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The Committee of European Securities Regulators  
11-13 avenue de Friedland  
75008 Paris  
France

Dear Sirs

**Consultation Paper - CESR Recommendation on Alternative Performance Measures, May 2005**

We welcome the opportunity to respond to the proposals contained in the above consultation paper.

We are concerned that the proposed guidance places undue emphasis upon defined measures. The paper acknowledges that, under IFRS, CESR would only recognise three measures as defined measures, leaving all other performance measures to fall within the residual class of alternative measures.

Applying this principle to a general insurer such as Royal & Sun Alliance, would leave such measures as premiums written (a subclass of total revenue), underwriting result (and its related performance measures) and insurance result (incorporating investment return on assets backing the insurance businesses) as alternative performance measures.

As you know, IFRS makes no distinction between differing types of industry when describing formats for performance statements and allows relative freedom to ensure the most relevant presentation. This very freedom results in the small number of defined performance measures identified by CESR.

In contrast, the European Directive that deals with accounting by insurance companies is prescriptive in the formats of the financial statements presented. Whilst the EU formats are not perfect they do acknowledge the differing performance metrics of certain industries such as banking and insurance.

In our view, the placing of greater emphasis upon the limited number of defined measures, at the expense of focus upon the measures identified above, would detract from the quality of financial information provided.

Paragraph 21 of the consultation paper focuses upon the issue identified above but it does not provide clarity as to the interpretation of "greater prominence". In the UK the Accounting Standards Board has recently issued Reporting Standard 1, dealing with the preparation of an Operating and Financial Review. The principles set out in this document include an emphasis on the need to provide an analysis of the business through the eyes of management, focussing upon matters relevant to the interests of members, which complements as well as supplements the financial statements. We are unclear as to whether the requirements of this document and the CESR proposals are compatible.

We are also unclear as to the role of the auditor envisaged under paragraph 23 of the consultation document. The auditor will not always be required to review, or to report upon, documents falling within the scope of the proposed guidance, namely any kind of reporting to markets by the issuer containing consolidated financial performance figures. It is difficult to see how the auditor could have a role in the manner envisaged in paragraph 23 when no formal reporting role exists.

We attach our responses to six questions within the consultation document.

Yours faithfully

A handwritten signature in black ink, appearing to read 'George Culmer', with a stylized, flowing script.

**George Culmer**  
Group Chief Financial Officer

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**Royal & Sun Alliance**  
**Responses to the questions raised in CESR's Consultation Paper – CESR**  
**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.*

We believe that CESR should take into consideration the differing needs of users of financial information and the current stage of development of IFRS for specific types of business such as the insurance industry.

The proposals adopt the underlying premise that a universal measure of performance provides direct comparability between reporting entities. The proposals define such measures in terms of common measures derived for all entities under IFRS but this basis fails to recognise the very different bases of recognition and measurement within the global measures. For the financial services industry, the distinct features of financial instruments and insurance contracts necessitate different performance metrics to those of other industries.

This is recognised under the European Directives with individual formats for the financial statements (and in particular the performance statements) of specific industries, such as banking and insurance. We acknowledge that there are shortcomings within the EU formats but at least certain key performance measures are clearly identifiable. No such direction is currently provided under IFRS, hence limiting the prime performance measures in the manner proposed in the consultation document would, in our opinion, place too great an emphasis upon the global measures to the detriment of reporting performance to the users of the financial information.

We believe that CESR should also consider the recommendations in the context of the requirements of Directive 2003/51/EC of The European Parliament and of the Council of 18 June 2003, which requires the use of both financial and non-financial key performance indicators.

In the UK the Accounting Standards Board has recently issued Reporting Standard 1, dealing with the preparation of an Operating and Financial Review. The principles set out in this document include an emphasis on the need to provide an analysis of the business through the eyes of management, focussing upon matters relevant to the interests of members, which complements as well as supplements the financial statements. We are unclear as to whether the requirements of this document and the CESR proposals are compatible.

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

In view of the current state of development of IFRS and the lack of identified defined performance measures that can be usefully applied in the context of insurance business, we do not believe such a recommendation is appropriate at this time

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

As previously stated, we do not believe that the relegation of certain measures that would fall within the definition of alternative performance measures, to a lower prominence than the defined performance measures, will be helpful in enabling management to explain the performance of their businesses.

In the context of our own business, we believe that there are important performance measures (such as net written premium and underwriting result and combined operating ratio) that would fall within the definition of alternative performance measures. We do not believe that the defined performance measures are more relevant for measuring the performance of our business or that these defined measures should be afforded the greater prominence in our reporting processes.

***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.***

We agree that any guidance should apply to all forms of reporting to markets (with the exception of prospectuses) that contain financial information. We do not however agree with certain of the principles contained in the consultation paper and identify our concerns in this response.

***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.***

We support the principles of identifying and describing the performance measures used in any disclosure of financial information. We also acknowledge that such measures should be presented in a consistent manner over time and that comparative information should be included.

We have concerns regarding the wording on the “relative prominence” of defined performance measures and alternative performance measures. The practical implications of the relative prominence should be explained in detail and written to ensure that entities can continue to provide users with relevant information on management’s view of the performance of its businesses.

***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.***

We are unclear as to the role that auditors will perform in relation to alternative performance measures and whether this falls within or outside their role as auditors. In many cases, the auditors will not be providing a report to members in respect of an entity's publication of consolidated financial performance figures and hence it is unclear the form that this involvement could take.

We believe that this section of the paper should be deleted.