European Securities and Markets Authority

Questions and answers

ESMA Guidelines on Alternative Performance Measures (APMs)

Please note that this document is not updated after 31 December 2023. For Q&As issued from 1 January 2024, please search in the ESMA Q&A IT-tool.

1 April 2022**| ESMA32-51-370**

European Securities and Markets Authority

Date: 1 April 2022
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Content

I. Background

1. ESMA issued Guidelines on Alternative Performance Measures (Guidelines on APMs) aimed at promoting the usefulness and transparency of APMs included in prospectuses and/or regulated information. Adherence to the guidelines should improve the comparability, reliability and/or comprehensibility of APMs. Issuers or persons responsible for the prospectus which comply with these guidelines will provide a faithful representation of the financial information disclosed to the market.

2. The Guidelines on APMs were issued based on the Transparency Directive's objective of providing equivalent investor protection at EU level and the underlying principle of providing a true and fair view of an issuer's assets, liabilities, financial position and profit or loss pursued by the provisions. At the same time, ESMA considered that a common approach to APMs was necessary to ensure consistent, efficient and effective supervisory practices and a uniform and consistent application of the Transparency Directive (and by extension the Market Abuse Regulation).

3. In line with its aim of promoting protection of actual and potential investors, Article 5 of the Prospectus Directive sets out the principle that all information included in a prospectus shall be presented in an easily analysable and comprehensible form. Therefore, where persons responsible for the prospectus decide to include APMs in a prospectus, this principle of comprehensibility dictates that such APMs should be defined, provided with meaningful labels and reconciled to financial statements and their relevance and reliability should be explained.

4. ESMA plays an active role in building a common supervisory culture by promoting common supervisory approaches and practices. In this regard, ESMA develops Q&As as when appropriate to elaborate on the provisions of certain EU legislation or ESMA guidelines.

5. This document is expected to be updated and developed as and when appropriate.

II. Purpose

6. The purpose of this document is to promote common supervisory approaches and practices in the application of the ESMA Guidelines on APMs. It does this by providing responses to questions posed by the general public and competent authorities in relation to the practical application of the ESMA guidelines.

7. The content of this document is aimed at competent authorities under TD, MAR and Prospectuses to ensure that in their supervisory activities their actions are converging along the lines of the responses adopted by ESMA. However, these responses are also meant to help and give issuers and persons responsible for the prospectus indications as to correct implementation of ESMA Guidelines principles, rather than creating an extra layer of requirements on them.

III. Status

8. The Q&A mechanism is a practical convergence tool used to promote common supervisory approaches and practices under Article 29(2) of the ESMA Regulation.[1]

9. Therefore, due to the nature of Q&As, formal consultation on the draft answers is considered unnecessary. However, even if they are not formally consulted on, ESMA may check them with representatives of ESMA's Securities and Markets Stakeholder Group, the relevant Standing Committees' Consultative Working Group or, where specific expertise is needed, with other external parties.

10. ESMA will review these questions and answers to identify if, in a certain area, there is a need to convert some of the material into ESMA guidelines and recommendations. In such cases, the procedures foreseen under Article 16 of the ESMA Regulation will be followed.

IV. Questions and answers

11. This document is intended to be continually edited and updated as and when new questions are received. The date each question was last amended is included after each question for ease of reference. Where questions relate to the interaction of the APM Guidelines with the prospectus regime, these are also included in the Questions and Answers Prospectuses.

12. ESMA will welcome feedback from market participants on these or other questions with a view to update, where necessary, the document.

13. Questions on the practical application of any of the ESMA Guidelines on APMs may be sent to the following email address at ESMA: info@esma.europa.eu.

V. Legislative references & Abbreviations

ESMA Regulation	Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC.
Market Abuse Regulation (MAR)	Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation).

[1] Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC Regulation, 15.12.2010, L331/84.

