March 2018

IASB® *Investor Update*

Our newsletter for the investment community

Editor's welcome

'Keep calm and carry on' has become one of the most overused motivational slogans, but I believe it is still appropriate when looking at the changes investors will see in IFRS Standards in 2018. The first time adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue Recognition* may in some cases produce significant changes to financial statements, and we are here to help with our investor education efforts and so encourage investors to get in touch.

It is said that understanding precedes acceptance, which is why we will continue our efforts to educate investors during 2018 on the changes stemming from IFRS 9 and IFRS 15. In this issue, we feature revenue recognition in a Spotlight article, and discuss how one of the steps in the IFRS 15 model can affect how companies recognise revenue.

Later in 2018, the IASB will begin working on a project to update the Management Commentary Practice Statement. An interest in the topic of wider corporate reporting (for example, Environmental, Social and Governance and other non-financial reporting) has been a persistent message that we've heard during investor outreach in recent years. The Board is well placed to make sure there is a good fit and connectivity between financial reports and non-financial information and we look forward to hearing your views on this project.

We are delighted to feature one of our Capital Markets Advisory Committee (CMAC) members, Zhenyi Tang, in this issue. Zhenyi brings some perspective from China on financial reporting, and the importance of involving investors in standard setting. We engage with investors on IFRS Standards on a global basis, and are pleased to have seen increasing participation from Asia-based investment professionals.

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

All the best,
Fred

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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® 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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Spotlight—Timing and amount of revenue recognition—IFRS 15

In this article, we highlight requirements in IFRS 15 Revenue Recognition *that companies will apply to determine the* ***timing*** *and* ***amount*** *of revenue recognised. We also focus on the implications of these requirements for investors when analysing revenue recognition policies of companies.*

Investors want companies to apply robust principles for revenue recognition and measurement. They agree with the core principle in IFRS 15 that a company should recognise revenue upon the transfer of the promised goods or services to a customer for an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

In our October 2017 publication, we highlighted 'identifying performance obligations' as a key step in the revenue recognition model in IFRS 15. Performance obligations are the building blocks of the model and companies can recognise revenue once they have 'satisfied performance obligations' and 'transferred control' of the goods or services to the customer. Performance obligations are satisfied over time or at a point in time and the Standard includes guidance for making this assessment.

When can a company recognise revenues over time?

A company transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria*is met:

(a) The customer simultaneously receives and consumes the benefits provided by the company's performance as the company performs. An example is the provision of cleaning services.

(b) The company's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced, for instance when a company is working on customer land.

(c) The company's performance does not create an asset with an alternative use and the entity has an enforceable right to payment for performance completed to date. This may be the case when a company performs a highly specialised or bespoke job for its customer.

If a company determines that it cannot recognise revenues over time, it must recognise it at a point in time. Investors should note that companies across sectors and across countries would now apply these principles with greater consistency, therefore enhancing comparability.

What do the requirements state about the amount of revenue recognised when performance obligations are satisfied over time?

Inadequate guidance for measuring revenues over time in previous Standards had given companies the leeway to use diverse parameters to measure progress on contracts. In some cases, a choice of measuring parameter (for example, flying hours, technical milestones) combined with the matching of revenues to expenses had led to smoother revenue and margin profiles.

Additional guidance in IFRS 15 will create discipline in this area and lead to more economically grounded revenue recognition patterns. Under the new requirements, progress will be measured either using output methods (such as units produced or milestones achieved) or using input methods (such as costs or resources incurred). IFRS 15 offers additional guidance on when and how to apply these methods.

What are some implications for company analysis?

The guidance in IFRS 15 on timing of revenue recognition may affect some contracts. For others, there may be a change in the way progress is measured using input versus output methods.

Investors need to look at companies on a case-by-case basis to examine how they recognise revenue and measure progress of a performance obligation satisfied over time applying IFRS 15. There may be some cases where the difference is stark in comparison to the previous requirements. Investors should nonetheless recognise that these differences stem from the application of more robust and comprehensive requirements.

What disclosures can investors expect?

For performance obligations satisfied over time, companies must disclose the input or output method used to measure the progress on contracts. They must also explain why the chosen method best reflects revenue recognition for their contracts. Companies must also disclose the aggregate amount of contract value related to unsatisfied performance obligations and explain the timing of revenues from their completion. This is the equivalent of order-book type information on contracts.

*Excerpted from paragraph 35, IFRS 15 *Revenue from contracts with customers*

In profile

In every issue we feature IFRS Foundation events, or interviews with key stakeholders or Board members. In this issue we interview Zhenyi Tang, Chairman of CLSA and an Executive Committee member of its parent company CITIC Securities, the largest brokerage firm in China, and member of the Capital Markets Advisory Committee (CMAC).

