



Framework for Reporting Performance Measures

**Voluntary guidance to enhance the relevance of
financial reporting**

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Acknowledgement

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

- Senior Management, Directors and Advisors
- Various users of financial information
- Assurance providers, securities regulators and academics
- Standard setters from over 30 jurisdictions
- Representatives of the Canadian Securities Administrators
- Chartered Professional Accountants of Canada (CPA Canada)
- CFA Society
- Veritas Investment Research
- Financial Executives International Canada and the Canadian Financial Executive Research Foundation



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.



Message from the Chair

The AcSB is taking a leadership role – in Canada and globally – to enhance the relevance of performance information entities choose to report.

We are responding to concerns raised by many investors, contributors, lenders and other resource providers about performance measures reported by entities (see [Scope](#)). We issued this Framework to encourage conversations and actions to improve the quality of information when entities choose to report performance measures outside financial statements.

So what performance measures does the Framework cover? Our definition of performance measures is broad and is intended to include measures commonly referred to as non-GAAP financial measures, such as those monitored by securities regulators. As well, our definition includes other performance measures such as non-financial and operational measures.

Improving the quality of this type of information is a shared objective with many groups, including the Canadian Securities Administrators. For entities subject to securities requirements, a key objective is to comply with the relevant securities requirements. We think the Framework can act as complementary guidance to support those entities in developing processes and establishing governance procedures that can assist them in their compliance objectives.

So who can this Framework help? All types of for-profit and not-for-profit entities can benefit from the guidance in the Framework. During consultations, we heard some large-sized entities with established processes and controls over the reporting of non-GAAP financial measures reflecting on how their practices differ for reporting non-financial or operational measures. On the other hand, some developing entities are thinking about how to use this Framework while deciding for the first time what financial and non-financial performance measures to report. These conversations have reinforced the use of and difficulties of reporting performance measures by public companies, not-for-profit organizations, private companies, pension plans and other types of publicly accountable and private enterprises. We discussed this Framework with a broad spectrum of leaders in financial reporting in Canada and internationally. There is strong support for this type of guidance 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 performance measures that are 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 all entities that choose to report financial, non-financial and operational performance measures outside financial statements improve the quality of this information. The Framework helps by setting out what we think is best practice guidance for:

- selecting, developing 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 decide on the extent of controls and governance practices that are appropriate. The Framework also focuses on the exercise of judgement to communicate relevant information about a performance measure that enables users, after assessing the information, to understand that performance measure. Such considerations result in the benefits exceeding the costs.

We think the Framework is a tool to guide:

- **management** in developing and assessing how effectively their financial and non-financial performance measures meet their users' needs as well as explaining how that reporting is of high-quality;
- **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 application of this Framework as part of obtaining the type and quality of information they need.

So what's next? We want to do our part in supporting improvements in the quality of reporting performance measures and issuing this Framework was our first step. The Framework is non-authoritative and therefore application of the Framework is voluntary. We plan to encourage its application by:

- promoting awareness of the Framework, including through conferences and webinars to those charged with governance and users;
- supporting other groups and standard setters in leveraging the Framework guidance in publications and other materials that have a common objective; and
- working with certain other associations and groups to develop application guidance, such as industry and sector-based guidance.

As well, we stand ready to review and revise the Framework based on feedback and developments in practice and evolving regulatory requirements.

Join the initiative to help improve the quality of financial and non-financial performance measures reported outside financial statements by leveraging this Framework.



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

Table of Contents

Acknowledgement	2
Message from the Chair	3
Introduction	7
Need for a framework	7
Approach to developing the Framework	9
Call to action	9
Welcome feedback	10
Framework for Reporting Performance Measures	11
Purpose	11
Scope	11
Responsibilities of management, directors and others	12
Objective	13
Characteristics of a high-quality performance measure	13
Materiality	15
Cost benefit constraint	16
Selecting, developing and reporting a performance measure	16
Building from the foundation	17
Establishing the pillars.....	17
Communicating effectively	24
APPENDIX A	26
Reference and resources.....	26
APPENDIX B	28
Overview of the Framework for Reporting Performance Measures	28
APPENDIX C	29
Disclosure considerations	29

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 may also 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 resource 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, developed 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 reported outside the financial statements, when making investing, contributing, lending and other resource allocation decisions. Performance measures range from measures consistent with GAAP (generally accepted accounting principles) to non-financial or operational measures.

