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IASB® *Investor Update*

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® 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

With the Board having recently completed the 2015 Agenda Consultation, it brings to mind a couple of quotes that people sometimes use when talking about direction:

> 'If you don't know where you are going, any road will get you there.' Lewis Carroll
>
> 'If you don't know where you are going, you'll end up someplace else.' Yogi Berra

In this issue we include a brief summary of the latest work plan that reflects the feedback we received from the 2015 Agenda Consultation. I would like our readers to feel confident that our work plan can take IFRS to a place with 'Better Communication'. My colleagues and I want you to know that we are very enthusiastic about working with investors in the coming years to support this major part of the new work plan.

We are also delighted to feature an interview with Dennis Jullens—who, sadly for us, completes his final term on the Capital Markets Advisory Committee this year. We catch up with him on his views about financial reporting and the future direction of IFRS, which we think you will enjoy reading about.

As the Board's work on the new insurance contracts Standard hits the home straight, we have tried to help you make "heads or tails" of the recent amendments to IFRS 4 *Insurance Contracts* in the Spotlight article.

Finally, I would like you to join me in welcoming our newest addition, Siddhant (Sid) Kumar, who recently joined the Investor Engagement team.

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

All the best,
Fred

In this issue:

In profile

In every issue, we feature IFRS events or interviews with key stakeholders or Board members. In this issue, we interview Dennis Jullens, Lecturer at Rotterdam School of Management, Erasmus University and member of the CMAC.

***IASB investor team*: What have been some of the highlights for you of your experience on the CMAC?**
Dennis: First, I would like to say that it has been an honour to serve on the CMAC over the past six years. During my involvement, several new Standards were issued, such as on revenue, leases and credit impairment, that prompted rich discussions with CMAC members and with IASB staff. As a user, the perspective on accounting by the preparer was always missing, and so I also valued the joint CMAC-Global Preparer Forum meetings. It has been encouraging to see the composition of the CMAC membership become more diversified compared to when I joined. It has been a big step forward to go from mostly London-based, sell-side equity analysts to having a mix that includes credit analysts and investors from across Western Europe, North America, Brazil and Australia.

***IASB investor team*: What would you identify as areas that were missed opportunities?**
Dennis: I think that for IFRS to have 122+ countries currently using the Standards is a major achievement, but I believe the translation and export of the Standards to different countries is not enough to ensure there is consistent application to enhance greater comparability. With this in mind, when I reflect on the CMAC's discussions in 2011–12 on the proposals to have the US SEC move forward in allowing for the use of IFRS, I feel that the Board could have spent the energy elsewhere rather than on continuing to get the US on board. In my opinion, the Board should be more focused on its own backyard by ensuring that the Standards allow for greater comparability.

***IASB investor team*: Looking forward, what do you think about the future agenda's focus on addressing the issue of Better Communication in financial reporting?**
Dennis: I think it is a good idea to focus on communication. The Board has completed work on several complex Standards and both preparers and users need time to digest the Standards. Having covered a lot of measurement and recognition issues in the past six to ten years, in the current period which is a period of calm, it is appropriate to focus more on the presentation issues. Having said that, I feel it is difficult to tackle the issue of better communication by focusing primarily on the financial statements (which is the responsibility of the IASB) without being able to address other areas that users focus on, such as MD&A, CSR or ESG. The Annual Report sometimes comes across as a dumping ground for information and there is a missing link between the financial statements and other sections of the report, and without getting into the domain of Integrated Reporting (which is outside the remit of the Board), I feel the Board should play more of a role in linking these elements. Even though the auditors are likely to check whether there is some consistency within the financial statements and the MD&A, the real question is, is that enough?

***IASB investor team*: For you personally, what would be the top issue to fix in financial reporting?**
Dennis: I think it is important to come up with principle-based guidance on what should be in the income statement and in the OCI [Other Comprehensive Income]. It is currently very difficult to explain to analysts (let alone students) the rationale for why some items go in either of those statements and why some are recycled. A good place to start would be to define a well-phrased guidance around the items that are currently included in the OCI. Resolving this issue is quite important to me.

***IASB investor team*: Thinking about future generations of investors, what's it like for your students to pick up this subject?**
Dennis: As part of one of the Valuation courses I teach, my students conduct an analysis, forecast and valuation of a company. In the future, they will no longer be required to make some of the adjustments they make today, for example, as all leases now go on the balance sheet. But students today are more connected and aware that businesses rely on technology and intangibles, and to a large extent the balance sheet fails to capture the value of these assets and so there may be a need for the Board to keep up with changing times. This is also an area where students fail to connect the dots between where financial statements are and where the reality of these technology and intangible asset-driven businesses stands because of a lack of reporting.

The IASB investor team thanks Dennis for taking the time to speak with us.

