Proposed changes to be made to the Listings Requirements

Practice Note 4 /2019 - Performance measures

1. Introduction

(a) Applicant issuers often include different performance measures ("**PMs**") in their communication with investors. PMs can be useful in providing additional insight into and/or entity specific information. For the purposes of this practice note, PMs are the financial measures as described in paragraph 3 below relating to the historical or future financial performance, financial position and/or cash flows of the applicant issuer.

(b) The JSE has historically regulated certain PMs through the application of the pro forma rules set out in paragraphs 8.15 to 8.34 of the Requirements. This practice note brings about a revised approach.

(c) The following are excluded from the scope of this practice note:

(i) physical or non-financial measures (for example the number of employees or number of subscribers);

(ii) social and environmental measures (for example greenhouse gas emissions);

(iii) financial measures required by law or a regulatory body (such as the South African Reserve Bank or the JSE , for example headline earnings per share); and

(iv) information provided to users other than investors or prospective investors (for example rating agencies).

2. General principles

PMs must be presented in a manner that:

(a) is transparent;
(b) is not misleading;
(c) is understandable;
(d) is reliable;
(e) is consistently presented between reporting periods; and
(f) does not obfuscate or detract from the regulatory information.

3. Performance measures

The four categories of PMs that have been identified are set out below. The extent of applicability of this practice note to these PMs is detailed in paragraph 5. Examples of measures that may fall within a specific category have been provided for illustrative purposes and do not comprise an exhaustive list.

Alternative performance measures

(a) Alternative performance measures ("**APMs**") or non-IFRS measures created through, inter alia, the following mechanisms:

(i) adjusting underlying IFRS information by removing or including specific amounts in the IFRS results or extracting and combining certain selective information. Examples include; normalised earnings, adjusted profits, underlying or core earnings, net debt and free cash flow;

(ii) removing the effects of a specific IFRS and applying a different accounting policy which is not permissible under IFRS. Examples include; replacing joint venture accounting with proportional consolidation of investments and presenting a revised statement of financial position; presenting the impact of a new IFRS for a period where such application is not permitted; and the presentation of constant currency measures;

(iii) removing or including the effects of a specific event. Examples include; removing the cash received from an insurance claim for revenue and smoothing that receipt over a future period; presenting results for a shorter or longer period than the previously reported results i.e. where retailers show a comparable 52 or 53 week period;

(iv) presenting an alternative to an IFRS figure. Examples include; gross merchandise value (reflecting both the IFRS revenue plus the gross selling value of goods sold on an agency basis); like for like revenue (created on cashflows or adjusted IFRS figures); total assets under management; figures based on intrinsic net asset value (which includes the values of investments based on market or directors valuations); and

(v) adjusting the IFRS profit to arrive at a distributable earnings or profit figure.

Non-defined IFRS measures

(b) A non-defined IFRS measure is additional financial information which, whilst measured and recognised in terms of IFRS, is not defined in IFRS. These are either included:

(i) within the IFRS financial statements. Examples include; adjusted earnings per share (per IAS 33:73); a subtotal in the income statement for operating profit or EBITDA (per IAS 1:55); information provided in terms of IAS 1:17 (c); and

(ii) outside of the IFRS financial statements. Examples include; providing the composition of revenue for different parts of the business (for example like for like store revenue); organic growth (of profit or revenue).

Pro forma financial information

(c) Pro forma financial information ("**pro formas**"), which shows the impact of a corporate action at a date different to that required in terms of IFRS. The term corporate action refers to matters dealt with in terms of sections 4,5, 9, 10 and 21 of the Requirements.

Ratios

(d) A ratio calculated using:

(i) any of the PMs referred to above, for example an internal rate of return;

(ii) IFRS measures, in these instances the IFRS figure is extracted directly and on an unadjusted basis from an IFRS defined measure; and

(iii) a combination of the items referred to in paragraph 3(d)(i) and (ii) above and a physical measures for example revenue per square metre.

