

ESMA Guidelines on Alternative Performance Measures

Submission from The Association of Investment Companies (AIC)

The AIC welcomes the opportunity to respond to ESMA's consultation on 'Guidelines on Alternative Performance Measures' (Guidelines).

The Association of Investment Companies (AIC) represents some 340 closed-ended investment companies with assets under management of approximately £100 billion. Our members have their shares admitted to trading on public stock markets, predominantly the London Stock Exchange. They include UK investment trusts, venture capital trusts and non-EU companies.

Overall approach

The AIC agrees with the general premise set out in the consultation paper, that is, that users want financial information that is understandable, consistent and comparable. It also believes that the analysis provided by companies which goes beyond the statutory financial reporting framework provides a useful insight into the performance of the business. Alternative Performance Measures (APMs) can be invaluable in helping a company to 'tell its story' to shareholders in a way that the numbers at the back of the accounts do not. We support ESMA's conclusion that it should not seek to restrict or otherwise to ban the use of APMs.

However, the AIC does not believe that there is a widespread problem with the quality of APMs or that investors lack confidence in them. Also, effective mechanisms already exist to ensure the quality of APMs and their provision to the market. The AIC therefore recommends substantial changes be made to the proposed Guidelines.

ESMA claims that *"in some cases APMs may appear to be used by issuers to present a confusing or optimistic picture of their performance by removing certain negative aspects. Even if this is not the case, APMs can be misleading if they are inconsistently calculated or presented"*. The AIC does not believe that this situation is widespread. Its experience is that companies are keen to provide a fair picture of their performance and that directors take their obligations to inform the market in a fair manner very seriously. It notes that no evidence of significant failures in the publication of APMs has been provided in the consultation paper. No examples are given where the presentation of such information is unclear and/or unreliable. ESMA has not provided sufficient justification for its current proposal.

The consultation paper suggests that disclosures outside the scope of accounting standards are currently unregulated. ESMA concludes in the cost benefit analysis that it *"does not believe that this problem will be solved by market forces and competition environment among issuers"*. This perspective does not recognise that existing mechanisms already regulate the publication of APMs and that this currently secures high quality disclosures.

In terms of existing regulatory controls, the AIC notes that issuers with their shares traded on UK regulated markets:

- must take reasonable care to ensure that any information notified to the market via a regulatory announcement is not ‘misleading, false or deceptive’ (LR 1.3.3 and DTR 1.3.4);
- must provide a ‘fair’ review of the business and a ‘balanced and comprehensive analysis’ of the company’s development, performance and position at the year end in the management report in the annual financial report (DTR 4.1.8 and 4.1.9).

These requirements emanate from the Transparency Directive and are also set out in UK company law in respect of the strategic report. Also, issuers:

- must report compliance against the UK Corporate Governance Code which states that *“the board should present a fair, balanced and understandable assessment of the company’s position and prospects”*. This covers annual reports, half-yearly reports, other price-sensitive public reports and information required to be presented by statutory requirements;
- reporting against UK accounting standards must comply with any relevant Statements of Recommended Practice (SORPs). These are sector specific recommendations on accounting practices which supplement accounting standards and other legal and regulatory requirements. The AIC has issued a SORP, approved by the Financial Reporting Council, which is designed to improve the quality and consistency of investment company financial statements and provide a basis of standardisation across the sector. The AIC SORP includes provisions in relation to APMs. For example, it states that investment companies should provide a full reconciliation of net asset value per share, for the current and previous year, to the amounts shown in the financial statements;
- may also refer to established industry standards. For example, the AIC has published a recommended methodology for the calculation of ongoing charges data by investment companies. This provides an expenses indicator tailored to the specific requirements of the sector. It is a measure of costs which is well-understood and widely adopted.

Assurance over the quality of APMs included in annual reports is also provided by the external auditors who have responsibilities to express an opinion in the audit report on material inconsistencies between information presented outside the financial statements and the financial statements themselves.

ESMA has presented no evidence that these regulatory, legal and industry specific mechanisms are not working. The AIC considers that the combination of effective implementation of EU rules, and the development of additional initiatives as considered necessary by Member States, provides an effective framework for policing APMs in the UK and across the EU. If problems exist in some jurisdictions, for example because EU rules are not being properly observed and enforced, this

should be a matter for local regulators to address. Imposing an additional tier of rules is unlikely to achieve an improvement in standards in these markets if local regulators and market standards are not fully meeting their current obligations.

