STAFF PAPER

September 2014

REG IASB Meeting

Project	**Conceptual Framework**
Paper topic	Implications of long-term investment for the *Conceptual Framework*

CONTACT(S) Peter Clark pclark@ifrs.org +44 20 7246 6451

Purpose

1. The purpose of this paper is 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?

2. These two questions, relating to (a) investments **by** a reporting entity and (b) the needs of investors **in** a reporting entity, are separate but overlap. This paper discusses them separately.

3. The sole focus of this paper is the *Conceptual Framework*. It is beyond the scope of this paper to make recommendations on particular standard-setting decisions, such as:

   (a) which measurement basis (for example, entry or exit, current or cost-based) should be used for long-term investments of entities with a business activity of long-term investment; or

   (b) which measurement basis (for example, entry or exit, current or cost-based) provides the information that is likely to be most useful to long-term investors in a reporting entity.

4. Agenda papers 10B – 10E consider what the *Conceptual Framework* should say about measurement.

Summary of staff conclusions

5. In relation to long-term investment, the staff conclude in this paper that:

   (a) the staff's recommendations in Agenda Papers 10B and 10C, together with the IASB's previous tentative decisions on profit or loss and other comprehensive income (OCI), 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;[1]

   (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;

[1] 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.

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

6. The staff wish to 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.

Structure of this paper

7. The rest of this paper covers the following topics:

(a) Background (paragraphs 8-9)

(b) What is long-term investment? (paragraph 10)

(c) Time horizon for investments by the reporting entity (paragraphs 11-20)

(d) Information needs of long-term investors in the reporting entity (paragraphs 21-44)

Background

8. 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.

9. 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'.

What is long-term investment?

10. The staff believe that it is not necessary for this paper, or the *Conceptual Framework*, to define long-term investment or long-term investors. Moreover,

the staff have not identified any standardised and widely-used definitions of these or similar terms. Nevertheless, to understand the background to some comments received on this topic, IASB members may wish to refer to a definition provided at http://www.ltic.org/-Members-.html by one group of respondents to the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting:*[2]

> Long Term Investors are characterized by a low reliance on short term market liquidity thanks to stable resources, often made of regulated or guaranteed deposits, long term savings products (insurers, pension funds) or long term borrowing. They usually have a robust capital base, stemming mainly from reserve accumulation, that enables them to absorb short-term fluctuations in financial markets (drawing on reserves in bad years and feeding them in good years). As such:
>
> - they have the ability to retain their assets longer than other market players, even in crisis periods, which can play a counter-cyclical role on financial markets;
> - they can invest in - often illiquid - capital or debt instruments that yield a profitable return in the long run such as those issued by companies operating in sectors like general interest utilities, infrastructures, innovation projects, renewable energies and the like;
> - their liabilities differ in quality from the ones of other financial investors;
> - their investments are typically carried out with performance and risk targets calculated on a long term basis.

[2] The respondents were four founding members of the Long-Term Investors Club: European Investment Bank; Caisse des Dépôts; Cassa Depositi e Prestiti; and KfW

> Long Term Investors comprise major financial institutions financing economic development, sovereign wealth funds, pension funds, public retirement funds, insurance funds.

Time horizon for investments by the reporting entity

11. Some argue that the IASB should identify long-term investment as a particular type of business activity (or business model), and develop specific accounting requirements for reporting entities that conduct that business activity.

12. The following paragraphs discuss:

    (a) Tentative decisions on business activities (paragraph 13)

    (b) Implications for measurement (paragraphs 14-17)

    (c) Implications for the distinction between profit or loss and OCI (paragraphs 18-19)

    (d) Implications for other areas (paragraph 20)

Tentative decisions on business activities

13. The IASB has tentatively decided (in July 2014):

    (a) that the Exposure Draft of the revised *Conceptual Framework* should describe, for each area affected, how consideration of an entity's business activities would affect standard setting. The IASB indicated that the nature of an entity's business activities:

        (i) is likely to affect the selection of measurement bases for assets and liabilities (see paragraphs 14-17) as well as the distinction between profit or loss and OCI (see paragraphs 18-19), the unit of account, and presentation and disclosure; but

        (ii) is less likely to affect other areas covered by the *Conceptual Framework* (see paragraph 20);

    (b) that the *Conceptual Framework* should not provide a single overarching description of how the nature of an entity's business activities would affect standard setting. This is because the effects are likely to be different for different areas of the *Conceptual Framework*;

(c) not to use the term 'business model' in referring to the nature of an entity's business activities. This is to avoid confusion with varying uses of the term 'business model' by other organisations.

