with the definition of management performance measures had concerns with:
- (a) inclusion of the term ‘public communications’ without further clarification (paragraphs 39–41);
 - (b) restriction of the definition to subtotals of income and expenses (paragraphs 42–44);
 - (c) other aspects of the definitions (paragraphs 45–54).
38. Some respondents requested clarification of aspects of application (paragraphs 55–56).

Public communications

39. Many respondents said they were concerned that the reference to ‘public communications’ in the definition of management performance measures (see the definition in paragraph 12(a)) was unclear or created too wide of a scope for the proposed requirements. These respondents said it would be challenging for an entity, and its auditor, to have to identify all public communications to find all management performance measures. For example, many said that the term public communications implied the inclusion of verbal statements, transcripts and social media posts. Some respondents also asked whether an entity would be required to disclose non-GAAP measures that are not relevant to the current period but have been used in the past as management performance measures. A few respondents said that the scope of the proposals was wider than that required by securities regulations. For example, some securities regulators specifically exclude verbal statements and transcripts from the scope of regulation.
40. Some respondents that agreed with including management performance measures in the financial statements said that defining management performance measures as those included in public communications prevented private entities from benefiting from these proposals.
41. Many respondents that raised concerns over the term public communications suggested restricting the scope of management performance measures to measures included within the package of documents that contains the annual or interim financial statements. Some suggested restricting management performance measures to those released at the same time as the financial statements and that relate to the period covered by the financial statements.

Subtotals of income and expenses

42. Many respondents, including many users, disagreed with management performance measures being only subtotals of income and expenses. These respondents were concerned that other non-GAAP measures are widely used and would also benefit from the transparency and discipline provided by the proposed disclosure requirements for management performance measures. Many of these respondents said that measures other than subtotals of income and expenses—including for example,

net debt, return on equity, or free cash flows—were equally important, or in some industries more important, in evaluating the performance of an entity. Some respondents said that in their opinion the proposals for management performance measures would fail to meet their objectives without including more of these measures.

43. Most respondents that disagreed with restricting the definition of management performance measures to subtotals of income and expenses suggested expanding the definition to include more non-GAAP measures. Many of these respondents, including a few users, suggested a definition that included all non-GAAP measures derived from an item, subtotal or total presented or disclosed in financial statements prepared in accordance with IFRS Standards. A few of these respondents suggested proceeding with the current definition and addressing further expansion to other measures in a separate project.
44. Some suggested extending the disclosure requirements for management performance measures to subtotals specified in IFRS Standards. These users said that although a reconciliation would not be necessary, the description of why the measure communicates management's view of performance would be useful.

Other aspects of the definition

45. Many respondents said they were concerned that the definition was not aligned with regulatory definitions of non-GAAP measures. Responses from regulators were mixed with some regulators raising this as a concern and many not raising it as a concern. Some of the respondents that were concerned that the definition was not aligned with regulatory definitions said that it could be confusing to have local regulations, IFRS 8 and management performance measures addressing similar concepts but with different definitions, scopes, and locations. Some of these respondents said they were concerned that the misalignment of management performance measures and local regulations for non-GAAP measures could result in the duplication of disclosures and increased costs.
46. A few of preparers said that having two sets of non-GAAP measures (those meeting the proposed definition and those not meeting the proposed definition) would require

them to separate the disclosure of information about the two sets of measures. They are currently presented in a single location.

