Market newsletter 4/2017

December 2017

The Market newsletter addresses topical matters concerning interpretations, regulation, as well as supervisory findings relating to listed companies' disclosure obligation, financial reporting enforcement, securities trading and insider issues. Articles other than those pertaining to IFRS enforcement will appear mainly in English. The newsletter is published by FIN-FSA's Supervision of Markets and Conduct of Business Department.

In this newsletter, we discuss the following topics:

Topical matters at ESMA

Regulatory technical standards under the Prospectus Regulation

ESMA invites comments on the regulatory technical standards under the Prospectus Regulation that relate to, among other things, the key financial information that should appear in the summary of a prospectus, situations requiring the publication of a supplement to a prospectus, the publication of a prospectus, and advertisements. Comments are requested by 9 March 2018.

Regulatory technical standard on electronic reporting of financial statements

ESMA has published and submitted to the Commission a draft of the regulatory technical standard on electronic reporting of financial statements. The draft standard requires that the IFRS consolidated financial statements of listed companies be published in the future also in machine-readable XBRL format.

MiFID II ancillary provisions of the Market Abuse Regulation (MAR) will apply from 3 January 2018

Under the Markets in Financial Instruments Directive (2014/65/EU, MiFID II) and Regulation (EU, 600/2014, MiFIR), they will apply from 3 January 2018. At the same time, MAR provisions relating to organised trading facilities, SME growth markets and emission allowances as well as auction products based on them will begin to be applied.

Organised trading facility (OTF trading venue)

An objective of MiFID II is to direct as large a proportion of trading as possible to organised marketplaces instead of so-called OTC trading. As part of this objective, from the beginning of 2018 it will be possible to set up an OTF, where only bonds, structured finance products, emission allowances and derivatives may be traded. An OTF trading venue may be maintained by a stock exchange, an investment firm or a credit institution providing investment services.

SME growth market

A further objective of MiFID II is to facilitate opportunities for small and medium-sized enterprises (SMEs) to obtain capital and to enable specific markets for this.

A multilateral trading facility (MTF) may apply to the competent authority to have the MTF registered as an SME growth market. A requirement for registration is that at least 50% of the issuers of the SME growth market are SMEs. In this context, SME means an enterprise whose average market capitalisation was less than EUR 200 million on the basis of end-year quotes for the previous three calendar years.

Emission allowances and their thresholds

In MiFID II, emission allowances are defined as financial instruments. Derivative contracts based on emission allowances were already included in the definition of financial instrument.

MAR prohibitions relating to insider dealing, unlawful disclosure of inside information and market manipulation are applicable to the auctioning on an auction platform authorised as a regulated market of emission allowances or auctioned products based thereon, pursuant to the Commission's Auctioning Regulation (EU 131/2010). The prohibitions are also applicable when auctioned products are not financial instruments. In addition, the requirements and prohibitions of the Regulation are applicable to bids submitted in the context of an auction.

MAR obligations on the public disclosure of inside information, the maintenance of insider lists, the disclosure of management transactions and market soundings are also applicable to certain market participants operating in the emission allowances market. Market participant means a natural person or entity that trades in emission allowances, auctioned products based thereon or derivatives thereof, including the placing of orders to trade.

With respect to emission allowance market participants, the above-mentioned obligations of the Regulation have been limited to apply only to emissions trading operators which, by virtue of their size and activity can be expected to be able to have an effect on the price of emission allowances, of auctioned products based thereon or of derivative financial instruments relating thereto or on bidding in the auctions. For this reason, the Commission Delegated Regulation (EU 522/2016) has defined the annual threshold for the emissions or rated thermal input of installations or aviation activities that emissions allowance market participants own, control or are responsible for to be at least 6 million tonnes of carbon dioxide equivalent and a rated thermal heat input of at least 2,430 megawatts.

The information on physical operations of operators falling below the above-mentioned thresholds is not inside information as defined by Article 7 of MAR. Operators falling below the thresholds may, however, have other information deemed to be inside information, such as, for example, information relating to an operator or installation exceeding the thresholds.

Reporting of acquisition of own shares

Article 5 of MAR requires that acquisitions of own shares in buy-back programmes be reported to the competent authorities of all trading venues on which the shares have been admitted to trading or are traded. Pursuant to Article 4 of MAR, the European Securities and Markets Authority (ESMA) maintains a register that reveals for each financial instrument the trading venue where they are traded. The ESMA register can be accessed at the address https://registers.esma.europa.eu/publication/searchRegister?core=esma_registers_firds.

