April 29, 2025

Mr. Jackson M. Day
Technical Director
Financial Accounting Standards Board
801 Main Ave.
PO Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2024-ITC100

Dear Mr. Day:

PricewaterhouseCoopers LLP appreciates the opportunity to provide feedback on the FASB's Invitation to Comment on Financial Key Performance Indicators ("Financial KPIs") for Business Entities (the "ITC"). Given the ongoing evolution in the needs of financial statement users, reassessing the Board's priorities is vital to maintaining the relevance of US GAAP.

The continued proliferation of alternative performance measures and non-GAAP reporting outside of the financial statements suggests that there is a desire from users of the financial statements for more decision-useful information to assess an entity's performance as well as to assist in forecasting future cash flows. We support the Board's efforts to address this feedback but believe those needs would be more effectively addressed by enhancing the relevance and decision-usefulness of the primary financial statements that are anchored in the FASB's conceptual framework. As such, we do not believe that a comprehensive project on Financial KPIs is the best use of the FASB's resources at this time.

While our discussions with users have indicated that they believe development of commonly-defined Financial KPIs may provide decision-useful information, they also believe that any standard definitions of Financial KPIs need to be industry-specific to be truly valuable. Developing a limited number of commonly--defined Financial KPIs for use by all industries (such as earnings before interest, taxes, depreciation, and amortization (EBITDA) and free cash flow (FCF)) would provide only limited incremental benefit

We also observe that the recent issuance of *ASU 2024-03, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40) Disaggregation of Income Statement Expenses* ("DISE") provides enhanced disclosure and transparency that may assist users in furthering their understanding of certain Financial KPIs that a broader project would aim to resolve, for example the components of depreciation and amortization in EBITDA.

Similarly, the impending implementation by companies reporting under IFRS Accounting Standards of *IFRS 18 – Presentation and Disclosure in Financial Statements* ("IFRS 18"), which aligns the income statement more closely with the statement of cash flows, introduces standardized income statement subtotals and permits disclosure of management performance measures within the financial statements, may provide valuable insights to the Board as it explores potential solutions. As a result, we believe that a Financial KPI project should not be a priority for the Board at this time.

In lieu of a project on Financial KPIs incremental to the primary financial statements, we believe the FASB should consider projects to enhance the relevance and decision-usefulness of the primary financial statements for investors. Specifically, we recommend the Board (1) maintain its focus on improving the statement of cash flows, (2) consider a longer-term project on broader improvements to income statement presentation, (3) monitor investor satisfaction with the information provided by DISE once implemented, and (4) closely follow the implementation of IFRS 18 to identify insights that could inform future US GAAP initiatives.

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Appendix A contains additional commentary regarding how the Board might consider addressing investor needs going forward as well as additional considerations if the Board were to move forward with a project addressing Financial KPIs.

We would be pleased to discuss our observations and recommendations with the Board or its staff. Please contact Ken Stoler (ken.stoler@pwc.com) or Thomas Barbieri (thomas.barbieri@pwc.com) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Appendix

Addressing stakeholder needs

Our recent analyses have shown that 97% of companies in the S&P 500 use non-GAAP measures and KPIs in communicating results to investors. The pervasive use of these measures clearly indicates that investors and other financial statement users find non-GAAP measures to be highly useful in assessing performance. Without formal guidance on the calculation of these measures, the way in which each entity develops its own bespoke Financial KPIs results in diversity in practice and a lack of comparability, even among companies within the same industry. In response to this variability, the investor community has implemented processes to adjust for and standardize the commonly-used Financial KPIs based on their own proprietary models.

We understand from our discussions with investors that additional standardization to Financial KPIs could be beneficial; however, they tell us that much of the value in standardization would be derived from establishing industry-specific definitions. For example, in the technology and Software-as-a-Service ("SaaS") sector, annual recurring revenue (ARR) is generally recognized as a key Financial KPI whereas in the real estate industry, funds from operations (FFO) is generally recognized as key. If the Board only defined a limited number of Financial KPIs for use across all sectors, such as EBITDA and FCF, which are not used by all industries, the incremental value to investors appears to be limited and likely would not outweigh the costs (including, importantly, the opportunity cost of devoting Board and staff time to other priority areas) and the time and effort that would be required to undertake a project aimed at developing industry-specific commonly-defined Financial KPIs would likely be untenable.

