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April 30, 2025

Via email to director@fasb.org

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

Re: Financial Key Performance Indicators for Business Entities (File Reference No. 2024-ITC100)

Dear Mr. Day:

We appreciate the opportunity to respond to the Board's invitation to comment on financial key performance indicators (KPIs) for business entities.

In today's financial reporting environment, we note existing SEC regulations and related staff guidance on financial KPIs are widely understood and applied in practice by public companies without a FASB standard in this area. While management definitions of financial KPIs vary, investors make use of them and in many cases adjust management's figures. If the FASB defined one or more KPIs, it would create change and increase costs in the short term, without any certain or lasting improvement in the broader population of KPIs that investors receive. That is, we believe the incentives that have contributed to the proliferation of customized EBITDA and free cash flow metrics in use today will persist in the future.

In addition, our experience working with private companies indicates most of them do not publish KPIs. Rather, they often report on compliance with debt covenants to lenders and certain other forms of financial information to their owners, who are in close contact with management. Regardless, we do not sense a private company's decision to provide KPIs to its users will be meaningfully influenced by whether the FASB defines one or more of them.

For these reasons, we believe the Board's resources would be better spent on other potential projects. For example, we believe projects to i) address financial instruments with characteristics of debt and equity, ii) resolve differences between asset acquisitions and business combinations, and/or iii) move to a single consolidation model should be higher priorities. But as it relates specifically to financial performance indicators, we recommend monitoring the implementation of DISE and IFRS 18, *Presentation and Disclosure in Financial Statements*. Experience gained under those standards would inform the Board's consideration of a potential project on financial statement presentation under US GAAP. This would be a more holistic approach than defining specific KPIs and it would likely allow investors with diverse needs to perform their own tailored financial analyses. In our opinion, the collective investment required of the Board, preparers, auditors and others to revisit the presentation of the primary financial statements would likely be more cost/beneficial than a project limited to KPIs.

Notwithstanding our views, if the Board decides to add a financial KPI project to its technical agenda, we recommend a narrow approach. For example, the project could define the components of common financial KPIs, such as interest expense and depreciation, which would assist users with different needs in reaching their own judgments about a company's financial performance.

We have described our concerns in our responses to selected Questions for Respondents in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Adam Brown at (214) 665-0673 or Angela Newell at (214) 689-5669.

Very truly yours,

BDO USA, P.C.

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Appendix

Note: We have not responded to questions addressed specifically to investors or preparers.

Question 1: 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***
  - ***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***

BDO USA, LLP is the sixth largest public accounting firm in the U.S. by revenues, with the fifth largest assurance practice[1]. We audit a large number of both public and private companies of all sizes and industries. As such, our comments reflect that diverse client base.

Question 2 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.

We believe this project is generally a lower priority compared to other projects. We suggest the Board consider feedback from stakeholders on project prioritization from the 2025 agenda consultation. We view certain areas covered by the agenda consultation, such as complex financial instruments, consolidation, and accounting for business combinations and asset acquisitions to be higher priority.

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[1] As reported by Accounting Today's 2024 Top 100 Firms

Also, prior to deciding whether to add a project addressing financial KPIs, we suggest the Board consider post-implementation feedback on the recent amendments to income statement disaggregation, segment reporting, and income tax disclosures to ascertain additional insight needed by investors.

Furthermore, should the Board move forward with this project, we recommend close coordination with the SEC Division of Corporate Finance to ensure alignment with the SEC's guidance on non-GAAP financial measures, a highly scrutinized subject over the years.

As most private companies do not present financial KPIs, we believe this project remains low priority for them.

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

Question 9: 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?

Should the FASB move forward with this project, we recommend working with the SEC to identify which financial KPIs to define. Generally, we suggest starting with those financial KPIs that are commonly cited by many entities such as EBITDA and free cash flow.

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

See response above in Question #9.

Question 11: 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.

We believe that the disclosure of certain defined measures should be optional. However, as noted previously in our response to question 9, this approach will require coordination with the SEC to ensure acceptance of a voluntary disclosure of a financial KPI defined by GAAP. In addition, we would not object to including private entities in the scope of this project if disclosure is voluntary. As previously noted in our response to Question 9, we believe this project should focus on defining financial KPIs consistently for all stakeholders across all industries. We suspect defining industry-specific KPIs would become burdensome for the Board to maintain, since they are likely to grow and/or change over time.

Question 12: 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).

We do not believe that FASB should provide criteria for entities to use to determine when a defined financial KPI needs to be disclosed. We suggest allowing market demand to continue to drive the practice of providing financial KPIs by entities.

Question 13: 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?

As noted in response to question 11, we disagree with requiring disclosure of specific financial KPIs and separate standard-setting for specific industries.

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

Question 14: 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?

We disagree with requiring an entity to disclose a financial KPI in GAAP financial statements if the entity communicates the KPI elsewhere because we generally believe the costs of doing so will likely act as a disincentive for disclosure outside the financial statements.

Question 15: 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?

Should FASB pursue Approach 2, we generally suggest a narrow approach based on those financial KPIs that are communicated only in earnings announcements or regulatory filings. This is to mitigate compliance costs for preparers.

Question 16: 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?

We suggest continuing to allow management to exercise judgment to determine what disclosures to provide stakeholders outside the financial statements, consistent with existing non-GAAP requirements today.

Overall Preferred Approach and Disclosure

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

As stated in previous responses, we generally do not support either approach as we suggest the Board allocate its resources to other, higher priority projects for which it is soliciting input through the agenda consultation process. For public companies, the SEC regulations provide effective regulations on financial KPIs.

Should the Board proceed with a KPI project, we suggest the Board take a limited approach and define only the components of common financial KPIs, such as interest expense and depreciation.

This approach would allow users with different needs to reach their own judgments about a company's financial performance.

That being said, should the Board move forward with this project, we prefer approach 1 with limited definitions and optional disclosure, noting coordination with the SEC will also be required.

Question 19: Is either Approach 1 or 2 inoperable? Please explain why or why not.

As noted in our response to question 17, we generally do no support this project and suggest the Board consider whether recent amendments provide sufficient incremental disclosure to investors. Notwithstanding that view, of the two approaches, we believe approach 1 with limited definitions and optional disclosure is the more operable choice. We disagree with approach 2 as this would require GAAP to refer to amounts and disclosures outside the financial statements (earnings calls, investor communications, etc.). This would increase costs and complexities for preparers and audit practitioners and potentially outweigh any incremental benefits from providing this information. As a result of either approach, we expect some companies may discontinue the use of financial KPIs due to the increased costs of compliance, such as incremental audit requirements (including internal controls) and regulatory involvement.

Question 20: 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.

Refer to our response to Question 17.

Question 21: 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.

We believe the existing reconciliation requirements in SEC regulations and related staff guidance are sufficient.