

## Our newsletter for the investment community

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*IASB Investor Update highlights market-relevant accounting topics that could affect the companies that investors follow. It also shares with investors information on the International Accounting Standard Board<sup>®</sup> standard-setting activities and insights from our ongoing dialogue with the investment community. We invite investors seeking further detail on accounting proposals and current requirements to contact us.*

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### Editor's welcome

Some of our readers will know that the theme of Better Communication in Financial Reporting is a focus of the International Accounting Standards Board (the Board) work plan. I recently ran a Google search for 'what is better communication' and I was pleased to see that the IFRS Foundation website appears on the first page of the search results. It's great to see that association; but then again, I have to concede that it might be due to the fact that I used my office PC to run the search!

Throughout 2017 we will be focusing our efforts on outreach with investors on several projects supporting the Better Communication theme, such as the Principles of Disclosure and Primary Financial Statements. This is why I encourage you to catch up on our outreach plans by reading the 'We Need Your Views' page in this issue. If you are looking for signs of tangible results on improvements to communication, then I also encourage you to read the 'Right Here, Right Now' article, which explains that help is on the way for investors seeking to estimate a net debt figure in their company analyses, as a result of amendments to IAS 7 *Statements of Cash Flow* that will become requirements in 2017.

Another topic close to the hearts of investors is analysing segment information, which we expect to discuss with investors this year as we seek feedback on proposed amendments to IFRS 8 *Operating Segments* published in March. We spotlight some of these amendments in this issue, and look forward to hearing your feedback.

Finally, it seems as though any issue of this newsletter would be incomplete without mentioning 'Non-GAAP numbers'. This theme featured in Berkshire Hathaway's 2016 shareholder letter from celebrated investor Warren Buffett, and in this issue we highlight a recent article by Board member Gary Kabureck, on this subject.

We appreciate your interest in the *Investor Update* and look forward to hearing from you soon.

*All the best,  
Fred*

### In this issue:

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- Right Here, Right Now—IAS 7 Amendments
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The IFRS Foundation is an independent, not-for-profit organisation working in the public interest. One of the principal objectives of the IFRS Foundation is to develop a single set of high-quality, understandable, enforceable and globally accepted IFRS Standards through its standard-setting body, the International Accounting Standards Board (the Board). This newsletter has been prepared by the staff of the IFRS Foundation and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. For more information see [www.ifrs.org](http://www.ifrs.org).



## Spotlight—overview of the proposed amendments to IFRS 8 *Operating Segments*

### Background

Segment reporting is one of the topics in financial reporting that investors frequently cite as being of utmost importance to them. This is why we look forward to speaking to investors about a forthcoming Exposure Draft (ED) targeting specific areas for improvement. The Board identified these areas after completing its Post-implementation Review (PIR) of IFRS 8 *Operating Segments* (IFRS 8):

- identifying the chief operating decision maker;
- aggregating operating segments into reportable segments;
- improving the quality of reconciliations of segment information in financial statements;
- increasing the number of reported line items; and
- expanding comparative information provided after a change in the composition of reportable segments.

### What are the proposed changes?

In this article, we briefly highlight three of the nine amendments contained in the Exposure Draft that we believe will most interest investors.

#### Requirement for an entity to explain any differences in segments identified between the financial statements and the rest of the annual reporting package

Investors can get concerned about the credibility of segment information when they see it presented on a different basis across a company's financial statements, management commentary and investor presentations. With this in mind, this proposal would require a company to explain in the notes to the financial statements what that difference is and why it exists. The amendment proposes to define the 'annual reporting package' as documents used to communicate the entity's annual results to the users of its financial statements, that is published at approximately the same time as the entity's annual financial statements, and that is publicly available. The annual reporting package is expected to include management

commentary, press releases, preliminary announcements and investor presentations.

### Criteria for aggregating segments

Investors find too much aggregation of segments frustrating because it reduces the usefulness of information. To tackle this issue, the proposed amendment restructures the aggregation criteria to emphasise all requirements that must be met. One criterion is that the two segments must have similar economic characteristics. The Board proposes clarifying that operating segments with similar economic characteristics often exhibit a similar long-term financial performance across a *range* of measures. This proposed amendment responds to concerns that some entities have aggregated operating segments on the basis of only *one* measure of similar long-term financial performance. The Board expects this proposed change to reduce the aggregation of segments.

### Change in the composition of segments—earlier presentation of restated segment information in interim reports

This proposal aims to improve the timing of reporting comparative information when a company changes its basis of segmentation. Investors told us that having to wait until the end of the year is too long before seeing the full effect of the new segmentation on comparative information. The Board proposes requiring entities that change their basis of segmentation to present restated segment information for all current and prior-year interim periods in the first interim report following the change.

### How can an investor participate in making these changes?

The Board intends to publish the Exposure Draft *Improvements to IFRS 8 Operating Segments* by the end of March 2017. Please click on the link [here](#) to visit the project page. We encourage you to provide your comments on the proposed amendments.