		Performance Measures			
		GAAP Financial Measures	Non-GAAP Financial Measures	Other Financial Measures	Non-financial / Operational Measures
Examples	For-profit	Earnings per share	Adjusted earnings	Dollars of order backlog	Barrels of oil equivalent per day
	Not-for-profit	Excess of revenue over expenses	Adjusted revenue by funding source	Growth in contributions	Number of clients served
	Summary description	A financial measure presented in the financial statements	A numerical measure not presented in financial statements that is developed by excluding or including amounts in a GAAP financial measure*	A financial measure that is not a GAAP or non-GAAP financial measure	An operational measure that reports physical or non-financial data

Within the scope of the Framework

7. GAAP performance measures are prepared by following a set of standards and typically are subject to assurance as part of the audit of the annual financial statements. For non-GAAP financial, other financial and operational measures reported outside of financial statements, there is little guidance on how to select, 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;

* See paragraph 22(a) for the **definition of non-GAAP financial measure**. For entities subject to Canadian securities requirements, 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). Entities subject to securities requirements in other jurisdictions should consult the applicable regulatory requirements in those jurisdictions.

- (b) the lack of consistency of and transparency about performance measures reported by an entity period to period;
 - (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 some form of verification; and
 - (e) the lack of clarity about how performance measures may or may not affect compensation payouts.
9. The AcSB developed 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 meant to spark conversations and actions to improve the information on which users rely. The AcSB undertook these activities after consulting stakeholders and its Accounting Standards Oversight Council (see [2018-2019 Annual Plan](#)).

Approach to developing the Framework

10. The AcSB developed 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. We sought additional feedback by issuing a draft of the Framework for comment from mid-June to the beginning of October 2018.
11. We received feedback through consultations, written responses and surveys from management, directors, assurance providers, users, regulators and academics. Engagement was from across Canada as well as internationally. The Framework was considered by standard setters and survey respondents were from Asia-Oceania, Europe and the Americas. Feedback received reflected stakeholders involved with for-profit and not-for-profit entities.
12. Your feedback and ideas helped guide how we revised the Framework to encourage improvements in the quality of reporting performance measures.

Call to action

13. 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.

14. Play your part by considering this Framework and other publications (see [Appendix A](#)), asking questions, sharing ideas and taking action.

Welcome feedback

15. We plan to review and revise the Framework, when needed, based on feedback and developments in practice and regulatory requirements. Share your experience in applying the Framework and suggestions to improve the Framework by emailing info@acsbcanada.ca.

Framework for Reporting Performance Measures

Purpose

16. This Framework describes principles for selecting, 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.
17. Using this Framework promotes the reporting of a high-quality performance measure. Application of the Framework is voluntary and its guidance is non-authoritative.
18. Using this Framework does not equate to compliance with securities and other regulatory requirements for those entities subject to such requirements. No matter what, an entity is responsible to assess its compliance with securities and other regulatory requirements when reporting a performance measure. Additional considerations and disclosures over and above the Framework may be required to comply with securities and other regulatory requirements issued domestically or internationally.
19. The Framework however can act as complementary guidance to support entities in developing processes and establishing governance procedures that can assist them in complying with securities and other regulatory requirements.