47. Some respondents said they were concerned with the requirement for management performance measures to faithfully represent aspects of the financial performance of the entity because:
- (a) determining whether a measure provided a faithful representation would require significant judgement and therefore may be costly to apply and audit;
 - (b) specifying faithful representation as a requirement for management performance measures when it is already a general requirement for information in financial statements could imply that it was less applicable to other IFRS Standards, particularly IFRS 8 that also requires disclosures based on a management view of performance; or
 - (c) requiring faithful representation may exclude many of the measures that were intended to be captured by the proposals because non-GAAP measures that represent management’s view are often not neutral and neutrality is an aspect of faithful representation set out in the *Conceptual Framework for Financial Reporting*.
48. A few respondents said that they were concerned that the requirement for a management performance measure to be based on management’s view of performance could:
- (a) allow entities to avoid the disclosure requirements for non-GAAP measures by arguing a measure is for a different purpose than communicating management’s view of an aspect of performance; or
 - (b) prohibit measures that are typically disclosed by entities in particular industries because they are an industry view of performance and not a management view of performance.
49. Some respondents disagreed with defining management performance measures as measures used outside of the financial statements. They identified a problem relating to the timing of the publication of the financial statements and the publication of the communication that uses the measure. They said that in some cases a measure relating

to a financial period is used outside of the financial statements only after the release of the financial statements to which the measure relates. In such cases the measure will not be included in the financial statements until the following year.

50. A few respondents disagreed with the list of subtotals exempt from being management performance measures. Some of these respondents said the disclosure requirements should apply to all measures that are not required in the primary financial statements. Others said the list of exempt subtotals should be supported by an underlying principle. A few respondents did not agree with specific definitions of the exempt subtotals, for example gross profit.
51. A few respondents, mostly standard-setting bodies, disagreed that management performance measures should be permitted to be based on management defined accounting policies. These respondents said that in their view management performance measures should be restricted to those recognised and measured in accordance with IFRS Standards.
52. Some respondents suggested that entities should be permitted to comply with the disclosure requirements for management performance measures by referencing information disclosed in the management commentary or other public communications. These respondents said a cross-reference would allow them to have a single location for all of their non-GAAP measures because it would permit those measures that met the definition of management performance measures to be disclosed in the same place as useful non-GAAP measures that did not meet the definition.
53. Some respondents suggested that the Board provide an exemption from the management performance measures requirements for any measures that are subject to regulatory guidance equivalent to or stricter than those in the Exposure Draft.
54. A few respondents that agreed with including management performance measures in the financial statements suggested that to sufficiently address their concerns over the definition, the proposals for management performance measures should be removed from the Exposure Draft and addressed in a separate project.

Clarifications of aspects of application

55. Some respondents said that they were not clear on how to apply specific aspects of the definition including:
- (a) whether a management performance measure ‘complements totals or subtotals specified by IFRS Standards. Some were concerned that the requirement might allow entities to disqualify important measures from being management performance measures because they were not judged to complement totals or subtotals specified by IFRS Standards.
 - (b) when a subtotal included in the statement of profit or loss in addition to the required subtotals, would be a management performance measure and subject to the related disclosure requirements.
 - (c) the time-period that management performance measures relate to. For example, some respondents asked whether a management performance measure that reported performance for a time-period different to the period covered by the annual financial statements would be required to be disclosed in the annual financial statements.
56. A few respondents said they were not clear on the following aspects of the definition of management performance measures:
- (a) whether local GAAP performance measures or adjusted measures based on local GAAP would meet the definition of management performance measures. These respondents suggested that it would be onerous and costly to make the disclosures required for management performance measures for such measures.
 - (b) whether management performance measures were required to be disclosed in both the consolidated and stand-alone financial statements and if so, whether the management performance measures identified were required to be the same.

Other comments

57. Some respondents suggested the following potential improvements to the definition and application guidance:

- (a) providing further explanations or illustrative examples demonstrating how the definition would be applied to common non-GAAP measures; and
 - (b) providing further explanations of the non-GAAP measures that do not meet the definition of management performance measures.
58. A few respondents suggested the following potential improvements to the definition and application guidance:
- (a) changing the name management performance measures to better reflect that the measures include only subtotals of income and expenses;
 - (b) adding a disclosure requirement to identify any management performance measures that are based on entity-specific accounting policies to avoid such measures being mistaken as measures recognised and measured in accordance with IFRS Standards;
 - (c) clarifying that the list of specified subtotals that are not management performance measures are not required subtotals and may not always be permitted in the statement of profit or loss, if for example doing so would require presenting line items using both the nature and function of expense methods;
 - (d) including a specific statement in the Standard or the Basis for Conclusions that management performance measures are not measures defined or specified in IFRS Standards; and
 - (e) restricting management performance measures to those measures used internally by management.

