REGULATORY GUIDE 230

Disclosing non-IFRS financial information

December 2011

About this guide

This guide is for directors and preparers of financial information. It sets out our guidance on the use of financial information in financial reports and other corporate documents, such as transaction documents and market announcements, where that information is presented other than in accordance with accounting standards (non-IFRS financial information).

The purpose of our guidance is to promote full and clear disclosure for investors and other users of financial information and minimise the possibility of those users being misled by such information.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Document history

This guide was issued in December 2011 and is based on legislation and regulations as at that date.

Disclaimer

This guide does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

Examples in this guide are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

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A Overview

Key points

Financial information presented other than in accordance with accounting standards (non-IFRS financial information) can be useful for investors and other users of this information in certain circumstances. However, in some cases, non-IFRS financial information has the potential to be misleading.

This guide sets out:

- our definition of non-IFRS financial information and related terms (see Section B);
- our guidance on when it is and is not appropriate to use non-IFRS financial information in financial reports (see Section C), documents other than financial reports and transaction documents (see Section D), and transaction documents (see Section E); and
- our guidelines to assist directors and preparers of financial information in presenting non-IFRS financial information.

Disclosing non-IFRS financial information

RG 230.1 Financial information that is presented other than in accordance with all relevant accounting standards as defined in s9 of the *Corporations Act 2001* (Corporations Act) (described in this guide as 'non-IFRS financial information') is being used increasingly in financial reports and other documents, such as transaction documents and market announcements.

Note 1: International Financial Reporting Standards (IFRS) are issued by the International Accounting Standards Board (IASB). When 'IFRS' is used to describe an item of information (e.g. 'IFRS profit'), that item should be taken to be prepared in accordance with IFRS.

Note 2: 'Financial report' means the documents referred to in s295 and 303 of the Corporations Act, being financial statements, notes to the financial statements and the directors' declaration about the statements and notes.

RG 230.2 In this guide, we give guidance on when non-IFRS financial information may or may not be used and what additional disclosure should be made so that the information is not misleading. The purpose of our guidance is to:

(a) promote more meaningful communication of financial information to investors and other users of financial reports;

(b) assist directors in ensuring that the financial information disclosed is not misleading; and

(c) provide greater certainty in the market about ASIC's views on disclosure of non-IFRS financial information.

RG 230.3 There are limitations on the use of non-IFRS financial information in financial reports under Ch 2M of the Corporations Act.

RG 230.4 The use of non-IFRS financial information in other documents is governed by general statutory obligations, such as requirements that the information not be misleading. Our guidelines do not replace the law for those other documents. Disclosure in documents other than financial reports that does not follow our guidelines will not necessarily breach the law. However, following them will reduce the potential that those other documents breach the law.

What is non-IFRS financial information?

RG 230.5 We define ‘non-IFRS financial information’ as:

> financial information that is presented other than in accordance with all relevant accounting standards.

RG 230.6 Two of the most common forms of non-IFRS financial information, and those dealt with in this guide, are non-IFRS profit information and pro forma financial information. For further guidance on what does and does not constitute non-IFRS financial information for the purposes of this guide, see Section B.

RG 230.7 We consider there are three main types of documents in which non-IFRS financial information is commonly disclosed:

(a) financial reports;

(b) documents other than financial reports and transaction documents (e.g. documents accompanying financial reports, market announcements, presentations to investors and briefings to analysts); and

(c) transaction documents, such as prospectuses, scheme documents and takeover documents.

Financial reports

RG 230.8 Financial information prepared other than in accordance with accounting standards must not be included in financial statements: see Section C. Such information may only be included in the notes to the financial statements in the rare circumstances where such disclosure is necessary to give a true and fair view of the financial position and performance of the entity.

RG 230.9 Profit figures prepared other than in accordance with accounting standards may not be included as line items or subtotals in the income statement, nor presented in additional columns of financial statements.

Documents other than financial reports and transaction documents

RG 230.10 It may be necessary or appropriate to include non-IFRS financial information in documents accompanying the financial report (e.g. the directors' report), market announcements, presentations to investors and briefings to analysts: see Section D.

RG 230.11 Such information can provide meaningful insights into the financial condition or performance of a business. ASIC is not seeking to prohibit the use of non-IFRS financial information in documents related to the financial result, but considers guidance will reduce the risk that such information is misleading.

Transaction documents

RG 230.12 Non-IFRS financial information presented as pro forma financial information may be useful or necessary in transaction documents to fulfil disclosure obligations under the Corporations Act: see Section E.

Note: For the definition of 'pro forma financial information', see RG 230.18.

RG 230.13 Where non-IFRS financial information is included, it should not be presented in a misleading manner. We have provided guidelines for presenting non-IFRS financial information when such information is disclosed, to help reduce the risk of users being misled.

B What is non-IFRS financial information?

Key points

Non-IFRS financial information is any financial information that is presented other than in accordance with all relevant accounting standards.

Non-IFRS profit information is a type of non-IFRS financial information. It is profit information calculated on a basis other than IFRS or calculated in accordance with IFRS and then adjusted.

Pro-forma financial information is non-IFRS financial information that is intended to show the effects of proposed or completed transactions for illustrative purposes. It is often used in transaction documents.

Definition of non-IFRS financial information and related terms

RG 230.14 '*Non-IFRS financial information'* is financial information that is presented other than in accordance with all relevant accounting standards.