The consultation also raises concerns about ‘divergent practices’ in relation to the presentation of APMs (para 7 of CBA). Whilst clarity is important for users, over standardisation of disclosures risks reducing a company’s ability to tailor its reporting to reflect its specific circumstances and the requirements of its users. It will be much more difficult for a company to provide clear and useful narrative if information it issues to the market is unnecessarily cluttered with methodologies and pro-forma reconciliations. In this context, the proposal also contradicts broader efforts to simplify company disclosures to ensure they focus on information which is critical to investors.

The consultation paper states that the application of the Guidelines will improve disclosures which in turn will *“reduce the cost of capital, as the increase of transparency of information normally leads to more efficient capital allocation due to a better assessment of risks and better pricing”* (para 17 of CBA). No evidence for this assertion is provided. The AIC is unconvinced that the Guidelines will secure this outcome, particularly in the UK market. There is a risk that these guidelines will reduce the quality of disclosures insofar as they may encourage ‘boiler-plate’ language. Also, the need for additional, formal, compliance processes could reduce the appetite of companies to disclose APMs, which would be a highly unfortunate consequence of the current proposal.

The AIC is unconvinced that there is sufficient justification for these Guidelines to be issued as currently proposed. Given this, it **recommends** that changes be made to the legal basis under which the Guidelines are published and their content.

Legal underpinning for the Guidelines

The current proposal is that the Guidelines be issued in accordance with Article 16(3) of the ESMA Regulation. This requires national competent authorities to comply with the provisions, except where they opt out of the regime. The AIC does not consider that there is sufficient justification to issue guidance on this basis.

The likelihood is that imposing these measures across the market, subject to an opt out by individual authorities, will not provide significant value. Jurisdictions, such as the UK, which already adopt high standards, will either comply and unnecessarily increase compliance burdens on issuers without materially changing the quality of information provided. Alternatively, they may opt out and the guidelines do not have the EU wide status ESMA is hoping to achieve.

On the other hand, Member States which do not enforce current rules may sign up to the rules but not implement the mechanisms and processes required to secure better quality outcomes. This would echo their approach to implementing rules currently imposed by EU legislation. Alternatively, these Member States may opt out. In any event, publishing Guidelines in accordance with Article 16 is unlikely to address the deficiencies in disclosure ESMA is concerned with.

Given the likely regulatory response, and the lack of evidence that there is a problem which needs to be tackled at an EU rather than individual Member State level, the AIC considers ESMA's best option should be to publish guidelines with a view to encouraging Member States to adopt a more consistent supervisory approach in relation to the existing mechanisms which are in place, rather than creating new obligations which may or may not be followed. The AIC therefore **recommends** that the proposed Guidelines should be issued in accordance with Article 29 of the ESMA Regulation. Article 29 enables ESMA to provide an opinion to competent authorities with the objective of *"building a common Union supervisory culture and consistent supervisory practices"* and *"ensuring uniform procedures and consistent approaches"*. Article 29 gives competent authorities flexibility in considering the standards of their current regimes and practices and allows them to adopt ESMA's recommendations where gaps exist. This removes the risk of duplication and overlapping and unnecessary compliance obligations.

Publishing the Guidelines on this basis would nonetheless send a strong signal to Member States which have not yet developed processes which are sufficiently robust to meet the Disclosure and Transparency Directive requirements.

It would also help companies in those jurisdictions to better understand best practice in the presentation of APMs. This would be a proportionate approach in keeping with the nature of the problem identified.

If the Guidelines were to be issued in accordance with Article 16 the AIC would **recommend** that the UK should opt out of the rules. This would meet the FCA's general policy not to impose additional rules over and above those required by legislation unless there is a compelling reason to do so. As this test has not been satisfied, the AIC would anticipate that the FCA would not adopt these Guidelines (or at the least, would publicly consult on the proposal to establish if there is a case for their adoption in a UK context).

Content of the Guidelines

Irrespective of their legal status, the AIC considers that the Guidelines should be amended in significant respects.

- **APM definition:** The definition of an Alternative Performance Measure (APM) is broad and not clearly defined. APMs are identified as *"any numerical measure of historical, current or future financial performance, which relates to the financial position, comprehensive income or cash flows, other than a measure defined by applicable financial reporting frameworks"*. The consultation paper states that, if there is any doubt as to whether a particular measure is an APM, it should be assumed that it is (para 16). In essence, the definition is drafted in a way that could encapsulate any figure that sits outside the financial statements. This includes figures which are not normally considered to be performance measures. It is unclear whether this is the intention of the Guidelines.