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ESMA updates Q&A interpretations on MAR

The European Securities and Markets Authority (ESMA) has updated its Q&A interpretations on the application of the Market Abuse Regulation (596/2014, MAR).

ESMA has issued new interpretations on maintenance of insider lists (MAR, Article 18), public disclosure of inside information (MAR, Article 17), market soundings (MAR, Article 11) and on managers' trading during the closed period (MAR, Article 19).

Drawing up and updating the insider list (MAR, Article 18)

ESMA has issued two new MAR Q&A interpretations on the obligation of the issuer and persons acting on behalf or account of the issuer to draw up and update the insider list. The interpretations clarify the division of responsibility of the issuer and persons acting on behalf or account of the issuer for drawing up and updating the insider list.

According to the interpretation, persons acting on behalf or account of the issuer (e.g. advisors and consultants) are subject to their own obligation to draw up an insider list of all persons who have access to inside information and who are working for them under a contract of employment. The obligation also includes submitting an insider list to the competent authority.

The issuer may delegate (outsource) the task of drawing up and updating its own insider list. If the issuer delegates the task of maintaining its insider list to a person acting on its behalf or account, for example an advisor, the issuer is responsible for drawing up and updating its own insider list in accordance with outsourcing principles. A person acting on behalf or account of the issuer is responsible for drawing up and updating its own insider list.

If the issuer delegates (outsources) the task of drawing up and updating its own insider list to a third party which does not act on behalf or account of the issuer, the issuer is responsible for drawing up and updating the list in accordance with outsourcing principles.

Disclosure of inside information (MAR, Article 17)

The MAR Q&A interpretation on the disclosure of inside information takes a position on how the issuer should act where the public disclosure of inside information has been delayed in accordance with Article 17(4) of MAR and the information ceases to be inside information. According to the interpretation, the issuer is neither obliged to publicly disclose that information nor to inform the competent authority because the information has ceased to be inside information and thus is considered outside the scope of Article 17(1) of MAR. The issuer should note, however, that the insider list must be maintained until the time that the nature of the information changed.

Market soundings (MAR, Article 11)

The MAR Q&A interpretation on market soundings outlines the application of Article 11 of MAR and the relevant delegated and implementing regulations to an unlisted financial instrument of a listed issuer of financial instruments.

According to the interpretation, the Disclosing Market Participant (DMP) must assess on a case by case basis whether there is any relationship between the price or value of the issuer's unlisted financial instrument and a listed financial instrument. Where the DMP assesses that such relationship exists, then the requirements relating to soundings of MAR and the relevant delegated and implementing regulations are also applicable to market soundings relating to the unlisted financial instrument.

If there is uncertainty as to whether there is a price or value relationship, the MAR Q&A recommends that the DMP apply the MAR procedures relating to sounding.

Managers' trading during the closed period (MAR, Article 19)

Pursuant to Article 19(12) of MAR, an issuer may grant permission to a person discharging managerial responsibilities (PDMR) within it to trade on its own account during a closed period under certain conditions as referred to in Article 19(11) of MAR. According to the MAR Q&A interpretation, a PDMR that has been granted permission to trade must give consideration to the fact that the insider dealing prohibition contained in Article 14 of MAR also applies to trading permitted during the closed period.

Another MAR Q&A on the closed period outlines the transactions covered by the prohibition on trading during the closed period. According to the MAR Q&A interpretation, the prohibition covers all transactions required to be reported.

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MiFIR transaction reporting begins on 3 January 2018

The Markets in Financial Instruments Regulation (MiFIR) will reform transaction reporting. Investment service providers must register for the transaction reporting Data Collection Service (DCS) in good time before MiFIR begins to be applied on 3 January 2018. Investment service providers register for the service themselves, or an approved reporting mechanism acting on their behalf may register investment service providers for transactions they are required to report. Registration for the DCS production service began on 13 December 2017 at https://dcs.bof.fi. The production environment technically corresponds to a test environment, but requires separate registration even if the investment service provider has previously registered for the testing service.

Contrary to earlier communication, the Suomi.fi identification and authorisation services will not be available as of 3 January 2018; these services will be introduced at a later date. Information on this will be provided in the DCS service.

