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Fabrice Demarigny  
Secretary General  
CESR  
11-13 Avenue de Friedland  
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France

**Nic Nicandrou**  
*Group Financial Control Director*

11 July 2005

Dear Monsieur Demarigny

**Re: CESR Draft Recommendation on Alternative Performance Measures**

As one of Europe's leading insurers and the largest insurance group in the UK, we are pleased to have the opportunity to comment on CESR's Draft Recommendation on Alternative Performance Measures. We welcome any measures that seek to improve financial reporting across Europe; however we have significant concerns with the recommendations as currently proposed.

As a group we are keen to see proposals that will provide transparent and clear financial information and we are committed to the provision of such appropriate and useful information. As a major investor in the European economy with over €400 billion assets under management, Aviva is also interested in such recommendation from an investor's point of view.

We consider that the objective of providing financial information to a wide range of users in making economic decisions is best achieved by allowing companies to provide alternative performance measures where appropriate. We would agree that such measures should be clearly defined and explained, consistently measured over time (with comparatives) and be subject to audit involvement. The 'defined measures' are necessarily restrictive under IAS1, particularly in the absence of a reporting performance standard and hence it is important that companies can separately quote an 'operating profit' derived from the accounts, which identifies the operating performance of the company by which management should be assessed. In other circumstances, such as insurance, where no comprehensive basis of accounting exists under IFRS, companies should equally be able to quote supplementary measures such as European Embedded Value, which are widely used by analysts as the best measure of value added for long term business.

We do not believe it is appropriate to require greater prominence to be given to defined measures over and above alternative performance measures. The CESR recommendation to give greater prominence to defined measures is not consistent with the principle underlying the need for a management commentary to be through the eyes of management and in terms of the key performance indicators used to manage the business. We would strongly advocate that 'equal prominence' is necessary in order to meet the needs of capital markets for transparent clear and balanced information.

The scope of the recommendation is too broad ranging; we do not believe it is appropriate to encompass all financial information that may be published. For example a press release including financial information may be issued to comment on a specific event, or there may be circumstances when it is appropriate to publish certain key performance measures, such as quarterly new business contribution. It is not always the case that relevant or comparable IFRS defined measures exist. Requiring in all



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circumstances alternative performance measures to be presented in combination with defined measures could be counterproductive in encouraging effective communication with capital markets.

We have reviewed the consultation paper and have responded to your detailed questions in Appendix 1.

We welcome the opportunity to raise our concerns with you, and would be happy to discuss any matters further if this would be helpful.

Yours sincerely

Nic Nicandrou

A handwritten signature in black ink, appearing to read "Nic Nicandrou", with a long horizontal line extending from the end of the signature.

## APPENDIX

### Detailed Response to Draft Recommendation on Alternative Performance Measures

**Question 1:** *should additional elements be considered in terms of background? Do you agree that current practice of presenting alternative financial performance measures justifies CESR's initiative? If not, please indicate why.*

Yes certain additional factors should be considered in terms of background.

- An IFRS standard for reporting performance is still only in the early stages of development.
- National governments and standard setters are considering guidance in respect of Management Discussion & Analysis (Operating Financial Review), particularly in the light of the Modernisation Directive requirement for a 'fair review of the development and performance' which 'to the extent necessary for an understanding of such development shall include both financial and where appropriate, non-financial key performance indicators, relevant to the particular business'. Such guidance emphasizes the importance of giving a balanced review from the management perspective.
- For certain industries, the 'defined measures' do not necessarily provide a comprehensive basis to assess the performance of the company. In particular, for the insurance industry there is a lack of a comprehensive accounting standard that deals effectively with accounting for insurance contracts. The development of a new standard is being undertaken by the IASB in phase II of their insurance contracts project. We are concerned that the draft recommendation has not taken into account the need for widely accepted alternative measures in the insurance sector. The preparer and user community focus on European Embedded Value (EEV). Whilst EEV cannot be derived directly from the audited financial statements it has been well defined and is considered to be a key measure by the preparer and user community, and is the basis for internal management assessment.

As investors we do not have concerns with the existing use of alternative performance measures therefore we do not believe the current CESR initiative is justified.

**Question 2:** *do you think that a recommendation is an appropriate tool for dealing with this issue?*

As noted above in our response to question 1, we are not clear what issue CESR is seeking to address. We believe that efficiency of capital markets can be improved by encouraging companies to provide alternative performance measure where appropriate. As explained in our response to questions 4 and 5 we have significant concerns with some elements of the current recommendation.

**Question 3:** *Do you agree with this definition of alternative performance measures? If not, please state your reason.*

No, we consider the scope of “defined measures” is too restrictive. It is unclear whether the term alternative performance measure applies to re-analyzed IFRS numbers, such as operating profit or just supplementary performance measures that are not derived from IFRS numbers such as EEV. It is also not clear the extent to which measures of financial position such as total assets, dividend cover or solvency measures would be included.

**Question 4:** *Do you agree that the principles described in this draft recommendation are valid for any kind of reporting to markets by issuers (with the exception of prospectuses)? If not, please state your reason.*

No, there are circumstances when financial information is published to the market where it would not be appropriate or practicable to comply with all the principles set out in the draft recommendation. For example it would not be relevant or practicable to require quarterly new business announcements to be presented only in combination with IFRS defined measures in accordance with the principle set out in paragraph 18.

**Question 5:** *Do you agree with the scope of this recommendation (paragraph 14) and the content of this recommendation (paragraph 16 to 22)? If not, please state your reason.*

( i) *Scope (para 14–15)* The scope of the recommendation is too broad ranging and it may not be appropriate or possible in all circumstances in which consolidated financial performance figures are presented to follow all the principles of the draft CESR recommendation. See our response to question 4 above

(ii) *Respect for IFRS principles (para 16)*

We agree

(iii) *Define Alternative performance measures (para 17)*

We agree that it is important that such measures are clearly defined.

(iv) *Present Alternative measures additionally (para 18)*

As noted in our response to question 4, we consider it is not appropriate to present alternative information only in combination with defined measures in all circumstances. We do however agree that it is important that differences between both measures should be clearly explained to provide investors with enough information to fully understand the results & financial position of the company.

*v) Provide comparatives (para 19)*

We agree that it is important to provide comparative information.

*vi) Consistently over time (para 20)*

We agree that it is important that measures should be consistent over time and where it is more relevant to users to re-define such measures, this should be explained and comparatives restated accordingly.

*vii) Present defined measures with greater prominence (para 21)*

We strongly disagree with the recommendation that companies should present defined measures with greater prominence than alternative performance measures. The investor community is best served if defined measures are presented with equal prominence to alternative performance measures. This allows management to present a comprehensive and balanced view using the internal key performance indicators and investors to exercise their professional judgment in interpreting the information. The key is transparency and clarity of disclosure not the relative prominence.

It would not be possible to give a balanced view of management's perspective, including KPIs such as Return on Capital Employed (ROCE), Combined Operating Ratio (COR), dividend cover etc if management were required to give greater prominence to IFRS defined measures. Similarly EEV is critical in terms of communicating long term insurance business performance

**Question 6:** *Do you agree with CESR's recommendation to involve the auditor in relation to alternative performance measures? If not, please state your reason.*

Yes – we believe the extent of auditor involvement in relation to alternative performance measures is a matter for the company's management to agree with their auditor on a case by case basis.