

STAFF PAPER

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IASB Meeting

Project	Agenda consultation		
Paper topic	Feedback from users of financial statements		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Purpose

1. This paper summarises the feedback received from users of financial statements on the *Request for Views* document.¹

Process for getting input from the investor community

2. The Board received 14 comment letters from users or user organisations. In addition to those comment letters, the Board received input from the investor community through an online survey. The Board received 63 responses to the online survey.²
3. The online survey had two parts:
 - (a) Part 1 asked for views on the relative importance and urgency of the various projects suggested as additions to the IASB's agenda.
 - (b) Part 2 asked what works and doesn't work in financial statements more generally.

¹ Please note that throughout this paper we often use the term 'investor', which we broadly mean to encompass the various members of the investor community, such as asset managers, credit ratings analysts, sell-side and buy-side analysts, creditors and lenders, shareholders, etc.

² In total, the Board received 106 responses. However, of those responses, some respondents did not actually answer any of the questions in the survey or they were not in fact members of the investor community (although they may be users of financial statements in a broader sense, eg preparers, auditors and academics).

4. The attachment to this paper contains the online investor survey.
5. To ensure that the staff had a thorough understanding of the problems investors and analysts face when analysing financial statements and to get their views on how those problems might be fixed, we had conference calls and meetings with some of the comment letter and survey respondents. The staff will continue to have such discussions with members of the investor community before the Board reaches a conclusion on its future agenda.

About the respondents

6. Twelve of the 14 users of financial statements that sent us comment letters were user organisations.³ The other two respondents are asset managers. Appendix 1 contains a breakdown of the respondents to the survey by user type and by the regions those users cover.

Structure of this paper

7. This paper has two parts:
 - (a) Part I summarises the key messages received from users of financial statements and the suggested priorities for the IASB's work plan.
 - (b) Part II includes the feedback received on the various projects suggested in the *Request for Views* document.⁴
8. This paper contains the following appendices:
 - (a) Appendix 1: Main statistics from the respondents

³ Of those 12 user organisations, 10 are made up of a combination of buy-side and sell-side analysts and asset managers. One is an organisation of valuers, and the other is an organisation of asset managers.

⁴ This paper does not address other comments received for specific areas that are either currently being discussed by the Board, such as hedge accounting disclosures, or that have recently been completed, such as the need for more information about the assumptions used to measure the fair value of items categorised within Level 3 of the fair value hierarchy.

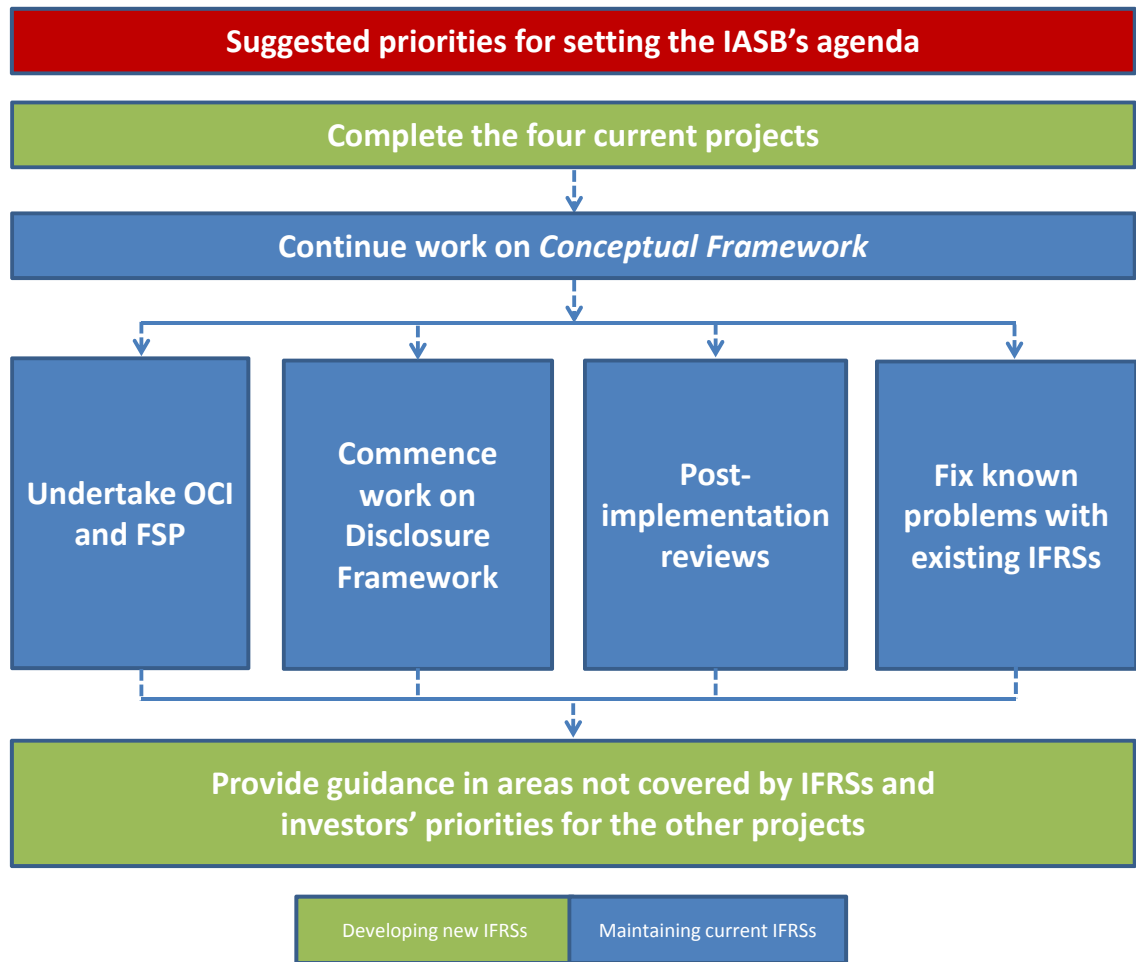
- (b) Appendix 2: Prioritisation of the projects based on feedback received from the comment letters and survey
- (c) Appendix 3: Specific feedback received from the comment letters, the survey responses and discussions held with investors on the 23 projects included in Appendix C of the *Request for Views* document
- (d) Appendix 4: Results of the webcast held with the CFA Institute on 9 November 2011

Part I – Key messages

9. Investors welcomed the Board’s consultation on the strategic direction and overall balance of its work plan. Investors, as primary users of financial statements (ie stakeholders that use financial information in making capital allocation decisions) have strong views on the adequacy of financial reports and many have suggestions for where improvements can be made (although some of their concerns cannot be fixed by changing the accounting standards). Furthermore, they particularly appreciate the efforts that the Board has devoted and the increased resources allocated to seek their views on the future agenda and on technical issues generally. To that end, they hope that the Board will use the input given to improve IFRSs.
10. Having said that, a few investors think that the *Request for Views* document should have outlined the Board’s preliminary view on the agenda. Those investors think that because the document did not describe how the specific projects relate to identified shortcomings of financial reports, the operational difficulties that have been raised or the timing and resources required for completion, users of financial statements might find it difficult to prioritise the projects. In some of the staff’s discussions, investors raised concerns that by keeping the list of projects wide open, the Board might only hear about problems faced in the most recent reporting period rather than getting views encompassing bigger picture issues in financial reporting.
11. The main messages heard during the agenda consultation include the following (each of these is discussed in detail below):
 - (a) minimise complexity in financial reporting to the extent possible (in part by developing a disclosure framework)
 - (b) fix known problems with existing standards during a period of calm
 - (c) complete the revenue, leases, financial instruments and insurance projects
 - (d) continue work on the *Conceptual Framework*
 - (e) address other comprehensive income and financial statement presentation

- (f) use research efficiently
- (g) do not let convergence be the primary driver of the agenda
- (h) limit the focus on XBRL
- (i) set a short-term and long-term agenda.

12. In addition, through the comment letters, the online survey, and our discussions with investors and analysts, the suggested priorities for the agenda are shown in the following diagram:



Minimise complexity in financial reporting

13. Among the investor community there is a general concern that financial reporting has become more complex, and that even sophisticated users of financial statements have

trouble understanding them. There is a concern that the increased complexity makes them less able to assess management's accountability. On the other hand, some investors note that the economic environment in which companies operate has become more complex and believe that the accounting is just reflecting that additional complexity.