In the revised transaction reporting, the buyer/seller is identified, in the case of a Finnish natural person, by a personal identification number prefixed by FI and, in the case of a legal entity, by a Legal Entity Identifier (LEI) code.

Transactions executed before 3 January 2018 are reported to the present MiFID transaction reporting TYVI service. Corrections to transactions reported to the TYVI service can be made up to 12 January 2018. Transactions executed from 3 January 2018 are reported via the DCS service in accordance with MiFIR requirements.

A test environment is continuously available at the address https://test.dcs.bof.fi. It is recommended that reporting be tested in the test service before production use begins.

We recommend that transaction reports containing real personal data should not be used in testing.

The XML schema description to be used in reporting as well as reporting instructions can be found on ESMA's website at the address https://www.esma.europa.eu/policy-rules/mifid-ii-and-mifir/mifir-reporting-instructions. The reporting schema in use is version 1.0.3 (DRAFT15auth.016.001.01_ESMAUG_ Reporting_1.0.3.xsd).

Reporting examples are described in ESMA's transaction reporting instructions.

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Room for improvement in disclosure of alternative performance measures

The Financial Supervisory Authority (FIN-FSA) has reviewed in the financial reports of listed companies the application of the ESMA Guidelines on Alternative Performance Measures[1], which entered into force on 3 July 2016.

Alternative performance measures (APMs) are used extensively, because they are considered to be relevant to investors in assessing performance and comparing reporting periods, for example.

The ESMA Guidelines are aimed at promoting the usefulness and transparency of APMs. Adherence to the Guidelines will improve the comparability, reliability and comprehensibility of APMs. The FIN-FSA is fully committed to promoting adherence to the ESMA Guidelines. In addition to ESMA, some other organisations, such as IOSCO and the SEC, have issued guidelines[2] on the disclosure of APMs in recent years.

Of the European supervisory authorities, the Financial Reporting Council and the Irish Auditing and Accounting Supervisory Authority have published their own reviews[3] of the use of APMs, in autumn 2017.

The purpose of this article is to report the observations of the review conducted by the FIN-FSA and to help companies assess the information they provide about APMs.

Below, in connection with the observations, reference is made to the paragraphs in the ESMA Guidelines covering the issue in question as well as to the Q&A document issued on the application of the ESMA Guidelines[4].

Subject of the review

The review covered 20 listed companies, six of which were large companies, seven medium-sized and seven small. The companies represented all sectors of the Helsinki Stock Exchange. The FIN-FSA reviewed the companies' 2016 an-

1 Link: https://www.esma.europa.eu/system/files_force/library/2015/10/2015-esma-1415fi.pdf.
2 Links: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD532.pdf, https://www.sec.gov/divisions/corpfin/guidance/nongaapinterp.htm.
3 Links: http://frc.org.uk/getattachment/ff987c01-416f-4635-8dba-fdda5530f4b5/091117-APMs-CRR-thematic-review.pdf, https://www.iaasa.ie/getmedia/1fd03585-c071-45a6-bc01-cca56ca8925e/2017_09_05APM-Thematic-final-for-publication.pdf.
4 Link: https://www.esma.europa.eu/sites/default/files/library/esma32-51-370_qas_on_esma_guidelines_on_apms.pdf.

nual reports, which included, in addition to the management report and the IFRS financial statements, information relating to performance measures. The FIN-FSA analysed which APMs the companies had disclosed and how they had applied the individual aspects of the ESMA Guidelines. In addition, the review covered the companies' Q2 2016 half-yearly reports, published after the ESMA Guidelines entered into force, because a number of companies disclosed in these reports information on adherence to the ESMA Guidelines. Outside the scope of the review was segment reporting contained in the IFRS financial statements and measures disclosed for segments in the management report, even though they are considered to be APMs[5], and so-called per-share measures[6]. Also outside the scope of the review were prudential measures as well as physical and non-financial measures, as the ESMA Guidelines do not apply to them.

General observations on information given on APMs

Based on the review, many companies have room for improvement in the information given by them on APMs. Shortcomings were observed in nearly all aspects of the ESMA Guidelines.

