



Draft Framework for Reporting Performance Measures

Enhancing the relevance of financial reporting

Comments welcome by October 1, 2018

Acknowledgement

The Accounting Standards Board (AcSB) thanks the following senior leaders and influencers in financial reporting for their advice on and support of this project.

- Investors, Senior Management, Directors and Advisors
- Chartered Professional Accountants of Canada (CPA Canada)
- CFA Society Toronto
- Veritas Investment Research
- Financial Executives International Canada (FEI Canada) and the Canadian Financial Executive Research Foundation (CFERF)



The AcSB is an independent body with the authority to establish accounting standards for use by all Canadian entities outside the public sector. The AcSB serves the public interest by establishing standards for financial reporting by all Canadian private sector entities and by contributing to the development of internationally accepted financial reporting standards.

CPA Canada is one of the largest national accounting organizations in the world, representing more than 210,000 members. CPA Canada develops leading-edge thought leadership, research, guidance and educational programs to ensure its members are equipped to drive success and shape the future.



leadership beyond finance

FEI Canada is the all industry professional membership association for senior financial executives. With eleven chapters across Canada and 1,500 members, FEI Canada provides professional development, thought leadership and advocacy services to its members.

CFERF is the research institute of FEI Canada. Its primary objective is to study emerging financial management issues with the aim of increasing competitive capabilities of Canadian financial leaders and their organizations.

Voluntary Guidance: This Framework is to help entities enhance the reporting of performance measures outside financial statements. It is non-authoritative.

Message from the Chair

The AcSB is taking a leadership role – in Canada and globally – to enhance the relevance of financial information.

We are responding to concerns raised by many investors, contributors, lenders and other resource providers about performance measures (see [Scope](#)) reported by entities. We think the Framework is just a first step to respond to concerns. We want this Framework to start the conversation. We want the feedback, suggestions and advice we receive to guide us on what we can do next to enhance the relevance of financial information.

So who can this Framework help? When it comes to discussing the use of non-GAAP measures, most of us focus on public companies. But our conversations have gone beyond the focus on public companies to the use of and difficulties with performance measures reported by not-for-profit organizations (NFPOs) and private companies. We discussed this initiative and proposals with leaders in financial reporting. There is support for this Framework and the benefits it can provide to many types of entities.

Therefore, we think the conversation about the Framework must include all parties involved in financial reporting – standard setters, management, directors, assurance providers, advisors, investors, contributors, lenders, other resource providers and regulators. Each player in the financial reporting supply chain needs to speak out and take action to promote best practices for developing and reporting financial information that is relevant for decision-making. By working together, we can make a difference.

So what's the ultimate objective of this Framework? We want to help entities that choose to report financial and non-financial performance measures outside financial statements improve the quality of this supplemental information. An entity could be a public company, an NFPO, a private company or a pension plan. The Framework will help by setting out what we think is best practice guidance for:

- selecting, determining and reporting performance measures; and
- implementing and maintaining controls and governance practices.

Entities vary in nature, size and complexity of the activities they do. We think the application of this Framework must consider those factors to determine the extent of controls and governance practices appropriate to report performance measures. Such considerations will result in the benefits exceeding the costs.

We think the Framework is a tool to guide:

- **management** in developing and assessing how effectively they report financial and non-financial performance measures;
- **directors and others charged with governance** in fulfilling their responsibilities when assessing management's processes and reporting of performance measures; and
- **investors, contributors, lenders and other resource providers** in setting expectations and seeking compliance with this Framework as part of obtaining the information they need.

So what's next? We want your feedback to guide what we do next. We have some preliminary ideas. But we want to hear your ideas. After considering your feedback, we can:

- reflect on the benefits of having separate frameworks – for public companies subject to securities regulations and other entities not subject to those regulations;
- publish a revised Framework or separate frameworks;
- provide supplemental guidance, such as examples of policies and procedures for common measures;
- work with others to encourage application;
- review and update the Framework, as needed; and
- assist others in developing additional guidance, such as industry and sector-based guidance and Q&As.

Join the discussion and help improve financial and non-financial performance measures reported outside financial statements by all types of entities. Read and comment on this Framework by October 1, 2018.



Linda Mezon, FCPA, FCA, CPA (MI)
Chair, AcSB

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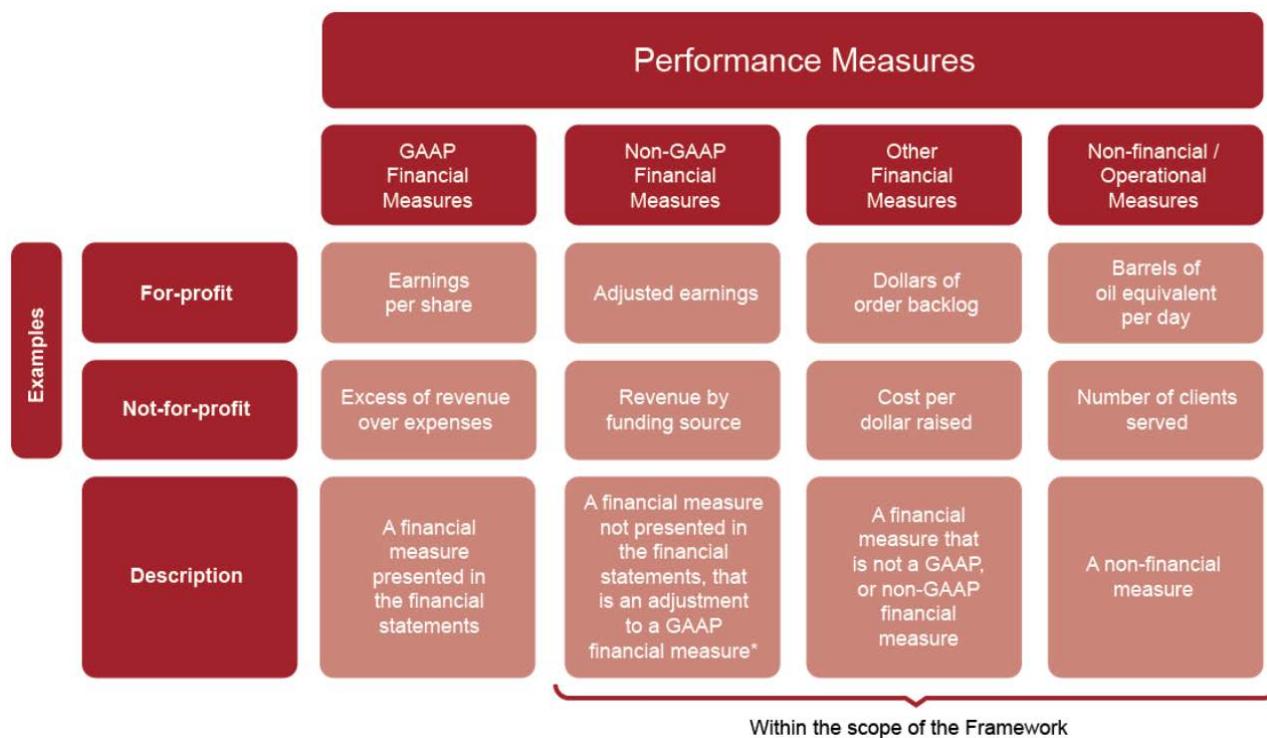
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Introduction

