

AGENDA PAPER

IFRS Foundation Trustees meeting – Due Process Oversight Committee

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Reporting of Outreach and Fieldwork and Correspondence: update

Introduction

1. The purposes of this paper are to provide updates on (a) the IASB's on-going efforts to improve the transparency reporting of feedback from outreach and fieldwork, and (b) whether any correspondence has been received on due process issues since the DPOC's meeting held on 28 January 2014 in Milan.

Reporting of Outreach and Fieldwork

Outreach

2. In our January report to the DPOC (Agenda Paper, AP, 3F for that meeting refers) we provided an update on the ways in which the staff are endeavouring to improve the reporting of feedback from investors and analysts (users of financial statements), particularly with respect to those who wish to remain anonymous. This included conducting additional surveys of users, and perhaps using more structured interviews/questions during their outreach meetings.
3. As we reported in January, the staff understand the importance of gathering this feedback in a transparent yet confidential way, and are continually considering better ways to achieve their objectives. The staff have been asked that, when meeting with investors, they should capture the main points from these meetings and ask the investor, or external meeting chair if it is a group of investors, to confirm that the staff have accurately documented the discussions.
4. This would improve the staff's documenting of these meetings whilst maintaining confidentiality and would not unduly increase the staff's work load. These meeting notes would remain confidential and would be used to prepare a summary of the feedback received from investors/users for publication on the IASB's public website. These summaries would be similar to the comment letter summaries that the staff currently prepare in order for the Board to discuss the feedback received on the various proposals.

5. As reported previously, summaries of user outreach activities have been prepared in respect of the major projects, in particular:
- a. Leases – a summary of the feedback received from investors and analysts between May and September 2013 about the lessee accounting proposals has been posted to the leases page on the public IASB website¹, and was reproduced in the papers for the DPOC at its January 2014 meeting (as Appendix A to AP3F²). The summary details the feedback that the IASB and the FASB received at meetings with investors and analysts on the lessee accounting proposals, without attributing feedback to individual investors. The staff have referenced this summary several times in subsequent meetings with stakeholders and have received a positive response to their efforts at improving the transparency of these discussions;
 - b. Insurance – a paper summarising the feedback from the IASB’s outreach with users of financial statements was presented to the Board at its January meeting, and a copy was included in the papers for the DPOC’s January 2014 meeting (as AP 3F(i)³). In addition to the overall comments on the accounting for insurance contracts and comments related to topics that the IASB specifically was seeking feedback on, the Insurance paper includes the number of meetings with investors, number of investors spoken to, the number of comment letters received and an analysis of discussions with investors by type of respondent and by region.
6. At its March meeting, the IASB was presented with a number of further papers highlighting the results of user outreach:
- a. Conceptual Framework – as part of its consideration of the summary of the feedback on the July 2013 Discussion Paper (DP) *A Review of the Conceptual Framework for Financial Reporting*, the IASB received a specific paper summarising the feedback received from investors and analysts through comment letters, face-to-face meetings and teleconferences (that paper is included as AP 3F(i) for this meeting); and
 - b. Disclosure Initiative: Changes in debt – the IASB considered a paper recommending that it should undertake a narrow-scope project to amend IAS 7 *Statement of Cash Flows* to provide disclosures that reconcile the movements in financing activities (excluding movements in equity) with amounts included in the opening and closing statement of financial position. The staff also recommended that the project should address the areas for potential disclosures improvements relating to debt and restrictions on cash. The staff paper is reproduced as AP 3F(ii)

¹ The summary can be accessed at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Documents/Lessee-accounting-investor-outreach-summary-May-to-September-2013.pdf>.

² Also available from the Foundation’s website at:
<http://www.ifrs.org/Meetings/MeetingDocs/Trustees/2014/January/AP3F%20Outreach%20and%20Correspondence.pdf>.

³ Also available from the Foundation’s website at:
<http://www.ifrs.org/Meetings/MeetingDocs/Trustees/2014/January/AP3F%28i%29%20Insurance%20Users%20Feedback.pdf>.

for this meeting. It shows that the consideration of the project follows calls made from a number of investors and analysts for more information about period-on-period changes in debt to be included in the financial statements. As part of the staff's research on the issue, a survey of investors and analysts was undertaken during January-February 2014 to gather views on the issue. The feedback from that survey is reported in AP 3F(ii) (from paragraph 13 onwards).

7. We believe that using this type of summary (of all outreach, including surveys) will increase the level of transparency of engagement with users of financial statements whilst maintaining the level of confidentiality that these stakeholders desire. To further supplement the information within these summaries we will be asking the teams to include a breakdown of the feedback received not only by geographical region but also by type of investor/analyst (ie buy-side, sell-side, equity, fixed income).
8. We also believe that the creating this type of summary for each project will go a long way to address the DPOC's request to improve the reporting of feedback from users of financial statements, particularly with respect to those who wish to remain anonymous. In addition, as reported previously, we have hired Alison Thomas, formerly of PwC, to consult with us on our investor outreach strategy. Alison has been working with Barbara Davidson, Principal - Investor Liaison, on this strategy for the past few months. As part of this work Alison and Barbara are looking at additional ways of obtaining feedback from users as well as working to encourage users to send public comment letters to the IASB. This work should further enhance the transparency of the feedback received from users. We will provide a report on the results of this work later in 2014.