For example, an investment company may disclose a geographical or sectorial split of the investments held within its portfolio. This could be done in a variety of forms, including a table, pie chart or bar graph, and typically equate to 100% of

the investments figure shown in the balance sheet. These figures are not considered to be an indication of performance by themselves; they are an analysis of the assets at a particular point in time. Yet it is unclear whether such disclosures are expected to fall within the definition of an APM and hence require, for example, an explanation of the methodology applied to the analysis. The AIC **recommends** that the Guidelines be clarified to more clearly limit disclosure to disclosures designed to indicate performance.

Also, it is not clear whether disclosure of share price would meet the definition of an APM. Share prices are publically available information and well understood. They are a function of supply and demand in the market place. Whilst it may be appropriate to explain the source of any quoted share price, providing further disclosures in line with the Guidelines is unnecessary. It is **recommended** that share price is specifically excluded as an APM from the scope of the Guidelines.

It is also unclear whether other numerical disclosures made by investment companies would equate to APMs. For example, investment company shares trade at a discount or premium. This is the difference between the share price and the value of the underlying assets. In line with the recommended exclusion of the share price above, it is also **recommended** that the discount/premium is explicitly excluded from the concept of APMs.

An exemption is provided in paragraph 9 of the Guidelines. The Guidelines do not apply to APMs that are “*disclosed in accordance with other applicable law that sets out specific requirements governing the determination of such measures*”. This exemption is not clear. For example, what does ‘determination of such measures’ mean in practice?

The proposals do not recognise key aspects of how financial statements are prepared. For example, totals and sub-totals in the balance sheet and income statement are not defined by IFRS and hence fall within the definition of an APM. Whilst these figures are exempted from the requirement to provide a reconciliation back to the financial statement, the other disclosure provisions, including the provision of a definition, still apply. This is likely to complicate disclosures and obscure clear communication, rather than enhancing the quality of disclosure.

Given that the definition is insufficiently clear to allow a sensible determination of which disclosures are caught, it is **recommended** that ESMA revisits the definition with a view to narrowing and clarifying the scope.

- **Scope of disclosures included:** Paragraph 3 states that the recommendations apply to “*APMs disclosed by issuers in all documents containing regulated information made publicly available*”. Regulated information is defined as the annual financial report, the half-yearly financial report, the interim management statement and any regulatory announcements containing price-sensitive information. Therefore, the scope does not just cover these documents themselves, but also any other documents which contain extracts from these sources, including presentations to analysts, shareholder presentations, press releases and website disclosures even though these other documents may not, in themselves, be regulated.

The AIC does **not agree** that the scope of the Guidelines should be so wide-ranging. ESMA states that “*consistent, efficient and effective supervisory practices and a common, uniform and consistent application of the Transparency Directive imply a common approach to be adopted....towards the use of APMs*” (para 6 of consultation paper). However, the draft Guidelines extend the scope a long way beyond the reports covered by the Transparency Directive.

The current scope of disclosures covered raises practical questions about how the recommended requirements of the Guidelines can be applied to disclosures not governed by the Transparency Directive. For example, presentations to analysts will include information tailored to the relevant audience. If methodologies and reconciliations are to be provided as part of such documents, they will detract from the core messages of the presentation and prevent it from serving its purpose.

Likewise company press releases are generally short documents. Whilst an exemption in the Guidelines enables the required disclosures to be provided by a reference to another document, rather than placing them in the body of the press release, this still creates compliance and administrative burdens in the preparation of the material. This is contrary to ESMA’s intention that compliance with these Guidelines should not impede the prompt disclosure of information to the market.

The AIC notes that investment companies will, in due course, be obliged to provide Key Investor Documents under the PRIIPs legislation recently agreed by EU policymakers. The KID document must only contain key information which may be necessary for understanding the features of the product. It must be produced in a standardised format and not exceed three sides of A4 paper. It is unclear how the Guidelines can be applied in the context of preparing a KID. It is **recommended** that KIDs are explicitly excluded from the scope of the Guidelines.

The AIC **recommends** that the scope of disclosures covered should be more narrowly defined. It should be limited to APMs published in documents covered by the Guidelines’ definition of financial statements i.e. annual and half-yearly financial reports.

- **Duplicate disclosures:** The AIC is concerned that the proposed disclosure recommendations will lead to the insertion of lengthy, unnecessary and repetitive disclosures in financial reports and other company documents. The annual report, for example, already runs to many pages. There are a number of initiatives already in place aimed at reducing the volume, and improving the quality and usefulness, of financial disclosures. The International Accounting Standards Board, for example, is currently undertaking a research project looking at disclosure effectiveness. ESMA’s consultation should be considered in the context of these other initiatives.

