

# 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

Welcome to the end of the first earnings season in 2015. While you have been focusing on the latest earnings reports, the IASB has been working on a number of initiatives that we think you will find interesting.

We have had numerous outreach discussions with investors on some of our technical projects—namely about the information you need when there are changes in debt, or when management change their accounting policies. And then there are the discussions about rate-regulated activities (not for the faint-hearted!). In this issue we have provided an update on the ongoing projects that still need input from the investment community—see the 'We need your views' page to make sure you don't miss the opportunity to speak to us.

On the education side, we launched our *Essentials* series in December. The *Essentials* series takes investors 'back to basics' by discussing certain key accounting requirements and sharing insights that are relevant to your analysis. The first issue is focused on everyone's favourite topic (cash!) and aims to help investors and analysts make the most of the cash flow statement. The next issue will examine the kind of information that you can expect management to provide in the main financial statements and some of the ways it can be presented. You can find more information about this exciting new education series in the Spotlight section.

Last but certainly not least, we feature an interview with Dick Sluimers, who is not only an IFRS Foundation Trustee but is also the CEO of APG Group, one of Europe's largest pension funds. In his interview Mr Sluimers speaks about the importance of investor involvement in the standard-setting process and why APG Asset Management is proud to be a member of our *Investors in Financial Reporting* programme. We found his insight into investment management and financial reporting very interesting. We hope you do too.

*Barbara and Fred*

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# 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 in understanding whether potential changes to the Standards will provide you with the information that is necessary for investment analyses and that ultimately drives your investment decisions. Below are the projects we are currently working on and for which we are seeking investor views.

### Overview of topics and outreach timing

Topic	Project Stage	Anticipated outreach	
		Q1 2015	Q2 2015
<a href="#"><u>Disclosure Initiative: Changes in debt</u></a>	Exposure Draft (comment period ends April 2015)	✓	
<a href="#"><u>Disclosure Initiative: Principles of Disclosure</u></a>	Discussion Paper (targeted Q4 2015)	✓	✓
<a href="#"><u>Classification of Liabilities</u></a>	Exposure Draft (comment period ends June 2015)	✓	✓
<a href="#"><u>Business Combinations under Common Control</u></a>	Research phase	✓	✓
<a href="#"><u>Income Taxes</u></a>	Research phase		✓
<a href="#"><u>Conceptual Framework</u></a>	Exposure Draft (targeted Q2 2015)		✓

#### [Changes in debt](#)<sup>1</sup>

This project aims to respond to investor requests for better information about changes in a company's debt, including non-cash movements. It also seeks to improve disclosures about restrictions on cash and cash equivalents. We would like to understand if these proposals would achieve progress in addressing investor needs in this area. The [Proposed IFRS Taxonomy Update](#) has also been incorporated into this Exposure Draft. We would also like feedback on whether including the IFRS taxonomy in Exposure Drafts is useful to investors.

#### [Principles of Disclosure](#)

To help companies determine the basic structure and content of a complete set of financial statements, the IASB is conducting research to improve existing IFRS guidance in this area. We need your views on specific topics, including the placement of 'non-IFRS' information in financial statements, disclosure of significant accounting policies, and whether requiring disclosures in a specific format makes a difference for investors. We would also like to understand whether the scope and issues addressed in this project respond to investors' concerns about disclosures.

<sup>1</sup>This project is also profiled in our [December newsletter](#).

#### [Classification of Liabilities](#)

The objective of this project is to help clarify how a company should classify a liability (as either current or non-current) on its balance sheet, particularly when it is coming up for renewal. The proposals clarify that such classification is based on the company's rights at the end of the reporting period. The proposals also aim to clarify the link between the settlement of the liability and the outflow of resources from the company. We need your views on whether the proposed clarifications would result in providing investors with more useful information.

#### [Business Combinations under Common Control](#)<sup>2</sup>

Currently there is no specific guidance on accounting for BCUCC in IFRS. We are conducting a research project on this topic, and need your views to help us understand whether the information needs for such transactions are the same compared to business combinations that are not under common control.

