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Technical Director
File Reference No. 2024-ITC100
Financial Accounting Standards Board
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30 April 2025

Invitation to Comment, *Financial Key Performance Indicators for Business Entities* (File Reference No. 2024-ITC100)

Dear Mr. Day,

We appreciate the opportunity to provide feedback on the Invitation to Comment (ITC), *Financial Key Performance Indicators for Business Entities*, issued by the staff of the Financial Accounting Standards Board (FASB or Board).

While we support the FASB's mission to provide decision-useful information to investors and other stakeholders, we do not believe the Board should add a project to its technical agenda on the disclosure of financial key performance indicators (KPIs) for business entities.

We believe more time is needed to evaluate the benefits of the final guidance the FASB recently issued on disclosures for segment reporting,¹ income taxes² and income statement expenses³ before considering whether a project on financial KPIs is necessary. The additional information that companies will need to provide under the new guidance may address many investor needs related to financial KPIs.

We also believe the Board may find that the resources necessary to adequately pursue and complete a project on KPIs on a timely basis would outweigh the benefits, given the varying perspectives of stakeholders and our expectation that the Board's agenda consultation efforts will identify more pressing and necessary improvements to financial reporting.

In addition, we believe that any standard-setting approach for financial KPIs would require significant coordination between the FASB and the staff of the Securities and Exchange Commission (SEC) because of existing SEC rules and staff guidance. This would require additional project development resource time due to the complexity involved.

¹ ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*.

² ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*.

³ ASU 2024-03, *Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*.

Recently completed FASB projects and other standard-setting activities

The Board recently issued final guidance to require disaggregated disclosures for segment reporting, income taxes and income statement expenses. The Board said in the Background Information and Basis for Conclusions of each Accounting Standards Update (ASU) that investors have asked for more transparency into the expenses incurred by companies.

Most financial KPIs are aggregations of financial information, and investor concerns with financial KPIs may reflect a desire for more insight into the inputs to financial KPIs and the definitions of those inputs, which we believe will be at least partially addressed by these recently issued ASUs.

For calendar-year entities, the segment reporting guidance was effective in 2024, the income taxes guidance is effective in 2025 for public business entities and in 2026 for all other entities, and the guidance on disaggregation of income statement expenses is effective in 2027. While investors may be beginning to realize the benefits of the new segment disclosures, we believe they will need more time to fully consider, evaluate and incorporate those benefits into their financial analyses. Even more time will be needed before the benefits of the new guidance for income taxes and the disaggregation of income statement expenses are realized since they are not yet effective.

Investors may find that these ASUs will result in more consistency, comparability and transparency in financial statement disclosures and address some of their concerns with financial KPIs. We believe the FASB should perform outreach with investors once this disaggregated information is available to determine whether any further standard setting may be necessary.

The FASB's research agenda currently includes a project exploring improvements to the statement of cash flows. Many commonly used financial KPIs are cash flow measures (e.g., free cash flow (FCF)) or measures designed to remove the effects of certain cash and non-cash expenses (e.g., earnings before interest, taxes, depreciation and amortization (EBITDA), funds from operations (FFO)). The Board could consider investor feedback it receives on both this ITC and its separate ITC on agenda consultation to further refine its statement of cash flows project. For example, the project could explore additional disclosures related to certain cash and non-cash transactions that would help investors tailor their own analyses and models as appropriate.

The Board may also benefit from understanding investor feedback and practice issues related to the implementation of International Financial Reporting Standards 18,⁴ including its guidance on management-defined performance measures. IFRS 18 requires certain performance measures communicated outside of the financial statements to be disclosed in the financial statements and is effective on 1 January 2027. To date, we understand that auditors and regulators have concerns with the standard potentially allowing companies to include certain performance measures in the financial statements that may be considered misleading (e.g., performance measures based on tailored accounting principles). That is, IFRS 18 does not provide investors with the same protections against misleading performance measures that regulators may require (refer to our discussion below on SEC rules and staff guidance on non-GAAP financial measures).

⁴ International Financial Reporting Standards 18 (IFRS 18), *Presentation and Disclosure in Financial Statements*.

Our forthcoming response to the FASB's ITC on agenda consultation will discuss the projects that we believe are a higher priority than the research project on KPIs.

