



Mr Steven Maijoor  
Chairman  
European Securities and Markets Authority  
103 Rue de Grenelle  
75007 Paris  
FRANCE

9 July 2014

Dear Mr Maijoor

**Corporate Reporting Users' Forum response to ESMA Guidelines on Alternative Performance Measures**

The Corporate Reporting Users' Forum welcomes the opportunity to comment on the Consultation Paper regarding the *Guidelines on Alternative Performance Measures* published by ESMA in February 2014. Our response is set out below.

**About the Corporate Reporting Users' Forum (CRUF)**

The CRUF came together in 2005 as a discussion forum to help its participants in their approach to the debate on current and future corporate reporting requirements. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters such as the IASB. CRUF participants come from across the City of London and around the world, including individuals from both buy- and sell-side institutions, and from both equity and fixed income markets.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. It does not seek to achieve consensus views, though at times some or all of its participants will agree to make joint representations to standard setters or to the media. It would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative.

CRUF participants take part in discussions and joint representations as individuals, not as representatives of their employer organisations. The participants in the Forum that have specifically endorsed this response are listed at the end of this letter.

### **ESMA Guidelines on Alternative Performance Measures**

Participants in CRUF discussions of the proposed ESMA Guidelines on Alternative Performance Measures (APMs) broadly welcome the initiative, with the following comments, qualifications or cautions:

- A. CRUF participants agree that they would like to see the proposals apply to issuers and documents as widely as possible, and that distinguishing between issuers and documents that are included or excluded from scope may cause some confusion. Participants acknowledge the possible legal limitations of ESMA's influence (e.g. IPOs are not covered by the Transparency Directive).
- B. CRUF participants would wish to emphasise that IFRS is *not* always preferable, and suggested that for some measures, reconciling back to IFRS is not necessarily sensible. Participants noted that often alternative performance measures can have great importance on their own merit, and may be the basis for example for debt covenants or regulatory compliance from a fixed income analysis perspective.
- C. CRUF participants were broadly supportive of the requirements to define APMs, and to reconcile them with IFRS amounts. Participants noted however that the significant opportunity to add information value was in the explanations for *why* management have chosen to adjust for the reconciling items, rather than merely the reconciliation on its own. Many CRUF participants have become concerned at the proliferation of APMs being used by management where there is limited economic rationale for their inclusion. As an example, adding back stock based compensation expense makes little sense for a measure of shareholder return.
- D. Some participants felt that the specific requirements to reconcile the APMs on every occasion may be over reach, and that they would prefer a principles based approach that would allow companies to have the flexibility to tell their story.
- E. CRUF participants stressed the importance of not imposing too many constraints on the disclosure of these measures and therefore limiting a company's use of these sometimes highly important measures. [See also point H below]
- F. CRUF participants were in favour of a requirement to disclose restated APMs when there is a change of definition. Participants also noted that a discussion of the reason for changing the definition was critical.
- G. Some participants felt that 'less prominence' was unnecessarily prescriptive, and that equal prominence or balance would be a better principle. Others were comfortable with the 'less prominence' rule. [See also point H below]
- H. In particular, some participants were very concerned by discussions relevant to the draft Guidelines where an entirely inappropriate inference appears to have been drawn that APM's

belong exclusively outside the primary financial statements – as if to say, what is not specifically defined by IFRS for inclusion in 'primary financial statements' is forbidden in those statements. The wording of paragraphs 22 and 27 of the draft Guidelines would support this inference by implying that an APM is not 'presented in the financial statements' (unless it is a total or subtotal in paragraph 25). Accordingly, these participants feel that ESMA needs to redraft these paragraphs to avoid this inference being drawn.

- I. Overall, participants agreed that there is a need to balance relevance with comparability, and that allowing companies to tell their story is an important principle that must be protected.

(Signatures)

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