Based on the volume and nature of standard setting activities currently in progress, as well as those that will be considered in connection with the Board's Agenda Consultation, we believe that a Financial KPI project should not be considered an immediate priority relative to other efforts that directly impact the relevance and reliability of financial statements.

Instead, investors and financial statement users have expressed a strong desire for enhanced transparency in areas such as cash flow reporting and income statement information.

Thus, rather than a project focused on Financial KPIs, we instead recommend that the Board:

1) monitor investor satisfaction with the incremental information provided by DISE once implemented,
2) continue efforts with respect to the statement of cash flows research project to identify incremental disclosures that may assist users in better understanding key cash flow metrics,
3) consider future projects addressing other potential improvements to income statement presentation and related disclosures, and
4) continue to follow the finalization and implementation of the IASB's IFRS 18 implementation to determine elements that investors find most beneficial as well as which may provide helpful insight and direction for future US GAAP presentation and disclosure projects.

Recommendations if a Financial KPI Project is initiated

In discussions with the investor community, and as described in our response to *Addressing stakeholder needs* above, we understand that Financial KPI reporting varies significantly by industry, and a one-size-fits-all approach for defining Financial KPIs may not provide the desired benefits. Financial KPI comparability across entities is often limited due to the use of varying performance metrics, definitions, and management adjustments, particularly with commonly-used measures such as EBITDA. This variability may reduce the usefulness of these measures in assessing performance across entities.

Should the Board decide to pursue a Financial KPI project, we believe an industry-specific approach focused on standardizing the definition of a few of the most common Financial KPIs within each industry would be most valuable to users of the financial statements. Engagement with industry groups and users of financial statements would be essential to identifying and defining these measures.

We understand, however, that an industry-specific approach may not be reasonable from both an effort and cost perspective. To mitigate these challenges, there may be limited value to establishing a definition of select, commonly-used metrics such as EBITDA and FCF to create a common starting point which would enhance the comparability and transparency of these measures as well as reduce the number of adjustments subsequently made to arrive at management's bespoke adjusted EBITDA or FCF KPIs. However, prior to establishing definitions for these metrics, we believe it would be important for the Board to first gain a clear understanding of how these measures are used in practice, as this context should inform the approach to determining a common definition. If common definitions of Financial KPIs are established, whether industry-specific or broad, we recommend that the disclosure of these defined Financial KPIs be optional in the financial statements. While requiring disclosure may enhance comparability, we acknowledge that some reporting entities may not use the commonly-defined Financial KPI for internal management purposes and may not view it as a relevant performance measure.

If common definitions are not established as part of a Financial KPI project, there may still be some value in including Financial KPIs in the audited financial statements and accumulating these measures in a single footnote. However, given the broad range of management adjustments made to these measures, we do not believe there would be significant improvements in the comparability of this information as a result of requiring or optionally permitting disclosure in the financial statements.

We also note that the IASB's IFRS 18 standard would require inclusion in a footnote disclosure of all "management performance measures" that are reported outside the financial statements. We encourage the Board to continue to assess the ultimate finalization and subsequent perceived value of these new disclosure requirements by investors to inform potential future standard setting in this area.

Finally, inclusion of additional Financial KPIs in the financial statements could create unintended compliance burdens for preparers due to the interaction with the SEC guidance on non-GAAP financial measures in Regulation G and Item 10(e) of Regulation S-K without offsetting benefits to financial statement users. If the Board elects to allow for disclosure of Financial KPIs in the financial statements, we recommend clear coordination with the SEC to establish consistency with regulatory requirements and to avoid potential confusion for preparers.