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**PRESS RELEASE**

**CESR consults on recommendations on the use of alternative performance measures to ensure best practice by companies in the information prepared for investors**

CESR's draft recommendation on the use of alternative performance measures (Ref. CESR/ 05-178) contains several proposals to encourage European listed companies to provide the financial markets with appropriate and useful performance measures.

At present, European listed companies use widely differing alternative performance measures. Alternative performance measures can best be described as financial data which is not extracted or cannot be derived from the statutory audited financial statements. In some cases, this data relies on non-standardised accounting terms. Most commonly, alternative performance measures are used for revenues, earnings and earnings per share (e.g. EBITDA, cash earnings, restricted earnings ...). There may be other alternative measures used, such as certain balance or interest covering ratios.

The adoption of International Financial Reporting Standards (IFRS) in Europe will bring about the elimination of binding formats for consolidated financial statements, as set out in the 7<sup>th</sup> Accounting Directive, and as such, is likely to increase the use of alternative performance measures in the future.

Alternative performance measures can provide investors with appropriate additional information. Properly used and presented, these measures can assist investors in gaining a better understanding of a company's financial performance.

The objective of this recommendation is therefore to provide guidance on the best way to appropriately use and present alternative performance measures by establishing some clear principles that companies should consider in the preparation and disclosure of this information. Following consultation, this recommendation will be addressed to CESR members, who as securities regulators can, in turn, recommend to nationally listed companies to follow this guidance and to ensure best practice is adopted by companies. As such this should ensure that the risks of inappropriate use or, misleading use, of alternative performance measures are minimised.

The main recommendations put forward by CESR include the following:

- In the preparation of alternative performance measures, companies should respect the IFRS-principles for financial statements for all types of financial information, such as relevance, comparability, consistency and comprehensibility.
- Issuers should define the terminology used in preparing alternative performance measures and set out the basis on which they have been prepared. In particular, CESR notes that disclosure is especially important if market practice or academic theory is divided about the components of that measure.
- Issuers should present alternative performance measures only in combination with defined measures. Furthermore, issuers should explain the differences between both measures, and provide investors with enough information to fully understand the results and financial position of the company.



- If the company chooses to present alternative performance measures, it should provide comparable information for other periods as well and the same performance measures should be used consistently over time.
- Issuers tend to present alternative performance measures with remarkable prominence, sometimes even more prominently than the defined measures directly stemming from financial statements. To ensure that investors are aware of the defined measures, CESR recommends that issuers present defined performance measures with greater prominence than alternative performance measures.
- Issuers may internally use alternative performance measures for measuring and controlling the company's output. Generally issuers explain this as the reason for presenting alternative performance measures to investors. CESR therefore recommends that issuers give an explanation of the internal use of alternative performance measures in order to make investors understand the relevance of this information.
- Finally, to ensure the information is reliable, comparable and consistent, CESR recommends that the management of the company considers involving the auditor in relation to the preparation and presentation of alternative performance measures.

CESR welcomes comments from all interested parties on the draft advice by 11 July 2005. These responses can be submitted online via CESR's website at [www.cesr-eu.org](http://www.cesr-eu.org) under the section 'consultations'. An open hearing will be held at CESR's headquarters in Paris (and the date once confirmed will be visible on CESR's website under 'hearings').



## Notes for Editors

1. The draft recommendation has been prepared by CESR's operational Committee in the area of endorsement and enforcement of financial reporting standards in Europe (CESR Fin) chaired by M. John Tiner, Chief Executive Officer of the Financial Services Authority in the UK. The project of this recommendation was more specifically prepared by the Sub-Committee on International Standards Endorsement (SISE) chaired by M. Paul Koster, member of the board of The Netherlands Authority for the Financial Markets.
2. CESR is an independent Committee of European Securities Regulators. The role of the Committee is to:

Improve co-ordination among securities regulators;

- Act as an advisory group to assist the EU Commission, in particular in its preparation of draft implementing measures in the field of securities;
- Work to ensure more consistent and timely day to day implementation of community legislation in the Member States.
- The Committee was established under the terms of the European Commission's decision of 6 June 2001 (2001/1501/EC). It is one of the two committees envisaged in the Final Report of the Group of Wise Men on the regulation of European securities markets. Baron Alexandre Lamfalussy chaired this group. The report itself was endorsed by the European Council and the European Parliament. The relevant documents are available on the CESR website.

Each Member State of the European Union has one member on the Committee. The members are nominated by the Member States and are the Heads of the national public authorities competent in the field of securities. The European Commission has nominated the Director General of the DG Market, as its representative. Furthermore, the securities authorities of Norway and Iceland are also represented at a senior level.

3. For further information please contact:

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