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European Securities and Markets Authority
103 rue de Grenelle
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14 May 2014

Consultation Paper on Guidelines on Alternative Performance Measures

We are pleased to respond to the invitation by the European Securities and Markets Authority (ESMA) to comment on the consultation paper on guidelines on alternative performance measures (the 'Consultation Paper'), on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those member firms that commented on the Consultation Paper.

'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support ESMA's objective of providing guidelines on the presentation of alternative performance measures ('APMs') (the 'guidelines'). A clear, consistent and balanced presentation of APMs can be helpful to investors by providing additional information about an entity, its performance and position.

We are concerned, however, that the proposed disclosures are rules-based and might lead to excessive or boilerplate disclosure. The guidelines should require a principle-based approach to the presentation and disclosure of APMs.

The proposed definition of APMs in Annex III covers all numerical measures other than measures defined by the applicable financial reporting framework. The combined effect of this definition read in conjunction with other references in the proposals (for example paragraph 23 in the Background, which states that the guidelines include 'most measures') is that the scope of the proposals is unclear. It is potentially very broad and could result in excessive or boilerplate disclosure that does not add value to investors. It might also have the unintended consequence of discouraging management from disclosing information that is relevant to understanding the entity's financial performance and position. The volume of additional disclosure could become a barrier to management's ability to tell its story clearly and concisely, and it could also inhibit management's efforts to develop its reporting in a way that provides useful information to investors.

The scope of the guidelines should be narrowed to focus on entity-specific measures of historical financial performance and position. The guidelines should address only those measures that are derived from financial statements prepared under the applicable financial reporting framework (for example, a subtotal in the income statement) or those that include components that are derived from the financial statements (for example, same-store sales for retailers). The scope should exclude, for example, purely physical measures, sustainability metrics and estimates of future performance.

Measures that are not defined but are required by the applicable financial reporting framework (for example, the results of each reportable segment under IFRS 8) should be excluded from the scope of

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the guidelines, because the financial reporting framework contains guidance that requires an entity to explain the basis for these disclosures.

The guidelines might also inadvertently cover financial information required by the Prospectus Directive (for example, combined or carve-out financial information). The guidelines should be clear that information required by the Prospectus Directive is not an APM.

Most of the concerns described above would be addressed if the guidelines required a principle-based approach to the presentation and disclosure of APMs. The principle should be that entities are required to explain what APMs are used and why, and how they are calculated. The disclosure of APMs should therefore enable investors to understand:

- how APMs are calculated and any significant judgements involved;
- how APMs help to explain an entity's financial performance and position;
- how APMs (or the information used to calculate APMs) reconcile to information derived from financial statements prepared under the applicable financial reporting framework; and
- how and why any APM has changed from the amounts disclosed previously.

This principle would allow management to focus on the presentation and disclosure of APMs that are relevant to the entity's specific measures of historical financial performance and position, and it would reduce the volume of disclosures required for clearly discernible measures. It is also more likely to be consistent with any guidance provided by the accounting standard setter in connection with APMs within the financial statements. We suggest that ESMA should consider these guidelines in the context of the recently proposed changes to the IFRS disclosure requirements before finalising them.

We believe that this principle underlies the substance of the proposals in the Consultation Paper. We are concerned, however, that the proposed disclosures (as written in the Consultation Paper) are rules-based and might not encourage management to consider whether the disclosure is relevant to its circumstances and the measures that it uses. This might lead to excessive or boilerplate disclosure.

The guidelines should also be based on the principle that the presentation of APMs should achieve a balance between the disclosures required by the applicable financial reporting framework and entity-specific APMs. This balance can be achieved without prohibiting equal prominence. APMs should therefore be presented 'with no more prominence' than measures required by the applicable financial reporting framework.

Our answers to the specific questions in the Consultation Paper provide more detail on the views expressed above and are included in the Appendix.

If you have any questions on this letter, please contact John Hitchins, PwC Global Chief Accountant (+44 207 804 2497) or Tony de Bell (+44 207 213 5336).