Location of management performance measures

59. Many respondents agreed that management performance measures were most appropriately disclosed in a single note to the financial statements. However, some respondents disagreed with the requirements preventing some management performance measures from being presented in the statement of profit or loss. A few disagreed with disclosure in a single note, instead suggesting disclosure in multiple notes.

Disclosure in notes

60. Some respondents that agreed with disclosing management performance measures in a single note said they agreed because it provided a single point of reference which contributes to transparency. In particular, many users supported the proposal for a single note on management performance measures, observing that it would address one of the biggest practical challenges that users face currently with non-GAAP measures being presented in multiple locations or documents.
61. Some respondents agreed with disclosing management performance measures in the notes because it would prevent them from having greater prominence than measures specified by IFRS Standards.
62. A few respondents said management performance measures may be better disclosed within different notes, rather than a single note. This is because management performance measures are often related to information included in other notes. Disclosing related information together is likely to be more informative than disclosing the information about management performance measures separately. For example, one preparer said that it reported segment measures that would be management performance measures and was concerned it would be required to either include management performance measures unrelated to segments in its segment reporting note or duplicate its segment related management performance measures.

Presentation in the statement of profit or loss

63. A few respondents raised concerns that the proposals may prevent them from presenting in the statement of profit or loss management performance measures that are in their view important to understanding the entity's financial performance. These respondents said that disclosure in the notes would not give these measures sufficient prominence.
64. Some of these respondents, particularly those in the investing and real estate industries, raised concerns about the proposal to prohibit the use of columns in the statement of profit or loss to present management performance measures. These respondents said it is industry practice to present information about capital returns and revenue returns in a columnar format. Preventing this presentation would make it more difficult for users to find relevant information about an entity's performance.

Alternative approaches

65. A few respondents, including some users, suggested management performance measures should be permitted as an addendum to the statement of profit or loss presented in a similar manner to earnings per share.

Other comments

66. Some respondents said that it was unclear whether non-GAAP measures that do not meet the definition of a management performance measure would be permitted to be disclosed in the financial statements. Many of these respondents requested additional guidance to clarify whether such disclosure would be permitted or prohibited and if permitted what additional disclosure requirements would be required.
67. A few accounting firms said that breaking out adjustments to subtotals specified in IFRS Standards within a box in the statement of profit or loss was a common practice. These respondents said that a box presentation could permit the presentation of management performance measures that did not follow the structure of the statement of profit or loss in a similar way to columns and therefore should also be specifically prohibited.

Disclosure requirements

68. Most respondents generally agreed with the disclosure requirements proposed in the Exposure Draft because they said it would increase transparency and discipline in the way information is provided for non-GAAP measures.

Reconciliation

69. Many respondents, including all users, agreed specifically with the requirements to reconcile management performance measures to the most directly comparable total or subtotal specified in IFRS Standards and to disclose information about changes to management performance measures.
70. Almost all respondents that agreed with providing reconciliations said they enhanced the usefulness of management performance measures by providing information about the line items that are adjusted.

71. A few respondents said they were concerned that providing a detailed reconciliation might require them to disclose confidential information. These respondents suggested an exemption from disclosing confidential information.

Disclosure of changes

Some respondents, particularly users, agreed with the requirement to disclose changes to the calculation of a management performance measure, including an explanation of the change, the reasons for the change and a restatement of comparative information. These respondents said it was important to be able to compare measures for the same company over time. When changes are made it is important to understand those changes and the reasons for them. Respondents also said that these disclosures would help prevent frequent changes to management performance measures designed to show performance in a more favourable light.

