MAZARS AIAF ROUNDTABLE
ON THE USE OF ALTERNATIVE
PERFORMANCE MEASURES
REPORT ON THE PANEL
DISCUSSION

Mazars – AIAF Roundtable discussion
29 November 2016
The use of APM in financial information

APMs are financial measures of performance used by management and derived from the financial statements prepared according to the relevant financial reporting rules, subtracting, adding or aggregating amounts from the figures presented therein, but they are not defined in the applicable reporting framework (e.g. EBIT, EBITDA, Free Cash Flow, etc.). On 3rd July 2016 the new ESMA Guidelines entered into force, setting criteria for the presentation of APMs for issuers to follow when using such indicators in their regulated financial information (including financial reports and press releases announcing their results) and in Prospectuses. National Competent Authorities also have as enforcement priority for 2016 financial information to assess its compliance to ESMA’s Guidelines on APMs, with the objective to promote comparability, reliability and understandability of APMs.

Mazars presented the first international study on the use of Alternative Performance Measures (APM) in the financial information of the main European listed entities. This study highlights divergence in practice among listed groups, which remains even after the first application of the ESMA Guidelines. The results of the study were commented by representatives of ESMA, CONSOB, BusinessEurope, EFFAS, AIAF, IASB, EFRAG, OIC in a roundtable organized on 29th November.

The discussion confirmed that, considering APMs relevance and widespread use in financial communication, they will continue to play a role and, accordingly, standard-setters and supervisory authorities have in front of them a journey to undertake. In particular, the IASB is currently starting a research project aimed to assess whether and to what extent there is a need to modify the structure of IFRS primary statements in order to include some largely used APMs, including EBIT. ESMA, on the other side, will monitor compliance with the Guidelines.

Mazars’ International Practice

Mazars International based on its deep cross-segment (Industrial, Financial, Insurance and Real Estate) knowledge and expertise developed, is pleased to assist and support European listed entities in the self-assessment of their financial information, customizing specific development path to assess its full compliance to ESMA’s Guidelines on APMs.
Alternative Performance Measures (APM) in Financial Information

Current Practice of European Listed Companies

Tuesday 29 November 2016 • 9:30-13:00

Mazars released in November 2016 a benchmarking analysis named “The Use of Alternative Performance Measures in Financial Information”. AIAF and Mazars organized an AIAF Roundtable hosted by Intesa San Paolo in Milan on the practices of the APMs in financial information by the European listed companies. Seven panellists shared their views on the current situation since ESMA guidelines came into force on the 3rd July 2016. This report illustrates the reactions of the panellists and the key findings of Mazars' benchmarking analysis on the APMs. The full report can be consulted by clicking the following link:

http://www.mazars.it/Pagina-iniziale/News/Pubblicazioni/Prassi-APM-delle-societa-quotate-europee

The panel composition

**Moderated by** Michel Barbet-Massin (Mazars, Partner, Head of Financial Reporting Technical Services)

**Analyst perspective:** Javier de Frutos (EFFAS, FAC Chairman)

**European Regulator’s Perspective:** Eduardo Damasio (ESMA, Corporate Reporting Division)

**National Regulator’s Perspective:** Gianluca Vittorioso (Consob, Divisione Informazione Emittenti)

**Industry perspective:** Claes Norberg (Business Europe, Chair of Accounting Harmonisation working group)

**International Standard-setting perspective:** Rachel Knubley (IASB Staff)

**European Standard-setting perspective:** Patricia McBride (EFRAG, Technical Director)

**National Standard-setting perspective:** Tommaso Fabi, (OIC, Technical Director)
Main takeaways from the report

- Divergences were observed in the presentation of APM through the industrial, banking, insurance and real estate segment: the same indicator was presented on the face of primary financial statements or elsewhere in the financial report/press release/presentation to analysts. Similarly, the classification of direct vs. indirect indicators have shown that the same indicators may be classified in one of the two classes according to the type of aggregation and disaggregation that is used by the entities preparing the financial information.
- Direct indicators are the APMs that are directly derived by aggregating or disaggregating figures that are presented in the primary financial statements, such as sub-totals of the Income Statement or simple ratios of items presented in the primary financial statements;
- Indirect indicators are all other APMs, including adjusted measures, i.e. those measures that result from an aggregation or disaggregation of financial statements figures and non-GAAP items.