14. There is also a widely shared perception that financial reports (in particular, the note disclosures) are too long, containing information that is not always useful or not containing basic information that is relevant. Many noted that users don't want *more* disclosure, but they want *relevant* and higher quality disclosure, regardless of whether that means more or less disclosure. In other words, there is a view in the investor community that management are simply "checking the box" (often providing boilerplate information) rather than telling their shareholders a "story" about their business, such as the risks the company faces, its prospects, what has happened during the period, the judgements made by management in developing the financial statements and how those judgements affect reported amounts. In fact, many doubt the assertions made by preparers of financial statements that being more descriptive risks them revealing competitive or proprietary information. Rather, they assert that providing investors with more transparency would actually decrease a company's cost of capital and increase shareholder returns because existing and potential shareholders would be more confident that management is not hiding material information.
15. Accordingly, there is strong support for the development of a disclosure framework. Although there is general support for the work done by the New Zealand Institute of Chartered Accountants and the Institute of Chartered Accountants of Scotland on "Losing the Excess Baggage", investors ask that the Board not simply reduce the volume of disclosure, but improve the relevance of the information provided and not allow companies to obscure information. Investors generally think that the concept of materiality should dictate the information and level of detail disclosed.
16. Investors generally tend to support the development of a presentation and disclosure framework rather than a disclosure standard. In fact, there is some concern about the suitability of a disclosure standard because:

- (a) it could result in reducing the volume of disclosures as opposed to aiming to enhance the information content; and
 - (b) the needed disclosures for any particular asset or liability are often related to the recognition and measurement requirements of the particular asset or liability.
17. Some investors would like to see the Board do more work on integrated reporting. In their view, investors cannot fully understand the financial statements without understanding the environmental, social and governance risks and opportunities a company faces. They note that investment decisions are not made solely on financial information and think it would be useful to bring together the financial statements (eg performance) and key non-financial information (eg business model and strategy) so that investors can see the entire picture. Those investors support the IASB's involvement with the International Integrated Reporting Council (IIRC).
18. On the other hand, others are concerned that work on a topic like integrated reporting, which is not core to the IASB's work, can become too political while using valuable and limited resources.

Fix known problems during a period of calm

19. Those perceptions have probably resulted in investors generally sharing a common view on the IASB agenda: according to the comment letters, the survey responses, and our discussions, investors generally put a higher weight on maintaining existing IFRSs (ie "fixing known problems") than on developing financial reporting.⁵ Investors generally want a period of calm after the wave of new standards to allow time for companies and investors to digest the recent changes and for the Board to learn about and fix any practice issues that develop from those changes.
20. Investors are widely in agreement that it is important that IFRSs are applied consistently and properly, and many urge the IASB to work with regulators and accounting advisors to encourage the consistent application of IFRSs as written. As

⁵ For example, one investor we talked to said that the Board should focus its efforts in key areas where real improvement can be made instead of engaging and devoting efforts in developing IFRSs whose benefits are highly conceptual and still to be proven (eg requiring more assets and liabilities to be measured at fair value).

such, investors generally view post-implementation reviews as being of high priority (particularly for those IFRSs that are highly relevant to investors and analysts, such as segment reporting). Some investors see the post-implementation review process as a means of highlighting inconsistencies and improving comparability across companies applying IFRSs.

21. Some investors have noted that in addition to post-implementation reviews, the “targeted narrow-scope improvements” to IFRSs in response to practice issues described in the *Request for Views* might be a more effective way to enhance existing IFRSs than undertaking large projects. In this respect, some investors have shared their disappointment by what they consider a lack of attention paid to fixing weaknesses in existing standards. In addition, some suggest that in the short-term the Board could improve the disclosures related to a particular problem area rather than taking up resources with a larger-scale project.
22. However the Board makes improvements to IFRSs (whether identified through post-implementation reviews or other means), investors suggest that it focuses on investor feedback rather than solely on preparer concerns about practicality.
23. Furthermore, some investors asked that post-implementation reviews not be limited to standards developed within the past two years, but to include older standards and to include Interpretations. Also, there is little interest in having a three-yearly review of the IFRS for SMEs because that IFRS was intended to provide a stable platform for smaller entities.
24. A few investors suggest that the Board begins by addressing cross-cutting issues in major projects and standards.

Complete revenue, leases, financial instruments and insurance

25. Investors generally think that it is important that the Board complete the four remaining projects (ie revenue recognition, leases, financial instruments and insurance) before adding any major new projects to the agenda. Although they understand that the timing of those projects has taken longer than expected because of the complex issues being discussed, they generally agree that those projects are fundamental to financial reporting and should take priority. Furthermore, there is little support for deferring projects, particularly when the investor community thinks

they are important and significant work has been done on them, without providing a clear explanation about why they are being deferred and giving an indication of when work might continue.

Continue work on the Conceptual Framework

26. Once those four projects are completed (or as they are completed), the general view is that the Board should continue its work on the *Conceptual Framework*. They note that although it should be possible to finalise new IFRSs or amend existing IFRSs before the *Framework* has been completed, they think some of the inconsistencies in financial reporting could be alleviated if there was a robust conceptual framework guiding the Board's decisions. For example, because measurement is a pervasive issue across all areas of financial reporting, some note that developing a consistent approach for determining the relevant measurement basis would improve consistency in application. Furthermore, some think that the *Framework* should include:

- (a) *the concept of stewardship* to underpin the importance of being able to assess management's accountability effectively.
- (b) *the concept of prudence* (for example, some are uncomfortable with companies recognising unrealised gains and losses in when they are not distributable).

27. In addition, investors think it is important to have a conceptual framework that can provide guidance for reporting transactions that are not covered by existing standards (especially when there is not a project underway to address those "holes").

Address other comprehensive income

28. One of the most prevalent comments in the letters, survey and our discussions related to other comprehensive income (OCI) because many see it as answering a fundamental question: "How can the accounts best portray the company's performance during the period?". There seem to be differing views about what a project to determine what is included in OCI might entail. There is a general view that a clearer definition of "income" is needed (and, as a result, some link this project to the *Conceptual Framework* project). There is also a general view that, due to the

lack of a clear definition, OCI has become a “dumping ground” for anything controversial (eg changes in own credit, remeasurements, actuarial gains or losses, exchange differences etc). Consequently, many investors and analysts simply ignore it. There is a concern that the Board might use it as a means to require more fair values in the statement of financial position, and avoiding the volatility effects in profit or loss. However, that raises the bigger question of whether fair value adequately conveys information about management’s performance over the period. Some investors acknowledge that a project addressing OCI might open a Pandora’s box as measurement bases will be questioned. Some think this is an opportunity to address performance reporting generally so that investors get information about how the operations have performed over the period (and how replicable that performance is for future periods), without changes in valuations of assets and liabilities confusing that information. Some think not referring to it as “income” at all might go some way toward solving the perceived problems associated with the use of OCI.

29. There are also differing views on whether items in OCI should ever be recycled to profit or loss with some thinking they must be recycled and others thinking recycling is not appropriate.

Use research efficiently

30. “Research” seems to mean different things to different people. Some think it relates to “blue sky” thinking about conceptual issues in accounting. Few investors favour that type of research. Rather, they prefer research of a practical nature, such as researching problem areas and issues directly related to standards under development, focusing on changes in financial markets and business reality that might influence future financial reporting needs, and engaging directly with the users and preparers of financial statements to do so.
31. Some think that the Board’s resources could be used most efficiently by relying on national standard setters and others to help develop accounting standards that result in high quality financial reports. Some investors think engaging in research activities will help the Board focus on underlying principles rather than detailed rules and prescription, which they feel detracts from the standard-setting process.

32. A few investors suggest that the IASB should adopt an evidence-based approach to standard setting, which could be achieved by establishing a research capacity. In their view, evidence-based standard setting should be an explicit agenda criterion that entails the IASB communicating to its constituents an estimation of anticipated benefits and costs when making the case for change of any accounting standard. This feedback is consistent with the feedback obtained by EFRAG on its European Outreach on the IASB's Agenda Consultation dated December 2011.