1. Management tells their stakeholders the story about an entity's overall performance, its financial condition and its future prospects through various media (e.g., financial statements, Management, Discussion & Analysis, earnings releases, investor or donor presentations, social media, webpages, etc.). In the process, management often provides financial and non-financial performance measures to complement and supplement their reporting.
2. These performance measures can be powerful and can affect market prices and lending rates of a for-profit entity, contributions and other resources allocated to a not-for-profit entity, and often the reputation of an entity. These performance measures also may affect the compensation of senior management, directors and employees. Thus, the quality of the performance measures management chooses to report is important.
3. Given the relevance of such performance measures, directors and others charged with governance provide oversight. Just as they do over other activities of the entity, they focus on the quality of the process, data and disclosures used to report these performance measures.
4. Investors, contributors, lenders and other resources providers (users) want to understand and evaluate information entities provide about performance. Such information could affect their decisions to buy, sell or hold an investment or debt, to contribute or allocate resources, and lend or demand funds and other forms of credit.
5. The growing use of performance measures brings challenges and many users are asking for change – better quality performance measures, determined with rigour and explained with transparent disclosures.

Need for a framework

6. Entities' financial statements provide a strong foundation for financial reporting. But users consider additional types of information, including performance measures, when making investing, contributing, lending and other resource allocation decisions. Performance measures range from measures under GAAP to non-financial or operational measures.



7. GAAP performance measures are prepared by following a set of standards and typically are subject to assurance. For non-GAAP financial, other financial and operational measures reported outside GAAP, there is little guidance on how to develop and report those performance measures and they are usually not subject to assurance. As a result, there can be a lack of consistency, comparability and transparency in the reporting of performance measures from period to period, from entity to entity and within industries or sectors.
8. In particular, investors, contributors, lenders and other resource providers have expressed concerns to the AcSB and others about:
 - (a) the quality of performance measures reported;
 - (b) the lack of consistency of and transparency about performance measures reported by an entity period to period;
 - For entities subject to securities regulations, the definition of a non-GAAP financial measure and the related guidance on presentation and disclosure of non-GAAP financial measures can be found in Canadian Securities Administrators Staff Notice 52-306 (Revised) and/or applicable regulatory guidance in other jurisdictions.

- (c) the lack of comparability of performance measures reported between entities in the same industry or sector;
 - (d) the “expectation gap” about the governance practices of entities over how performance measures are developed and reported, and whether those measures are subject to assurance; and
 - (e) the lack of clarity about how performance measures may or may not affect compensation payouts.
9. The AcSB is developing this Framework to enhance the usefulness and transparency of performance measures for users when management chooses to report them outside financial statements. This Framework and other planned activities are to spark conversations to improve the information on which users rely. The AcSB decided to undertake these activities after consulting stakeholders and its Accounting Standards Oversight Council (see [2018-2019 Annual Plan](#)).

Approach to developing the Framework

10. The AcSB is developing the Framework to address those concerns by considering various published research reports, materials and helpful aids (see [Appendix A](#)) and consulting senior leaders and influencers in financial reporting. In collaboration with FEI Canada, a forum was held to receive feedback on a draft of the Framework from senior management, directors, investors and analysts from Burnaby, Toronto and Montreal.

Call to action

11. Each of us – standard setters, management and their advisors, directors, assurance providers, investors, contributors, lenders, other resource providers, regulators and academics – play a key role in the financial reporting process. To improve the reporting of performance measures, we need to collaborate to make a difference.
12. Play your part by considering this Framework and other publications (see [Appendix A](#)), asking questions, sharing ideas and taking action.

Welcome feedback

13. Comments and suggestions to improve the Framework are welcome by October 1, 2018 at info@acsbcanada.ca.

Framework for Reporting Performance Measures

Purpose

14. This Framework describes principles for developing and reporting a performance measure outside financial statements by an entity when it chooses to do so. [Appendix B](#) provides an overview of the Framework.
15. Using this Framework promotes the reporting of a high-quality performance measure. Using this Framework does not equate to compliance with regulatory requirements for those entities subject to such requirements. No matter what, an entity is responsible to assess its compliance with regulatory requirements when reporting a performance measure. Additional considerations and disclosures may be required to comply with regulatory requirements.

Scope

16. A public company, a not-for-profit organization, a private company or a pension plan can apply this Framework to a financial, non-financial or operational performance measure. This Framework is not intended for a financial performance measure reported in accordance with GAAP or other accounting frameworks.
17. This Framework applies to a performance measure that is reported separately from and is not part of a set of financial statements (including note disclosures) prepared in accordance with an accounting framework, such as Canadian GAAP, IFRS[®] Standards or US GAAP; and is:
 - (a) a **non-GAAP financial measure** that is an adjustment to a GAAP financial measure*, such as funds from operations and adjusted earnings;
 - (b) **another financial measure** that is a financial measure and is not a GAAP or non-GAAP financial measure, such as dollars of order backlog and cost per dollar raised; or
 - (c) a **non-financial measure or operational measure** that reports physical or non-financial data, such as number of volunteers, employees, members, active users or new stores, and performance ratings on client service, safety and reliability.
18. The term **performance measure** is used in this Framework to refer only to those measures that are within the scope described above.

