Grant Thornton

Snapshot

DECEMBER 20, 2022
SNAPSHOT 2022-20

CorpFin updates its non-GAAP financial measures guidance

The SEC's Division of Corporation Finance (CorpFin) recently updated its Compliance & Disclosure Interpretations (C&DIs) titled *Non-GAAP Financial Measures,* to expand upon situations when non-GAAP financial measures could be considered misleading as well as to clarify its views related to what constitutes undue prominence of non-GAAP measures. In recent public remarks, the SEC staff noted that these updates do not represent a change in their views about non-GAAP financial measures. Rather, the updates stem from CorpFin's filing review observations and are intended to assist registrants in their disclosure of non-GAAP financial measures.

Misleading

The C&DI updates clarify that presenting a non-GAAP performance measure that excludes normal, recurring, cash operating expenses necessary to operate a registrant's business is just one example of a measure that could be misleading. Further, when evaluating whether an operating expense is "normal," the staff considers both the nature and effect of the adjustment and how it relates to the company's operations, revenue-generating activities, business strategy, industry, and regulatory environment. Further, an operating expense that occurs repeatedly or occasionally, including at irregular intervals, is viewed by the staff as a "recurring" expense *[Question 100.01]*.

The staff also added a nonexhaustive list of examples of (1) individually tailored accounting principles and (2) labeling of the adjustments or non-GAAP measures, which could cause a measure to be misleading *[Questions 100.04 and 100.05]*.

Further, the updates point out that a non-GAAP measure could be misleading even if accompanied by extensive and detailed disclosures about the nature and impact of each adjustment *[Question 100.06]*.

Prominence

The staff provided additional examples where presentation, and any related discussion and analysis, of a non-GAAP measure would be considered more prominent than the most directly comparable GAAP measure *[Question 102.10(a)]*.

The C&DI updates also clarify that the reconciliation needs to start with the most directly comparable GAAP measure. Further, when a registrant presents a forward-looking non-GAAP measure that excludes the quantitative reconciliation under the exception provided in Item 10(e) of Regulation S-K, the staff expects the registrant to disclose with equal or greater prominence the reliance upon the exception as well as the information that is unavailable and its probable significance *[Question 102.10(b)]*.

The C&DI updates also note that when assessing prominence, a non-GAAP income statement is considered to be one that comprises non-GAAP measures and includes all or most of the line items and subtotals found in a GAAP income statement *[Question 102.10(c)]*.

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