Purpose of paper

1. In order to help understand the implications of the use of non-IFRS information for the Primary Financial Statements project, we have analysed performance measures used in the press releases of 25 entities that report in accordance with IFRS Standards. This paper summarises the results of our analysis.

2. Different stakeholders describe non-IFRS information differently. In this paper, performance measures used by entities are classified into one of the following categories. Performance measures that are:

   (a) specified in IFRS Standards (IFRS-specified information);
   
   (b) not specified by IFRS Standards but are necessary to comply with IFRS Standards, and are reported in entities’ financial statements (not explicitly required IFRS information); and
   
   (c) additional information that is not in (a) or (b) (non-IFRS information).

3. There are different types of non-IFRS information. Some non-IFRS information simply provides additional information. Other non-IFRS information could be contrary to IFRS Standards, for example because it is measured on a different basis to IFRS Standards or provides information that undermines information provided in accordance with IFRS Standards.
Summary of the results of analysis

4. In summary, the results of our analysis are as follows:
   
   (a) in their communications with stakeholders, entities use performance measures based on (i) IFRS-specified information, (ii) not explicitly required IFRS information and (iii) non-IFRS information.
   
   (b) outside the financial statements (for example, in management commentary, investor presentations and press releases), there is widespread use of performance measures based on non-IFRS information.
   
   (c) performance measures presented outside the financial statements are sometimes also presented in the financial statements, but not always; and
   
   (d) there are commonly used performance measures but they are often calculated differently, for example:
      
      (i) adjusted operating profit;
      
      (ii) adjusted profit; and
      
      (iii) adjusted basic earnings per share (EPS).

Structure of paper

5. This paper is structured as follows:
   
   (a) background (paragraphs 6-10);
   
   (b) use of performance measures in communications with stakeholders (paragraphs 11-14); and
   
   (c) analysis of commonly used performance measures (paragraphs 15-48).

Background

6. This section provides the following background information on performance measures:
   
   (a) Concerns about the use of non-IFRS information (paragraphs 7-8).
(b) Securities regulators’ initiatives on non-IFRS information (paragraph 9).

(c) Disclosure Initiative and the Principles of Disclosure Discussion Paper (paragraph 10).

**Concerns about the use of non-IFRS information**

7. There is a growing concern about the increasing use of non-IFRS information or alternative performance measures (APMs) (i.e., financial measures that are not defined or specified in Standards) to communicate information about performance to stakeholders.

8. Some stakeholders see the growth of such reporting as either undermining the standing and credibility of financial information produced using IFRS Standards or an indication that IFRS Standards do not allow entities to report what they see as their ‘true’ financial performance and position. The *IFRS Foundation Trustees’ Review of Structure and Effectiveness: Feedback Statement on the July 2015 Request for Views (RFV)* (‘the Trustees’ Review’), published in June 2016, states the following:

F24 Although the Trustees did not seek views on the issue [the use of APMs], a minority of respondents provided comments, mostly to agree that this is something that should be examined by the Board as part of its technical agenda. SwissHoldings (CL68) wished to emphasise its view that the increasing tendency of companies to report APMs shows that in several areas the financial statements using the Standards have lost their relevance, so that any work by the Board on this issue should be addressed as a high priority.

**Securities regulators’ initiatives on non-IFRS information**

9. Some national, regional and international securities regulators have issued guidance dealing with the disclosure of non-IFRS information in the financial statements and in
other documents, for example in press releases. Some of this guidance restricts inclusion of non-IFRS information in the financial statements.

**Disclosure Initiative and the Principles of Disclosure Discussion Paper**

10. The Board has previously discussed the use of performance measures, including the use of non-IFRS-information, when developing its forthcoming Discussion Paper on Principles of Disclosure. Appendix A summarises those discussions.

**Use of performance measures in communications with stakeholders**

11. To help us understand how entities use performance measures inside and outside of their financial statements, we have analysed how 25 entities that prepare financial statements in accordance with IFRS Standards communicate with the stakeholders. We used the same entities and industries that we used in AP21A *Analysis of financial statements presentation*.