INDUSTRIAL SEGMENT (37 entities)

- There seems to be a certain level of consistency per segment of the indicators used;
- EBITDA is an indirect indicator when companies use the “by function method” in the presentation of Income Statements as specified in IAS 1. This presentation of operating expenses issued by 70% of the 37 industrial companies in their Income Statements.
8 banking groups are included in the segment and they use more than 100 different indicators in their financial information. Of the 100 indicators, 23 are used by 3 or more banks in the sample.
The Key Finding

INSURANCE SEGMENT (4 entities)

- All entities make extensive use of APMs not presented on the face of their Income Statement to illustrate performance.
General Reactions and Main Takeways

ANALYST PERSPECTIVE

▪ Mazars’ study highlights a situation that has been known in the market for years, with the merits of providing evidence in a comprehensive manner;
▪ Investors want to measure companies’ performance and have requested that companies present APMs investors could use in the absence of a standardized income statement, be it under IFRS or US GAAP;
▪ Investors are open to flexibility but need consistency, quality, comparability and balanced disclosures;
▪ Collaboration is key for the improvement of financial reporting and investors are ready to play their part in this;
▪ However, even if a more standardized income statement were to be defined, APMs would still continue to exist as the financial statements cannot capture all specific and relevant information about companies;

EUROPEAN REGULATOR’S PERSPECTIVE

▪ ESMA welcomes Mazars’ report and the invitation to the panel as it is crucial for ESMA to get external feedbacks on its proposals and on the implementation of its requirements.

30 June 2015:
Publication of Guidelines
3 July 2016:
Entry into force of the Guidelines
28 October 2016
Future developments

▪ Contrary to previous recommendations issued by ESMA on this topic, the Guidelines make compliance by the issuers to them a quasi-mandatory requirement;
▪ The Guidelines are also addressed to NCA (National Competent Authorities) enforcers to ensure due monitoring of compliance with the Guidelines and intervention in case of inconsistent compliance;
▪ The Guidelines apply to APMs included in all documents other than the financial statements published by the issuers (e.g. press releases, management commentary, prospectus).
▪ ESMA published common enforcement priorities focusing on the presentation of performance in financial statements.
▪ In addition, in the next year ESMA will focus on analysing the labelling and consistency of APMs, subtotals in the P&L and implementation of amendments to IAS 1 together with the presentation of OCI and EPS;
▪ The principle-based APM Guidelines provide some flexibility for the issuers;
General Reactions and Main Takeways

▪ The APM Guidelines are the starting point in addressing the issues around the use of APMs;
▪ The next step is to ensure a homogeneous and consistent enforcement of the guidelines by regulators;
▪ A thorough monitoring of the application of the Guidelines has to be carried out to assess whether there is a need for further guidelines.
▪ This date was chosen to coincide with the entry into force of the Market Abuse Regulation;
▪ It was also essential to provide European issuers with enough time to adapt their systems and accounting reporting practices in order to be compliant with the new requirements.

NATIONAL REGULATOR’S PERSPECTIVE

▪ A key characteristic of the new Guidelines is the specification of the documents to which they apply;
▪ Guidelines should not be overridden and, in particular, there is some concern about press releases in which issues regarding prominence and presentation principles were encountered;
▪ National enforcers are keen for a constant dialogue with preparers to guarantee that Guidelines are taken into consideration and applied under the motto: prevention is better than enforcement;
▪ Given the 2016 enforcement priorities, this topic will be the focus of national enforcers’ work in the upcoming year.