Directive implementing the Transparency Directive	Directive 2007/14/EC, of 8 March 2007, laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading.
Sustainable Finance Disclosure Regulation / (SFDR)	Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.
Taxonomy Regulation	Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.
Transparency Directive (TD)	Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004, as last amended by Directive 2013/50/EU, on the harmonisation of transparency requirements in relation to information about issuers whose securities are traded on a regulated market and amending Directive 2001/34/EC.

Abbreviations

APM	Alternative Performance Measure
EEA	European Economic Area
ESMA	European Securities and Markets Authority
GAAP	Generally Accepted Accounting Principles
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
CAs	Competent Authorities

Question 1 Applicability of ESMA's Guidelines on Alternative Performance Measures (APMs) to prospectuses comprising documents published before and on/after 3 July 2016

Date last updated: December 2016

This Q&A relates to Question 101 of the ESMA Questions and Answers on Prospectuses.[2]

Question: ESMA's Guidelines on Alternative Performance Measures (ESMA/2015/1415) apply to APM's disclosed by issuers or persons responsible for the prospectus when publishing regulated information or prospectuses on or after 3 July 2016, cf. paragraph 5 of the Guidelines. Given that a prospectus can be formed by a combination of a registration document and a securities note, and a summary where applicable, and that prospectuses or base prospectuses can incorporate by reference the information contained in a previously approved registration document, do the Guidelines apply:

- to a registration document containing APMs which was published before 3 July when that registration document is combined with a securities note published on/after 3 July?

- to a registration document (or prospectus) containing APMs which was published before 3 July when the information contained in that registration document is incorporated by reference into a prospectus or base prospectus published on/after 3 July?

- to a supplement containing APMs published on/after 3 July when the prospectus or registration document was published before 3 July?

Answer: As set out in paragraph 5 of the Guidelines (cited above), the applicability of the Guidelines is determined with reference to the publication date of the prospectus.

As such, where a registration document containing APMs was published before 3 July and that registration document is combined with a securities note published on/after 3 July, the Guidelines do not apply to the registration document but only to the securities note and the summary, where applicable. Equally, where the information contained in such a registration document is incorporated by reference into a prospectus or a base prospectus published on/after 3 July, the Guidelines do not apply to the registration document but only to the remainder of the prospectus or base prospectus.

Where a registration document containing APMs was approved but not published before 3 July and that registration document is combined with a securities note published on/after 3 July, or the information contained in that registration document is incorporated by reference into a prospectus or a base prospectus published on/after 3 July, the Guidelines apply to the registration document as well as to the securities note and the summary, where applicable, or to the prospectus/base

[2] https://www.esma.europa.eu/sites/default/files/library/2016-1674_qa_on_prospectus_related_topics.pdf

prospectus. In these instances, the registration document should be updated through the mechanism set out in Article 12(2) of the Prospectus Directive.

Where a prospectus or registration document published before 3 July is supplemented on/after 3 July and the supplement contains APMs, the Guidelines apply to the supplement.

Question 2: Measures presented simultaneously inside and outside financial statements; *Paragraphs 4, 17 and 19 of APMs Guidelines.*

Date last updated: January 2017

Question: Paragraph 4 of the APMs Guidelines excludes from its scope the APMs disclosed in the financial statements (as defined in section II). Do the APMs Guidelines apply to APMs simultaneously presented inside and outside financial statements?

Answer: Yes. The APMs Guidelines apply to all financial measures which fall within the definition set out in paragraphs 17 to 19 of the APM Guidelines and are disclosed outside financial statements but in documents within the scope of regulated information.

The definition of an APM excludes from its scope financial measures defined or specified in the applicable financial reporting framework. Therefore, financial measures (e.g. subtotals or totals) which are not defined or specified in the applicable financial reporting framework fall under the scope of application of the APMs Guidelines irrespective of whether these financial measures are also disclosed in financial statements.