* For entities subject to securities regulations, the definition of a non-GAAP financial measure and the related guidance on presentation and disclosure of non-GAAP financial measures can be found in Canadian Securities Administrators Staff Notice 52-306 (Revised) and/or applicable regulatory guidance in other jurisdictions.

Responsibilities of management, directors and others

19. In the development and reporting of a high-quality performance measure:
- (a) management is responsible for establishing and applying policies and controls for determining and reporting the performance measure;
 - (b) those charged with governance, such as a Board of Directors or an Audit Committee, are responsible for overseeing the entity's process for developing and reporting a performance measure;
 - (c) independent experts, such as assurance providers, actuaries, engineers and valuation specialists, can provide verification of a performance measure reported; and
 - (d) users and others are responsible for:
 - (i) understanding and evaluating the performance measure and explanation reported; and
 - (ii) providing feedback to management on the usefulness of the performance measure to encourage continuous improvements in reporting.

Objective

20. The objective of reporting a performance measure is to provide information that is useful to the following users in making their resource allocation decisions:
- (a) investors, lenders and other creditors of a for-profit entity; and
 - (b) contributors, members, creditors and other resource providers of a not-for-profit entity.
21. Management may choose to report a performance measure when it provides useful and transparent information about how the entity creates and realizes value based on its strategy and objectives.
- (a) A for-profit entity focuses on creating net cash inflows and shareholder value. Creating and realizing value results in for-profit entities repaying lenders and other creditors, and providing returns to investors. A performance measure about how value is created and realized provides one type of information that users consider to make decisions to buy, sell or hold equity and debt instruments, or provide or settle loans and other forms of credit.
 - (b) A not-for-profit entity focuses on obtaining funding and achieving its service delivery objectives. Raising funding and the delivery of service to the public, members and others provide a return of value to contributors and other resources providers. A performance

measure about raising funds and the delivery of valuable services provides one type of information users need to make decisions to contribute, donate or lend resources.

Characteristics of a high-quality performance measure

22. This Framework uses the following characteristics to describe the attributes of a performance measure that make this information useful to users.

These characteristics are applied when <u>developing and reporting a performance measure</u> as described in an upcoming section of the Framework.	
Characteristics	Meaning
Relevance	<p>A relevant performance measure is capable of making a difference in decisions made by users.</p> <p>A performance measure is relevant when it has the potential to confirm an entity's past performance (value realization) or predict an entity's ability to create future value (value creation), or both.</p> <p>A relevant performance measure reflects the entity's performance in context of its short-term and long-term strategies, goals and objectives.</p>
Faithful depiction (including complete, neutral and free from material error*)	<p>A performance measure is faithfully depicted when its label, amount and related information reflect the underlying economic and operational characteristics of the information, and is complete, neutral and free from material error.</p> <p>A complete depiction includes all information necessary for a user to understand the performance measure, including all necessary descriptions and explanations.</p> <p>A neutral depiction means that the performance measure is not determined or reported in a way that increases the chance of providing a more favourable or unfavourable depiction. There should be no asymmetry in how the performance measure is calculated.</p> <p>A free from material error depiction* means the process used to produce the performance measure was selected and applied with no material errors, and that there are no material errors or omissions in the information reported about the performance measure.</p> <p>*In this context, free from material error does not mean perfectly accurate in all respects. An estimate cannot be determined to be accurate or inaccurate. However, an estimate can be faithfully depicted when the amount is described clearly and accurately as being an estimate, the nature and the limitations of the estimation process are explained, and no material errors were made in the process to develop the estimate.</p>

These characteristics are applied when <u>developing and reporting a performance measure</u> as described in an upcoming section of the Framework.	
Characteristics	Meaning
Consistency	A performance measure is consistent when an entity determines the same performance measure using the same method from period to period, or in a single period across entities in a group entity.
Comparability	A performance measure is comparable when a performance measure that is similar in nature is comparable across different entities that report it. Comparability can be assessed within an industry or sector, and across different industries or sectors. A performance measure that is different is not reported as comparable. Consistency helps achieve comparability.
Verifiability	Verifiability helps assure users that a performance measure faithfully depicts the underlying economic and operational characteristics of the information. A performance measure is verifiable when the faithful depiction of the performance measure can be independently validated by others, including assessing the inputs and estimates used, and its calculation. If the performance measure is, or includes, an estimate, verifiable does not mean that management and independent parties agree on the same number. Rather, it means that the range of estimates and related probabilities are reasonable.
Timeliness	A performance measure is timely when the information is available to users in time to be capable of influencing their decisions. Generally, the older the information, the less useful it is. However, some information may continue to be timely over longer periods of time. For example, some users may need to identify and assess trends.
Understandability	A performance measure is understandable when information about it is described and reported clearly and concisely. To this end, a transparent disclosure provides the information necessary for a user to understand the performance measure.

23. A performance measure must first be relevant and faithfully depict the value realized or the ability to create value (including being complete, neutral and free from material error) for it to be useful.
24. Consistency, comparability, verifiability, timeliness and understandability further enhance the usefulness of a performance measure. These characteristics should be maximized to the extent possible.
25. Sometimes there could be trade-offs between the characteristics. For example, when an entity's strategy or operations change, a new performance measure may be introduced to provide more relevant information. In so doing, the performance measures the entity reported this year and before could be inconsistent. While consistency could be achieved if the entity is able to

develop and report the performance measure for the prior year, that may not be feasible. Some inconsistency is preferable when it results in providing more relevant information. During such a change, disclosures that explain the change – including the rationale for the change and why a performance measure is no longer relevant – can bridge this gap (see upcoming sections for **establishing policies, controls and procedures** and **communicating effectively**, including how to **refresh** a performance measure).

Materiality

26. A performance measure and information reported about it would be material if misstating it could influence decisions that users make based on that information about the entity. Materiality is an entity-specific judgment made by assessing the particular circumstances. Materiality is considered when selecting a relevant performance measure, developing a faithful depiction of the performance measure, and assessing information reported about it, based on its nature and magnitude, or both.