Convergence should not be a primary driver of the agenda

33. Investors generally think that convergence should not be a key driver of the Board's future agenda and think that the Board should focus on the needs of those applying (or very close to applying) IFRSs. Although they note that having globally comparable financial reports help investors make more informed decisions, some emphasise that the Board should only focus on convergence if doing so enhances the quality of existing standards.

Limit the focus on XBRL

34. Investors generally do not see XBRL as a strategic priority for the IASB. There is little support for prioritising XBRL because in their view it does not take into account the best way to present information or the concept of materiality in determining that presentation. Investors generally see XBRL as simply a tool for communicating numbers, not for explaining the strategy and performance of the company. Some suggest researching the degree to which investors use XBRL to see how significantly it features in the investment evaluation process. Furthermore, some investors wonder whether the use of XBRL will result in companies applying rules rather than principles.

Set a short-term and a long-term agenda

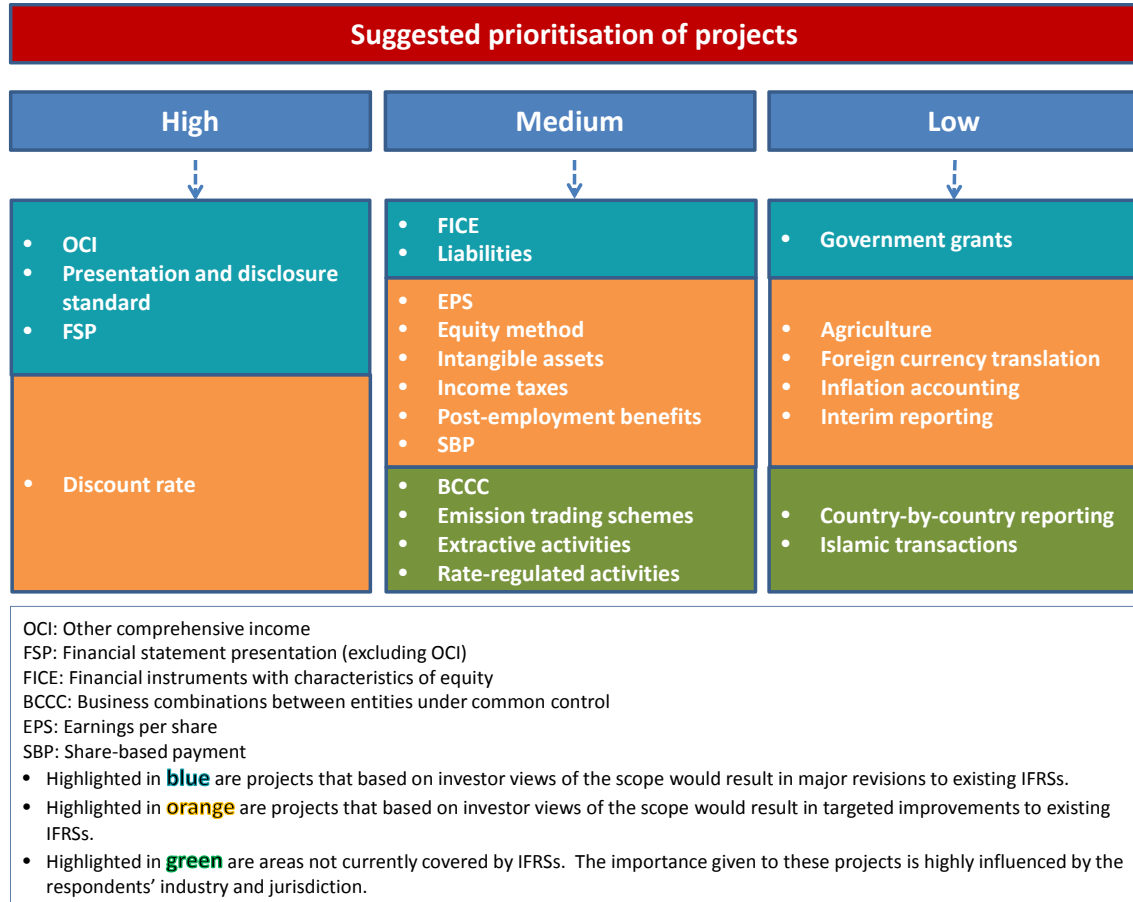
35. Finally, given the organisation's limited resources, a few investors think that in setting the agenda the Board should ensure that it has sufficient flexibility to react to unforeseen circumstances that affect financial reporting. Furthermore, some have a view that the Board should set the agenda for a few years at a time (ie a short and

long-term agenda) to avoid changing priorities (and missing deadlines) as a result of changing economic and political pressures.

Part II – Suggested projects for the work plan

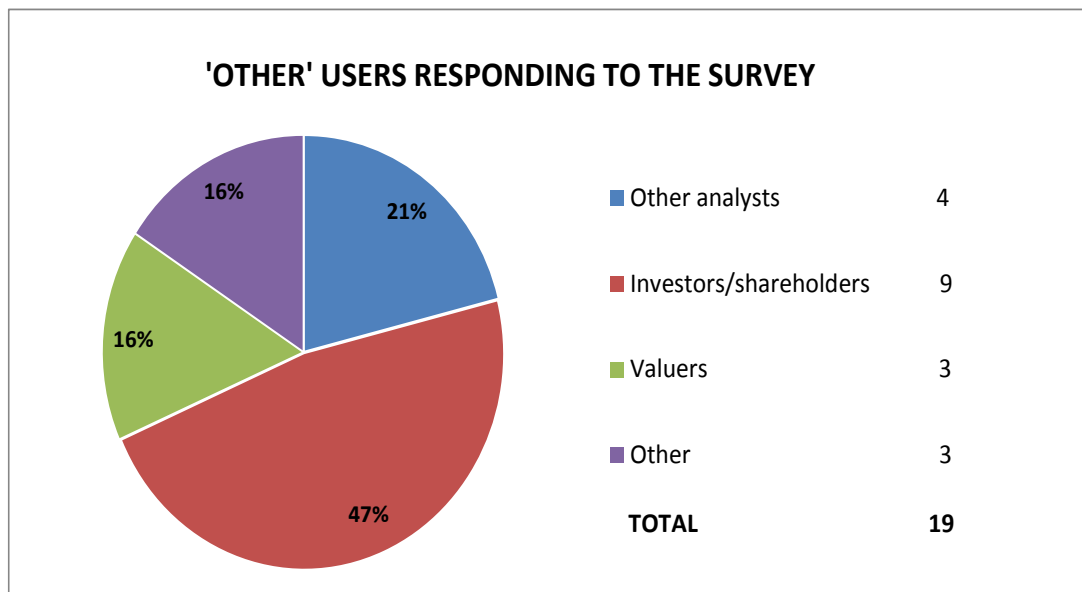
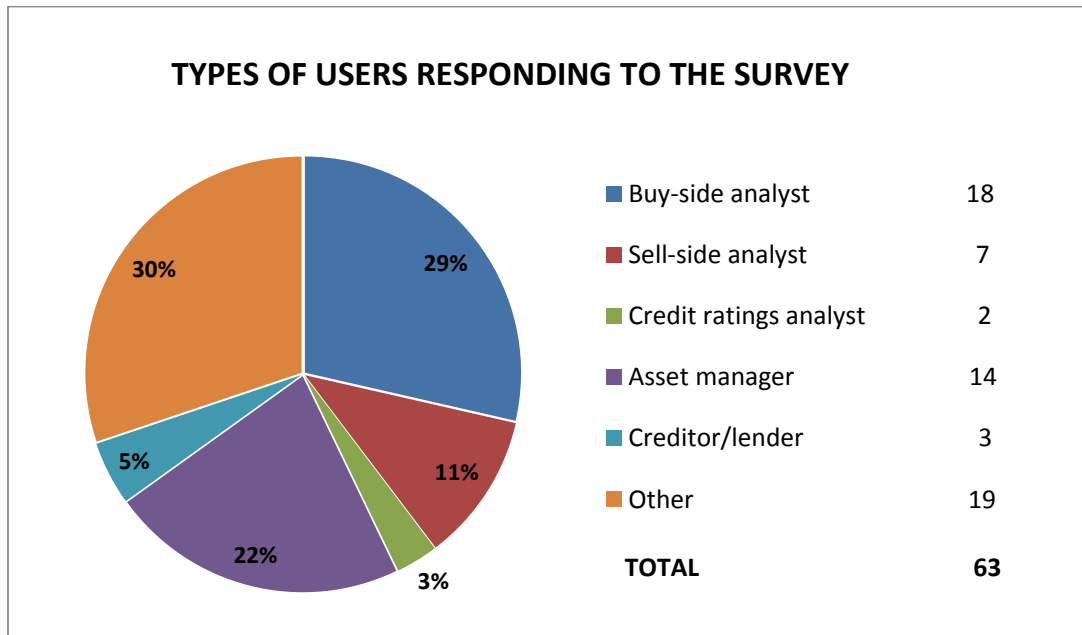
36. In Part II we describe the feedback received on the 23 projects in Appendix C of the *Request for Views* document (ie projects that were either on the agenda but deferred or new project suggestions) as well as other improvements suggested by investors and analysts.
37. In reading the comment letters and the responses to the online survey, as well as in having discussions with investors and analysts, it is clear that members of the investor community do not typically think in terms of standards-level projects or the accounting standards driving the reporting. Rather, they think in terms of the specific challenges they face when analysing financial statements and note disclosures. For example, investors generally would not say, “The IASB needs to amend IFRS 3”, but they would say, “The disclosures about merger and acquisitions activity are not sufficient because companies generally don’t provide enough information about the consideration paid”. As a result, much of the feedback from investors and analysts contains ideas for improving financial reports in specific, narrow ways rather than taking on large-scale projects. (It is important to note that in some cases it is not the fault of the accounting standards themselves that companies are not applying them properly.) In many cases, they simply need (and would appreciate) clearer disclosures and descriptions surrounding particular areas of reporting.
38. Appendix 2 of this paper contains a more detailed breakdown of respondents’ prioritisations and Appendix 3 summarises the main comments received about each project. These comments mainly encompass why investors think those projects are or are not important and, for some of those projects, suggestions for how to address some of the weaknesses observed in financial reporting (mainly through limited, narrow scope amendments).

