The Association of Accountants and Financial Professionals in Business

April 24, 2025

Mr. Jackson Day, Technical Director
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2024-ITC 100 Financial Key Performance Indicators for Business Entities
Dear Mr. Day:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB or Board) *Invitation to Comment – Financial Key Performance Indicators for Business Entities* (Invitation to Comment).

The IMA is a global association representing over 140,000 accountants and finance professionals. Our members work inside organizations of various sizes, industries, and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts and accounting consultants. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

Overall, a majority of our Committee members are supportive of the prioritization of a project on Financial Key Performance Indicators (KPIs) in order to encourage consistency in reported Financial KPIs as they are widely reported and used by the investment community. A majority of the Committee believes that the FASB's involvement in such a project demonstrates the Board's commitment to being at the forefront of and adapting to new economic realities by ensuring that financial reporting remains relevant and transparent. However, some Committee members do not believe that the FASB should prioritize a Financial KPI project relative to, and over, other proposed projects.

The Committee believes that there should not be mandated KPI disclosures, but rather a voluntary disclosure with directional illustrative guidance. In addition, most Committee members believe that such voluntary disclosure should be presented outside of the audited financial statements, while some Committee members believe disclosures could be included in financial statements as supplemental information that is clearly labeled as unaudited. Financial statement users increasingly request non-GAAP information from companies, and we believe that the FASB has an important role to play in driving consistency in the definition of key Financial KPIs. Given the U.S. Securities and Exchange Commission's

(SEC) historic involvement with non-GAAP measures, SEC alignment on such a project will be critical. The Committee notes that adherence to the SEC's non-GAAP C&DI Section 100, Regulation G, Rule 100(b) and Regulation S-K Item 10 (e), which prohibit the presentation of certain non-GAAP measures and adjustments to such measures, is critical; public companies and their legal counsel would need to be mindful of all rulemaking in this area when voluntarily disclosing such measures.

The Committee believes that a Financial KPI project could be carried out using a phased approach, starting with more commonly used Financial KPIs, as well as those that coincide with the Board's current research project related to the Statement of Cash Flows. Lastly, the Committee notes that the Board has previously provided guidance under Accounting Standards Codification (Codification or ASC) Topic 255 Changing Prices whereby the Board encouraged, but did not require, companies to present supplemental information on the effects of changing prices. This could be used as a precedent on providing guidance in the Codification regarding disclosure of a voluntary nature.

Please refer to Appendix I for detailed responses to the specific questions for respondents.

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We would be pleased to discuss our comments with you or your staff at your convenience.

Sincerely,

Josh Paul
Chair, Financial Reporting Committee
Institute of Management Accountants
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Appendix I – Questions for Respondents

Overall

Question 1: Please describe what type of stakeholder you (or your organization) are from the list below, including a discussion of your background and what your point of view is when responding to this ITC:

Response: The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, and accounting consultants.

Question 2: (All respondents) What is the relative priority of a project on Financial KPIs given the FASB's progress on other recent topics, including projects on financial statement disaggregation as well as other recognition and measurement projects? Do you believe the relative priority differs for public companies versus private companies?

Response: A majority of the Committee is generally in agreement that a Financial KPI project would have relative priority in addition to the FASB's other current projects; however, some of our Committee members do not believe a Financial KPI project should be a priority relative to other projects the Board is currently undertaking or proposing. Most members of our Committee feel that given the very prevalent use and reliance on Financial KPIs in capital markets by analysts, investors and the broader "user" community, such a project would (1) be beneficial and (2) add to the FASB's relevance in terms of proving general guidance on such commonly used Financial KPIs by capital markets participants in their decision process. Financial KPIs are often derived from elements of financial statements, but some industry-specific KPIs are often only available if management opts to disclose certain internally available financial information not presented in financial statements (e.g., same store sales), making them particularly useful to the user community.

Most Committee members believe that such a project and related guidance is pertinent to both public and private companies as Financial KPIs are commonly used by both. The Committee also believes that any guidance or direction provided by the FASB should be voluntary in nature and not mandated or required and should be presented outside of the audited financial statements or should be labeled as unaudited if included in the financial statements and footnotes.

We would advise the FASB staff to confer with the SEC staff with respect to direction and governance around providing this type of guidance, given the SEC's historical view of non-GAAP financial measures, inclusive of SEC rules on non-GAAP measures.

We believe that a project could be carried out using a phased approach, starting with more commonly used metrics, as well as metrics that coincide with the Board's current research project related to the Statement of Cash Flows.

The Committee notes that the Board has previously provided guidance under ASC 255 Changing Prices whereby the Board encouraged, but did not require companies to present supplemental information on the effects of changing prices. This could be used as a precedent on providing guidance in the Codification with respect to Financial KPIs disclosures that are voluntary in nature.

