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# IASB® *Investor Update*

## Our newsletter for the investment community

### Contact us


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*The IASB's* Investor Update *highlights market-relevant accounting topics that could impact 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

Welcome to our December edition of the *Investor Update.* In this year-end edition we share with you an exciting new initiative that we launched earlier this month—the *Investors in Financial Reporting* programme. Designed with input from investors around the world, we hope this programme will be a valuable resource for increasing engagement with the buy-side community and continuing to improve financial reporting.

We also offer you insight into a proposed change to debt disclosures that the IASB published for consultation this month. Although its title— 'reconciliation of liabilities related to financing activities'—may not sound like holiday reading material, we hope you will be interested by what the proposals offer to investors. In recent years, a number of you have asked the IASB to provide better information about changes in debt, especially non-cash changes that you can't otherwise find in the statement of cash flows. Will our proposals address this request well enough to give you better information about a company's financial position? We need your views!

Last, but not least, we are delighted to announce a new addition to our investor engagement team. Turn to the back page to meet Marina along with the rest of the team.

Wishing you a happy and healthy holiday season,

*Barbara and Fred*


To celebrate the festive season we asked the children and grandchildren of the IFRS Foundation staff to design a greetings card. The winning entry comes from Nika Gurenko, age 8, daughter of Jelena Voilo, Technical Associate.

## Spotlight: *Investors in Financial Reporting*

On 2 December we launched our *Investors in Financial Reporting* programme. This programme aims to increase our engagement with the buy-side community and supplements the activities that we already have in place with other investors and sell-side analysts.

Participants in the launch were Allianz Global Investors, APG Asset Management, AustralianSuper, BlackRock, Fidelity Worldwide Investment, Henderson Global Investors, Hermes Investment Management, Nomura Asset Management, PGGM Investments and UniSuper.

## Commonly asked questions

We have had positive feedback and support for this initiative from a wide range of stakeholders. Below we share some of the more commonly asked questions and responses about this programme.

**How does this programme differ from today's investor engagement?**

The programme builds on our existing activities. It asks investment firms to develop a direct relationship with us, and to provide executive-level support for speaking to us. Aspects that differ from investor outreach today include developing a relationship between an IASB member and a senior-level investment executive at the participating organisation and organisational support from the investment firms for engagement with the IASB. Participants also sign up to a **Statement of Shared Beliefs**, which enables them to make visible:

- their commitment to improving financial reporting;
- their belief that high quality financial reporting standards are a collective responsibility; and
- their belief that this is so fundamental to the efficient running of capital markets that it should be viewed as part of the day-to-day job of any responsible investor.

**Why only the buy-side community?**

In the past we have primarily had indirect involvement with the buy-side community (eg via investor representative organisations or with individuals who personally believe that interaction with us is important). In addition, individual buy-side organisations do not typically participate in our public comment letter process.

Reasons for the limited interaction may include that:

- the buy-side are not technical accounting experts;
- the buy-side have used external advisers for accounting issues in the past;
- the buy-side do not always see the immediate benefit of speaking with us; and/or
- the buy-side are often not aware they can speak to us and contribute to making changes.

The programme has been developed in response to this. It aims to increase our dialogue with the buy-side community—to ensure that IFRS continues to meet the information needs of investors globally; increase transparency surrounding who we are speaking to; and encourage others to join in the debate.

**Are the participants speaking as a group?**

No. We will engage with the participants as we do with other stakeholders, by individually obtaining their views and feedback. We will consider whether to organise group meetings or conferences later in the programme.

**Does this replace other investor outreach?**

No. We will continue our important dialogue with individual investors and analysts (both on the buy-side and the sell-side) as well as with investor representative organisations[1]. We appreciate the time and effort all investors and analysts spend engaging with us.

**Can others join the programme?**

Yes. Rather than add organisations one by one, for the subsequent phases we prefer to add several investment firms each time. We have already had some additional interest since the launch and therefore hope the next phase of participants to join will be in early 2015.

For more information about the programme go to: http://go.ifrs.org/InvestorProgramme.

[1] These include but are not limited to the CFA Institute, the CFA UK, the Corporate Reporting Users Forum, the European Federation of Financial Analysts Societies, the Securities Analysts Association of Japan, the User Advisory Council of the Canadian Accounting Standards Board, the Investment Management Association, the European Financial Reporting Advisory Group's User Panel, and the Capital Markets Advisory Committee.

# We need your views:
# *Debt disclosures*

In 2011 the IASB asked stakeholders for their views on its future agenda. One of the most commonly heard responses from the investment community was for better disclosures about debt.

Following further discussions with investors, this month the IASB published proposals[2] aimed to address many of these concerns. Do the proposed changes meet your needs?