Implications for measurement

14. Some have suggested that the IASB should identify long-term investment as a particular type of business activity (or business model), and develop specific measurement requirements for entities that conduct that business activity.

15. Some of the commentators expressing those views suggested that:

(a) entities should not use current measurements for their long-term investments (and for their liabilities). They should use either cost-based measurements, or measurements updated using long-term estimates.

(b) if current measurements are used, remeasurements should be reported in OCI, rather than in profit or loss. Furthermore, on disposal, the total gain or loss should be reclassified ('recycled') at that date from accumulated OCI to profit or loss.

(c) if those long-term investments are measured on a cost basis, any impairment loss should be calculated using an entity-specific measure, such as value in use, rather than a market-based measure (such as fair value).

16. In Agenda Paper 10C *Selection of a measurement basis* for this meeting, we:

(a) summarise the arguments presented by these commentators;

(b) discuss the factors the IASB would consider in selecting a measurement basis. Those factors include how assets (and liabilities) contribute to the entity's cash flows, the nature of the entity's business activities, and the nature of the assets (and liabilities). The relative importance of the factors will depend upon facts and circumstances; and

(c) recommend that the *Conceptual Framework* need not (and should not) refer explicitly to any particular business activity, such as long-term investment, because:

(i) the recommendation to consider, among other factors, the way in which an entity conducts its business activities would provide the IASB with sufficient tools in the *Conceptual Framework* for the IASB to identify which measurement basis will provide the most useful information to users of the financial statements of entities whose business activities include long-term investment;

(ii) referring explicitly to any particular business activity would, inappropriately, embed Standards-level detail in the *Conceptual Framework*; and

(iii) the *Conceptual Framework* does not refer to any other particular business activity, and it is not obvious why it should refer specifically to this one.

17. In addition, in Agenda Paper 10B *Measurement bases*, we provide a working draft of a description and discussion of measurement bases for inclusion in the Exposure Draft. Among other things, that paper describes the advantages and disadvantages of current measurements and of cost-based measurements. In the staff's view, that description and discussion is sufficient to enable the IASB to make appropriate standard-setting decisions if future projects consider how to measure the long-term investments (or liabilities) of entities whose business activities include long-term investment.

Implications for the distinction between profit or loss and OCI

18. Most suggestions for a specific accounting model for the business activity of long-term investment have focused on selection of the measurement basis for long-term investments, and also on the related topic of the distinction between profit or loss and OCI. In June and July 2014, the IASB discussed that distinction. It tentatively decided that the *Conceptual Framework* should:

(a) require profit or loss as a total or subtotal;

(b) describe profit or loss as the primary source of information about an entity's performance for the period but emphasise that it is not the only source of such information. For example, items included in OCI also provide information about an entity's performance;

(c) describe the dual objectives for profit or loss as depicting the return that an entity has made on its economic resources during the period, and providing information that is helpful in assessing prospects for future cash flows;

(d) include a rebuttable presumption that all items of income and expense should be included in profit or loss unless the IASB concludes for a particular Standard that including an item of income and expense—or a component of such an item—in OCI would enhance the relevance of profit or loss as the primary source of information about an entity's performance for the period;

(e) state that the presumption in (d):

    (i) cannot be rebutted for items of income and expense that arise when cost-based measures are used for assets and liabilities; and

    (ii) can only be rebutted for changes in current measures of assets and liabilities, and only if including those changes—or components of those changes— in OCI enhances the relevance of profit or loss as the primary source of information about an entity's performance for the period. One example is when the IASB concludes that one measurement basis is appropriate for an asset or a liability in the statement of financial position and another measurement basis is appropriate for profit or loss. In such cases, the resulting difference would be reported in OCI; and

(f) include a rebuttable presumption that all items of income and expense included in OCI should be recycled to profit or loss.