INTERNATIONAL STANDARD-SETTING PERSPECTIVE

▪ The use of APMs should not be seen as a criticism of the IFRS Standards- preparers will always want to be able to tell their own story and it is clear that many investors find the information provided by APMs useful. However, there are things that standard-setters can do to ensure that APMs are presented fairly and improve the presentation of information in the primary financial statements. Existing requirements on the presentation of information are not very prescriptive;
▪ The IASB is currently working a project to improve the presentation of information in the “primary financial statements” with the objective of introducing more structure and discipline especially in the performance statements (P&L and OCI): this would likely involve defining some subtotals such as operating profit and/or EBIT and possibly providing illustrative industry templates. The project is in its preliminary phase and the scope has not yet been decided;
▪ Standard setters have an important role to play regarding APMs, but so do regulators, users and preparers;
▪ To avoid any duplication or worse, inconsistencies in our activities, the IASB regularly meets with regulators to discuss areas of common interest;
▪ Standard-setting is a lengthy process which involves a series of consultations and discussions with all stakeholders.
General Reactions and Main Takeways

EUROPEAN STANDARD-SETTING PERSPECTIVE

- There is a need for more harmonization and both ESMA’s Guidelines and the IASB’s project are heading in the right direction;
- A sensible balance needs to be achieved between structured information to enhance comparability and allowing sufficient flexibility to companies to tell their own story so that the information remains relevant;
- The use of APMs will persist since companies will always present concepts in diverse manners and users will continue asking for more data.

NATIONAL STANDARD-SETTING PERSPECTIVE

- According to Mazars’ study, APMs seem to be very industry-driven, more than country-driven;
- Further research is needed on the use of APMs to encompass other companies than the ones included in Mazars’ sample (EUROSTOXX 50) and especially smaller companies;
- The report and the discussion demonstrate the importance of the IASB’s project on primary statements;
- National standard setters will support and provide the IASB with their expertise and experience on these matters.

INDUSTRY PERSPECTIVE

General comments on findings

The spread of APMs derives from markets’ request for more data and will persist;

Although interesting, the findings are not surprising;

The accounting standard-setter should not be seen as the unique problem solver since the financial statements cannot satisfy all of users’ needs and requests;

The IASB and ESMA both have a role to play in this, ensuring that their activities do not overlap.

General comments on Mazars’ report

In order to get a broader view, the sample of companies analysed should be expanded beyond those forming the EUROSTOXX 50;

Very few modifications in reporting have been identified in the half-year reports of 2016 since companies lacked time to adopt the Guidelines. Therefore, it is crucial to follow up on this survey to assess further impacts of the Guidelines;
The Key Findings

Primary financial statements

- Mazars’ report presents the results of a benchmarking analysis of the current use of APMs in financial reporting. It investigates commonalities at segment level.

INDUSTRIAL SEGMENT (37 entities)

- APMs seem to be used more outside of the primary financial statements, although there are some commonly used ones in the primary financial statements. EBIT was presented on the face by 92% of the entities in the industrial segment, by 6 out of 8 of the entities in the banking sector and 2 out of 4 entities in the insurance segment, labelled in several different ways.
- For identification of APM on the face, primary statements used as a reference for the exercise are those used by the management in the illustration of their performance, which are often condensed/managerial statements derived from their IFRS primary statements.
- The major difference in the calculation of EBIT from one company to the other relates to the exclusion or inclusion of the share of profit/loss of equity-accounted investments.

BANKING SEGMENT (8 entities)

- All the entities use condensed or managerial templates derived by summarizing and aggregating items presented in the IFRS primary financial statements as a basis to comment on their performance. For banking groups based in Italy (2 groups) and Spain (2 groups), templates for IFRS primary financial statements are regulated by local authorities, thus leading to extensive use of reclassification between IFRS primary statements and “managerial templates”.
- 6 banks out of 8 use operating profit or adjusted operating profit as APM and present it on the face of income statement.

REAL ESTATE SEGMENT (1 entity)

- The company introduces two subtotals on the face of its consolidated Income Statement
  - Net Operating Result before Financing Costs (also defined as “EBIT”);
  - Net Rental Income
**ANALYST PERSPECTIVE**

- Adjustments to financial statements will persist. Adjustments as such are not a problem, but the quantity of adjustments made based on current standards is;
- Mazars’ report confirms that subtotals such as EBIT and net debt must be included in the primary financial statements;
- The topic of non-recurring or one-off items needs to be looked at also;
- Analysts welcome the IASB’s work and its propensity to be much more open and inclusive of external opinions. They are keen on collaborating with the IASB.

