

STAFF PAPER

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Prepared for Capital Markets Advisory Committee Meeting

Paper topic	Follow up on issues discussed in the October 2014 CMAC meeting
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This paper has been prepared by staff of the IFRS Foundation. The views expressed in this paper reflect the individual views of the author[s] and not those of the IASB or the IFRS Foundation. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs.

Background and purpose of this paper

1. In developing proposals for the IASB, technical staff will normally consult with the IASB's advisory bodies, which includes the Capital Markets Advisory Committee. As part of this consultation, the IASB has asked the staff to provide a brief, high-level update to each advisory group so that the respective group has a clear understanding of how the staff or the IASB considered the advice that was given at the previous meeting.
2. The purpose of this paper is to provide an update to the CMAC on the topics that were discussed in the October 2014 CMAC meeting and is for informational purposes only.
3. The following table summarises the topic presented, the advice or views that were provided to the staff during the CMAC meeting and the actions that have been taken or that will be taken by the IASB or the staff in response to such advice.

Update from the 16 October 2014 CMAC meeting

Topic	CMAC views presented	Next steps/actions taken by the IASB or staff
<p>Cash flow statements and related disclosures</p> <p>Discussion of barriers encountered by investors in deriving useful information from the statement of cash flows, including the method of preparation.</p>	<p>Main purpose of the cash flow statement</p> <ul style="list-style-type: none"> • To provide a different perspective of the performance of an entity (ie presenting the efficiency in capital allocation and the quality of the net income). • Some performance ratios may also derived from the cash flow statement. • Many CMAC members agreed that the statement provides useful information about liquidity, but that there is room for improvement within the context of providing information that is required to compute free cash flows. <p>Method of preparation of the cash flow statement</p> <ul style="list-style-type: none"> • Some preferred the indirect method, and highlighted the importance of the reconciliation in presenting the relationship between profit or loss, cash flows and the balance sheet. 	<p>The IASB will to move the work being undertaken by the UK FRC on cash flow reporting from the Disclosure Initiative project to the Performance Reporting project.</p> <ul style="list-style-type: none"> • Some of the proposed changes to the cash flow statement would suggest revisions for the other financial statements as well. • Looking at these changes in the performance reporting project makes logical sense. • The staff noted that the CMAC discussion highlights the close relationship between the cash flow statement and the other financial statements. <p>As a first step, the IASB intends to publish the UK FRC work as a Research Report during 2015 to generate input for the broader project. We are discussing with the UK FRC the different ways the</p>

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	<ul style="list-style-type: none"> • Other preferred the direct method, along with the disclosure of a separate reconciliation between reported profit/loss and cash flows. <p>Reconciliation of cash from operating activities and other items</p> <ul style="list-style-type: none"> • A few members indicated a preference for the reconciliation starting with a number higher up the profit or loss statement, such as EBITDA. <p>Supplementary disclosures about non-cash transactions</p> <ul style="list-style-type: none"> • Would like significant non-cash items and cash flows relating to restructurings. • Analysis of working capital within the statement of cash flows should be disclosed at a similar level of detail as the related items in the statement of financial position. <p>Other comments included:</p> <ul style="list-style-type: none"> • The importance of distinguishing between cash held 	<p>report might be released, including with an IASB cover note.</p>

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	<p>in a subsidiary in which a significant non-controlling interest exists from cash held in a subsidiary with no, or only a minor, non-controlling interest.</p> <ul style="list-style-type: none"> • A request for more clarity in the treatment of leases within the balance sheet and the statement of cash flows— for example, investing cash flow presentation. • Information in interim financial statements is frequently inadequate. 	
<p>Presentation and disclosure of non-IFRS information in IFRS financial statements</p> <p>Key proposals in the staff presentation: to discuss the need for more guidance on placement of non-IFRS information in financial statements and ask CMAC members for their views on some examples provided.</p>	<p>Most members were in favour of moving forward with the proposals discussed.</p> <p>Others were supportive provided that some adjustments and clarifications were made to the proposals put forward.</p>	<p>Staff will include CMAC’s views in its Board paper for the February 2015 meeting.</p> <p>This topic is one of the sections of the Principles of Disclosure Discussion Paper, a project within the Disclosure Initiative.</p>

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<p><i>Break out session</i></p> <p>Rate-regulated Activities</p> <p>In September 2014 the IASB published a Discussion Paper (DP) <i>Reporting the Financial Effects of Rate Regulation</i>.</p> <p>The DP outlines the main features of a defined type of rate regulation. Focusing on these features, the staff asked for CMAC members' feedback on:</p> <ul style="list-style-type: none"> • what information about the financial effects of defined rate regulation is most relevant in making investing and lending decisions; and • how that information could best be presented in an entity's annual report. 	<p>The CMAC members who participated in this break-out session noted the importance of information being provided, either in the notes or in the financial statements, to enable investors and lenders to understand the specifics of the regulatory environment.</p> <p>This includes information about:</p> <ul style="list-style-type: none"> • the regulatory carrying amount of assets used in the rate-regulated business; and • the target rate of return set by the regulator on that asset base. <p>Some thought that regulatory assets could be created if the local environment was strongly regulated.</p> <p>However, others do not consider regulation to be a binding promise and therefore consider that no asset is created.</p> <p>All CMAC members in the break-out group expressed concern about how any regulatory asset would be measured and the level of judgement involved.</p>	<p>The IASB staff have incorporated CMAC's views into their initial analysis of outreach and comment letter messages on the DP. This staff paper will be presented to the IASB in an Education session at its February 2015 meeting.</p> <p>The analysis will then be considered by the IASB's Rate-regulated Activities Consultative Group in early March 2015, before the staff develop their recommendations to the IASB about the next steps in the project.</p>