Where APMs directly identifiable from financial statements are also disclosed outside financial statements, the issuer or the persons responsible for the prospectus:

(i) Do not need to provide a reconciliation between the APM used and the most directly reconcilable line item, total or subtotal presented in financial statements (paragraph 29);

(ii) Where applicable, may use the compliance by reference principle (paragraphs 45 to 48 of the APMs Guidelines) and refer to the specific page or section in the financial statements, where this information is readily and easily accessible to users.

Question 3: Financial measures calculated using exclusively figures stemming from financial statements; *Paragraphs 4, 17 to 19 of the APMs Guidelines.*

Date last updated: January 2017

Question: Do the APMs Guidelines apply to financial measures such as financial ratios calculated using exclusively figures directly stemming from financial statements?

Answer: Yes. The APMs Guidelines apply to financial measures including financial ratios calculated using exclusively figures directly stemming from the financial statements (e.g. IFRS figures) unless:

a) these measures are defined or specified by the applicable financial reporting framework (paragraph 17 of the APMs Guidelines).

b) financial measures fall within the exception provided in paragraph 4 (i.e. they are disclosed in accordance with applicable legislation, other than the applicable financial reporting framework),

Unless the figures included in the financial measures fall within the definition of an APM, the APMs Guidelines apply to the measures (e.g. financial ratio) and not the figures. Otherwise, the APMs Guidelines apply to both.

In case such APMs are presented inside and outside financial statements please refer to question 2.

Question 4: Interim financial reports; *Paragraphs 3 and 4 of the APMs Guidelines.*

Date last updated: January 2017

Question: Do the APMs Guidelines apply to interim financial reporting?

Answer: The APMs Guidelines apply to interim financial reporting if it falls under the definition of regulated information set out in the TD. Therefore, the APMs Guidelines apply to: (i) additional periodic financial information, when this information is published in accordance with article 3 (1a) of the TD; (ii) half yearly financial reports, as required by article 5 of the TD; or (iii) any financial information published in accordance with article 17 of MAR (such as ad-hoc disclosures).

Where interim financial reports or the additional periodic financial information are regulated information, the APMs Guidelines only apply to the information accompanying financial statements (e.g. interim management report) as the APMs Guidelines exclude from their scope the financial statements (paragraph 4).

Question 5: Segment information; *Paragraphs 17 to 19 of the APMs Guidelines.*

Date last updated: January 2017

Question: Do the APMs Guidelines apply to measures presented in segment information?

Answer: Unless the measures presented in segment information are defined or specified in the applicable financial reporting framework, the APMs Guidelines apply to these measures if they are presented outside financial statements (e.g. management report).

As paragraph 4 of the APMs Guidelines excludes APMs disclosed in financial statements, they do not apply to APMs included in the segment information within financial statements (paragraph 4 of the APMs Guidelines).

In case such APMs are presented inside and outside financial statements please refer to question 2.

Question 6: Labels used on APMs; *Paragraphs 22 and 25 of the APMs Guidelines.*

Date last updated: January 2017

Question: Do the APMs Guidelines apply to other labels than “non-recurring”, “infrequent” or “unusual” which are specifically referred to in paragraph 25 of the guidelines?

Answer: Yes, the APMs Guidelines apply to all labels of APMs used by issuers or the persons responsible for prospectus.

Although the APMs Guidelines do not prescribe which labels can or cannot be used, the labels used should (i) be meaningful; (ii) not be misleading; and (iii) reflect the content and the basis of calculation of the APMs.

Question 7: Concept of “corresponding previous periods”; *Paragraph 37 of the APMs Guidelines.*

Date last updated: January 2017

Question: How should the concept of "corresponding previous periods" in relation to financial reports, ad-hoc disclosures or prospectuses be applied by issuers or the persons responsible for the prospectus?

Answer: Issuers or the persons responsible for the prospectus should disclose figures for all periods presented i.e. where the financial reports or prospectuses have more than one comparative period, comparatives on the APMs should be provided for all prior periods presented.