**INTERNATIONAL STANDARD-SETTING PERSPECTIVE**

- The use of APMs is due to both the desire of preparers to tell their own story and demand from investors for more information about performance. To do their analysis investors will always need to adjust the amounts reported in the financial statements;
- IAS 1 currently provides flexibility in terms of presentation of P&L and OCI. However, in 2014, IASB issued some amendments to ensure that additional subtotals presented in P&L and OCI are presented fairly, clearly and are adequately explained;
- The topics that will be discussed in the primary financial statements project include:
  - whether to include additional subtotals in P&L;
  - possible guidance on what should be included in operating profit or EBIT;
  - whether operating profit and EBIT should be distinct subtotals;
  - whether any rules should be set around the separate presentation of non-recurring items.
- Providing more guidance in this area will be challenging but it is not impossible;
- Regarding APMs other than EBIT, the issue is: should we incorporate some of those measures into the primary financial statements?
- The IASB is working towards a due process document that is likely to be published in early 2018.

**EUROPEAN STANDARD-SETTING PERSPECTIVE**

- Although it does not yet have an official opinion on the matter, EFRAG has been carefully monitoring the IASB’s project. It will likely advise the IASB to find a middle ground between the views of preparers and users, which will not be an easy task.
- Information should not be so structured as to become inflexible: principles-based standards should be retained. In this respect, faithful representation (i.e. does the information represent what it is supposed to represent?) is key.
- Standards should enable comparability between similar indicators across different entities. Defining a common basis for operating profit would be a good help in this respect.

**NATIONAL STANDARD-SETTING PERSPECTIVE**

- Based on Mazars’ study, the main differences concerning APMs are sector-related rather than based on country divergences.
- Even within the same industry, each company may have its needs to give specific information.
INDUSTRY PERSPECTIVE

- APMs and subtotals are embedded in the company story the users want to have;
- The IASB should take a careful approach when dealing with EBIT and operating profit measures. When introducing defined subtotals, it is crucial to find some commonalities across sectors and to be flexible when taking into consideration divergences across sectors and in core operations;
- In terms of practical relevance of the resulting measures, it is important for preparers and the IASB to collaborate.
Other Comprehensive Income (OCI)

- The company makes no comments on OCI in their management commentary, in the press release nor in the presentation to the analysts;
- Accordingly, no APMs were presented with reference to components of OCI in the documents analysed.
**Other Comprehensive Income (OCI)**

**ANALYST PERSPECTIVE**

- OCI substantially represents non-cash movements of a company, thus does not provide a satisfactory reflection of a company’s operations;
- Except for pension plans, OCI are items the changes of which are exogenous to the company, i.e. over which management has no control.

**EUROPEAN REGULATOR’S PERSPECTIVE**

- Investors and analysts do not request clarifications on OCI-based figures, thus APMs on OCI measures are not included in the documentation prepared by the issuers;
- The documents covered by ESMA’s Guidelines do not have a formal format nor specific minimum requirements on its content. Therefore there is flexibility for issuers to tell their story and to decide which information they want to include and/or emphasize.

**INTERNATIONAL STANDARD-SETTING PERSPECTIVE**

- Attempts to define what should be included in OCI have failed because there are diverging views about what should be included: all or part of unrealized profit? Non-core business activities? Items not under management’s control?
- What is currently reported in OCI is the result of different decisions made by the Board over a number of years. There is no single conceptual basis to explain what is currently reported in OCI.
- As part of its Primary Financial Statements project, the Board will explore whether there are better ways of describing and presenting the components of OCI to make it more understandable.

**EUROPEAN STANDARD-SETTING PERSPECTIVE**

- It is crucial to differentiate between volatility created by accounting and volatility inherent to the business.
- In order to understand the components of OCI, EFRAG believes that the first step is to clarify what profit or loss means. This will also help identify what should be recycled from OCI what should not.

**NATIONAL STANDARD-SETTING PERSPECTIVE**

- It is very difficult to find a solution to the issue of OCI. Nonetheless this would be very important.
- When IFRS are applied to separate financial statements, uncertainty about the possible uses of reserves (e.g. for distribution) arising from OCI have created issues in past years.
- There is a need to update the law stating what is distributed item-by-item and issue-by-issue.

**INDUSTRY PERSPECTIVE**

- Results of a Swedish study highlighted that there were misunderstandings on OCI. Moreover, analysts considered OCI to not be a good basis to forecast future trends. For further reference related to this study, click the following PDF icon.