Scope

20. A public company, a not-for-profit organization, a private company, a pension plan or other type of publicly accountable enterprise or private enterprise can apply this Framework to a financial, non-financial or operational performance measure.
21. This Framework is not intended for a financial performance measure presented and disclosed in accordance with GAAP or other accounting frameworks, as authoritative standards govern their reporting. The concepts and practices in the Framework, while not required, may however help an entity in selecting, developing and reporting a quality performance measure in accordance with GAAP or other accounting frameworks.
22. 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 U.S. GAAP. We intend the scope of performance measures to be interpreted broadly to cover both financial and non-financial measures; however, non-GAAP financial measures are an integral sub-component of the broader category of performance measures. For purposes of this Framework, a performance measure includes:

- (a) A **non-GAAP financial measure*** that is a numerical measure of an entity's historical or future financial performance, financial position or cash flow that is not specified, defined or determined under the entity's applicable GAAP (accounting framework) and is not presented in the entity's financial statements. A non-GAAP financial measure excludes amounts that are included in, or includes amounts that are excluded from, the most directly comparable measure specified, defined or determined under the applicable accounting framework.
- (b) **Another financial measure** that is a financial measure and is not a GAAP or non-GAAP financial measure.
- (c) A **non-financial measure or operational measure** that reports physical or non-financial data.

23. The term **performance measure** is used in this Framework to refer only to those measures that are within the scope described above.

24. Examples of performance measures include for:

- (a) non-GAAP financial measures: adjusted earnings, funds from operations and adjusted revenue by revenue source;
- (b) other financial measures: dollars of order backlog, growth in revenue or contributions, program expenses over total expenses and cost per dollar raised; and
- (c) non-financial or operational measures: number of volunteers, employees, members, active users or new stores, and performance ratings on production output, client service, safety and reliability.

Responsibilities of management, directors and others

25. In the reporting of a high-quality performance measure:

- (a) **management** is responsible for establishing and applying policies, controls and procedures for selecting, developing and reporting the performance measure and related explanations;
- (b) **those charged with governance**, such as a Board of Directors or an Audit Committee, are responsible for overseeing the entity's process for selecting, developing and reporting a performance measure and related explanations;

* See [footnote](#) on page 8.

- (c) **independent parties**, such as actuaries, engineers and valuation specialists, can assess a performance measure and related explanations; and
- (d) **users and others** are responsible for:
 - (i) understanding and evaluating the performance measure and explanations reported; and
 - (ii) providing feedback to management on the usefulness of the performance measure to encourage continuous improvements in reporting.

Objective

26. 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.
27. 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 strategies, goals 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 benefit objectives by providing services. Raising funding and providing services to the public, members and others provides a return of value to contributors and other resource providers. A performance measure about raising funds and the provision 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

28. This Framework uses the following characteristics to describe the attributes of a performance measure that makes this information useful to users. These characteristics are similar to the qualitative characteristics used in an accounting framework to prepare financial statements.

These characteristics are applied when selecting, developing and reporting a performance measure 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 performance (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 faithful depiction of a performance measure is when its label, amount and related information reflect the underlying economic and operational characteristics of the information, and the measure 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 developed 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>
Consistency	<p>A performance measure is consistent when an entity develops the same performance measure using the same method from period to period, or in a single period across entities in a group entity.</p>
Comparability	<p>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.</p>
Verifiability	<p>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 it can be independently validated by others, including assessing the methodology, 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.</p>

These characteristics are applied when selecting, developing and reporting a performance measure as described in an upcoming section of the Framework.

Characteristics	Meaning
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.

29. 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.
30. Consistency, comparability, verifiability, timeliness and understandability further enhance the usefulness of a performance measure. These characteristics should be maximized to the extent possible.
31. 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 an entity would ideally restate the performance measure for the prior year and provide consistent information, that may not be feasible. Inconsistency for one period (i.e., on a temporary basis) is preferable when it results in providing more relevant information going forward*. 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

32. Materiality is an entity-specific judgment made by assessing the particular circumstances. An entity applies the materiality definition in the accounting framework they apply when reporting a performance measure and assessing information reported about it, based on its nature and magnitude, or both.

* Entities subject to Canadian securities requirements are required to restate comparative periods presented when the composition of a non-GAAP financial measure is changed. Entities subject to securities requirements in other jurisdictions should consult the applicable regulatory requirements in those jurisdictions.