When APMs are included in ad-hoc disclosures, the “corresponding previous periods” should usually refer to the comparatives required by the interim/ annual financial statements as required by the applicable financial reporting framework.

Question 8: Interim financial statements; *Paragraph 31 and 32 of the APMs Guidelines.*

Date last updated: July 2017

Questions: Does paragraph 31 of the APMs Guidelines apply to quarterly financial figures included in ad-hoc disclosures published by issuers in accordance with article 17 of MAR when there is no requirement under the Transparency Directive (TD) to publish interim financial statements (e.g. quarterly financial statements)?

How should issuers comply with paragraphs 31 and 32 of the APMs Guidelines?

Answer: Yes. Paragraph 31 of the APMs Guidelines applies to APMs related to quarterly financial figures included in ad-hoc disclosures published in accordance with article 17 of MAR even when the issuer is not required to publish quarterly financial statements in accordance with the TD. Please refer to question 4.

The following example illustrates how issuers may comply with provisions included in paragraph 31 and 32 of the APMs Guidelines:

An issuer publishes in ad-hoc disclosures in accordance with article 17 of MAR an 'adjusted EBITDA' for Q3 and the subtotal published historically in its financial statements is an EBITDA (most directly reconcilable line item included in the financial statement). As the Q3 'adjusted EBITDA' is an APM, the issuer should define and reconcile the Q3 'adjusted EBITDA' to the Q3 EBITDA as if that figure had been included in financial statements.

Question 9: Concept of Prominence; *Paragraph 35 and 36 of the APM Guidelines.*

Date last updated: July 2017

Question: How should an issuer apply the principle of "prominence" as included in the APMs Guidelines?

Answer: As the APMs Guidelines do not define the concept of prominence, issuers should use their judgment when complying with this principle. This judgement should be made on a case- by-case basis depending on the documents where the APMs are included.

The notion of prominence is, in essence, qualitative and not merely quantitative. Therefore, counting the number of APMs and measures directly stemming from financial statements may not suffice. When applying its judgement, the issuer should ensure that the measures stemming from financial statements are not displayed with less prominence, emphasis or authority than APMs.

The following factors, among others, could help issuers when exercising their judgement:

- Attention paid to APMs in comparison with measures directly stemming from financial statements;
- Location of APMs within the document;
- Frequency of use;
- Use of bold letters, font size, italic;
- Length of analysis of APMs.

The following illustrative examples may help understand disclosure of APMs being more prominent than disclosure of measures stemming directly from financial statements:

- Presenting an analysis of the income statement only with APMs;
- Omitting comparable measures stemming directly from financial statements in an earnings result release headline or in their key messages;
- Presenting an APM using a style of presentation (e.g. bold, font size) that overly emphasises the APM used over the comparable measure stemming directly from financial statements;
- Presenting an APM significantly before the most directly comparable measure directly stemming from financial statements (e.g. including the APM in the 1st page of a document and the comparable measure/figure directly stemming from financial statements in the last page);
- Describing an APM as, for example, "record performance" or "exceptional" without at least an equally prominent descriptive characterisation of the comparable measure directly stemming from financial statements;
- Providing tabular disclosure of APMs without (i) preceding/accompanying it with an equally prominent tabular disclosure of the comparable measures stemming from financial statements or (ii) including the comparable measures stemming from financial statements in the same table;
- Providing a discussion and/or analysis of an APM without any reference to the comparable measure/figure stemming directly from financial statements.

Question 10: Compliance by reference; *Paragraph 45 and 46 of the APMs Guidelines (not applicable to prospectuses which are covered by a separate regime).*

Date last updated: July 2017

Question: What are the limits for the compliance by reference principle included in paragraph 45 of the APMs Guidelines?

Answer: Paragraphs 45 and 46 provide a practical relief to issuers who may comply with the principles included in the APMs Guidelines if they include a direct reference to other documents previously published which contain the disclosures required by the APMs Guidelines.