RG 230.15 Non-IFRS financial information may be presented in a form that is similar to:

(a) a statement of financial position;

(b) a statement of comprehensive income;

(c) a statement of changes in equity; or

(d) a statement of cash flows,

but it has not been prepared in accordance with statutory financial reporting requirements applicable to those statements.

RG 230.16 Non-IFRS financial information may exclude certain transactions, or present transactions or balances on a different recognition and measurement basis from that required or permitted by accounting standards.

RG 230.17 '*Non-IFRS profit information*' is a common type of non-IFRS financial information. It is profit information calculated on a basis other than in accordance with IFRS, or calculated in accordance with IFRS but adjusted in some manner. Entities calculate non-IFRS profit information in different ways and use different descriptions.

RG 230.18 '*Pro forma financial information*' is non-IFRS financial information that is intended to show the effects of proposed or completed transactions for illustrative purposes. It is often used in transaction documents, such as prospectuses, Product Disclosure Statements (PDSs), scheme of arrangement documents and takeover documents.

RG 230.19 '*Statutory financial reporting requirements*' describes the accounting standards and other financial reporting requirements of Ch 2M of the Corporations Act.

Scope of non-IFRS financial information

RG 230.20 This regulatory guide provides guidance on when users may or may not include non-IFRS financial information in financial reports and other corporate documents. This guidance does not apply to the following types of information:

(a) non-financial information such as numbers of employees or numbers of subscribers;

(b) statutory information required by another regulator (e.g. capital adequacy information required by the Australian Prudential Regulatory Authority);

(c) information required by accounting standards, such as:

  (i) the measure of profit or loss for each reportable segment disclosed in accordance with Australian Accounting Standard AASB 8 *Operating segments*, even though the measure may not be in accordance with other accounting standards (see RG 230.57); and

  (ii) amounts per share disclosed in accordance with AASB 133 *Earnings per share*;

Note: In this guide, AASB 8 (for example) refers to a particular Australian accounting standard issued by the Australian Accounting Standards Board (AASB).

(d) more granular information calculated in accordance with accounting standards and presented in an operating and financial review, such as quarterly information, provided that information for all periods is disclosed with equal prominence;

(e) separate analysis on individual components of IFRS profit, such as impairment losses;

(f) information to explain compliance with the terms of an agreement or legislative requirement, such as:

  (i) a lending covenant;

  (ii) the basis of calculating director and executive remuneration (however, consideration should be given to the need to disclose how performance measures differ from corresponding IFRS measures for the purposes of s300A(1)(b) of the Corporations Act); and

  (iii) the calculation of the amount of cash distributions by a registered scheme in accordance with the trust deed or to distribute the taxable income of the scheme,

provided the information is not represented as being an alternative to the IFRS profit result or another IFRS measure or given undue prominence, and is not presented on the face of the financial statements; and

(g) comparisons of IFRS financial information to non-financial information (e.g. sales revenue per unit).

RG 230.21 While our regulatory guidance on non-IFRS financial information does not apply to these categories of information, the general principles in this regulatory guide (e.g. relating to relative prominence) may be useful to preparers of this information.

C Financial reports

Key points

Statutory financial reports provide historical financial information that is prepared in accordance with accounting standards and other financial reporting requirements of the Corporations Act. The objective of these requirements is to ensure consistent and comparable information over time and between entities that is not misleading to users.

Non-IFRS financial information must not be presented as additional columns in the financial statements. Non-IFRS profits may not be presented as line items or subtotals in the statement of comprehensive income.

In rare cases, compliance with accounting standards will not give a true and fair view of the financial position and performance of an entity, as required by the Corporations Act. In those cases, additional information to give a true and fair view will need to be disclosed in the notes, which might include non-IFRS financial information in some cases.

We may provide relief to allow inclusion of pro forma or other non-IFRS financial information in financial reports, but we are likely to do so only in exceptional circumstances. Where we give relief, the information will need to be audited or reviewed, consistent with the financial report.

Purpose of a financial report

RG 230.22 Many companies, registered schemes and disclosing entities must prepare financial reports in accordance with accounting standards and other financial reporting requirements of the Corporations Act.

RG 230.23 Accounting standards are intended to ensure consistent and comparable reporting of historical financial performance, position and cash flows over time and between entities to assist investors and others to make confident and informed decisions.

Financial information in the financial report

RG 230.24 Sections 295(1)–(4) and 303(1)–(4) prescribe the information that comprises the annual and half-year financial reports under Ch 2M of the Corporations Act. This information is:

(a) the financial statements required by accounting standards;

(b) the notes to the financial statements required by accounting standards and the regulations, and any other information necessary to give a true and fair view of the financial position and performance of the entity and/or consolidated entity; and

(c) the directors' declaration, being a declaration by the directors whether, in the director's opinion, there are reasonable grounds to believe that the entity will be able to pay its debts as and when they become due and payable, whether the financial statements and notes are in accordance with the Corporations Act, and for some entities, that the declarations required by s295A have been given.

RG 230.25 Because these provisions provide an exhaustive list of what is required and permitted to be included in the financial report, non-IFRS financial information may not be included in financial statements. It may only be included in the notes to the financial statements in those rare circumstances where inclusion of that information is necessary to give a true and fair view of the financial position and performance of an entity.