19. In the staff's view, the above tentative decisions would provide the IASB with sufficient tools in the *Conceptual Framework* to enable the IASB to consider in an appropriate manner whether to use profit or loss or OCI to report remeasurements of long-term investments held as part of an activity of long-term investment.

Therefore, the staff believe there is no reason to add any further guidance on this point.

Implications for other areas

20. As noted in paragraph 13, the IASB tentatively decided in July 2014 that the nature of an entity's business activities is likely to affect the unit of account, and presentation and disclosure, but is less likely to affect other areas covered by the *Conceptual Framework* (other than measurement and the distinction between profit or loss and OCI, as already discussed above). The staff believe there is no reason for the *Conceptual Framework* to refer in any of these areas specifically to a business activity of long-term investment.

Questions 1 and 2 Time horizon for investments by the reporting entity

1. In the staff's view, the recommendations in Agenda Papers 10B Measurement bases and 10C Selection of a measurement basis, together with the IASB's previous tentative decisions on profit or loss and other comprehensive income (OCI), would provide sufficient tools for the IASB to make appropriate standard-setting decisions if future projects consider:

   (a) how to measure the long-term investments (or liabilities) of entities whose business activities include long-term investment; and

   (b) whether entities whose business activities include long term investment should present changes in the carrying amount of those investments (or liabilities) in profit or loss or in OCI.[3]

   Does the IASB agree?

2. The staff believe that no other areas of the *Conceptual Framework* need to include a specific reference to reporting entities whose business activities include holding long-term investments.

   Does the IASB agree?

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

Information needs of long-term investors

21. Paragraphs 13-20 discussed whether the time horizon for investments **by** the reporting entity has any implications for standard-setting decisions. This paper now turns to a different, but related topic: whether the time horizon for investment by investors **in** the reporting entity has implications for standard-setting decisions. These topics are separate because:

    (a) a reporting entity holding long-term investments may have short-term or long-term investors, or both; and

    (b) long-term investors may invest in reporting entities that hold investments for the short term or long term or both.

22. Some commentators suggest that the *Conceptual Framework* should emphasise the information needs of long-term investors, and that their information needs may differ from those of short-term investors. These commentators have expressed fears that, in their perception:

    (a) the IASB focuses too much on the needs of short-term investors. This may lead to excessive use of current measurements, particularly market-based current measurements, such as fair value, rather than long-term value creation. A focus on short-term performance, as expressed by current market prices, produces information that some view as inconsistent with the business model (business activities) of some reporting entities.

    (b) the IASB gives too much weight to the needs of potential investors, and not enough weight to the needs of existing long-term investors. Those existing investors own the reporting entity and bear the residual risks of ownership, and they need information that helps them to assess management's stewardship and hold management to account.

    (c) excessive use of current measurements (especially for long-term investments), and recognition of unrealised gains in profit or loss, may:

        (i) lead to dividend distributions that are excessive, imprudent, volatile, and not in the best interest of long-term investors;

        (ii) lead to inflated management remuneration; and

(iii) encourage short-termist behaviour and financial engineering, and discourage long-term investment.

23. The following paragraphs:

(a) summarise relevant material from the existing *Conceptual Framework* (paragraph 24); and

(b) provide the staff's analysis (paragraphs 25-44).

Relevant material from the existing Conceptual Framework

24. Paragraphs OB2-OB5 and OB8 of the *Conceptual Framework* are reproduced in Appendix A. Those paragraphs make some important points, including the following:

(a) Primary users:

(i) OB5 General purpose financial reports are directed at a group of primary users: existing and potential investors, lenders and other creditors.