Issuers may use the compliance by reference in order to avoid repetition of information in regulated information documents (e.g. ad-hoc disclosures presented in accordance with article 17 of MAR). However, the reference principle cannot be used when complying with the following requirements:

- Comparatives (paragraph 46 of the APMs Guidelines)
- Meaningful labels to the APMs used (paragraph 22 of the APMs Guidelines)
- Prominence and presentation of APMs (paragraph 35 and 36 of the APMs Guidelines)
- Consistency (paragraph 41 of the APMs Guidelines – however, the explanations required therein may be complied with by reference);

Question 11: Definition of an APM; *Paragraph 17 to 19 of the APMs Guidelines.*

Date last updated: July 2017

Question: Is ‘result of operating activities’ an APM for the purpose of the APMs Guidelines?

Answer: Unless the applicable financial reporting framework defines or specifies “result of operating activities”, this measure is an APM for the purpose of the APMs Guidelines.

Despite the fact that there is a reference in paragraph 55 of the Basis for Conclusion of IAS 1 Presentation of Financial Statements to ‘results of operating activities’, operating results or results from operating activities are not defined or specified in IFRS.

Therefore, under the IFRS framework, measures labelled as ‘operating results’, ‘results of operating activities’ or other similar labels are within the scope of the APMs Guidelines when presented outside financial statements.

In case such APMs are presented inside and outside financial statements please refer to question 2.

Question 12: Definition of APMs; *Paragraph 17 of the APM Guidelines.*

Date last updated: October 2017

Question: Do financial measures originally defined or specified in the applicable financial reporting framework and adjusted with the aim of isolating the effect of foreign currency on these measures qualify as APMs?

Answer: Yes. Any adjustments to a financial measure defined or specified in the applicable financial reporting framework transform that measure in an APM in accordance with paragraph 17 of the APM Guidelines.

Question 13: Scope of the APM Guidelines; *Paragraphs 17 to 19 of the APM Guidelines.*

Date last updated: October 2017

Question: Does a segment measure of profitability – which is determined on different accounting basis than the basis defined or specified in the applicable reporting framework – fall within the definition of an APM in the APM Guidelines?

Answer: Yes. Measures disclosed in accordance with the applicable reporting framework (e.g. most of measures disclosed under IFRS 8 *Operating Segments*) but calculated on a different basis than the one defined or specified in the applicable financial reporting framework also fall within the definition of an APM in accordance with the APM Guidelines. The application of the APM Guidelines depends on where these measures are presented (e.g. inside or outside financial statements; regulated information documents or voluntary information).
Please refer to questions 2 and 3 if such APMs are presented inside and outside financial statements.

Question 14: Application of the scope exemption; Paragraph 19 of the APM Guidelines.

Date last updated: October 2017

Question: In which circumstances is the scope exemption in paragraph 19 (4th bullet) of the APM Guidelines applicable (i.e. issuers are not required to apply the APM Guidelines when APMs are used to explain the compliance with the terms of an agreement or legislative requirement such as lending covenants or the basis of calculating the director or executive remuneration)?

Answer: The exception in paragraph 19 of the APM Guidelines (4th bullet) is only applicable when an issuer uses APMs solely to explain compliance with terms of an agreement or legislative requirement. If issuers use simultaneously an APM to explain the compliance of terms of agreement or legislative requirement and to provide information on/describe its performance in a given period, this APM is within the scope of the APM Guidelines.

Question 15: Definition and basis of calculation; *Paragraph 20 of the APM Guidelines.*

Date last updated: October 2017

Question: How should an issuer define the APM measure "Organic growth"?

Answer: Paragraph 20 of the APM Guidelines requires issuers to provide users with definitions of the APMs used and their components as well as the basis of calculation adopted, including details of any material hypotheses or assumptions used.

When providing a definition and disclosure on the basis of calculation of an APM indicating the "Organic Growth" of an issuer's total revenues, the issuer shall present not only the total change in revenues that can be derived from the financial statements, but also the disaggregation of the other components that together with the change in revenue attributable to "Organic Growth", add up to the total revenue change.