Fieldwork

9. At its October 2013 meeting, the DPOC also noted that the IASB's Effects Analysis Consultative Group (EACG) was tackling the issue of transparency, in particular in relation to fieldwork (AP 3D for that meeting refers). It was noted the reporting of fieldwork raised similar issues with regard to confidentiality, as many participants are prepared to participate only under conditions that their names or the detailed work performed would not be made public. The latest draft of the report of the EACG is included elsewhere on the agenda for this meeting (AP 3D), which refers to these issues.
10. At that meeting, it was noted that, during 2013, the IASB undertook work with a group of banks and corporates to assess the likely effects of the proposed expected credit loss model on loan loss provisions. The fieldwork involved participants applying the impairment approach proposed in the IASB's Exposure Draft (ED) *Financial Instruments: Expected Credit Losses* to a number of selected portfolios using a hypothetical scenario provided by the IASB. Some of the participating organisations had spent over 500 hours on this work, with one devoting over 600 hours, but all on a confidential basis, not least given the hypothetical nature of the fieldwork and the fact that

the detailed calculations and assessments could include price-sensitive information. Without the assurance of confidentiality, the IASB would not have been able to conduct this fieldwork.

11. We had planned at the January meeting to discuss with the DPOC – in the context of the impairment exercise – a number of issues, notably the selection of fieldwork participants; how the fieldwork was conducted, including the interaction with participants; and how the results of the fieldwork were analysed and presented to the IASB. Unfortunately, time prevented us from addressing the issue, so we would like to consider it at this meeting. On the point about reporting on fieldwork, the main results and observations arising from the impairment fieldwork exercise were reported in publicly available papers to the IASB at its meetings in July 2013⁴ and September 2013⁵. As noted in previous DPOC meetings, the staff's objective remains to report as transparently as possible while respecting confidentiality, which is an issue raised in the draft report of the Effects Analysis Consultative Group (AP 3D for this meeting refers).
12. But the confidentiality of the fieldwork does raise issues both of transparency and of how much validity can be placed in the results. Having said that, the IASB believes that the impairment fieldwork exercise did have a number of benefits, in that:
 - a. it allowed the field participants to actively engage with the IASB to better understand the proposals and to provide us with enriched and valuable feedback based on their experience, as they had to consider in detail how they will implement our proposals (and alternative models); and
 - b. by working with field participants the staff have obtained a more thorough understanding of the mechanics of measuring expected credit losses (both 12 month and lifetime), techniques to adjust forward-looking information, potential approaches to assess credit deterioration and the effects and relevance of discounting.
13. How fieldwork is undertaken and reported is still developing. For example, on the Insurance Contracts project, the staff presented a paper to the IASB at its January 2014 meeting⁶ detailing the results of fieldwork carried out on the insurance proposals with 30 entities (13 from within the European Union, and 17 from other jurisdictions outside the EU). Appendix A sets out the high level summary of the staff's observations from the fieldwork, together with details of the methodology adopted for the exercise. The nature of the fieldwork involved less sensitivity than that undertaken for the impairment fieldwork, and 28 out of the 30 participants consented to their being identified as having

⁴ Agenda Paper (AP) 5B, available at: <http://www.ifrs.org/Meetings/MeetingDocs/IASB/2013/July/05B-Impairment.pdf>.

⁵ AP 5E, available at: <http://www.ifrs.org/Meetings/MeetingDocs/IASB/2013/September/05E-Impairment.pdf>.

⁶ AP 2C, available at: <http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/January/AP02C-Insurance%20Contracts.pdf>, with a separate report on the EU fieldwork available at: http://www.efrag.org/files/EFRAG%20Output/Insurance_contracts_field-test_report.pdf.

taken part in the exercise (although the views of individual participants on specific aspects of the fieldwork were not disclosed).

Correspondence

14. At the time of writing (27 March), no new correspondence requiring the DPOC's attention has been received.

Appendix A

INSURANCE CONTRACTS FIELDWORK: SUMMARY OF FINDINGS AND METHODOLOGY

The following is an extract from the staff paper (AP 2C) presented to the IASB at its meeting in January 2014.

Summary

4. The following is a high level summary of staff's observations from the fieldwork:

Overall

- (a) there is wide divergence in existing practices for the accounting for insurance contracts between jurisdictions and sometimes between contracts that have similar features within a jurisdiction. Some participants continued to question whether the proposals as a whole are an improvement to their existing practices.
- (b) the fundamental proposals of the model (ie present value of cash flows, an explicit risk adjustment, a discount rate and a contractual service margin) can be applied. While those proposals build on existing requirements of different jurisdictions, no single jurisdiction applies the proposals in the 2013 ED in their entirety.
- (c) the proposals will result in significant implementation costs. Because of the disparity of existing practices, the costs will differ between entities.
- (d) the amounts reported in the financial statements are affected by the assumptions used to estimate them. Some participants believed that the costs of applying some proposals outweighed the benefits of that proposal because differences in the assumptions may lead to a lack of comparability between entities. Different participants believed this to be the case for different proposals.