The FIN-FSA also reached the conclusion that many companies have possibly made the interpretation that the ESMA Guidelines relate only to measures describing profitability adjusted by items affecting comparability, because the companies stated that they only changed the terminology they used to conform with the ESMA Guidelines. This was done, for example, by replacing the previously used term *before non-recurring items* with the term *before items affecting comparability* or by stating that *operating profit before non-recurring items* will in the future be *adjusted operating profit*. Statements of this kind might be the only references to the application of the ESMA Guidelines in a company's regular financial reporting. In the IFRS financial statements, some companies disclosed APMs as a separate note, but the note in question only considered adjusted earnings figures.

The FIN-FSA observes that there are many issues relating to the disclosure of APMs to which the ESMA Guidelines do not necessary provide an answer. In such situations, companies should, on a case-by-case basis, consider and assess the disclosure of APMs using as a starting point the above-mentioned aim of the ESMA Guidelines. The materiality of the information to be disclosed may also be assessed. The FIN-FSA also draws attention to the fact that the prohibition on the disclosure of misleading information contained in the general provisions of the Securities Market Act must also be taken into consideration when disclosing APMs.

Based on the review, the FIN-FSA urges companies to pay attention in the future to the following issues:

- the disclosure of APMs should be explained separately for each performance measure
- reconciliations could be clarified by making references to those financial statement items in which the components are disclosed
- with regard to adjusted performance measures, companies should state what and how large the adjustments made in the financial period are, and why these adjusted performance measures are disclosed.

Number of APMs disclosed was significant

> *ESMA Guidelines, Paragraph 17:* An alternative performance measure (APM) is understood as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

In the sample of 20 company annual reports, management reports and IFRS financial statements, at least 65 APMs were identified to which, in the FIN-FSA's view, the ESMA Guidelines should be applied.

The APMs disclosed by the companies relate to revenue, earnings, capital structure and return on capital, cash flows and other indicators, as per Figure 1 (p. 7).

APMs were used as follows

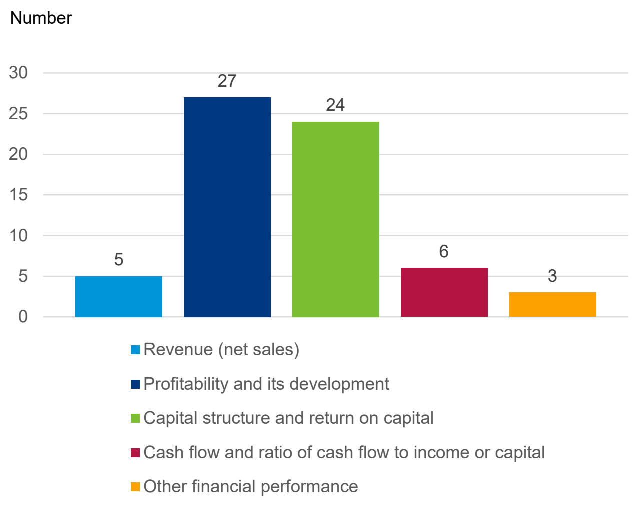
- to describe revenue, for example net sales in comparable currencies and organic growth
- to describe profitability and its development, for example gross profit, operating profit, adjusted operating profit and adjusted EBITDA and their margins as well as adjusted earnings per share

5 See ESMA Q&A, Question 13: "Scope of the APM Guidelines".
6 Decree of the Ministry of Finance on the Regular Duty of Disclosure of an Issuer of a Security, Section 5(2)(2).

- to describe capital structure and return on capital, for example net debt, net debt/EBITDA ratio and return on equity
- to describe cash flow and the ratio of cash flow to income or capital, for example the free cash flow to net income, and
- to describe other financial performance, for example investments and order book.

The number of APMs is influenced by the fact that, according to the ESMA Guidelines, only performance measures defined or specified in the IFRS reporting framework, such as revenue, profit or loss and earnings per share, fall outside the scope of the Guidelines.[7] IFRS financial statements contain many other items that are not defined in the IFRS reporting framework but whose disclosure is required by the IFRS reporting framework. If these items are also disclosed outside the IFRS financial statements, the ESMA Guidelines apply with certain exemptions relating, for example, to disclosure of reconciliations and the prohibition on displaying APMs with more prominence than measures directly stemming from financial statements.

Figure 1 What did the APMs describe?



Source: FIN-FSA

7 The ESMA Guidelines refer to the applicable financial reporting framework. The applicable reporting framework may be other than the IFRS reporting framework where a company's securities are not admitted to trading on a regulated market.