4. Application of this practice note

This practice note is applicable to all PMs that are provided by the applicant issuer through any of the mediums of communication described in paragraphs 3.95 (a) to (c) of the Requirements.

5. Applicability of the practice note to different PMs

The applicability of the practice note differs for each of the categories of PMs set out in paragraph 3 above and is as follows:

APMs (per paragraph 3(a) above)

(a) This practice note applies in their entirety to PMs described in paragraph 3(a).

Non-defined IFRS measures (per paragraph 3(b) above)

(b) As it relates to PMs described in paragraph 3(b), this practice note applies in its entirety other than for paragraph 6.2 below which does not apply to the items described in:
   (i) paragraphs 3(b)(i) above if a detailed reconciliation is already provided within the IFRS financial statements; and
   (ii) paragraphs 3(b)(ii) above if all of the granular detail of an item is provided on an unadjusted IFRS basis, in a concise manner such that (even absent a subtotal) the reader can easily sum the elements and agree that item to the total figure presented in the IFRS results.

Pro formas (per paragraph 3(c) above)

(c) As it relates to the PMs described in paragraph 3(c):
   (i) paragraphs 8.15 to 8.34 and 8.45(c) of the Requirements are applicable to all pro formas regardless of whether they are provided on a voluntary or mandatory basis; and
   (ii) no additional compliance with this practice note is required.

Ratios (per paragraph 3(d) above)

(d) As it relates to the ratio described in paragraph 3(d):
   (i) this practice note (other than paragraphs 6.2 which is not applicable) applies in its entirety to the ratio;
   (ii) the base information used in the ratio calculations must always be easy to identify, failing which it must be separately disclosed; and
   (iii) paragraph 6 of this practice note applies to the base information used in the ratios in line with the nature of the specific PMs. For example; if the ratio is based on an APM, paragraph 5(a) above is applicable to that APM; if the ratio uses physical measures, this practice note is not applicable to those physical measures.

6. Disclosure principles

Applicant issuers that elect to publish PMs must ensure that they comply with the general principles referred to in paragraph 2. This is achieved by applying the principles below.

6.1. Definitions

(a) Definitions for PMs must be disclosed and must:
   (i) explain the basis of the calculation and details of the components/adjustments;
   (ii) identify factual information versus information that is hypothetical or based on assumptions;
   (iii) be presented in a clear and understandable manner; and
   (iv) explain the objective or purpose of providing that measure including the information required by paragraph 6.6(c) below and how each of the adjustments achieves that purpose.

(b) Any resultant labels or abbreviations assigned to PMs must be meaningful and must not be misleading. They must not:
   (i) be overly optimistic, for example be called a 'guaranteed profit';
   (ii) be incomplete or inaccurate, for example referring to an item as being EBITDA when the measure is earnings before interest, depreciation, amortisation and also excludes share based payments; and
   (iii) be called non-recurring, unusual or infrequent without a detailed explanation for the use of that term. That explanation must also detail how this item is different to a 'non-recurring, unusual or infrequent item' that was similar in nature (an example being restructuring costs) which occurred in the past or where it is known that it will affect future periods (an example being an ongoing charge for a BEE transaction).

6.2 Detailed calculation

(a) A detailed calculation must be presented for each of the PMs to explain how the definition was applied to create the PMs in that specific period. Detailed calculations need not be repeated if they have been previously provided (for example as it relates to comparative information) and instead a cross reference can be included.

(b) Other than for the scenarios referred to in 6.2 (c) to (e) below, the detailed calculations must:
   (i) take the form of a reconciliation to the most directly comparable line item, subtotal or total presented in the IFRS financial statements or the notes thereto;
   (ii) separately identify and explain each of the reconciling items; and
   (iii) be in tabular format, with adjustment columns, where the PMs are an adjustment of an entire primary financial statement such as the statement of financial position or statement of comprehensive income.

