

# IASB® *Investor Update*

## Our newsletter for the investment community

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*The IASB's Investor Update highlights market-relevant accounting topics that could affect the companies that investors follow. It also shares with investors information on the IASB's 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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### Editors' welcome

As 2015 enters its final quarter, there is no let-up in pace for the IASB's investor team. In this issue of *Investor Update*, we profile just a few of the projects that are keeping us busy.

First is the IASB's Agenda Consultation. Every three years the IASB encourages stakeholders to voice their views on its future work plan and how it should allocate resources. Although this may sound a little dull, in reality we think this is one of the most important projects of the year. Why? Because this is your chance to help us focus on issues that really matter to you.

Alison Thomas, former portfolio manager and founder of the Corporate Reporting Users' Forum (CRUF), shares her personal views on this consultation on page 4. And we have published a 15-minute online investor survey to help you participate—click [here](#). We urge you to take part to help us to help you!

In this *Update* we continue our spotlight on financial instruments. So far, the focus has been on what investors can expect from the introduction of the expected credit loss model. On page 2, we move on to discuss the new disclosures that you will receive.

Our interview in this *Update* is with Marietta Miemietz, Co-founder and Director of Pharmaceutical Advisory firm, Primavenue, and member of our [Capital Markets Advisory Committee](#) (CMAC). Marietta talks about the work she is doing with the CFA UK and her involvement in the financial reporting debate.

Happy reading!

*Barbara and Fred*

### In this issue:

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## Spotlight: Financial instruments

We previously included a Spotlight on IFRS 9 *Financial Instruments* in our September 2014 edition of the *Investor Update*, in which we discussed the new impairment model. In this *Update* the Spotlight focuses on the new disclosure requirements in IFRS 9.

We are seeing that investors want to know more about this area. A key takeaway is that investors can expect to benefit from a richer package of information about financial assets (for example, loans and private bonds) and about the judgements and estimates management will use to recognise and measure impairment losses and the related allowances.

### Introducing an expected loss approach to impairment is the key change

The approach will change from the current 'incurred loss' methodology to one in which provisions for impairment will be calculated based on expected credit losses, even if a credit event has not occurred. In doing so, management will have to take into account the best reasonable and supportable information that is available (without undue cost and effort), including forward-looking estimates. This is a significant difference from the previous model, which was based on evidence of losses having occurred.

### A more robust disclosure package will accompany the change to impairment

We have introduced disclosures to assist investors and analysts in understanding the amount of expected credit losses, the basis for their measurement and the reasons for changes in expected credit losses over time. In particular, entities will be required to provide information about key assumptions used in the measurement of expected credit losses and how an entity determines whether there has been a significant increase in credit risk when the provision has increased.

Because management will need to use significant judgement to measure expected credit losses and assess how credit risk has changed over time, some investors have told us that the new disclosures will help them determine if they can 'trust the numbers' and have 'confidence in management'.

### 'Roll forward' schedules will be one of the new disclosures

Another important new disclosure investors can look forward to is the reconciliation (roll forward) that companies will be required to provide to show the opening and closing provision or allowance amounts. Figure 1 provides an illustration of this type of disclosure.

#### 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.

### Greater insights into what is driving changes in provisions

Information about changes in the carrying amounts of loss allowances will have to be provided in a way that enables investors and analysts to understand the main drivers of changes in the amount of expected credit losses. For example, is the change caused by changes in credit risk or an increased amount of lending?

These disclosures are required to be provided separately for different categories (such as 12-month and lifetime loss amounts) and by class of financial asset. By requiring disclosures about expected credit losses for different categories of financial assets, a richer set of information is provided to investors and analysts about credit risk.

Figure 1 illustrates how an entity may provide this information in its notes to financial statements.

