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Additional Information

Level 1 Regulation
Transparency Directive (TD) Directive 2004/109/EC

Level 3 Regulation
Guidelines on Alternative Performance Measures

Topic
Alternative Performance Measures (APM)

Historic Question Reference
[ESMA32-51-370 APM Q18]

Subject Matter
Application of the APM Guidelines in the context of COVID-19; Paragraphs 8, 17-19, 33, 34, 41 and 43 of the APM Guidelines.

Question
How should an issuer present the impact of COVID-19 for the purpose of the APM Guidelines?

ESMA Answer

01-04-2022

Original language

[ESMA32-51-370 APM Q18]

ESMA acknowledges that, due to the impacts of the COVID-19 pandemic on their operations, issuers may decide to disclose new, or to adjust, alternative performance measures in ad-hoc disclosures published in accordance with Article 17 of MAR, in management reports or additional periodic financial information published in accordance with articles 3(1a), 4 and 5 of the Transparency Directive or in prospectuses published in accordance with Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017.

ESMA reminds issuers that, according to paragraph 41 of the APM Guidelines, the definition and calculation of an APM should be consistent over time. Therefore, ESMA recommends that issuers use caution when making adjustments to APMs used and/or when including new APMs solely with the objective of depicting the impacts that COVID-19 may have on their performance and cash-flows. ESMA notes that, when disclosing APMs, issuers should ensure that these measures provide a fair review of the development and performance of the business and of the position of the issuer as prescribed in Articles 4 and 5 of the Transparency Directive and do not provide an incorrect depiction of the performance of the issuer which would give a misleading signal on the price of the corresponding financial instruments, as provided for in Article 12 of MAR.

In addition, ESMA reminds issuers that, before making adjustments to previously used APMs or including new APMs, issuers should carefully assess whether the intended adjustments or new APMs would provide transparent and useful information to the market, improve

comparability, reliability and/or comprehensibility of APMs and of the financial information disclosed to the market.

In this respect, ESMA observes that it may not be appropriate to include new APMs or to adjust previously used APMs when the impacts of COVID-19 have a pervasive effect on the overall financial performance, position, and/or cash flows of an issuer as these new or adjusted APMs may not provide reliable and more useful information to the market and may mislead users' understanding of the true and fair view of issuer’s assets, liabilities, financial position and profit or loss.[1]

Therefore, rather than adjusting existing APMs or including new APMs, ESMA urges issuers to improve their disclosures and include narrative information in their communication documents[2] in order to explain how COVID-19 impacted and/or is expected to impact their operations and performance, the level of uncertainty and the measures adopted or expected to be adopted to address the COVID-19 outbreak. These explanations may include, where applicable, div on how the specific circumstances related to COVID-19 affected the assumptions and estimates used in the determination of inputs to APMs, for example impairment losses, expected lease payment reductions or grants received.

ESMA reminds issuers that the APM Guidelines apply to all financial measures not defined or specified in the applicable financial reporting framework including liquidity and cash-flow measures (paragraph 17 to 19 of the APM Guidelines). In this respect, ESMA reminds issuers that the APM Guidelines as well as this Q&A also apply to APMs presented simultaneously inside and outside financial statements.[3] APMs should not be displayed with more prominence than measures directly stemming from financial statements.[4]

Finally, ESMA also reminds issuers of the requirements in paragraphs 33, 34, 41 and 43 of the ESMA Guidelines on APMs regarding explanations of why they believe that an APM provides useful, reliable and relevant information regarding the financial position, cash flows or financial performance, as well as the purposes for which they decided to use a specific APM and/or to modify a previously used APM.

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[1] Paragraph 8 of the APM Guidelines.

[2] Ad-hoc disclosures published in accordance with Article 17 of MAR, additional periodic information and management reports published in accordance with Article 3 (1a), 4 and 5 of TD and prospectuses published in accordance with Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017.

[3] Please refer to Question ESMA_QA_1868 (historic reference *ESMA32-51-370 APM Q2*) of the Questions and answers ESMA Guidelines on Alternative Performance Measures.

[4] Paragraphs 35 and 36 of the APM Guidelines.