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PDF

An investigation of capital market actor:
As a result, the fact that companies do not provide information on OCI could be explained by users not requesting any such information.
The Key Findings

Comparability

- Divergences exist with reference to EBIT
- Several other divergences in APM were observed and detailed in Mazars’ Report

INDUSTRIAL SEGMENT

Share of profit/loss of equity-accounted investments

- EBIT excluding “Share of profit/loss of equity-accounted investments”
- EBIT including “Share of profit/loss of equity-accounted investments”

BANKING SEGMENT

Share of profit or loss of investments accounted for using the equity method

- Included in Gross Income
- Excluded from Gross Income

Integration/restructuring costs presentation

- Included in Operating Expenses
- Excluded from Operating Expenses

Loan loss provisions presentation

- Included in Operating Expenses
- Excluded from Operating Expenses

Impairment charges within Operating Expenses

- Impairment of Goodwill
- Impairment of Intangible Assets
- Impairment of PP&E

INSURANCE SEGMENT

- 2 out of 4 entities present operating profit on the face
  - Income from entities accounted for using the equity method and change in goodwill: different presentation;
- 2 out of 4 present and operating profit elsewhere, but with significant divergences in calculation. Items excluded:
  - Amortization of business combination (2);
The Key Findings

- Interest expenses on external debt (2);
- P&L from instruments FVTPL (2);
- Disposal of investments (1);
- One-off/non-recurring general exp. or pension revaluation (2);
- Corporate restructuring.

REAL ESTATE SEGMENT

- The company introduces two subtotals on the face of its consolidated Income Statement;
  - Net Operating Result before Financing Costs (also defined as “EBIT”);
  - Net Rental Income.
Comparability

ANALYST PERSPECTIVE

- Enhanced consistency in the labelling and definition of concepts is crucial, although a thorough analysis of components of indicators will persist to ensure better understanding of the indicator and comparability.

NATIONAL REGULATOR'S PERSPECTIVE

- The APM Guidelines require consistency over time. There are, however, differences in the APMs used even between companies within the same field.
- Because of issues identified concerning the labelling and reconciliations with IFRS-based measures, national supervisors have insisted on an enhanced disclosure of components of APMs even before the issuance of the Guidelines.

INTERNATIONAL STANDARD-SETTING PERSPECTIVE

- Interaction with stakeholders will be vital if we are to identify the problems and potential solutions in this area.
- A possible approach would be to provide industry specific templates for a limited selection of industries – for example, financial institutions, insurance companies, industrials and investment property companies. This idea needs to be explored further. One possible disadvantage to this approach would be that entities might have less flexibility about how they present information.

INDUSTRY PERSPECTIVE

- Transparency is key to understand what is labelled. According to the Swedish study, users seemed quite satisfied with the way companies disclosed on items affecting comparability. For experienced users, consistent disclosure was deemed to be more important than comparability. However, three key problem areas emerged from Swedish study: 1) a confusion regarding several non-comparable measures used by issuers; 2) the inclusion of restructuring costs in non-recurring items; 3) use of non-GAAP measures not always appropriately framed.
- Industry associations have a role to play in dialogues on national, European and international levels between them and user organizations.
- EFRAG is key in that sense because it is the platform for all stakeholders in Europe.
The Key Findings

Adjusted Earnings

- In financial reports management focuses on adjusted earnings, net off special/one-off transactions

**INDUSTRIAL SEGMENT**

- 32 entities out of 37 use adjusted performance indicators and 12 present it on the face;
- 83% of the adjustments result in positive effect;
- 6 entities changed result from negative to positive.
- 63% of entities define as “non-recurring” items that are likely to influence future periods.

**BANKING SEGMENT**

- 6 out of 8 banking groups use as a performance indicator a measure of adjusted net result, of which 2 banks also include the adjusted net result in the management commentaries.
- The adjusted net income was higher than the GAAP net income for 4 banking groups that used adjusted indicators in the 2015 annual results.
- Adjustments to IFRS net result
  - Disposal of an investment (6);
  - Non-recurring/extraordinary items (5);
  - CVA/DVA and own credit risk (3);
  - Spreading IFRIC 21 SRF charges (1);
  - Provisions for “PEL/CEL” (2 French banks);
  - Gain upon disposal accounted for after reporting period (1)

**INSURANCE SEGMENT**

- 1 out of 4 insurance groups included in the EUROSTOXX 50 index uses adjusted earnings, excluding P&L on FVO (For Valuation Only) and derivatives, exceptional operations other
than discontinued, integration and restructuring cost.