(c) For constant currency information the detailed calculation must:
   (i) identify the equivalent IFRS figure;
   (ii) provide a clear explanation of what the base information is i.e. whether it is the current or comparative period that has been adjusted;
   (iii) explain how the base information has been adjusted for the exchange rates;
   (iv) provide the exact quantum of the exchange rate/s and details of how it/ they were calculated; and
   (v) in the instance of more than one foreign currency, provide details of each of the currencies.

(d) For (intrinsic) net asset value information, the detailed calculation must include:
   (i) the date at which the valuations were performed;

(ii) the actual valuation figures. These must be presented with as much granular detail as possible, but at the minimum must correspond to the segmental information presented in terms of IFRS 8;

(iii) a clear explanation of the valuation methodology applied;

(iv) a clear explanation as to whether or not adjustments have been made to the valuation for taxation (for example capital gains tax); and

(v) a description of the inputs and quantitative information for all significant inputs used for the valuations. This can be presented on an aggregated basis to correspond with the same level of details per paragraph 6.2(d)(ii) above.

(e) Given the nature of certain PMs, it may be not be possible to reconcile them to an IFRS equivalent figure. In such instances the applicant issuer need not provide a reconciliation and instead must:

(i) still apply paragraph 6.2(a) above;

(ii) separately identify the components of the PMs, specifically identifying any IFRS figures; and

(iii) explain why there is no IFRS equivalent figure to reconcile to.

6.3 Consistency

(a) The definition, calculation and presentation of PMs must be consistently applied by an applicant issuer over time. Changes to the definition, calculation and/or presentation of PMs may need to occur where; IFRS or the application thereof has changed, errors occurred in the past in either the PMs or the IFRS measure from which it is derived or where the decision is made to amend the PMs. In such an event, the applicant issuer must:

(i) explain the nature of the change;

(ii) explain the reasons for the change;

(iii) where the change is as a result of a decision made by management (as opposed to a mandatory IFRS change) explain why the change results in more relevant and reliable information; and

(iv) provide restated comparative figures unless the PMs are based on IFRS measures which do not require restatement.

(b) When restating comparatives due to the change in a definition, the applicant issuer may only use information which was available at the end of the financial period for which the original PMs were presented i.e. hindsight should not be used when presenting restated comparatives.

(c) If there is an error in either the PMs or the IFRS measure from which it is derived, the PMs must be restated, regardless of whether or not the applicant issuer will continue to report on those specific PMs in the future. This fact must be clearly stated and the nature of the error must be described and quantified. The obligation to restate applies to the PMs that were issued for the immediately preceding comparative reporting period.

(d) Subject to paragraph 6.3(e) below, PMs must always be presented again when that same medium of communication is used (as referred to in paragraph 3.95 of the Requirements), but they do not have to appear in all mediums of communication i.e. if the PMs are presented in the annual financial statements for last year they must appear in the current year's annual financial statements, but do not have to appear in an investor presentation.

(e) If an applicant issuer stops disclosing the PMs (either in their entirety or in a specific medium of communication), they must explain the reason for this decision in the relevant medium of communication, including an explanation as to why the PMs are no longer relevant. The disclosure required by this paragraph (e) can be included through a cross reference to where that information is available on the applicant issuers' website.

(f) Applicant issuers may not make adjustments for either only negative or only positive events that are similar in nature. For example, if adjustments are made for impairments, reversals of impairments (in the same or subsequent periods) must also be adjusted for, or if adjustments are made for 'non-recurring expenses' adjustments should also be made for 'non-recurring gains'.

6.4 Comparability

(a) Whenever PMs are presented, the same measure must be disclosed for the previous corresponding period. Where PMs relate to a one-year forecast, the comparative will be the last corresponding financial period. If financial information is presented for more than one comparative period (for example where a 5-year review is presented) the comparative PMs must be presented for all of those periods unless the PMs:
  (i) are based on IFRS measures which do not require restatement in terms of IFRS; or
  (ii) are not relevant or applicable for those previous periods (for example they relate to a new line of business) in which case an explanation to this effect must be provided.