Expected challenges with a project on financial KPIs

We believe it would be challenging to complete a project on financial KPIs and the costs involved could outweigh the benefits. We suggest the Board consider the following potential challenges related to the two approaches described in the ITC on KPIs.

Approach 1

Determining which KPIs to define

We believe it would be challenging for the Board to determine which KPIs should be defined and we do not believe any KPIs should be defined. While EBITDA and FCF are among the most commonly used financial KPIs, they may not be relevant for all companies or provide decision-useful information across industries. To illustrate, the data presented in Appendix E of the ITC on KPIs shows that 33% of the SEC filers included in the FASB staff's study report EBITDA/adjusted EBITDA, while only 12% of them report FCF/adjusted FCF. The Board may find it impractical to define several financial KPIs, including KPIs covering multiple industries, to achieve widespread relevance, especially for industries in which multiple financial KPIs are commonly used.

For some entities performance metrics required by the Accounting Standards Codification (ASC or Codification) (e.g., by ASC 946 for investment companies) or regulators (e.g., by the SEC for broker-dealers) may already be those that are most prominent in their industries. Therefore, the FASB might need to consider scope exceptions for certain industries. Additionally, financial KPIs that are commonly used in some industries may be well understood despite not being defined by the FASB (e.g., FFO used in the real estate industry).

In addition, we observe that for some companies in certain industries, non-financial KPIs (e.g., customer-related or subscriber-related metrics) as defined by the ITC are the prominent measures used by both management and investors. These would not be defined under the current scope of the project.

Determining the definition of KPIs

We believe the Board would find it challenging to build consensus on certain KPI definitions in a timely manner. For example, and as noted in the ITC, there are differences in the way EBITDA is determined in practice that are largely driven by the variations in which the inputs to EBITDA (e.g., interest, depreciation, amortization) are determined due to individual preferences or the lack of US GAAP definitions of the inputs to the metric. We believe that the different views on the definition of EBITDA could make it challenging for the Board to develop a definition that would be broadly supported in a reasonable period of time and may supplant FASB resources that may better be utilized on more pressing investor-driven initiatives.

Additionally, many preparers already provide an adjusted EBITDA metric (e.g., because of a loan covenant requirement, to eliminate specified non-recurring and other items) that is subject to investor analysis and many investors prepare their own versions of an adjusted EBITDA metric. If the FASB were to define EBITDA, we would expect this practice to continue and there would likely be constituents that would not be satisfied with the FASB's definition. Any continued presentation of adjusted versions of EBITDA may not mitigate concerns regarding the comparability of financial KPIs.⁵

In connection with the International Accounting Standards Board (IASB) research project on the statement of cash flows, the IASB staff noted that “[f]eedback confirms diversity in how preparers and investors define FCF” and “[m]any investors, preparers and one regulator said that it would be challenging to devise a standardised definition of FCF.”⁶

We believe that this commentary would largely hold true for other financial KPIs. Additionally, if the Board were to try defining certain financial KPIs, the FASB's Conceptual Framework for Financial Reporting may not provide support in determining why one definition of a financial KPI would be better than another.

Requiring disclosure of defined KPIs

We do not believe the FASB should broadly require disclosure of defined KPIs because they may not be relevant performance measures for all entities or provide decision-useful information to all investors. Additionally, we believe it would be challenging for the FASB to define a set of facts and circumstances that would make disclosure of a financial KPI required.

Maintenance of defined KPIs

If the Board decides to define certain KPIs, it would need to continuously evaluate how future standard-setting activities, the changing economic landscape and new business models and transactions could interact with and affect the KPIs (e.g., new standards might affect what is captured in a defined input to a financial KPI or alter that input's definition), resulting in ongoing costs. This has been the case for the earnings per share (EPS) guidance.

For example, as financial instrument transactions have evolved, leading the FASB to issue Codification updates to account for those instruments, the FASB has provided consequential and other amendments to the EPS guidance and interpretations on measuring EPS have emerged.

Additionally, the Board would need to monitor whether any defined KPIs remain beneficial and relevant and whether new KPIs should be defined. We expect the use of financial KPIs by preparers and investors to evolve.

⁵ We observe that all the financial KPIs included in Appendix E of the ITC are, or include, adjusted versions of another metric.