Financial statements

RG 230.26 Non-IFRS financial information must not be included as additional columns of financial statements or presented in a separate section below a financial statement (e.g. a section below the statement of comprehensive income that adjusts the IFRS profit to arrive at a 'bottom line' non-IFRS profit). In particular, s295(2) and 303(2) of the Corporations Act specify that the financial statements that must be included in an annual or half-year financial report are those required by accounting standards. In Australia, these standards are issued by the Australian Accounting Standards Board (AASB). The specific financial statements to be included are set out in AASB 101 *Presentation of financial statements* and AASB 134 *Interim financial reporting* for half-year reports.

Additional line items and subtotals

RG 230.27 Non-IFRS profit information in the statement of comprehensive income which, for example, excludes certain income or expense items is not in accordance with AASB 101.

RG 230.28 AASB 101 both permits and requires additional line items and subtotals to be disclosed in the statement of comprehensive income when such presentation is relevant to an understanding of the entity's financial performance.

RG 230.29 Specifically, AASB 101:

(a) permits and requires more detailed disclosure of individual items within their relevant category (i.e. revenue, expenses, taxation);

(b) requires total revenue and total income tax expense/benefit to be shown in the statement of comprehensive income. If revenue items are grouped with related expense items, it is not possible to comply with the requirement to show the totals for revenue and income tax expense/benefit. Exceptions are disclosing discontinuing operations and cost of sales, or other presentations specifically permitted by accounting standards;

(c) prohibits disclosure of any item of income or expense as extraordinary items. Presentations that are intended to achieve that result but without using the term ‘extraordinary items’ (e.g. ‘exceptional’, ‘unusual’ or ‘non-recurring’) are contrary to this prohibition; and

(d) does not permit items that are not a component of revenue, expense or other comprehensive income to be presented in the statement of comprehensive income (e.g. replacing investment gains or losses with expected future earnings or including cash collections of trade receivables as revenue).

RG 230.30 In our view, the following presentations would not be relevant to an understanding of an entity’s financial performance and may not be subtotal information—accordingly, the presentations would not be consistent with AASB 101:

(a) presenting non-IFRS profit information as subtotal information in the statement of comprehensive income;

(b) describing additional line items and subtotals (included as permitted by AASB 101) as alternative profit figures. We accept that describing and disclosing earnings before interest and tax (EBIT) may be useful in assessing interest cover; and

(c) continuing the statement of comprehensive income to remove from the IFRS profit particular expenses to show a ‘bottom line’ non-IFRS profit.

True and fair view

RG 230.31 The Corporations Act contemplates that there could be situations where compliance with accounting standards does not result in a true and fair view of the financial position and performance of an entity. In these circumstances, additional information must be disclosed in the notes to the financial statements to give a true and fair view: s295(3)(c) and 303(3)(c).

RG 230.32 The most common disclosure required to give a true and fair view is additional information to explain the facts or circumstances relating to a transaction or balance, such as details of the terms and conditions attaching to a financial instrument issued by an entity that may be relevant to its classification as debt or equity. It is only in rare circumstances that disclosure of financial information prepared on a different basis to that required by accounting standards is necessary to give a true and fair view.

RG 230.33 We consider that information prepared in accordance with accounting standards will give a true and fair view of the financial position and performance of an entity in all but rare circumstances. Our view is based on the following reasons:

(a) Information prepared in accordance with accounting standards is presented on a consistent and comparable basis across entities and from period to period and is in accordance with a recognised and public basis of accounting that can be understood by users.

(b) Accounting standards require sufficient disclosure of the components of profit and other comprehensive income, revenue, expenses, assets, liabilities and equity, as well as accounting policies and other disclosures to enable users to understand how the figures have been derived and what they comprise.

(c) The financial report provides an historical record of the past financial performance of an entity for a period and its financial position at the end of that period. Non-IFRS financial information does not always present the actual historical financial performance or position of the entity for the period (e.g. when the non-IFRS financial information excludes certain revenues or expenses, or includes adjustments for transactions that had not occurred at the time as if they had occurred).

(d) Accounting standards help to define what is a true and fair view (*Pacific Acceptance Corporation Ltd v Forsyth and Others* (1970) 92 WN (NSW) 29). Further, accounting standards are developed by the International Accounting Standards Board (IASB) and the AASB in accordance with a framework and with extensive industry consultation and input.

(e) Specific accounting standards already prescribe the methodology and disclosures for particular major transactions and balances (e.g. acquisition of assets or entities and consolidation of the results of controlled entities acquired or divested during the reporting period: see AASB 116 *Property, plant and equipment*, AASB 3 *Business combinations*, AASB 127 *Consolidated and separate financial statements* and AASB 5 *Non-current assets held for sale and discontinued operations*).

RG 230.34 In the rare circumstances where non-IFRS financial information is necessary to give a true and fair view of the financial position and performance of an entity, the directors' report must set out the directors' reasons for forming the opinion that the inclusion of the information was necessary to give a true and fair view as required by s297 or 305 of the Corporations Act: see s298(1A) and 306(2) (second occurrence). The auditor must also form an opinion on whether the additional information was necessary to give a true and fair view as required by s297 or 305: see s307(aa).