72. A few respondents, mostly preparers, disagreed with the requirement to restate information for the comparative period when a management performance measure was changed or removed. These respondents said that restating information for the comparative period would result in information that was not useful if the measure had changed because of changes in the business. The different businesses in the current and comparative periods might require different management performance measures. Some of these respondents also said that retrospective application of the management performance measures requirements might be costly.
73. A few respondents said it was unclear whether a change in management performance measures was equivalent to a change in accounting policy. Some of these respondents said that a change in a management performance measure should be treated as a change in accounting policy.

Tax and Non-controlling interest

74. Respondents provided mixed feedback on the requirement to disclose the income tax effect and the effect of the non-controlling interests for each item disclosed in the reconciliation between a management performance measure and the most directly comparable IFRS specified subtotal. While some respondents, including many users, agreed with the proposed disclosure requirements, some—mostly preparers—did not agree.

75. Respondents that agreed with the requirement said that it would provide useful information. In particular, many users explicitly stated that the tax and non-controlling interest information would be useful. For example, one user said that the tax effects of the reconciling items can be materially different from the amount calculated using the effective tax rate and therefore information about those different effects is important to forecasting future cash flows. Another user said that information about the income tax effect and the effect of the non-controlling interests is needed to calculate adjusted earnings per share excluding some of the reconciling items.
76. In contrast, two users said they were not particularly concerned whether that information was given. One user said this was because as a credit analyst they would not usually use this information. The other said it was because in their view users were able to make reasonable estimates without specific disclosure and therefore the costs to preparers may not justify the benefits.
77. Most of the respondents that disagreed with providing the tax and non-controlling interest information said it was because it would be too costly to provide. A few of these respondents also said that the proposed simplified approach to determining the tax effect did not sufficiently reduce these costs.
78. Some of the respondents that disagreed also said that the tax and non-controlling information may require arbitrary allocations that could be misleading.
79. A few respondents disagreed with the requirements because they would result in disclosure that was beyond the equivalent requirements for the line items included in the totals or subtotals specified by IFRS Standards.
80. A few respondents said that providing information on tax and non-controlling interest was inconsistent with management performance measures communicating a management view because this information was not always used by management.
81. Some respondents suggested that the requirements for tax and non-controlling interest should be restricted to management performance measures that are disclosed on a post-tax basis because, in their opinion, the information was not relevant for pre-tax measures such as EBITDA.

82. Some respondents suggested the requirement should be restricted to the reconciling items in total instead of individual adjustments saying this would be consistent with how tax and non-controlling interest effects are often disclosed today.

Other concerns with disclosure requirements

83. Some respondents said they were unclear about how the proposals on management performance measures would interact with the requirements of IFRS 8:
- (a) some of these respondents said there could be confusion over which measures related to which Standard because both requirements intend to present a management view; and
 - (b) some of these respondents said it was not clear whether individual segment measures would meet the definition of management performance measures.
84. Most of the respondents that were not clear on the interaction with IFRS 8 requested the Board provide additional guidance to clarify the link between the two sets of requirements.
85. A few respondents said that the requirement to state that management performance measures provide management’s view of an aspect of the entity’s financial performance and are not necessarily comparable with measures sharing similar descriptions provided by other entities was redundant and promoted boilerplate disclosures.
86. A few respondents were unclear on the interaction between the disclosure requirements for management performance measures and those for unusual income and expenses.

Other comments

87. The Exposure Draft proposes requiring a management performance measure to faithfully represent an aspect of financial performance and to be described in a clear and understandable manner that does not mislead users. A few respondents suggested extending these requirements to the disclosure requirements relating to management performance measures, for example, to the reconciling items.

88. A few respondents suggested requiring entities to identify when a management performance measure is used in the determination of management remuneration. Some of these respondents suggested that any measures used in the determination of management remuneration should be required to be management performance measures.
89. A few users suggested additional disclosures related to management performance measures:
- (a) disclosure of management performance measures at a segment level;
 - (b) a history of the measures for an extended period (suggestions included three, five, or 10 years); and
 - (c) disclosure of a management performance measure in the year after it ceases to be a management performance measure, with an explanation of why it has ceased to communicate management's view of performance.