The AIC’s concern that the Guidelines will add boilerplate and unnecessarily complicated disclosures to wide range of publications, in addition to the annual report. This would include, for example, company factsheets and other documents prepared to serve specific purposes and audiences. There is a risk that companies could stop presenting useful data to avoid making other

publications unclear and to help manage the compliance burdens attached to reporting APMs. This outcome would be contrary to ESMA's position that it *"does not wish to prevent issuers from presenting APMs, which can help users make better informed decisions"*.

The AIC **recommends** the Guidelines be revised to avoid duplication and unhelpful disclosures. To achieve this, the AIC **recommends**, that, insofar as the Guidelines require any disclosure of detailed methodologies, this should be limited to a website disclosure, with a requirement for a 'signpost' to this information in any disclosure which is covered by the Guidelines.

Comments on questions

Q1: Do you agree that the ESMA [draft] guidelines should apply to all issuers defined as a legal entity governed by private or public law, other than Members State or Member State's regional or local authorities, whose securities are admitted to trading on a regulated market, the issuer being, in the case of depository receipts representing securities, the issuer of the securities represented regardless of the financial reporting framework they use to report? If not, why?

No. The AIC does not consider that the proposed guidelines have been justified by evidence demonstrating that current disclosures made by issuers are deficient. Consequently, they should not be issued under Article 16 of the ESMA Regulation.

The current proposal represents a significant, unjustified extension of regulation. Part of this outcome arises as it extends the scope of the Guidelines to companies not previously included in the CESR guidance. Most of the AIC's members are UK companies which report under UK GAAP. They were therefore outside of the scope of the current CESR guidance but, we understand, would be within the scope of the proposed ESMA Guidelines. The AIC is not aware of significant investor concerns about the presentation of APMs published by companies reporting under UK GAAP. The extension of the proposals to UK GAAP companies has not been justified with any evidence showing that current disclosures are deficient.

Given the lack of a clear justification for the current proposal, including its extension of scope, the AIC recommends the guidance should not be issued under Article 16 of the ESMA guidance. Issuing the guidance under Article 16 potentially creates disproportionate compliance burdens in Member States which already observe high standards of disclosure and provides no assurance that jurisdictions observing lower standards will improve (see introduction for more discussion). The AIC therefore **recommends** that any guidance issued should be published in accordance with Article 29 of the ESMA Regulation. This would be a more proportionate intervention designed to create a more consistent regulatory approach across the EU and send a strong signal to Member States which could do more to enforce existing standards. It would have the additional benefit of not creating unnecessary obligations elsewhere.

Q2: Do you agree that the ESMA [draft] guidelines should apply to APMs included in:

a) financial statements prepared in accordance with the applicable financial reporting framework, that are made publicly available, and

b) all other issued documents containing regulated information that are made publicly available?

If not, why?

Any guidelines adopted should be limited in their application to financial statements. For clarity, these should be defined as the annual and half-yearly financial reports.

The current definition of financial statements in the draft Guidelines refers to 'annual and interim financial statements'. The term 'interim' financial statements is not used in the Transparency Directive. The AIC therefore **recommends** that the term half-yearly financial report is used instead to interim financial statements. Also, using this terminology will avoid confusion with the term 'interim management statements' which are currently required by the Transparency Directive (but, we understand, will shortly be abolished).

Q3: Do you believe that the ESMA [draft] guidelines should also be applicable to prospectuses and other related documents, which include APMs (except for pro-forma information, profits forecasts or other measures which have specific requirements set out in the Prospectus Directive or Prospectus Directive implementing regulation)? Please provide your reasons

No. The Guidelines should not apply to prospectuses and other related documents. Information in prospectuses is governed by the Prospectus Directive. The current CESR Recommendations do not extend to prospectuses. No evidence has been advanced about specific concerns relating to prospectus disclosures. There is insufficient justification to extend the scope of the ESMA Guidelines to include prospectus disclosures.

Also, the AIC **recommends** that, if there is any possibility that the guidelines will apply to disclosures other than the annual and half-yearly financial reports, that a specific exclusion for Key Information Documents should be established (see introductory comments).

Q4: Do you believe that issuing ESMA guidelines constitute a useful tool for dealing with the issues encountered with the use of APMs? If not, why?