RG 230.35 Any non-IFRS financial information necessary to give a true and fair view of the financial position and performance of the entity should be presented in accordance with the principles in this guide. In particular, it should not be presented in a manner that may mislead or deceive. For example, that information should not be given greater prominence than IFRS financial information and it should be clear that it has not been prepared in accordance with accounting standards.

Other GAAPs

RG 230.36 A reconciliation of key line items in the financial statements (e.g. profit and net assets) to figures prepared under the generally accepted accounting principles (GAAP) of another jurisdiction in which the entity is listed can be presented as a part of the annual report, but should not be included in the financial report unless it is necessary to give a true and fair view of the entity's financial position and performance. The company may choose to have this additional information audited.

RG 230.37 Financial information under the GAAP of another jurisdiction should not be presented in a misleading manner. In particular, it should not be given greater prominence compared to the information prepared in accordance with statutory financial reporting requirements, and the basis used should be clearly described.

Concise financial reports

RG 230.38 Our guidance also applies to non-IFRS financial information in concise financial reports prepared in accordance with s314 of the Corporations Act.

RG 230.39 Under s314(1), a company, registered scheme or disclosing entity may send a concise report to members instead of a full financial report and auditor's report. The financial statements and specific disclosures required in a concise financial report must be derived from the financial report of the entity, and any other information included must be consistent with the financial report of the entity: see AASB 1039 *Concise financial reports*.

RG 230.40 Although AASB 1039 requires some additional disclosures to those required in a full financial report, our view is that these additional disclosure requirements do not permit inclusion of non-IFRS financial information.

Examples

RG 230.41 The following are examples of disclosures of non-IFRS financial information in financial reports: see Table 1. The examples are not exhaustive and are provided to help preparers of financial information better understand our approach in this guide.

Table 1: Examples of non-IFRS financial information in financial reports

Type of non-IFRS financial information	May be included in a financial report	Likely to contravene the Corporations Act if included
Information on compliance with regulatory financial condition requirements	✓	
Details of a breach of a lending covenant where the covenant is determined with reference to a non-IFRS financial ratio	✓	
An explanation of the basis for determining director and executive remuneration where the basis is on measures other than IFRS profit	✓	
A note to the financial statements containing another statement of comprehensive income showing a non-IFRS profit figure, unless that number is required to give a true and fair view of the performance of the entity Note: We consider this will only be required in rare circumstances: see RG 230.31–RG 230.35.		✓
Restating the financial statements as if there had been no change in the exchange rate since the previous period (i.e. 'constant currency adjustments')		✓

Relief

RG 230.42 We may exercise our discretionary relief powers under s340 and 341 to grant relief from s295 and 303 to allow an entity to include non-IFRS financial information in financial reports and directors' declarations in exceptional circumstances. Relief is only required in exceptional circumstances because non-IFRS financial information can be included in documents accompanying the financial report, market announcements, presentations to investors and briefings to analysts (see Section D), which would usually make it unnecessary to include this information in the financial report or directors' declarations. Further, non-IFRS financial information may be included in the notes to the financial statements where that information is necessary to give a true and fair view of the financial position and performance of an entity: see s295(3)(c) and 303(3)(c).

Note: For our policy on applications for relief from the requirements of Ch 2M of the Corporations Act, see Regulatory Guide 43 *Financial reports and audit relief* (RG 43).

RG 230.43 Where we give relief, the information will need to be audited or reviewed, consistent with the statutory requirement for the financial report.

RG 230.44 We have granted class order relief from statutory financial reporting requirements in the following specific circumstances:

(a) Where certain wholly owned subsidiaries are relieved from preparing and lodging financial reports because they enter into deeds of cross guarantee with their parent entity and meet certain other conditions, the parent must present consolidated financial statements and we have given relief to allow the parent to do so (see Class Order [CO 98/1418] *Wholly-owned entities*).

(b) We have given relief to allow issuers of stapled securities to include the financial statements of each stapled entity in adjacent columns in one financial report (see Class Order [CO05/0642] *Combining financial reports of stapled security issuers*).

(c) We have given relief so that a pro forma statement of financial position may be included in the notes to the financial statements to explain the financial effect of material acquisitions and disposals of entities and businesses after balance date (see Class Order [CO 05/0644] *Disclosing post balance date acquisitions and disposals*).

(d) We have given relief to allow registered schemes with a common responsible entity (or related responsible entities) to include their financial statements in adjacent columns in a single financial report (see Class Order [CO 06/0441] *Including different registered scheme financial reports in a single document*).

Non-IFRS profit information

RG 230.45 It has become increasingly common for entities to present non-IFRS profit information to the market. However, this information is presented on a different basis for different entities and this can reduce the comparability of the information between entities.

RG 230.46 Because different users require different information, we believe that it is important to provide information required by accounting standards on the components of an entity’s IFRS profit figure and its other comprehensive income within the financial report to enable users of the financial report to better understand the performance of a company. Users can then derive the performance measure that they consider appropriate for their purposes. In addition, the operating and financial review can be used to present meaningful information on the underlying drivers of the business: see RG 230.47–RG 230.51.

Operating and financial review

RG 230.47 Section 299 of the Corporations Act requires the directors' report for all entities for a financial year to contain a review of operations during the year and the results of those operations.

RG 230.48 Section 299A of the Corporations Act requires a company or disclosing entity that is a listed public company to include an 'operating and financial review' (OFR) in the directors' report that accompanies the annual financial report. The OFR must contain information that members of the entity would reasonably require to make an informed assessment of the entity's operations and financial position, as well as business strategies and the entity's prospects for future financial years (unless disclosure would be likely to result in unreasonable prejudice).

