



The Hundred Group
of Finance Directors

Financial Reporting Committee

Mr Fabrice Demarigny
Secretary General
Committee of European Securities Regulators
11-13 Avenue de Friedland
75008 Paris
FRANCE

11 July 2005

Dear Mr Demarigny

Alternative performance measures

I am pleased to submit the 100 Group's comments on the Consultation Paper entitled "CESR Recommendations on Alternative Performance Measures".

Background to the proposals

We believe that in the future it is likely that companies will present more so-called alternative performance measures than they have done in the past. We contend that this reflects the fact that accounting standards are losing touch with commercial reality and that, therefore, the performance measures that are defined by accounting standards neither adequately portray the performance of businesses nor meet the needs of the users of their financial statements.

We believe that the FASB/IASB joint project on performance reporting offers a golden opportunity to address the needs of users and reduce the need for alternative performance measures in the future, but we are so far disappointed with the approach that has been taken and fear that this opportunity may be lost.

Against this background, we agree in principle that it would be helpful to provide companies with guidance on the use and presentation of alternative performance measures.

Definition of alternative performance measures

We believe that the set of defined performance measures (revenue, profit or loss for the period and earnings per share) is too narrow. For example, the current definition would lead to the rather absurd situation in which profit before tax is regarded as an alternative performance measure. As mentioned in paragraph 9 of the proposals, preparers are permitted under IFRS to introduce additional line items, headings and sub-totals on the face of the income statement that are relevant to an understanding of the entity's financial performance. However, the CESR rejects the use of such measures as defined performance measures because "relevant though these measures could be in context of the income statement, they create a diversity of measures which do not contribute to transparency of the financial markets [sic]".

We do not believe that it is appropriate to base performance reporting on a “one size fits all” approach. Different performance measures will be relevant in different markets. We would prefer an approach that is based on the content of a company’s audited financial statements prepared in accordance with IFRS. In order to comply with IAS1 “Presentation of Financial Statements”, companies will not be permitted to include in their audited financial statements performance measures that do not present fairly their financial position, financial performance and cash flows.

We suggest therefore that rather than using the terms defined performance measures and alternative performance measures, the proposals should refer to “GAAP measures” and “non-GAAP measures”. GAAP measures would be those performance measures that are presented in a company’s audited financial statements. Other performance measures would be non-GAAP measures.

Defined in this way, non-GAAP measures would appear only within financial information that either accompanies or is made public in addition to a company’s audited financial statements.

We believe that it should be made clear that performance measures may be presented in relation to not only to the income statement, but also to the statement of cash flows and the balance sheet.

Presentation of alternative performance measures

We broadly concur with the proposed presentation requirements, but we have reservations concerning the prominence of defined performance measures and the requirement to provide comparative information.

We agree that companies should not be permitted to give undue prominence to alternative performance measures. However, we do not believe that it is appropriate to “present defined performance measures with greater prominence than alternative performance measures”. We suggest that the proposals should be reworded to require that alternative performance measures should be presented *with no greater prominence than* defined performance measures.

We suggest that when a company publishes an alternative performance measure for the first time, it should be required to publish information for comparative periods only where such information is readily available to the company and would be meaningful to users of its financial statements. In practice, to assist comparability, companies may wish to adopt a performance measure that is being published by other companies in its market. A strict requirement to provide comparative information could delay the publication of a performance measure that would be helpful to users of the company’s financial statements.

Auditor involvement

We do not believe that it is appropriate to involve auditors in the preparation and presentation of alternative performance measures. We believe that the auditor’s role is already clearly defined in that they are required to express an opinion as to whether a company’s audited financial statements comply with IFRS and to ensure that financial information that accompanies the audited financial statements is prepared on a basis that is consistent with them.

Please feel free to contact me if you wish to discuss our comments on the proposals.

Yours sincerely

A handwritten signature in black ink, appearing to read "Ken Lever". The signature is fluid and cursive, with the first name "Ken" and last name "Lever" clearly distinguishable.

Ken Lever
Chairman, 100 Group - Financial Reporting Committee