#### [Income Taxes](#)

Accounting for income taxes has long been criticised for being difficult to understand, with many problems in practice. The IASB is undertaking a research project to better understand the problems investors may have with tax information provided today, and how that information is used when making decisions. Your input will help us analyse the usefulness and sufficiency of the tax information provided in the financial statements and help provide direction on how we should then proceed.

#### [Conceptual Framework](#)

The *Conceptual Framework* sets out the concepts that the IASB uses to set Standards. The IASB aims to publish proposed amendments to the *Conceptual Framework* in Q2 2015. These will include an increased emphasis on the information needed to assess stewardship, reintroducing an explicit reference to the notion of prudence, and additional guidance on the selection of a measurement basis. The proposals will also include guidance on when income or expenses should be reported outside profit or loss, in other comprehensive income.

#### Stay up to date

Click [here](#) to keep up to date on outreach activities and [here](#) for the IASB's complete work plan.

<sup>2</sup>These are often referred to as 'BCUCC'.

# IASB® Investor Update

## Spotlight: Are you getting *The Essentials*?

We are excited to introduce you to *The Essentials* – the latest publication series included in our Investor Education efforts. Its ambition is simple: to help investors make the most of IFRS financial statements.

Which of the financial line items rely heavily on management judgment or estimates? How can you leverage disclosures to get a better understanding of the company's results? And how does it all fit in with the tools and techniques that you use to evaluate performance? These are the types of questions we aim to address in *The Essentials* series of publications - with the goal of sharing practical insights, into a specific accounting standard, that can help you get behind the headline numbers.

### Making the Most of Cash Flow Statements

Our [first issue of the \*Essentials\*](#) focuses on the Statement of Cash Flows. It includes:

- The structure of cash flow statements: How are things classified, and why?
- How can an investor leverage existing disclosures when using free cash flow in their analyses?
- What are the key areas of debate about the cash flow statement?
- How do IFRS cash flow statements differ to those reported under US GAAP?

### What you need to know to get what you want...

The second issue, which will be released later this month, discusses how investors can get the most from how financial statements are presented – particularly the statement of profit or loss and other comprehensive income. It features some helpful practical insights into IAS 1 *Presentation of Financial Statements*—the Standard that provides the overarching principles covering what gets reported and how it gets presented.

At first glance, you may be tempted to think this topic is rather esoteric. We hope to convince you otherwise by demonstrating how an analysts' toolkit can benefit from adding an understanding of the principles that guide the choices management can make when presenting financial statements.

In addition, this *Essentials* will help investors to understand better the boundaries of IFRS, including what is defined and what is required (and they are not the same thing!)—essential information for anyone who wants to understand what is comparable across companies, and what is not!

Below is a brief preview of some of the questions that we will explore in the publication.

#### Is there anything missing?

IAS 1 requires management to report the information needed to allow an investor to understand adequately the financial position, performance and cash flow of a company. If this means that the face of the primary financial statements includes more line items than are required under IFRS, then so be it. But does management always understand what you need? We encourage you to help management in their efforts to apply this fundamental principle of IFRS.

#### Can you see the big picture?

This *Essentials* will show how IAS 1 can provide investors with the guidelines to help management identify areas of reporting where the messages about the key elements of financial performance and financial position may have been lost in a sea of immaterial disclosures.

#### What about the extraordinary?

Reporting items as 'extraordinary' is not permitted under IFRS. It is considered too much of a catch-all term that offers little insight into the nature or function of the underlying event or item. But this does not mean that the extraordinary is not to be found in financial statements! In this *Essentials*, we will explain how IAS 1 requires that all material events are disclosed in the audited financial statements – and not just through other channels such as analyst presentations or press releases.