Lastly, in recommending that Financial KPI disclosures be voluntary at this point, we also note that: (1) some companies do not currently disclose any Financial KPIs, (2) some very commonly used Financial KPIs (e.g., EBITDA or earnings before interest, taxes, depreciation, and amortization) are less relevant to financial entities like banks, and (3) some companies disclose industry-specific Financial KPIs that are unique to the industry in which they operate.

Question 3: (Investors) How often, if at all, do you use Financial KPIs in your analysis. If used, which ones?

Response: We do not have any current analysts on the Committee but would generally agree that the list in Appendix A of the ITC provides a comprehensive group of frequently used Financial KPIs relied upon by analysts that cover companies with representatives on our Committee. We also note that these listed Financial KPIs are generally used in analyses undertaken to assess company performance. Please see also our response to Question 5.

Question 4: (Investors) If you used Financial KPIs in your analysis, do you calculate the measures yourself, or use the measures provided by management? If provided by management, do you make any additional adjustments before using the financial KPIs in your analysis?

Response: The Committee believes that there are differing practices among analysts. In some cases, analysts use management-provided Financial KPIs without further adjustments and in other cases, investment firms and analysts employ standard adjustments for various purposes. For example, liquidity-specific adjustments are often made to commonly used Financial KPIs such as free cash flow (FCF). Many adjustments employed by investment firms can also be industry specific.

Question 5: (Preparers) Does your company present Financial KPIs outside the financial statements? Do your company's peers present Financial KPIs outside the financial statements?

Response: Most companies with representatives on the Committee present Financial KPIs outside of their financial statements. Typically, these Financial KPIs are included in company proxy statements, earnings releases, conference call scripts, and investor presentations. Peers also provide Financial KPIs frequently. However, in many cases, the Financial KPIs being disclosed vary between peer companies in terms of the definition and what components of the Financial KPI are included/not included in the computation. The Committee also noted that the listing in Appendix A of the ITC is only a sample of commonly used Financial KPIs and does not encompass all industries such as financial institutions or the technology sector. For instance, companies in the technology industry offering SaaS (Software-as-a-Service) products commonly use Financial KPIs such as ACV (annual contract value) and ARR (annual recurring revenue). More generally, technology companies will use Financial KPIs such as PCV (project cost variance). Some companies within the technology industry also use variations of these Financial KPIs.

In addition, some companies use variations of the Financial KPIs listed in Appendix A of the ITC. For instance, Return on Net Assets or RONA would be a variant of Return on Assets and can be defined and computed differently between peer companies within an industry, particularly when it comes to which assets and liabilities are included in the definition of "net assets."

Question 6: (Investors) If you use Financial KPIs in your analysis, are the Financial KPIs you use comparable across different entities? If you believe that those Financial KPIs are comparable across different entities, how do you know that those Financial KPIs are calculated on a comparable basis.

Response: Given our experience and knowledge as preparers and accounting consultants, we would assume that it is difficult for analysts to know if Financial KPIs are comparable across different entities without confirmation individually with entities within an industry to ascertain how the Financial KPI was defined and what components specifically were used in the computation of that Financial KPI. For instance, the Financial KPI EBITDA can vary significantly by industry and within industries, as companies and management define what they include/do not include in the computation differently (e.g., which items are included within interest, amortization and depreciation expense).

Question 7: (Preparers) If your company and your company's peers present Financial KPIs outside of the financial statements, are the Financial KPIs comparable? If you believe that the Financial KPIs that are presented are comparable, how do you know that those Financial KPIs are calculated on a comparable basis?

Response: The Committee's preparer group believes that in many cases, Financial KPIs are not comparable among peers within an industry. In some cases, confirmation of this fact can be garnered from presentations of peer companies when transparent disclosures are provided of what is being included/not included in the definition and computation of a Financial KPI.

Question 8: (Investors) Would you benefit from standardized GAAP definitions of commonly used Financial KPIs. Please explain why or why not.

Response: The Committee believes a "baseline" definition of certain Financial KPIs would provide a pathway for companies to report Financial KPIs that are comparable and provide analysts with useful information. The baseline definitions could include illustrative examples. This could decrease time and effort needed for an analyst to compare certain Financial KPIs across companies.

Question 9: (All Respondents) If the FASB defines certain Financial KPIs, should the defined Financial KPIs be measures that are commonly used across all entities, measures that are industry specific, or both? What should the FASB consider in determining which Financial KPIs to define?