(b) If it is impracticable to provide comparative information, an explanation for this conclusion must be provided.

6.5 Prominence

(a) PMs must not:
  (i) be displayed with more prominence or emphasis than IFRS financial information; or
  (ii) detract from the presentation of the measures directly stemming from the IFRS financial statements.

(b) The notion of prominence is both qualitative and quantitative. The following factors must be considered to ensure that there is no undue prominence:
  (i) number of PMs presented;
  (ii) reason/objective for creating the PMs;
  (iii) number of adjustments made;
  (iv) location of PMs within the document, the IFRS information must be presented first;
  (v) exclusion of comparable IFRS measures in the highlights/headline/key message or analysis section;
  (vi) frequency of use;
  (vii) style of presentation, for example the use of bold letters, font size, italic;
  (viii) format of presentation, for example providing tabular disclosure of PMs without including the comparable IFRS measures in the same table;
  (ix) length of analysis of PMs compared to the IFRS measures; and
  (x) type of analysis, for example describing performance as being 'record' or 'exceptional' based on PMs without at least an equally prominent descriptive characterisation of the comparable IFRS measure.

(c) This paragraph 6.5 is not applicable when PMs are presented in the manner described in paragraph 3.95 (c) of the Requirements.

6.6 Presentation

(a) PMs must always be clearly identified as such. This could be achieved through the use of the letters 'PM' inserted as a superscript:
   (i) for each of the PMs, for example EBITDA^{PM}. This approach could be used when PMs are included in commentary; or
   (ii) in the heading, where it is not practical to superscript each PM. This approach could be appropriate where a detailed analysis is provided of the components comprising the segmental information or in the detailed calculation required in paragraph 6.2 above. In this instance a note could also be included explaining that the figures set in the note are PMs.

(b) PMs must always be accompanied by a statement warning users that the measures:
   (i) are not defined by IFRS;
   (ii) are not uniformly defined or used by all entities; and
   (iii) may not be comparable with similar labelled measures and disclosures provided by other entities.

(c) The reason or purpose for the inclusion of the PMs must always be provided which must:
   (i) enable the user to understand their relevance and reliability; and
   (ii) explain what purpose, if any, management uses it for, or if management does not use it, a statement to that effect.

6.7 Availability of the PMs disclosures

(a) The disclosures required in paragraph 6.6(a) and (b) above must always accompany the PM.

(b) For all other disclosures required in this section 6 and 7.1 of this practice note they:
   (i) can either accompany the PMs; or
   (ii) can be provided by cross reference to where that information is available elsewhere; or
   (iii) applicant issuers can apply a combination of (i) and (ii).

(c) If an applicant issuer provides all/certain of the disclosures by cross reference they must:
   (i) still clearly identify each of the PMs in terms of paragraph 6.6(a) of this practice note;
   (ii) alert the reader to the fact that not all of the required PMs disclosures accompany the PMs;
   (iii) publish a PMs disclosure document on their website;
   (iv) provide the exact details of the location of the PMs disclosure document on their website; and
   (v) submit a copy of the PMs disclosure document to the JSE at the time and in the same manner that they submit their financial results to the JSE.

7. Ensuring compliance with this practice note

7.1. Responsibility

(a) The directors are responsible for compliance with this practice note;

(b) In order to fulfil their responsibilities, the directors must ensure that effective financial reporting procedures are in place to identify all PMs and ensure compliance with this practice note;

(c) The directors must make a confirmatory statement, which must either accompany the PMs or be provided through a cross reference in terms of paragraph 6.7(b) above:
   (i) as it relates to paragraphs 7.1(a) and (b) above; and
   (ii) must also confirm that that there has been full compliance with this practice note 4/2019 as it relates to the PMs being presented.