No. The consultation paper does not sufficiently describe the 'issues encountered with the use of APMs'. In the UK context, we are not aware of significant problems with the quality and integrity of APM disclosures.

The AIC agrees with the general principle that all financial information should be understandable, relevant and comparable. However, current rules provide the basis for competent authorities to ensure that APMs are of sufficient quality. Therefore,

the AIC sees no grounds for introducing the Guidelines as currently proposed (see introductory comments for further detail).

Q5: Do you agree with the suggested scope of the term APM as used in the [draft] guidelines? If not, why?

No. As explained in the introductory comments to this submission, the proposed definition of an APM is too broad and unclear. It potentially encompasses data which is not normally considered to be a performance measure. If any Guidelines are adopted, the AIC **recommends** that ESMA revisits the definition with a view to narrowing and clarifying the scope.

Q6: Do you believe that issuers should disclose in an appendix to the publication a list giving definitions of all APMs used? If not, why?

No, not as required by the Guidelines as currently drafted.

The AIC agrees that users of financial information should be able to understand the terms that are used and have access to appropriate definitions as required. However, the proposal that each publication covered by the proposed Guidelines should include an annex including APM definitions is not appropriate. It would create obligations to publish lengthy clarification which is unnecessary in many contexts (for example, press releases). It would make otherwise helpful and clear disclosures much longer and, potentially, confusing. It would erode the ability of companies to tailor disclosures to their intended audience and reduce their capacity to provide clear, succinct explanations about their commercial position.

There is a growing trend in the investment company sector for an appendix to be included at the back of the annual financial report explaining relevant technical terms. However, recommending that a list of definitions for all APMs is included 'in each document containing regulated information that includes APMs' is excessive and impractical. In some cases such a list may run to pages. It is impractical to attach this, for example, to the end of a market announcement.

Insofar as there is any requirement, the AIC **recommends** that Guidelines oblige issuers to disclose information about APMs on their website and that disclosures covered by the Guidelines include a 'signpost' which allows interested parties to access this information as required.

Q7: Do you agree that issuers should disclose a reconciliation of an APM to the most relevant amount presented in the financial statements? If not, why?

The AIC is unconvinced that a reconciliation of an APM to the financial statements will necessarily be helpful for users. Such reconciliations may actually be confusing for some investors. Companies should be allowed discretion in how they disclose and explain APMs, subject to a general obligation to ensure that their disclosures are not 'misleading, false or deceptive', which is already an obligation imposed via the Transparency Directive. The AIC is unconvinced that there is a case for an additional, general, disclosure requirement that goes beyond the existing obligations imposed on issuers (see introductory comments).

ESMA has not provided any specific examples where users' understanding or trust of financial information is lacking because of the absence of a reconciliation. An obligation to provide reconciliations was not included in the CESR guidance. It is unclear why ESMA has concluded that such reconciliations are now required.

If the market has concerns about the accuracy or integrity of APMs, investors and analysts are able to seek information on these disclosures. Scrutiny of this nature ensures APM disclosures are accurate and not misleading. Certainly this is the case in the UK context. The discipline provided by market scrutiny makes it difficult to understand why ESMA considers it necessary to impose new obligations, in the manner proposed, on an EU wide basis.

Also, as drafted, the Guidelines envisage reconciliations being required irrespective of whether or not they will make individual disclosures more helpful to investors. This creates practical concerns which may make providing a reconciliation meaningless and/or extremely complicated. For example, if a company has a December year end and provides an adjusted net asset value per share figure calculated at a point during the year, say the end of March, it is difficult to see how a reconciliation can be provided to the balance sheet as the APM represents a snapshot of the information at that point in time, not at the balance sheet date. It is also difficult to envisage, for example, how a presentation to shareholders of, say, the quarterly results, can incorporate reconciliations back to the previous annual or half-yearly report.

The requirement to provide a reconciliation for an APM risks adding to the length of the annual and half-yearly reports without creating compensating benefits to users.

Many investment companies provide a ten year record of performance in the annual reports. Making this disclosure in the future is likely to create significant transitional issues if the proposed guidance is not amended. In the period immediately following the introduction of these requirements it is likely to be extremely onerous for a company to reconcile ten years' worth of data in accordance with a new regulatory obligation. This creates a material risk that these useful disclosures will be dropped to manage the company's compliance risks.

Para 23 of the Guidelines provides an exemption which states '*where a reconciling item cannot be extracted directly from the financial statements, the issuer should rather show how the number is calculated*'. It is unclear precisely what disclosure is required.