**Figure 1: Sample loan loss allowance reconciliation**

|  | Total Loan Loss Allowance | of which: 12 month ECL | of which: Lifetime ECL | of which: Credit Impaired |
|--|---------------------------|------------------------|------------------------|---------------------------|
| <b>Currency Units (CU's)</b>                     |                           |                        |                        |                           |
| Balance at start of year (Year 1)                | 5,910                     | 2,160                  | 2,250                  | 1,500                     |
| <b>Changes due to existing Financial Assets:</b> |                           |                        |                        |                           |
| Transfer to/from Stage 2                         | 2,250                     |                        | 2,250                  |                           |
| Transfer to/from Stage 3                         | 3,500                     |                        |                        | 3,500                     |
| Transfer to/from Stage 1                         | -613                      | -613                   |                        |                           |
| Amounts derecognised                             |                           |                        |                        |                           |
| <b>Sub-total</b>                                 | <b>11,047</b>             | <b>1,547</b>           | <b>4,500</b>           | <b>5,000</b>              |
| Change due to newly originated financial assets  | 1,500                     | 1,500                  |                        |                           |
| Write offs                                       | -500                      |                        |                        | -500                      |
| <b>Balance at end of year (Year 2)</b>           | <b>12,047</b>             | <b>3,047</b>           | <b>4,500</b>           | <b>4,500</b>              |

Source: IASB, example for illustration purposes only.

### Tracking relationships in credit risk

Along with gaining insights about the sources and development of loan losses, investors will also be able to use new disclosures to compare the movement in loan losses to the gross carrying amounts of the associated financial assets. This could be another form of ratio analysis that investors add to their tool kit. By disclosing this information with added detail (for example, by geography or loan type), banks will have a great opportunity to increase transparency into their credit risk management processes. This ultimately benefits investors by improving their understanding of how management executes its strategy.

### How can I stay in the loop?

The IASB hosts [conferences and workshops](#) during which companies share their thoughts on transition, providing investors with insights ahead of the change. We have publications that discuss IFRS 9 in greater detail, including an [IFRS 9 Investor Perspectives](#) article and an [IFRS 9 Project Summary](#). We have also formed an [Impairment Transition Resource Group](#) to support companies on implementation issues that may arise as a result of the new impairment requirements of IFRS 9.

# IASB® Investor Update

## In profile



**Marietta Miemietz, Director and Co-founder of Primavenue**

**IASB Investor team: What are some of the issues that drew you into the financial reporting debate?**

One of the recurring issues I have come across relates to the use of forward-looking information, which can help drive the assumptions you make in an earnings/valuation model.

I think that you often find that this type of information is lacking from the company standard disclosures yet it is a relatively key input for investors. And when you do find this information, it is outside of the primary financial statements, which makes it important for there to be a link between the primary financial statements and all of the other information disclosed by the company.

Ultimately, we as analysts really look at everything in its totality. Encountering these types of issues along with wanting to be more active with the CFA Society of the UK in terms of the direction of future research was what led me to get more involved in the financial reporting debate. In our work at CFA UK, we are looking to weigh in on financial reporting issues and how they link to financial analysis, so as to ensure that users can extract the most value from financial reports.

**IASB Investor team: The IASB hears from many investor groups around the world. Can you share with us how the FRAC serves the CFA UK and how it interacts in the financial reporting debate?**

Sure—the FRAC (Financial Reporting and Analysis Committee) is a volunteer-led committee that serves members of the CFA UK. Similar to the IASB's CMAC, we focus on issues relating to financial reporting and analysis, albeit with a broader remit.

So not only do we review many of the IASB consultations but also cover topics such as consultations from EFRAG (European Financial Reporting Advisory Group) or the European Commission's review of the IFRS endorsement criteria. We try and dig deep into the analytical angles and develop our own agenda, which I think is relatively unique among the different user groups. I think that our recent [position paper](#) on alternative performance measures (APMs<sup>1</sup>) is an example of the steps we are taking in that direction.

**IASB Investor team: On the subject of APMs and the FRAC's position paper, what were some of the key conclusions that you drew from the research? And what would you say to standard-setters?**

One of the conclusions was that APMs are used very widely. I think this shows that as the world is becoming more complex, there is growing demand for additional information that excludes some of the 'noise' that can appear in IFRS figures.

Getting to the bottom of fundamental developments when results include restructuring, transaction effects, amortisation/impairments and so forth can be quite difficult. I think APMs are so widely used that you cannot ignore the subject. Another key conclusion was that there was an absolute consensus among FRAC members that we really need greater clarity and transparency around APMs.

The recently finalised [ESMA guidelines](#) summarise very well the information needs of the overall investment community, such as: knowing how exactly the APMs are constructed, what are the reconciling items to IFRS figures, a company's reasons for changing the APM measure over time and management's philosophy that supports the choice of APMs.

Interestingly, we didn't get any consensus on how APMs should be constructed. From the financial reporting survey, every single item that can be added back or left out was somewhat controversial. What became clear is that whether or not you want to add back items depends a lot on what it is you are trying to achieve, such as a 'cash-earnings' style APM that excludes amortisation effects or an 'underlying-earnings' style APM that excludes some lumpy items like restructuring.