Cost benefit constraint

33. The cost of developing a performance measure should be justified by the benefits of reporting it.
34. 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.
35. Reporting a performance measure that is relevant and is a faithful depiction helps users make decisions with more confidence. Such informed decision-making results in more efficient investing, contributing, lending and allocation of resources.

Selecting, developing and reporting a performance measure

36. The diagram below illustrates the principles or building blocks an entity uses to select, develop and report or construct each performance measure. Just as a strong foundation and pillars are essential to building a quality house, applying these principles and processes can result in reporting transparent and reliable information about each performance measure.
37. Each principle is explained in the following sections, including how to apply the characteristics of a high-quality performance measure, materiality and cost benefit constraint throughout the process.

Principles to apply to each Performance Measure



Building from the foundation

38. 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.
39. 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 a faithful depiction

40. 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 activities and operations. Such a performance measure could affect decisions made by its investors, contributors, lenders and other resource providers.
41. 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.
42. 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.
43. 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 is executing its stated short-term and long-term strategies? For example, if the entity has implemented 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 the entity is carrying out its 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 strategies, 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 emissions from a factory) that can affect its going concern assumption (e.g., could lose its licence to operate if not in compliance) and ability to generate value?

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 performance (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.

44. Factors to consider when developing a performance measure that is a faithful depiction 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 and related information provide a complete picture to help users understand the measure? 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.
45. 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 faithful depiction of a performance measure is when its label, amount and related information reflect the underlying economic and operational characteristics of the information, and the measure 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 developed 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

46. When selecting a relevant performance measure, management should also stand back and assess whether the performance measure is providing useful information about an aspect of an entity's performance. Reporting multiple performance measures about different aspects of an entity's performance should not confuse or distract from communicating relevant information about the entity (see [Communicating effectively](#) and [Appendix C](#)).
47. Management exercises judgment when prioritizing and selecting a performance measure to report that is helpful to users in understanding the entity's strategies, goals 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

48. 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 measure reflecting the underlying economics and operational activity of the entity. Materiality is a matter of professional judgment in the circumstance.
49. A performance measure and information about it would be material if it would influence or change decisions users make.
50. Management should use professional judgment when selecting, developing and reporting a performance measure and accompanying information to minimize the risk of material error, 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.
51. 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.
52. 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 more

readily develop a performance measure that is a faithful depiction than a user can. When a performance measure expected by users is not the most relevant to report from management's perspective, 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 for each performance measure

53. Policies and procedures set out the guidelines to be followed when developing and reporting each performance measure. They can also be helpful to guide discussions and decisions around potential changes in how a performance measure is developed, reported or replaced. These guidelines help to promote consistency, comparability, verifiability, timeliness and understandability of a reported performance measure. Policies and procedures are supplemented by additional controls to ensure that policies are implemented properly and procedures are being followed.
54. Entities vary in type, size and complexity of their activities. Those factors should be considered when assessing 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.
55. An entity should regularly assess the robustness of its policies, extent of controls and procedures required – to identify when a policy should be reworked, or the extent of controls and procedures adjusted to reflect changes in its activities and environment.
56. 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, 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;

Consistency

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

- (e) explains how and why it is different from a commonly used performance measure by other entities in the industry or sector 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) includes checking that benchmark data provides appropriate context when disclosed with the entity's performance measure;
- (i) sets out the date at which the performance measure is developed, the period of activity it covers and whether it is reported quarterly, semi-annually or annually;
- (j) considers how timely the performance measure needs to be made available to users to be useful; and
- (k) identifies triggers for when to consider changes to how an existing performance measure is developed and when to update the policy.

Timeliness

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

57. 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 policies, applicable regulatory requirements and this Framework.
- (b) Consistency of preparation — A performance measure is developed and reported 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 the performance measure was developed and other required disclosures are clear and concise. For additional considerations for transparent disclosure, see upcoming section for **Communicating effectively**.