12. As an example, the following table illustrates how one entity uses performance measures in its communications with stakeholders.

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1 June 2016, the International Organization of Securities Commissions (IOSCO) issued the *Statement on Non-GAAP Financial Measures*. October 2015, the European Securities and Markets Authority (ESMA) issued the *Guidelines on Alternative Performance Measures*.

2 Refer to paragraph 8 of Agenda Paper 21A, November 2016 Board meeting.
<table>
<thead>
<tr>
<th></th>
<th>Annual report</th>
<th>Outside of annual report</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Income</td>
<td>Management commentary</td>
</tr>
<tr>
<td></td>
<td>statement</td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>IFRS-specified information</td>
<td>IFRS-specified information</td>
</tr>
<tr>
<td>Revenue increase excluding currency effect</td>
<td>Non-IFRS information</td>
<td>Non-IFRS information</td>
</tr>
<tr>
<td>EBIT-type operating profit(^3)</td>
<td>Not explicitly required IFRS information</td>
<td>Not explicitly required IFRS information</td>
</tr>
<tr>
<td>Adjusted operating profit (excluding non-recurring items etc)</td>
<td>See footnote 4(^4)</td>
<td>See footnote 4(^4)</td>
</tr>
<tr>
<td>Adjusted operating profit increase excluding currency effect</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted operating margin (Adjusted operating profit divided by Revenue)</td>
<td>Non-IFRS information</td>
<td>Non-IFRS information</td>
</tr>
<tr>
<td>Adjusted operating margin increase excluding currency effect</td>
<td>Non-IFRS information</td>
<td>Non-IFRS information</td>
</tr>
<tr>
<td>Profit</td>
<td>IFRS-specified information</td>
<td>IFRS-specified information</td>
</tr>
<tr>
<td>Adjusted profit</td>
<td>See footnote 4(^4)</td>
<td>See footnote 4(^4)</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>IFRS-specified information</td>
<td></td>
</tr>
<tr>
<td>Basic EPS</td>
<td>IFRS-specified information</td>
<td>IFRS-specified information</td>
</tr>
<tr>
<td>Diluted EPS</td>
<td>IFRS-specified information</td>
<td></td>
</tr>
<tr>
<td>Adjusted basic EPS</td>
<td>See footnote 4(^4)</td>
<td>See footnote 4(^4)</td>
</tr>
<tr>
<td>Adjusted basic EPS increase excluding currency effect</td>
<td>Non-IFRS information</td>
<td>Non-IFRS information</td>
</tr>
</tbody>
</table>

13. In this case, the use of performance measures outside of the financial statements seems to focus on achieving comparability with prior years and providing inputs that can be used more directly as inputs to valuation models, by excluding non-recurring items or currency effects.

14. This example is typical of what we found for other entities in our sample:

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\(^3\) Refer to paragraphs 27 and 28 of Agenda Paper 21A, November 2016 Board meeting.

\(^4\) As discussed in paragraph 17, there are different views about whether such measures are ‘not explicitly required IFRS Information’ or ‘non-IFRS information’.
(a) in their communications with stakeholders, entities use performance measures based on (i) IFRS-specified information, (ii) not explicitly required IFRS information and (iii) non-IFRS information;

(b) outside the financial statements (for example, in management commentary, investor presentations and press releases), there is widespread use of performance measures based on non-IFRS information; and

(c) performance measures presented outside the financial statements are sometimes also presented in the financial statements but not always.

**Analysis of commonly used performance measures**

15. To identify commonly used performance measures, we also analysed the press releases of the same 25 entities.

16. We classified the performance measures in the following categories, as discussed in paragraph 2 of this paper.

   (a) IFRS-specified information;
   (b) not explicitly required IFRS information; and
   (c) non-IFRS information.

17. The classification of some performance measures is difficult. Some stakeholders take the view that performance measures such as adjusted operating profit are relevant to an understanding of the entity’s performance and hence are ‘not explicitly required IFRS information.’ Others take the view that such performance measures are ‘non-IFRS information.’ These different views are reflected in the way that these performance measures are communicated by our sample entities. We observed that some entities used these performance measures both inside and outside their financial statements, while others used such performance measures only outside of the financial statements. These items are classified in row 4 of the following table.