EBITDA

Defining EBITDA

90. Many respondents commented on EBITDA, of those most agreed with not defining the measure in IFRS Standards. However, some respondents, including some users, did not agree.
91. Many respondents that agreed with not defining EBITDA agreed with the Board that:
- (a) there is no consensus on what EBITDA represents;
 - (b) there is wide variation in calculation and use of EBITDA; and
 - (c) EBITDA is not applicable to some industries.
92. A few respondents also said they agreed with not defining EBITDA because in their opinion:
- (a) it is an entity-specific measure and creating a standard definition would risk the loss of important entity-specific information;
 - (b) it is an analysis tool and not a financial performance measure and therefore not in the remit of the Board to define;

- (c) preparers would be unlikely to use a standardised definition; or
 - (d) if preparers sufficiently disaggregate information presented and disclosed in the financial statements users will be able to construct their own measures of EBITDA and it is therefore unnecessary for the Board to define it.
93. Some respondents disagreed with the Board’s proposal. They agreed that EBITDA is a widely used and diversely calculated measure. However, they concluded that defining would be therefore important as it would improve comparability. Some of these respondents said that even if a definition of EBITDA was imperfect it would be useful for users to have a commonly defined starting point for the different analyses EBITDA is currently used for. Some of these respondents, including some users, acknowledged that entities would still present entity-specific adjusted EBITDA measures but said that having a common defined measure to which the entity-specific measure could be reconciled would be helpful.
94. A few respondents disagreed that there is no consensus about what EBITDA represents. Some of these respondents said that EBITDA is a proxy for cash earnings, and some said it was an important measure of operating performance for non-financial entities.
95. Most respondents that agreed with not defining EBITDA also agreed that it should be a management performance measure when not calculated as operating profit before depreciation and amortisation. These respondents said EBITDA should be a management performance measure because it was important to have transparency over its calculation and information about how it was used by management.

Operating profit before depreciation and amortisation

96. Most respondents agreed with including operating profit before depreciation and amortisation in the list of subtotals specified by IFRS Standards and exempting it from the requirements for management performance measures. A few users said that operating profit before depreciation and amortisation was how they viewed EBITDA. Many users said that entities that wished to use an EBITDA measure calculated differently to operating profit before depreciation and amortisation could create one as a management performance measure and reconcile it to the subtotal operating profit before depreciation and amortisation.

97. Some respondents disagreed with the calculation of operating profit before depreciation and amortisation because they said the measure should also be before impairments. These respondents view impairments as equivalent to depreciation. A few respondents also said the measure should be before gains or losses on disposals of tangible and intangible assets.
98. A few respondents disagreed with operating profit before depreciation and amortisation being exempt from the disclosures for management performance measures. These respondents said it would be confusing if operating profit before depreciation and amortisation was labelled by an entity as EBITDA but was not treated as a management performance measure, while a measure labelled as EBITDA by another entity and calculated in a different way was a management performance measure. Some of these respondents suggested that operating profit before depreciation and amortisation should be prohibited from being referred to as EBITDA for this reason.

Other comments

99. A few respondents said they thought that EBITDA or operating profit before depreciation and amortisation were so important to understanding the performance of an entity that they should be required subtotals for all non-financial entities.
100. A few respondents understood the explanation in the Basis of Conclusions for not labelling operating profit before depreciation and amortisation as EBITDA to mean an entity is prohibited from using the label EBITDA for its management performance measures. Similarly, a few respondents asked whether using the term EBITDA automatically made the measure a management performance measure and subject to the disclosure requirements even if it was calculated as operating profit before depreciation and amortisation.

Fieldwork findings

101. The following section discusses the fieldwork findings related to management performance measures. The findings are organised by the following categories corresponding to the objectives of the fieldwork:

- (a) observations on how the requirements were applied (paragraphs 103–112);
- (b) aspects of the Exposure Draft that participants identified as being unclear (paragraph 113);
- (c) other comments (paragraphs 114–116); and
- (d) extent of process or systems changes that may be required to apply the requirements (paragraphs 117–118).

