

**CESR CONSULTATION PAPER, “RECOMMENDATION ON ALTERNATIVE  
PERFORMANCE MEASURES:”  
COMMENTS FROM THE ROYAL DUTCH/SHELL GROUP**

Please find below our responses to the questions raised in the Consultation Paper. We suggest also that the joint FASB/IASB Performance Reporting project may set a context in which any discussion of alternative performance measures may need to be considered.

*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 agree that the CESR initiative is justified in order to address the risk that financial statements may comply with IFRS whilst nevertheless not providing accounts users with a balanced view of company performance.

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

We support a recommendation in the first instance and suggest that any further steps should depend upon how issuers respond.

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

From paragraph 7 (and the wording of paragraphs 18 and 21), the definition of alternative performance measure appears to be “anything that is not a defined measure.”

However defined measures are stated as being assumed to comprise only revenue, profit or loss and earnings per share and we suggest that this may prove rather narrow. For example, in addition to the IAS 1 references given in paragraph 7, IFRS 5 requires disclosure of profit for the period from continuing and discontinuing operations and these should also presumably be defined measures. Under the current definition, gross profit (which we believe to be a standard income statement subtotal and which is shown in IFRS 5 example 11) would also appear to fall into the alternative performance measure.

Whilst it would in principle be possible to expand the list of defined measures to cover these and all other items referred to in IFRS pronouncements, we suggest that it may instead be more straightforward to generally describe alternative performance measures as being income statement line items, headings and subtotals not included in or defined by IFRS.

We also suggest specifically adding a further category of alternative performance measure, linked to IAS 1 paragraph 85 (“An entity shall not present any items of income and expense as extraordinary items, either on the face of the income statement or in the notes”):

- The disclosure of line items described in terms such as unusual, special, extraordinary, one-off or non-recurring, together with any related subtotals used to exclude such items.

We suggest that the definition should also include the text currently shown in the CESR Background Section A.2:

- Financial data used in press releases or other documents that are not extracted or cannot be derived from the user's audited financial statements or are terms which are not defined.

*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.*

Yes. We note that prospectuses are excluded only because they are already covered by a separate, similar recommendation.

*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.*

Concerning scope, we suggest that (or, if already the intention, that this be emphasised) the recommendation should be specifically stated as applying not only to consolidated financial performance figures included within financial statements but also to any related commentary. Whilst already strongly implied, it may also be worthwhile to specifically exclude non-financial measures.

In terms of content, we note that the US Securities and Exchange Commission Regulation G (plus related amendments to Regulation S-K and other regulations) address a similar area, disclosure of "non-GAAP financial measures."

If not already considered, we suggest that it would be worthwhile reviewing the SEC rules, with a view to ensuring a consistent approach except where a positive decision is made to differ. In particular we suggest adding clear recommendations concerning ways in which alternative performance measures should *not* be used, for example:

- Presentation of an alternative measure in such a manner that it is misleading.
- Presentation of an alternative measure that eliminates or smoothes items identified as non-recurrent, infrequent or unusual, when the nature of the change or gain is such that it is reasonably likely to recur within two years or where there was a similar charge or gain within the prior two years.
- Presentation of an alternative measure on the face of the financial statements prepared in accordance with IFRS or in the accompanying notes.
- Presentation of alternative measures with descriptions that are the same as, or confusingly similar to, defined measures.

*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 would expect that auditors consider the impact of alternative performance measures when reaching their opinion on documents that are currently audited, but would not expect the CESR recommendation alone to result in extension of audit scope to new documents.

Consideration should be given as to whether, depending on the measure, the auditor has a sufficient framework of audit standards to support this involvement.