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April 29, 2025

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

Re: File Reference No. 2024-ITC100

Dear Mr. Day:

We appreciate the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) Invitation to Comment, *Financial Key Performance Indicators for Business Entities* (the ITC). We commend the Board for its thoughtful engagement with stakeholders on this topic and for its efforts to enhance financial reporting transparency. As a practitioner and auditor of both public and private companies, we are pleased to contribute our perspective.

Overview

While financial key performance indicators (Financial KPIs) are frequently presented by business entities outside the financial statements and often used by investors, we believe it may be challenging for the Board to develop standardized GAAP definitions of commonly used Financial KPIs in a manner that would provide widely applicable, decision-useful information across all entities or specific industries. Even if the Board were to define standardized Financial KPIs, many entities would likely continue to communicate tailored or adjusted versions of these Financial KPIs to their investors.

We believe the relative priority of a project of Financial KPIs should depend, first and foremost, on the needs of investors, while also balancing the costs to provide any such information. In this regard, we observe that the FASB has recently made substantial progress on other projects that enhance the transparency and decision-usefulness of disaggregated financial statement information, such as the issuance of Accounting Standards Update (ASU) 2024-03, *Disaggregation of Income Statement Expenses*; ASU 2023-09, *Improvements To Income Tax Disclosures*; and ASU 2023-07, *Improvements To Reportable Segment Disclosures*. Additionally, the Board's research agenda includes a project to explore potential improvements to the statement of cash flows. Before adding a new project on Financial KPIs, we encourage the Board to consider first assessing whether these recent, and potential future, financial statement disclosure improvements will provide investors with sufficient information to better understand an entity's financial performance, including the components underlying commonly used Financial KPIs.

If the FASB decides to pursue a project on Financial KPIs, we believe any additional disclosure requirements should apply only to public business entities. The primary users of private company financial statements (i.e., investors, lenders, and other creditors) often have sufficient access to management, as contemplated in the *Private Company Decision-Making Framework*, to obtain information concerning any relevant Financial KPIs. As such, the costs of requiring Financial KPI disclosures for private companies would likely outweigh the benefits. Nevertheless, if disclosure requirements are added for public business entities, we believe private companies should not be precluded from voluntarily providing such disclosures if they determine doing so would benefit the users of their financial statements.

Building on these overall views, we have provided additional perspectives, in the sections that follow, concerning the specific potential approaches and other matters outlined in the ITC.

Approach 1: Define and Require (or Permit) Disclosure of Common Financial KPIs

If the FASB were to define certain Financial KPIs, we recommend limiting the scope to those Financial KPIs that are most commonly used by investors, such as EBITDA or free cash flow (FCF). However, as noted above, we believe it may be challenging to develop standardized definitions in a broadly applicable or industry-specific manner, given entities often tailor Financial KPIs to reflect their unique business models and individual facts and circumstances.

For example, a 2024 academic study[1] analyzed the potential effects of standardizing Financial KPIs by examining disclosures of funds from operations (FFO) within the real estate investment trust (REIT) industry. Despite the National Association of Real Estate Investment Trusts (NAREIT) defining FFO—and the Securities and Exchange Commission (SEC) staff accepting this definition as a performance measure[2]—the study found that 78% of U.S. REITs disclosed a non-standardized, adjusted FFO measure. This finding aligns with broader trends observed in other commonly disclosed Financial KPIs. For instance, although the SEC provides a description of EBITDA in Exchange Act Release No. 34-47226,[3] a 2018 Audit Analytics Report[4] found that the majority of S&P 500 entities disclosing an EBITDA measure were actually disclosing an adjusted EBITDA figure. That same report found that many S&P 500 entities that disclose FCF either disclosed adjusted FCF or multiple cash flow measures in addition to FCF. Although investor feedback will be instrumental in evaluating whether it would be beneficial to define common Financial KPIs, we believe these examples collectively suggest that standardized measures are not always sufficient to provide decision-useful information for an entity's specific facts and circumstances.

Similarly, if the Board were to further explore Approach 1, it would be critical that any such definitions are precisely developed to promote consistency and comparability. Absent clear principles or guidance, various entities might interpret the individual components of certain Financial KPI calculations differently. For example, consistent with the FASB staff's observations summarized in the ITC, we have also observed that when calculating EBITDA, some entities include both interest income and interest expense in their definition of interest, while others only include interest expense.

Approach 2: Require (or Permit) Disclosure of Financial KPIs Presented by Management Outside the Financial Statements

As described in the ITC, Approach 2 would require (or permit) an entity to disclose Financial KPIs in its financial statements, when the entity presents those Financial KPIs outside the financial statements. Although this approach may seem to address concerns about possible inconsistencies between standardized definitions used in financial statement disclosures and adjusted Financial KPIs presented outside the financial statements, it introduces additional potential challenges related to auditability and completeness.