**What did investors ask for?**

In general, investors asked for better information about non-cash changes in debt. Many also wanted the IASB to require a 'net debt reconciliation'. To better understand these requests and investor needs, IASB staff spoke to investors around the world and conducted an online survey.

From this outreach we heard that investors struggle to forecast levels of debt, which is used for their 'Enterprise Value' estimation. This is primarily because there is no existing requirement to disclose non-cash changes related to debt. Consequently, in order to better understand Enterprise Value, investors would like to have:

- a better understanding of the link between the balance sheet and the cash flow statement;
- greater confidence in forecasting future cash flows;
- information about the sources of finance and how those sources have been deployed over time; and
- insight into a company's exposure to the risks associated with financing.

**What are the proposed changes?**

The Exposure Draft proposes that companies should provide a reconciliation of opening to closing balances of liabilities (or assets) related to their financing activities[3].

This would allow investors to clearly see movements in a reporting period that result from:

- cash flows from financing activities;
- the effects of mergers and acquisitions (eg obtaining or losing control of subsidiaries or other businesses); and
- other noncash changes (such as the effects of foreign exchange and changes in fair values).

Below is an example of this reconciliation:

| | 20X1 | Cash flow | Non-cash changes | | 20X2 |
|---|---|---|---|---|---|
| | | | Acquisitions | New leases | |
| Long-term borrowings | 1,040 | 250 | 200 | – | 1,490 |
| Lease liabilities[4] | – | (90) | – | 900 | 810 |
| Long-term debt | 1,040 | 160 | 200 | 900 | 2,300 |

The proposed changes aim to provide investors with information they need about changes in debt. The IASB believes the changes will enable investors to better estimate Enterprise Value, as well as to better understand a company's financial position and liquidity.

**Gaining a better understanding of financial position**

Companies may have significant amounts of cash and cash equivalents on their balance sheet, but is that cash available for use? Or is it subject to some form of restriction—perhaps because of foreign taxation or repatriation issues? To improve transparency in this area, the IASB also proposes that a company should disclose restrictions that affect management's decisions on how to use cash and cash equivalent balances.

**Companies that already disclose 'net debt' will be unaffected**

Many companies provide investors with information about 'net debt'. The proposed amendments should not affect these disclosures.

**We need your feedback**

The Exposure Draft is quite brief: it has only four questions. You can respond to the questions as you see relevant. Alternatively, you can drop us a note on whether you agree with, have any concerns about, or have alternative suggestions for the proposed amendments. Please send responses to commentletters@ifrs.org or call us to discuss your views!

[2] Exposure Draft *Disclosure Initiative (Proposed amendments to IAS 7).*

[3] The proposals refer to changes in 'financing activities' rather than 'debt'. The IASB considered defining debt but decided that finding a commonly agreed definition would be difficult and could delay the project. Instead, the IASB decided to use the definition of financing activities in IAS 7 *Statement of Cash Flows*. This comprises borrowings whose cash flows are classified as financing activities. The IASB decided that capturing this information would be equivalent to the information investors are requesting about debt.

[4] The IASB proposed this in the 2013 Exposure Draft *Leases*.

# In profile

## Patrick Finnegan: IASB member

In this issue we feature IASB member Patrick Finnegan in the first of a two-part interview in which we discuss developments in IFRS and interaction with the investment community.

Patrick Finnegan is a former Director of the Financial Reporting Policy Group at CFA Institute Centre for Financial Market Integrity. Before joining the CFA Institute, Patrick worked at Moody's Investors Service, where he served as a managing director in Moody's Corporate Finance Group and as a senior analyst in Moody's Financial Institutions Group.

***IASB Investor team*: Which recent changes to Standards are most helpful for investors' analyses?**

This depends on the materiality of the issues affecting a company's financial position and performance. However, one item would be the amendments to IAS 19 *Employee Benefits* (profiled in a webcast with the CFA Institute). Eliminating the option to defer some actuarial gains and losses that arise from defined benefit plans improved the transparency and understanding of a company's financial position and performance. Now all such gains and losses are recognised as they occur. Another benefit for investors is the new disclosure requirement which focuses on how the changes in a pension plan's investments and obligations will affect a company's cash flows.

***IASB Investor team:* The revisions to IAS 19 were targeted to achieve improvements in a relatively short time frame. What other issues in accounting for employee benefits can we expect the IASB's research programme to investigate over a longer period of time?**

One of the issues the IASB didn't tackle is the accounting for cash balance plans. These plans are often used as a replacement for traditional pension plans, because they place less of an obligation on an employer for providing pension benefits. These plans have become more widespread in recent years.