REAL ESTATE SEGMENT

- Adjustments qualified as "non-recurring" items, are as follow:
- valuation movements;
- disposals;
- mark-to-market and termination costs of financial instruments;
- impairment and negative goodwill;
- business combination cost
Adjusted Earnings

ANALYST PERSPECTIVE

- Disclosure and explanation of the adjustment to earnings are very important. This is all the more important for, for example, non-recurring items, which, by the way, should not become recurring.

EUROPEAN REGULATOR’S PERSPECTIVE

- The fact that adjustments to negative IFRS earnings can lead to positive adjusted earnings is not surprising as it has been evidenced in other studies.
- It is one of the reasons that led ESMA to issue the Guidelines. They are not meant to prevent issuers from presenting APMs but rather to ensure, when adjustments are made, they are clearly disclosed, labelled and explained so that investors understand them. This is even more important than comparability and consistency between measures presented by issuers.
- The role of regulators and ESMA, besides ensuring compliance with Guidelines, would be to guarantee that measures are not presented misleadingly. For instance, regulators may act when adjustments made to APMs only have one direction (e.g. only removing the negative aspects of a performance).
- They should also ensure that the labelling of these adjusted figures is clear.

INDUSTRY PERSPECTIVE

- Clarity needs to be provided on what items are taken out of earnings and what are non-recurring earnings.
- However, a proper balance needs to be found in terms of the quantity of disclosures to provide.
- At this stage, we should monitor how ESMA’s Guidelines are implemented over time to see how all this should develop in the future.
The Key Findings

Prominence

INDUSTRIAL SEGMENT

- In their management commentary, the adjusted indicator and its GAAP most reconcilable measure are presented together by 94% of 32 entities that use adjusted performance indicators.
- 6 of 32 companies that use adjusted indicators of performance give more prominence to the adjusted indicator than to the IFRS equivalent. In particular, 2 companies do not provide GAAP-equivalents, 3 only discuss the adjusted indicators, 1 company introduces an entire adjusted Income Statement in its Management Commentary).

BANKING SEGMENT

- 4 banking groups analysed base their entire management commentaries on the condensed/reclassified Profit and Loss Statement instead of the IFRS Consolidated Income Statement;
- On top of the IFRS requirements these banks are subject to local regulation on templates for primary financial statements.
ANALYST PERSPECTIVE

- Significant measures such as Free Cash Flow and EBIT are so relevant that they are prominent.
- However, IFRS should not be overshadowed at all in terms of information by the APMs: the APMs should complement IFRS.

EUROPEAN REGULATOR’S PERSPECTIVE

- The requirements around prominence in the Guidelines may increase the length of companies’ documents but the guidelines include some reliefs to ensure that they are not so over-burden for issuers.
- However, between the publication of the Guidelines and their entry into force, issuers had the opportunity to reflect on which of the voluntary measures they disclose are relevant for the decision making of investors and to remove less relevant measures of their documents before the Guidelines became effective, so as to avoid having to explain later any changes in the measures disclosed.
- Transparency and therefore the requirements around prominence are a small price to pay to let management tell its story while being compliant with IFRS. Regulators are of the view that IFRS should be the main focus for investors’ decision making process. IFRS are the official figures, subject to a clear framework, presented fairly, audited and subject to enforcement by NCAs. Consequently, APMs should not distract users from IFRS figures.
- Given the findings of Mazars’ study, there is some room for regulators to ensure compliance with the requirements around prominence in every document, and especially in press releases.

INTERNATIONAL STANDARD-SETTING PERSPECTIVE

- As stated by ESMA, the extensive use of APMs does not mean IFRS results are not relevant but rather that companies need flexibility to tell their stories.
- Investors are interested in the story but they also need the assurance that APMs are based in fact. They therefore need to see the APMs in combination with the most comparable IFRS numbers.

