March 16, 2018

Mr. Jay Clayton  
Chairman  
U.S. Securities & Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Mr. Russell G. Golden  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

RE: Non-GAAP Financial Measures

Dear Chairman Clayton and Chairman Golden:

As Chief Investment Officer of the Colorado Public Employees’ Retirement Association (CoPERA), I am submitting the following comments to the U.S. Securities & Exchange Commission (SEC) and Financial Accounting Standards Board (FASB) for consideration, due to my concerns about the growing prevalence and associated risks of non-GAAP financial measures (NGFMs). These comments represent my perspective, as an institutional investor for a large public pension plan representing more than 560,000 current and retired members and over $49 billion in assets.

Since 2015, I have had the pleasure of serving on the Public Company Accounting Oversight Board’s Investor Advisory Group (IAG). In 2017, I had the opportunity to co-lead the IAG’s working group focused on non-GAAP financial measures. Similar to many other market participants, the working group members were greatly concerned about the growing importance and utilization of non-GAAP financial measures by both corporate reporters and investors. The lack of a standardized definition of NGFMs drove most of the concern. Without a standardized definition, NGFMs create opportunities for management manipulation, while limiting comparability and auditability of financial reports.

A well-functioning capital market requires robust reporting standards, and the role of the SEC and FASB in establishing and maintaining U.S. accounting norms has been invaluable to investors. However, the rise in use of NGFMs illustrates that accounting standards have lagged the market demand for more robust financial information on measures of key performance and critical success factors for a company.
To exemplify this point, one of the most common reasons cited for using NGFMs is that they more accurately represent how companies manage their business and how investors evaluate companies. The increased use of NGFMs, in today’s global and complex business environment, demonstrates that existing GAAP measures are by themselves, insufficient. A project that results in credible and consistent reporting of NGFMs and key performance indicators (KPIs) is a necessary step for GAAP to evolve and reclaim its rightful place as a linchpin of the U.S. capital markets.

The IAG’s NGFMs working group\(^1\) recommended a two-phase project that the SEC and FASB should embark upon jointly and concurrently. The first phase of this project would entail that the SEC utilize their authority given to them by the Sarbanes-Oxley Act to require firms to define their non-GAAP financial measures. Corporations should be required to provide a clear definition that will allow investors to fully understand how each company defines their own internally-developed NGFMs. These definitions should be disclosed in any document provided to investors that discloses NGFMs, such as in Forms 8-K, 10-Q, and 10-K. Defining NGFMs will result in minimal extra cost to corporations, while improving disclosure and, ultimately, the stability of capital markets. Clearly defining NGFMs will reduce ambiguity, improve comparability and transparency, and reduce the ability of bad actors to manipulate their results. Once corporations have defined the NGFMs that best represent how they manage their firms and how investors should measure their results, the SEC and FASB can use these clear, explicit definitions to inform a project to improve accounting standards.

The second phase of the project would involve accounting standard setters and regulators developing and defining new key performance indicators at the industry level. The root cause of the increased usage of NGFMs is the lack of reporting detail provided by current GAAP standards. If the SEC and FASB develop a more robust reporting structure, corporations could provide to investors more informative financial and business reporting, which incorporate well-defined standards. This will reduce the need for NGFMs. Investors and corporations will also benefit by gaining a standardized set of KPIs, allowing for improved comparability and more efficient benchmarking. The KPIs should be defined by industry-specific experts, including representatives from both the corporate and investor communities; data from our phase one recommendation (above) should serve as a valuable resource. These groups should have a broad mandate to select the most meaningful and durable KPIs, including, where appropriate, NGFMs as defined by the SEC.

In today’s quickly changing, complex, and global economy, investing has moved beyond basic financial statement analysis to an environment where best practices require a more detailed understanding of the drivers of a company’s financials. As the investment community evolves and advances their analytical processes and capital allocation, the SEC and FASB must keep pace to help foster efficient and orderly capital markets.

\(^1\) [https://pcaobus.org/News/Events/Pages/2017-IAG-meeting.aspx](https://pcaobus.org/News/Events/Pages/2017-IAG-meeting.aspx). IAG members represent their own views and do not speak for, or on behalf of, the PCAOB.
We appreciate the SEC and FASB considering our recommendations on NGFMs and KPIs, and welcome additional opportunities to provide input on non-GAAP financial measures and the potential evolution of the GAAP reporting structure.

Sincerely,

Amy C. McGarrity
Chief Investment Officer
Colorado PERA

CC:
Kara M. Stein, SEC Commissioner
Michael S. Piwowar, SEC Commissioner
Robert J. Jackson Jr., SEC Commissioner
Hester M. Peirce, SEC Commissioner
Wesley R. Bricker, SEC Chief Accountant
James L. Kroeker, FASB Vice Chairman
Christine Ann Botosan, FASB Board Member
Marsha L. Hunt, FASB Board Member
Harold L. Monk, Jr., FASB Board Member
Marc A. Siegel, FASB Board Member