**IASB Investor team: What areas do you see occupying the FRAC's time over the coming years?**

Once we do a position paper like the one on APMs, it is important to stay actively involved in the debate as regulators, standard-setting bodies, users and preparers continue discussing APMs. In addition, we are looking to be proactive on key aspects that we think are important to users of financial statements (analysts and investors) so that we can continue to ensure that the users' voice is heard.

**The IASB Investor team thanks Marietta for taking the time to speak with us.**

Marietta Miemietz, CFA, is Director and Co-founder of Primavenue, a research boutique specialising in the pharmaceuticals sector. Previously, she was a sell-side healthcare sector analyst for more than 15 years. She is actively involved in contributing investor views to financial reporting as a member of the IASB's CMAC, the CRUF and as co-chair of the CFA UK's Financial Reporting and Analysis Committee.

<sup>1</sup>APMs will also be discussed in the IASB's forthcoming Discussion Paper on [Principles of Disclosure](#).

# IASB® Investor Update

## Shaping the future in 15 minutes

*Alison Thomas, former portfolio manager, long-time investor advocate, founder of the Corporate Reporting Users' Forum and consultant to the IASB, discusses why she believes investors should invest 15 minutes in the IASB's Agenda Consultation.*

An Agenda Consultation—it conjures up images of rather grey people sitting around discussing what they are going to discuss. Not the most exciting of prospects.

And yet, in this case, it is a discussion that I think investors cannot afford to ignore. Why? Because the outcome of this consultation process will have a direct impact on the usefulness of the financial information that is available when making investment decisions.

### What is an Agenda Consultation?

The IASB's constitution states that it must consult with stakeholders every three years in order to set priorities for the years to come. Its first Agenda Consultation was in 2011/2012. So now it is back again, looking for input on its work plan and for suggestions on how financial reporting could be improved.

### Share your frustrations!

I have still to find a market participant who does not have a reporting wish list (RWL)—areas of reporting in which current disclosures leave them guessing or confused. Indeed, as you read this, I am sure most of you are muttering 'deferred tax' or something similarly challenging under your breath.

Though it may not happen overnight—indeed it may take a number of years—financial reporting can change to better meet your needs. But only if you take the time to share your RWL. And there is no better time to do that than now.

### Does the IASB listen?

In 2011, the IASB asked the investment community to share its views on the priorities of the Board. It received 14 investor comment letters, 60 responses to its online survey and a large volume of feedback from meetings and conference calls. What did it do with this input? Did it listen?

Click [here](#) for the Request for Views 2015 Agenda Consultation. The comment period ends 31 December 2015.

For questions or further comments contact IASB staff April Pitman at [apitman@ifrs.org](mailto:apitman@ifrs.org).

My rather informal assessment of the past few years of IASB activity gives me some grounds for optimism.

For example:

- investors asked the IASB to consider ways to reduce complexity. The IASB responded with its Disclosure Initiative, which is developing a framework that result in more effective disclosures.

**'Engaging in the IASB's Agenda Consultation can make a real difference to the usefulness of the information you receive.'**

**And it takes just 15 minutes...'**

- some asked the IASB to put greater emphasis on gathering evidence, both on the need for change and the impact of recently introduced Standards. Both are now firmly embedded in the working practices of the IASB.
- and a number asked for other comprehensive income (OCI) to be sorted out. The IASB has responded, with proposals that aim to clarify OCI's role in a performance statement.

It is not just the 'big ticket' reporting items that the IASB has tackled. It appears to be equally willing to listen to very targeted requests. In 2011, for example, a number of investors asked the IASB to improve specific items of debt disclosures. The result is a 'narrow-scope' project proposing to do just that.

Of course, there are some big 'asks' from investors that the IASB has not addressed. Perhaps the most notable of these was investors' desire for a rethink of the structure of the primary financial statements. But even here, the views of the investors have not been forgotten. This year's Agenda Consultation is seeking further views on this project, which has already been placed on the research agenda.

### Just 15 minutes

*Just 15 minutes.* That is all it will take for you to share your thoughts with the IASB on its future agenda. This [link](#) will take you to an online investor survey in which you will be asked to give your views on the projects that are part of the IASB's research programme, and will offer the space for you to share your own ideas on areas—however big, however small—in which financial reports could be made more useful.