The number of APMs is also influenced by the fact that the ESMA Guidelines are applied to measures that are calculated using items or sums of items disclosed in IFRS financial statements, such as return on capital employed, net gearing and so on. If the components used in calculating a performance measure are IFRS performance measures, the Guidelines are applied only to the performance measure itself; in other cases, the Guidelines are applied to both the performance measure and its components. This means, if necessary, the disclosure of the reconciliations of the components, for example. The ESMA Q&A document explains the presentation of measures derived from financial statements (see ESMA Q&A, Question 3: "Financial measures calculated using exclusively figures stemming from financial statements").

APMs most commonly described profitability development

The number of APMs disclosed per company was significant. At most, one company disclosed 27 APMs and at least, nine APMs. On average, large companies disclosed 22 APMs, medium-sized companies 18 and small companies 14. The dispersion of APMs was also large: 13 APMs appeared in the information of more than 10 companies, but 39 APMs appeared in the information of only 1–3 companies.

Most commonly, the following APMs were disclosed (occurrences in brackets)

- operating profit (20) and operating profit margin (20)
- adjusted operating profit (15) and adjusted operating profit margin (13)
- profit/loss before taxes (18)
- net debt (16) and net gearing (18)
- equity ratio (19)
- return on equity (17)
- return on capital employed (16)
- investments (19).

Of the APMs disclosed by the companies (Figure 2, p. 8), in numerical terms nearly half described profitability and just under 40% capital structure and return on capital. All of the companies disclosed several of the different APMs mentioned above. APMs describing revenue were disclosed by eight companies and APMs relating to cash flow by only four companies.

Of the 20 companies in the sample, nine companies considered, or on the basis of information disclosed by them it can be assessed that the companies determined, that APMs are only such measures to which adjustments affecting comparability or other adjustments (e.g. operative operating profit and EBITDA) are made.

Seven companies presented a list of the APMs they used, and these included, other than the above-mentioned, measures adjusted by items affecting comparability or by other items. In these cases, information according to the ESMA Guidelines about the measures was in many instances incomplete. Shortcomings were found particularly in the disclosure of reconciliations. Information disclosed by four companies did not reveal what measures they had designated as APMs.

Definition of adjustment items is important

ESMA Guidelines, Paragraph 20: Issuers or persons responsible for the prospectus should define the APMs used and their components as well as the basis of calculation adopted, including details of any material hypotheses or assumptions used. Issuers or persons responsible for the prospectus should also indicate whether the APM or any of its components relate to the (expected) performance of the past or future reporting period.

ESMA Guidelines, Paragraph 21: Issuers or persons responsible for the prospectus should disclose the definitions of all APMs used, in a clear and readable way.

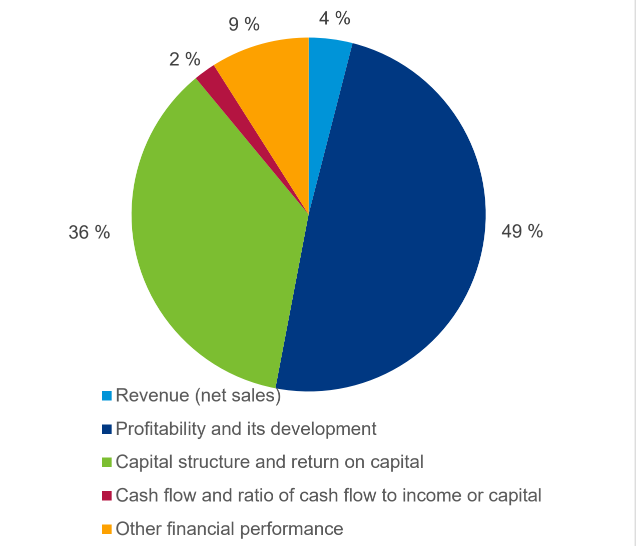
According to the ESMA Guidelines, APMs should be defined. This also applies to adjustment items.

Calculation formulas were, as a rule, disclosed for APMs. The FIN-FSA considers that, in certain cases, a performance measure and its components can be defined with the aid of a calculation formula. It should be noted, however, that some APMs should be also defined in writing; a mere calculation formula is not sufficient. For example, adjustment items used with regard to adjusted performance measures should be described in writing, and the calculation formula should be disclosed in addition to this. The above also applies to information disclosed about organic growth. The ESMA Q&A document explains the disclosure of an APM describing organic growth (see ESMA Q&A, Question 15: "Definition and basis of calculation").

