May 14th 2014

European Securities and Market Authority
103, rue de Grenelle
75007 Paris
France

Consultation Paper: ESMA Guidelines on Alternative Performance Measures

Comments by the French Society of Financial Analysts (SFAF)
Financial Analysis and Accounting Commission

Dear Madam, Sir,

The French Society of Financial Analysts, SFAF (Société Française des Analystes Financiers), is pleased to submit its contribution as part of the consultation undertaken by the European Securities and Market Authority (ESMA) on the consultation paper on ESMA Guidelines on Alternative Performance Measures (APMs), which was discussed in our Accounting and Financial Analysis Commission.

SFAF represents more than 1,600 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS) which comprises 29 member organizations representing more than 16,000 investments professionals. Its Accounting and Financial Analysis Commission intends to represent analysts and fund managers in the debate on accounting standards. Financial analysts are among the principal users of corporate financial statements and therefore wish to express their opinion on the implementation of new or revised regulation in the field of accounting in Europe.

For this reason, our Society, through its Accounting and Financial Analysis Commission, is keen to respond to your consultation on the Alternative Performance Measures.

General comments

SFAF supports the ESMA objective "of helping foster investor protection and contribute to the establishment of high-quality common regulatory and supervisory standards and practices". We concur also with ESMA "that that financial information prepared and presented in accordance with the applicable financial reporting framework is of primary relevance to users when assessing the financial performance of an issuer".

We consider however that GAAP defined measures (e.g. revenue, profit or loss and earnings per share) may not provide investors with all the appropriate needed information for understanding the financial performance of a company. In particular, we consider that IFRS requirements for the presentation of company's financial statements may not be sufficient to directly offer all the needed measures to understand a company performance. Therefore, we support the idea that Alternative Performance Measures may be needed to complete the view.

As we stated in our response to the 2005 CESR consultation on Alternative Performance Measures, we support the idea that Alternative Performance Measures should be well defined by the company, presented consistently over time with in addition an indication how these measures are relevant to improve the understanding of company performance.

We consider that these measures should be well explained and documented, with all the data used for their construction being directly extracted from the company's audited financial statements including the appendix. It seems indeed essential for financial analysts to be able to reconcile Alternative Performance Measures with audited data that are consistently presented over time and which are relevant. It is all the more important when the measure is used as a guidance given by the Company to investors and analysts, in order to avoid misunderstandings. Relevance of data used to elaborate these measures should also be explained by the company. Otherwise, there is a risk of loss of confidence over time by financial analysts and by investors.

Alternative Performance Measures may be more relevant than defined performance measures. However the superiority of these last ones lies in their consistency over time. Therefore, we consider that defined measures should be presented with at least the same prominence as Alternative Performance Measures.

We consider also that Alternative Performance Measures should allow differentiating recurring from non-recurring items. SFAF considers indeed that these elements are critical to appreciate the long term sustainable performance of companies.

Specific Comments

Scope and purpose of draft guidelines

Q1: We agree with ESMA "that the ESMA [draft] guidelines should apply to all issuers defined as a legal entity governed by private or public law, other than Member States or Member State's regional or local authorities, whose securities are admitted to trading on a regulated market".

Q2: We also agree with ESMA 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.

Q3: We see not fundamental reason why ESMA guidelines should not be applicable to prospectuses and other related documents. We believe that the information provided by prospectuses are part of the information used by analysts and investors so that not including APM would lead to reduced transparency and comparability.

Compliance and reporting obligations

Q4: We also believe that issuing ESMA guidelines constitute a useful tool for dealing with the issues encountered with the use of APMs.

Guidelines on APMs (Background)

Concept and labels of APMs

Q5: We agree with the suggested scope of the term APM as used in the [draft] guidelines. We consider however that issuers should explain when for some APM they do not follow all the principles (e.g. reconciliation between an APM and figures included in the financial statements), even if for some of them it is obvious.

Q6: We agree that issuers should disclose in an appendix to the publication a list giving definitions of all APMs used. This would provide users of financial statements a clear and common understanding of the terms provided by the issuers.

Reconciliation to amounts presented in the financial statements

Q7: We agree that issuers should disclose a reconciliation of an APM to the most relevant amount presented in the financial statements. This is indeed of very high important for users of financial statements, especially since financial statements are audited.

Explaining the use, prominence and presentation of APMs

Q8: We agree that issuers should explain the use of APMs. APMs may be very useful for explaining the performance of a company, but their use must be explained so as to better understand their usefulness.

Q9: We 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. Financial statements are the primary source of information when assessing the performance of a company so that any measures stemming from these financial statements, which in addition are audited, should have a prominence over APMS presented outside financial statements. We have however to bear in mind that IAS1 standard is very poor in terms of defined measures, so that this guideline should not preclude issuers to present APMs when they are useful for users of financial statements.

Comparability and consistency

Q10: We agree that issuers should explain the reasons for changing the definition and/or calculation of an APM. Comparability and consistency over time is key for users of financial statements and we consider that any deviation from this principle should be explained. The explanation however should not be boilerplate language, as it would be useless for users of financial statements.

Q11: We believe that issuers should provide comparatives and/or restatements when an APM changes. The reason is the same as above.

Q12: We also believe that issuers should provide explanations when they no longer use an APM. It would indeed help the user of a financial statement how the company is assessing its performance and improve the confidence towards the issuer's financial communication.

Q13: We agree that the [draft] guidelines will improve transparency, neutrality and comparability on financial performance measures to users. We thank ESMA for taking care of users needs by looking at improving the quality of issuer's communication.

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We consider however that illustrative examples would have helped in better assessing the impact of the proposed guidelines and changes versus the previous one.

Annex I - Cost-benefit analysis

Q14: As we are not issuers, it is irrelevant for us to assess the cost of the proposed measures.

We would in addition consider that the proposed guidelines on APMs will have to be consistent with any guidelines regarding communication to the market on ESG criteria as well as measures based on “business” data.

If you have any question and/or would like to comment on specific points, our Commission will be more than willing to do so.

Yours faithfully,

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