ISDA Safe, Efficient Markets

April 30, 2025

Mr. Jackson Day
Technical Director
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT 06856-5116

By email: director@fasb.org

RE: File Reference No. 2024-ITC100, Financial Key Performance Indicators for Business Entities

Dear Mr. Day,

The International Swaps and Derivatives Association's (ISDA)[1] North American Accounting Committee (the "Committee") appreciates the opportunity to comment and provide our feedback on the Financial Accounting Standards Board's ("FASB" or "Board") Invitation to Comment ("ITC"), Financial Key Performance Indicators for Business Entities ("Financial KPI's", "Financial KPI ITC"). Collectively, the Committee members have substantial professional and practical expertise addressing accounting policy issues related to derivatives including considerations for Financial KPIs. This letter provides our organization's overall views on the ITC.

The Committee appreciates the Board's efforts to explore potential improvements to financial reporting and acknowledges the importance of transparency in the use of Financial KPIs. However, for reasons detailed in our response, we do not believe that Financial KPI standardization or proposed disclosures should be a priority for the FASB at this time.

We have reviewed the questions for respondents included in the Financial KPI ITC and have provided our feedback below. Our comments reflect ISDA's perspective on the implications of KPI standardization, the potential impact on financial reporting and risk management, and the broader cost-benefit considerations for preparers and investors.

Questions for Respondents

Question 1 (All Respondents): Please describe what type of stakeholder you (or your organization) are from the list below, including a discussion of your background and what your point of view is when responding to this ITC:

a. Academic
b. Investor, other allocator of capital, or other financial statement user, such as:
    i. Equity analyst: buy side
    ii. Equity analyst: sell side
    iii. Credit-rating agency analyst

1 Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 990 member institutions from 78 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on Twitter, LinkedIn, Facebook and YouTube.

iv. Fixed-income analyst
v. Accounting analyst
vi. Quantitative analyst
vii. Portfolio manager
viii. Private equity
ix. Individual investor
x. Lender
xi. Long-only focus
xii. Long/short focus
xiii. Other

c. Practitioner/auditor
d. Not-for-profit organization preparer
e. Private company preparer
f. Public company preparer
g. Regulator
h. Standard setter
i. Other.

ISDA falls into category (i) Other. ISDA represents a broad range of derivatives market participants, including corporations, investment managers, insurance companies, and international and regional banks. In responding to the ITC on Financial KPIs for Business Entities, ISDA provides insights from the perspective of financial institutions in the derivatives industry. ISDA recognizes the value of financial KPIs in communicating performance metrics, however for reasons that will be highlighted throughout the rest of this letter, the Committee does not believe that broad standardization of these measures is necessary or would be helpful to financial statement readers. The Committee believes there needs to be flexibility in how each entity defines their KPIs in a way that reflects the unique risks and economic realities of each entity.

Question 2 (All Respondents): What is the relative priority of a project on Financial KPIs given the FASB's progress on other recent projects, including projects on financial statement disaggregation as well as other recognition and measurement projects? Do you believe the relative priority differs for public entities versus private companies? Please explain why or why not.

The Committee does not believe that the Financial KPI project should be a priority for the FASB at this time, as there are other more pervasive issues that require standard-setting by the Board to address. In fact, the Committee does not believe that this project should be pursued at all or added to the Board's technical agenda. Specifically, and as the Committee will detail in our response on key financial reporting topics raised in the FASB's ITC Agenda Consultation, there are other topics including financial instruments (specifically hedge accounting), crypto assets, intangibles, and statement of cash flows improvements, that the Committee believes should be prioritized instead because they are more pervasive and would result in greater benefits to prepares and users of financial statements if addressed by the FASB.

As such, we recommend that the Board does not pursue the Financial KPI project as part of its future technical agenda.

Question 5 (Preparers): Does your company present Financial KPIs outside the financial statements? Do your company's peers present Financial KPIs outside the financial statements?

Refer to the Committee's response under question 9.