***IASB Investor team:* What needs to be solved for cash balance plans?**

The main issue is whether to use defined benefit or defined contribution accounting. There are various versions of these types of plans, and knowing which version is being used and what the plan's sponsor is obligated for is really the crux of the issue. We will examine this in our analysis during the research phase. We may not want to amend all of IAS 19 or replace it entirely, but if in fact we learn something about the way these hybrid benefit plans are being designed today we may want to make a change to the accounting requirements.

***IASB Investor team*: When you look at the IASB Research Programme's agenda, which activities do you think should pique investors' interest?**

Clearly I would say performance reporting about which we are targeting preliminary discussions in the first half of 2015. Because many of the concepts discussed in our former Financial Statement Presentation project are being analysed as part of our Disclosure Initiative research, I expect the Performance Reporting research project to focus on any remaining issues. In particular, I expect that we will be revisiting the structure of the performance statement, including whether we should define 'operating profit' or develop some principles for presenting components of performance.

The **equity method of accounting** could also be interesting, for several reasons. First, investors should understand well how the equity method is applied in practice. There are striking differences in reporting and information between investments that are consolidated (because the investor controls an investee) compared to investments accounted for using the equity method (see also **Webcast on IFRS 11** ). In addition, a company can realise value from an equity method investment in several ways (eg receiving dividends, or selling it). By studying how the equity method is applied and by learning about any diversity in practice, investors can gain insights about how this method affects reported performance and financial position, which, in turn, affects their forecasts. And, of course, a very good reason for getting involved in the research stage would be to help the IASB improve the accounting model to provide better information for investors.

***IASB Investor team*: Thank you, Pat! We will continue our conversation with Pat in a future edition of *Investor Update*.**

# IASB® *Investor Update*

## Stay up to date

### Recent events and announcements

Hans Hoogervorst, Chairman of the IASB, delivered the opening remarks 'Building a credible Capital Markets Union' at the European Parliament Committee for Economic and Monetary Affairs in Brussels. In his remarks, Mr. Hoogervorst sets out why the success of Europe's Capital Markets Union project largely depends on its ability to attract capital from around the world, and why a vital ingredient in achieving this goal is internationally accepted financial reporting standards.

In October 2014, Mr. Hoogervorst delivered comments entitled 'Keeping Capitalism Honest' at the 2014 IOSCO Annual Conference in Rio de Janeiro. Mr. Hoogervorst used lease accounting as an example of an area in which further improvements are necessary in order to provide investors with a complete view of economic reality.

Michel Prada, Chairman of the IFRS Trustees, delivered speeches in Tokyo, Shanghai and Seoul. The speeches ranged from setting out the case for global accounting standards and providing an update on progress towards that goal, to sharing thoughts on the future of IFRS.

The IFRS Foundation completed a major programme of reforms to its suite of online IFRS resources with the launch of a new flagship product, known as eIFRS Professional. eIFRS Professional has been developed from the ground up to provide subscribers with immediate online access to authoritative, annotated versions of IFRS and supporting materials.

The IFRS Foundation responded formally to the European Commission's consultation on the impact of IFRS in the European Union.

### Investor Education Materials on-line

IASB Webcast Series with CFA Institute

IASB *The Essentials* series of publications

IFRS Investor Workshop presentations

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

## Meet the team

**Barbara Davidson**
*Principal, Investor Liaison Programme*

Barbara leads the investor engagement team. She has been at the IASB since 2009 and has overseen the IASB's global investor engagement programme since March 2013. Barbara's role spans all aspects of investor engagement, from working with key stakeholders to prioritise the IASB's investor engagement strategy, to developing and maintaining investor relationships. She also works with the project teams to ensure an effective dialogue with investors on the technical topics under review.

**Fred Nieto**
*Investor Education Manager*

Fred has been at the IASB since June 2013. Fred leverages his background as a former equity analyst to produce investor-focused education materials and education sessions aimed at increasing the understanding of IFRS in the investment community. He works actively with investor organisations around the world, including co-hosting webcasts with the CFA Institute. Fred provides support in preparing investor-focused outreach materials and helps the project teams understand investor and analyst needs.

**Marina Corsini**
*Research Associate, Investor Liaison Programme*

Marina has been at the IASB since November 2014 and is the newest addition to our team. Marina will use her knowledge as a former buy-side analyst to identify investor-related issues and work with the project teams in their investor outreach. Marina will also provide support in developing education and support materials for IASB staff and external stakeholders.

**Jen McFaul**
*Outreach Coordinator*

Jen McFaul has been at the IASB since 2013. Jen coordinates outreach activities for the investment community, and provides administrative support to keep the investor team running smoothly. Jen also keeps investor stakeholders up to date on the IASB's activities and assists with any queries about our work.