RG 230.49 The OFR enables the directors to more fully explain to users of financial reports the performance and financial position of the entity. The OFR should provide an understanding of the underlying business of an entity and the drivers of its profit. An effective OFR can reduce the need to present non-IFRS profit information.

RG 230.50 The OFR is the appropriate place for a company to explain any unusual aspects of its performance for the year.

RG 230.51 If directors consider it appropriate to include non-IFRS financial information in the OFR, the directors' report or another document in the annual report, the guidelines in Section D of this guide should be followed to assist in reducing the risk of non-IFRS financial information being misleading.

D Documents other than financial reports and transaction documents

Key points

Users of financial reports may ask for financial information in addition to the financial report to better understand aspects of the performance of an entity.

There are cases where non-IFRS financial information in documents accompanying the financial report, market announcements, presentations to investors and briefings to analysts, is necessary or useful to investors and other users of the information.

This information must not be misleading. In this regard, important considerations include that:

- IFRS financial information should be given equal or greater prominence compared to non-IFRS financial information, in particular IFRS profit; and
- non-IFRS financial information should:
  - be explained and reconciled to the IFRS financial information;
  - be calculated consistently from period to period; and
  - be unbiased and not used to remove ‘bad news’.

Use of non-IFRS financial information

RG 230.52 There may be demands from users of financial reports for information to better understand aspects of the performance of an entity, including information on the drivers of the business and external influences, and more information on the items comprising the reported result. It is possible for this information to be included in documents accompanying the financial report (e.g. the directors’ report), market announcements, presentations to investors, briefings to analysts, advertisements and financial reviews sent to shareholders.

RG 230.53 There is a risk that non-IFRS financial information will be misleading unless it is appropriately presented and explained. There are a number of sections of the Corporations Act that deal with misleading information including:

(a) s1041E (false or misleading statements);

(b) s1041H (misleading or deceptive conduct);

(c) s670A (misstatements in, or omissions from takeover and compulsory acquisition and buy-out documents);

(d) s728 (misleading or deceptive statements in prospectuses); and

(e) s1020E (misleading or deceptive statements in PDSs and other documents relating to financial products).

RG 230.54 In some cases, s1308 (false or misleading statements) and 1309 (false or misleading information) may also apply to pro forma financial information in transaction documents and other documents.

RG 230.55 Accounting standards are intended to ensure consistent and comparable reporting of historical financial information over time and between entities. It is reasonable for users of financial information to expect information to be presented in accordance with accounting standards. There is a risk that non-IFRS financial information will be misleading unless it is appropriately presented and explained.

Guidelines for presenting information

RG 230.56 Table 2 sets out our guidelines to help reduce the risk of non-IFRS financial information being misleading.

Table 2: Guidelines for presenting non-IFRS financial information

Guidelines	Explanation
Prominence	IFRS financial information should be presented with equal or greater prominence, emphasis or authority compared to the corresponding non-IFRS financial information: see RG 230.60–RG 230.64.
Appropriate label	Non-IFRS financial information should be clearly labelled in a way that distinguishes it from the corresponding IFRS financial information. Any term used to describe the information should be appropriate given the nature of the information. The term or label should not be apt to cause confusion with IFRS financial information.
Calculation	A clear explanation should be provided about how the non-IFRS financial information is calculated.
Reconciliation	A reconciliation between the non-IFRS and IFRS financial information should be provided, separately itemising and explaining each significant adjustment. Where reconciling items are components of IFRS financial information, they should be capable of being reconciled to the financial report. Where a reconciling item cannot be extracted directly from the financial report, the reconciliation should show how the figure is calculated. Where comparative non-IFRS financial information is presented for a previous period, a reconciliation to the corresponding IFRS financial information should be provided for that previous period.
Why information is useful	A statement should be included disclosing the reasons why directors believe that presentation of the non-IFRS financial information is useful for investors to understand the entity's financial condition and results of operations. This statement should not be boilerplate, but be clear and understandable and specific to the non-IFRS financial information used, the entity, the nature of the business and industry, and the manner in which the non-IFRS financial information is assessed and applied to decisions.
Consistency	A consistent approach should be adopted from period to period. If there has been a change in approach from the previous period, an explanation about the nature of the change, the reasons for the change, and the financial impact of the change should be provided.

Guidelines	Explanation
Adjustments	For each adjustment made to IFRS financial information, corresponding items should be adjusted in any comparative information.
Unbiased	Non-IFRS financial information should be unbiased and not used to avoid presenting 'bad news' to the market.
One-off items	Items that have occurred in the past or are likely to occur in a future period should not be described as 'one-off' or 'non-recurring'.
Audited or reviewed	A clear statement should be made about whether the non-IFRS financial information has been audited or reviewed in accordance with Australian Auditing Standards.

RG 230.57 AASB 8 *Operating segments* requires disclosure of profit or loss for segments based on the measure reported internally to management, which may be different to the profit calculated in accordance with statutory financial reporting requirements. In most cases, it is expected that any non-IFRS profit information disclosed will not differ from the segment reporting disclosures in the financial report. If non-IFRS profit information is disclosed and it differs from the segment reporting disclosures in the financial report, an explanation should be included justifying this difference. No explanation is required if the differences comprise only normal intersegment eliminations or corporate expense allocations.