18. We also analysed whether entities in the same industry use similar performance measures and whether the use of performance measures is different among different industries.
19. The following table summarises the commonly used performance measures we identified:

<table>
<thead>
<tr>
<th>Category</th>
<th>Performance measures</th>
<th>Use of performance measures in press release</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS-specified information</td>
<td>Revenue</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>Profit</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>Basic EPS</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>Operating cash flows</td>
<td>4</td>
</tr>
<tr>
<td>Not explicitly required IFRS information</td>
<td>Gross profit</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>EBIT-type operating profit</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Profit before tax</td>
<td>5</td>
</tr>
<tr>
<td>Non-IFRS information</td>
<td>Revenue growth rate excluding some effect</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>Adjusted revenue</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Adjusted free cash flow</td>
<td>7</td>
</tr>
<tr>
<td>Items categorised either as ‘not explicitly required IFRS information’ or ‘non-IFRS information’</td>
<td>Adjusted operating profit</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA)</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Adjusted profit</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>Adjusted basic EPS</td>
<td>12</td>
</tr>
</tbody>
</table>

20. The following sections discuss the items in the table above:

(a) not explicitly required IFRS information (paragraphs 21-26);

(b) non-IFRS information (paragraphs 27-34); and

(c) items categorised either as ‘not explicitly required IFRS information’ or ‘non-IFRS information’ (paragraphs 35-48).

**Not explicitly required IFRS information**

**Gross profit**

21. Six entities presented gross profit in their press releases. We observed slight differences in what were otherwise consistent methods of calculation. For example,

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5 In order to focus our analysis on the those performance measures that are given the most prominence, we counted performance measures used in body of the press release but did not count performance measures that are only used in the appendix of the press release.
some entities include distribution cost in the cost of the goods sold, while others classify these costs in sales, general and administrative expenses.

22. The use of gross profit was not industry specific practice as the six entities were spread across four different industries.

**EBIT-type operating profit**

23. Four entities presented an EBIT-type operating profit in their press releases. Calculation of the EBIT-type operating profit is relatively straightforward (profit before finance related items and tax). However, we noted that different entities classify different items as finance related items. For example, fair value gains and losses from financial instruments are sometimes included in finance items. In addition, the location of the following items caused differences in the calculation of this subtotal:

(a) share of result of associates and joint ventures; and

(b) net interest cost on the net defined benefit liability (asset).  

24. The use of an EBIT-type operating profit was not industry specific practice as the four entities were spread across three different industries.

25. We noted that another four entities used the label ‘operating profit’ for operating profit excluding some items such as disposal of a business. We classified these subtotals as adjusted operating profit.

**Profit before tax**

26. Five entities presented profit before tax in their press releases. The use of profit before tax was not industry specific practice as the five entities were spread across four different industries.
Non-IFRS information

Revenue growth rate excluding some effects

27. Of the 25 entities analysed, 18 presented in their press releases revenue growth rates excluding change in currency exchange rate and/or scope of consolidation (ie removing the effects of business combinations and disposals):

<table>
<thead>
<tr>
<th>Type of effects excluded</th>
<th>Number of sample entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Both change in currency exchange rates and scope of consolidation</td>
<td>12</td>
</tr>
<tr>
<td>Change in currency exchange rates only</td>
<td>5</td>
</tr>
<tr>
<td>Change in scope of consolidation only</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
</tr>
</tbody>
</table>

28. Of the 25 entities analysed, 17 presented revenue growth rates excluding the effect of change in currency exchange rates. The growth rate excluding the effect of change in currency exchange rate is sometimes called constant currency growth rate. Entities did not present detailed calculations and we were not able to assess whether different entities calculated the effects consistently.

29. Of the 25 entities analysed, 13 entities also presented revenue growth rates excluding the effect of change in scope of consolidation ie removing the effects of business combinations and disposals. The growth rate excluding the effect of change in scope of consolidation (and sometimes also excluding the effect of change in currency exchange rate) is sometimes called organic growth rate. In some cases, but not all, entities explained the effects of major business combinations or disposals on their revenue.