102. The methodology of the fieldwork is described in Agenda Paper 21A.

Observations on how the requirements were applied

103. Most participants provided a management performance measures note disclosure. Almost all of these participants identified a subset of their current non-GAAP performance measures as management performance measures (see paragraph 115). Participants identified between one and four management performance measures.

Identification

104. A few participants said that they would align the performance measures used by management with the subtotals required in the Exposure Draft to eliminate management performance measures because they wanted their key performance measures to continue to be those included in the statement of profit or loss.

105. A few participants said that they would create new management performance measures due to the proposed required subtotals. For example, one participant said they would create a management performance measure to disclose (adjusted) operating profit as they currently define operating profit differently from the Exposure Draft.

106. Some participants did not provide a management performance measures note disclosure, many of them being financial institutions. Many of these participants said this was because they currently only report non-GAAP measures that do not meet the definition of a management performance measure. For example, adjusted cash flow measures or ratios.

107. A few participants concluded that adjusted earnings measures used in ratios or provided at the request of specific users were not management performance measures. For example, EBITDA was not identified as a management performance measure by one participant because it was only used in a ratio, EBITDA to debt. For another participant EBITDA was not considered a management performance measure because it was disclosed at the request of creditors and not judged to be representative of management’s view of performance.
108. A few participants said they did not provide the management performance measures note disclosure because they would cut and paste the existing disclosures from their management commentary.

Calculation and disclosure

109. There was diversity in how, or whether, participants made adjustments for unusual income and expenses in calculating their management performance measures:
- (a) some participants adjusted their management performance measures for unusual income and expenses and other income and expenses;
 - (b) a few participants adjusted their management performance measures for only unusual income and expenses; and
 - (c) a few participants adjusted management performance measures for only a subset of unusual income and expenses.
110. In contrast, a few participants that had identified unusual income and expenses did not adjust their management performance measures for unusual income and expenses.
111. Many participants that reported management performance measures disclosed the income tax effect for items disclosed in the reconciliation. However, a few of these entities presented a net tax impact for all adjusting items and did not disclose the tax impact for each adjusting item. A few of the participants that disclosed the tax impact did not disclose the effect on non-controlling interests for each item disclosed in the reconciliation. One of these participants said they were unable to calculate the amount using current systems and others said the amounts were immaterial.

112. Participants disclosed reconciliations of management performance measures in different ways resulting in different levels of detail regarding the adjusting items. For example:
- (a) one entity disclosed reconciling items using a columnar format with a column representing each adjusting item and each row indicating line items in the statement of profit and loss. This disclosure showed how an adjusting item, such as restructuring, affected each line item in the statement of profit or loss.
 - (b) another participant disclosed reconciling items as rows, with a column containing a narrative description of the line items of the statement of profit or loss affected by an adjusting item such as restructuring, but not a corresponding amount for each line item.
 - (c) a third participant disclosed reconciling items as rows without any information about how the reconciling items affected the line items in statement of profit or loss.

Aspects of the Exposure Draft participants identified as unclear

113. Most participants said that the definition and requirements for management performance measures were generally clear. However, some participants said there was a lack of clarity or raised concerns over some specific aspects of the definition or disclosure requirements as follows:
- (a) some participants were unclear on the scope of ‘public communications’. For example, many of these participants asked whether they would be required to identify verbal statements made in investor meetings or measures required by regulators to be disclosed in other reports as management performance measures. Some of these participants raised concerns that including verbal statements or regulatory measures in the definition of management performance measures would result in excessive disclosures.
 - (b) a few participants said they were unclear on whether a measure of performance for an individual segment, disclosed in the segment reporting note, would meet the definition of a management performance measure. A few

participants commented that they believed segment measures should be included in the definition.

