

Feedback form: Disclosing non-GAAP financial information

Please submit this feedback form electronically in both PDF and MS Word formats and email it to us at consultation@fma.govt.nz with 'Disclosing non-GAAP financial information: [your organisation's name]' in the subject line. Thank you.

Submissions close on 7 April 2017.

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Organisation type: Crown entity, standard-setter

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Section [page number] of draft Guidance Note	Response
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You don't need to quote from the consultation document if you note the paragraph or question number.

General comments

In general, we agree with the principles for the presentation of the non-GAAP financial information and the proforma information.

We make the following specific recommendations based on feedback we have received on alternative performance measures (APMs). The purpose is to further clarify and strengthen the principles relating to the non-GAAP financial information.

Defining the non-GAAP financial information

Clear labeling [p.9]

The term or label should accurately describe and reflect the non-GAAP financial information and not cause confusion with GAAP information.

We recommend the guidance requires, as an aspect of clear labelling where a "standard" non-GAAP measure (for example, EBIT or EBITDA etc) is used, that there should be no further adjustments made to these "standard" measures, that is, only the components of those non-GAAP measures can be taken into account in deriving that measure. For example, EBITDA should only add back interest, taxes, depreciation and amortisation to the earnings figure.

If other components are to be deducted or added to a "standard" non-GAAP measure, we recommend entities be required to provide a clear and concise explanation/description of how the "standard" measure has been adjusted, so that users understand the difference between the "standard" measure and the adjusted version. This explanation/description is distinct from the reconciliation required, which provides more detail and would not necessarily be included in every communication in which the non-GAAP measure is used. Also, the reconciliation is focused on reconciling from the non-GAAP measure to GAAP, whereas the explanation/description is focused on explaining how the entity's adjusted EBIT/EBITDA differs from the "standard" measure of EBIT/EBITDA.

We consider the disclosure of such an explanation/description to be important as it can be confusing to label a measure as "adjusted EBITDA", "normalized EBITDA" or "underlying EBIT" when it is not

	immediately clear what other components outside the “standard” measure have been taken into account.
Defining the non-GAAP financial information <i>Use of non-GAAP financial information</i> [p.9] Entities should clearly explain the reasons for presenting the non-GAAP financial information, including: <ul style="list-style-type: none"> • why the information is useful to investors 	In explaining why the information is useful to investors, we recommend the guidance note requires the inclusion of an explanation of how the non-GAAP measure assists users in evaluating and understanding the entity’s performance for the period, as compared with the GAAP measure.
Defining the non-GAAP financial information <i>Use of non-GAAP financial information</i> [p.9] You should also disclose whether the non-GAAP financial information has been subject to audit or review.	We recommend the guidance note clarifies this disclosure. The guidance note needs to be clear whether the disclosure is intended to refer to the non-GAAP financial information (including its components) having been subject to an independent assurance engagement that is separate from the assurance of the entity’s financial statements. For example, we do not consider non-GAAP financial information has been subject to assurance, notwithstanding all of its components are taken from audited financial statements. Similarly, we do not consider non-GAAP financial information has been subject to assurance merely because current auditing standards require an auditor to also consider information disclosed outside the financial statements, but within an annual report, for consistency with the financial statements.
Reconciliation [p.9] <ul style="list-style-type: none"> • Entities should itemise and explain each significant adjustment separately. 	We recommend the guidance note requires, in explaining each significant adjustment, the disclosure of the reason why the adjustment is considered important or necessary (to the extent not already covered by the explanation of why the non-GAAP measure is useful).
Reconciliation [pp.9-10] <ul style="list-style-type: none"> • If reconciling items that are components of GAAP financial information, entities should identify them in the financial statements. 	As this guidance note applies to non-GAAP financial information outside financial statements, we recommend the principle be reworded to require a cross reference from the reconciling items in the non-GAAP financial information (wherever disclosed outside the financial statements) to their equivalent components in the financial statements. It may be confusing to identify the components of reconciling items used in a non-GAAP measure “in the financial statements” when the non-GAAP measure is disclosed outside the financial statements.
Consistency [p.10] <ul style="list-style-type: none"> • Where presented, entities should also provide the non-GAAP financial information for comparative periods. 	We recommend the guidance note also encourages the disclosure of a trend statement, where appropriate.
Feedback summary – <i>if you wish to highlight anything in particular</i>	

Please note: Feedback received is subject to the Official Information Act 1982. We may make submissions available on our website, compile a summary of submissions, or draw attention to individual submissions in internal or external reports. If you want us to withhold any commercially sensitive or proprietary information in your submission, please clearly state this and note the specific section. We will consider your request in line with our obligations under the Official Information Act.

Thank you for your feedback – we appreciate your time and input.