



EUROPEAN SAVINGS BANKS GROUP
GROUPEMENT EUROPEEN DES CAISSES D'EPARGNE
EUROPÄISCHE SPARKASSENVEREINIGUNG

■

DOC 0722/05

Brussels, 15 July 2005

VCI / WIE

European Savings Banks Group (ESBG)

Response to CESR's Consultation on alternative performance measures

(Ref: CESR/ 05-187)

■



v

Profile European Savings Banks Group

ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising about one third of the retail banking market in Europe, with total assets of €4,345 billion (1 January 2004). It represents the interests of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

ESBG members are typically savings and retail banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their region. For decades ESBG members reinvest responsibly in their region and are one distinct benchmark for corporate social responsibility activities throughout Europe and the world.



v

A) GENERAL REMARKS

The European Savings Banks Group (ESBG) welcomes the consultation on alternative performance measures which may assist investors in gaining a better understanding of a company's financial performance. We support the objective of the draft recommendation to provide guidance on the best way to appropriately use and present alternative performance measures.

B) RESPONSE TO QUESTIONS 1-6

***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.*

The lack of a common definition of financial performance measures and the different designations for the single measurements in financial statements can justify CESR's initiative as far as listed companies (by which we understand companies whose shares are admitted for trading on a regulated market) are concerned. This proposed convergence should however not be applied to all listed entities without taking into consideration the different business sectors, as each entity should use the alternative performance measures which are more suitable for its business.

Furthermore, problems are quite likely to arise in relation to the SEC registrants. Namely, the SEC requires a quantitative reconciliation of any non-GAAP measure used. Even though the registrants follow IFRS as their primary GAAP, few, if any, alternative performance measures will be acceptable for US GAAP reporting.

Finally, the new IFRS requirements and the Performance Reporting are expected to lead to a creation of new reporting structure and therefore also other performance measures, which should be considered when talking about a harmonization of alternative performance measures. The ESBG would however like to point out the fact that the IASB's Performance Reporting project is an ongoing project and it is still subject to changes (i.e. the IASB has not yet published any conclusions nor has it issued an exposure draft).



v

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

We support the recommendation as an adequate way to stress the risks of inappropriate use or misuse of alternative performance measures and to point out what kind of information can better assist investors. However, as mentioned above, a binding requirement of alternative measures is not appropriate as the definition of alternative performance measures depends on the business of the individual entity.

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

According to IFRSs (in particular IAS1 and IAS33), revenue, profit and earnings per share are “defined” performance measures and they have to be applied to all entities which have to apply IFRS according to the Regulation 1606/2002/EC, no matter what business sector they are part of. All other financial performance measures which exceed the definition in IFRSs can be considered as “alternative” performance measures. They can be defined as additional information which may help the investor in gaining a better understanding of a company’s financial performance. Alternative performance measures can also occur over time because of changes in legislation: in order to reflect the impact of a change in legislation on the performance of an entity it is necessary to redefine existing financial measures.

The ESBG would also like to mention another example of performance measurement within IFRS beyond those noted by CESR in the consultation paper. Namely, the CESR proposals refer to IAS 1 and IAS 33 in terms of defining performance measures. However, IAS 14 (Segment Reporting) permits disclosure of additional segment information to the extent that such additional information is reported internally and IFRS 7 (Financial Instruments: Disclosures), when it becomes applicable, allows entities to provide a sensitivity analysis that is based on a value-based technique (such as VaR) if this is how an entity's management uses it to manage its financial risks.

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.*



To apply the principles of this recommendation to any kind of reporting which is used by investors appears to be coherent with the aim of providing appropriate information to investors. This being said, it should also be emphasized that according to the IFRS, requirements for the disclosure of performance measures are different during the year and at the end of the year. Specifically, IAS 34 “interim reports” permits a limited presentation of performance during the year. These limited requirements should also apply for the presentation of alternative performance measures during the year.

***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.*

From our point of view, the scope should be confined to all listed companies, i.e. companies whose *shares* are admitted to trading on a regulated market. Since performance measures of companies which solely issue listed debt securities do not have the same significance in practice as the performance measures for companies with listed shares, we do not see a need for CESR recommendations in that area.

In terms of alternative performance measurement it is important to take into consideration the different business structures of the entities. We particularly appreciate the recommendation of CESR that issuers should define the components included in an alternative performance measure, such as the terminology used and the basis of preparation adopted. This is important as the terminology of performance measures might be the same in different entities but the basis for the calculation might vary.

In terms of presenting defined measures with greater prominence than alternative performance measures, the question is rather to present defined measures as well as alternative measures according to their capacity to present the entity’s performance.

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

Where alternative performance measures are not part of the company’s “official” financial statement, it should not be mandatory to agree with the auditor.



v

As far as performance measures in the financial statements are concerned, the auditor's role should be to suggest and inform entities about alternative measures used within a certain business sector which could be of interest to other entities in the same or similar business segment.