39. Using the input received during the agenda consultation, we have assessed the relative priority of the various projects suggested (ie high, medium or low), as shown in the chart below.



Appendix 1

Main statistics from the respondents



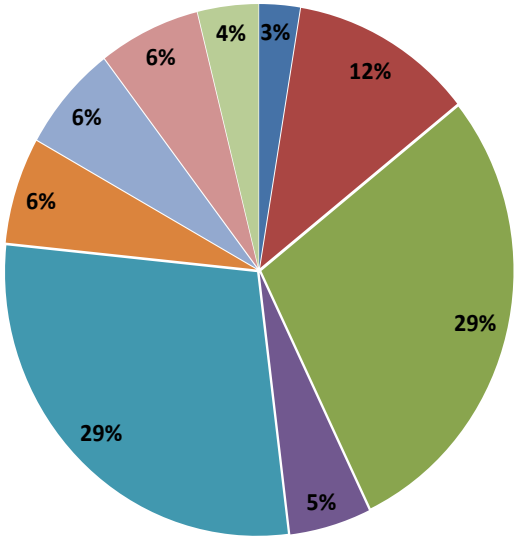
Agenda consultation | Feedback from users

CLs **Survey**

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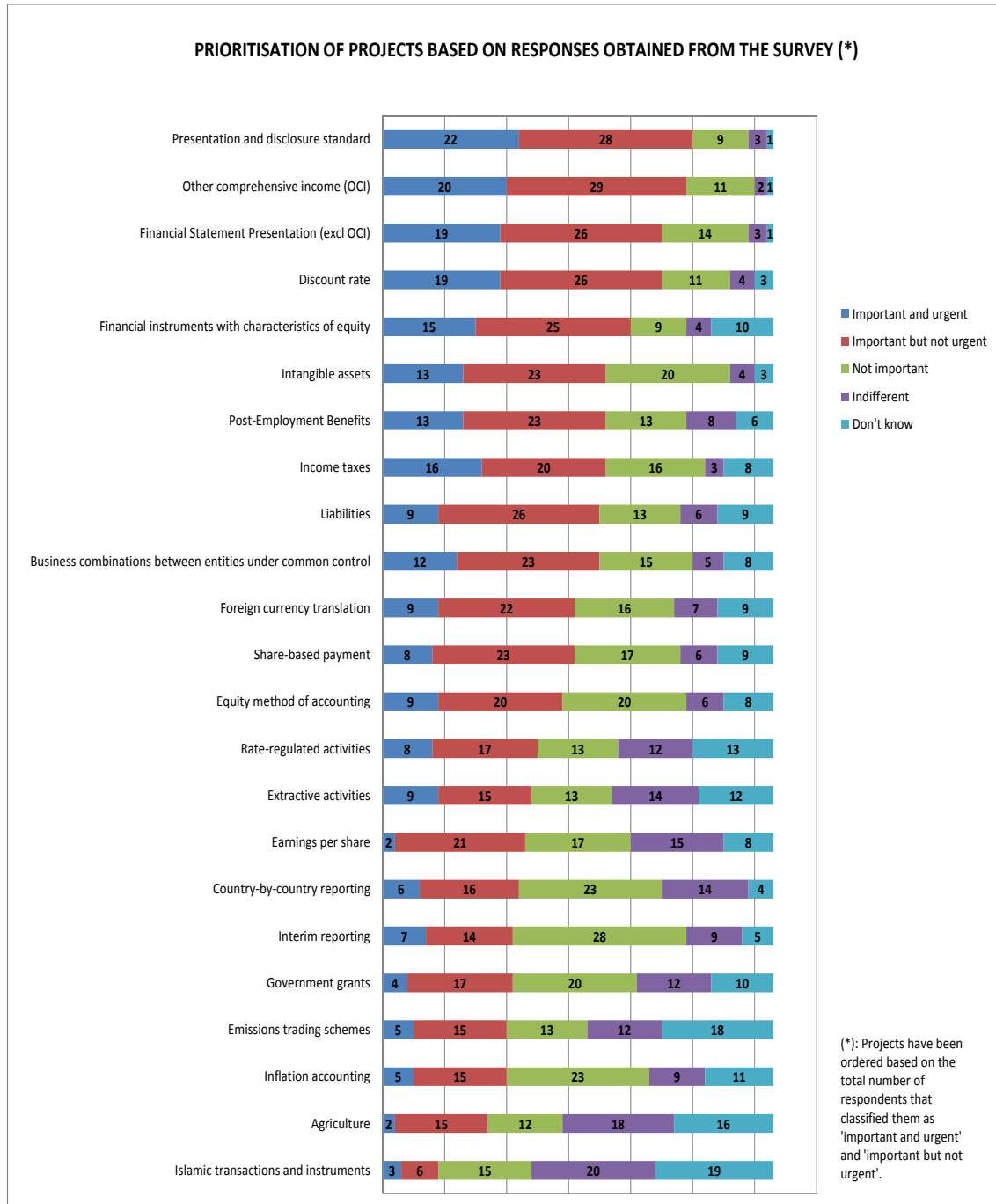
USERS BY GEOGRAPHY (Comment Letters + Survey)



	CLs	Survey
Africa	-	1
Asia	1	5
Europe	7	12
Middle East	-	1
North America	2	10
Oceania	-	3
South America	-	5
Global	4	22
No answer provided	-	4
TOTAL	14	63

Appendix 2

Prioritisation of the projects based on feedback received from the comment letters and survey



Relative importance of the projects from feedback from COMMENT LETTERS	Important and urgent	Important but not urgent	Not important	Indifferent	TOTAL
Agriculture	1		2	2	5
Business combinations between entities under common control	2		3		5
Country-by-country reporting	1		4	1	6
Discount rate	4	6			10
Earnings per share	2	3	1		6
Emissions trading schemes	1	3			4
Equity method of accounting		5			5
Extractive activities	3	2			5
Financial instruments with characteristics of equity	3	4			7
Financial Statement Presentation (excl OCI)	4	2	1	1	8
Foreign currency translation	1	1		1	3
Government grants			3		3
Income taxes	1	2	2		5
Inflation accounting			1	2	3
Intangible assets	1	3	2		6
Interim reporting	1		3		4
Islamic transactions and instruments		1	4	2	7
Liabilities	1	3	1	1	6
Other comprehensive income (OCI)	10				10
Post-Employment Benefits	2	3	2		7
Presentation and disclosure standard	5		1		6
Rate-regulated activities			3		3
Share-based payment	2	1			3
TOTAL	45	39	33	10	