Response: The Committee is in favor of a phased approach that starts with commonly used Financial KPIs such as EBITDA, FCF, debt-to-equity ratio and current ratio, with the FASB providing baseline definitions of each as well as illustrative examples. The Committee believes that it might be too complex to provide industry-specific Financial KPIs at the outset of the project, and perhaps more specific industry Financial KPIs could be addressed in a future phase of standard setting.

Having said that, we do note supplementally that NAREIT (a REIT industry professional association supporting global interests in U.S. real estate), issued a white paper in December 2018 dealing specifically with a KPI relevant for the industry.[1] Specifically, the white paper discussed the development and definition of FFO (funds from operations), a commonly used Financial KPI within the REIT industry, with the objective of promoting a uniform, widely-accepted, supplemental industry-wide standard measure of equity REIT operating performance. The KPI FFO has gained wide acceptance by REITs and investors. In June 2003, the SEC staff recognized the KPI FFO in its FAQ regarding non-GAAP measures, and also said it recognized the NAREIT definition of FFO. The SEC staff reiterated its acceptance of the NAREIT-defined KPI metric in May 2016 in its updated 2016 non-GAAP C&DI.

This example shows that uniformly defined Financial KPIs that are reconciled to the nearest GAAP measure can be useful and beneficial to investors. We do note that some Committee members do not believe that the FASB should require disclosure of adjustments to FASB-defined Financial KPIs, nor a reconciliation to their nearest GAAP measure. These Committee members suggest that a company could simply state that they used (or did not use) the Financial KPI as defined by the FASB.

Question 10: (All Respondents) Are there certain Financial KPIs you believe that the FASB should define? If so, what are they and why?

Response: The Committee suggests that the FASB start slowly and tackle the most common KPI metrics such as EBITDA and FCF, as well as other commonly used liquidity measures as suggested above. The Committee cautions that, as was the case with Earnings Per Share (EPS) (which is technically a financial metric that is computed using financial statement data), guidance has evolved and has become very complex to apply. A very simple, straightforward approach to defining commonly used Financial KPIs with illustrative examples would be beneficial. The Committee also thinks that providing guidance on Financial KPIs such as EBITDA and FCF is timely and beneficial due to the FASB's research project on the Statement of Cash Flows. For instance, additional guidance with respect to the Statement of Cash Flows presentation will bolster and underpin the definitions that could be provided for EBITDA and FCF Financial KPIs.

Question 11: (All Respondents): Should disclosure of certain defined measures be required or optional? If required, how should that requirement be determined (for example, should all entities be required to disclose the defined measure or only entities in specified industries)? Please explain.

Response: The Committee believes disclosure should be optional regardless of industry.

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[1] "Nareit Funds From Operations White Paper – 2018 Restatement", Nareit Financial Statements White Paper, December 2018. Available here: https://www.reit.com/sites/default/files/2018-FFO-white-paper-(11-27-18).pdf

Question 12: (All Respondents): Should the FASB provide criteria for entities to use to determine when a defined Financial KPI needs to be disclosed? For example, an entity could be required to disclose a Financial KPI that has been defined by the FASB in the financial statements if it presents it or an adjusted version outside the financial statements (for example, if EBITDA is defined and an entity presents adjusted EBITDA).

Response: The Committee does not believe disclosure of any Financial KPIs should be required, and that Financial KPIs a company elects to disclose should not be presented within the audited financial statements or should be labeled as unaudited if included within the financial statements.

Question 13: (All Respondents): If the FASB defines certain Financial KPIs that are common within specific industries, should all entities within those industries be required to disclose the financial measure.

Response: The Committee believes that disclosure should be optional and not required, including industry-specific KPIs.

Question 14 (All Respondents): Should an entity be required to disclose a Financial KPI in GAAP financial statements if the entity communicates the Financial KPI elsewhere? If so, what incremental benefits does requiring (rather than permitting) disclosure provide?

Response: The Committee does not believe an entity should be required to disclose a Financial KPI in GAAP financial statements that it has communicated elsewhere. Such disclosure should be optional even if an entity is disclosing such Financial KPIs in other communications such as an earnings release, analyst presentations, or proxy statements.

Question 15 (All Respondents): If the FASB pursues Approach 2, should the criteria for identifying Financial KPIs that must be (or are permitted to be) disclosed in GAAP financial statements be broad or narrow? For example, should all Financial KPIs communicated outside financial statements be disclosed or should only those communicated in earnings announcements and regulatory filings be disclosed?

Response: The Committee does not believe companies should be required to disclose any Financial KPI in audited financial statements (or if included, such disclosures should be labeled unaudited). The Committee believes the Board should take a broad approach to identifying Financial KPIs that a company could elect to disclose.

Question 16 (All Respondents): Are there other criteria that you believe should be used to identify Financial KPIs that would be required to be (or are permitted to be) disclosed in GAAP financial statements? If so, what are they and why should they be included?