30. The use of revenue growth rate excluding change in currency exchange rates and scope of consolidation was not industry specific practice as entities in all five industries used both of them.

Adjusted revenue

31. Five entities presented adjusted revenue in their press releases. They added revenue of associates and/or joint ventures to their revenue as reported in the statement(s) of financial performance.
32. The five entities that presented adjusted revenue belonged to two industries.

*Adjusted free cash flow*

33. Seven entities presented adjusted free cash flows in their press releases. Their calculations of free cash flows were all different, mainly due to their treatment of investing cash flows in the calculation.

34. The use of adjusted free cash flow was not industry specific practice as entities in all five industries presented this performance measure in their press release.

*Items categorised as either ‘not explicitly required IFRS information’ or ‘non-IFRS information’*

35. Entities reported adjusted operating profit, adjusted EBITDA, adjusted profit, adjusted basic EPS either:

   (a) in the same way in both their financial statements and their press releases; or

   (b) in their press releases only.

*Adjusted operating profit*

36. Of the 25 entities analysed, 14 presented adjusted operating profit in their press releases.

<table>
<thead>
<tr>
<th>Use of adjusted operating profit</th>
<th>Number of sample entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>same adjusted operating profit in statement(s) of financial performance and in press release</td>
<td>8</td>
</tr>
<tr>
<td>different adjusted operating profit in statement(s) of financial performance and in press release</td>
<td>2</td>
</tr>
<tr>
<td>only in press release</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14</strong></td>
</tr>
</tbody>
</table>

37. The adjustments made when calculating adjusted operating profit included items such as restructuring costs, impairment of goodwill and acquisition related costs.

38. Two entities used different adjusted operating profits in the statement(s) of financial performance and press release. For example, one entity calculated adjusted operating profit for the statement(s) of financial performance by excluding restructuring
expense, impairments, gain on sale of business and its share of the results of associates. When calculating adjusted operating profit for the press release, the entity also excluded amortisation expenses.

39. There were some differences in the use of adjusted operating profit across the industries. In three industries, entities used the same adjusted operating profit in their financial statements and press releases. In one industry, entities did not use adjusted operating profit in either the financial statements or the press releases. In one industry, entities did not use adjusted operating profit in their financial statements but used it in their press releases. Their adjustments included amortisation of intangibles, restructuring cost and litigation costs.

**Adjusted EBITDA**

40. Seven entities presented adjusted EBITDA in their press releases.

<table>
<thead>
<tr>
<th>Use of adjusted EBITDA</th>
<th>Number of sample entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>same adjusted EBITDA in statement(s) of financial performance and press release</td>
<td>2</td>
</tr>
<tr>
<td>only in press release</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7</strong></td>
</tr>
</tbody>
</table>

41. The adjustments made to EBITDA were similar to the adjustments entities made when calculating adjusted operating profit. The adjustments included restructuring cost, impairment of goodwill and acquisition related costs. How entities labelled adjusted EBITDA was different among different entities. The performance measure simply named EBITDA sometimes excluded impairment and non-current asset disposals.

42. There were some differences in the use of adjusted EBITDA across the industries. In one industry, entities used the same adjusted EBITDA in both their financial statements and their press releases. In four industries, entities did not use adjusted EBITDA in their financial statements but used it in their press releases.

**Adjusted profit**

43. Thirteen entities presented adjusted profit in their press releases.
44. Many entities that presented an adjusted profit figure indicated that they excluded non-recurring items. The adjustments made included restructuring costs, acquisition related costs, amortisation of intangible assets, impairment of intangible assets, gains and losses on the disposal of a business, non-recurring finance income and expense, the tax effects of adjustments and non-controlling interests’ share of adjustments.