The FIN-FSA recommends that companies assess whether the calculation formulas they disclose describe the performance measures in a clear and readable way, and whether there is also a need to present written definitions.

Definitions of adjustment items were extensive and very similar in the different companies of the sample. Only one company had defined how large an item must be on an annual basis in order for it to be considered an item affecting comparability. One company presented a definition of items affecting comparability that mentioned only expense items, but not a single income item. In addition to the fact that adjustment items used should be defined, the FIN-FSA recommends that the definition and the identification of adjustment items used should be done in advance. A definition should, in principle, remain unchanged, and adjustment items should be used consistently from one financial period to another.

Figure 2 APMs related most to profitability



Source: FIN-FSA

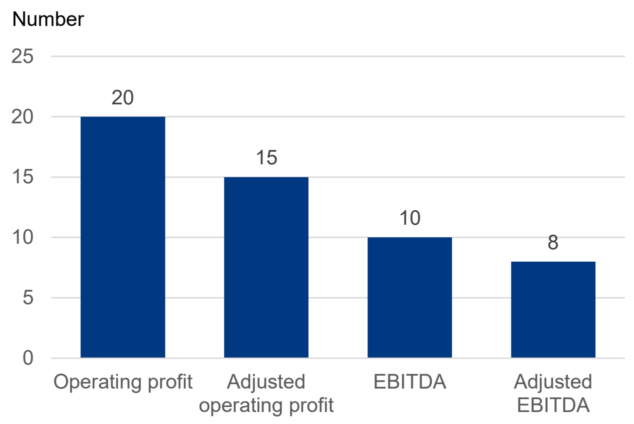
All six large companies had defined restructuring expenses as items affecting comparability, and they adjusted operating profit both in the reporting period and the comparison period. The FIN-FSA urges companies to assess how extensive restructurings could be classified as affecting comparability and therefore as adjustment items, and how extensive restructurings are, in fact, normal business activity.

The disclosure location of adjustment items affecting comparability varied: the definition was given in the management report (3 companies), in the accounting principles of the financial statements (4 companies), in a separate note (2 companies) or in connection with a performance measure table and calculation formulas (4 companies). One company disclosed a definition in the Q2 2016 half-yearly report, but did not refer to this definition in connection with the adjusted performance measure disclosed in the management report.

In addition to operating profit, nearly all of the companies disclosed some adjusted APM describing profitability

The companies of the sample disclosed a number of APMs describing profitability adjusted by items affecting comparability or other items (Figure 3): 16 companies disclosed either adjusted operating profit or adjusted EBITDA, seven companies disclosed both.

Figure 3 Companies had several adjusted earnings figures



Source: FIN-FSA

Of the above-mentioned 16 companies, 13 stated on a general level what the items affecting comparability or other adjustment items can be. 12 companies disclosed more detailed information on financial period (and comparison period) items in the management report in connection with profit analysis or on a more detailed level in a separate reconciliation statement. Most commonly, performance measures were adjusted by expenses relating to efficiency programmes and by restructuring expenses (9 companies) and significant impairments of balance sheet items (7 companies). At most, nine adjustment items were disclosed in the reconciliation statement. Two companies did not disclose any information about *items affecting comparability* (more generally or for the financial period), and two companies disclosed in a reconciliation statement only the line items affecting comparability, and therefore the information disclosed by the companies did not reveal what adjustments to performance measure had been made.

According to the FIN-FSA's observations, only with respect to one company was the adjusted earnings figure weaker than the corresponding unadjusted earnings figure contained in the IFRS financial statements. The range was significant: from the 56% lower IFRS performance measure to the several times higher adjusted performance measure. Most typically, the adjusted performance measure was from just under +10% to +20% better than the unadjusted measure.

The FIN-FSA reminds companies that adjusting performances measures only with expense items, if an income item relating to a transaction of the same nature would not be adjusted, might result in a biased picture of profit development and may be contrary to the general objectives of the ESMA Guidelines. The ESMA Q&A document has expressed a view on the disclosure of biased APMs (see ESMA Q&A, Question 17: "Application of the fair review principle to APMs").

Labelling of APMs

ESMA Guidelines, Paragraph 22: APMs disclosed should be given meaningful labels reflecting their content and basis of calculation in order to avoid conveying misleading messages to users.