The following example illustrates this case:

- Revenue % change: 20%
- Currency impact[3]: 10%
- Perimeter impact: 5%
- Organic growth: 5%

To the extent that any components presented are not defined or specified in the applicable financial reporting framework, the issuer shall also explain their nature and provide the definition of each item.

Although the definition is entity-specific, in this example the explanation could be provided by presenting the following information:

- The Currency impact is calculated by translating the accounts for year N of subsidiaries having a functional currency different than the currency of the issuer with N-1 exchange rate;
- Perimeter impact: the impact of changes in the scope of consolidation is determined:
  - for the year N acquisitions, by deducting from total revenue, the amount of revenue generated during year N by the acquired entities;
  - for N-1 acquisitions, by deducting from total revenue, the amount of revenue generated over the months during which the acquired entities were not consolidated in N-1;

[3] In this example, the currency impact only relates to situations where the functional currency of the issuer differs from the functional currency of its subsidiaries. Please note that there may be variations to the definition of organic growth depending on each specific components (e.g. when the functional currency is Euro and sales in USD)

- for N disposals, by adding to total revenue the amount of revenue generated by the divested entities in year N-1 over the months during which those entities were no longer consolidated in N;
- for the N-1 disposals, by adding to revenue for the fiscal year the amount of revenue generated in the prior fiscal year by the divested entities.

Question 16: Reconciliation; *Paragraph 26 and 28 of the APM Guidelines.*

Date last updated: October 2017

Question: Do the APM Guidelines require a numeric reconciliation of the APM to "the most reconcilable line item, total or subtotal" presented in the financial statements or is it sufficient to include a qualitative explanation of the items which adjust the financial statement's figures?

Answer: Paragraph 28 of the APM Guidelines foresees that "the reconciliation should show how the figure is calculated". Therefore, issuers should provide a reconciliation in the form of a numeric reconciliation between "the most directly reconcilable line item, total or subtotal" presented in financial statements and the APM used. As it is required in paragraph 26 of the APM Guidelines, the reconciliation should separately identify and explain the material reconciling items.

Question 17: Application of the Fair review principle to APMs; *Paragraphs 6, 8 and 22 of the APM Guidelines.*

Date last updated: October 2017

Question: May APMs representing a biased measure of performance (i.e. a measure that includes one-off gains but disregards one-off related losses) violate the APM Guidelines even if they are correctly labelled?

Answer: In accordance with paragraph 8, the APM Guidelines are based on the principle stated in Articles 4 and 5 of the Transparency Directive of providing a fair review of the development and performance of the business and the position of the issuer. In addition, the overall objective of the APM Guidelines, as prescribed in paragraph 6 of the Guidelines, is to contribute to transparent and useful information to the market and improve comparability, reliability and/or comprehensibility of APMs used.

Depending on facts and circumstances, presenting biased APMs which are adjusted to exclude only one-off losses but including, where applicable, one-off gains of the same nature and occurring during the same period may violate the principles set out in articles 4 and 5 of the Transparency Directive and be contrary to the overall objective of the APM Guidelines. Depending on facts and circumstances, this may be true irrespective of whether these APMs are correctly labelled as the fair labelling may not compensate for the fact that the APMs provided an unfair review of the development and performance of the business and the position of the issuer. Therefore, depending on facts and circumstances, a biased measure of performance may not be compliant with the APM Guidelines.

Question 18: Application of the APM Guidelines in the context of COVID-19; *Paragraphs 8, 17-19, 33, 34, 41 and 43 of the APM Guidelines.*

Date last updated: April 2020

Question: How should an issuer present the impact of COVID-19 for the purpose of the APM Guidelines?