Relative importance of the projects from feedback from the SURVEY	Important and urgent	Important but not urgent	Not important	Indifferent	Don't know	TOTAL
Agriculture	2	15	12	18	16	63
Business combinations between entities under common control	12	23	15	5	8	63
Country-by-country reporting	6	16	23	14	4	63
Discount rate	19	26	11	4	3	63
Earnings per share	2	21	17	15	8	63
Emissions trading schemes	5	15	13	12	18	63
Equity method of accounting	9	20	20	6	8	63
Extractive activities	9	15	13	14	12	63
Financial instruments with characteristics of equity	15	25	9	4	10	63
Financial Statement Presentation (excl OCI)	19	26	14	3	1	63
Foreign currency translation	9	22	16	7	9	63
Government grants	4	17	20	12	10	63
Income taxes	16	20	16	3	8	63
Inflation accounting	5	15	23	9	11	63
Intangible assets	13	23	20	4	3	63
Interim reporting	7	14	28	9	5	63
Islamic transactions and instruments	3	6	15	20	19	63
Liabilities	9	26	13	6	9	63
Other comprehensive income (OCI)	20	29	11	2	1	63
Post-Employment Benefits	13	23	13	8	6	63
Presentation and disclosure standard	22	28	9	3	1	63
Rate-regulated activities	8	17	13	12	13	63
Share-based payment	8	23	17	6	9	63
TOTAL	235	465	361	196	192	

Specific feedback received from the comment letters, the survey and discussions held with investors on the 23 projects included in Appendix C of the *Request for Views* document

Project	Summary of comments received	
	<u>Why it should be done</u>	<u>Why it is not necessary</u>
Agriculture⁶	<ul style="list-style-type: none"> • Could be important for integrated reporting, in particular for sustainability reports. • Although many investors do not think this warrants having a large scale project, they think that it might be worth looking into whether there could be a quick win or a clarification of how to apply existing standards. 	<ul style="list-style-type: none"> • Some investors think this project is unnecessary because in their view IFRSs should be broadly applicable, and not limited to a particular industry or transaction. • Some investors are not in favour of a solution that results in using historical cost rather than a current value. They believe that when a market price is available, it should be used. Furthermore, if a market price (fair value) is not readily available, they would prefer to have another current value, such as value in use or replacement cost, over historical cost.
Business combinations between entities under common control	<ul style="list-style-type: none"> • There are different practices for accounting for and disclosing information about such transactions from country to country and from company to company. Such different practices make it difficult for investors to get sufficient insight into those transactions and compare the financial statements of various companies. 	

⁶ It is worth mentioning that none of the investors that sent comment letters or that participated in the online investor survey were from jurisdictions where this project might have a higher relevance. This project has, however, received a much higher attention by preparers and other constituents whose feedback has been compiled and analysed in agenda paper 5C.

Project	Summary of comments received	
	<u>Why it should be done</u>	<u>Why it is not necessary</u>
Country-by-country reporting	<ul style="list-style-type: none"> • Could be important for integrated reporting, in particular for sustainability reports. 	<ul style="list-style-type: none"> • Some investors think this is not an issue the IASB needs to address.
Discount rate	<ul style="list-style-type: none"> • Discount rates have a significant effect on reported numbers. Using different rates and different measurement bases across standards potentially lead to inefficiencies in selecting investments. • Consistency would be improved if there was a framework or guidance that preparers could refer to for determining appropriate discount rates, eg for insurance, financial instruments and pensions. • Given today's economic environment, some investors want more guidance on what constitutes a 'risk free rate'. Some other investors have also mentioned that more guidance surrounding the process for obtaining the 'risk premium' would be helpful to help ensure consistency across entities. • Some think a big step would be to require entities to disclose the discount rate actually used in the measurement and describe the methodology for determining the rate. • Some also think that preparers should disclose the key assumptions made in their discount rate calculations (eg show the build up from the risk-free rate to the rate used to discount cash flows) as well as sensitivity analyses showing the change in value due to changes in the assumed discount rate. 	

Project	Summary of comments received	
	<u>Why it should be done</u>	<u>Why it is not necessary</u>
Earnings per share	<ul style="list-style-type: none"> • Need a standardised approach for calculating earnings per share that takes into account the effects of dilution. This is a key indicator in financial analysis for assessing a company's value and performance. 	
Emission trading schemes	<ul style="list-style-type: none"> • Some investors see this area as an area of divergence and lack of consistency across entities that could be tackled by the development of an IFRS. • Could be important for integrated reporting, in particular for sustainability reports. • Some think that this issue could be addressed through existing standards, such as IAS 38 <i>Intangible Assets</i> and IAS 2 <i>Inventories</i>. 	
Equity method of accounting	<ul style="list-style-type: none"> • Some investors think that a limited project could simplify the equity method. • A few investors have stated that the share of the profit or loss of associates should be not be presented after tax (ie the share of the profit or loss of associated should be presented separately from its corresponding tax portion). This would facilitate analysts' work when analysing this area of financial reporting. 	
Extractive activities	<ul style="list-style-type: none"> • Some investors see this area as an area of divergence and lack of consistency across entities that could be tackled by the development of an IFRS. 	

Project	Summary of comments received	
	<u>Why it should be done</u>	<u>Why it is not necessary</u>
	<ul style="list-style-type: none"> • Could be important for integrated reporting, in particular for sustainability reports. 	
Financial instruments with characteristics of equity	<ul style="list-style-type: none"> • Investors have highlighted that this area is too complex and that entities' assessments are not comparable. • Investors think that improving this area of financial reporting is important because it has significant impact on equity valuations, which require information about an entity's capital structure. • Some investors have also highlighted the link of this project with the <i>Conceptual Framework</i> project as it deals with the definition of equity. They also see a link with the EPS project as the boundary between equity and debt is critical in calculating EPS. 	
Financial statement presentation (excluding OCI)	<ul style="list-style-type: none"> • Some investors think that it is important to have a clearer link between the primary financial statements to enhance their understanding of an entity's financial statements and for comparing the financial results of many entities. • Some investors think that there is a need for more disaggregation in financial statements to allow users to understand past results and to forecast future cash flows. • Some investors think that a direct cash flow statement would give a clearer picture of how an entity generates 	<ul style="list-style-type: none"> • Some don't see the need for change as they prefer to do analyses themselves rather than leaving it to management's judgement.

Project	Summary of comments received	
	<u>Why it should be done</u>	<u>Why it is not necessary</u>
	<p>and spends cash. Other investors think that starting from operating income or earnings before interest, tax, depreciation and amortisation (EBITDA) rather than net income provides sufficient insights into the operating cash flows of an entity.</p> <ul style="list-style-type: none"> • Some investors want to have roll-forwards of balance sheet amounts showing why balance sheet line items have changed during the period as this would give them a clearer picture of the company's financial position and what are the reasons for the changes. • Some investors have highlighted the need for further reconciliations between opening and ending positions. • Some investors have stated the need for better detail on costs by nature to make analysis and forecasting more robust. The elimination of 'other' and 'miscellaneous' has also been mentioned as suggestions to improve transparency. • Some investors suggest splitting this project into its various components to address matters that can be easily resolved on an individual basis such as improve the presentation of cash flow statements separately from the rest of the project. 	
Foreign currency translation	<ul style="list-style-type: none"> • Because volatility in exchange rates can have a significant effect on financial results, information about the sensitivity to changes in exchange rates (eg stress testing) is important. 	

