



A CAQ COVID-19 RESOURCE

COVID-19 Considerations for Non-GAAP Financial Measures and Performance Metrics

Published April 2020

CAQ

THECAQ.ORG

WE WELCOME YOUR FEEDBACK

Please send comments or questions
to info@thecaq.org

The COVID-19 pandemic and the related market conditions create many new uncertainties for public companies, auditors, investors and audit committees. As SEC Chair Jay Clayton recently recognized, the continuing operation of the US capital markets is an essential component of our national response to, and recovery from, COVID-19. Companies may use non-GAAP financial measures to describe the impact of COVID-19 in their quarterly and annual reporting. This resource is intended to provide a high-level overview of SEC requirements and guidance for registrants around non-GAAP reporting and the potential impact of COVID-19 on that reporting.

This resource is intended as general information and should not be relied upon as being definitive or all-inclusive, or a substitute for PCAOB and SEC rules, FASB accounting requirements, standards, guidance, or other resources.

TECHNICAL REQUIREMENTS

Non-GAAP financial measures are numerical measures of a registrant's historical or future financial performance, financial position, or cash flows that adjust GAAP amounts in some manner.¹ Common non-GAAP financial measures include, among others, earnings before interest, taxes, depreciation and amortization (EBITDA), adjusted EBITDA, and adjusted earnings per share. The SEC has established regulations about the presentation of non-GAAP financial measures in SEC filings and other company communications such as earnings releases and investor presentations. The following SEC rules and related interpretations and guidance to address the use of non-GAAP financial measures:

- + Regulation G applies to the public disclosure of non-GAAP financial measures;
- + Regulation S-K Item 10(e) applies to non-GAAP financial measures included in SEC filings; and
- + An additional requirement to furnish earnings releases for quarterly or annual periods under Item 2.02 of Form 8-K.
- + Compliance and Disclosure Interpretations to communicate information about the use of non-GAAP financial measures.²
- + January 2020 guidance on the use of performance metrics.³
- + April 2020 guidance that discussed the use of non-GAAP financial measures and performance metrics to communicate the effects of the COVID-19 pandemic (discussed below).

The intent of the SEC's regulations and guidance is to help promote non-GAAP financial measures that are relevant and meaningful and do not mislead investors.

¹ The SEC defines a non-GAAP financial measure as a numerical measure of a registrant's historical or future financial performance, financial position, or cash flow that (i) excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the statement of income, balance sheet or statement of cash flows (or equivalent statements) of the issuer; or (ii) includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented (SEC Item 10(e)(2) of Regulation S-K, 17 CFR 229.10(e)(2) and Item 101 of Regulation G, 17 CFR 244.101).

² See <https://www.sec.gov/divisions/corpfin/guidance/nongaapinterp.htm>.

³ See <https://www.sec.gov/rules/interp/2020/33-10751.pdf>.

⁴ See the CAQ's 2018 report on these roundtables, [Non-GAAP Measures: A Roadmap for Audit Committees](#).

COVID-19 CONSIDERATIONS

The CAQ has found through a series of roundtables that company management, audit committees, and investors find non-GAAP financial measures and performance metrics to be useful when they are calculated and presented consistently, transparently disclosed, and comparable to measures disclosed by other companies.⁴ Companies may adjust or tailor the non-GAAP financial measures and performance metrics they typically present because of COVID-19 related factors. While these changes could make these metrics less consistent or comparable initially, transparent disclosure of how the metrics are calculated and why management finds these metrics meaningful will aid investors in their use of these metrics to understand the effects of COVID-19 on a particular company.

COVID-19 SEC Guidance

The SEC's Division of Corporation Finance (the Division) provided guidance on non-GAAP financial measures and performance metrics used to describe the impact of COVID-19 in [Disclosure Guidance: Topic No. 9, Coronavirus \(COVID-19\)](#). Some key components of this guidance related to non-GAAP financial measures and performance metrics include the following:

- + Registrants that present a non-GAAP financial measure or performance metric to explain the impact of COVID-19 should describe:
 - why management finds the non-GAAP financial measure or performance metric to be useful; and
 - how it could be helpful to investors in assessing the impact of COVID-19.
- + There may be instances in which the GAAP financial measure is not available at the time of the

“In these situations, the Division would not object to companies reconciling a non-GAAP financial measure to preliminary GAAP results that either include provisional amount(s) based on a reasonable estimate, or a range of reasonably estimable GAAP results...The provisional amount or range should reflect a reasonable estimate of COVID-19 related charges not yet finalized, such as impairment charges.”

earnings release because the impact of COVID-19 related adjustments to the GAAP accounts are not finalized. According to the Disclosure Guidance, the Division would not object to companies reconciling a non-GAAP financial measure to a preliminary GAAP measure.

- + Registrants should limit the non-GAAP financial measures in earnings presentations to those measures it is using to report to the board of directors. Registrants should report those non-GAAP financial measures and performance metrics for the purpose of communicating to investors how management and the board are analyzing the effects of COVID-19 on the company. Registrants should not present non-GAAP financial measures or performance metrics for the sole purpose of presenting a more favorable view of the company’s results.
- + If a company presents a non-GAAP financial measure reconciled to a provisional GAAP amount, they should, to the extent practicable, explain why the accounting for the GAAP item is not complete. Consistent with the SEC’s existing regulations and prior guidance, the non-GAAP financial measure should not be disclosed more prominently than the most directly comparable GAAP measure or range of GAAP measures.

+ In filings where GAAP financial statements are required (Form 10-K or 10-Q), registrants should reconcile non-GAAP financial measures to the GAAP results and not include provisional amounts or a range of estimated results.

+ This Disclosure Guidance also reminds companies of their obligations under Item 10 of Regulation S-K and Regulation G with respect to non-GAAP financial measures, as well as the SEC’s recent guidance with respect to performance metrics that was issued in January 2020.⁵

Role of the Audit Committee

The audit committee has an important responsibility on behalf of company shareholders to oversee the financial reporting process and the external auditors. Given its role, the audit committee can act as a bridge between management and investors by:

- + assessing management’s reasons for presenting non-GAAP financial measures and performance metrics;
- + considering the sufficiency of management’s related disclosures; and
- + evaluating whether the measures present a fair and balanced view of the company’s performance.

⁵ Ibid 3.

The audit committee may consider the following when evaluating non-GAAP financial measures and performance metrics being presented to communicate the effects of COVID-19:

- + **Putting itself in the shoes of investors** when evaluating if the non-GAAP financial measures, performance metrics, and related disclosure will help investors understand how management and the audit committee are evaluating the business.⁶
- + **Discussing with management how the company made changes to the non-GAAP financial measures and performance metrics the company typically presents to communicate the effects of COVID-19**, including the rationale and any related disclosure for those changes.

- + **Asking management how they** have considered compliance with the SEC's rules and guidance when reporting non-GAAP financial measures and performance metrics that reflect adjustments for COVID-19.

- + **Asking the external auditors what their responsibilities are for non-GAAP financial measures and performance metrics**, and whether that responsibility is different depending on where the non-GAAP financial measures or performance metrics are presented.

⁶ Consider this CFA Institute blog, [First Quarter 2020 Amid COVID-19: Non-GAAP Measures](#) for how investors may consider and evaluate these metrics.