

AGENDA PAPER

IFRS Advisory Council Meeting

LONDON 18 – 19 June 2012

Agenda ref 6G

TOPIC	External involvement in the IASB's standard setting process -
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This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council. The views expressed in this paper are those of the authors. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS.

Effectively Reaching Out to Users of Financial Reporting

Presentation for June 2012 IFRS Advisory Council meeting

Effectively Reaching Out to Users Of Financial Reporting



ANNUAL REPORTS ARE IMPORTANT FOR INVESTORS- CFA INSTITUTE SURVEY FEEDBACK

Financial Periodic Reports:	2007	2003	1999
Annual reports – e.g., 10K filings	4.6	4.4	4.0
Interim reports – e.g., 10Q filings	4.1	4.2	3.9
Quarterly earnings releases	3.9	4.1	3.9
Other regulatory filings	Not asked	3.9	3.7
Prospectus/registration statements for initial public offerings	3.7	Not asked	Not asked
Special events reports – e.g., 8K filings	3.5	Not asked	Not asked
Shareholder reports/proxy statements	3.1	Not asked	Not asked
Periodic supplements/fact books	3.1	3.0	Not asked

UNDERSTANDING USER NEEDS

OUTREACH SHOULD TAKE DUE CONSIDERATION OF DIFFERENT TYPES OF USERS

Different vectors for differentiating investor information needs including:

- **Asset class** (Equity, Fixed Income, Private Equity, Real Estate)
- **Investment strategy** (Tracker Funds/Passive Investment versus Active Management, and Impact of Holding Horizon on Information Needs)
- **Valuation approaches** (Relative valuation versus Fundamental valuation)
- **Different Key Roles in investment process** (Information Intermediaries including sell-side research analysts, Buy-side research analysts, and Portfolio managers)
- **Differentiated Level of Access to Management Could Impact on Information Needs** (e.g. Institutional versus Retail investors)

UNDERSTANDING USER NEEDS

Standard Setters Should Enhance Their Understanding of Investors' Valuation and Company Analysis Practices

- **Understand variation** of valuation practices by
 - Industry (e.g. software, financial services, retail etc.)
 - Method (i.e. relative and fundamental valuation approaches)
- **Understand qualitative judgments** made by investors from financial reporting information (e.g. risk reporting information)
- **Understand linkage** between different components of financial statement information and corresponding investor analytical practices
 - Income Statement (e.g. Representative proxies for future cash flow generation)
 - Statement of Financial Position (e.g. solvency, leverage)
 - Cash Flow Statement (e.g. reported earnings quality and understanding of cash conversion cycle)

UNDERSTANDING USER NEEDS

Standard Setters Should Enhance Their Understanding of Investors' Valuation and Company Analysis Practices

- **Analytical Adjustments:** EBITDAR, EBITDA, EPS analytical adjustments made by different types of users depending on industry and valuation approach
- **Absence of OCI definition** impacts on user application of OCI information
- **Difficult to make inferences of information usefulness** - EBITDA related stripping adjustments made by certain users does not necessarily imply lack of information content (e.g. OCI gains or losses has information content)

INVESTOR ORGANISATIONS HAVE A KEY ROLE

- **Multiple Investor Organisations** include EFFAS, CRUF, IMA, ABI, CFA, CII and Japanese Society of Financial Analysts
- Investor Organisations **Facilitate Communication** to and from investors (i.e. Webcasts, Surveys)
- Investor Organisations are **Actively Involved in Commentary** on Key Projects
- Investor Organisations are **Less Constrained in Speaking Out** on Behalf of Investors

STANDARD SETTER COMMUNICATION SHOULD BE TAILORED FOR INVESTORS

- Outreach communication should **highlight industry specific impacts** of proposed accounting standard changes
- Outreach communication should use **real world examples**
- **Minimize duplicative** communication
 - across time periods and
 - by different standard setting bodies

KEY PRINCIPLES OF EFFECTIVE USER ENGAGEMENT

- **Diversity** of viewpoints amongst users **is to be expected** and should not lead to gridlock or dismissal of investor views by standard setters
- Boards should **not be searching** for and seeking to reach out to a **singular** ‘real’ user.
- **Strengthen Research Capacity** to better identify and communicate user benefits
- **Synthesize diversity of articulated user needs** and avoid opinion shopping
- Focus should be on **providing most transparent information** and not settling on the lowest common denominator across different needs.
- Effectively **articulate benefits and constraints** to users. Provide evidence of constraints to users (i.e. preparer cost and complexity)