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.

- (f) Review of reported information — The appropriate level of management reviews the information to be reported to:
 - (i) confirm the performance measure is a faithful depiction (including being complete, neutral and free from material error);
 - (ii) ensure that the related information is consistent and understandable, including benchmark data; and
 - (iii) ensure that the context in which the information is discussed is objectively presented.
- (g) Assess periodically — Management 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 develop 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.
- (i) Oversight — Management ensures appropriate oversight over the development 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 high-quality reporting with governance practices

58. Those charged with governance, including directors and audit committees, are responsible for providing oversight to the selection, development and reporting of a high-quality performance measure (see [Characteristics of a high-quality performance measure](#)).
59. Using the factors described in [Pillar 2](#), the appropriate extent of governance practices should also be considered as part of overseeing the selection, 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.

60. The following actions are indicative of strong governance practices for overseeing the selection, 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 relevant for 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 the performance measure is reported, including how the reported performance measure would affect compensation payouts.
- (h) Consider independent assessment of the entity's disclosure procedures and controls and/or the reporting of performance measures by internal and external parties.

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 it can be independently validated by others, including assessing the methodology, 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.

Communicating effectively

61. A reported performance measure is communicated effectively when it is transparently disclosed and is available to users in time to influence their decisions. Such high-quality disclosure includes entity-specific information for users to:

- (a) understand why the performance measure is relevant to assessing the entity's performance when it is used to evaluate its operations;

- (b) identify when a performance measure is:
 - (i) developed in accordance with industry or sector guidance by naming the guidance used, and describing whether and how the performance measure reported by the entity differs from that guidance; or
 - (ii) one commonly reported in an industry or sector but that there is no standardized definition for the performance measure so there may be differences between entities that report similar performance measures;
 - (c) understand the additional ways management uses the performance measure (e.g., in compensation plans);
 - (d) assess trends in the performance measure by reporting it for multiple periods developed on a consistent basis;
 - (e) understand how the performance measure is developed, including the source of the information, estimates made, the date or period the performance measure covers, and any changes in how it was developed and why, or why a performance measure is no longer reported;
 - (f) assess the result of the performance measure reported by providing additional context, such as the entity's past results, targets or benchmark information;
 - (g) develop a performance measure for the entity that can be compared to measures reported by other entities in the same industry or sector (e.g., set out qualitative and quantitative differences);
 - (h) assess the quality of the performance measure;
 - (i) assess the adequacy of procedures, controls and governance around the development and reporting of the performance measure;
 - (j) understand whether the performance measure was subject to some assessment by internal or independent parties; and
 - (k) conclude on the usefulness of the performance measure.
62. An entity reports the fact it has voluntarily, either in its entirety or the respective portion, selected, developed and reported a performance measure in accordance with this Framework to convey to users the quality of its reporting and governance practices.
63. **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