**The due date for comments will be 31 July 2017.**

## Right Here, Right Now—IAS 7 Amendment

In early 2014, the Board conducted two surveys, first, to obtain information about why investors seek to understand period-on-period movement in debt, and second, to obtain input on disclosures about cash and cash equivalents. The surveys revealed that investors use debt movement and net-debt reconciliation to improve their understanding and their ability to forecast cash flows. At that time, only a few companies offered net debt disclosures and reconciliations, which constrained both comparability and analysis.

In responding to investors' needs, the challenges for the Board were that debt is undefined in IFRS Standards and that it will be difficult to arrive at a commonly agreed definition for debt. The Board decided that resolving such tricky issues would take too long and that a timelier fix could be offered via a narrow-scope amendment to IAS 7.

Published in January 2016, the IAS 7 amendment requires companies to disclose additional information that will assist investors in making net debt reconciliation.

### What does the IAS 7 amendment require companies to do?

Since 1 January 2017, companies have been required to disclose information that enable users to evaluate cash and non-cash changes in liabilities arising from financing activities.

IAS 7 defines financing activities as activities that change the size and composition of a company's contributed equity or borrowings. While the statement of equity reconciles opening and closing balances of shareholder equity, IFRS Standards previously included no similar requirements for borrowings. The IAS 7 amendment requires companies to disclose both cash and non-cash changes to liabilities arising from financing activities. This information will assist investors in reconciling the differences between opening and closing balances for borrowings.

It is also worth noting that many companies hedge their liabilities for interest rate, foreign exchange or other risks. The amendment requires cash and non-cash changes for assets used to hedge liabilities arising from financing activities to be disclosed together with information on underlying liabilities.

### What can investors expect to see in the notes?

The amendment recommends that in the notes to the statement of cash flows, companies show a reconciliation table similar to the following illustration:

**Figure 1: Sample reconciliation table**

Liabilities (1)	20X1	Cash Flows (3)	Non-cash changes (4)			20X2
			Acquisition	Foreign exchange movement	Fair value changes	
Long-term borrowings	22,000	(1,000)	-	-	-	21,000
Short-term borrowings	10,000	(500)	-	200	-	9,700
Lease liabilities*	4,000	(800)	300	-	-	3,500
Assets held to hedge long-term borrowings	(675)	150	-	-	(25)	(550)
Total liabilities from financing activities	35,325	(2,150)	300	200	(25)	33,650

Source: International Accounting Standards Board, example for illustration purposes only

\*Note: IFRS 16 Leases becomes effective as of 01.01.2019, at which point operating lease liabilities will also appear in the information presented

The above illustration shows that by applying the IAS 7 amendment, opening and closing balances of liabilities (column 1) that arise from financing activities are reconciled by incorporating cash flow (column 3) and non-cash changes (column 4) over the reporting period.

### How useful are the new disclosures to investors?

The cash flow statement only links changes in liabilities to cash changes (such as redemptions or drawdowns of debt) reflected in cash flow from financing. The statement of cash flow does not reflect non-cash changes in liabilities resulting from mergers and acquisitions, finance leases, changes in fair values, foreign exchange movements or from other considerations. The disclosures under the amendment require companies to provide both the cash and non-cash changes in one place—preferably in a reconciliation table similar to the one shown above. This will allow investors to more quickly and clearly evaluate period-on-period movement of liabilities. Further, the amendment will enhance comparability because all companies will be required to disclose information.

The Board would once again like to thank all investors for their valuable feedback during the development of this amendment.

## We Need Your Views

The Board sets Standards to help you, the investor, make decisions about companies. But we can't do it without your views. Your participation helps us understand whether potential changes to the Standards will provide you with the information necessary for investment analysis. Below are the projects for which we are currently seeking investor views. For a full list of topics please visit the [Work plan](#).

### Principles of Disclosure Discussion Paper

The Board has identified three main concerns about information disclosed in financial statements (termed 'the disclosure problem'):

- not enough relevant information;
- too much irrelevant information or disclosure overload; and
- poor communication of disclosures.

The Board will publish a Discussion Paper (Discussion Paper Principles of Disclosure) by the end of March 2017 to address the 'disclosure problem' by developing disclosure principles that can be used to improve the communication of information in financial statements.

The Discussion Paper suggests:

- principles of effective communication for entities preparing financial statements;
- development of a central set of disclosure objectives as a basis for more unified disclosure objectives and requirements in IFRS Standards; and
- requirements to ensure performance measures are disclosed fairly in financial statements.

The Board is seeking feedback on:

- suggested approaches to address the disclosure concerns it has identified; and
- whether the project should address other disclosure issues.

**The comment deadline for the Discussion Paper is 2 October 2017.**

### Proposed amendments to IFRS 8 *Operating Segments*

The Board completed its post-implementation review (PIR) of IFRS 8 *Operating Segments* (IFRS 8) and published the Report and Feedback Statement Post-

implementation Review: IFRS 8 *Operating Segments*. The PIR identified five areas for potential improvements to IFRS 8:

- identifying the chief operating decision maker;
- aggregating operating segments into reportable segments;
- improving the quality of reconciliations of segment information within financial statements;
- increasing the number of reported line items; and
- providing more comparative information when there is a change in composition of reportable segments.