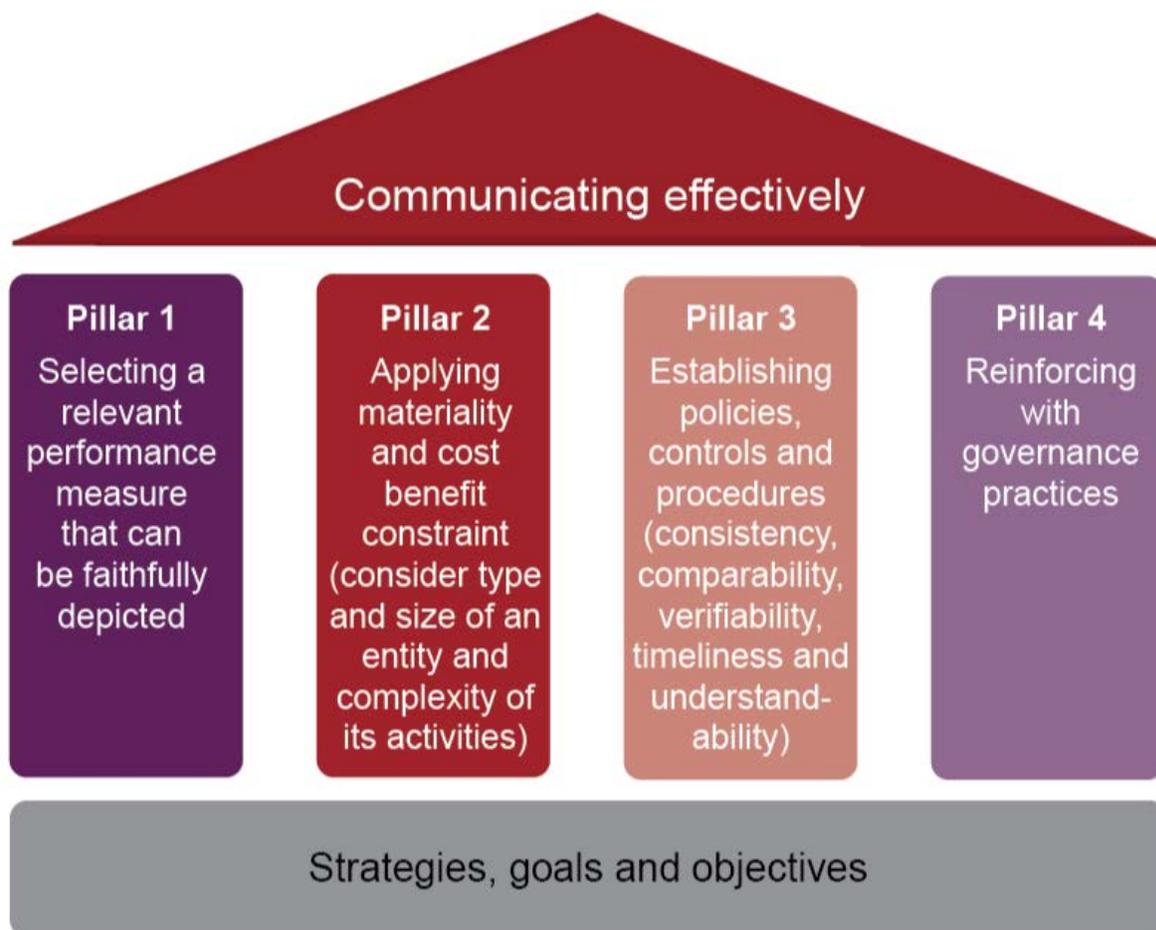
Cost benefit constraint

27. The cost of developing a performance measure is justified by the benefits of reporting it.
28. An entity incurs costs to develop and report a performance measure and users incur costs to analyze and interpret the information provided. When information is not provided, or the information is not clear or concise, users may incur additional costs to obtain it or understand it.
29. Reporting a performance measure that is relevant and faithfully depicted helps users make decisions with more confidence. Such informed decision-making results in more efficient investing, contributing, lending and allocation of other resources.

Developing and reporting a performance measure

30. The diagram below illustrates the principles or building blocks an entity uses to develop or construct a performance measure. Each principle is explained in the following sections, including how to apply the qualitative characteristics, materiality and cost benefit constraint throughout the process.

Principles – Performance Measure



Setting the foundation

31. An entity looks to its strategies, goals and objectives to identify key activities it has undertaken and will undertake to generate value in the short and long term. These strategies, goals and objectives set the foundation for assessing what information an entity may want to report externally – in addition to information reported in financial statements.

32. An entity also considers economic and other information to identify what to report externally. When considering users' needs, the entity can benchmark what it reports to other entities in the same industry or sector to identify other aspects to report.

Establishing the pillars

Pillar 1 – Selecting a relevant performance measure that can be faithfully depicted

33. A relevant performance measure is one that conveys key additional or explanatory information about how the entity generated and will generate value in achieving its strategies, goals and objectives, or provides context for assessing the entity's performance. A performance measure can provide insight into how management thinks and manages its operations. Such a performance measure could affect decisions made by investors, contributors, lenders and other resource providers.
34. An entity uses performance measures internally to manage its ongoing operations within each segment, department and program. Management may consider these internal measures when selecting a relevant performance measure that best reflects its ongoing operations to be reported externally.
35. Investors, contributors, lenders and other resource providers may request an entity to report a performance measure commonly used by other entities operating in the same industry or sector. Although this information may provide users an ability to compare entities, management should evaluate whether a performance measure expected by users is relevant to understanding the entity's performance before reporting it. Such an evaluation may identify the need for discussing the merits of the performance measure with users, and providing other disclosures that may be more useful to understanding the entity with the accompanying rationale.