ESMA Guidelines, Paragraph 25: Issuers or persons responsible for the prospectus should not mislabel items as non-recurring, infrequent or unusual. For example, items that affected past periods and will affect future periods will rarely be considered as non-recurring, infrequent or unusual (such as restructuring costs or impairment losses).

The FIN-FSA has not observed inconsistencies in the labelling of APMs. The FIN-FSA draws companies' attention, however, to the fact that adjustments can only rarely be labelled as exceptional or unusual. Certain companies have stated that they adjust performance measures with exceptional items affecting comparability, but the definition or reconciliation statement does not, however, reveal what items have been treated as exceptional. According to the ESMA Guidelines, items that affected past periods and will affect future periods will rarely be considered as non-recurring, infrequent or unusual. The ESMA Guidelines mention restructuring expenses as an example.

APM-specific explanation on the use of APMs

ESMA Guidelines, Paragraph 33: Issuers or persons responsible for the prospectus should explain the use of APMs in order to allow users to understand their relevance and reliability.

Explanations on the use of APMs were on a rather general level, and APM-specific explanations were hardly ever presented. Most generally, the use of APMs was justified by the fact that they improved comparability between financial periods and understanding of operational business development. Four companies did not present any explanation on the use of APMs.

In the FIN-FSA's view, explanations on the use of APMs were often of a boilerplate quality, not company-specific. Companies should also tell why the disclosed APM is useful for the investor and the purpose for which it is used: whether the APM is used, for example, in the company's management or remuneration or whether, for example, it is given for analysts.

APMs are covered, in principle, by the requirement to present a reconciliation statement

ESMA Guidelines, Paragraph 26: A reconciliation of the APM to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period should be disclosed, separately identifying and explaining the material reconciling items.

ESMA Guidelines, Paragraph 27: Issuers or persons responsible for the prospectus should also present the most directly reconcilable line item, subtotal or total presented in the financial statements relevant for that specific APM.

ESMA Guidelines, Paragraph 29: Where an APM is directly identifiable from the financial statements no reconciliation is required. This applies for example when an APM is a total or subtotal presented in financial statements.

By reconciliation statement is meant the numerical reconciliation of the APM to a financial statement item. The reconciliation should show the material reconciliation items. It is possible that the reconciliation statement may be replaced by presenting a performance measure calculation formula if the components used in the calculation are identifiable from the financial statements. In connection with the calculation formula, reference may be made, for example, to those notes to the financial statements in which some component, for example net interest-bearing debt, has been calculated and disclosed. If the reconciliation item cannot be taken directly from the financial statements, the reconciliation should show how the performance measure has been calculated.

The ESMA Guidelines also include an exemption from the presentation of a reconciliation statement in a situation where the APM is a total or subtotal presented on the face of the primary financial statements or the APM has been presented in notes that have generally been reconciled to the primary financial statements. A reconciliation statement does not, for example, need to be presented for gross profit or operating profit disclosed in the IFRS income statement if it is evident from the income statement itself how the performance measure has been calculated (see ESMA Q&A, Question 2: “Measures presented simultaneously inside and outside financial statements”).

There were many shortcomings in the presentation of reconciliation statements: reconciliation statements were either deficient in terms of content or they were absent entirely with respect to several performance measures. As a rule, reconciliations were presented for adjusted operating profit, EBITDA and adjusted EBITDA. Three companies presented a reconciliation between EBITDA and comparable EBITDA. This is not sufficient, however, if EBITDA is not disclosed in the IFRS income statement. According to the ESMA Guidelines, the reconciliation of the adjusted earnings figure to the most directly reconcilable item in the financial statements should be disclosed, which, with respect to adjusted earnings, is most often operating profit.

Eleven companies disclosed a reconciliation for net gearing and/or equity ratio, usually in the note to the financial statements concerning capital management, even though nearly all companies disclosed these performance measures. A reconciliation relating to return on equity or capital employed was disclosed by one company, even though 19 companies disclosed either or both of these performance measures. According to the FIN-FSA’s observations, the components of performance measures were not in all cases easily found in the financial statements, and for this reason the FIN-FSA also recommends that companies use in connection with calculation formulas, for example, references to notes or primary financial statement items where the components used in the calculation of performance measures are identifiable. The ESMA Q&A document has expressed a view on the presentation of reconciliations (see ESMA Q&A, Question 16: “Reconciliation”).