- (c) a few participants were unclear on when an additional subtotal relevant to the understanding of the entity's financial performance included in the statement of profit or loss would meet the definition of a management performance measure.
- (d) a few participants said that they are required to publish financial statements prepared using both IFRS Standards and local GAAP in their jurisdictions. These participants also use the local GAAP financial statements as the basis for non-GAAP measures. Participants in these jurisdictions asked whether all of the performance measures reported in the published local GAAP financial statements would be management performance measures, whether non-GAAP measures based on local GAAP would be management performance measures, or whether both sets of measures would be management performance measures. A few of these participants said they were unable to provide the requested management performance measure note disclosure because they were unclear on whether local GAAP measures would be included.

Other comments

114. Some participants raised concerns that the scope, definition and disclosure requirements for management performance measures were different than the scope, definitions, and disclosure requirements for non-GAAP measures set out by some local regulators. These participants were concerned that differences in scope, definitions, or disclosure requirements could cause disclosure of similar types of information in management commentary and financial statements but with different scopes or meanings leading to confusion for users or potential conflict with local non-GAAP guidance. For example, some participants pointed out that the ESMA guidelines for alternative performance measures have a different scope from the scope of management performance measures. The ESMA guidelines include specific guidance for the use of the term non-recurring which is different to the definition of unusual income expenses.

115. A few participants that provided a management performance measures note said that they currently disclose these measures together in one place with non-GAAP measures that would not meet the definition of a management performance measure. These participants said they were concerned about having to disclose management performance measures separately from other non-GAAP measures. Some of these participants said that this separation could provide an incomplete picture of performance and could be confusing to users. A few participants included non-GAAP measures that did not meet the definition of management performance measures in the management performance measure note.
116. Some participants raised concerns that the interaction between management performance measures and unusual items may cause confusion for users because unusual income and expenses will be included or not included in management performance measures in different ways.

Extent of process or systems changes that may be required

117. Most participants said that other than the calculation of tax and non-controlling interests existing systems and processes used to disclose non-GAAP measures would support the disclosure requirements for management performance measures.
118. Some participants said that the calculation of tax and non-controlling interests on each item disclosed in the required reconciliation between a management performance measure and the most directly comparable subtotal specified by IFRS Standards were challenging due to system limitations. For example, one participant said that an adjustment to remove restructuring costs would be made at the group level but could involve expenses arising in numerous different tax jurisdictions and the existing systems were not designed to calculate the tax effects of these individual expenses in the subsidiary entities. One participant said that although the requirement for tax and non-controlling interest was similar to that for items of other comprehensive income, it was more difficult to apply to management performance measures. This is because there are more types of reconciling items and they change more frequently than items included in other comprehensive income.

Question for the Board

Does the Board have any comments or questions on the feedback discussed in this paper? Specifically:

- a) Is there any feedback or fieldwork evidence that is unclear?
- b) Are there any points, or fieldwork evidence, you think the Board did not consider in developing the Exposure Draft but should consider in the re-deliberations?
- c) Are there any points, or fieldwork evidence, you would like staff to research further for the re-deliberations?

Appendix A—Questions in the Exposure Draft

Management performance measures

Question 11—management performance measures
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| <p>(a) Paragraph 103 of the Exposure Draft proposes a definition of ‘management performance measures’.</p> <p>(b) Paragraph 106 of the Exposure Draft proposes requiring an entity to disclose in a single note information about its management performance measures.</p> <p>(c) Paragraphs 106(a)–106(d) of the Exposure Draft propose what information an entity would be required to disclose about its management performance measures.</p> |
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Paragraphs BC145–BC180 of the Basis for Conclusions describe the Board’s reasons for the proposals and discuss approaches that were considered but rejected by the Board.

Do you agree that information about management performance measures as defined by the Board should be included in the financial statements? Why or why not?

Do you agree with the proposed disclosure requirements for management performance measures? Why or why not? If not, what alternative disclosures would you suggest and why?

EBITDA

Question 12—EBITDA

<p>Paragraphs BC172–BC173 of the Basis for Conclusions explain why the Board has not proposed requirements relating to EBITDA.</p>
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<p>Do you agree? Why or why not? If not, what alternative approach would you suggest and why?</p>