Yours faithfully

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APPENDIX

***Question 1** – 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?*

We agree that consistent guidelines should be applied by all issuers of securities in a regulated market, other than Member States or Members State's regional or local authorities.

***Question 2** – 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?

We agree that the guidelines should be applied to regulated information contained in all publicly available documents, including financial statements prepared in accordance with the applicable financial reporting framework and prospectuses. We suggest, however, that the scope is clarified so that non-regulated information is not inappropriately captured by the guidelines.

We are concerned that the definition of APMs within the scope of the guidelines is very broad. It might inadvertently cover financial information required by the Prospectus Directive (for example, combined or carve-out financial information). The guidelines should be clear that information required by the Prospectus Directive is not an APM.

The notion of 'required by law' is unclear, and we do not understand why the guidelines would not apply to APMs that are disclosed in accordance with other applicable law (paragraph 9 of Annex III to the Consultation Paper). Many APMs are derived from legal requirements, and the scope of this exemption might therefore be broader than intended.

APMs are supplementary information that can help investors to understand the entity's financial performance and position. A consistent approach to the presentation of APMs should be applied regardless of whether the APMs are required by law. We understand that the intention is to limit repetition of information about APMs that is already available in the relevant legislation. This could be addressed through a principles-based approach to disclosures. See response to Question 4.

***Question 3** – 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.*

- See response to Question 2.

***Question 4** – 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?*

We agree that guidelines on the presentation of APMs help promote transparency and enhance the usefulness of financial information to investors.

However, the proposed definition of APMs in paragraph 15 of Annex III to the Consultation Paper is very broad. It covers all numerical measures other than measures defined under the applicable financial reporting framework. Since IFRSs define very few measures, the proposed definition would cover measures that are not defined but are required by the accounting framework (for example, reportable segment results required by IFRS 8) and a number of measures where the purpose and use are clearly discernable by users, including:

- subtotals derived directly from financial statements, such as operating profit (where only finance and tax expense are excluded) and profit before tax; and
- commonly used industry-specific measures, such as sales per square metre in the retail industry.

The proposed disclosure requirements for all APMs that meet this definition could result in excessive disclosures that do not add value for investors.

The scope of the guidelines should be narrowed to focus on entity-specific measures of historical financial performance and position. The guidelines should address only those measures that are derived from financial statements prepared under the applicable financial reporting framework (for example, a subtotal in the income statement) or those that include components that are derived from financial statements (for example, same-store sales for retailers). The scope should exclude, for example, purely physical measures, sustainability metrics and estimates of future performance.

Measures that are not defined but are required by the applicable financial reporting framework (for example, the results of each reportable segment under IFRS 8) should also be excluded from the scope of the guidelines, because the financial reporting framework contains guidance that requires an entity to explain the basis for these disclosures.

The guidelines should require a principle-based approach to the presentation and disclosure of APMs. The principle should be that entities are required to explain what APMs are used and why, and how they are calculated. They should be applied consistently. The disclosure of APMs should therefore enable investors to understand:

- how APMs are calculated and any significant judgements involved;
- how APMs help to explain an entity's financial performance and position;
- how APMs (or the information used to calculate APMs) reconcile to information derived from financial statements prepared under the applicable financial reporting framework; and
- how and why any APM has changed from the amounts disclosed previously.

This principle would allow management to focus on the presentation and disclosure of APMs that are relevant to the entity's specific measures of historical financial performance and position, and it would reduce the volume of disclosures required for clearly discernible measures. It is also more likely to be consistent with any guidance provided by the accounting standard setter in connection with APMs within the financial statements. We suggest that ESMA should consider these guidelines in the context of the recently proposed changes to the IFRS disclosure requirements before finalising them.

This principle already underlies the substance of the proposals in the Consultation Paper. However, we are concerned that the proposed disclosures (as written in the Consultation Paper) are rules-based and do not encourage management to consider whether the disclosure is relevant to its circumstances and the measures that it uses. This might also lead to excessive or boilerplate disclosure.