Dennis Jullens has been a lecturer in the Accounting & Control Group at the Rotterdam School of Management, Erasmus University since 2013. Before joining RSM, Dennis spent 20 years in banking, the last twelve of which were at UBS as European Head of Valuation & Accounting Research. In this role, he advised institutional investors worldwide about interpreting financial statements and applying valuation techniques. He has served as a member of the CMAC since 2010.

Spotlight: Making Heads or Tails of IFRS 9 and IFRS 4

In September this year, we published an amendment to the insurance contracts Standard, IFRS 4. The amendment addresses concerns arising from implementing the new financial instruments Standard, IFRS 9 (effective 1 January 2018), before implementing the replacement Standard that the Board is developing for IFRS 4 (not expected to be effective before 2020). These concerns include the challenge of implementing two major accounting changes one after the other (ie IFRS 9, then the replacement for IFRS 4), and the additional volatility in profit or loss that may arise as a result of applying IFRS 9 before the new insurance contracts Standard.

We amended IFRS 4 to address these challenges for insurance companies, and also because of the need to enhance the quality and comparability of financial reporting. We sought to balance preparer and investor concerns by targeting the options to particular situations and through additional disclosures.

The amendment introduces two optional approaches for issuers of insurance contracts—namely, a temporary exemption, and the overlay approach. These are in addition to the existing approach of full IFRS 9 implementation from 1 January 2018, and investors can therefore expect to see financial statements of insurers prepared under any of these three approaches.

What does the amendment achieve?

Implementing IFRS 9 may result in some financial assets (such as structured debt and equity investments) being measured at fair value through profit or loss (FVPL) that were not previously measured in this way. This would mean, for example, that for structured debt instruments, changes in fair value (including those caused by changes in interest rates) will be reflected in profit or loss.

The two optional approaches give insurers the choice to avoid volatility in P&L during the period prior to implementation of the new insurance Standard.

What do investors need to know?

Investors need to know which of these approaches (if any) is being applied by an entity and how this affects their ability to compare the financial statements of companies using either of the approaches with those of companies using IFRS 9. Fortunately there will be new disclosures allowing investors to find the information that will help them in this analysis.

Overlay approach

The overlay approach is an option available to all issuers of insurance contracts. It applies to assets that move to FVPL measurement when IFRS 9 is applied. It allows a company to apply IFRS 9, but report a net profit result as though it had applied IAS 39 to those assets. This is achieved by presenting a line-item adjustment for those assets, providing a bridge between the IFRS 9–based result and the IAS 39–based result. Subsequently, a contra adjustment is shown below the net profit in the Other Comprehensive Income (OCI). The ultimate net effect is that shareholders' equity is reported as though IFRS 9 had been applied, but net profit is presented as though IAS 39 had been applied to the assets moving to FVPL.

Temporary exemption approach

In contrast, the temporary exemption (the deferral approach) is only available to companies that are predominantly insurers. We explain in the [Project Overview IFRS 9–4]() presentation (ie *slide 8)* how the eligibility requirements work for this exemption. This option allows a company to continue applying IAS 39 and to defer application of IFRS 9 until either 2021 or the date of application of the new insurance contracts Standard—whichever is earlier.

Additional disclosures help understand the effects

We are aware that investors may find the differences between the approaches somewhat confusing at first glance. Requiring additional disclosures is a feature of the amendment that can help address this issue. For each approach, companies will need to provide investors with additional explanatory disclosures.

Companies using the overlay approach shall disclose the effect of the overlay approach on the reported figures. This means, for example, that investors will be able to analyse the income statement with the benefit of a separate line item displaying the overlay adjustment's effects in the P&L and in OCI.

Companies using the temporary exemption shall disclose information that enables users to make key comparisons with companies applying IFRS 9. For example, companies applying IFRS 9 are required to provide separate fair value disclosures for financial assets that must be measured at FVPL because of their contractual cash flows and/or business model and other financial assets. Similarly, companies using the temporary exemption shall disclose the fair value and changes in fair value for financial assets falling into two groups based on whether they are assets with contractual cash flows that are solely principal and interest (excluding those held for trading or managed on fair value) or not.

We acknowledge the potential disadvantages of the loss of comparability arising from the fact that the approaches are optional. However, we believe that issuers of insurance contracts should be permitted to apply the improved accounting requirements of IFRS 9 without adjustment in 2018, when other companies will be doing so. In addition, by applying the overlay, additional information is in fact provided over and above the IFRS 9 information.

How can I stay in the loop?

Publications are available that discuss the amendment in detail, including an [IFRS 9–4 Investor Perspectives]() article and an [IFRS 9–4 Project Summary.]()

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IASB Workplan Update

In November 2016 the Board published the conclusions of its recent Agenda Consultation and its five-year work plan. Having listened to feedback from stakeholders, the Board has confirmed that a central theme for its activities until 2021 will be Better Communication in financial statements. The Board aims to improve the communication effectiveness of financial statements by taking a fresh look at how financial information is presented and grouped together. It will also continue to enhance disclosures and—through the IFRS Taxonomy™—support the use of electronic reporting.

