



**CESR Recommendation on  
Alternative Performance Measures  
~  
Feedback Statement  
of public consultation**

**October 2005**



## **FEEDBACK STATEMENT OF THE CONSULTATION ON THE DRAFT RECOMMENDATION ON ALTERNATIVE PERFORMANCE MEASURES**

1. On May 11th 2005, CESR published for consultation a draft recommendation on the use of Alternative Performance Measures (Ref. CESR/ 05-178) containing several proposals to encourage European listed companies which decide to provide the financial markets with alternative performance measures to do so in a way that is appropriate and useful for investor's decision making. This recommendation was essentially inspired by the experience of CESR members in the supervision and enforcement of financial reporting on financial markets.
2. During the consultation period, which expired on July 11th 2005, CESR received 29 comment letters from various organisations. The list of the respondents to this consultation, with an indication of the sector of activity of the respondents is attached in appendix 1. All comment letters received have been published on CESR website ([www.cesr-eu.org](http://www.cesr-eu.org)).
3. CESR observes that respondents largely supported the initiative of CESR to issue a recommendation on the use of Alternative Performance Measure and considered that such recommendation will usefully contribute to the creation of the necessary environment for ensuring investor's confidence in financial reporting on financial markets. With the exception of a few specific elements developed below, respondents were also very supportive of the principles proposed by CESR for the presentation of Alternative Performance Measures.
4. The comments collected through the public consultation have been duly considered by CESR and have informed the redrafting and finalisation by CESR of its recommendation on Alternative Performance Measures. The purpose of this feedback statement, which is published along with the final recommendation (ref CESR/05-178 B), is to provide CESR's views on the most important points arising from the consultation and explaining the most important changes introduced in the final recommendation.
5. CESR takes the opportunity of this feedback statement for thanking all respondents for their fruitful and constructive contribution.

### **GENERAL COMMENTS**

6. Several comments were raised concerning the definition (or scope) of Alternative Performance Measures and concerning the description of the background for this recommendation.
7. As regards the definition of Alternative Performance Measures, various respondents were of the opinion that the draft recommendation suggested a too broad definition or scope of Alternative Performance Measures whereas the scope of defined measures was too narrow. In particular, they were concerned that the recommendation would consider too many line items of IFRS financial statements as Alternative Performance Measures, because IFRS does not mandate detailed formats for presentation of financial statements and imposes only a limited number of definitions of measures or line items to be included in these statements.
8. CESR fully understand these comments. It was not CESR's intention to consider Alternative Performance Measures as a wide ranging concept, but only as these additional financial data which are either derived from the audited financial statements or which stem from other sources or alternative methodology to conventional accounting. The philosophy of the recommendation is not to provide an exhaustive list of Alternative Performance Measures – preferred or not – possibly with a general definition of these measures. The approach is rather to leave room for market developments on which Alternative Performance Measures to use and on how to define them. The purpose is instead to ensure that communication on these measures is not misleading. In this context,

Alternative Performance Measures have been described by difference with defined measures which are those required to be included in audited financial statements (GAAP measures).

9. Taking account of the comments received, the final recommendation has been amended along the lines summarised above, in order to clarify what Alternative Performance Measures mean and to state more clearly the interconnection between Alternative Performance Measures and defined measures, in particular in the context of reporting made under IFRS. Accordingly, clarifications have also been included in the section “Background and objective of this recommendation”, for reflecting the approach followed by CESR as to the definition and scope of Alternative Performance Measures.

10. Respondents to the consultation also suggested that the introductory paragraphs of the paper include additional reference to other regulatory frameworks or projects which have interactions with a recommendation on Alternative Performance Measures. CESR agreed to make these additions with an indication as to how the recommendation is articulated with these other regulatory frameworks or projects.

### **Principles for the presentation of Alternative Performance Measures**

11. Most comments received in relation to the recommendation itself were focused on two aspects.

#### *The prominence of presentation of defined measures vs. Alternative Performance Measures*

12. In the draft recommendation, CESR proposed that issuers should present defined measures with greater prominence than Alternative Performance Measures.

13. Consultees who expressed views on this principle were actually split. Some respondents either fully supported CESR’s approach or supported this approach with suggestions for clarification or possible alternatives. Other respondents (a short majority among those who commented on this principle) disagreed with the recommendation on this point.

14. In some cases, respondents’ disagreement was linked to the concerns raised in relation to the definition of Alternative Performance Measures. For these respondents, the obligation to present Alternative Performance Measures with less prominence would be all the more controversial if the scope of Alternative Performance Measures is broad and covers line items required to be included in audited financial statements.

