

The European Securities and Markets Authority (ESMA)  
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14 May 2014

Dear Sirs,

**Consultation Paper – ESMA Guidelines on Alternative Performance Measures**

***Introduction***

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of **EuropeanIssuers**, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Financial Reporting Expert Group has examined your proposals and advised on this response. A list of members of the Expert Group is at Appendix A.

***Response***

We welcome the opportunity to respond to this consultation. We query the extent of the problem with alternative performance measures ('APMs') as used at the moment. APMs can provide useful information for investors, for example sales per square metre of retail space, which can aid comparability between companies in the same sector. We are concerned that attempting to downgrade those APMs that do not derive directly from the financial statements will deter companies from presenting meaningful information to investors. The consultation paper did not provide a detailed analysis or evidence of the problem.

We believe that the cost-benefit analysis fails to demonstrate how the proposed changes fully and proportionately address the identified problems. Moreover, there are no figures as to the costs of implementing these changes for issuers.

Furthermore, the consultation paper argues that alternative performance measures do not stem from a company's financials. However, our view is that some of them are calculated from the financials. For example, all the numbers that make up EBITDA are in the financial statements, but just not as one line item.

Lastly, we believe that this issue would be more appropriately dealt with at national Member State level, rather than by ESMA. We query whether this issue falls under ESMA's remit.

**Responses to specific 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 Member 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 believe that this is a matter best left to Member States who are able to assess whether this is a problem for their public equity markets and can act accordingly.

**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?**

As noted above, we believe that this issue would be best left to Member States to manage.

However, if ESMA continues to issue guidelines, we agree with the scope. Companies should, however, be able to define their APMs and reconcile them to their financial statements in a document available on their website, which other announcements should cross refer to. This would prevent entities from having to repeat the same information in all announcements, which will increase clutter.

**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.**

Subject to our comment in question 1, we agree. It would not be consistent for this to apply to APMs in financial statements but not to prospectuses.

**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?**

As noted above, we question whether there is a problem with the use of APMs and hence whether ESMA needs to issue guidelines. We do not think that the need to replace the CESR Recommendation on Alternative Performance Measures with guidelines has been justified in the paper.

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

Yes, we agree with the scope of the term.

**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?**

As mentioned in our response to Question 2, we do not agree that this should be in an appendix to the publication, but rather should be available on an issuers' website.

**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?**

We do not believe that this is practical. Issuers should be clear about how financial information used in APMs reconciles to the financial statements. However, requiring APMs to be reconciled to the most relevant amount presented in the financial statements is wider in scope and may not always be relevant. For example, for sales per square metre it is important to reconcile the sales figure used in the calculation, but the overall APM would not appear to have an equivalent relevant amount in the financial statements.

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

Yes, issuers should explain how the APMs are used in managing the business and hence why they are disclosed to investors.

**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?**

No, we do not agree. APMs can give useful insight into how a business is managed and a number of these will not stem directly from the financial statements. It should be up to the entity to decide which ones to use and to explain this choice to the investors.

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

Yes, we agree.

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

Yes, we agree.

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

Yes, we agree.

**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.**

As we do not believe ESMA has clearly established the problem, we do not believe it is possible to judge whether the guidelines will improve transparency, neutrality and comparability.

**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.**

**ESMA**

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As mentioned in our Introduction, we do not agree with the cost/benefit analysis. First, we do not believe that ESMA has shown that APMs present a particular problem, nor why it wants to issue guidelines instead of a recommendation. We believe that it is of the utmost importance that any action on APMs is proportionate to the extent of the problem.

Second, we note that ESMA has not attempted to quantify the costs to issuers associated with implementing these guidelines.

We believe that it is important for ESMA to clearly outline the extent of the problem and to quantify the costs of any changes proposed in order to ensure that its response is proportionate. We would request that ESMA completes a new cost/benefit analysis that deals with the issues we have raised.

If you would like to discuss any of our responses in more detail, we would be happy to attend a meeting.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'TW', is positioned above the typed name.

Tim Ward

Chief Executive

**Quoted Companies Alliance Financial Reporting Expert Group**

Matthew Stallabrass (Chairman)	Crowe Clark Whitehill LLP
Joseph Archer	Crowe Clark Whitehill LLP
Edward Beale	Western Selection Plc
Anthony Carey	Mazars LLP
Ian Davies	Vislink PLC
Jack Easton	UHY Hacker Young
Bill Farren/ Ian Smith	Deloitte LLP
David Gray	DHG Management
Matthew Howells	Smith & Williamson Limited
Shalini Kashyap	EY
Jonathan Lowe/ Paul Watts/ Nick Winters	Baker Tilly
Niraj Patel	Saffery Champness
Nigel Smethers	One Media IP Group plc
Chris Smith	Grant Thornton UK LLP