Other focus areas for the five-year period are:

- **completing large projects**—finalising the new insurance contracts Standard and the revision of the Conceptual Framework, both of which are expected to be issued in 2017;
- **implementation**—continuing to develop support, including online support, for stakeholders' implementation of new IFRS Standards, and maintaining existing Standards effectively through the IFRS Interpretations Committee and post-implementation reviews; and
- **focusing the research programme**—reducing the number of research projects to enable stakeholders to engage in the Board's work more fully and to ensure timely completion.

Active projects: **to learn more about any project listed below, click on the project name**

Standard-setting and related projects	Research Projects
Conceptual Framework	Disclosure Initiative: Principles of Disclosure
Disclosure Initiative: Materiality Practice Statement	Primary Financial Statements
Insurance Contracts	Business Combinations under Common Control
Rate-regulated Activities	Dynamic Risk Management
	Financial Instruments with Characteristics of Equity
	Goodwill and Impairment
	Discount Rates
	Share-based Payment

To allow Board members to focus on their review of the forthcoming IFRS Standard on insurance contracts, the **Principles of Disclosure Discussion Paper** has been rescheduled from December 2016 to the first half of 2017.

The Board's plan for Better Communication
A major theme of the Board's work is its plan for better communication in financial reporting. That plan includes a Disclosure Initiative, a project on Primary Financial Statements and other projects, including work on the IFRS Taxonomy. To learn more about the Board's plan for better communication in financial reporting, click here.

The research pipeline
The Board intends to commence research on further topics before 2021. Click here to read about the research pipeline.

Stay up to date

Announcements

Sue Lloyd was appointed the new Vice-Chair of the International Accounting Standards Board (the Board) Ms Lloyd has been employed by the IFRS Foundation since 2009. She was Director of Capital Markets and Senior Director of Technical Activities before being appointed as a Board member in 2014. As Vice-Chair, Ms Lloyd will work closely with the Chairman of the Board, Hans Hoogervorst.

The IFRS Foundation and the European Securities and Markets Authority (ESMA) signed an updated Statement of Protocols The Statement of Protocols builds on many years of cooperation between the two organisations, reflecting their work to support investors and the efficient running of capital markets. It updates an agreement from 2014 and outlines how the two organisations will continue working together in the development of IFRS Standards and in supporting the consistent implementation and application of the Standards.

Speeches and events

The Capital Markets Advisory Committee held its last meeting of 2016 at the IASB offices in London on 3 November. A summary of the meeting will be made available in the coming weeks.

Michel Prada, Chairman of the Trustees, will be speaking at the **ICGN-IIRC Conference: Dialogue for longer-term value creation—bridging the gap between participants in the capital markets**, which takes place in London on 6–7 December.

The October IFRS Foundation Trustees' meeting took place in New Delhi, India. **View the papers and listen to recordings of the Trustees' meeting here.**

The third annual IASB Research Forum took place in Waterloo, Canada. Held in conjunction with the 2016 Contemporary Accounting Research (CAR) conference on 15 and 16 October, the event brought together the IFRS Foundation and one of the accounting world's highest-ranking academic journals. More information on the forum (including a webcast) is available here.

EFRAG, EFFAS, OIC and AIAF will host an event on **Amendments to IFRS 4: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*** in Milan on 29 November. More information can be found here.

Reading material for investors

The October 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 October *Update* here.

The Board published the conclusions from its recent Agenda Consultation and its five-year work plan. Having listened to feedback from stakeholders, the Board has confirmed that a central theme for its activities until 2021 will be Better Communication in financial statements. A Feedback Statement summarising the Board's priorities and the feedback it received during the 2015 Agenda Consultation process can be found here.

The European Securities and Markets Authority (ESMA) published a **public statement on issues for consideration in implementing IFRS 9 *Financial Instruments*.**

Summaries of investor feedback

Below are examples of how investor views were fed back to the Board on various projects. For more information, please click here.

Date	Summary of Investor Feedback Document
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
January 2016	Fair Value Measurement—Unit of Account: investor feedback Present Value Measurement—Discount Rates Research: investor feedback
November 2015	Report on IFRS 2 *Share-based Payment:* research to date Investor feedback on goodwill and impairment from the Post-implementation Review of IFRS 3 *Business Combinations*
September 2015	Feedback from investors on the different effective dates of IFRS 9 *Financial Instruments* and the new insurance contracts Standard

Register for investor alerts

Click here to register for investor email alerts to stay up to date with accounting changes, investor-focussed activities and other IFRS Foundation events.