IASB Investor team: From yours and your organisation's perspective, how and why is financial reporting relevant to investors?

Zhenyi: CITIC Securities and its offshore flagship CLSA are active participants in the capital markets of China and the Asia Pacific regions. We pride ourselves on being the most international among all Chinese brokerages and investment banks, and the most Chinese among all international brokerages and investment banks. Financial reporting is one of the most important yardsticks for measuring and monitoring the financial management and performance of all organisations. It provides the foundation for everybody to be assessed on a set of common grounds, and allows comparability between different market players, so that their underlying performance and risk exposures can be properly benchmarked and priced by the market. It is one of the most significant prerequisites for everything we at CLSA do, without which the capital market and related ecosystems cannot properly function.

IASB Investor team: From the perspective of capital markets participants in Chinese markets, are there any specific IFRS Standards projects that attract more interest or attention than others?

Zhenyi: While private enterprises have increasingly proliferated in China in recent years, state owned enterprises ('SOE') still play a significant role in the economy. Accounting for business combinations and related topics such as controlling shareholder when considered under a SOE environment may result in distortions or anomalies that other jurisdictions may not usually come across. This is perhaps one of the areas that market participants in China have to continue to adapt and get accustomed with during the ongoing drive for China's accounting standards to align with those prevailing internationally.

IASB Investor team: Non-GAAP numbers are usually a hot topic, what perspective do you have about how investors use this information?

Zhenyi: GAAP and non-GAAP numbers are both important in many cases. Investors who are required to choose a side as the two diverge should consider the specific exclusions in adjusted figures, and individual judgment and assessment is also important.

Thorough investment research may require assessment of both GAAP and adjusted results, but investors should carefully consider the validity of non-GAAP exclusions on a case-by-case basis to avoid misleading or distorting figures, especially as reporting standards diverge.

IASB Investor team: With the hindsight of an international career in both business and in public service, how important in your view is a single, global accounting language for investors in general/CITIC Securities in particular?

Zhenyi: Having universal rules of the road in terms of financial reporting requirements and accounting language would be a big step forward in pulling the capital markets and related stakeholders around the world closer together, and will take us nearer to the ideology of having freer flows of investments and deals across borders.

China is a keen supporter of this, and has been actively involved in IASB activities and initiatives. As one of the largest capital market participants from China, CITIC Securities shares this belief and commitment.

IASB Investor team: How would you characterise the roles and responsibilities of investors when it comes to setting financial reporting standards?

Zhenyi: Financial reports are one of the major sources of information for investors to base their investment decisions upon. To ensure that financial reports are relevant and useful to investors, they must be satisfied that the financial reporting standards adopted would give rise to fair and useful reflections of financial health and performance, and make disclosures of crucial information that are relevant and helpful for understanding the competitive position, risk exposures, efficiency and effectiveness, etc. of the entities that investors are following.

To ensure that investors can make the best use of financial reports, their requirements must be adequately taken into consideration during the financial reporting standards setting process. As such, the participation of investors in the standard setting process is fundamental.

We thank Zhenyi for taking the time to share his views with us and our readers.

More information about Zhenyi's background can be found on the CMAC members' page here.

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 some of the projects that we expect to engage with investors on during 2018. For a full list of topics please visit the Workplan.

New Project: Management Commentary

The Board has commenced a project to update its Management Commentary Practice Statement.

The original *Management Commentary*, Practice Statement 1, was issued in 2010 and has proven influential in supporting the development of national and global narrative reporting regimes. In deciding to take on an update, the Board considered a number of factors, including recent innovations in other narrative reporting frameworks, gaps in current practice and the need to support a long-term focus on business performance.

Importantly, the Board agreed that the focus of the Practice Statement should remain on meeting the needs of investors and other providers of financial capital.

As the project develops, the Board may consider a number of areas where the original Practice Statement could be developed to support more rigorous disclosures by companies. By way of illustration, this might include:

- **Descriptions of business model, strategy and risks**—for example, qualitative and quantitative information on the operational position of the business and factors relevant to its future development;
- **Current year financial performance analysis**—for example, explanations of current financial performance and position, and the use of adjusted financial measures and analysis;
- **Non-financial information**—for example, measures that provide insight into business progress or into the implications of a matter for future financial performance—including in relation to the resources and relationships underpinning business value creation; and
- **Forward looking statements**—for example, in relation to the explanations of forecast and target financial and non-financial performance where such statements have been made.

The specific areas for consideration will evolve as the project develops over the course of 2018, supported by a programme of outreach and consultation.

Further information on this topic can be found on the project page here.