Project	Summary of comments received	
	<u>Why it should be done</u>	<u>Why it is not necessary</u>
	<ul style="list-style-type: none"> Improved disclosures about foreign currency impacts is necessary because this area is opaque (eg foreign currency movements related to debt). 	
Government grants	<ul style="list-style-type: none"> Some investors mentioned that the current standard provides too many options, which inhibits comparability. Some investors highlighted the need of government grants to be transparent to avoid economic distortions between recipients and non-recipients of grants. 	<ul style="list-style-type: none"> Some investors have mentioned that it would be advisable to wait for any implications arising from the outcome of the revenue recognition project.
Income taxes	<ul style="list-style-type: none"> Some investors find it difficult to judge how likely it is that deferred tax assets and liabilities will be realised and the timing of them. This lack of information affects their ability to forecast future cash flows. Some investors think disclosures relating tax positions could be enhanced (eg more disclosure about the company's tax rate, cash paid versus deferred etc). 	
Inflation accounting	<ul style="list-style-type: none"> A few investors suggested that the IASB should use empirical studies about inflation accounting to determine the impact of inflation in accounting and valuation of a firm. 	
Intangible assets	<ul style="list-style-type: none"> Because intangible assets are of increasing importance, it is important that they are accounted for appropriately and that narrative information about the reported amounts is disclosed. 	<ul style="list-style-type: none"> Some investors would not like to see a project on intangibles added to the agenda because they are concerned that this would result in more intangible assets being recognised. The concern stems in part

Project	Summary of comments received	
	<u>Why it should be done</u>	<u>Why it is not necessary</u>
	<ul style="list-style-type: none"> • Some investors would like the project to address whether goodwill should be amortised rather than tested annually for impairment. Those investors do not think that recognising goodwill as a 'non-wasting' asset portrays "real" economic benefits attributable to the acquirer. For some this is also due to a distrust of management to manipulate figures when carrying out the valuations for the purchase price allocation. • Some investors think that the criteria for capitalisation of development expenses are not robust enough to be consistently applied across entities. Additionally, views are split among investors about whether development expenses should be capitalised. • Financial reports do not normally distinguish between internally developed intangibles and acquired intangibles. Some investors think that this could be solved by having clearer disclosures separating acquired intangibles from other intangibles (and the corresponding amortisation expense). Not having the split can distort the calculation of return on invested capital. • Some investors think that cash flow statement should require separate presentation of additions and proceeds of tangible, intangible assets and other investments. 	<p>from the view that some of the "new" intangible assets would be more like internally generated goodwill which in their view does not reflect "real" economic benefits.</p>

Project	Summary of comments received	
	<u>Why it should be done</u>	<u>Why it is not necessary</u>
Interim reporting	<ul style="list-style-type: none"> • Interim reports are useful in making investment decisions and having updated information provides insight into current and relevant issues. • Models are updated as new information becomes available and it is important that investors have up to date quantitative information (preferably on a quarterly basis). 	<ul style="list-style-type: none"> • Some investors think that they are getting the information that they need from interim reports.
Islamic (Shariah-compliant) transactions and instruments	<ul style="list-style-type: none"> • A few investors think that there is an increasing importance of such instruments in both the Islamic world and beyond and consistent application would be helpful to understanding the financial position of such companies and being able to compare it to companies in other parts of the world. 	<ul style="list-style-type: none"> • Some investors think that this project is unnecessary because in their view IFRSs should be broadly applicable, and not limited to a particular industry or transaction.
Liabilities (amendments to IAS 37)	<ul style="list-style-type: none"> • Some investors think that liabilities, such as environmental and restructuring obligations are overlooked by many analysts due to lack of sufficient and clear information. 	<ul style="list-style-type: none"> • Some investors think that the current IAS 37 is working well and should not be on the agenda.
Other comprehensive income	<ul style="list-style-type: none"> • The lack of a conceptual basis for reporting OCI makes it difficult to understand what it means. Some investors think it is a difficult concept to understand because they do not consider it to be “income” as the changes reported in this caption are not caused by operating flows for which long-term trends can be inferred. Some perceive OCI as a “bucket” to avoid making controversial decisions. • Regarding recycling, some investors think that more 	<ul style="list-style-type: none"> • Some investors think that the OCI discussion relates more to the geography of the presentation than to a purely conceptual matter. In their view, the important point is to have enough information about what it is in OCI so that they can include or exclude the items in their analyses as they feel appropriate.

Project	Summary of comments received	
	<u>Why it should be done</u>	<u>Why it is not necessary</u>
	<p>clarity is deemed necessary around OCI and what is recycled to profit or loss and the understanding of timing of movements between the financial statements.</p> <ul style="list-style-type: none"> Investors think that this project would need to define what “performance” and “income” are. 	
Post-employment benefits	<ul style="list-style-type: none"> Due to current flexibility in the presentation, some investors find it difficult to differentiate between operating and financing costs about pension liabilities. 	<ul style="list-style-type: none"> Some investors think that no additional work on this project should commence until after the recent amendments have been implemented and the effects known.
Presentation and disclosure standard	<ul style="list-style-type: none"> Some investors are unsure how this is different from FSP and the disclosure framework. Some investors think that this project is not necessary because it could be combined with the work on the Conceptual Framework and Disclosure framework. Some investors would instead be supportive of the development of a Presentation and Disclosure Framework that would contribute to increasing the clarity and consistency of financial reports. 	
Rate-regulated activities	<ul style="list-style-type: none"> There is a concern particularly in Canada that there is an unacceptable level of divergence in how Canadian companies are accounting for rate-regulated activities. In the absence of guidance in IFRSs, companies are applying different accounting frameworks to similar transactions. Investors in this jurisdiction think there is an urgent need for comparability in this area. 	

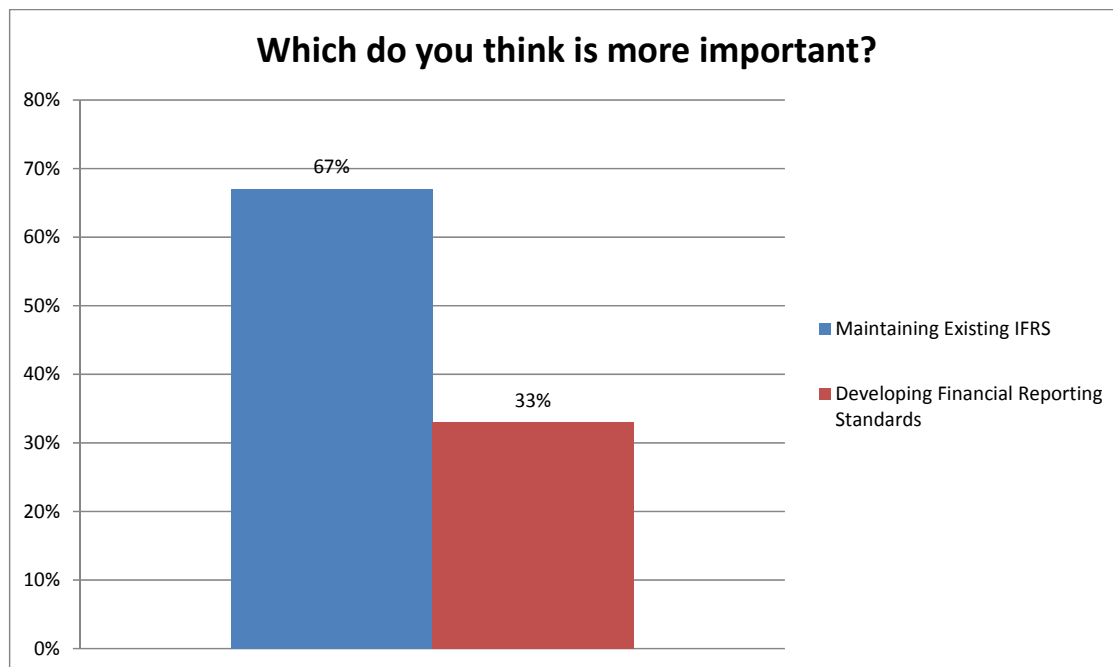
Project	Summary of comments received	
	<u>Why it should be done</u>	<u>Why it is not necessary</u>
Share-based payments	<ul style="list-style-type: none"> Some investors think there are significant measurement issues. They think the measurement should be based on the payment made, not on the services received. Some investors think that it is difficult to estimate the value of share-based payments. 	
Other projects suggested:		
Debt	<ul style="list-style-type: none"> Some investors have stated the need for providing greater detail on maturity schedules and other enhancements related to debt disclosures as this information is key to understanding the capital structure and future financing needs of a company. 	
Goodwill impairment	<ul style="list-style-type: none"> Some investors have observed that many companies do not disclose the assumptions used for goodwill impairment tests, and why a company has determined that goodwill is not impaired even when there has been a significant decline in the company's stock price. As noted in "intangible assets" above, some investors think goodwill should be amortised rather than tested for impairment. 	
Measurement uncertainty	<ul style="list-style-type: none"> The US SEC is currently looking at how to address measurement uncertainty in financial reporting and investors think that any resolutions need to be consistent for comparability purposes. 	

