No. 2020-02
4 February 2020

To the Point

SEC issues guidance on disclosures about key performance indicators and other metrics in MD&A

The SEC's guidance addresses the types of information that registrants should disclose about key performance indicators and other metrics in MD&A.

What you need to know

- The SEC issued guidance advising registrants to make additional disclosures about key performance indicators and other metrics they include in MD&A. The disclosures are broadly similar to certain disclosures required for non-GAAP measures, including why the metric is useful and how management uses it.
- Registrants should evaluate whether the disclosure of estimates or assumptions underlying a metric or its calculation is necessary to make the presentation not misleading.
- The guidance is effective upon publication in the Federal Register.

Overview

The Securities and Exchange Commission (SEC or Commission) issued **guidance** advising registrants to provide additional disclosures about key performance indicators (KPIs) and other metrics included in management's discussion and analysis (MD&A). The SEC noted that registrants often disclose financial and nonfinancial metrics in MD&A that can vary significantly among companies and industries based on the facts and circumstances.

Under long-standing SEC rules, registrants are required to provide additional disclosures about metrics they include in MD&A that provide material information necessary to make the presentation of the metric, in light of the circumstances under which it is presented, not misleading. The SEC's new guidance does not change these requirements or the MD&A rules, but it provides the Commission's views about how these rules apply when MD&A includes KPIs or other metrics.

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Key considerations

When disclosing metrics in MD&A, a registrant should consider whether (1) they are US GAAP measures and the US GAAP disclosure framework applies to them, or (2) they are non-GAAP measures and Regulation G or Item 10(e) of Regulation S-K applies to them. If the metrics are not subject to an existing framework, the registrant should then consider what additional information is needed to provide adequate context to help an investor understand them. The SEC said that it would generally expect, based on the facts and circumstances, the following additional disclosures:

- A clear definition of the metric and a description of how it is calculated
- A statement indicating the reasons why the metric provides useful information to investors
- A statement indicating how management uses the metric in managing or monitoring the performance of the business

If there are estimates or assumptions underlying the metric or its calculation, the company should evaluate whether disclosure of such items is necessary for the disclosure of the metric not to be misleading.

If a company changes the method it uses to calculate or present the metric from one period to another, it should consider the need to disclose, if material, (1) the differences in how the metric is calculated or presented, (2) the reasons for such changes, (3) the effects of any such changes on the amounts or other information being disclosed and on amounts or other information previously reported, and (4) other differences in methodology and results that would reasonably be expected to be relevant to understanding the company's performance or prospects. Depending on the significance of the change(s) in methodology and results, the company should consider whether it is necessary to recast previously reported metrics to conform to the current presentation to achieve comparability and avoid misunderstandings.

Examples of metrics to which this new guidance applies include operating margin, same-store sales, sales per square foot, total customers/subscribers, average revenue per user, active customers, number of memberships, and data security measures (e.g., number of data breaches, number of account holders affected by data breaches). Metrics also can relate to external or macroeconomic matters, involve a combination of internal and external information, or address environmental matters.

In addition, the guidance reminds companies that they are required to maintain effective disclosure controls and procedures, which are important when disclosing metrics derived from the company's own information. When metrics are material to an investment or voting decision, the company should consider whether it has effective controls and procedures in place that address their consistency and accuracy.

How we see it

The disclosures described in the guidance are generally consistent with those the SEC staff has requested in comments to registrants in recent years. However, the issuance of Commission-level guidance signals that the staff may step up its focus on disclosures about metrics companies include in MD&A. As a result, registrants should carefully evaluate the metrics they present in MD&A and their related disclosures about those metrics.