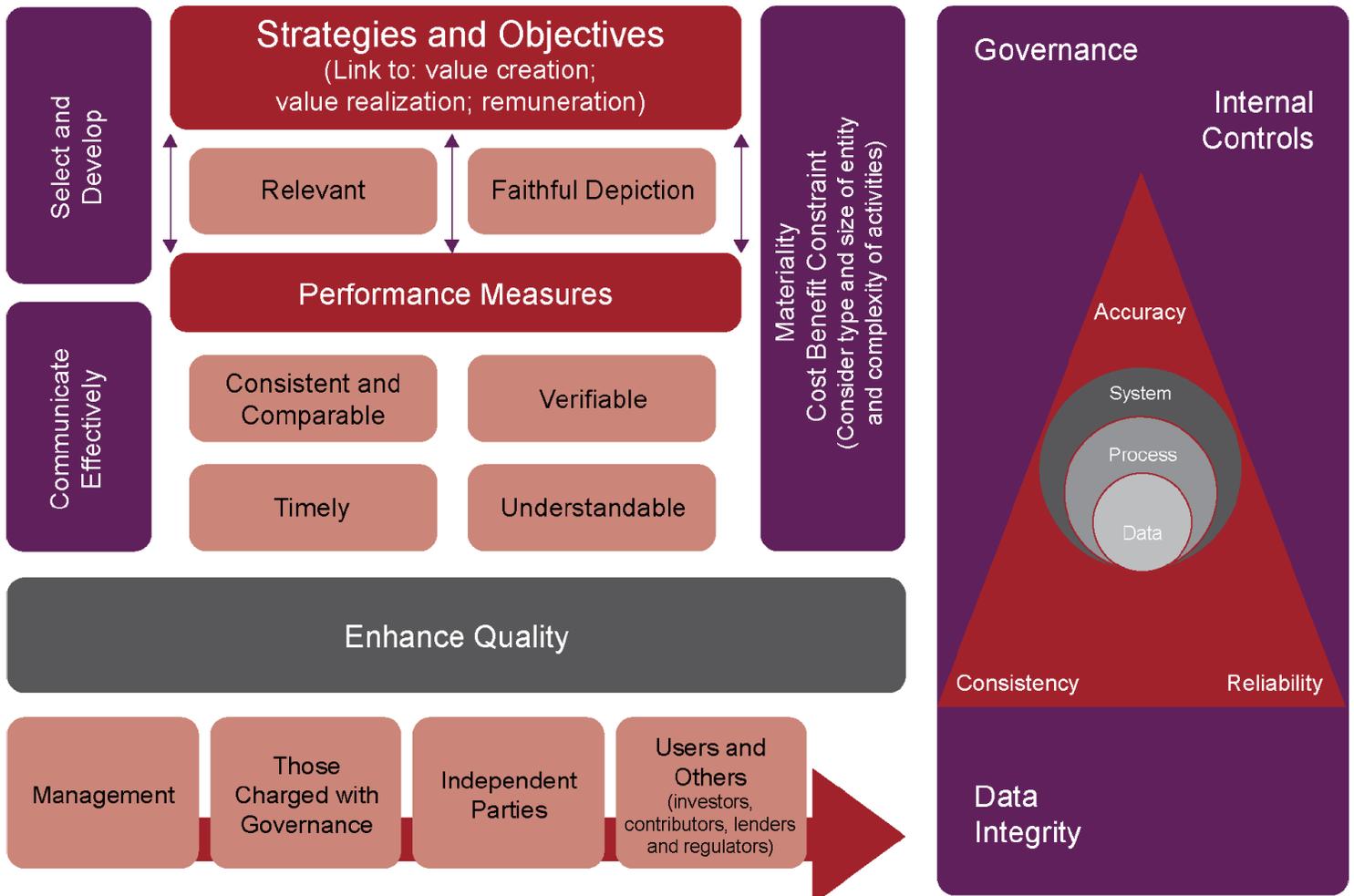
Below are materials used in the development of this Framework that may assist entities when developing and reporting a performance measure.