#### What is *Essential* to you?

We have already received some feedback on potential topics to profile in future editions of *The Essentials*. These include some of the most recent changes to IFRS, such as accounting for pensions (IAS 19 *Employee Benefits*), and disclosures about offsetting financial instruments (IFRS 7 *Financial Instruments: Disclosures*).

But there are many more areas to explore! So let us know about any of the more challenging areas of financial reporting that are *Essential* to your analysis, and we will do our best to demystify!

**In profile****Dick Sluimers, CEO of APG Group and Trustee of the IFRS Foundation**

**IASB Investor team: As an investor and CEO of APG Group, one of the largest pension funds in the world, why is financial reporting relevant to investors?**

APG Group is recognised as a major part of the Dutch pension system. Our asset management arm, APG Asset Management, manages €415 billion<sup>[1]</sup> of pension assets on behalf of several key clients which include major Dutch pension funds ABP<sup>[2]</sup>, bpfBOUW<sup>[3]</sup> and SPW<sup>[4]</sup>. We invest these funds internationally and across many asset classes. To achieve this [our investment strategy], we are highly reliant on the quality of financial reporting. We expect reported figures to provide us with good quality, useful information on which we can base our investment decisions.

**IASB Investor team: How important is it for investors, and the buy-side in particular, to follow and be involved in standard-setting?**

I think this is very important. Investors in my view are the primary audience for financial reporting by the companies in which they invest. We provide the capital and therefore require reliable reporting on how such capital is used. It is as simple as that. Investors rely on the truthfulness of the reported information and they also expect it to be free from bias as much as possible. Buy-side investors in particular are involved in the investment of very large amounts of capital. We are an integral part of the market and here for the long-term, which also means that the stability and the integrity of the market is crucial to us.

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

APG Asset Management decided to join the [Investors in Financial Reporting](#) programme and, actually, it is quite proud and excited about being part of the initial group of international investors who did so. We have holdings across all the major business sectors, and in pretty much every sector in which we invest, we see issues to do with reporting standards that are important to us as investors. But our interest goes beyond this. As a large international investor we believe that we need to act responsibly

and this means that we should play our part in contributing to the integrity of financial markets. We believe that to improve the integrity of financial markets it is important to have buy-in from the principal actors. Investors' input is therefore a great way to assist with this.

**IASB Investor team: When it comes to standard-setting, is there one area in particular where you think there are significant issues that the IASB should tackle?**

As international investors we would like to see a continued move towards a common financial language. The widening of IFRS adoption makes it easier for investors to compare investment cases in different markets. I know of course that the IASB has been working hard on furthering IFRS adoption by reaching out and working with relevant bodies in many markets. I think it is important that this continues.

**IASB Investor team: What, if any, specific benefits does a global accounting language bring to market participants like APG?**

We embrace diversification of investments and seek as much as we can to actively move away from benchmarks where we think this adds to the risk return we deliver to our clients. The overwhelming majority of our assets are managed in house within APG Asset Management so our teams of portfolio managers spend a significant amount of time looking at reported information. And the less time they have to spend on translations and interpretations across different reporting standards, the more time they have to focus on actual investment decisions. For us, having more comparable reported information is synonymous with improved quality.

**IASB Investor team: Why should investors join the Investors in Financial Reporting programme?**

I am very supportive of this initiative and have to confess I have a dual interest in this. As a Trustee of the IFRS Foundation I believe it is crucial for that organisation to maintain the credibility of the accounting standards it produces, and that to do so it is absolutely important that it ensures that the views of users are considered as part of the accounting standard-setting process. As the CEO of APG Group, I am all too aware of the perspective of my colleagues at our asset management division. They tell me that it is important that accounting standards are developed and updated continuously to meet the evolving business reality and new business models, and that they very much welcome the possibility of helping by explaining their views as users.