The problems raised by requiring reconciliations are significant. These disclosures will significantly add to the potential compliance burden implied by the proposed Guidelines. The justification of requiring reconciliations as proposed is unclear. The AIC therefore **recommends** that the requirement to provide a reconciliation is removed from the Guidelines.

Q8: Do you agree that issuers should explain the use of APMs? If not, why?

The Guidelines state that “*issuers should explain the use of APMs in order to make users understand their relevance*”. It is unclear exactly what disclosure is required. For example, is every APM to be followed by a sentence along the lines of ‘this measure has been included because ...’? Such disclosures would be unwieldy and make disclosures far less helpful to investors.

Paragraph 26 of the Guidelines requires companies to state the reasons why an issuer believes the presentation of APMs provides useful information to users. It also requires a statement disclosing the purposes for which the issuer uses the APM. This is likely to lead to excessive and repetitive reporting. Whilst it is important that users understand the context in which an APM is used, in many cases this will be self-evident and specific disclosures will be unnecessary. A more proportionate and flexible approach is required.

Q9: Do you agree that APMs presented outside financial statements should be displayed with less prominence, emphasis or authority than measures directly stemming from financial statements prepared in accordance with the applicable financial reporting framework? If not, why?

The AIC does **not agree** that APMs presented outside the financial statements should be displayed with less prominence. APMs are used to allow companies to provide a narrative which better explains their position and helps investors understand the position of the business. They complement the financial statements. They do not obscure the disclosures made in the financial statements.

The AIC **recommends** that any reference to the relative ‘prominence’ of APMs be deleted from any guidance issued.

Q10: Do you agree that issuers should explain the reasons for changing the definition and/or calculation of an APM? If not, why?

The Guidelines should allow the issuer to exercise judgement and take into account the needs of users when disclosing APMs and their methodology (including where there are changes).

Q11: Do you believe that issuers should provide comparatives and/or restatements when an APM changes? If not, why?

No. The proposed approach is too detailed and onerous. While issuers should ensure their disclosures are fair and not misleading, there should be no obligation to provide comparatives with prior APMs. The likelihood is that APMs will have been changed because previous approaches are unhelpful to investors. Creating obligations to highlight disclosures which companies now consider to be redundant is likely to confuse rather than be helpful to the market. The Guidelines should provide sufficient flexibility for the issuer to exercise judgement and take into account the needs of users.

Q12: Do you believe that issuers should provide explanations when they no longer use an APM? If not, why?

No. There should be no obligation to provide explanations. There may be cases where it would be helpful for issuers to provide explanations when they no longer use an APM. However, at times this information may be obvious or inappropriate.

For example, it is nonsensical to require a press release to provide an explanation if it does not contain the same APMs as the previous press release. Press releases are often discrete disclosures relating to current events.

Note, the exemption in para 8 which allows the disclosure requirements in press releases to be made by including a cross-reference to another document in which they are found, does not remove the need for this disclosure (if it is required and applied to press releases). The AIC **recommends** that Guidelines should allow issuers to exercise judgement on whether or not they explain when their practice regarding the publication of APMs has changed.

Q13: Do you agree that the [draft] guidelines will improve transparency, neutrality and comparability on financial performance measures to users? If not, please provide suggestions.

The AIC has raised a number of concerns regarding the objectives and principles underlying the Guidelines. It has identified many practical considerations which have not been addressed. For these reasons, we do **not agree** that the Guidelines as drafted will improve transparency, neutrality and comparability.

The AIC has no suggested alternatives as we do not believe there is a need for the Guidelines to be introduced.

Regulators should instead focus on the enforcement of existing regulatory obligations. Member States should be encouraged to raise their standards in line with the current framework. New rules should not be introduced to deal with deficiencies in the implementation and enforcement of existing rules.

Q14: Do you agree with the analysis of the cost and benefit impact of the [draft] guidelines? Please provide any evidence or data that would further inform the analysis of the likely cost and benefits impacts of the proposals.

No. We do **not** believe that the Guidelines will deliver the benefits identified. They will considerably add to the compliance and administrative burden of issuers and in many cases will result in excessive and unhelpful reporting to users. We recommend that the Guidelines are **not** issued in their current form or on their proposed legal basis.

May 2014

To discuss the issues raised in this paper please contact:

Alison Andrews

Project Manager

E-mail: alison.andrews@theaic.co.uk

Tel: 020 7282 5613

Guy Rainbird

Public Affairs Director

E-mail: guy.rainbird@theaic.co.uk

Tel: 020 7282 5553