Response: Generally, no.

Question 17 (All Respondents): Which potential approach for standard setting on Financial KPIs do you prefer and why?

Response: The Committee believes that the FASB should use a phased approach to standard setting on this topic. We believe that the FASB should begin by defining commonly used Financial KPI metrics (perhaps focusing first on liquidity measures such as FCF, as well as EBITDA), and providing illustrative examples reconciled to relevant GAAP financial statement line items (where applicable). Disclosures of these commonly used Financial KPIs should be optional, and disclosure should not be required to be in the audited financial statements.

Some Committee members believe that companies who disclose management-defined Financial KPIs should provide a definition of that KPI with detailed disclosure of how the metric was derived and reconciliation to nearest relevant GAAP numbers.

Question 18 (Investors): Would a combined approach that incorporates elements of Approaches 1 and 2 provide decision-useful information that is incremental to either approach in isolation? Please explain how the approaches be combined, including why that approach would provide incremental decision-useful information.

Response: As discussed in our response above to Question 17, we believe an alternative approach would be beneficial. It would define commonly used Financial KPIs as detailed by the FASB (that would be optional disclosure outside of the financial statements), while also encouraging companies to provide optional additional Financial KPIs and related definitions (as defined by management) that are consistent with what a company is already providing in other public communications. Not all Committee members believe defining management-defined Financial KPIs is necessary.

Question 19 (Preparers and Practitioners): Is either Approach 1 or 2 inoperable? Please explain why or why not.

Response: Permitting voluntary disclosure of Financial KPIs would be operable as many companies currently disclose such metrics. We believe that requiring or permitting disclosure within the audited financial statements would be complex and costly for both preparers and their auditors as cited in our example discussing EPS in our response to Question 10.

Question 20 (All Respondents): Are there other approaches that should be considered? If so, please describe and comment on whether (and what) incremental disclosures should be required under an alternative approach.

Response: Please see our response to Question 17.

Question 21 (All Respondents): For any undefined Financial KPIs that must be (or are permitted to be) disclosed in GAAP financial statements, should an entity be required to provide a reconciliation in the financial statements to the most comparable GAAP requirement? Please explain why or why not.

Response: Please see our previous responses. We do not believe that Financial KPIs should be required to be included in the financial statements and that disclosure should be optional. Some Committee members agree with including Financial KPIs in the financial statements but believe that such disclosure should be labeled clearly as unaudited. We also have discussed previously that all Financial KPIs disclosed should be defined (either through the FASB definition or as defined by management). Some Committee members believe that the FASB should recommend that any adjustments to FASB-defined Financial KPIs should also be presented and disclosed/described, while other Committee members believe such disclosure of adjustments is not necessary. Some Committee members also do not believe that management should have to disclose the components used to arrive at a management-defined Financial KPI.

Question 22 (All Respondents): Would disclosure about the components of Financial KPIs and the financial statement line items in which those components are included be useful? Please explain why or why not. If yes, should that disclosure be required?

Response: Some Committee members believe that disclosure regarding the components of Financial KPIs and the relevant financial statement line items in which those components are included (if applicable) would be useful to investors and users and provide transparency, if management is not disclosing a FASB-defined Financial KPI. Not all Committee members believe this is necessary.

Question 23 (All Respondents): For any undefined Financial KPIs that must be (or are permitted to be) disclosed in GAAP financial statements, should management be required to explain the element of their performance the undefined Financial KPI metric is meant to convey and how the undefined Financial KPI is used by management?

Response: Some Committee members believe that if a company is disclosing a Financial KPI in its proxy statement filing (for instance), the FASB should recommend mirrored disclosures outside of the company's financial statements within a company's quarterly and/or annual regulatory filings. The Committee acknowledges that any such disclosures outside of the financial statements would need to comply with the SEC rules over non-GAAP disclosures. The Committee believes any such disclosure should be optional. Most Committee members believe that management should explain the element of their performance the undefined Financial KPI is meant to convey and how the Financial KPI is used by management, due to the fact that such disclosure provides transparency as to how the company is managing its operations and executing strategic objectives. However, some Committee members do not feel this disclosure is necessary.

Question 24 (All Respondents): If any entity provides comparative financial statements, should it be required to disclose comparative period information for Financial KPIs disclosed? Please explain why or why not.

Response: Yes, if an entity is voluntarily providing comparative financial information for prior periods outside of its financial statements, Financial KPIs should also provide comparative period information.

Question 25 (All Respondents): Are there any other disclosures that you believe should accompany Financial KPIs (defined or undefined) that would be disclosed in GAAP financial statements? If so, what are they and why?

Response: No.