**We thank Mr Sluimers for taking the time to speak with us. The full interview with Mr. Sluimers can be found on the [IASB's website](#).**

<sup>[1]</sup> As of January 2015

<sup>[2]</sup> Pension fund for civil servants and teachers

<sup>[3]</sup> Pension fund for construction workers

<sup>[4]</sup> Pension fund for social housing employees

## Stay up to date

### Events and Announcements

Hans Hoogervorst, Chairman of the IASB, delivered the following speeches:

- '[Ind AS: A Big Step Forward](#)' in Mumbai, India. Mr Hoogervorst commented on the benefits of IFRS adoption to Indian companies and expressed that Ind AS should be seen as a stepping stone towards full IFRS adoption.
- '[Bad Accounting Breeds Bad Policies](#)' at the [NAPF Investor Conference](#) in Edinburgh. In his speech Mr Hoogervorst stressed the importance of accounting that reflects companies' economic reality, "even if it makes for uncomfortable reading".
- '[Switzerland and IFRS](#)' at the IFRS Foundation Trustees' stakeholder event in Zurich. Mr Hoogervorst provided a brief update on the IASB's work to establish IFRS as the global standard for financial information, offered some perspectives on the causes of complexity and disclosure overload in financial reporting, and outlined what the IASB is doing about it.

The Trustees of the IFRS Foundation, responsible for the governance and oversight of the IASB, announced the appointment of Kurt Schacht. Mr Schacht serves as Managing Director of the Standards and Financial Market Integrity division of CFA Institute. He is also Chairman of the US Securities and Exchange Commission's Investor Advisory Committee.

The Trustees appointed Gavin Francis and Goro Kumagai as Vice-Chairs to the IFRS Advisory Council, which advises the IFRS Foundation on its strategic direction, technical work plan and priorities. Mr Kumagai is also a member of the IASB's Capital Markets Advisory Committee (CMAC).

The European Financial Reporting Advisory Group (EFRAG) and the IASB published a summary report of their [Joint User Event on Rate-regulated Activities](#). The event, which was held in December 2014, discussed the IASB's Discussion Paper *Reporting the Financial Effects of Rate Regulation*.

Bloomberg held its [Equity Forum 2015: Own the new normal](#) where IASB Board member Patrick Finnegan discussed the topic: *Corporate Red Flags for 2015 – A Deep Dive into Earnings Quality*.

The IFRS Foundation published a statement in response to the publication of the European Commission's [Green Paper](#) on a Capital Markets Union. The statement supports the goal to increase the role that capital markets play in financing the European economy and suggests that a single set of financial reporting requirements can play a fundamental role in the creation of this.

### Reading Material for Investors

In February 2015 IASB Board member Steve Cooper wrote an Investor Perspective on the IASB's insurance contracts project titled [Insurance contracts accounting: Are we there yet?](#).

[Financial Director](#) published Steve Cooper's article [Pensions accounting: do we really need more change?](#). In this article, Mr Cooper outlines why the IASB has a research project on post-employment benefits.

In March 2015 the IASB staff published an educational paper as their latest Project Update—[Leases: Practical implications of the new Leases Standard](#). This document will help investors understand the impact that the upcoming *Leases Standard* will have on companies' financial statements. The staff previously published the Project Update—[Definition of a Lease](#) in February 2015.

#### Investor Education Materials on-line

IASB [Webcast Series](#) with the CFA Institute

IASB [The Essentials](#) series of publications

IFRS [Investor Workshop](#) presentations

### Investor outreach events

On 27 February 2015 the IASB's CMAC held their first 2015 meeting. Click [here](#) for more information about the meeting and the topics discussed.

The IASB and EFRAG have a table at the 2015 [Consumer Analyst Group of Europe](#) (CAGE) Conference, which takes place in London from 16 to 18 March 2015.

On 11 and 12 June 2015 a joint meeting will be held between the CMAC and the Global Preparers Forum (GPF).

The IASB will hold an [IFRS Conference](#) in Paris on 29 June 2015. An investor-focused IFRS workshop and update will immediately precede the conference, during which IASB members and a panel of analysts, investors and preparers will discuss the effects of accounting standards and financial reporting-related topics that are pertinent to investment analysis.

### Register for investor alerts

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