(ii) OB5 More specifically, the primary users are those existing and potential investors, lenders and other creditors who cannot require reporting entities to provide information directly to them. General purpose financial reports are directed primarily to them because they must rely on those reports for much of the financial information they need.

(iii) OB8 Individual primary users have different, and possibly conflicting, information needs and desires. The IASB seeks to provide the information set that will meet the needs of the maximum number of primary users. However, focusing on common information needs does not prevent the reporting entity from including additional information that is most useful to a particular subset of primary users.

(b) Objective of general purpose financial reporting:

(i) OB2 The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to the primary users in making decisions about providing resources to the entity.

(ii) OB3 The information that is useful to the primary users for those decisions is information that helps them to assess the prospects for future net cash inflows to the reporting entity.

(iii) OB4 That information is information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

(iv) OB4 Information about management's discharge of its responsibilities is also useful for decisions by existing investors, lenders and other creditors who have the right to vote on or otherwise influence management's actions.

Staff analysis

25. In this section, the staff discuss:

(a) Whether current values are less relevant to long-term investors than to short-term investors (paragraphs 26-28)

(b) Primary user group (paragraphs 29-31)

(c) Objective of financial reporting (paragraphs 32-34)

(d) Stewardship (paragraphs 35-37)

(e) Prudence (paragraphs 38-40)

(f) Dividends (paragraphs 41-42)

(g) Disclosure (paragraphs 43-44)

Current values for long term investors

26. Some have suggested that the current market value of particular assets and liabilities held by the reporting entity for use in their business is more relevant to short-term investors than to long-term investors. The staff do not agree with that suggestion. Long-term investors need information that will help them to assess the future cash flows that the reporting entity's assets will generate, either individually or in combination. The staff have not identified any situations in

which current values provide useful information to short-term investors but do not provide useful information to long-term investors.

27. It is beyond the scope of this paper to assess **when** current market values are likely to be relevant for investors, including long-term investors. Agenda Paper 10C discusses the factors to be considered in selecting a measurement basis. In that regard, the staff believe that none of those factors discussed in that paper require particular emphasis to reflect the specific needs of long-term investors, rather than the needs of other existing and potential investors, lenders and creditors.

28. It is sometimes said that the IASB has selected a current measurement basis in particular cases because, it is asserted, the IASB places more emphasis on the needs of short-term investors than on the needs of long-term investors. The staff believe there is no basis for this assertion. The staff cannot recall ever having heard any IASB member refer, either explicitly or implicitly, to the needs of short-term investors as a reason for preferring any particular treatment. For example, in instances when the IASB has decided to require measurements at fair value, the staff cannot recall any IASB member citing the needs of short-term investors as a reason for that requirement. On the other hand, the staff have regularly heard IASB members discuss – consistently with the *Conceptual Framework* – whether a particular accounting treatment or disclosure will help users assess an entity's future cash flows.

Primary user group

29. As noted above, the existing *Conceptual Framework* identifies existing and potential investors, lenders and other creditors as the primary users of general purpose financial statements. Some have suggested that the IASB should focus more specifically on existing investors (especially existing long-term investors), rather than on other groups (existing and potential lenders and other creditors, and potential investors). They argue that those existing investors own the reporting entity and bear the residual risks of ownership, and so have the most extensive information needs.

30. In the staff's view, to ensure that existing long-term investors receive the information they need, it is unnecessary to narrow the range of primary users by

excluding potential investors. The IASB noted in paragraph 1.18 of the Basis for Conclusions on the *Conceptual Framework* that the IASB would 'seek the information set that is intended to meet the needs of the maximum number of users in cost-beneficial ways'. Furthermore, on the basis of extensive discussions with users in this project and many others, the staff have no reason to think that existing investors need information that differs significantly from the information needed by potential investors.

31. In addition, even if the information needs of existing investors did differ significantly from those of potential investors, it would not be appropriate, in the staff's view, to focus solely on existing investors. Future investors – particularly future investors who acquire existing investments from existing investors (ie acquire their investments in the secondary market) – are also important, for the following reasons:

    (a) The rights of existing claims on the reporting entity attach to the claims, not to the particular party holding them now. Financial statements are directed at the holders from time to time of those claims, not to the particular parties who hold them now.