We note that the guidelines will replace the existing CESR Recommendation on APMs issued in October 2005. We suggest that ESMA should explain why the existing CESR Recommendation is no longer sufficient and highlight any specific areas in the proposals that are designed to strengthen the existing CESR Recommendation.

Question 5 *– Do you agree with the suggested scope of the term APM as used in the [draft] guidelines? If not, why?*

We do not agree with the suggested definition of APMs in paragraph 15 of Annex III to the Consultation Paper. See response to Question 4.

Question 6 *– Do you believe that issuers should disclose in an appendix to the publication a list giving definitions of all APMs used? If not, why?*

We agree that entities should be required to make disclosures that address the principles described in Question 4. This will often include a description of the APMs used and the basis of calculation.

We do not agree that an entity should be required to disclose information about APMs in a specific form, such as an appendix. The disclosures should either be given in the same place in which the APM is disclosed or be incorporated by cross-reference from another part of the same document that is available to users on the same terms and at the same time. Information about APMs used in the financial statements should be disclosed in the financial statements.

Question 7 *– 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?*

We agree with the principle that users should understand how each APM (or the information used to calculate the APM) reconciles to the most relevant amount presented in the financial statements. This disclosure should be required unless an APM is a subtotal directly readable from financial statements.

However, we are concerned that the disclosure of a numerical reconciliation only might not be meaningful in some circumstances (for example, where the calculation of an APM involves significant judgements). We believe that a clear definition of each APM and how it is calculated, together with any significant judgements involved, would be more meaningful and useful to investors.

Question 8 – *Do you agree that issuers should explain the use of APMs? If not, why?*

We agree that entities should be required to explain the use of APMs where this is consistent with the objectives of the principle-based approach described in Question 4. The rationale for using some measures could be self-evident (for example, sales per square metre in the retail industry). Such measures should not require further explanation.

Question 9 – *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?*

We are concerned that the notion of 'less prominence' is difficult to apply. For example, should it be achieved through use of a different font size, style and colour, or should it be based on factors such as frequency of appearance, order of presentation, length of the materials, or tone of the wording?

We believe that disclosure should be based on the principle that the presentation of APMs should achieve a balance between the disclosures required by the applicable financial reporting framework and entity-specific APMs. This principle should be applied equally to APMs presented within and outside the financial statements.

This balance can be achieved without prohibiting equal prominence. APMs should therefore be presented 'with no more prominence', and they should not obscure or replace the disclosures required by the applicable financial reporting framework.

Question 10 – *Do you agree that issuers should explain the reasons for changing the definition and/or calculation of an APM? If not, why?*

We agree that entities should explain the reasons for changing the definition and/or calculation of an APM.

Question 11 – *Do you believe that issuers should provide comparatives and/or restatements when an APM changes? If not, why?*

We agree that entities should disclose comparatives and/or explain restatements when an APM changes. We expect that changes would be infrequent.

Question 12 – *Do you believe that issuers should provide explanations when they no longer use an APM? If not, why?*

We agree that entities should explain why an APM is no longer used.

***Question 13** – Do you agree that the [draft] guidelines will improve transparency, neutrality and comparability on financial performance measures to users? If not, please provide suggestions.*

We support ESMA's objective of providing guidelines on the presentation of APMs. A clear, consistent and balanced presentation of APMs can be helpful and provide investors with additional information about an entity.

The proposals, however, include a broad definition of an APM combined with rules-based disclosure requirements. This might have the unintended consequence of discouraging management from disclosing information that is relevant to understanding the entity's financial performance and position. The guidelines could become a barrier to management's ability to tell its story clearly and concisely, and they could also inhibit management's efforts to develop its reporting in a way that provides useful information to investors.

The proposals could also result in disclosure of excessive and boilerplate information. This would not add value for investors and would be costly for management.

We therefore suggest that the guidelines should require a principle-based approach to the presentation and disclosure of APMs. See response to Question 4.

***Question 14** – 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.*

See response to Question 13.