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11 July 2005

Mr Fabrice Demarigny
CESR's Secretary General
11-13 Avenue Friedland
75008 Paris
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Dear Mr Demarigny,

Please find attached CEA's comment to your consultation paper '**Recommendation on Alternative Performance Measures**'.

We hope that you will find our comments helpful and we will remain at your disposal for any further questions you might have.

Kind regards

Patricia Plas
Economics & Finance Director
Plas@cea.assur.org

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CEA's comment to CESR's Consultation Paper: Recommendation on Alternative Performance Measures

CEA welcomes the opportunity to comment on CESR's Draft Recommendation on Alternative performance Measures. We favour any measures that seek to improve financial reporting across Europe; however, we have concerns with the recommendation as currently drafted.

As CEA represents the European insurance and reinsurance industry being prepares of accounts as well as the largest institutional investors, we are keen to ensure that the recommendation will provide for transparent and clear financial information. However, we question whether CESR is the correct body issuing such a recommendation and furthermore it is not clear what status the recommendation will have ultimately.

The IFRS "financial statement" is considered as the main performance measure. However, additional performance measures are very important and revealing complementary pieces of information assisting investors gaining a better understanding of an individual company's financial performance. Nonetheless, to our understanding one has to clearly distinguish 2 types of Alternative Performance Measures: 1. "Internal" Alternative Performance Measures e.g. underlying result as a sub-total before net income and 2. "External" Alternative Performance Measures e.g. Embedded Value.

With respect to both types of Alternative Performance Measures, we disagree strongly with §21 that quoted defined measures e.g. EPS, revenue, profit or loss should be given greater pre-eminence than any one of both types of alternative measures, as referred to in the previous paragraph. CESR does not explain how this is to be done. Moreover, this presupposes that the alternative measures are in some way inferior or less useful to accounts users than defined measures. We do not believe that this is the case provided, as CESR proposes, when the alternative measures are properly explained and justified. For example, in the case of Embedded Value¹ there is ample

¹ Embedded Value is a method of reporting the present value for the shareholder of future cash flow generated by business already in the portfolio. Until now, the basis for preparation for this supplementary information has varied by country and in some cases by company within a country. This has made it difficult for investors and analysts to compare relative performance.

evidence to show that accounts users find this as useful and relevant as the defined measures. The explanation and justification of those measures however, should focus on a qualitative description of the differences to similar measures justifying the appropriateness of the measures used in comparison to the defined quoted measures. We would therefore not agree that quoted defined measures should be presented with prominence to the defined measure. We consider that performance measures should be considered equally significant in order to ensure that a balanced view of the company's performance is shown.

In this context we would also like to remind that IFRS 7 and IAS 14 allow for e.g. Embedded Value Sensitivity Analysis as well as additional segment information.

Regarding the auditors involvement, we regard §23 as rather vague. Financial reporting is either audited or it is not. The recommendation that the "auditor could have a role" is ambiguous. Furthermore, one has to bear in mind that some alternative measures i.e. Embedded Value is not legally audited but reviewed by actuarial firms on the initiative of the issuers. Nonetheless, we consider that CESR should not initiate the creation of new requirements related to legal audit in the context of this recommendation.

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