Project	Summary of comments received	
	<u>Why it should be done</u>	<u>Why it is not necessary</u>
Mergers and acquisitions	<ul style="list-style-type: none"> Many investors think that some of the disclosures about merger and acquisitions activity need enhancement. 	
Net debt (ie financing liabilities less cash)	<ul style="list-style-type: none"> Many investors have often asked for disclosure of this metric and reconciliation of its components. This metric allows investors assess how the entity's financing activities have changed over time. This is perceived to be one of the biggest pieces of information missing in financial statements today. 	
Non-GAAP measures	<ul style="list-style-type: none"> Some investors have highlighted the need of more guidance around the use of non-GAAP (non-IFRS) financial measures and think a more flexible use of such measures should be allowed. Some investors would like to see some non-GAAP measures incorporated into IFRSs. 	
Segmental disclosures	<ul style="list-style-type: none"> Some investors think that further guidance is needed to assist in the identification of reported segments. Some investors find that more guidance on the circumstances in which they might be aggregated is needed. Investors have stated that requirement of additional segment information and reconciliation of segment metrics to group accounts would enhance the quality of their analyses. 	<ul style="list-style-type: none"> Some investors think segment reporting is working well and that they have access to the information they need.

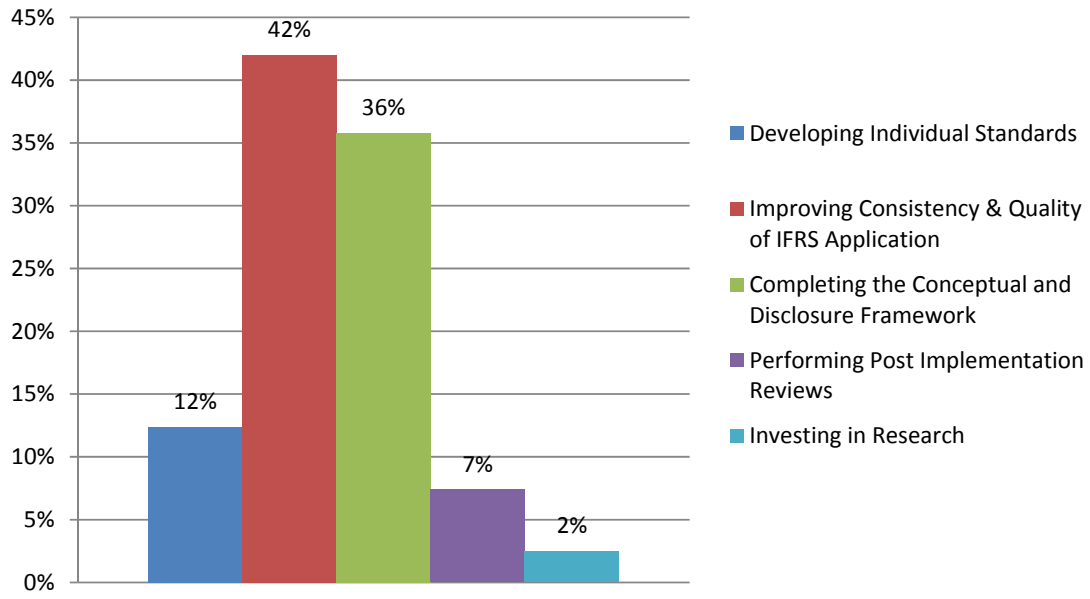
Appendix 4

Results of the webcast held with CFA Institute

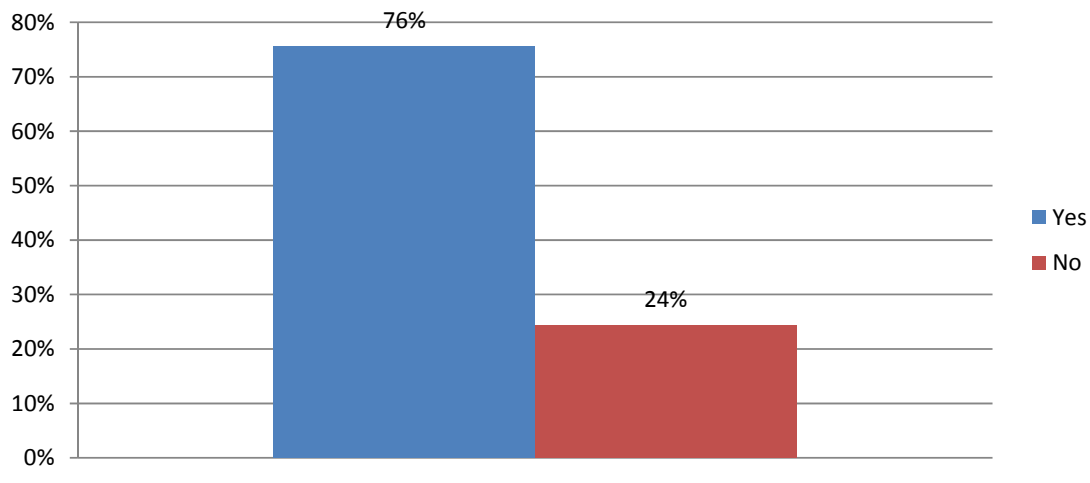
1. On 9 November 2011 we held a live webcast jointly with the CFA Institute. Overall, about 200 participants listened either live or on-demand. The webcast summarised the process for adding a project to the IASB's agenda and described a few of the projects that we felt would be of greatest interest to investors, along with the CFA Institute's preliminary views on the relative importance of the projects and the strategic areas described in Appendix C of the *Request for Views* (those views were articulated in their comment letter and are included in this agenda paper).
2. During the webcast the participants were asked for their views on particular topics. About 80-90 participants answered the questions below.



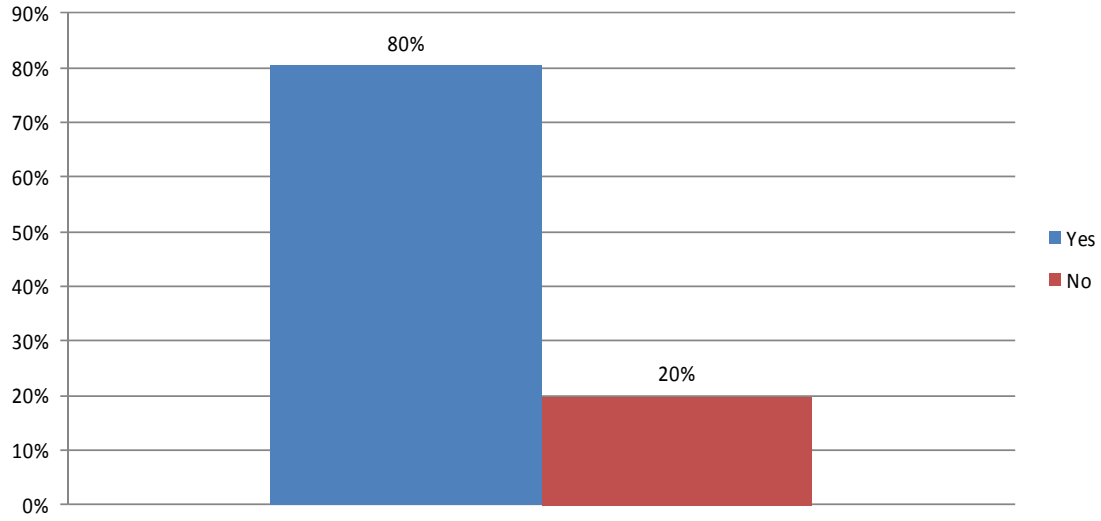
Of the five strategic areas, which do you think is most important?



