AUTORITÉ
DES MARCHÉS FINANCIERS

AMF

AMF Position – Recommendation 2010-11
Corporate communications on financial indicators

References: Article 223-1 of AMF General Regulations

The AMF, responsible for overseeing periodic and permanent disclosures relating to corporate financial reporting, has observed that the use of certain financial indicators can sometimes make it difficult to understand financial releases, to compare figures over time, between companies or to reconcile figures with financial statements.

The indicators in question may vary in nature. Some are extracted from financial statements or notes thereto (hereinafter "financial statements"); other indicators are adjusted from the data presented in financial statements; others are not included in the financial statements at all.

The AMF reiterates that companies are responsible for their own financial communications and are free to choose specific financial indicators as long as they are considered relevant in specific businesses or sectors, or meet a particular requirement on the part of investors or analysts.

Nevertheless, the use of these indicators may raise issues of comprehension for readers of financial releases if the indicators presented are not defined by IFRS or the generally accepted accounting principles in France (profit on ordinary activities, gross operating margin, EBITDA, EBIT, free cash flow etc.) and if calculation methods vary from company to company.

In addition, if financial statements are published at a later date than financial releases, investors cannot refer to them. Confusion may arise when there is no clearly established link between financial releases and financial statements. It is necessary to make this link because the official accounting data is the only information drawn up in a structured process certified by external auditors, thereby ensuring its reliability.

Position :

In this context, the AMF emphasises the need for accurate, precise and fair disclosures. In their financial releases, companies must comply with these requirements whenever financial indicators are adjusted from the financial statements or not included therein.
The AMF requires compliance with the following principles for these indicators:

- **Indicators presented must be defined.**
- **Indicators must be used consistently over time (in terms of terminology and calculation method).**
- **Indicators that are adjusted or not included in financial statements must be explained.**
- **Indicators must be reconciled with financial statements and any restatements described.**

If a company has a consistent and stable policy for presenting its indicators and these indicators are commonly used in the industry in question, it is not necessary to repeat explanations and reconcile the indicators in the financial release, as long as this information is presented in yearly or half-yearly reports (financial statements, registration documents or financial reports). This also applies to indicators presented in quarterly financial reporting, where applicable.

In addition, whichever indicators are adopted, indicators extracted directly from financial statements must not be totally replaced in financial releases by adjusted indicators or indicators not included in financial statements.

Pursuant to these principles, whenever a company reports a financial indicator that was not presented in its financial statements, it must clearly state that this indicator has been adjusted or was not included in the financial statements. Any restatements issued after the published financial statements must be clearly

and comprehensively described to allow comparison with the financial statements. Indicators and restatements must be consistent over time.

If a company publishes a financial indicator for the first time, this indicator must be defined and its choice explained in the financial release. If this indicator is changed between two financial years, companies must present a precise definition of the new indicators in the financial release, along with a comment to explain the changes made and a comparison with figures from the previous financial year.

Recommendation :

To ensure that financial indicators presented are properly comparable, the AMF recommends the following:

- **Any financial data released should be compared with the previous period.**
- **Reporting periods should be consistent from one year to the next.**
- **Pro forma data should be stated in the financial release if necessary.**
- **Terminology for indicators that are defined in accounting standards should not be used if the financial indicator used refers to a concept different to that defined in the accounting standards.**
- **Net earnings attributable to the group should be stated for each period presented for which financial statements exist.**

With respect to the position and recommendation stated above, the AMF draws companies' attention to the following issues:

- It has been observed that companies reporting indicators pertaining to debt often present these indicators in the notes to the financial statements in terms of exposure to liquidity risks. For the purposes of accurate reporting, the AMF recommends that calculation methods should be explained more explicitly, with a precise definition of the financial assets used and whether derivatives are taken into account, etc. Likewise, when financial releases report cash flow indicators that are not mentioned as such in the financial statements (e.g. free cash flow), these indicators are all too rarely defined and reconciled with the financial statements, even though they are key data presented to the market.
- The AMF requests that companies reporting adjusted indicators on the impact of business combinations (depreciation of assets, goodwill impairment etc.) should also refer to the (non-adjusted) accounting aggregates in the financial release.
- If the profit on ordinary activities (*Résultat Opérationnel Courant (ROC)*) is presented as an indicator in the financial release, the company should preferably refer to the definition given by the *Conseil National de la Comptabilité* in Recommendation 2009.R.03. If the company chooses another calculation method, it should be clearly explained.
- With respect to segment reporting, IFRS 8 requires that information on each reportable operating segment be presented separately, in a manner that is related to the methods used by management for internal performance monitoring. The AMF recommends that companies should take a consistent approach between the financial releases and the segment information in their financial statements, both in terms of segment breakdown and performance indicators. Whenever a company decides to provide segment-specific indicators in addition to those presented in the financial statements, appropriate explanations shall be given. In this case, such information shall supplement or clarify the approach used in the financial statements, but must not replace the segment reporting taken from the financial statements.

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The AMF shall pay close attention to the proper implementation of these principles and may request corrections when it notes that non-compliance with these principles leads to reporting that is not accurate, precise and presented fairly.
This Position/Recommendation reiterates the following principles laid down by the Committee of European Securities Regulators (CESR) in its recommendation dated October 2005 on Alternative Performance Measures:

- *"Respect the IFRS-principles for financial statements for all types of financial information (understandability, relevance, reliability and comparability);*
- *Define alternative performance measures;*
- *Present alternative performance measures additionally to defined measures and explain the differences;*
- *Provide comparatives;*
- *Present alternative performance measures consistently over time;*
- *Prominence of presentation of defined measures versus alternative performance measures;*
- *Explain why alternative measures are presented and how they are used internally".*