36. Factors to consider in selecting a relevant performance measure include the following:

Value creation

- (a) What are the key value drivers that reflect how the entity can achieve its stated short-term and long-term strategies? For example, if the entity's objective is to achieve a balanced capital allocation strategy, a relevant performance measure could be its return on invested capital or debt to capital ratios.
- (b) What are the entity-specific drivers to create value? Such a relevant performance measure may report on research and development activities (product or program innovation), customer retention statistics (customer or client satisfaction), market share statistics (market or membership penetration), and attrition statistics (talent or volunteer retention).

Value realization

- (c) What are the key indicators that reflect how the entity achieves its performance objective? For example, if performance is reflected by strong shareholder returns, performance measures such as return on equity and dividend payout ratio could be relevant. For a public benefit entity, the number of meals served per day in a shelter may be a relevant performance measure.
- (d) What are the key success factors that demonstrate achievement of the entity's strategy? For example, if a key success factor is the growth in market penetration, a relevant performance measure could be size of the market and the entity's share of it compared to other entities in the same industry or sector. For a member-based entity, the percentage increase in membership may be a relevant performance measure.

Other factors

- (e) What performance measure is used in determining short-term and long-term compensation plans?
- (f) Is there a performance measure requested by investors, contributors, lenders and other resource providers or reported by other entities in the same industry or sector? Does it reflect how management evaluates its goals and objectives?
- (g) Is there a performance measure that is relevant to help users understand how the entity has complied with regulatory, environmental and contractual requirements (e.g., actual

Relevance

A relevant performance measure is capable of making a difference in decisions made by users.

A performance measure is relevant when it has the potential to confirm an entity's past performance (value realization) or predict an entity's ability to create future value (value creation), or both.

A relevant performance measure reflects the entity's performance in context of its short-term and long-term strategies, goals and objectives.

emissions from a factory) that can affect its going concern assumption (e.g., could lose their licence to operate if not in compliance) and ability to generate value?

37. Factors to consider when determining whether a performance measure is a faithful depiction of the information include the following:
- (a) Do the inputs, the resulting performance measure, its label and other information about it reflect the underlying economic and operational characteristics of the activity?
 - (b) Does the performance measure provide a complete picture to help users understand the information? A complete picture includes all necessary descriptions and explanations to understand the performance measure, including context for users to assess its results.
 - (c) Is the performance measure neutral in that it neither overstates nor understates the entity's performance? A neutral performance measure does not emphasize, de-emphasize or otherwise change the entity's performance.
 - (d) Does the established process capture the inputs to develop the performance measure so that it is free from material error? Were estimated amounts developed and judgments made following the established process? Sometimes the inputs to develop the performance measure are used for other financial reporting purposes. In those cases, the established process, controls and procedures to capture those inputs should be considered when assessing whether the performance measure (including any estimates developed and judgments made) is free from material error.
38. Management should select the relevant performance measure that can be faithfully depicted to provide users with a complete and neutral picture of the information that is free from material error. This first pillar involves exercising judgment with the rigour set out in [Pillar 2](#), [Pillar 3](#) and [Pillar 4](#).

Faithful depiction (including complete, neutral and free from material error)

A performance measure is faithfully depicted when its label, amount and related information reflect the underlying economic and operational characteristics of the information, and is complete, neutral and free from material error.

A complete depiction includes all information necessary for a user to understand the performance measure, including all necessary descriptions and explanations.

A neutral depiction means that the performance measure is not determined or reported in a way that increases the chance of providing a more favourable or unfavourable depiction. There should be no asymmetry in how the performance measure is calculated.

A free from material error depiction means the process used to produce the performance measure was selected and applied with no material errors, and that there are no material errors or omissions in the information reported about the performance measure.

Stand back assessment

39. When selecting a relevant performance measure, management should also stand back and assess whether the performance measure is providing incremental useful information. Reporting multiple performance measures should not confuse or distract from communicating relevant information about the entity.
40. Management exercises judgment when prioritizing and selecting a performance measure to report that is helpful to users in understanding the entity's strategies and objectives, its past performance and its ability to create value. In the process, management should consider the type and size of the entity and the complexity of its activities as well.

Pillar 2 – Applying materiality and the cost benefit constraint

41. A relevant performance measure – and explanatory information about it – can make a difference in the decisions users make to invest, contribute, or lend resources to the entity. Materiality relates to relevance as it describes the significance of the performance measure to users and faithful depiction given the importance of the performance measures reflecting the underlying economics and operational activity of the entity. Materiality is a matter of professional judgment in the circumstance.
42. Misstating a performance measure and information about it would be material if it would influence or change decisions users make.
43. Management should use professional judgment when selecting, determining and reporting a performance measure and accompanying information to minimize the risk of material misstatement, including those performance measures that are subject to estimation uncertainty. Management should consider the effect of a material error in the context of its use by investors, contributors, lenders and other resource providers that rely on that information. For example, a small error in reporting the cost per ounce could be material if it would affect decisions made by investors or lenders.
44. The benefits to users from developing and reporting a performance measure should exceed the costs of doing so, otherwise it should not be reported. The benefits and costs of developing and reporting a performance measure may differ between entities depending on:
 - (a) the type and size of an entity;
 - (b) the complexity of its activities; and
 - (c) the nature, number and information needs of its users.

45. If several users calculate a performance measure regardless of whether management reports it, it may be cost effective for management to do so for users. At a minimum, management can develop a more faithful depiction of the performance measure than can a user. When a performance measure expected by users is not the most relevant to report, management should explain and describe why an alternate performance measure selected and reported is more relevant compared with the one expected by users.

Pillar 3 – Establishing policies, controls and procedures

46. Policies and procedures set out the guidelines management wants followed when developing and reporting a performance measure. They can also be helpful to guide discussions and decisions around potential changes in how a performance measure is determined, reported or replaced. These guidelines help to promote consistency, comparability, verifiability, timeliness and understandability of reported performance measures. Policies and procedures are supplemented by controls to ensure that policies are implemented properly, and procedures are being followed.
47. Entities vary in type, size and complexity of their activities. Those factors should be considered when determining the robustness of policies and the extent of controls and procedures required to develop and report a high-quality performance measure so the benefits exceed the costs (see **Pillar 2**). Smaller-sized entities may use less structured and simpler controls and procedures to promote consistency, comparability, verifiability, timeliness and understandability of a reported performance measure. Regardless of the size of the entities, more rigorous controls and procedures should be applied when an entity engages in complex activities.
48. An entity should monitor its assessment of the effort needed – to identify when a policy should be reworked, or the extent of controls and procedures adjusted to reflect changes in their activities and environment.

