

AGENDA PAPER

IFRS Advisory Council Meeting

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TOPIC *Long-term investing: implications for the Conceptual Framework*

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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.

Purpose of this session

1. The purpose of this session is to seek the Council's strategic advice on how the IASB can ensure that its Standards meet the needs of:
 - (a) long-term investors in a reporting entity; and
 - (b) investors in a reporting entity that has long-term investments

Background

2. Long-term investment, and long-term financing, is a subject that has attracted a great deal of attention from governments in recent years. Governments have indicated that encouraging long-term investment is one important tool to promote economic growth. The *G20 Leader's Declaration* in September 2013 stated that the leaders of the G20:
 - (a) agreed 'on the need for governments to promote policies that facilitate and encourage institutional investors to finance long-term investment consistent with their mandates and prudent risk-taking'; and
 - (b) endorsed the *G20/OECD Principles of Long-Term Investment Financing by Institutional Investors*, developed by the OECD at the request of the G20. These principles are intended to help governments facilitate and promote long-

term investment by institutional investors, particularly among institutions such as pension funds, insurers and sovereign wealth funds, that typically have long duration liabilities and consequently can consider investments over a long period. Principles 4.1-4.6 address financial regulation, valuation and tax treatment (including accounting) and are reproduced in appendix B of Agenda Paper 9A.

3. National and regional governmental bodies have also considered issues relating to long-term investment. For example, in March 2014, the European Commission issued a *Communication from the Commission to the European Parliament and the Council on Long-Term Financing of the European Economy*. Among other things, this stated that the Commission would ‘invite the IASB to give due consideration to the effect of its decisions on the investment horizons of investors both in specific relevant projects and in its development of the Conceptual Framework, paying particular attention to the reintroduction of the concept of prudence’.

Implications of long-term investing for the *Conceptual Framework*

4. Agenda paper 9A reproduces Agenda Paper 10F for the IASB meeting in September 2014. We will supply Council members with a summary of the IASB’s discussion of that paper.
5. The purpose of Agenda paper 10F for the IASB’s meeting in September was to enable the IASB to assess whether the *Conceptual Framework* will provide the IASB with sufficient and appropriate tools to enable it to consider the following questions when it makes standard-setting decisions in particular projects:
 - (a) Does the time horizon for investments by the reporting entity have any implications for standard-setting decisions? For example, is it a relevant factor to consider in selecting a measurement basis for those investments?

- (b) Do long-term investors in a reporting entity need different information from short-term investors? If so, does that have implications for standard-setting decisions?
6. In that paper, the staff conclude that:
- (a) the staff's recommendations on measurement¹ in other papers for the September 2014 IASB meeting, together with the IASB's previous tentative decisions on profit or loss and other comprehensive income (OCI),² would provide sufficient tools for the IASB to make appropriate standard-setting decisions if future projects consider:
- (i) how to measure the long-term investments (or liabilities) of entities whose business activities include long-term investment; or
- (ii) whether such entities should present changes in the carrying amount of those investments (or liabilities) in profit or loss or in OCI;³
- (b) no other areas of the *Conceptual Framework* need to include a specific reference to reporting entities whose business activities include holding long-term investments;
- (c) the *Conceptual Framework* contains sufficient and appropriate discussion of primary users and their information needs, and the objective of general purpose financial reporting to address appropriately the needs of long-term investors. Similarly, when updated for the IASB's tentative decisions in May 2014, the

¹ Paragraphs 14-17 of Agenda Paper 9A discuss measurement.

² The IASB's tentative decisions on profit or loss and OCI are summarised in paragraphs 18 and 19 of Agenda Paper 9A.

³ The IASB has no current or planned project to consider how such entities should measure their long-term investments or their liabilities (other than insurance contract liabilities), nor to consider whether they should present remeasurements in profit or loss or in OCI.

Conceptual Framework would also contain sufficient and appropriate discussion of stewardship and prudence to address appropriately the needs of long-term investors.⁴

7. In agenda paper 9A, the staff also emphasise the role of the IASB. In the staff's view:
- (a) the IASB makes an important contribution to the promotion of long-term investment by producing standards that are intended to require transparent financial reporting. This is a pre-condition for the healthy and efficient functioning of capital markets. Transparent financial reporting helps participants in capital markets to make more efficient and informed resource allocation and other economic decisions, and makes investment more attractive to capital providers (investors and lenders). It also enhances an assessment of stewardship.
 - (b) it is not the IASB's role to write standards intended to encourage or discourage investments that have particular characteristics. Instead, standard-setting decisions (such as which measurement basis to adopt in particular cases) are driven by the usefulness (relevance and faithful representation) of the resulting information.

Questions for the Council

8. We would appreciate the Council's advice on the following questions:

⁴ The IASB's tentative decisions on prudence and stewardship are summarised in paragraphs 35-40 of Agenda Paper 9A.

- Q1 Does the Council agree that it is not the IASB's role to write standards intended to encourage or discourage investments that have particular characteristics? Instead, standard-setting decisions (such as which measurement basis to adopt in particular cases) are driven by the usefulness (relevance and faithful representation) of the resulting information.
- Q2 Are there any particular steps that the IASB should take to ensure that future changes to its Standards meet the needs of:
- (a) long-term investors in a reporting entity; and
 - (b) investors in a reporting entity that has long-term investments?
- Q3 How would the IASB most effectively engage with stakeholders and policymakers to help them understand the nature, importance and limitations of the IASB's role?