Accounting policy changes (Amendments to IAS 8)—Improving financial reporting

The Board has been discussing proposals addressing voluntary changes in accounting policies. Currently, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires retrospective application of such changes unless it is impracticable to do so. Retrospective application can be challenging in some situations and may dissuade an entity from applying an accounting policy that would provide better information for users.

The Board will propose new requirements for some of those accounting policy changes. Applying the proposals, an entity need not apply such accounting policies retrospectively if the costs of doing so would outweigh the benefits to users. The Board expects these amendments to facilitate the application of changes in accounting policies that provide better information to users, thereby improving the overall quality of financial reporting. The Board expects to publish an Exposure Draft in the first half of 2018.

Further information on this topic can be found on the project page here.

Principles of Disclosure

During 2017 the Board sought investor views on its Principles of Disclosure project. We spoke to around 190 investors about the topics raised in the Discussion Paper that the Board published in March 2017. We also received comment letters from some investors and from a wide range of other stakeholders. Most of those that provided feedback supported the Board in undertaking activities to help improve the identified 'disclosure problem'—that is, not enough relevant information, too much irrelevant information or ineffective communication of the information provided.

The staff have prepared detailed summaries of all of the feedback received, which the Board discussed in its February 2018 meeting. The Board will then be making decisions about next steps on the project during March 2018.

Further information on this topic can be found on the project page here.

Stay up to date

Announcements

IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* are now effective. IFRS 9 was issued in 2014 and replaces IAS 39 *Financial Instruments: Recognition and Measurement*. To read more about it and access the Standard click here. Materials prepared to support implementation of IFRS 9 can be found here. IFRS 15 was also issued in 2014. It replaces two Standards, IAS 18 *Revenue* and IAS 11 *Construction Contracts*. To read more about it and access the Standard click here. Materials prepared to support implementation of IFRS 15 can be found here.

The IFRS Foundation has appointed seven new Trustees. The current Chair of the Trustees Michel Prada will continue in his post until a successor is in place, with Sheila Fraser and Takafumi Sato as Vice-Chairs.

Speeches and events

Nick Anderson: Financial reporting remains core to the investment process. Board member Nick Anderson delivered a 'practitioner view' response to a speech by Professor Baruch Lev titled 'Financial reporting for Investors—do the financial statements give them what they need?' at ICAEW's Information for Better Markets event for academics in London on 18 December 2017. As a former buy-side investor, he shares his views on the important role financial statements have in enabling investors to make investment decisions. Nick's comments can be found **here.**

Panel debate—Hong Kong and IFRS Standards: past, present and future. In conjunction with the IFRS Foundation Trustees meeting in Hong Kong on 31 January, the IFRS Foundation and the Hong Kong Institute of Certified Public Accountants organised a stakeholder dinner for companies, investors, regulators and others in Hong Kong with an interest in financial reporting. You can watch the panel discussion here and on our YouTube channel.

The Capital Markets Advisory Committee will hold its first meeting of 2018 on 2 March at the Board's offices in London. The papers for this meeting are available here, and a summary will be published shortly after the meeting.

Reading material for investors

IFRS 17 Insurance Contracts—Help is at hand. Martin Edelmann, Board member, outlines the resources available to insurers and others implementing IFRS 17.

Transition to the new IFRS Standard for insurance contracts. Board member Amaro Gomes outlines the materials and other support available to national standard-setters and regulators planning for implementation of IFRS 17 *Insurance Contracts*. The article can be accessed here.

The IFRS 17 accounting model in one page. A simple one-page summary of the accounting model in IFRS 17 *Insurance Contracts* has been published to help stakeholders understand different elements of the model and how they will be displayed on a company's balance sheet and in its profit or loss statement. Click here to find out more.

New IFRS 17 webcast: Transition to IFRS 17 IASB staff present a webcast on the transition requirements faced when applying IFRS 17 Insurance Contracts for the first time.

Summaries of investor feedback

Below are some examples of how investor views were fed back to the Board on various projects. Further summaries of investor feedback can be found at our Investor Centre here.

Date	Summary of Investor Feedback Document
February 2018	Principles of Disclosure Discussion Paper—investor feedback summary IFRS 17 *Insurance Contracts*—investor education activities update
July 2017	Investor reactions to IFRS 17 Insurance Contracts
January 2017	Post-implementation Review of IFRS 13: Phase 1 outreach feedback Post-implementation Review of IFRS 13: Matrix of areas of experience with IFRS 13 shared by stakeholders
November 2016	Primary Financial Statements: result of outreach on scope of project
April 2016	2015 Agenda Consultation: overview of investor feedback
March 2016	Amendment to IFRS 4: applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts:* investor feedback *Conceptual Framework*: summary of investor feedback

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.