U.S. Chamber of Commerce

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May 08, 2025

Mr. Richard Jones, Chair
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2024-ITC100, FASB Invitation to Comment on *Financial Key Performance Indicators for Business Entities*

Dear Chair Jones:

The U.S. Chamber of Commerce ("Chamber") appreciates the opportunity to comment on the Financial Accounting Standards Board ("FASB" or "Board") Invitation to Comment on *Financial Key Performance Indicators for Business Entities* ("ITC"). The Chamber values the FASB's commitment to soliciting stakeholder input and to due process by using an invitation to comment with an extended comment period.

The ITC is intended to help inform the Board on whether to add a project on Financial Key Performance Indicators ("Financial KPIs") to its technical agenda. The Chamber recommends that the Board not do so.

The topic of Financial KPIs does not meet the criteria for FASB to prioritize it for standard-setting, as the subject lacks an identifiable and sufficiently pervasive need to improve Generally Accepted Accounting Principles ("GAAP"). Further, any attempt to identify and define[1] one or more measures of Financial KPIs to incorporate in GAAP as "standardized" – meaning elements that would be broadly decision-useful, cost-benefit effective, and that would withstand the test of time – would be fraught with significant challenges, as subsequently discussed, based on information provided in the ITC and other evidence. FASB's resources would be better allocated to other priorities and projects.

The discussion below highlights some of the considerations supporting our recommendation. Following overarching comments, the discussion focuses on

[1] Measures based on financial statement elements, totals, and subtotals are defined in accounting and financial statement analysis texts and related literature. The ITC uses "defining" in the context of FASB developing a taxonomy to specify the inclusion (exclusion) of financial statement amounts (i.e., amounts within elements, totals, or subtotals) to "standardize" the computation of a Financial KPI.

sources of Financial KPIs by companies and others, along with a few additional considerations.

Discussion

The ITC defines a Financial KPI as *any* financial measure that is calculated or derived from the financial statements (prepared in accordance with U.S. GAAP) and/or underlying accounting records that is not presented in the GAAP financial statements.[2] This broad definition encompasses an extensive and varied list of measures, including financial ratios long used in financial statement analysis. Singling out any one measure, or even a few, for inclusion in GAAP is problematic. For example, it would elevate selected financial statement components and certain types of financial statement analyses over others.

Further, there are no obvious elements of Financial KPIs that would result in broadly decision-useful information. To illustrate, the ITC helpfully provides data on the frequency of communications of Financial KPIs by both SEC filers and the subset of public companies in the S&P 500.[3] For example, the ITC discloses that in 2022, 53 percent of SEC filers and 85 percent of S&P 500 companies reported Financial KPIs. The percentage of SEC filers and S&P 500 companies reporting various measures also differed within and between groups.

The most frequently reported measure by SEC filers was earnings before interest, taxes, depreciation, and amortization ("EBITDA") or adjusted EBITDA. Yet, only 33 percent of SEC filers reported either. The frequency decreased to 28 percent for S&P 500 companies reporting EBITDA or adjusted EBITDA.[4]

Moreover, on the ITC's list of commonly reported measures, only two were reported by more than half of S&P 500 companies – adjusted earnings per share ("EPS") (68 percent) and adjusted net income (54 percent).[5] GAAP already defines EPS and net income and adjustments to these and other measures would continue even after a FASB project on "standardizing" Financial KPIs.

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[2] The definition does not include nonfinancial KPIs (such as same-store sales, churn, and number of subscribers) that FASB also has been encouraged to include in a "standardization" project. The Chamber agrees that nonfinancial KPIs are beyond the purview of FASB.
[3] For example, see the ITC, pages 4 and 5 and Appendix E.
[4] Ibid.
[5] Ibid.

Companies as Sources of Financial KPIs

The ITC focuses on a potential project on the reporting of Financial KPIs by business entities. Public companies use Financial KPIs to communicate information to investors and others about company operations "through the eyes of management." The information communicated involves choices about relevant measures and determinations of amounts for the components of the measures. These choices depend on a variety of facts and circumstances.

This context helps explain the variation in the types of Financial KPIs reported by companies and the reporting of entity-specific and adjusted measures. Relevant measures can also be industry-specific and comport with industry-developed definitions.[6]

Both public and private companies communicate KPIs at the direction of specific stakeholders such as lenders. For example, private companies generally provide KPIs at the direction of banks or private equity investors based on measures and definitions specified in lending and investment agreements, respectively.

Considering this context, none of these communications by public or private companies would benefit from a FASB project on identifying and defining one or more "standardized" Financial KPIs to incorporate in GAAP.

Relatedly, the ITC recognizes that public company communications are subject to SEC requirements on non-GAAP financial measures.[7] SEC Regulation G applies whenever any material information that includes a non-GAAP financial measure is disclosed or released publicly (e.g., in press releases) and, among other matters, requires reconciliation of non-GAAP financial measures to GAAP financial measures.