APMs should not be displayed with more prominence than measures directly stemming from financial statements

> *ESMA Guidelines, Paragraph 35:* APMs should not be displayed with more prominence, emphasis or authority than measures directly stemming from financial statements.
>
> *ESMA Guidelines, Paragraph 36:* Presentation of APMs should not distract from the presentation of the measures directly stemming from financial statements.

A starting point for the ESMA Guidelines is that APMs should not be displayed with more prominence than measures directly stemming from financial statements. The Guidelines do not define in more detail the concept of prominence, and an assessment should be made on a case-by-case basis. The ESMA Q&A document has listed factors that could help issuers when exercising their judgement, and has provided examples of situations in which APMs have been displayed with more prominence than measures stemming directly from financial statements (see ESMA Q&A, Question 9: “Concept of prominence”).

The review revealed that many companies presented in the management report a profit analysis, in addition to the IFRS income statement’s operating profit and earnings per share, with up to three or four APMs, such as EBITDA, adjusted operating profit, adjusted profit before taxes and adjusted earnings per share. It is recommended that companies assess the extent to which the presentation of several APMs in a profit analysis may distract the reader from measures stemming directly from financial statements. Three companies presented a profit analysis merely for the IFRS income statement’s operating profit and one company merely for adjusted operating profit. Attention must also be paid to the fact that presenting a profit analysis in the management report solely based on adjusted earnings figures might give a misleading picture of the company’s profit development.

The ESMA Guidelines’ prohibition on prominence also applies, for example, to graphs presented in the management report. A few companies presented a graph of adjusted operating profit development without a corresponding graph presenting the development of the IFRS income statement's operating profit.

According to the ESMA Guidelines, however, the prohibition on prominence is not applied when an APM stems directly from financial statements, such as, for example, operating profit presented in the income statement or, in principle, segment information performance measures. The APM can accordingly be presented on its own outside the financial statements, for example in the management report.

Comparatives presented for APMs are appropriate

ESMA Guidelines, Paragraph 37: APMs should be accompanied by comparatives for the corresponding previous periods. In situations where APMs relate to forecasts or estimations, the comparatives should be in relation to the last historical information available.

ESMA Guidelines, Paragraph 38: Issuers or persons responsible for the prospectus should present reconciliations for all comparatives presented.

No shortcomings were observed in the presentation of comparatives for APMs, and presentation was in accordance with the ESMA Guidelines. The companies included in the sample presented comparatives for APMs from previous periods at least in performance measure tables. In accordance with established practice, companies also presented comparatives for APMs presented in the management report.

Insofar as reconciliations were presented for APMs, comparatives were also presented in these.

APMs disclosed in different places

Companies disclosed APMs in the management report, between the management report and the IFRS financial statements, between the consolidated financial statements and the parent company's financial statements, as a note to the consolidated financial statements, and as a separate section after the financial statements. Information in accordance with the ESMA Guidelines, such as reconciliation statements, justifications and definitions, were disclosed in a number of locations within the annual report. For this reason, it might be difficult to obtain a comprehensive picture of the APMs used by a company.

With many companies, the annual report did not reveal whether, for example, a performance measure table and performance measure calculation formulas were included in the IFRS financial statements, the management report or other annual report information. The FIN-FSA reminds companies that the Ministry of Finance decree requires that certain performance measures, their calculation formulas and, if necessary, calculation bases must, however, be presented in the management report or financial statements.

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Events for listed companies 2017

In late November/early December, the FIN-FSA organised three events on listed companies' financial reporting, which attracted around 250 participants. Topics included major IFRS projects relating to sales revenue and financial instruments, an ESMA report on fair value measurement, supervisory findings in IFRS supervision as well as reporting requirements in relation to information other than financial information. The findings of the FIN-FSA's review of the disclosure of APMs in financial reports was also presented at the event. The Audit Supervision Unit of the Patent and Registration Office participated in the event with a presentation on the supervision of listed companies' auditors. In addition, information was given on various European projects aimed at bringing listed companies' financial reporting into the digital age. Regulatory topics also included MAR and EMIR.

The objective of events for listed companies is to gather together various stakeholders for financial reporting. The presentation material of the events is available in Finnish at the FIN-FSA website at: www.finanssivalvonta.fi/fi/Listayhtiolle/IFRS/Julkaisut/Esitykset.

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