49. A robust policy for a performance measure:

- (a) defines the roles, authority and responsibilities for developing and reporting, and providing oversight over, the performance measure;
- (b) defines the performance measure and the rationale for reporting it;
- (c) explains how estimates and judgments are to be made, including the nature of adjustments to the performance measure and when such adjustments are or are not made;
- (d) explains how it is to be calculated;
- (e) explains how and why it is different from a commonly used performance measure when known;
- (f) establishes a basis for assessing estimates and the need for adjustments;
- (g) identifies the information to be reported about the performance measure (see **Communicating effectively**);
- (h) sets out the date at which the performance measure is determined, the period of activity it covers and whether it is reported quarterly, semi-annually, or annually;
- (i) considers how timely the performance measure needs to be available to users to be useful; and
- (j) identifies triggers for when to consider changes to how an existing performance measure is determined and when to update the policy.

Consistency

A performance measure is consistent when an entity determines the same performance measure using the same method from period to period, or in a single period across entities in a group entity.

Timeliness

A performance measure is timely when the information is available to users in time to be capable of influencing their decisions.

50. Consider setting up procedures and related controls to ensure the following:

- (a) **Compliance** — A performance measure is prepared in accordance with criteria, including the entity's policy, applicable regulatory guidance and this Framework.
- (b) **Consistency of preparation** — A performance measure is developed and presented consistently each period, including evaluating the appropriateness and consistency of adjustments made.
- (c) **Data quality** — A performance measure is calculated using reliable inputs that are subject to appropriate controls.

- (d) Accuracy of calculation — A performance measure is calculated with arithmetic accuracy, and the performance measure reported agrees with the amount calculated.
- (e) Transparency of reported information — The description of a performance measure, any changes in how it was determined and other required disclosures are clear and concise.
- (f) Review of reported information — The appropriate level of management reviews the information to be reported to:
 - (i) confirm the faithful depiction of the performance measure (including being complete, neutral and free from material error);
 - (ii) ensure that the related information is consistent and understandable; and
 - (iii) ensure that the context in which the information is discussed is objectively presented.
- (g) Assess periodically — The entity periodically assesses the relevance of a performance measure reported to ensure it stays useful.
- (h) Refresh — There are procedures and controls to guide changes to existing performance measures or creating new measures, including:
 - (i) how changes in the inputs, calculation or adjustments to an existing performance measure are to be evaluated and approved;
 - (ii) when to add a new performance measure and replace or remove a currently reported performance measure;
 - (iii) how new performance measures or the removal of performance measures that are no longer relevant are evaluated and approved; and
 - (iv) how approved changes should be reported, such as by including a clear rationale for the changes and restating the prior period.

Comparability

A performance measure is comparable when a performance measure that is similar in nature is comparable across different entities that report it. Comparability can be assessed within an industry or sector, and across different industries or sectors. A performance measure that is different is not reported as comparable. Consistency helps achieve comparability.

Verifiability

A performance measure is verifiable when the faithful depiction of the performance measure can be independently validated by others, including assessing the inputs and estimates used, and its calculation. If the performance measure is, or includes, an estimate, verifiable does not mean that management and independent parties agree on the same number. Rather, it means that the range of estimates and related probabilities are reasonable.

- (i) Oversight — Management ensures appropriate oversight over the determination of the performance measure and information reported, such as by internal audit, a disclosure committee (an internal cross-functional group of management) or an audit committee.

Pillar 4 – Reinforcing with governance practices

- 51. Those charged with governance (including directors and audit committees) are responsible for providing oversight to the development and reporting of a high-quality performance measure (see [Characteristics of a high-quality performance measure](#)).
- 52. Using the factors described in [Pillar 2](#), the appropriate extent of governance practices should also be considered as part of overseeing the development and reporting of a performance measure. Such considerations should result in the benefits exceeding the costs. An owner-manager of a smaller-sized entity may be able to exercise effective oversight in a less structured manner to promote consistency, comparability, verifiability, timeliness and understandability of reported performance measures. On the other hand, a disclosure committee that reports to an audit committee may be needed to promote effective oversight in a larger-sized public company.
- 53. The following actions are indicative of strong governance practices for overseeing the development and reporting of a performance measure:
 - (a) Discuss with and assess how management selected its performance measure.
 - (b) Assess whether the performance measure is typical of the industry or sector.
 - (c) Consider whether management has clearly defined its performance measure and explained its rationale for the performance measure reported.
 - (d) Assess whether the performance measure faithfully depicts operating versus non-operating and recurring versus non-recurring transactions.
 - (e) Assess whether management has adequate procedures and controls in place to review the entity's reporting of the performance measure.
 - (f) Evaluate the effectiveness of management's procedures and controls over the data and processes.
 - (g) Assess the transparency of how performance measures are reported, including how the result of the reported performance measures would affect compensation payouts.
 - (h) May consider independent assessment of the adequacy of the entity's disclosure procedures and controls and/or the reporting of performance measures by internal audit, assurance providers or other experts.

Communicating effectively

54. A reported performance measure is communicated effectively when it is transparently disclosed and is available to users in time to influence their decisions. Such disclosure includes entity-specific information for users to:
- (a) understand why the performance measure is chosen or relevant to assessing the entity's performance when it is used to evaluate its operations, or the performance measure is identified as one commonly reported in the industry or sector;
 - (b) understand the additional ways management uses the performance measure (e.g., in compensation plans);
 - (c) assess trends in the performance measure by reporting it for multiple periods determined on a consistent basis;
 - (d) understand how the performance measure is determined, including estimates made and the date or period the performance measure covers, any changes in how it was determined and why, or why a performance measure is no longer reported;
 - (e) develop a performance measure for the entity that can be compared to measures reported by other entities in the same industry or sector;
 - (f) assess the quality of the performance measure used;
 - (g) assess the adequacy of procedures, controls and governance around the development and reporting of the performance measure;
 - (h) understand whether the performance measure was subject to some process of verification, potentially review or audit procedures by internal or external parties; and
 - (i) conclude on the usefulness of the performance measure.
55. An entity reports the fact it has voluntarily applied this Framework, either in its entirety or the respective portion, to develop and report a performance measure to tell users about the quality of its reporting and governance practices.
56. **Appendix C** outlines some disclosures an entity can consider.