In addition, Item 10(e) of Regulation S-K applies to all SEC filings that include non-GAAP financial measures with requirements consistent with Regulation G. Item 10(e) has incremental requirements, which include disclosures on why management believes the non-GAAP financial measure provides investors with useful information and the additional purposes for which management uses the non-GAAP financial

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[6] For example, Nareit has developed a definition of Funds from Operations ("FFO") as a metric to measure the operating performance of Real Estate Investment Trusts ("REITs"). FFO is recognized by the Securities and Exchange Commission ("SEC") as a supplemental earnings measure and the SEC does not object to the presentation of FFO on a per-share basis.
[7] See Appendix C of the ITC, page 14.

measure. These disclosures occur, for example, in the Management Discussion and Analysis ("MD&A") section of Form 10-K and Form 10-Q filings.

These SEC requirements provide transparency on public company communications of Financial KPIs, while facilitating analyses that involve comparable information. In addition, the SEC staff publishes guidance in its Compliance & Disclosure Interpretations ("C&DIs") on non-GAAP financial measures, with the most recent update in 2022. The SEC monitors non-GAAP disclosures and compliance with Regulation G, Item 10(e), and staff guidance, including through the Division of Corporation Finance review and comment process.

Other Sources of Financial KPIs

Corporate entities are just one source of Financial KPIs. For example, the ITC recognizes that financial data services firms calculate and provide Financial KPIs for their clients. These Financial KPIs are often customized (i.e., adjusted measures).

To illustrate, the ITC lists ten common measures provided by certain data providers. Eight of the ten are adjusted measures of revenue, net revenue, net premium earned, gross profit, operating income, EBITDA, net income, and EPS. Only organic sales growth and free cash flow ("FCF") are not listed in the ITC as adjusted.[8] Financial data services would continue to make adjustments even if the Board developed "standardized" measures.

Further, analysts are a major source of Financial KPIs. To illustrate, a large-sample academic study of public companies that focuses on EBITDA finds about 76 percent of analysts provide EBITDA and analysts are the *sole* source of EBITDA for 45 percent of observations.[9]

Moreover, the study reports that despite EBITDA's simple definition, over 90 percent of EBITDA computations since 2010 (including analysts' computations) exclude items beyond the specified components. That is, these computations exclude items other than interest, taxes, depreciation, and amortization ("non-ITDA" items) and, therefore, represent adjusted EBITDA. Adjustments by analysts (and others) would continue even if the Board developed "standardized" measures.

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[8] See Appendix E of the ITC, page 18.

[9] See the working paper on "The Usefulness of EBITDA" by Professors Erik T. Elfrink, Kurt H. Gee, Robert Hills, and Benjamin C. Whipple (February 2025). The study involves a sample of over 200,000 firm-quarter observations from analysts on I/B/E/S and companies on Compustat from 2004 through 2023.

Additional Considerations – Standard Setting Environment

The ITC recognizes that recently completed and current FASB projects have or will provide investors with more disaggregated financial information about an entity's performance. Examples of recent projects include those on disaggregation of income statement expenses and segment reporting. The Board also has a current project developing targeted improvements to the statement of cash flows for financial institutions and a research project to explore improvements to the statement of cash flows. These projects – identified by FASB as intended to help address concerns about transparency and comparability - and mitigate the need for a project on Financial KPIs.

GAAP continues to evolve, which further reduces any benefit from a project on Financial KPIs. The evolution of GAAP would likely give rise to additional adjustments to any "standardized" measures developed by FASB.

Further, information technology facilitates the computation and/or analysis of Financial KPIs. As such, available technologies undermine the need for and efficacy of any FASB project to "standardize" such measures. Technological innovations will continue to provide necessary data points.

Technology positions stakeholders to take advantage of company communicated information, including non-GAAP reconciliations and disaggregated information, for the computation of comparable Financial KPIs for large data sets of companies. Technology also facilitates customization of financial information and, thereby, the computation of adjusted Financial KPIs, which would continue irrespective of a FASB "standardization" project.

Otherwise, the ITC solicits feedback on two approaches that the Board could take to any project on Financial KPIs: (1) define and require (or permit) disclosure of common Financial KPIs; or (2) require (or permit) disclosure of Financial KPIs presented by management outside the financial statements.[10]

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[10] The ITC notes that the second approach could be similar to the presentation requirements under International Financial Reporting Standards ("IFRS") for management performance measures, which are subtotals of income and expenses that an entity uses in public communications outside financial statements to communicate to users of financial statements management's view of an aspect of financial performance of the entity as a whole.

Our recommendation not to add a project on Financial KPIs obviates any need for comment on either approach. Nonetheless, it is worth noting that each approach contemplates additional GAAP footnote disclosures, and, as such, both would raise concerns about information overload and run counter to the Board's efforts to improve disclosure effectiveness.

Concluding Remarks

In conclusion, the Chamber recommends that the Board not add a project on Financial KPIs to its technical agenda. As discussed, there is not an identifiable and sufficiently pervasive need to do so. Further, identifying and defining one or more measures to incorporate in GAAP as "standardized" Financial KPIs would be problematic and adjustments to such measures would continue. FASB resources would be better allocated to other priorities and projects.

Thank you for your consideration and we stand ready to discuss these matters with you further.

Sincerely,

Tom Quaadman
Senior Vice President
Economic Policy
U.S. Chamber of Commerce