Question 7 (Preparers): If your company and your company's peers present Financial KPIs outside the financial statements, are the Financial KPIs comparable? If you believe that the Financial KPIs that are presented are comparable, how do you know that those Financial KPIs are calculated on a comparable basis?

Refer to the Committee's response under question 9.

Approach 1: Define and Require (or Permit) Disclosure of Common Financial KPIs

Question 9 (All Respondents): If the FASB defines certain Financial KPIs, should the defined Financial KPIs be measures that are commonly used across all entities, measures that are industry-specific, or both? What should the FASB consider in determining which Financial KPIs to define?

The Committee does not believe that the FASB should define and standardize financial KPIs across entities or industries. Financial KPIs are management-driven performance measures, tailored to the specific business models, risk management strategies, and operational priorities of each individual entity. Standardizing these metrics under U.S. GAAP would reduce flexibility for management to present the performance of their business and could have unintended consequences on financial reporting, hedging strategies, and decision-making in general.

Financial KPIs differ significantly across industries and even among companies within the same industry. As pointed out in the ITC, while some businesses rely on EBITDA, others focus on free cash flow, return on invested capital, or industry-specific metrics such as funds from operations for REITs. If the Board were to define and standardize specific KPIs, it would limit entities' ability to communicate performance in a way that best suits their business objectives and could force companies to report metrics that may not be the most accurate depiction of their financial performance. To that end, entities might begin to develop other metrics if they believe that standardized Financial KPI's presented a potentially misleading depiction of their business models or activities, thus perpetuating the issue that the Proposed ASU seeks to address.

Additionally, the introduction of standardized KPIs under GAAP could lead entities to implement hedge strategies to manage risk for metrics defined by the FASB which they would not have otherwise been managing their risk exposures to. Many market participants manage their risk exposures through the use of derivatives and seek to apply hedge accounting to manage income volatility. If the FASB were to standardize KPIs, market participants may begin to design and implement hedging strategies for the sole purpose of managing their KPIs even though they do not view those KPIs as specific to their business or to their economic risk exposures. For example, if a company were required to include foreign exchange ("FX") gains and losses in EBITDA whereas historically they have excluded the impact of FX gains and losses, it might create an incentive for management to change how they manage FX risk.

ISDA believes that the costs of implementing a standardized KPI framework may outweigh the potential benefits. Many preparers would be required to develop new methodologies, tracking systems, and internal controls to comply with a standardized KPI framework. As noted in the Financial KPI ITC, Financial KPIs differ significantly across industries and entities, often reflecting company-specific adjustments and non-standard calculations. Requiring standardized KPIs could make companies have to track new metrics that may not align with their management's actual view of the business, and these may be KPIs that have not been historically tracked or assessed by the company.

This would also bring KPI processes under Sarbanes-Oxley ("SOX") requirements which may introduce an operational burden on companies. Many companies currently report KPIs outside of GAAP financial statements (e.g., in investor presentations or internal management reports) where these KPIs are not subject to SOX requirements. Once the standardization is introduced, KPIs will then be subject to SOX requirements around calculation methodologies, governance structures, and audit trails to support KPIs presented in the entity's GAAP financial statements. Even companies that have historically published KPIs will need to implement SOX level control procedures and testing. The cost of this effort may outweigh the benefits.

In summary, the Committee does not believe approach 1 to define KPIs under GAAP would provide additional benefits to users of the financial statements due to management of entities within the same industry managing the business to different risks and KPIs. Additionally, the Committee does not believe the costs to adopt a new disclosure requirement would bring additional processes under SOX reporting standards and the costs of implementation would outweigh the incremental benefits of a standardized KPI.

Question 10 (All Respondents): Are there certain Financial KPIs you believe that the FASB should define? If so, what are they and why?

Please refer to response provided in question 9 to address this question.

Question 11 (All Respondents): Should disclosure of certain defined measures be required or optional? If required, how should that requirement be determined (for example, should all entities be required to disclose the defined measure or only entities in specified industries)? Please explain.