Understandability

A performance measure is understandable when information about it is described and reported clearly and concisely. To this end, a transparent disclosure provides the information necessary for a user to understand the performance measure.

APPENDIX A

Reference and resources

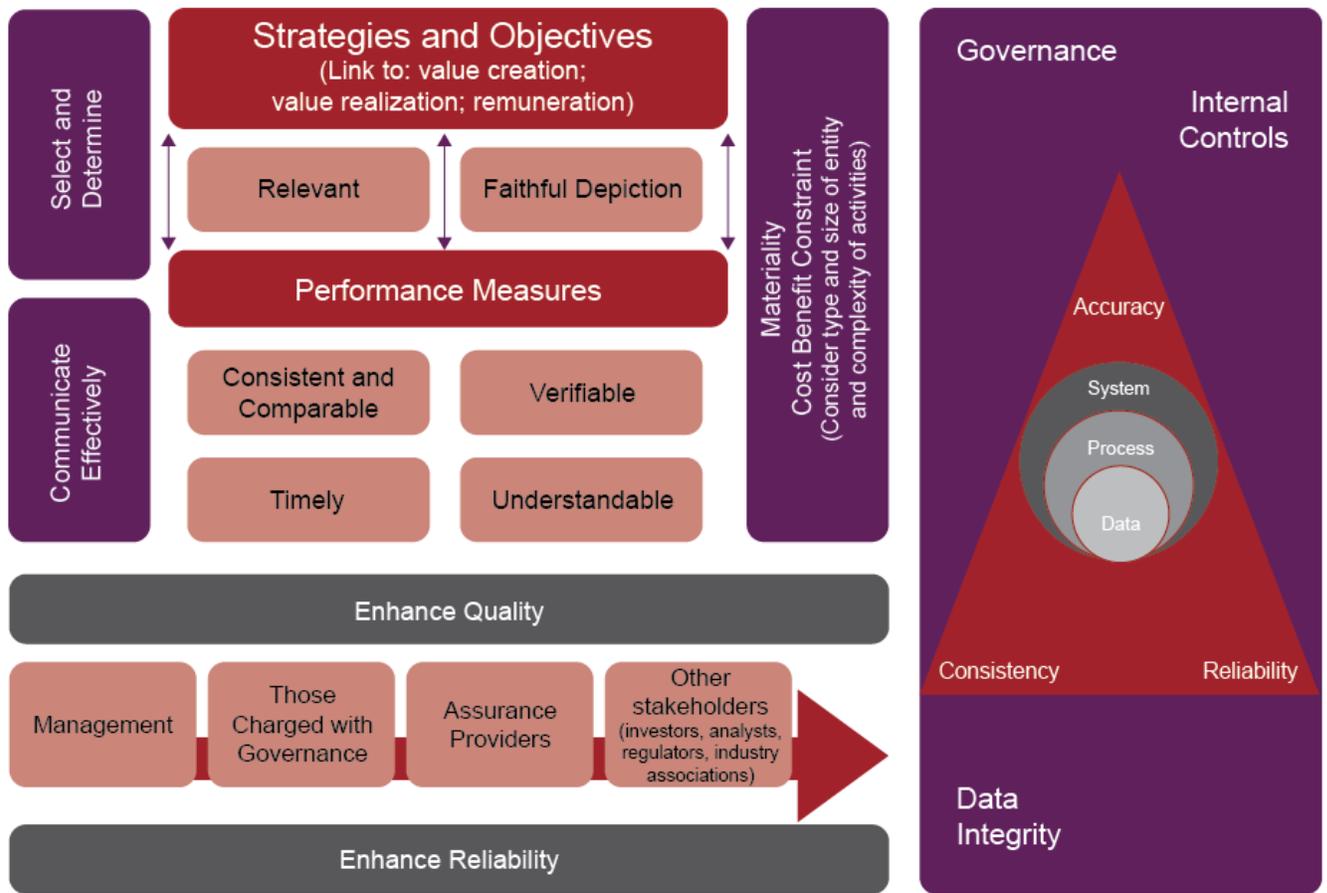
Below are materials used in the development of this Framework that may assist entities when developing and reporting a performance measure.

1.	Canadian Public Accountability Board. <i>Earning Investor Confidence</i> . May 2017 http://www.cpab-ccrc.ca/Documents/Topics/Audit%20Quality%20Symposium/2017%20AQS%20Key%20Messages%20EN.pdf
2.	Canadian Securities Administrators. <i>CSA Staff Notice 52-306 (Revised)</i> , January 14, 2016. http://www.osc.gov.on.ca/documents/en/Securities-Category5/csa_20160114_52-306_non-gaap.pdf
3.	Center for Audit Quality. <i>Non-GAAP Measures – A Roadmap for Audit Committees</i> . March 2018 https://www.theqaq.org/file/4781/download?token=iqhieo7z
4.	CFA Society Toronto. <i>The Relevance of Audit</i> . May 17, 2017.
5.	CPA. <i>Key Performance Indicators – Tool for Audit Committees</i> . Chartered Professional Accountants of Canada, 2017. file:///D:/Users/llee/Downloads/G10394-RG-KPI-Tool-for-Audit-Committees-August-2017%20(1).pdf
6.	CPA. <i>Reporting Alert Corporate Reporting – Management Considerations for Effective KPI Disclosure</i> , April 2018. file:///D:/Users/llee/Downloads/01655-RG-Corporate-Reporting-Alert-Management-Considerations-Effective-KPI-Disclosure-April-2018.pdf
7.	Deloitte (The Wall Street CFO Journal). <i>Understanding Disclosure Controls over Non-GAAP Measures</i> . July 22, 2016. http://deloitte.wsj.com/cfo/2016/07/22/understanding-disclosure-controls-over-non-gaap-measures/
8.	Deloitte. <i>Is more less? Exploring a new world of corporate reporting</i> . Parts 1-4. 2015. https://www2.deloitte.com/ca/en/pages/audit/articles/corporate-reportings.html
9.	Deloitte. <i>Thinking allowed – Non-GAAP and Alternative performance measures</i> . February 16, 2017. https://dart.deloitte.com/USDART/resource/654a31ca-f562-11e6-b94a-b90babd4b39f
10.	European Securities and Markets Authority. <i>Questions and answers – ESMA Guidelines on Alternative Performance Measures (APMs)</i> . October 30, 2017 file:///D:/Users/llee/Downloads/esma32-51-370_qas_on_esma_guidelines_on_apms%20(3).pdf

