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Financial Markets Authority
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By email: consultation@fma.govt.nz

Disclosing non-GAAP financial information

The Institute of Directors (IoD) appreciates the opportunity to provide feedback on the FMA's [consultation paper](#), *Disclosing non-GAAP financial information*, which will update and replace the [2012 Guidance note: Disclosing non-GAAP financial information](#) (the Guide).

The Guide is intended for FMC reporting entities and their directors but other entities are encouraged to use the Guide when presenting non-GAAP financial information. It applies to disclosures outside of financial statements, such as market announcements, investor presentations and continuous disclosure. It also covers pro-forma financial information.

Our feedback includes general and specific comments in relation to changes recommended in the consultation paper.

About the Institute of Directors

The IoD is a non-partisan voluntary membership organisation committed to driving excellence in governance. We represent a diverse membership of over 8,000 members drawn from NZX-listed corporations, private companies, small to medium enterprises, public sector organisations, not-for-profits and charities.

Our chartered membership pathway aims to raise the bar for director professionalism in New Zealand, including through continuing professional development to support good corporate governance.

General comments

Reporting meaningful and transparent financial information to investors and other stakeholders supports good governance and underpins trust and confidence in business and financial markets. It is therefore important that this information is not misleading.

Presenting additional non-GAAP financial information can be useful to investors and other stakeholders as it can provide insight into the entity's financial performance and financial position. However it can also be misleading if the information is inconsistent, inadequately defined or used to obscure GAAP financial results.

We agree with the FMA that FMC reporting entities should have an internal policy, authorised by directors, on the use and disclosure of non-GAAP financial information.

In general we support the updating of the Guide to help entities disclose financial information in a way that is understandable and meaningful, and that it is consistent and comparable over time.

Alternative financial measures

Common forms of non-GAAP financial measures include underlying, cash or adjusted earnings.

The FMA's [2013 Monitoring of non-GAAP disclosures](#) (the 2013 Review) found that issuers using non-GAAP profit information were not always presenting a balanced view of profit. The FMA said that EBITDA (earnings before interest, tax, depreciation and amortisation) and variations of this measure 'raised the most concerns' e.g. if additional adjustments were made to EBITDA but the EBITDA label was still used.

We agree that non-GAAP financial information should be defined with clear explanations about the reasons for using the information, the basis of calculation, and with clear labelling that distinguishes non-GAAP and GAAP information.

Prominence

The 2013 Review found that 17 of the 23 major listed companies gave greater prominence to non-GAAP financial measures. The FMA recommends extending the scope of 'prominence' so that non-GAAP financial information should not be presented with undue *or greater* prominence than the most comparable GAAP financial information. We support this change as presenting non-GAAP financial information with greater prominence than GAAP information can be misleading.

Reconciliation

We support the FMA's recommendation to remove the requirement for a reconciliation to be provided in every document where non-GAAP financial information is disclosed. Entities will be able to provide a reference to where reconciliation information can be easily accessed.

One-off/non-recurring items

We support the FMA's recommendation to specify that the policy to exclude one-off/non-recurring items should include *all* non-recurring items (whether they are related or not) so as to help avoid 'cherry-picking' adjustments.

Pro-forma financial information

Pro-forma information is about the effects of proposed, completed or hypothetical events of transactions for illustrative purposes. We support the FMA recommendation that pro-forma information should focus on the relevant proposal and not extend beyond the relevant proposal. Entities should focus on material adjustments. Underlying assumptions, judgements and explanations should be provided in full.

Conclusion

It is important that entities present financial information that is understandable and meaningful to investors and other stakeholders. This is fundamental to good governance and underpins trust and confidence in business. We support the updating of the FMA Guide to help entities that present non-GAAP financial information ensure that information is helpful and not misleading.

We appreciate the opportunity to comment on behalf of our members and would be happy to discuss this submission with you.

Yours sincerely



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