    (b) If entities list their securities in public capital markets, all holders of securities issued by those entities benefit from that listing even if they intend to hold their securities for the long-term. To make such listings possible, an entity must supply the information needed by participants in public capital markets. Therefore, even if short-term investors were to require financial information that long-term investors do not need, listed entities should not withhold that information from participants in public capital markets. The staff are not aware, however, of significant information that is needed by short-term investors but not needed by long-term investors.

    (c) Even entities that normally hold investments for the long-term are in the position of a potential investor when they are assessing whether to acquire a new investment.

Objective of financial reporting

32. Governments have indicated that encouraging long-term investment is one important tool to promote economic growth. Consequently, some commentators have recommended designing financial statements in particular ways intended to promote long-term investment. For example, some have suggested that using current measurements (particularly current market measurements, such as fair value) creates a disincentive for long-term investment. They have suggested that minimising the use of current measurements could avoid creating such disincentives.

33. In the staff's view, 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. Thus, transparent financial reporting can be expected:

    (a) to make it easier to raise long-term finance;

    (b) to reduce the cost of long-term finance; and

    (c) to enhance the confidence of capital providers, thus making markets more resilient and more stable.

34. In the staff's view, 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.

Stewardship

35. Some have suggested that the IASB does not place enough emphasis on the need for financial statements to provide information that helps existing long-term investors to assess management's stewardship and hold management to account.

36. The existing *Conceptual Framework*, and the IASB's recent tentative decisions, already refer to the need to provide such information:

(a) As noted above, the existing *Conceptual Framework* states that the information needed by users includes information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

(b) In addition, in May 2014 the IASB tentatively decided to amend Chapter 1 of the *Conceptual Framework* to increase the prominence of stewardship within the overall objective of financial reporting. It would do this by identifying the information needed to assess the stewardship of management as not overlapping fully with the information needed to help users assess the prospects of future net cash inflows to the entity.

37. In the staff's view, there is no reason for the IASB to consider further changes in relation to stewardship.

Prudence

38. As noted above, the European Commission has said that it will 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'.

39. IASB members and the staff have discussed the role of prudence with many stakeholders, including many investors. In the light of those discussions, and responses to the Discussion Paper, the IASB tentatively decided in May 2014:

(a) to reintroduce a reference to prudence in the *Conceptual Framework*;

(b) to describe prudence as the exercise of caution when making judgments under conditions of uncertainty. The exercise of prudence is consistent with neutrality and should not allow the overstatement or understatement of assets, liabilities, income or expenses; and

(c) to discuss in the Basis for Conclusions the significance of prudence for preparers in preparing financial statements and for the IASB when setting Standards.

40. In the staff's view, there is no reason for the IASB to consider further changes to the *Conceptual Framework* in relation to prudence.

Dividends

41. As noted above, some have expressed fears that excessive use of current measurements for long-term investments may lead to volatile, and sometimes excessive distributions of dividends (and, indeed bonuses) that are not in the best interest of long-term investors.

42. In the staff's view, accounting information (such as reported profit) is not, and should not be, the sole determinant of distributions of dividends and bonuses. Distribution policy is affected by many other factors, such as the entity's financing needs, the risks faced by the entity, and legal constraints and, in the case of bonus decisions, remuneration policy and incentive arrangements. These factors are likely to differ by entity, by country and over time. It would be neither desirable nor feasible for the IASB to attempt to factor them into its standard-setting decisions.

Disclosure

43. If the information needs of short-term investors and long-term investors were different, the IASB would need to decide whether to attempt to meet the needs of both groups, or whether to focus on one of those groups. As noted above, the staff believe there is no reason why short-term investors would need information that is not also needed by long-term investors.

