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Regulatory Counsel



December 5, 2014

Mr. Jonathan Bravo  
IOSCO General Secretariat  
International Organization of Securities Commissions (IOSCO)  
Calle Oquendo 12  
28006 Madrid  
Spain

**Re: Public Comment on the Statement on Non-GAAP Financial Measures**

Dear Mr. Bravo:

The Institute of International Finance (IIF), via its Senior Accounting Group (SAG), welcomes the opportunity to comment on the IOSCO's proposed Statement on Non-GAAP Financial Measures (proposed Statement).

The SAG supports the proposed Statement, which provides a global view of existing sound practices or regulations on disclosure. For example, the paper echoes the EDTF-issued Recommendations for financial disclosures and the SEC<sup>1</sup> rules for use of non-GAAP financial measures. The statement will provide useful guidance to preparers, auditors, and regulators for the presentation and evaluation of non-GAAP financial measures.

The observations presented here should be considered in support of the proposed Statement. We hope that some constructive comments will be useful in finalizing it.

The use of non-GAAP financial measures plays an important role in firms' financial and risk disclosure because they provide investors with additional insight into the performance and financial position of the entity, and, equally important, how management views such performance. The FASB recently took the decision to launch a research project on financial performance reporting recognizing the importance of combining GAAP and non-GAAP financial measures.

One of the most common examples of a non-GAAP financial measure hitherto has been the exclusion of the impact of changes in fair value that are recognized in profit and loss arising from changes in an entity's own-credit quality. This is illustrative of how non-GAAP metrics can reflect how management or investors view performance. The use of "pro-forma" non-GAAP measures can also provide useful information for changes in business scope as entities dispose of or acquire new businesses.

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<sup>1</sup> The Securities and Exchange Commission (SEC) permits companies to present non-GAAP financial measures in public disclosures subject to compliance with Regulation G. Link at <http://www.sec.gov/rules/final/33-8176.htm>.

Non-GAAP financial measures are often applied differently across institutions and it is therefore difficult to compare such measures across entities. Nevertheless, such disclosures are often of acute interest to users and reflect the particular circumstances of an entity, and form part of an entity's overall suite of disclosure.

While emphasizing the usefulness and sometimes necessity of non-GAAP financial measures, the SAG also supports the statements proposed by the IOSCO based on the sound disclosure principles developed through points 1 to 4 (in the Defining the Non-GAAP Financial Measures section on pages 5-6). This includes providing understandable information, explaining its usefulness to end-users, or as explained in paragraphs 9 and 10 (in the Present Non-GAAP Financial Measures Consistently Over Time section pages 6-7), being consistent over time and providing the information on a timely basis.

Non-GAAP financial data should not only be clearly defined but also separated from GAAP financial data in order to avoid any confusion with GAAP data as stressed under points 5 and 6 of the proposed Statement. The rationale for using non-GAAP data should be explained in a straightforward manner. Insofar as possible within regulatory limitations, and without expanding the scope of external audit, sign-posting or other techniques should be used to explain the role of non-GAAP data in the overall scheme of an entity's disclosures.

Moreover, the SAG agrees as stated under point 6 that non-GAAP measures should not be misleading; i.e. they should not be displayed with more prominence than GAAP measures or confuse the reader's understanding - for example between recurrent or non-recurrent information as explained in point 11 of the proposed Statement.

Since the use of non-GAAP measures aims at providing clarifications to users, it should focus on points that are of material importance but not already included or adequately explained in the GAAP measures. They should avoid duplication or redundancies.

While paragraph 9 calls for consistency over time, changes in presentation will be required from time to time and must be allowed. Non-GAAP financial measures should be accorded some flexibility, while recognizing that consistency from period to period will often be very useful to users; however, the specific circumstances that drive material changes should be clearly explained, as suggested by paragraph 10.

We note that paragraph 7 requires "a clear and concise quantitative reconciliation from the non-GAAP financial measure to the most directly comparable GAAP data". We agree that reconciliation with explanation should be a core principle; however, as stated in paragraph 8, in some circumstances, a formal reconciliation can be difficult or excessively complex, in which case an explanation on how the figure is calculated will serve the needs of users. To that end, we would welcome clarification of the appropriate scope of application of the proposed Statement in paragraph 7.

When a non-GAAP disclosure is reported in GAAP financial statements (e.g., regulatory capital measures), or is part of or related to disclosures included in the Pillar 3 report or a similar regulatory-mandated report (e.g.; the report on the liquidity buffer required by the Basel Committee's liquidity disclosure standards issued in March 2014<sup>2</sup>), the disclosure should be evaluated under the requirements of the relevant regulatory requirement, including a full reconciliation to the relevant GAAP measure, only if such regulatory requirement does so. Hence, consistent with SEC Regulation G, the SAG takes the view that the scope of application of the proposed Statement should exclude as a non-GAAP measure any Pillar 3 or other reporting that is mandated by applicable regulatory standards. Further, we recommend that footnote 3 on page 5 be revised to say, "A financial measure required by a securities regulator or other regulatory-mandated reports is excluded from the definition of a non-GAAP financial

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<sup>2</sup> BCBS 272 - Liquidity coverage ratio disclosure standards

measure and is not within the scope of this Statement". Moreover, as requested by the paper, the scope of application should also exclude the Notes to the financial statements as proposed in the preliminary remarks under "Request for Comments".

The SAG would be pleased to pursue any issues raised in this letter more fully. Should you have any comments or questions on this letter, please contact the undersigned or Dorothée Bucquet (dbucquet@iif.com; +1 202 682 7456).

Very truly yours,

A handwritten signature in black ink, appearing to read "David Schuss", followed by a long horizontal flourish.