

LETTER

Dear Shareholders

The financial year under  
review. Net

**INTERNATIONAL GOOD PRACTICE GUIDANCE**

**Developing and Reporting Supplementary Financial  
Measures—Definition, Principles, and Disclosures**



International  
Federation  
of Accountants®

*Executive Summary*

## Supplementary Financial Measures

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The International Good Practice Guidance, *Developing and Reporting Supplementary Financial Measures—Definition, Principles, and Disclosures*, seeks to establish a benchmark for the use of supplementary financial measures, such as Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA); Underlying Profit; Net Debt; and Free Cash Flow, in order to improve understanding of an organization's performance by management, investors, and other stakeholders.

Building on the qualitative characteristics of useful financial information, the guidance recommends that professional accountants consider a number of attributes when developing and reporting supplementary financial measures. The guidance also provides a number of tips for disclosure of supplementary financial measures. The principles in the guidance can also form a basis for non-financial measures, such as the quantitative parts in sustainability reporting or integrated reporting.

Given the absence of formal definitions for supplementary financial measures, many jurisdictions regulate their use and disclosure when reported externally. Accordingly, the guidance should be considered in light of the regulations in the particular jurisdiction where it is applied.

### PRINCIPLES FOR DEVELOPING AND REPORTING SUPPLEMENTARY FINANCIAL MEASURES

Building on the qualitative characteristics of useful financial information,<sup>1</sup> the guidance recommends professional accountants consider a number of attributes when developing and reporting supplementary financial measures. A supplementary financial measure should be:

- A. **Relevant:** For a supplementary financial measure to be reported, it should either be used by management in assessing performance or should be employed by knowledgeable users of the external report.
- B. **Complete:** A supplementary financial measure should provide all the information necessary for a user to understand the phenomenon being depicted.
- C. **Neutral:** A supplementary financial measure should not be biased, slanted, weighted, or manipulated to obtain a desired result.
- D. **Transparent:** The description of a supplementary financial measure should align with its components. Additionally, a supplementary financial measure should be accompanied by sufficient explanation to render it as free as is practicable from uncertainty and estimation error.
- E. **Understandable and Verifiable:** Knowledgeable users need to understand a supplementary financial measure's construction and limitations and see that it is verifiable by being able to reach consensus that a measure faithfully represents what it purports to depict.
- F. **Comparable:** Users need to be able to compare supplementary financial measures between entities in the same industry and between periods.
- G. **Timely:** A supplementary financial measure should be reported at the same time as the related financial statements.

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<sup>1</sup> As identified in the *Conceptual Framework for Financial Reporting* issued by the International Accounting Standards Board and the US Financial Accounting Standards Board.

## DISCLOSURE RECOMMENDATIONS

In addition to these attributes, the guidance provides a number of recommendations for disclosure of supplementary financial measures.

- **Definition and purpose:** To avoid confusion, supplementary financial measures should be clearly defined and the purpose of a measure should be disclosed. Further, supplementary financial measures should be labeled as such and be clearly distinguished from GAAP measures.
- **Change in composition:** When the components of a measure change or their basis of calculation changes, the reason for the change should be explained and the comparative amounts should be restated to the new basis of calculation.
- **Quantitative reconciliation to GAAP measure:** A supplementary financial measure should include a quantitative reconciliation of the measure to the most directly comparable reported GAAP measure.
- **Accompanying contextual disclosure:** A supplementary financial measure should be presented with sufficient information to enable a user to understand its components and see that the measure is complete, neutral, and free from error.
- **Location and presentation:** An externally-reported supplementary financial measure should be presented so that it complements but does not overshadow an organization's GAAP measures.
- **Assurance:** When obtaining internal or external assurance is not a matter of compliance, the organization should consider voluntary internal or external assurance on its supplementary financial measures.

The full-length version of *Developing and Reporting Supplementary Financial Measures—Definition, Principles, and Disclosures* includes a select list of relevant resources from IFAC, its member bodies, and other relevant organizations.

# International Good Practice Guidance

In issuing principles-based International Good Practice Guidance (IGPG), IFAC strives to foster a common and consistent approach to those aspects of the work of professional accountants in business and public services not directly covered by international standards. IGPGs focus on key areas of strategic importance to professional accountants in business, with the aim of guiding their thought processes and decision making and, thus, supporting the exercise of professional judgment, which is critical in their roles. IGPGs address governance, evaluation, improvement, and implementation of strategic decisions for which professional accountants in business are responsible or to which they can contribute their expertise as trusted colleagues and advisors. The Professional Accountants in Business (PAIB) Committee has applied the extensive expertise, experience, and diversity of its members and IFAC member organizations to draw out a set of internationally accepted principles that professional accountants can apply in organizations where they work, regardless of jurisdiction, size, economic sector, or form of ownership. The principles provide a common frame of reference when deciding how to address issues and challenges, and when helping organizations achieve sustainable success. IGPGs also help accountants to identify additional available resources by including links to the relevant work and resources of IFAC member organizations and other colleagues.

## ABOUT IFAC

[IFAC](#) is the global organization for the accountancy profession, dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. It is comprised of 173 members and associates in 129 countries and jurisdictions, representing approximately 2.5 million accountants in public practice, education, government service, industry, and commerce.

IFAC's mission is to serve the public interest by: contributing to the development of high-quality standards and guidance; facilitating the adoption and implementation of high-quality standards and guidance; contributing to the development of strong professional accountancy organizations and accounting firms and to high-quality practices by professional accountants, and promoting the value of professional accountants worldwide; and speaking out on public interest issues.

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