Use of ratios

RG 230.58 Financial ratios that include non-IFRS financial components may be useful in assessing aspects of an entity's financial position or performance (e.g. measures of compliance with financial condition requirements imposed on the entity by regulators or under lending covenants).

RG 230.59 Ratios calculated on a basis generally used in practice using IFRS financial information may also provide useful information (e.g. current ratio or debt–equity ratio). If ratios are adjusted to exclude selected items (e.g. a gearing ratio that excludes subordinated debt) or are not calculated and presented consistently over time, they may be misleading. Where ratios are adjusted, the adjustments and the reasons for those adjustments should be provided, and at least equal prominence should be given to the ratio calculated on a basis generally used in practice using IFRS financial information. In all cases, a clear explanation should be provided about how each ratio has been calculated.

Equal or greater prominence, emphasis or authority

RG 230.60 Determining whether equal or greater prominence, emphasis or authority is given to IFRS financial information in a document that presents non-IFRS financial information is a matter of judgement, taking into account the overall document.

RG 230.61 Consideration should be given to factors such as:

(a) the order and manner in which the IFRS and non-IFRS figures (e.g. profit) are presented; and

(b) providing a similar level of attention to reconciling items between IFRS and non-IFRS figures as is given to components of non-IFRS figures, based on their relevance and materiality.

RG 230.62 While the IFRS figure and a reconciliation should appear in every document containing a non-IFRS figure, giving equal or greater prominence to the IFRS figure does not mean that the IFRS figure or a reconciliation must appear every time a non-IFRS figure is mentioned in a document.

RG 230.63 The following are examples of not giving equal or greater prominence, emphasis or authority to IFRS financial information compared to the prominence given to the corresponding non-IFRS financial information.

Examples of *not* giving equal or greater prominence, emphasis or authority to IFRS financial information

- Where commentary on the entity's performance relates only to non-IFRS profit information, with little or no analysis of the reconciling items from the IFRS profit figure.
- Where the IFRS profit figure is shown only in a footnote to the non-IFRS profit information.
- Changing the emphasis given to the IFRS profit information and non-IFRS profit information from period to period (e.g. emphasising whichever profit figure gives the most favourable outcome for a period).
- Not presenting the IFRS profit figure and associated reconciliation at least once in every document containing non-IFRS profit information.
- Where the non-IFRS profit information is more prominent than the IFRS profit information on the first page of the document.
- Where an explanation of the non-IFRS profit figure and a reconciliation to the IFRS profit figure do not appear where the non-IFRS profit figure is first used.

Note: These examples are not exhaustive and are provided to assist in understanding the approach in this guide.

RG 230.64 The following are examples of presentation that may give equal or greater prominence, emphasis or authority to IFRS financial information compared to the corresponding non-IFRS financial information, and therefore are unlikely to be misleading.

Examples that may give equal or greater prominence, emphasis or authority to IFRS financial information

- Giving prominence to the IFRS profit figure on the first page of a document but analysing components of the non-IFRS profit figure by division or segment on subsequent pages of the document. Often the non-IFRS profit figure is a subset of the IFRS profit figure. It will still be necessary to give a similar prominence to the analysis of the adjustments between the non-IFRS profit figure and IFRS profit figure as are given to components of the non-IFRS profit figure, taking into account the relevance and materiality of the adjustments and components.
- Including the non-IFRS profit figure in the headline of an announcement where the IFRS profit figure is also given.
- Providing a summary of the reconciling items between the non-IFRS profit figure and IFRS profit figure on the first page of the market announcement, cross-referred to a more detailed reconciliation elsewhere in the document, provided that the summary aggregates similar items.

Other examples of potentially misleading disclosures

RG 230.65 The following are other examples of practices for disclosure of non-IFRS financial information in documents other than the financial report and transaction documents that are potentially misleading.

Examples of other potentially misleading disclosures of non-IFRS financial information

- *Hypothetical figures*—presenting a hypothetical profit figure that does not reflect actual historical performance, or non-IFRS profit information based on an average of prior period profits without prominent and adequate explanation of the basis adopted.
- *No explanation*—presenting non-IFRS profit information without providing a detailed explanation or reconciliation to the IFRS profit (e.g. disclosing non-IFRS profit information with a footnote to say that it excludes 'one-off' items and not detailing or explaining the 'one-off' items).
- *'Non-recurring' items*—describing items such as impairment losses and restructuring costs as 'non-recurring' when they are generally of a recurring nature in many businesses (albeit they may only arise in some years);
- *Inconsistent exclusions*—excluding from a non-IFRS profit some of the return on a class of financial assets, such as excluding unrealised losses or impairment losses, but not excluding realised gains or interest, dividends and rent.
- *Confusion*—providing multiple non-IFRS profit measures in the same reporting period where that may cause confusion.

E Transaction documents

Key points

It is often necessary or appropriate to include non-IFRS financial information as pro forma financial information in transaction documents to fulfil disclosure obligations under the Corporations Act.

Pro forma financial information should not be misleading.

When including pro forma financial information in transaction documents, certain guidelines should be followed to minimise the risk of the information being misleading.

