

## COVID-19 AND ALTERNATIVE PERFORMANCE MEASURES

**In light of COVID-19, companies may consider introducing new alternative performance measures (APMs) or adjusting existing APMs to explain the effects of the pandemic on the financial position and performance of the company. However, companies are encouraged to instead improve COVID-19-related disclosures and include narrative information.**

Alternative performance measures (APMs) are financial measures, such as EBITDA (earnings before interest, taxes, depreciation and amortisation) and free cash flow, that are not defined in the accounting standards or law. APMs have established themselves as an instrument for communicating with investors and other stakeholders, as they can provide useful information for understanding a company's operations and financial performance. Due to the impact of the pandemic on financial position and performance, companies may consider introducing new APMs or adjusting existing APMs. However, they are encouraged to instead improve COVID-19-related disclosures and include narrative information.

The recent discussions about adjusting EBITDA to EBITDAC, i. e. earnings before interest, taxes, depreciation, amortisation and coronavirus, highlight some of the challenges in modifying existing APMs. EBITDAC is a proposed metric where a company attempts to extract losses from the company's performance that were incurred in connection with the pandemic and the forced lockdown. However, determining separately identifiable and quantifiable adjustments for the full impact of the pandemic and lockdown is difficult, as COVID-19 is likely to have impacted businesses in numerous ways. Not all of these effects are known and readily quantifiable. Instead of providing investors and stakeholders with reliable and more useful information, the new/adjusted APMs may mislead users' understanding of the true and fair view of the company's financial position and performance.

It is against this background that the European Securities and Markets Authority (ESMA) published guidelines in the form of a Q&A in April 2020 [1]. These guidelines explain the considerations that a company should make before publish-

ing new or modified APMs to present the impact of COVID-19. The ESMA guidelines also reinforce the transparency and consistency objectives of SIX Swiss Exchange Regulation's Directive on the Use of Alternative Performance Measures (DAPM), which entered into force on 1 January 2019 [2].

ESMA advises that caution be used when making adjustments to existing APMs and/or when including new APMs to depict the impacts of COVID-19. This is because both the ESMA guidelines and the DAPM of SIX require that the definition and calculation of an APM should be consistent over time (DAPM, Art. 8).

Furthermore, the International Organization of Securities Commission's (IOSCO) Statement on Importance of Disclosure about COVID-19 advises issuers to carefully evaluate the appropriateness of introducing a new APM or adjusting an existing APM [3] since not all COVID-19 effects are non-recurring. There may also be a limited basis for concluding that a loss or expense is non-recurring, infrequent or unusual. Consequently, it would not be appropriate to introduce new APMs that characterise hypothetical sales and/or profit measures, e.g. «had it not been for the effect of COVID-19 the company's sales and/or profits would have increased by XX%».

Given the guidance issued by SIX, ESMA and IOSCO, it seems more appropriate for companies to improve or expand their disclosures rather than adjusting existing APMs or adding new APMs. For example, companies should improve their disclosures to explain:

- how COVID-19 has affected and/or is expected to affect their operations and financial performance;
- the level of uncertainty and the measures adopted or expected to be adopted to address the COVID-19 outbreak; and,
- where applicable, details on how the specific circumstances relating to COVID-19 have affected the assumptions and estimates used in the determination of inputs to APMs, e.g. impairment losses or expected lease payment reductions. ■

**Notes:** 1) <https://www.esma.europa.eu/document/esma-guidelines-alternative-performance-measures>. 2) <https://www.ser-ag.com/dam/downloads/regulation/listing/directives/DAPM-en.pdf>. 3) <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD655.pdf> [All accessed 9 July 2020].



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