Just 15 minutes to shape the future.



# IASB® Investor Update

## We need your views

The IASB sets Standards for you, the investor. But we can't do it without your input. We need your help to understand whether potential changes to the Standards will provide you with the information that is necessary for investment analysis. The following are the projects for which we are seeking investor views.

### [Agenda Consultation](#)

The IASB publicly consults with its stakeholders to discuss its work programme. We believe it is important that investors contribute to this process by providing their views on: (a) the strategic direction and balance of the IASB's work; and (b) the financial reporting issues that the IASB should be prioritising. A Request for Views was published in August 2015 with comments requested by the end of December 2015. An [online investor survey](#) also seeks investor views on the agenda consultation.

### [Conceptual Framework](#)

The *Conceptual Framework for Financial Reporting* underpins IFRS and helps the IASB to develop Standards that are based on consistent concepts. The May 2015 Exposure Draft includes proposals to: (a) give greater prominence to the need for information to assess management's stewardship; (b) reintroduce an explicit reference to the notion of prudence; (c) provide guidance on the measurement of assets and liabilities; and (d) provide guidance on when income or expenses should be reported in profit or loss or OCI. The comment letter deadline has been extended to November 2015. We continue to seek feedback on these proposals.

### [Deferral of IFRS 9 and interaction with insurance](#)

The IASB recently spoke to investors about the different effective dates of IFRS 9 and the new insurance contracts Standard, including the need and ways to mitigate the consequences of different effective dates. A [summary of investor observations](#) was presented to the IASB in September 2015. In November 2015 the IASB intends to issue an Exposure Draft of proposed amendments to IFRS 4. We will seek additional investor feedback at that time.

### [Equity method of accounting](#)

The IASB is considering a project that aims to simplify the equity method of accounting for investments. As part of this we would like to understand what information is used when reviewing such investments.

### [Income taxes](#)

The IASB has been speaking to investors about the usefulness and sufficiency of the tax information provided in financial statements today, and how that information is used when making decisions.

We continue to seek investor input via the [survey on the use of tax information](#) to help provide direction on how we should then proceed.

### [Materiality](#)

How the concept of materiality is applied in practice is seen by many as a major cause of the 'disclosure problem'. Not making appropriate materiality judgements can result in both the disclosure of too much irrelevant (ie immaterial) information and not enough relevant (ie material) information. The IASB will issue an Exposure Draft of a Practice Statement on materiality in October 2015 on which we will seek investors' views.

### [Measuring quoted investments in subsidiaries, joint ventures and associates at fair value](#)

The IASB is currently redeliberating its proposals that aim to clarify how an entity should measure the fair value of investments in subsidiaries, joint ventures and associates that are quoted in an active market. The IASB is proposing that this fair value should be the product of the quoted price for the individual financial instrument that makes up the investments held by the entity (P) and the quantity of financial instruments (Q), ie  $P \times Q$ . We are again reaching out to the investment community to further understand the relevance of this information for their work.

### [Structure and Effectiveness Review](#)

In July 2015 the Trustees of the IFRS Foundation published a Request for Views that includes questions about the relevance of IFRS, what can be done to ensure consistent global application of IFRS, the role of technology in our work and the scope of IFRS. Comments are requested by the end of November 2015. The [online investor survey](#) on the Agenda Consultation also includes questions on specific areas of this review.

## Overview of topics and outreach timing

|  |  | Anticipated outreach |
|--|--|----------------------|
| Topic  | Project stage                                      | Q4 2015              |
| Conceptual Framework                                       | Exposure Draft (comment period ends November 2015) | ✓                    |
| Deferral of IFRS 9   | Deliberations                                      | ✓                    |
| Equity method of accounting                                | Research phase                                     | ✓                    |
| Income Taxes   | Research phase                                     | ✓                    |
| Materiality  | Draft Practice Statement (Targeted October 2015)   | ✓                    |
| Measuring Quoted Investments at Fair Value                 | Re-deliberations                                   | ✓                    |
| Structure and Effectiveness Review and Agenda Consultation | Request for Views                                  | ✓                    |

# IASB® Investor Update

## Stay up to date

### Events and announcements

The IASB staff have created [a series of webcasts](#) on the proposed changes to the *Conceptual Framework*. Each presentation provides a detailed walk-through of the different parts of the Exposure Draft, further insight into the IASB's thinking and the rationale behind the proposals.