Financial information in transaction documents

RG 230.66 Our guidelines in this section apply to disclosure of financial information in the following documents (referred to collectively as 'transaction documents'):

(a) prospectuses;

(b) PDSs;

(c) takeover bidder's statements, takeover target statements, and other relevant takeover documents;

(d) scheme of arrangement documents; and

(e) notices of meetings (e.g. related party documents under Ch 2E of the Corporations Act).

Compliance with accounting standards

RG 230.67 Other than offer information statements, the Corporations Act does not specifically require financial information in transaction documents to comply with accounting standards. In our view, users of transaction documents and market announcements reasonably expect financial information for an entity to be presented in accordance with accounting standards because:

(a) where past and/or future financial reports of an entity are required to comply with accounting standards, financial information in transaction documents should permit useful comparisons to be made by users of that information;

(b) users are accustomed to financial information prepared on the basis of accounting standards; and

(c) disclosure of financial information prepared in accordance with statutory financial reporting requirements enables users to make comparisons with other entities reporting on that basis.

RG 230.68 There may be some circumstances where an entity is unable to disclose information in accordance with accounting standards. For example, there may be practical impediments to providing information prepared in accordance with accounting standards in a bidder's statement in a takeover. In a hostile takeover situation, the bidder may not have sufficient information from the target's underlying records to determine the adjustments that would be made to the target's financial statements to produce pro forma financial information. If the impact of adjustments cannot be determined, the bidder's statement should include a statement to that effect and the reason why such a determination is not possible. The target may have an obligation to disclose the information in the target's statement.

RG 230.69 If a particular accounting standard is not followed, the nature, reasons and financial effect of the departure should be prominently disclosed to ensure that the information is not misleading.

Use of pro forma information

RG 230.70 There are many instances where providing non-IFRS financial information as pro forma financial information in transaction documents may be useful or necessary to fulfil disclosure obligations under the Corporations Act. For example, it may help users deciding on a business combination to present pro forma financial information showing how the business would appear based on historical information for the combining entities if the transaction had occurred at the start of the last financial year. Other relevant financial measures may also be encouraged by other ASIC regulatory guides. One of the benchmarks in Regulatory Guide 69 *Debentures: Improving disclosure for retail investors* (RG 69) is an 'equity capital' ratio.

RG 230.71 Pro forma financial information should be presented in accordance with the recognition and measurement requirements of accounting standards, subject to assumptions relevant to the notional acquisition and combination of the entities.

RG 230.72 There is potential for pro forma financial information to be misleading, particularly if there is no disclosure, or inadequate disclosure, of the basis of its preparation or the differences between it and corresponding IFRS financial information.

Guidelines for presenting information

RG 230.73 We have developed the guidelines in Table 3 to assist entities that disclose non-IFRS financial information as pro forma financial information in transaction documents to do so in a manner that:

(a) enables users to properly assess the information; and

(b) is less likely to be misleading.

The guidelines in Section D of this guide may also be relevant.

Table 3: Guidelines for presenting pro forma financial information

Guideline	Explanation
Assumptions	Disclosure of pro forma financial information should be accompanied by full details of the assumptions (including their quantum) used to prepare the information.
Explanation	Disclosure of pro forma financial information should include an explanation of how the financial information was calculated and the reasons for any departures from accounting standards or industry standards that investors would reasonably expect to be followed.
Reconciliation	The amount and nature of all material adjustments that have been made to the IFRS financial information to derive the pro forma financial information should be disclosed by way of a reconciliation, together with the reasons for those adjustments. The reconciliation may be: • a line-by-line reconciliation of pro forma financial statements prepared with significant reconciling items shown in a separate column and described through footnotes, or • a reconciliation of key items such as profit after tax and net assets (or other items such as current assets, non-current assets, current liabilities, non-current liabilities, revenue, expenses and operating profit before tax). This option would usually only be used when there are a limited number of reconciling items, and each significant reconciling item is separately described.
Statement of comprehensive income	Preparers should carefully consider not stopping a pro forma statement of comprehensive income (or similar) at the level of earnings before interest and tax (EBIT), earnings before interest, tax, depreciation and amortisation (EBITDA) or funds from operations (FFO). Pro forma financial information is often prepared to show what the financial statements would have looked like, had an acquisition/merger occurred at the beginning of the reporting period. It is important that users have sufficient information to understand the impact of a transaction on the funding and tax position of the entity. In deciding whether the pro forma statement should stop before net profit after tax (NPAT), preparers should consider the benefits to users, and matters such as the stability of the business (before and after the transaction) and the impact of the transaction on the level of debt. Where the statement does not extend to NPAT, the reasons and sufficiently prominent narrative explanations should be given to explain the likely impact of the transaction on funding, tax and amortisation.
Statement of financial position	A pro forma statement of financial position should, wherever possible, include details of equity, in addition to disclosing assets and liabilities.
Disclosure of a range	When a range of pro forma financial information is disclosed, a more favourable figure or fact within that range should not be given greater prominence.