Answer: ESMA acknowledges that, due to the impacts of the COVID-19 pandemic on their operations, issuers may decide to disclose new, or to adjust, alternative performance measures in ad-hoc disclosures published in accordance with Article 17 of MAR, in management reports or additional periodic financial information published in accordance with articles 3(1a), 4 and 5 of the Transparency Directive or in prospectuses published in accordance with Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017.

ESMA reminds issuers that, according to paragraph 41 of the APM Guidelines, the definition and calculation of an APM should be consistent over time. Therefore, ESMA recommends that issuers use caution when making adjustments to APMs used and/or when including new APMs solely with the objective of depicting the impacts that COVID-19 may have on their performance and cash-flows. ESMA notes that, when disclosing APMs, issuers should ensure that these measures provide a fair review of the development and performance of the business and of the position of the issuer as prescribed in Articles 4 and 5 of the Transparency Directive and do not provide an incorrect depiction of the performance of the issuer which would give a misleading signal on the price of the corresponding financial instruments, as provided for in Article 12 of MAR.

In addition, ESMA reminds issuers that, before making adjustments to previously used APMs or including new APMs, issuers should carefully assess whether the intended adjustments or new APMs would provide transparent and useful information to the market, improve comparability, reliability and/or comprehensibility of APMs and of the financial information disclosed to the market.

In this respect, ESMA observes that it may not be appropriate to include new APMs or to adjust previously used APMs when the impacts of COVID-19 have a pervasive effect on the overall financial performance, position, and/or cash flows of an issuer as these new or adjusted APMs may not provide reliable and more useful information to the market and may mislead users' understanding of the true and fair view of issuer’s assets, liabilities, financial position and profit or loss.[4]

Therefore, rather than adjusting existing APMs or including new APMs, ESMA urges issuers to improve their disclosures and include narrative information in their communication documents[5] in order to explain how COVID-19 impacted and/or is expected to impact their operations and performance, the level of uncertainty and the measures adopted or expected to be adopted to address the COVID-19 outbreak. These explanations may include, where applicable, details on how the specific circumstances related to COVID-19 affected the assumptions and estimates used in the determination of inputs to APMs, for example impairment losses, expected lease payment reductions or grants received.

[4] Paragraph 8 of the APM Guidelines.

[5] Ad-hoc disclosures published in accordance with Article 17 of MAR, additional periodic information and management reports published in accordance with Article 3 (1a), 4 and 5 of TD and prospectuses published in accordance with Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017.

ESMA reminds issuers that the APM Guidelines apply to all financial measures not defined or specified in the applicable financial reporting framework including liquidity and cash-flow measures (paragraph 17 to 19 of the APM Guidelines). In this respect, ESMA reminds issuers that the APM Guidelines as well as this Q&A also apply to APMs presented simultaneously inside and outside financial statements.[6] APMs should not be displayed with more prominence than measures directly stemming from financial statements.[7]

Finally, ESMA also reminds issuers of the requirements in paragraphs 33, 34, 41 and 43 of the ESMA Guidelines on APMs regarding explanations of why they believe that an APM provides useful, reliable and relevant information regarding the financial position, cash flows or financial performance, as well as the purposes for which they decided to use a specific APM and/or to modify a previously used APM.

Question 19: Application of the APM Guidelines to measures related to ESG matters; *Paragraphs 3, 4, 17, 21, 22, 26, 33, 35, 37 and 41 of the APM Guidelines.*

Date last updated: April 2022

Question: Do the APM Guidelines apply to financial measures related to ESG matters (e.g., green turnover, sustainable CAPEX)?

Answer: According to paragraph 3 of the APM Guidelines, the Guidelines apply in relation to APMs disclosed by issuers or persons responsible for the prospectus when publishing regulated information and prospectuses (and supplements to prospectuses). Examples of regulated information are management reports disclosed to the market in accordance with the Transparency Directive and disclosures issued under the requirements of Article 17 of the Market Abuse Regulation, for example ad-hoc disclosures including financial earnings results.