1.	Canadian Public Accountability Board. <i>Earning Investor Confidence</i> . May 2017
2.	Canadian Securities Administrators. <i>CSA Staff Notice 52-306 (Revised)</i> , January 14, 2016.
3.	Center for Audit Quality. <i>Non-GAAP Measures – A Roadmap for Audit Committees</i> . March 2018
4.	CFA Society Toronto. <i>The Relevance of Audit</i> . May 17, 2017.
5.	CMA and AICPA. Epstein, Marc J. and Buhovac, Adriana Rejc. <i>Performance Measurement of Not-For-Profit Organizations</i> , 2009.
6.	CPA Canada. Linda Mollenhauer. <i>Board Oversight of Not-for-Profit Program Evaluation: Questions for Directors to Ask</i> , October 2016.
7.	CPA Canada. <i>Key Performance Indicators – Tool for Audit Committees</i> . Chartered Professional Accountants of Canada, 2017.
8.	CPA Canada. <i>Performance Measurement for Non-Profit Organizations: The Balance Score Card as an Approach</i> , June 2016.
9.	CPA Canada. <i>Reporting Alert Corporate Reporting – Management Considerations for Effective KPI Disclosure</i> , April 2018.
10.	Deloitte (The Wall Street CFO Journal). <i>Understanding Disclosure Controls over Non-GAAP Measures</i> . July 22, 2016.
11.	Deloitte. <i>Is more less? Exploring a new world of corporate reporting</i> . Parts 1-4. 2015.
12.	Deloitte. <i>Thinking allowed – Non-GAAP and Alternative performance measures</i> . February 16, 2017.
13.	European Securities and Markets Authority. <i>Questions and answers – ESMA Guidelines on Alternative Performance Measures (APMs)</i> . October 30, 2017.
14.	EY. <i>Metrics matter – How Internal Audit can help organizations assess performance measurement</i> . May 2015.
15.	EY. <i>Performance – Providing insight and analytics for business professionals</i> . Volume 6 Issue 2. 2014.
16.	Georgopoulos, Taso and Scilipoti, Anthony. <i>Accounting Alert – Performance Measurement: The Rise of Non-GAAP Metrics</i> . Veritas Investment Research, September 8, 2016.

17.	Georgopoulos, Taso. <i>Accounting Alert – Performance Measurement Vol 2: The Non-GAAP Link to Compensation</i> . Veritas Investment Research, October 16, 2017.
18.	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>
19.	KPMG. <i>Presenting performance: The journey to greater clarity</i> . 2016.
20.	KPMG. <i>Closing the non-GAAP: can non-GAAP reporting be made more consistent, relevant and meaningful?</i> May 22, 2017.
21.	NACD Audit Committee Chair and Compensation Committee Chair Advisory Councils. <i>Nonfinancial Metrics, Strategy, and Culture</i> . National Association of Corporate Directors, February 16, 2018.
22.	PwC. <i>Corporate performance: What do investors want to know?</i> September 2014.
23.	PwC. <i>Guide to key performance indicators – Communicating the measure that matter</i> , 2007.
24.	U.K. Financial Reporting Council, Financial Reporting Lab. <i>Performance metrics – Principles and practice</i> , November 2018
25.	U.K. Financial Reporting Council, Financial Reporting Lab. <i>Reporting of performance metrics</i> , June 2018

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 strategies, goals objectives 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 those targets.				X			X
5. Provide trend data and explain management's actions given those trends.				X		X	X

* See **footnote** on page 8.

	Relevance	Faithful Depiction	Consistency	Comparability	Verifiability	Timeliness	Understandability
6. Identify when an industry or sector-specific performance measure is: (a) developed in accordance with industry or sector guidance by citing the name of the guidance used, and whether and how the definition used differs; or (b) used but there is no standard definition and so note that there may be differences between entities that report similar measures.		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. (a) A financial measure that is developed by adjusting a GAAP financial measure is clearly labelled as “non-GAAP”. (b) 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.		X			X		X
10. Explain the rationale for adjustments to a GAAP financial measure and why the non-GAAP financial measure is useful.	X	X	X	X	X		X
11. A GAAP financial measure is reported with equal or greater prominence to a non-GAAP financial measure.		X					
12. Include a reconciliation of a non-GAAP financial measure (or component) to the most directly comparable measure reported in its financial statements.		X		X	X		X

	Relevance	Faithful Depiction	Consistency	Comparability	Verifiability	Timeliness	Understandability
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 a restated performance measure, unless not practicable*.		X	X	X		X	X
14. State that a performance measure was selected, developed and reported in accordance with this Framework.	X	X	X	X	X	X	X
15. Explain whether the performance measure was subject to some assessment by internal or independent parties.					X		X

* Entities subject to Canadian securities requirements are required to restate comparative periods presented when the composition of a non-GAAP financial measure is changed. Entities subject to securities requirements in other jurisdictions should consult the applicable regulatory requirements in those jurisdictions.



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