45. Adjusted profit was used by entities in all five industries.

*Adjusted basic EPS*

46. Twelve entities presented adjusted basic EPS in their press releases.

<table>
<thead>
<tr>
<th>Use of adjusted basic EPS</th>
<th>Number of sample entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>same adjusted basic EPS in statement(s) of financial performance and press release</td>
<td>4</td>
</tr>
<tr>
<td>only in press release</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>12</td>
</tr>
</tbody>
</table>

47. In many cases entities calculated adjusted basic EPS based on the presented adjusted profit, although not all entities that presented adjusted basic EPS presented an adjusted profit figure.

48. Adjusted basic EPS was used by entities in four industries. In two industries, the adjusted basic EPS was used by most sample entities. Different entities made different adjustments but it was not clear whether this was because different events triggered the adjustments or entities had different policies for making adjustments. The use of adjusted basic EPS was not that common in two other industries. In one industry no entity used such a measure.
Question for the Board

Does the Board have any questions or comments on the analysis presented in this paper?
Current requirements and guidance

A1. Some amounts commonly used as performance measures are specified by IFRS Standards, for example revenue and profit or loss.

A2. Furthermore, IAS 1 *Presentation of Financial Statements* requires an entity to:

a. present additional line items, headings and subtotals:
   
i. in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity’s financial performance (paragraph 85 of IAS 1); and
   
ii. in the statement of financial position when such presentation is relevant to an understanding of the entity’s financial position (paragraph 55 of IAS 1); and

b. provide additional information if it is relevant to an understanding of the financial statements (paragraph 112(c) of IAS 1).

A3. In December 2014, the Board published amendments to IAS 1, which imposed the following additional requirements for subtotals presented in accordance with paragraphs 55 and 85 of IAS 1:

a. Those subtotals shall:
   
i. consist of line items made up of amounts recognised and measured in accordance with IFRS Standards;
   
ii. be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable;
   
iii. be consistent from period to period; and
   
iv. not be displayed with more prominence than the subtotals and totals specifically required in IFRS Standards for that statement.

(paragraphs 55A and 85A of IAS 1)
b. Entities must reconcile any additional subtotals in the statement(s) presenting profit or loss and other comprehensive income with the subtotals or totals required in IFRS Standards for that statement (paragraph 85B of IAS 1).

A4. Paragraphs 37-40 of the IFRS Practice Statement Management Commentary provide guidance on use in management commentary of performance measures and indicators. That guidance describes performance measures as quantified measurements that reflect the critical success factors of an entity.

The Board’s preliminary views on performance measures

A5. The Board plans to issue a Discussion Paper Principles of Disclosure in the next few months. That Discussion Paper is likely to include suggested guidance on the use of performance measures.

A6. The Discussion Paper is likely to suggest that the Board should develop guidance stating that performance measures should be:

a. displayed equally or less prominently than the subtotals and totals in the primary financial statements required by IFRS Standards;

b. reconciled, where possible, to the most directly comparable measures specified in IFRS Standards, to enable users of financial statements to see how the performance measure has been calculated;

c. accompanied by an explanation of:

   i. how the performance measure provides relevant information about an entity’s financial position, financial performance or cash flows;

   ii. why the adjustments to the most directly comparable measures specified in IFRS Standards in (b) have been made; and

   iii. any other information necessary to aid understanding of the measures;

d. neutral, free from error and clearly labelled so they are not misleading;

e. accompanied by comparative information for all prior periods presented in the financial statements;
f. classified, measured and presented consistently to enable comparisons over time, except when IFRS Standards require a change in presentation, as stated in paragraph 45 of IAS 1; and

g. presented in a way that makes it clear whether the performance measures form part of the financial statements and whether they have been audited.

A7. In addition, the Discussion Paper is likely to suggest that the Board should:

a. clarify that the following subtotals in the statement(s) of financial performance are permitted in IFRS Standards if such subtotals are presented in accordance with paragraphs 85–85B of IAS 1:
   i. the presentation of EBIT and EBITDA in the statement(s) of financial performance presented by nature; and
   ii. the presentation of EBIT, but not EBITDA, in the statement(s) of financial performance presented by function;

b. develop definitions for unusual or infrequent items and requirements for their presentation in the statement(s) of financial performance.