NATIONAL STANDARD-SETTING PERSPECTIVE

- There is a paradox between wanting more reconciliations and disclosures on APMs and avoiding lengthy financial statements.
- The problem is to understand the needs of the user. If provided with a set of data, users could define and calculate APMs among companies. This could solve the problem of lengthy disclosures and reconciliations.
- Tremendous expectations exist around the IASB’s project.

INDUSTRY PERSPECTIVE

- The principle of equal prominence is sound. However, companies are
Prominence

concerned about disclosure overload due to reconsolidation requirements. This issue varies according to the type of document. E.g. press releases should be concise and it is understandable that companies privilege information to reconciliations.
Consistency

INDUSTRIAL SEGMENT

▪ The information provided was substantially consistent overtime.
▪ In terms of consistency, only 4 companies, as ESMA’s Guidelines came into force, made changes between YE15 and to 1H16. 7 companies representing 19% of the industrial segment of the EUROSTOXX 50 introduced a section dedicated to “non-GAAP” or “non-IFRS” or “Alternative Performance Measures” in their management reports.

BANKING SEGMENT

▪ The information provided was consistent overtime.
▪ The only material change was the introduction of the adjustment due to the IFRIC 21 spreading of regulatory costs over the periods.
▪ Between YE15 and 1H16, as ESMA’s Guidelines came into force, 2 entities introduced a separate section dedicated to APMs;

INSURANCE SEGMENT

▪ 2 insurance groups out of 4 in the sample issue a separate document commenting on the definitions of APMs used: in one case this was issued for the first time in 1H16 (no equivalent found for YE15) and in the other case there was a reference to the YE15 annual document, for the definition (although reconciliations of figures were not included). One entity introduced starting from 1H16 a separate document dedicated to APMs on the investor relations website, including definitions and quantitative reconciliations.
▪ No other changes were observed between YE15 and 1H16.
It is crucial that issuers use the same measures throughout their reports over time. However, the results of the survey may not be representative given the sample analysed (large companies), which is probably scrutinized by more users than other companies and for which it may be more difficult to change measures. Regulators will continue to pay a closer look to the consistency and comparability of APMs presented by issuers over time outside financial statements.
Insurance Segment

- The structure of IFRS Income Statements presented by the 4 insurance companies included in the sample differs. Key indicators presented on the face of the Income Statements are revenues and net result, plus, in 2 cases, operating profit;
- All entities make extensive use of APMs not presented on the face;
- As a standard, the APMs used by the 4 insurance companies are of common knowledge in the sector or, such as for the Economic Solvency ratio or non-operating income/expenses;
- APMs used mainly non-reconcilable by nature, except for operating profit, adjusted earnings and ROE;
- The identification of APMs was performed differentiating between the two sub-segments of Life and Non-Life. All 4 insurance groups in the sample are active in both segments.
### EUROPEAN STANDARD-SETTING PERSPECTIVE

- IFRS 4 currently leads to a wide array of accounting practices. In addition, insurance companies are subject to many strict regulations. Insurance models are perceived as extremely complex and solely long-term focused while there is also a short-term dimension.
- The insurance sector is both undergoing major changes in their regulatory environment as well as looking to changing its financial reporting in the upcoming years with the future insurance standard.
- The use of APMs within the industry will persist since, in the short-term, companies will likely use the measures investors are familiar with. Over time, entities may rationalize the use of those indicators but it will probably be a lengthy process.

### NATIONAL STANDARD-SETTING PERSPECTIVE

- APMs are needed because financial statements cannot provide the whole picture of performance in this sector.
- IFRS 17 will hopefully reduce the distance between financial statements and the way performance is currently presented since the IASB has collaborated throughout the entire standard-setting process with insurance companies.
- There are various layers in this sector: APMs, financial statements and solvency. I do not think the introduction of the new standard will eliminate the use of APMs. The question is whether these sets of information are enough or too much for users.
INTERNATIONAL STANDARD-SETTING PERSPECTIVE

- The IASB has developed its own taxonomy, which covers the presentation and disclosure requirements of IFRS standards in an electronic format. The development of better structured financial statements could enhance the functioning and the relevance of digital reporting.
- The challenge is to find the right balance between optimizing the usefulness of the taxonomy and leaving flexibility to companies to tell their story. Providing optional templates might provide more structure to the taxonomy.

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