Furthermore, paragraph 4 clarifies that the APM Guidelines do not apply to APMs disclosed in accordance with applicable legislation, other than the applicable financial reporting framework, that sets out specific requirements governing the determination of such measures.

Paragraph 17 of the APM Guidelines defines an APM 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.

Based on the above principles included in the APM Guidelines, when financial measures using ESG labels (such as green turnover, sustainable CAPEX) are included in regulated information and prospectuses, those measures are covered by the APM Guidelines. The exception is if such measures are determined in accordance with, for example, the Taxonomy Regulation or the SFDR. In this respect, ESMA highlights that, where applicable, issuers should apply the APM Guidelines to measures included in the EC Guidelines on non-financial reporting: Supplement on reporting climate-related information.[8]

[6] Please refer to Question 2 of the Questions and answers ESMA Guidelines on Alternative Performance Measures.
[7] Paragraphs 35 and 36 of the APM Guidelines.
[8] Communication from the Commission — Guidelines on non-financial reporting: Supplement on reporting climate-related information (europa.eu)

Therefore, where issuers include financial measures using ESG labels in regulated information or in prospectuses, and those measures are not determined in accordance with applicable legislation, issuers should comply with the principles included in the APM guidelines with regards to:

- definitions (paragraph 20 and 21),
- labels (paragraphs 22 to 25),[9]
- reconciliations (paragraph 26 to 32),
- explanations (paragraphs 33 and 34),
- prominence (paragraphs 35 and 36),
- comparatives (paragraphs 37 to 40) and
- consistency (paragraphs 41 to 44).

Given the connection between the APMs related to ESG measures and disclosures required by the Taxonomy Regulation and the SFDR, in addition to the reconciliations required under paragraphs 26 to 32 of the APM Guidelines, where relevant, ESMA encourages issuers to provide reconciliations between APMs related to ESG measures and KPIs or measures required by the Taxonomy Regulation and the SFDR.

Question 20: Labels used by issuers on ESG financial measures*; Paragraphs 3, 4, 8, 17, 22, 33 of the APM Guidelines.*

Date last updated: April 2022

Question: How do the APM Guidelines principles regarding labels apply to ESG financial measures (e.g., green turnover, sustainable CAPEX)?

ESMA reminds issuers that financial measures using ESG labels may fall under the scope of the APM Guidelines. Therefore, in order to assess whether this is case, issuers should consult the guidance included in Q&A #19 of the APM Guidelines.

As regards the labels of such measures, ESMA calls on issuers to use caution when they present APMs using ESG labels as these may be misperceived by users as compliant with the Taxonomy Regulation or SFDR. In order to ensure that APMs using ESG labels (i) *provide* a fair review of the development and performance of the business and of the position of the issuer as prescribed in Articles 4 and 5 of the Transparency Directive, (ii) *do not provide* a misleading depiction of the performance of the issuer in accordance with Article 12 of the Markets Abuse Regulation and (iii) *comply* with paragraph 22 of the APM Guidelines issuers should be clear about whether a specific ESG financial measure is determined in accordance with the Taxonomy Regulation or SFDR. To this end, ESMA recommends that issuers use one or both of the following methods:

a. To display in the label whether the measure is determined in accordance with the Taxonomy Regulation, SFDR (e.g., Non-Taxonomy Turnover or Non-SFDR indicators for principal adverse impacts)

   and / or

[9] Please refer to Q&A #20

b. To include information together with the APM used (e.g., footnote) as to whether the APM is calculated in accordance with the Taxonomy Regulation or with the indicators for principal adverse impact in SFDR.

Issuers are reminded to include details on the use of each specific APM using an ESG label in the explanations disclosed to allow users to understand its usefulness, relevance and reliability.

Finally, issuers are also invited to consider the Platform for Sustainable Finance considerations on voluntary information as part of Taxonomy eligibility reporting.[10]

[10] https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-taxonomy-eligibility-reporting-voluntary-information_en.pdf.