(d) The financial director and chair of the audit committee must submit a signed declaration to the JSE confirming that:
   (i) financial reporting procedures are in place to identify all PMs; and that either
   (ii) those financial reporting procedures were effective and that there has been full compliance with this practice note 4/2019 since the date of the last declaration up to the date of signature of the declaration; or
   (iii) that they identified instances where the financial reporting procedures were not effective throughout the period and/or there was not full compliance, providing details of those instances and an explanation as to how the situation was rectified.

(e) The declaration referred to in paragraph 7.1(d) above must:
   (i) accompany the annual financial statements when they are submitted in terms of paragraph 3.19 of the Requirements; and
   (ii) form part of the Part II documents which are required for a new listing.

7.2. Reporting accountant specialist ("**RAS**")

(a) Applicant issuers must seek and apply the advice of a reporting accountant specialist ("**RAS**") (who has been accredited as such in terms of paragraph 22.8 of the Requirements) on the application of this practice note on the content of a circular or prelisting statement provided to the JSE for informal comment in terms of paragraph 16.3(a) of the Requirements if that document contains any PMs.

(b) In support of its actions in terms of paragraph 7.2(a) above, the applicant issuer must obtain a letter from the RAS which:
   (i) provides confirmation that the RAS has provided the necessary advice on the application of this practice note; and
   (ii) states that the RAS has ensured that their advice was applied by the applicant issuer.

(c) The RAS letter of confirmation must be submitted to the JSE with the circular.

8. Transitional provisions

This practice note is effective for all PMs included in financial information submitted to the JSE, SENS announcements published or investor information issued (per paragraph 3.95 of the Requirements) 6 months after [the date that this rule change is published in the government gazette]("**the implementation date**").

The following guidance letters remain effective until the implementation date, whereafter they will be withdrawn and replaced in their entirely with effect from the implementation date:

- Guidance Letter: Presentation of pro forma financial information issued 4 March 2010; and
- Guidance Letter: Presentation of constant currency information issued 16 August 2012.

Applicant issuers can early adopt this practice note, in which case the implementation date applicable to them is that earlier date.

For any prelisting statement issued before the implementation date, this practice note is applicable if the first submission of the pre-listing statement is made to the JSE 1 months after [the date that this rule change is published in the government gazette].

Consequential changes to the body of the JSE Listings Requirements

The below are all new paragraphs that will be inserted

Section 3

Annual financial statements

3.19 (c) the declaration referred to in paragraph 7.1 of practice note 4/2019 regarding performance measures

Performance measures

3.95 Practice Note 4/2019 applies to all performance measures as described therein that:

(a) are included in or accompany any financial information that is required to be submitted to the JSE either on a periodic basis (in terms of section 3 of the Requirements) or on a transactional basis (in terms of Section 5,8 ,9 and 10 of the Requirements);

(b) are published in a newspaper or on SENS either directly or indirectly through reference to information that is available on a website or at the company's registered office or elsewhere; or

(c) are provided to investors or prospective investors in writing in a presentation, handout or booklet during a meeting or investor presentation, via email or through a website.

Section 8

Confirmations by reporting accountant specialist

8.56 (c) in both the letters referred to in paragraphs (a) and (b) above, that the advice and application of that advise incudes the application of practice note 4/2019.

Performance measures

8.67 Practice Note 4/2019 applies to all performance measures as described therein that are provided by the applicant issuer through any of the methods described in paragraph 3.95.

Section 16

Part II documents

16.12 (g) the declaration referred to in paragraph 7.1 of practice note 4/2019 regarding performance measures

The below are marked up amendments to existing Requirements

Section 8

Pro forma financial information

8.20 Pro forma figures must be given no greater prominence (as explained in paragraph 6.5 of Practice Note 4/2019) in the document than unadjusted financial figures and must always be labelled as pro forma.

The below are deletions of existing Requirements

Guidance letters

The following guidance letters will be withdrawn and replaced in their entirely by Practice Note 4/2019 from the effective date of that practice note:

- Letter dated 4 March 2010 - Presentation of pro forma financial information
- Letter dated 16 August 2012 - Presentation of constant currency information