15. Those who disagreed motivated their position by indicating that Alternative Performance Measures are not less relevant than defined measures and that investors and analysts widely use and refer to Alternative Performance Measures. Some underlined that certain performance indicators are industry benchmarks that are generally well known and used, and provide useful and realistic information on financial position and results. This concern seems particularly important for established industry benchmarks which will continue to be followed under IFRS until further developments of reporting standards for these industries (e.g. insurance sector). Other respondents highlighted the fact that publication of Alternative Performance Measures is sometimes required by national legislation such as those regulating the presentation of annual management reports.

16. CESR is sensitive to these arguments and decided to review its position on this point in the final recommendation, in order to better reflect its initial thinking.

17. In the final recommendation, a distinction is made between different types of alternative performance measures. In CESR’s views, the risk of misleading uses of Alternative Performance Measures is greater when prominence is given to financial data - derived from audited financial statements - which resemble defined performance but do actually not necessarily have the characteristics of the defined measures (to be audited, based on an identified reporting framework, consistent and comparable with performance measures of other enterprises). CESR believes that defined measures should always be presented with greater prominence than these Alternative Performance Measures. In other cases, CESR believes that defined measures and alternative measures



can be presented according to their capacity to portray the entity's performance, considering that alternative measure should not be presented with greater prominence.

*Auditors' involvement*

**18.** Many respondents expressed concerns in relation to CESR's proposal that auditors could have a role in assuring that issuers provide reliable, comparable and consistent information and CESR's suggestion that issuers consider involvement of the auditor in this area.

**19.** Some respondents agreed with the principle, but wrote that the recommendation should be elaborated and clarified to be effective. Others underlined the need for a sufficient framework to support auditors' intervention – which is currently not the case. Others indicated that the recommendation on this point is undesirable as it would increase the cost for issuers, would not fit with existing demarcation of responsibilities between the auditor and the issuer and is not acceptable without clearer determination of what is expected from the auditor.

**20.** CESR's view on this point was actually quite open and did not aim at imposing new requirements. For the sake of clarity, and considering the comments received, the final recommendation has been streamlined on this point and is limited to two elements:

- i) The issuer should disclose whether the alternative performance measures have been subject to separate auditor's review and, if so, to explain it;
- ii) The management of the reporting entity should always inform its auditors about its use of alternative performance measures, and thereby enable the auditor to take possible measures in compliance with applicable audit standards (e.g. ISA 720 if applicable).

*Other remarks on the principles of the recommendation*

**21.** Taking account of suggestions received, the final recommendation has also been clarified on some other less critical elements relating to other principles of the recommendation.

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**Appendix 1 – List of respondents to public consultation on CESR draft Recommendation on Alternative Performance Measures**

<b>DATES :</b>	<b>ACTIVITY :</b>	<b>NAME :</b>
21 Jul. 2005	Banking	Danish Accounting Standards Committee
21 Jul. 2005	Banking	Danish Bankers' Association
21 Jul. 2005	Banking	Dutch Accounting Standards Board
21 Jul. 2005	Banking	DVFA
21 Jul. 2005	Banking	European Savings Banks Group
21 Jul. 2005	Banking	SFAF (Société Française des Analystes Financiers)
21 Jul. 2005	Banking	Shell International Ltd
21 Jul. 2005	Banking	UBS
21 Jul. 2005	Insurance, pension & asset management	Association of British Insurers
21 Jul. 2005	Insurance, pension & asset management	Aviva plc
21 Jul. 2005	Insurance, pension & asset management	AXA
21 Jul. 2005	Insurance, pension & asset management	CEA Comité Européen des Assurances
21 Jul. 2005	Insurance, pension & asset management	CFO Forum
21 Jul. 2005	Insurance, pension & asset management	Legal & General
21 Jul. 2005	Insurance, pension & asset management	Prudential
21 Jul. 2005	Insurance, pension & asset management	The Chartered Institute of Management Accountants (CIMA)
21 Jul. 2005	Issuers	Confederation of Danish Industries
21 Jul. 2005	Legal & Accountancy	Ernst & Young
21 Jul. 2005	Legal & Accountancy	FEE
21 Jul. 2005	Legal & Accountancy	IDW
21 Jul. 2005	Legal & Accountancy	Institute of Chartered Accountants in England and Wales
21 Jul. 2005	Legal & Accountancy	KHT-yhdistys - Föreningen CGR ry (Finnish Institute of Authorised Public Accountants)
21 Jul. 2005	Legal & Accountancy	KPMG IFRG Limited
21 Jul. 2005	Legal & Accountancy	PriceWaterhouseCoopers
21 Jul. 2005	Others	100 group of finance directors
21 Jul. 2005	Others	EFRAG
25 Jul. 2005	Others	The Capital Markets Policy Council of the CFA Institute's CFA Centre
21 Jul. 2005	Regulated markets, exchanges & trading systems	Borsa Italiana
21 Jul. 2005	Regulated markets, exchanges & trading systems	Deutsche Börse AG