Please refer to response provided in question 9 to address this question.

Question 12 (All Respondents): Should the FASB provide criteria for entities to use to determine when a defined Financial KPI needs to be disclosed? For example, an entity could be required to disclose a Financial KPI that has been defined by the FASB in the financial statements if it presents it or an adjusted version outside the financial statements (for example, if EBITDA is defined and an entity presents adjusted EBITDA).

Please refer to response provided in question 9 to address this question.

Question 13 (All Respondents): If the FASB defines certain Financial KPIs that are common within specific industries, should all entities within those industries be required to disclose the defined measure?

Please refer to response provided in question 9 to address this question.

Approach 2: Require (or Permit) Disclosure of Financial KPIs Presented by Management Outside the Financial Statements

Question 14 (All Respondents): Should an entity be required to disclose a Financial KPI in GAAP financial statements if the entity communicates the Financial KPI elsewhere? If so, what incremental benefits does requiring (rather than permitting) disclosure provide?

No, the Committee does not believe GAAP financial statement disclosure requirements should include Financial KPIs that are presented elsewhere.

Approach 2 is similar to what is required under IFRS, as mentioned in the ITC. The IASB's IFRS 18 focuses on enhancing disclosures for Management-defined Performance Measures ("MPM") rather than prescribing which KPIs must be disclosed. This approach provides a framework without defining KPIs broadly. IFRS 18 recognizes that companies use MPMs to communicate aspects of financial performance that are not captured within IFRS-defined line items. Instead of standardizing KPIs, IFRS 18 requires companies to disclose their MPMs in a single note within the financial statements, providing details on how the measure is calculated, how it provides useful information to investors, and a reconciliation to most comparable IFRS-defined subtotal[2]. This approach ensures consistency and transparency in how management-defined performance measures are disclosed, while still allowing companies the flexibility to report KPIs most relevant to their business models and industry.

Under current SEC regulations, entities are required to reconcile non-GAAP KPIs to the most directly comparable GAAP measure, which creates transparency without the need to standardize KPIs. Specifically, SEC Regulation G and Item 10(e) of Regulation S-K require that whenever a registrant presents a non-GAAP financial measure, it must also disclose the most directly comparable GAAP financial measure and provide a quantitative reconciliation between the two. Further, SEC Compliance & Disclosure Interpretations ("C&DIs") 102.05 and 103.01-02 provide specific guidance on what constitutes the most directly comparable GAAP measure for commonly reported Financial KPIs[3]. For example, EBIT and EBITDA must be reconciled to net income rather than operating income, and non-GAAP liquidity measures, such as free cash flow, should be reconciled to cash provided by operating activities from the statement of cash flows. This existing reconciliation requirement from the SEC already provides transparency into Financial KPIs while allowing management the flexibility to define and report measures most relevant to their business.

Another consideration would be how changes to KPI calculations would be treated, for example, would a change in the way KPI is calculated or defined be considered a correction of an error or a change in accounting principal per ASC 250? Specifically, 250-10-45-1 presumes that an accounting principal, once adopted, should not be changed for similar transactions to ensure consistency. If financial KPIs were to be standardized and required in GAAP financial statements, entities might run into challenges when changing KPIs to better reflect business operations year-to-year. Moreso, 250-10-45-22-24 states that an error in previously issued financial statements is not considered an accounting change but instead requires restatement of prior periods. If standardized KPI disclosures were introduced, entities might have a hard time determining whether an update to KPI methodology is a change in accounting principle or an error correction requiring restatement. Given how KPIs can change over time, changes to better reflect current business conditions may trigger further assessment per ASC 250 introducing complexity. ISDA believes this would create unnecessary burdens for preparers.

Additionally, similar to Approach 1, bringing KPIs in scope of audited GAAP financial statements would introduce additional SOX requirements for preparers. The Committee does not believe the costs to implement and operate SOX controls around KPI disclosures provides enough incremental benefit over the existing SEC disclosure requirements to outweigh the costs.