11.	EY. <i>Metrics matter – How Internal Audit can help organizations assess performance measurement</i> . May 2015. http://www.ey.com/Publication/vwLUAssets/Metrics-Matter/\$FILE/EY-Metrics-Matter.pdf
12.	EY. <i>Performance – Providing insight and analytics for business professionals</i> . Volume 6 Issue 2. 2014. http://www.ey.com/Publication/vwLUAssets/EY-performance-volume-6-issue-2/\$FILE/EY-performance-volume-6-issue-2.pdf
13.	Georgopoulos, Taso and Scilipoti, Anthony. <i>Accounting Alert – Performance Measurement: The Rise of Non-GAAP Metrics</i> . Veritas Investment Research, September 8, 2016. https://maximizer.veritascorp.com/virdocs/Accounting-Alert-The-Rise-of-Non-GAAP-Metrics-Veritas-September-8-2016.pdf
14.	Georgopoulos, Taso. <i>Accounting Alert – Non-GAAP – Performance Measurement Vol. 2: The Non-GAAP Link to Compensation</i> . Veritas Investment Research, October 16, 2017
15.	Globe and Mail: THE NUMBERS GAME, September 24, 2016 McFarland, Janet. <i>Watchdogs push for earnings clarity</i> Scilipoti, Anthony. <i>Why Investors Should Care</i> Milstead, David. <i>How Five Companies Play the Numbers Game</i> http://globe2go.newspaperdirect.com/epaper/viewer.aspx?noredirect=true
16.	KPMG. <i>Presenting performance: The journey to greater clarity</i> . 2016. https://home.kpmg.com/content/dam/kpmg/qm/pdf/presenting-performance-the-journey-to-greater-clarity.pdf
17.	KPMG. <i>Closing the non-GAAP: can non-GAAP reporting be made more consistent, relevant and meaningful?</i> . May 22, 2017. https://home.kpmg.com/xx/en/home/insights/2017/05/closing-the-non-gaap-can-non-gaap-reporting-be-made-more-consistent-relevant-and-meaningful.html
18.	NACD Audit Committee Chair and Compensation Committee Chair Advisory Councils. <i>Nonfinancial Metrics, Strategy, and Culture</i> . National Association of Corporate Directors, 2018. https://www.nacdonline.org/Resources/Article.cfm?ItemNumber=53207
19.	PricewaterhouseCoopers. <i>Corporate performance: What do investors want to know?</i> September 2014. https://www.pwc.com/gx/en/audit-services/corporate-reporting/publications/investor-view/assets/pwc-investors-survey-powerful-stories-through-integrated-reporting.pdf
20.	PricewaterhouseCoopers. <i>Guide to key performance indicators – Communicating the measure that matter</i> . 2007 https://www.pwc.com/gx/en/audit-services/corporate-reporting/assets/pdfs/uk_kpi_guide.pdf

APPENDIX B

Overview of the Framework for Reporting Performance Measures



APPENDIX C

Disclosure considerations

The list below includes many of the disclosures that may apply to some but not all performance measures*.

	Relevance	Faithful Depiction	Consistency	Comparability	Verifiability	Timeliness	Understandability
Any performance measure							
1. Identify and specify the purpose of the reported performance measure, explaining why the chosen performance measure is relevant to the understanding of the strategy, objectives and goals of the entity.	x	x					x
2. Define the performance measure and explain the key methodologies and assumptions including components of the performance measure and how it is calculated.		x	x	x		x	x
3. Explain clearly how the reported performance measure affects compensation payouts.	x	x					x
4. Provide targets (past and future) for a performance measure and how performance is tracking against that target.				x			x
5. Provide trend data and explain management's actions given those trends.				x		x	x
6. Reference an industry or sector-specific performance measure and whether a common definition is used, and, if not, how the definition used differs.		x	x	x			x
7. Provide a performance measure at the appropriate level of aggregation and disaggregation to enable users to understand the information.				x			x
8. Specify source, assumptions and limitations of the performance measure.		x		x	x	x	x
Non-GAAP financial measure							
9. Use meaningful labels that are clear and concise		x			x		x
(i) A GAAP-adjusted financial measure is clearly labelled as "non-GAAP".							
(ii) an item should not be described as "non-recurring", "infrequent" or "unusual" if it has occurred in recent years or is likely to occur in the near future.							

* For entities subject to securities regulations, the definition of a non-GAAP financial measure and the related guidance on presentation and disclosure of non-GAAP financial measures can be found in Canadian Securities Administrators Staff Notice 52-306 (Revised) and/or applicable regulatory guidance in other jurisdictions.

	Relevance	Faithful Depiction	Consistency	Comparability	Verifiability	Timeliness	Understandability
10. Explain the rationale for the adjustments to a GAAP financial measure and why the non-GAAP measure is more useful.	x	x	x	x	x		x
11. A GAAP financial measure is reported equally prominent to a non-GAAP financial measure.		x					
12. Include a reconciliation of a non-GAAP financial measure (or component) to GAAP.		x		x	x		x
Other							
13. Clearly explain why a new performance measure is introduced and/or old performance measure is modified. Explain why the new or a modified performance measure is more relevant. Include restated performance measures when needed.		x	x	x		x	x
14. The entity states that it has developed and reported a performance measure following this Framework.	x	x	x	x	x		x
15. State that a performance measure is “unaudited, unless noted”.					x		x



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Draft Framework for Reporting Performance Measures