Guideline	Explanation
Audit or review	Whether or not the pro forma and statutory financial information has been audited or reviewed should be disclosed.
Ratios	The basis of calculation of any financial or other ratios should be disclosed. Where financial or other ratios are presented on a basis that differs from the basis generally used in practice (e.g. a gearing ratio that excludes certain liabilities), the ratio generally used in practice should be presented with at least equal prominence, and the basis of, and reasons for, amending the ratio adequately explained.
Whole transaction	Where pro forma financial information is provided to reflect a particular transaction such as an acquisition or sale of an entity or operation, the information must reflect the full transaction and not selected aspects of it.
Overseas entities	If presenting financial information for overseas entities, a 'convenience translation' into Australian currency may be acceptable with adequate disclosure, if the actual translation is impractical. If presenting financial information for overseas entities prepared under a foreign GAAP, where the foreign GAAP financial information departs materially from that prepared under Australian accounting standards, the corresponding financial information prepared in accordance with Australian accounting standards should also be presented. This is particularly important for schemes of arrangement or takeovers where existing investors receive financial reports in accordance with Australian accounting standards or will receive such financial reports in the future. In some circumstances, such as where there are few line items affected or the transaction is a fundraising by a foreign entity that only produces financial reports under a foreign GAAP, it may be sufficient to reconcile net assets and profit after tax to provide information for Australian investors to make a comparison with other investment opportunities in Australia. If there is no material difference between applying foreign GAAP and Australian accounting standards, a statement to that effect should be provided.
Inclusion of historical financial information	Generally, we would expect, as a minimum, that where historical pro forma financial information is disclosed in the form of a statement of financial position, the most recent statutory statement of financial position would be used as the basis (either half year or full year that has been reviewed or audited, as applicable). Consistent with Regulatory Guide 228 *Prospectuses: Effective disclosure for retail investors* (RG 228), which requires that historical statements of comprehensive income should be presented for three years (or two and a half years, as appropriate), consideration should be given to presenting historical pro forma financial information in the form of a statement of comprehensive income for the same period.
Hypothetical information	Pro forma financial information could potentially be misleading to investors if it is based on a hypothetical scenario. Such information should not be provided.

Key terms

Term	Meaning in this document
AASB	Australian Accounting Standards Board
AASB 101 (for example)	An Australian accounting standard made by the AASB for the purposes of the Corporations Act (in this example numbered 101)
accounting standards	As defined in s9 of the Corporations Act (also referred to as 'Australian accounting standards') Note: Australian accounting standards are based on IFRS.
ASIC	Australian Securities and Investments Commission
Ch 2E (for example)	A chapter of the Corporations Act (in this example numbered 2E)
[CO 98/1418] (for example)	An ASIC class order (in this example numbered 98/1418)
Corporations Act	*Corporations Act 2001*, including regulations made for the purposes of that Act
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FFO	Funds from operations
financial report	The documents referred to in s295 and 303 of the Corporations Act—being financial statements, notes to the financial statements and the directors' declaration about the statements and notes
financial statements	The statements required by accounting standards—being the statement of financial position, the statement of comprehensive income, the statement of changes in equity, and the statement of cash flows Note: It excludes the directors' declaration and the notes to the financial statements.
GAAP	Generally accepted accounting principles
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards issued by the IASB. When 'IFRS' is used to describe an item of information (e.g. 'IFRS profit figure'), that item should be taken to be prepared in accordance with IFRS
IFRS financial information	Financial information prepared in accordance with IFRS

Term	Meaning in this document
market announcements	Any announcements made to a securities exchange or ASIC
non-IFRS financial information	Has the meaning set out in RG 230.5 and RG 230.14
non-IFRS profit information	Has the meaning set out in RG 230.17
NPAT	Net profit after tax
operating and financial review (OFR)	The review required by s299A of the Corporations Act, also known as management commentary or management discussion and analysis
pro forma financial information	Has the meaning set out in RG 230.18
Product Disclosure Statement (PDS)	A document that must be given to a retail client in relation to the offer or issue of a financial product in accordance with Div 2 of Pt 7.9 of the Corporations Act Note: See s761A for the exact definition.
RG 43 (for example)	An ASIC regulatory guide (in this example numbered 43)
s295 (for example)	A section of the Corporations Act (in this example numbered 295)
statutory financial reporting requirements	Has the meaning set out in RG 230.19
transaction documents	Prospectuses, PDSs, takeover bidder’s statements, takeover target statements, other relevant takeover documents, scheme of arrangement documents, and related party documents under Ch 2E of the Corporations Act

Related information

Headnotes

misleading and deceptive conduct, non-IFRS financial information, pro forma financial information

Class orders

[CO 98/1418] *Wholly-owned entities*

[CO 05/0642] *Combining financial reports of stapled security issuers*

[CO 05/0644] *Disclosing post balance date acquisitions and disposals*

[CO 06/0441] *Including different registered scheme financial reports in a single document*

Regulatory guides

RG 43 *Financial reports and audit relief*

RG 69 *Debentures: Improving disclosure for retail investors*

RG 170 *Prospective financial information*

Legislation

Corporations Act s295(1)–(3), 296, 297, 298, 299, 299A, 303(1)–(3), 305, 306, 307, 314, 670A, 1020E, 1041E, 1041H, 1308, 1309

Consultation papers

CP 150 *Disclosing financial information other than in accordance with accounting standards*

Other documents

AASB 3 *Business combinations*

AASB 5 *Non-current assets held for sale and discontinued operations*

AASB 8 *Operating segments*

AASB 101 *Presentation of financial statements*

AASB 116 *Property, plant and equipment*

AASB 127 *Consolidated and separate financial statements*

AASB 133 *Earnings per share*

AASB 134 *Interim financial reporting*

AASB 1039 *Concise financial reports*