The Board intends to publish the Exposure Draft Improvements to IFRS 8 Operating Segments by the end of March 2017.

The amendments are further discussed in this issue's *Spotlight* on page 2. Please click on the link [here](#) to review the project page. We encourage you to provide your comments on the proposed amendments.

**The due date for comments will be 31 July 2017.**

### Primary Financial Statements

Throughout 2016 we spoke to many members of the investment community to get their input on the scope of this project, and we are grateful for your feedback. At the December 2016 Board meeting, the Board asked the staff to explore topics for possible inclusion in the first due process document of the Primary Financial Statements project. The Board also agreed to decide at a later stage of the project whether it will issue a Discussion Paper or an Exposure Draft as the first due process document of the project.

This project will continue to be discussed at Board meetings in 2017, and updates can be found [here](#). The papers discussed at the March Board meeting can be accessed [here](#), at which the Board agreed staff should continue to explore the development of an EBIT sub-total, and presentation of a management operating performance measure.

At future meetings, staff will also explore the following areas: adjusted basic earnings per share; better ways to communicate information about other comprehensive income; presentation of the results of associates and joint ventures; targeted improvements in the statement of cash flows; and development of illustrative examples, including those for specific industries (eg financial institutions), for the primary financial statements.

## Stay up to date

### Featured Article: non-GAAP earnings measures accounting

Will the proliferation of non-GAAP earnings measures ever end? The short and long answers are 'no – neither now nor ever'.

That is the view of Board Member Gary Kabureck. He's written an article in which he says that 'non-IFRS' or non-GAAP measures can be extremely useful if used properly. For example, they can enhance financial analysis by isolating the effects of items that do not promote an understanding of historical or future trends of earnings or cash flows. At the other extreme, unfortunately, sometimes non-GAAP performance reporting is used to obscure inconvenient charges or to 'perfume the pig', thereby giving non-GAAP reporting a bad name.

Gary explores issues and challenges in non-GAAP reporting and describes Board work to address the challenges. You can read his full article, which was first published on Compliance Week's website and on the IFRS Foundation's [website](#).

## Announcements

**Three new Trustees appointed to the IFRS Foundation.** Else Bos, Su-Keun Kwak and Guangyao Zhu have been appointed Trustees of the IFRS Foundation, following approval by the IFRS Foundation Monitoring Board. The Trustees are responsible for the governance and oversight of the Board. Read the press release [here](#).

**Four Board members reappointed to serve a second term.** Martin Edelmann, Gary Kabureck, Chungwoo Suh and Mary Tokar have all been reappointed by the Trustees to serve a second term on the Board. Their new terms commence 1 July 2017. Read the press release [here](#).

**Professor Tom Scott to become a member of the Board.** The Trustees appointed Canadian academic Tom Scott as a member of the Board. He will join the organisation in April for an initial five-year term. Mr Scott has worked in the field of accounting at universities in Canada since the late 1970s. Most recently, he acted as Director and Professor of Accounting at the School of Accounting and Finance, University of Waterloo, Canada. Read the press release [here](#).

## Speeches and events

**The Capital Markets Advisory Committee** held its [first 2017 meeting](#) at the Board's offices in London on

16 March. A summary of the meeting will be made available in the coming weeks.

### New podcast featuring the Chair and Vice-Chair of the Board

A new podcast is available, featuring Hans Hoogervorst and Sue Lloyd, Chair and Vice-Chair the Board speaking with IASB Education Director Matt Tilling. Listen to the podcast [here](#).

**The Trustees** held a meeting in Paris, France. Read a summary of the conclusions to their meeting [here](#).

## Reading material for investors

**The March IASB Update was published.** The *IASB Update* is a staff summary of the tentative decisions reached by the Board in its public meetings. Read the 2017 IASB Updates [here](#).

## Summaries of investor feedback

Below are examples of how investor views on current projects were provided to the Board. For more information, please click [here](#).

Date	Summary of Investor Feedback Document
January 2017	<a href="#">Post-implementation Review of IFRS 13: Phase 1 outreach feedback</a>
	<a href="#">Post-implementation Review of IFRS 13: Matrix of areas of experience with IFRS 13 shared by stakeholders</a>
November 2016	<a href="#">Primary Financial Statements: result of outreach on scope of project</a>
April 2016	<a href="#">2015 Agenda Consultation: overview of investor feedback</a>
March 2016	<a href="#">Amendment to IFRS 4: applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts: investor feedback</a> <a href="#">Conceptual Framework: summary of investor feedback</a>
January 2016	<a href="#">Fair Value Measurement—Unit of Account: investor feedback</a>
	<a href="#">Present Value Measurement—Discount Rates Research: investor feedback</a>

### Register for investor alerts

Click [here](#) to register for investor email alerts to stay up to date with accounting changes, investor-focused activities and other IFRS Foundation events.