⁶ See paragraphs 80-84 in the IASB staff paper – [ap20a-outreach-feedback.pdf](#).

Approach 2

Benefits of Approach 2

We believe the benefits of Approach 2 are not readily apparent. For companies subject to the SEC rules on non-GAAP financial information, the additional benefits of repeating metrics within the financial statements may not justify the additional costs. Approach 2 also might disrupt the objectives of the SEC's non-GAAP rules (see below for additional discussion on coordination with the SEC staff).

We believe the benefits of Approach 2 for private companies may be limited. We understand that private company investors often have direct access to an entity's management to gain appropriate insight into the entity's financial KPIs. For example, an entity may have a lending arrangement in which a financial KPI serves as a primary debt covenant and is defined by the lender. The entity may frequently communicate its compliance with the covenant (i.e., perhaps more frequently than its financial statements are audited) and share with the lender how the financial KPI has been computed.

Boundaries of Approach 2

Approach 2 would either require or permit financial KPIs that are presented outside of the financial statements to be disclosed in the financial statements. There are many ways that entities present financial KPIs outside of the financial statements (e.g., management's discussion and analysis, verbal communications, press releases, social media posts).⁷ Therefore, we believe the Board would need to carefully define what constitutes presented "outside of the financial statements" if the Board were to require disclosure of financial KPIs in the financial statements. We believe a broad definition would be challenging to apply and potentially costly for entities, since they would need to identify all financial KPIs presented outside of the financial statements to make sure they would be included in the financial statements and their auditors would be able to evaluate the completeness of the disclosures.

Auditing undefined financial KPIs

We acknowledge that a perceived benefit of Approach 2 would be that financial KPIs included in the financial statements would be audited and therefore provide investors with more confidence to use such information. However, if a financial KPI is not defined in US GAAP, the extent of audit procedures may be limited.

For example, there may not be a basis for an auditor to challenge management's definition of a financial KPI because the KPI and any adjustments to it may not be based on a defined accounting framework. Instead, an auditor might test that an entity's financial KPIs are in accordance with existing entity policies.

⁷ The IASB received feedback on this point when it was developing IFRS 18. In response, for the purpose of defining management-defined performance measures, IASB decided that public communications exclude oral communications, written transcripts of oral communications and social media posts (IFRS 18.B119).

While an auditor could evaluate whether a financial KPI presented outside of the financial statements is the same measure presented in the financial statements, additional audit procedures might be limited to recalculating the computation of the financial KPI and testing the inputs to the KPI if management's definition of those inputs agrees to a concept in US GAAP (along with testing related controls, if applicable, such as those related to compliance with existing internal policies). Therefore, it is not clear to us whether the audit-related benefits of Approach 2 would align with investor expectations. That is, there is a significant risk of a new expectation gap arising from the benefits investors perceive they are receiving for an undefined financial KPI included in the audited financial statements.

Coordination with the SEC staff

Because many financial KPIs would meet the SEC's current definition of a non-GAAP financial measure, we believe that any standard-setting approach for financial KPIs would require significant coordination between the FASB and the SEC staff to make sure investors remain protected and to minimize conflict and/or duplication between the FASB's Codification and the SEC's non-GAAP rules and SEC staff interpretations.

SEC's Regulation G and Item 10(e) of Regulation S-K (Item 10(e)) define which measures are considered non-GAAP financial measures and provide rules regarding their disclosure outside of the financial statements. Under Item 10(e), an entity is required to, among other things, provide a reconciliation of the non-GAAP financial measure to its most directly comparable GAAP financial measure, provide a description of the reasons why management believes the non-GAAP financial measure provides useful information to investors and present the most directly comparable GAAP measure with equal or greater prominence to the non-GAAP financial measure.

The SEC staff has also published Compliance and Disclosure Interpretations (C&DIs) addressing its views on the presentation and disclosure of non-GAAP financial measures. The C&DIs provide guidance on measures, presentation and disclosures that the SEC staff would consider misleading or inappropriate.

Other considerations

We encourage the Board to carefully consider the feedback received from investors and other constituents. We believe that based on the expected operational challenges of a project on financial KPIs and the differing perspectives, it would be best for KPIs to remain outside of the audited financial statements.

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We would be pleased to discuss our comments with the Board or its staff at their convenience.

Very truly yours,

Ernst & Young LLP