

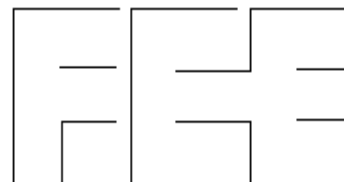
Date
7 July 2005

Le Président

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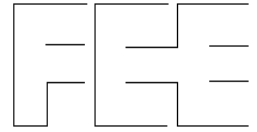
Dear Mr. Ebling,

Re: EFRAG Draft Comment Letter on CESR Draft "Recommendation on Alternative Performance Indicators"

FEE (Fédération des Experts Comptables Européens – European Federation of Accountants) reviewed the EFRAG draft comment letter on CESR draft recommendation on Alternative Performance Indicators and the draft CESR Recommendation. We are pleased to submit the following observations to you.

1. EFRAG calls in paragraph 1 for wide adoption and consistent enforcement. CESR itself can only issue a recommendation addressed to its members. However, CESR members in turn could require compliance with the draft recommendation. Some elements of the draft recommendation could indeed be turned into requirements, whereas others should not. CESR needs to remain within its regulatory role and avoid entering the standard setting domain (CESR has stated itself in its enforcement standards 1 and 2 that it should not be a standard setter). We agree that the CESR initiative is useful in the absence of the IASB enhancing IAS 1 in relation to defined performance measures.
2. In paragraph 2 of the draft letter, EFRAG agrees with the principle set out in paragraph 21 of the draft recommendation that issuers present defined performance measures with greater prominence than alternative performance measures. FEE would prefer a recommendation that defined performance measures should be presented with at least equal prominence as alternative performance indicators.
3. The quotations in paragraph 4 from paragraph 23 of the draft recommendation are not exact: the precise phrasing is "...management of the company should consider involving the auditor in relation to alternative performance measures". When performance indicators form part of the notes to the accounts, part of the annual report or other supplementary information they will be covered by the auditor's involvement in the audit of the annual accounts and the consistency review of the annual report with the annual accounts. Such a requirement is already covered by other means of legislation, notably the Accounting and Transparency Directives and is also resulting from ISAs. The Fourth Directive requires in Art. 51.1 second paragraph that statutory auditors should also express an opinion concerning the consistency or otherwise of the annual report with the annual accounts for the same financial year ("consistency check"). Also ISA 700.71 (revised) requires from 2007 a consistency check on unaudited supplementary information (as ISA 720 before). Some EU Member States have a full audit requirement for the annual report.

CESR should not go beyond these existing requirements by introducing or considering to introduce piecemeal extensions of the auditors' responsibilities. FEE recognises the wider need to consider the



involvement of the auditor on the annual report given its current extension to include (elements of) a corporate governance statement and the full audit obligation that exist in certain Member States. As said the current recommendation should not go beyond **considering** involving the auditor.

There are a number of issues to be considered on auditor involvement outside of the financial statements, including the question of whether the auditors would wish to be involved, particularly with more forward looking measures which may be subjective and judgemental.

The draft recommendation should emphasise that it is the responsibility of management to draw up the financial information, including the alternative performance measures. In many countries, it is common practice to seek advice from the auditor before performance measures are made public.

Any company that has sought advice from its auditors on alternative performance indicators and has also requested them to perform 'audit' procedures and issue some form of opinion thereon, should not be allowed to state this unless the auditor has given his consent.

4. We suggest to make an additional observation about the definition of alternative performance measures. The draft recommendation does not address fully the issue of quantitative measures which do not resemble defined performance measures – oil company crude oil reserves for example. Perhaps this paper should be restricted to performance measures which are based on defined performance measures, if these can be clearly defined.

You might also observe that if CESR's members are to turn this recommendation into mandatory requirements, some clearer definition of what is covered will be needed.

5. Paragraph 18 of the draft recommendation which requires issuers to explain the differences between alternative performance measures and defined measures, could further require a comprehensive quantitative reconciliation. A qualitative reconciliation would be acceptable if figures can be arrived at easily from the profit and loss account. In our opinion, the current text of the draft recommendation is insufficiently explicit.

We would be pleased to discuss with you in more detail any of the issues raised in this letter.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Devlin', written in a cursive style.

David Devlin
President