



Mr Jonathan Bravo
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International Organisation of Securities
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Email: consultation-2014-05@iosco.org

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Dear Mr Bravo,

Re: FEE comments on IOSCO's consultation: "Proposed Statement on Non-GAAP Financial Measures"

- (1) FEE (the Federation of European Accountants, www.fee.be) is pleased to provide you below with its comments re the IOSCO's Proposed Statement on Non-GAAP Financial Measures (the "Proposed Statement" of the "Statement").
- (2) FEE's represents 47 professional institutes of accountants and auditors from 36 European countries, including all 28 European Union (EU) Member States. It has a combined membership of over 800.000 professional accountants, working in different capacities in public practice, small and big accountancy firms, businesses of all sizes, government and education. Adhering to the fundamental values of their profession – integrity, objectivity, independence, professionalism, competence and confidentiality – they contribute to a more efficient, transparent and sustainable European economy. In representing the European accountancy profession, FEE recognises the public interest.
- (3) We actively support the improvements in Corporate Reporting. Non-GAAP measures play an important role in Corporate Reporting as they can improve the communication between the entity and its stakeholders as long as they are reported in a transparent and unbiased manner.
- (4) However, FEE identifies that there is a lack of coordination between market oversight bodies and regulators on one hand and the IASB on the other hand, which leads to a high degree of divergence in practice when it comes to the definition and scope of guidance dealing with Alternative Performance Measures/Non-GAAP Measures.

- (5) We believe that the International Accounting Standards Board (“IASB”) should also be involved in the reporting of Non-GAAP Measures in the context of financial reporting. Some IFRSs currently include guidance on how an entity can present Non-GAAP Measures within its financial statements¹ Therefore, in line with its comments to the European Securities and Market Authority (ESMA)’s² consultation on Alternative Performance Measures, FEE suggests all the market oversight bodies and regulators (international, regional and national) to work with the IASB in order to develop a common comprehensive framework on Alternative Performance Measures/Non-GAAP measures.
- (6) That said, FEE welcomes IOSCO’s initiative and in general we agree with the IOSCO Proposed Statement. In line with FEE’s comments to ESMA’s consultation on the Alternative Performance Measures, FEE identifies 6 main issues encountered with the use of Non-GAAP measures. These are:
- a. The definition of Non-GAAP measures;
 - b. The calculation of Non-GAAP measures;
 - c. The linkage and reconciliation to financial information prepared under IFRS or other GAAP;
 - d. The consistent application
 - e. How the Non-GAAP measures facilitate benchmarking analysis and comparisons with industry information; and finally
 - f. Whether management takes an unbiased position when explaining or interpreting Non-GAAP measures (“management interpretation”).
- (7) IOSCO’s Proposed Statement addresses all of the above mentioned points apart from point (e), which relates to benchmarking analysis. We understand that this cannot be addressed by international organisations; instead this could be addressed by local industry regulators and by the market participants themselves.
- (8) However, FEE believes that there are two main areas for improvement in the Proposed Statement: the definition of non-GAAP measures and its scope.
- (9) FEE believes that the definition of Non-GAAP measures in the Proposed Statement (which excludes the information presented in the financial statements) is not clear. IFRSs do not prescribe a standard format for financial statements, which means that an entity may present “Non-GAAP” information within its financial statements, and, in this case would not fall within the definition or scope of the Proposed Statement.

¹ *IAS 1 – Presentation of Financial Statements* allows entities to present their income statement by nature and include any subtotals that they believe are material and enhance the understanding of users. Therefore an entity can easily report measures like EBITDA or EBIT on the face of the income statement. Furthermore, the IASB has already in the past provided guidance on other Non-GAAP Measures, for example *IAS 33 – Earnings per Share* and the requirements for presenting information that is used by management (which might include such Non-GAAP Measures) under *IFRS 8 – Operating Segments*.

² ESMA issued a similar consultation on Alternative Performance Measures earlier this year. FEE submitted its comment letter to ESMA on 13 May 2014 (http://www.fee.be/index.php?option=com_content&view=article&id=1423&Itemid=106&lang=en).

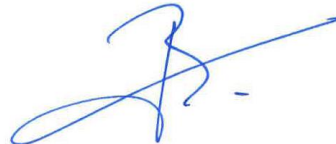
- (10) In order to avoid such instances, we encourage IOSCO to better clarify the term “Non-GAAP measures” and ensure that its definition is in line with other already existing definitions (for example the definition of Alternative Performance Measures in ESMA’s guidelines).
- (11) In the same context, FEE urges IOSCO to clarify the scope of the statement. Currently the scope is limited to Non-GAAP measures that are presented outside of the financial statements. As explained in the previous paragraph, IFRSs do not explicitly define what measures should be included in the financial statements. For example, IAS 1 – Presentation of financial statements, states that “[...] an entity shall present additional line items, headings and subtotals [...] when such presentation is relevant [...]” (*paragraph 85*). This would probably have the same result as above, i.e. some of the Non-GAAP measures would be included in the financial statements and, therefore, would be excluded from the scope of the Proposed Statement.
- (12) In addition, FEE has concerns related to paragraph 11 of the “Proposed Statement”. We understand IOSCO’s intentions to limit the use of “non-recurring” labelling to events that might be recurring. However, we believe that this paragraph should be clarified in terms of its scope and in terms of the definitions of non-recurring, infrequent and unusual events/items. A possible approach would be to change the labelling from “non-recurring” to “expected by management not to recur”.
- (13) Finally, FEE agrees with the last paragraph of the Proposed Statement reminding market participants that they need to comply with local laws and regulations and that all the information that is provided to the public should not be misleading.

For further information on this letter, please contact Pantelis Pavlou, Manager, from the FEE Team on +32 2 285 40 74 or via e-mail at pantleis.pavlou@fee.be.

Yours sincerely,



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President



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