

# To the Point

FASB – Invitation to Comment

## FASB staff seeks input on research project on financial key performance indicators

Financial KPIs used by entities may not be comparable due to the lack of standardized definitions of KPIs.

### What you need to know

- ▶ The FASB staff issued an Invitation to Comment seeking feedback on the FASB's research project on financial key performance indicators, which will help the Board decide whether to add it to its technical agenda.
- ▶ The FASB staff is seeking feedback on, among other things, (1) whether financial key performance indicators should be defined and, if so, which ones should be defined and (2) whether an entity should be required or permitted to disclose those indicators in its financial statements and, if so, when and for what types of entities. The Invitation to Comment discusses two potential approaches.
- ▶ Comments are due by 30 April 2025.

### Overview

The Financial Accounting Standards Board (FASB or Board) staff issued an [Invitation to Comment](#) (ITC) seeking feedback on the Board's research project on financial key performance indicators (KPIs) for business entities. The feedback will help the Board decide whether to add the project to its technical agenda and, if added, determine the objective and scope of the project.

The FASB's research suggests there has been an increase in entities using financial KPIs in communications with investors. However, the financial KPIs used by entities may not be comparable due to the lack of standardized definitions of KPIs. The FASB staff is seeking feedback on, among other things, (1) whether financial KPIs should be defined and, if so, which ones should be defined and (2) whether an entity should be required or permitted to disclose those KPIs in its financial statements and, if so, when and for what types of entities.



The ITC provides two potential approaches for the project. One approach would be to define commonly used financial KPIs and either require or permit them to be disclosed in an entity's financial statements. The other approach would be to either require or permit an entity to disclose in the financial statements financial KPIs that are presented outside of the financial statements. The ITC states the FASB could also pursue standard setting that combines elements from both approaches.

FASB Chair Richard R. Jones directed the staff to prepare the ITC, but the Board does not express preliminary views in the document.

## Background

The Board adds projects to its technical agenda when there is an identifiable and sufficiently pervasive need to improve GAAP. The Board received feedback in 2021 that a technical project on financial KPIs should be considered. However, different views were expressed on the nature and extent of the perceived issues with financial KPIs and the objective of such a project.

In response, the FASB Chair added a project on financial KPIs to the research agenda to explore the pervasiveness of the perceived issues and whether feasible solutions exist.

## Key considerations

For purposes of the ITC, a financial KPI is any financial measure that is calculated or derived from the financial statements and/or the underlying accounting records of an entity that is not presented in the entity's financial statements. Financial KPIs include:

- ▶ Measures derived from amounts presented in the financial statements (e.g., a current ratio using current assets and current liabilities)
- ▶ Measures derived from adjusting amounts presented in the financial statements (e.g., adjusted net income, adjusted revenue, adjusted earnings per share)
- ▶ Measures derived from or calculated based on other information in the financial statements or other financial records (e.g., earnings before interest, taxes, depreciation and amortization (EBITDA), free cash flow (FCF), organic sales growth, funds from operations (FFO))

For purposes of the ITC, a financial KPI does not include (1) performance measures that are required in the financial statements, such as earnings per share; (2) totals, such as total revenue, and subtotals, such as net income, that appear in the financial statements; and (3) other subtotals voluntarily provided in the financial statements, such as gross profit. Additionally, a financial KPI does not include nonfinancial information, such as the number of subscribers.

The ITC provides two potential approaches to address the perceived issues with financial KPIs and acknowledges that the FASB could pursue standard setting that combines elements of both approaches.

### Approach 1: Define and require or permit disclosure of common financial KPIs

This approach would define certain commonly used financial KPIs and either require or permit them to be disclosed in the financial statements.

A key decision under this approach would be to determine which financial KPIs should be defined. This could include defining financial KPIs commonly used by investors or commonly presented by entities, such as EBITDA or FCF. Alternatively, this could include defining common financial KPIs within specific industries, such as FFO in the real estate industry.

The FASB could pursue standard setting that combines elements of the two potential approaches provided in the ITC.

## Approach 2: Require or permit disclosure of financial KPIs presented outside the financial statements

This approach would either require or permit financial KPIs presented outside of the financial statements to be disclosed in the financial statements. This approach could be similar to the requirements for management-defined performance measures under International Financial Reporting Standards (IFRS) 18, *Presentation and Disclosure in Financial Statements*.<sup>1</sup>

A key decision under this approach would be to establish criteria for an entity to determine whether it is required or permitted to disclose a financial KPI. This could include requiring or permitting disclosure of all financial KPIs presented outside the financial statements or just those presented in earnings announcements or other regulatory filings.

### Additional disclosures

The ITC notes it would be important to consider the accompanying disclosures under any approach. For defined financial KPIs, possible disclosures could include amounts for each component of the KPI and the financial statement line item(s) that include those components. For undefined financial KPIs, possible disclosures could include the definition of the KPI and a reconciliation to the most comparable GAAP requirement.

### How we see it

Recent FASB standard-setting activity has responded to investor requests for additional disaggregated financial information about an entity's performance. For example, the FASB has recently issued guidance that requires certain entities to disclose more information about income statement expenses,<sup>2</sup> segment expenses<sup>3</sup> and income taxes.<sup>4</sup>

Similar to these projects, the direction that the KPI project could take may have significant impacts on financial reporting, including on an entity's systems, processes and controls related to preparing financial statements. Therefore, we expect significant interest in and a wide range of perspectives on the approaches described in the ITC.

We encourage all interested parties to carefully consider the issues and questions raised in the ITC and provide perspectives that can inform the direction of the FASB's research.

### Endnotes:

- <sup>1</sup> IFRS 18 requires certain defined performance measures used in public communications outside of the financial statements to be disclosed in the financial statements. The guidance also requires additional information about those performance measures, including how a measure is calculated.
- <sup>2</sup> Accounting Standards Update 2024-03, *Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*.
- <sup>3</sup> Accounting Standards Update 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*.
- <sup>4</sup> Accounting Standards Update 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*.

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