Accordingly, if the Board were to explore such an approach, we believe it would be important to avoid establishing overly broad criteria for identifying Financial KPIs that must be (or are permitted to be) disclosed in the financial statements. A sufficiently narrow approach could be achieved by limiting the scope to the reporting entity's Financial KPIs communicated in documents containing interim or annual financial statements. In our view, the scope should exclude other communications outside the financial statements, such as press releases, investor presentations, oral communications, written transcripts of

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[1] *See* Gee, Kurt H. and Park, K.J., *On the potential outcomes of standardizing non-GAAP financial measures: Evidence from the REIT industry* (November 2024).
[2] See Question 102.01 of the SEC staff's Compliance & Disclosure Interpretations (C&DIs) concerning non-GAAP financial measures.
[3] *See* Exchange Act Release No. 34-47226, which describes EBITDA as "earnings before interest, taxes, depreciation and amortization."
[4] *See* Audit Analytics, *Long-Term Trends in Non-GAAP Disclosures: A Three Year Overview* (2018).

oral communications, and social media posts. Otherwise, it could be challenging to audit the completeness of Financial KPIs requiring disclosure in the financial statements. While IFRS 18 includes press releases and investor presentations within its scope for management-defined performance measures,[5] we believe a narrower approach would help minimize implementation challenges.

Under Approach 2, we believe the Board could consider leveraging certain distinct aspects of IFRS 18, including, but not limited to, requirements for when an entity changes, adds, or removes disclosure of a Financial KPI in its relevant communications outside the financial statements.[6]

Additionally, we suggest the Board consider the point in time at which Financial KPIs are communicated. Specifically, the Board could incorporate requirements similar to IFRS 18[7] regarding instances when an entity routinely communicates Financial KPIs after the date its financial statements are issued or available to be issued. However, those requirements may not fully address all scenarios, such as an entity preparing for an initial public offering that—only after issuing its financial statements—presents a Financial KPI for the first time in a registration statement.

Disclosure and Other Considerations

We encourage the Board to consider investor feedback with respect to whether Approach 1 or Approach 2 (or a combination thereof) would provide more decision-useful information. We note, however, that both approaches present operability challenges that should be appropriately addressed, as recommended above. In addition, we believe disclosure requirements warrant careful consideration.

If the Board proceeds with either of these approaches, input from investors and preparers will be valuable in determining (i) whether these disclosures should be required as opposed to permitted, and (ii) whether the benefits of comparative disclosure outweigh the costs. In this regard, we observe that the value of Financial KPIs is often enhanced by comparative data that facilitates the evaluation of trends over time and benchmarking across similar entities. Accordingly, we believe permitting Financial KPI disclosures to be entirely optional,[8] or only requiring current-period disclosure when comparative financial statements are presented, might not sufficiently address the perceived needs that would otherwise justify undertaking such a project.

If the Board determines to add a project that would require (or permit) disclosure of undefined Financial KPIs, we believe it is critical that clear disclosure is included in the financial statements, describing the underlying components and calculation of that Financial KPI. In addition, we believe an entity should be required to include, in its financial statements, prominent presentation of, and reconciliation to, the most directly comparable GAAP financial measure. When developing these, and any other requirements, we encourage the Board to consider how such requirements might interact with the applicable auditing standards and with the SEC's non-GAAP rules and regulations in Regulation G and Item 10(e) of Regulation S-K.[9]

Separately, if the Board were to require an entity to disclose the element of its performance an undefined Financial KPI is meant to convey, we would have significant concerns regarding the auditability of such disclosures. Auditors are required to evaluate financial statement presentation and disclosure against a well-defined, suitable set of criteria—the applicable financial reporting framework. In our view, a management assertion regarding what an undefined Financial KPI is intended to reflect lacks well-defined, suitable criteria, making it inherently subjective and challenging to audit in accordance with applicable auditing standards.

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[5] *See* International Financial Reporting Standards (IFRS) 18, *Presentation and Disclosure in Financial Statements*, paragraph B119.
[6] *See*, for example, IFRS 18 paragraphs 124 and 125.
[7] *See* IFRS 18 paragraphs B121 and B122.
[8] Notwithstanding our earlier view that Financial KPI disclosures should not be required for private companies.
[9] *See*, for example, Items 10(e)(1)(i), 10(e)(1)(ii), and 10(e)(5) of Regulation S-K. *See also* the SEC staff's C&DIs concerning non-GAAP financial measures.

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We appreciate your consideration of our perspective and welcome further dialogue on this topic. Please contact Sean Prince or Ryan Walker should you have any questions or would otherwise like to discuss our response.

Sincerely,

Crowe LLP

cc: Matthew Schell, National Office Managing Partner