44. Conceivably, long-term investors might need some disclosure that is not also needed by short-term investors, for example long-term investors may have more extensive need for information to support decisions to vote on, or otherwise influence, management's actions. However, the staff believe that, to help the IASB identify what disclosures it should require when it sets Standards on particular topics, there is no need to insert in the *Conceptual Framework* a specific reference to the needs of long-term investors. The staff also note that

when the IASB undertakes projects to develop or revise Standards, it routinely seeks input and feedback from investors, including long-term investors, to help ensure that it understands what information they need.

Question 3 Primary users and their information needs

3. The staff believe that 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.

   Does the IASB agree?

Question 4 Stewardship and prudence

4. The staff believe that, when updated for the IASB's tentative decisions in May 2014, the *Conceptual Framework* would contain sufficient and appropriate discussion of stewardship and prudence to address appropriately the needs of long-term investors.

   Does the IASB agree?

Appendix A
Extracts from the existing *Conceptual Framework*

OB2 The objective of general purpose financial reporting[1] is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit.

OB3 Decisions by existing and potential investors about buying, selling or holding equity and debt instruments depend on the returns that they expect from an investment in those instruments, for example dividends, principal and interest payments or market price increases. Similarly, decisions by existing and potential lenders and other creditors about providing or settling loans and other forms of credit depend on the principal and interest payments or other returns that they expect. Investors', lenders' and other creditors' expectations about returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity. Consequently, existing and potential investors, lenders and other creditors need information to help them assess the prospects for future net cash inflows to an entity.

OB4 To assess an entity's prospects for future net cash inflows, existing and potential investors, lenders and other creditors need information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board[2] have discharged their responsibilities to use the entity's resources. Examples of such responsibilities include protecting the entity's resources from unfavourable effects of economic factors such as price and technological changes and ensuring that the entity complies with applicable laws, regulations

[1] Throughout this *Conceptual Framework*, the terms *financial reports* and *financial reporting* refer to *general purpose financial reports* and *general purpose financial reporting* unless specifically indicated otherwise.

[2] Throughout this *Conceptual Framework*, the term *management* refers to *management* and the *governing board of an entity* unless specifically indicated otherwise.

and contractual provisions. Information about management's discharge of its responsibilities is also useful for decisions by existing investors, lenders and other creditors who have the right to vote on or otherwise influence management's actions.

OB5 Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reports are directed.

…

OB8 Individual primary users have different, and possibly conflicting, information needs and desires. The Board, in developing financial reporting standards, will seek to provide the information set that will meet the needs of the maximum number of primary users. However, focusing on common information needs does not prevent the reporting entity from including additional information that is most useful to a particular subset of primary users.

Appendix B
Extract from the *G20/OECD High-Level Principles of Long-Term Investment Financing by Institutional* Investors
2013

Principle 4: Financial regulation, valuation and tax treatment

4.1 The financial regulatory framework - including valuation rules, any risk-based capital requirements and other prudential measures - for institutional investors should reflect the particular risk characteristics of long-term assets appropriately. The framework should also consider the investment horizon and typical holding period of these investors, while promoting their soundness and solvency as well as broader financial stability and consumer protection. Excessive or mechanistic reliance on external investment or creditworthiness analysis (such as credit rating agency ratings) should be avoided.

4.2 Solvency, accounting and funding requirements for institutional investors should avoid creating incentives for procyclical investment strategies. Any risk-based solvency rules should reflect the suitability of long-term assets for asset-liability management purposes, taking into account the level of predictability of cash flows.

4.3 The transparency, consistency, relevance and reliability of valuation methods for long-term assets should be promoted, as well as the development of appropriate benchmarks for such assets.

4.4 The tax environment and policies should remain stable and avoid creating impediments to long-term investment by institutional investors, including cross-border investment. They should also be subject to regular monitoring to prevent abuse, in particular in terms of international competition and regulatory arbitrage.

4.5 Governments should collaborate to promote greater consistency and strengthen the regulatory and supervisory frameworks for institutional investors, which may facilitate open, free and orderly capital flows and long-term cross-border investment by institutional investors.

4.6 Monitoring the impact of the regulatory and supervisory framework should include consideration for the effect of this framework on long-term investment.