Targeted proposals

- (e) participants provided mixed responses on whether the benefits outweighed the costs on the five targeted proposals in the 2013 ED. The following is a summary:
 - (i) generally, participants found the five proposals could be made operational with differing levels of complexity reported for each participant. In contrast, the majority of the participants from the European Union did not believe that two of the proposals were operational. These proposals were (1) on the presentation of interest revenue and expenses for long-term contracts, and (2) for contracts that require the entity to hold underlying items and that specify a link to returns on those underlying items.
 - (ii) some participants recommended narrowing the scope of three proposals due to operational concerns for specified types of insurance contracts, providing an option or reverting to the 2010 Exposure Draft Insurance Contracts (the '2010 ED') proposals. These were the proposals (1) the presentation for interest expense, (2) the presentation of interest revenue and expenses, and (3) for contracts that require the entity to hold underlying items and that specify a link to returns on those underlying items.

- (iii) no single participant recommended reverting to two of the previous proposals in the 2010 ED. These were the proposals on (1) adjusting the margin and (2) retrospectively estimating the margin on transition.
- (iv) some participants requested further simplifications or a suggested a different approach for all of the five proposals. They did so because they were concerned about the complexities of the 2013 ED proposals. In addition, some believed that their approach would result in better information.
- (v) some proposed further changes that would increase complexity on all but the proposal to retrospectively estimate the margin. They recommended those changes because they thought that the benefits would increase beyond the additional costs.

Methodology

5. This section provides the following information on the methodology of the fieldwork conducted on the 2013 ED:

- (a) the objective of the fieldwork (see paragraphs 6–7);
- (b) the population of the fieldwork participants (see paragraphs 8–10); and
- (c) a description of the fieldwork conducted (see paragraphs 11–13).

Objective

6. Consistent with the IASB’s reasons for issuing the 2013 ED, the objective of the fieldwork was to determine whether the proposals in the 2013 ED resulted in a more faithful representation and more relevant and timely information about insurance contracts compared to the proposals in the 2010 ED. The fieldwork was also designed to provide an understanding of how the revised proposals may be implemented and about the effect of the proposals on the amounts reported in the financial statements.

7. The specific feedback and supporting material, including examples of financial statements, provided by the participants will be used by the staff to:

- (a) better understand some of the arguments presented to us in our outreach, as well as in the comment letters; and
- (b) develop Board Papers on the specific issues addressed in the fieldwork.

Population of fieldwork participants

8. We undertook fieldwork with 17 entities from jurisdictions other than the European Union. This population was assembled by inviting entities that participated in previous rounds of fieldwork, by inviting national standard-setters to assist in identifying possible fieldwork participants and by posting a notice on our public website. This paper primarily describes the methodology used for, and the findings from, the fieldwork conducted by the IASB among entities from jurisdictions other than the European Union.

9. In addition, for countries within the European Union, we co-ordinated fieldwork with EFRAG and French, German, United Kingdom and Italian National Standard-Setters (ANC, ASCG, FRC and OIC) to avoid undue costs to preparers. That fieldwork was undertaken by 13 entities. The participants were asked questions relating to the 2013 ED’s five targeted proposals that was the same as the questions asked to the entities that were not in the European Union. In

addition, they were asked further questions on other areas of the 2013 ED. The report outlining the methodology and the findings of that fieldwork will be available from www.efrag.org.

10. This paper highlights where there are significant differences in the findings between that fieldwork, and the fieldwork conducted among entities from the European Union. Appendix B provides more detail about the fieldwork participants and the portfolios tested for both sets of fieldwork.

Description of the fieldwork

11. Fieldwork participants were asked to apply the proposed measurement model to selected portfolios of insurance contracts over two annual periods. Eight entities tested portfolios that represent the majority of their business. Out of these, a few tested most of their in-force portfolios. Nine entities chose selected portfolios based on availability of data, ease of comparison to their existing reporting and/or significance to their business.

12. Entities typically tested the proposals over one or two annual periods. Some entities tested longer periods (for example, 3–6 annual periods). In addition, some of the participants did some stress testing over the periods chosen. There was also a mixture of onerous and profitable portfolios chosen, with more portfolios being profitable.

13. Participants used some or all of the following simplifications:

- (a) applied different discount rates than those required by the proposals (for example, existing discount rates, risk-free rates or approximation of historic yield curves);
- (b) used the portfolios as defined under existing GAAP or for non-GAAP reporting (for example, for embedded value reporting); and
- (c) applied the risk adjustment that was calculated using existing requirements or by ignoring diversification benefits.

These simplifications may result in differences in the amounts reported compared to the amounts reported when the proposals are applied without the simplifications.