Question 15 (All Respondents): If the FASB pursues Approach 2, should the criteria for identifying Financial KPIs that must be (or are permitted to be) disclosed in GAAP financial statements be broad or narrow? For example, should all Financial KPIs communicated outside financial statements be disclosed or should only those communicated in earnings announcements and regulatory filings be disclosed?

Please refer to response provided in question 14 to address this question.

Question 16 (All Respondents): Are there other criteria that you believe should be used to identify Financial KPIs that would be required to be (or are permitted to be) disclosed in GAAP financial statements? If so, what are they and why should they be included?

[2] https://www.ey.com/en_gl/insights/ifrs/ifrs-18-changes-financial-performance-reporting
[3] https://www.sec.gov/corpfin/non-gaap-financial-measures.htm

Please refer to response provided in question 14 to address this question.

Question 17 (All Respondents): Which potential approach for standard setting on Financial KPIs do you prefer and why?

The Committee does not support Approach 2, which would require or permit the disclosure of Financial KPIs presented by management outside the financial statements. As stated above, ISDA also does not support Approach 1, which seeks to define and standardize specific Financial KPIs under GAAP. Both approaches would increase operational costs for preparers, and provide minimal incremental benefit to users of the financial statements.

Question 18 (Investors): Would a combined approach that incorporates elements of Approaches 1 and 2 provide decision-useful information that is incremental to either approach in isolation? Please explain how the approaches should be combined, including why that approach would provide incremental decision-useful information.

Please refer to response provided in question 14 & 17 to address this question.

Question 19 (Preparers and Practitioners): Is either Approach 1 or 2 inoperable? Please explain why or why not.

Please refer to response provided in question 14 & 17 to address this question.

Question 20 (All Respondents): Are there other approaches that should be considered? If so, please describe and comment on whether (and what) incremental disclosures should be required under an alternative approach.

Please refer to response provided in question 14 & 17 to address this question.

<u>The following response is applicable for questions 21-25 (Incremental Disclosures):</u>

Question 21 (All Respondents): For any undefined Financial KPIs that must be (or are permitted to be) disclosed in GAAP financial statements, should an entity be required to provide a reconciliation in the financial statements to the most comparable GAAP requirement? Please explain why or why not.

ISDA does not support the standardization or required disclosure of Financial KPIs within GAAP financial statements and, as such, does not believe that any incremental disclosures related to Financial KPIs should be required. Financial KPIs are management-driven measures, tailored to reflect an entity's unique business operations and strategy. Introducing standardized definitions or mandating additional disclosures would reduce flexibility, increase costs, and create unintended financial and risk management consequences for stakeholders.

Question 22 (All Respondents): Would disclosure about the components of Financial KPIs and the financial statement line items in which those components are included be useful? Please explain why or why not. If yes, should that disclosure be required?

Please refer to response provided in question 21 to address this question.

Question 23 (All Respondents): For any undefined Financial KPIs that must be (or are permitted to be) disclosed in GAAP financial statements, should management be required to explain the element of their performance the undefined Financial KPI is meant to convey and how the undefined Financial KPI is used by management?

Please refer to response provided in question 21 to address this question.

Question 24 (All Respondents): If an entity provides comparative financial statements, should it be required to disclose comparative period information for Financial KPIs disclosed? Please explain why or why not.

Please refer to response provided in question 21 to address this question.

Question 25 (All Respondents): Are there any other disclosures that you believe should accompany Financial KPIs (defined or undefined) that would be disclosed in GAAP financial statements? If so, what are they and why?

Please refer to response provided in question 21 to address this question.

Closing

We hope you find ISDA's comments and responses to the ITC informative and useful. Should you have any questions or desire further clarification on any of the matters discussed in this letter, please do not hesitate to contact the undersigned.

Jeannine Hyman

Citigroup Inc.

Chair, North America Accounting Committee

Antonio Corbi

ISDA, Inc.

Head of Accounting and Tax Services