A [summary](#) of the June 2015 joint CMAC and Global Preparers Forum is now available. Further information about the meeting, recordings of the discussions and related papers are also available [here](#).

In September 2015 the [ICAEW](#)<sup>1</sup> and the IFRS Foundation held a joint annual [Financial Institutions IFRS Conference](#). This brought together leaders in financial reporting from the financial services sector, regulatory bodies and accounting professionals who offered insight and guidance on the implementation and analysis of the IFRS 9 impairment requirements.

The [CRUF](#) has now added CRUF India to its already extensive informal network of buy- and sell-side professionals who engage in the financial reporting debate. In addition, the three European CRUFs (UK, Germany and France) will now meet together several times per year as part of CRUF Europe to give a European investor view. CRUF Europe will also include investors from parts of Europe that are not currently part of the CRUF network, to allow a broader range of views to be heard in the debate.

### Upcoming investor events

On 14 October 2015 in a CII<sup>2</sup> webinar titled: [Proposed revisions to the IFRS Framework for Financial Reporting - Key Implications for Investors](#), IASB member Steve Cooper will explain, from an investor perspective, the significance of recent changes to the *Conceptual Framework*.

On 22 October 2015 EFRAG, EFFAS,<sup>3</sup> AIAF<sup>4</sup> and the IASB will host a joint investor event in Milan. This event will comprise a discussion of the proposed changes to the *Conceptual Framework* including the use of profit or loss and the role of OCI, followed by an educational session on IFRS 9. For more information on the event please click [here](#).

### Past investor events

On 6 October 2015 the IASB co-hosted a *Conceptual Framework* investor outreach event with the CFA Society Switzerland in Zurich. The event offered participants the opportunity to learn more about how to extract useful information from corporate financial reports and share their views with the IASB about the proposed guidance. For event details please [click here](#).

On 1 October 2015 Fred Nieto participated at a seminar co-hosted by Rotterdam School of Management and CFA Society Netherlands entitled: [Can You Trust the Numbers: The Role of Earnings in Capital Markets](#). The event covered various topics including: the role of earnings in capital markets, the growing challenge of non-GAAP earnings and ways to decipher underlying earnings and profitability.

In September 2015 the IASB staff participated on a leasing conference call hosted by Barclays Capital. The call provided market participants the opportunity to discuss the implication of the new *Leases* Standard on the primary financial statements.

In September 2015 IASB member Patrick Finnegan participated at the EUFIN<sup>5</sup> [workshop](#) in Paris on a special panel session discussing [Professional investors' use of accounting information](#). The workshop offered academics and practitioners the chance to discuss recent developments and research projects regarding financial reporting in Europe.

At the [EFG Hermes London MENA Conference](#) held in September 2015, Steve Cooper and Fred Nieto, along with representatives from the investment and preparer community, delivered a presentation to financial analysts on IFRS 9.

### Material for investors

Earlier this year, in conjunction with the outreach on the *Conceptual Framework* Exposure Draft, Steve Cooper recorded a webcast with Vincent Papa, CFA Institute, about the use of OCI and why it warrants investor attention. Click [here](#) to view the video.

The proposed changes to the *Conceptual Framework* discuss different ways in which an asset or a liability can be measured. In a September 2015 Investor Perspective entitled [Taking a measured approach](#) Steve Cooper sets out the five key questions that he considers most relevant for investors related to selecting such a measurement method.

#### Norbert Barth

*It is with sadness that we announce that Norbert Barth, a member of our CMAC, has recently passed away. Norbert worked as a chemicals sector equity analyst for a number of investment banks for over 20 years. He was well known for his expertise in the sector by his clients and by the companies he covered.*

*Norbert was a member of the DVFA (the Society of Investment Professionals in Germany) and was the DVFA delegate to the DRSC (the Accounting Standards Committee of Germany). He was also a member of the IASB's Insurance Working Group and formerly a member of the IFRS Advisory Council.*

*Our sincere condolences go out to his friends and family. He will be missed.*

<sup>1</sup>The Institute of Chartered Accountants in England and Wales

<sup>2</sup>The Council of Institutional Investors

<sup>3</sup>The European Federation of Financial Analysts Societies

<sup>4</sup>Associazione Italiana degli Analisti e Consulenti Finanziari

<sup>5</sup>European Financial Reporting Research Group