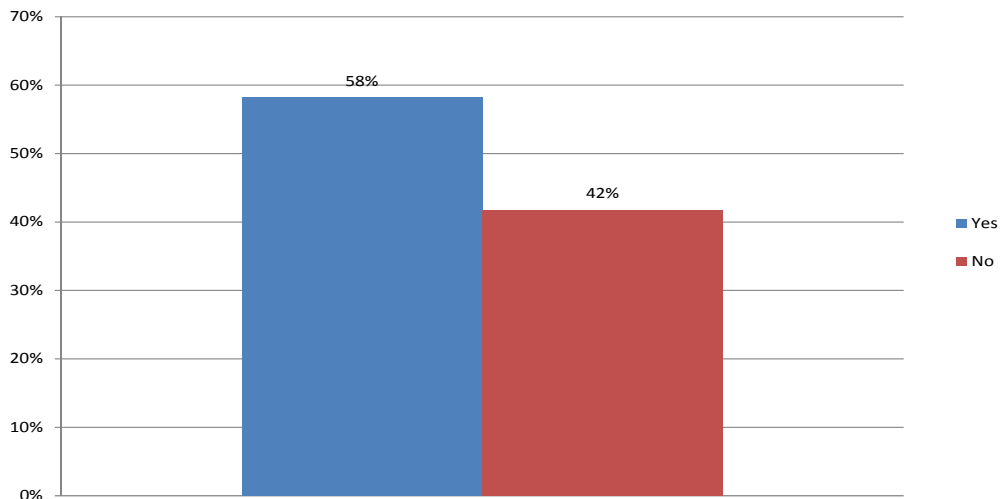
Do you agree that Financial Statement Presentation (FSP) and Other Comprehensive Income (OCI) Projects should be a top priority to the IASB as it establishes its new agenda?



Do you agree that Conceptual Framework should be amongst the top priorities of the IASB as it establishes its new agenda?



Do you think the IASB should complete the deferred projects for which significant development efforts have occurred (e.g. Income Taxes, Liabilities (IAS 37), and Financial Instruments with Characteristics of Debt & Equity) before commencing any new projects?



Investor Survey on IASB Agenda

Respondent information

*1. What is your role as a user of financial statements?

- Buy-side analyst
- Sell-side analyst
- Credit ratings analyst
- Asset manager
- Creditor/lender
- Other (please specify)

2. Which geographical regions and sectors do you follow or invest in?

Region(s)

Sector(s)

3. In which country are you based?

4. Are you willing to:

	Yes	No
participate in IASB-organised meetings or calls with other investors and analysts to discuss the topics in this survey?	<input type="radio"/>	<input type="radio"/>
discuss your answers on an individual basis?	<input type="radio"/>	<input type="radio"/>

If Yes, please provide your name and email address:

Investor Survey on IASB Agenda

Part 1: Which projects should be on the IASB's future agenda?

The following questions ask for your views on the relative importance and urgency of the projects that have been suggested. *A description of each of the potential projects is available [here](#).*

5. Presentation and disclosure:

	Important and urgent	Important but not urgent	Not important	Indifferent	Don't know
Financial statement presentation (excl other comprehensive income): Do we need to improve the organisation and presentation of information in the financial statements? This might include (a) changing the format of the cash flow statement and (b) establishing a clearer link between the amounts in the income statement, cash flow statement and balance sheet.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other comprehensive income (OCI): Do we need to improve consistency in the basis for determining which items should be in profit or loss and which should be in OCI?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Presentation and disclosure standard: Do we need to improve the structure and consistency of the note disclosures to focus on more meaningful information?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Country-by-country reporting: The Publish What You Pay organisation wants the extractive industries to publish information (such as royalties and dividends paid to governments and production volumes and reserves) on a country-by-country basis. Should we require that companies disclose such information in their IFRS-compliant financial statements?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Investor Survey on IASB Agenda

Interim reporting: Should we require full application of IFRS measurement of assets and liabilities for interim periods (eg full measurement of pensions rather than using estimates from the last annual period)?

For each project for which you answered 'important and urgent', please explain why. If you prefer a different approach from what has been suggested, please explain what you think needs to be done and why.

Investor Survey on IASB Agenda

A description of each of the potential projects is available [here](#).

6. Recognition and measurement:

	Important and urgent	Important but not urgent	Not important	Indifferent	Don't know
Agriculture: Should we change the measurement basis for biological assets that are used for their output (eg olive trees that produce olives for making oil, dairy cows that produce milk etc) so that they are measured at historical cost (like PP&E) rather than at fair value?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Government grants: Should we remove the accounting policy choices in the accounting for government grants (eg with regard to presentation, some grants are on the balance sheet as deferred income, while others are deducted from the carrying amount of the related asset)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Intangible assets: Should we align the accounting for internally-developed intangible assets with the accounting for purchased intangible assets, resulting in the recognition of more internally generated intangibles?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Liabilities (IAS 37): Do we need to improve the accounting and measurement of items such as restructurings and environmental clean-up and decommissioning obligations?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Post-employment benefits (incl pensions): Do we need to improve the measurement of obligations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Investor Survey on IASB Agenda

under defined benefit plans
and contribution-based
plans?

Income taxes: Do we need
a fundamental review of
the accounting for income
taxes/deferred taxes,
including uncertain tax
positions?

Discount rate: Do we need
to improve consistency in
determining discount rates
used in present value
measurements?

For each project for which you answered 'important and urgent', please explain why. If you prefer a different approach from what has been suggested, please explain what you think needs to be done and why.

Investor Survey on IASB Agenda

A description of each of the potential projects is available [here](#).

7. IFRSs currently do not have explicit guidance on the following types of transactions or industries:

	Important and urgent	Important but not urgent	Not important	Indifferent	Don't know
Business combinations between entities under common control: Do we need to improve consistency in the accounting for transactions between related parties, such as group restructurings and mergers between state-owned enterprises?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Emission trading schemes: Do we need to improve consistency in the accounting for assets and liabilities arising from tradable emission permits?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Extractive activities: Do we need to improve consistency in the accounting for assets and liabilities for such activities?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Islamic (Shariah-compliant) transactions and instruments: Should we address the accounting for these?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Rate-regulated activities: Do we need to improve consistency in the accounting for assets and liabilities arising from the effects of the regulatory setting of prices that can be charged to customers?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

For each project for which you answered 'important and urgent', please explain why. If you prefer a different approach from what has been suggested, please explain what you think needs to be done and why.

Investor Survey on IASB Agenda

A description of each of the potential projects is available [here](#).

8. Preparation of financial statements:

	Important and urgent	Important but not urgent	Not important	Indifferent	Don't know
Equity method of accounting: Do we need to simplify or possibly remove the equity method of accounting for investments in associates and joint ventures?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Earnings per share: Do we need to simplify or change the calculation of diluted EPS?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Foreign currency translation: Do we need to address the accounting for changes in foreign exchange rates, particularly in emerging economies, where currencies tend to be more volatile?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Inflation accounting: Do we need to address the accounting (or require more disclosure) for companies whose functional currency is that of an economy subject to high inflation, but not to hyperinflation?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Financial instruments with characteristics of equity: Do we need to improve the way in which companies differentiate between debt and equity?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Share-based payments: Do we need to improve consistency and clarity in the accounting for share-based payments (including transactions with employees)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

For each project for which you answered 'important and urgent', please explain why. If you prefer a different approach from what has been suggested, please explain what you think needs to be done and why.



Investor Survey on IASB Agenda

Part 2: What 3 things would you change in financial statements and why?

9. On the income statement:

Priority #1

Priority #2

Priority #3

10. On the balance sheet:

Priority #1

Priority #2

Priority #3

11. On the cash flow statement:

Priority #1

Priority #2

Priority #3

12. In the segment disclosures:

Priority #1

Priority #2

Priority #3

13. In the other note disclosures:

Priority #1

Priority #2

Priority #3

14. Which area(s) of accounting or underlying transactions do you feel you have the least information about when analysing financial statements?

15. Do you have any other observations about accounting and financial reporting (for example, ease of use, your ability to get the information you need, timeliness)?