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<p><i>Break out session</i></p> <p>Proposals for clarifying the fair value measurement of quoted investments in subsidiaries, joint ventures, and associates</p> <p>The staff asked the CMAC for feedback on which measurement method provides investors with the most useful information for quoted investments:</p> <ul style="list-style-type: none"> • a measurement based on unadjusted Level 1 inputs; or • a measurement based on adjusted Level 1 inputs or a valuation technique. 	<p>All members indicated their preference for a measurement based on unadjusted Level 1 inputs. This reflects their view that such measurements are more understandable and verifiable and less judgemental.</p> <ul style="list-style-type: none"> • Only in specific instances (for example, when there has been a significant decrease in the volume or level of activity for the financial instruments and their quoted price consequently does not represent fair value) did they envisage adjustments to Level 1 inputs. <p>In some instances, the acquisition price paid by an investor for a controlling interest includes a premium or discount. The fair value measurement of such a controlling interest, if measured on the basis of unadjusted Level 1 inputs, could lead to so-called Day 1 losses or gains.</p> <ul style="list-style-type: none"> • All members considered that the recognition of such losses or gains subsequent to the acquisition is appropriate, because they reflect the investor's risk 	<p>The comment period for the proposals related to this topic* ended on the 16th of January 2015.</p> <p>The staff are currently analysing the comment letters received and will include investor views when they feed back to the IASB.</p> <p>*Exposure Draft <i>Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value</i> (Proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13)</p>

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	<p>of doing business. They noted that appropriate disclosures about those losses or gains would also be useful.</p>	
<p>Post-implementation Review of IFRS 8 Operating Segments</p> <p>The staff described the messages received on issues identified for possible amendment and discussed proposed solutions with the CMAC.</p>	<ul style="list-style-type: none"> • Some CMAC members thought that investors would like to see segments that are the equivalent of stand-alone businesses rather than those identified using the management perspective. • Others thought that the management perspective provided useful information. • Generally members were in favour of allocating reconciling items and central charges to the segments. However, if it is not possible to do this allocation on a sensible basis companies should indicate this in their disclosures. • CMAC members generally thought that insufficient balance sheet information was provided in the segment disclosures. 	<p>Staff will include the CMAC's views in its Agenda Paper for the IASB's March 2015 meeting.</p> <p>It is intended that any proposed amendments to IFRS 8 would be exposed for public consultation later this year.</p>

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<p>Business Combinations under Common Control (BCUCC)</p> <p>Two scenarios were presented:</p> <ul style="list-style-type: none"> • BCUCC where a non-controlling interest is involved • Restructuring followed by an IPO of a group entity 	<p>Views expressed by CMAC members were mixed.</p> <p>However, most members did indicate that investors need consolidated financial statements of the newly created group to provide information as if the newly created group has always existed, ie as if the business has always been conducted in the form that investors are being asked to invest in.</p>	<p>The staff continue their research and targeted outreach with a wide group of interested parties, including investors. Outreach activities are expected to continue until March 2015.</p> <p>CMAC views will be reflected in Board paper that discusses the results of the outreach activities and considered in developing accounting alternatives.</p> <p>Expected timing of Board discussions Q2 2015.</p>
<p>Research projects and investor involvement</p>	<ul style="list-style-type: none"> • General support for the research programme, noting that obtaining investor input early in the process would be useful. • Support for a shift in philosophy towards a more evidence supported decision making process. • The IASB should be aware that there may be 'self-selection' bias in obtaining investors to provide views for the research projects • The IASB should ensure a range of views is collected from the investor community at large, to 	<ul style="list-style-type: none"> • There are 14 different projects in the IASB's Research Programme, all at various stages. • The IASB and staff will identify the topics which would be of interest to investors and therefore outreach conducted on a case by case basis. • The staff will continue to encourage CMAC members to become active in the 2015 Agenda Consultation. The inaugural consultation involved some catching up with issues and

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	<p>be consistent with other investor outreach activities today.</p> <ul style="list-style-type: none"> Some observed that the list of priorities for the Research Programme appeared to be more narrow than indicated in some investor surveys. An IASB member acknowledged that often the labelling of priorities is unclear. 	<p>participating in the second three-yearly consultation would be important if investors have particular issues they would like the IASB to address.</p>