

STAFF PAPER

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IASB Meeting

Project	Agenda Consultation		
Paper topic	Overview of Investor feedback		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board[®] (the Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB *Update*.

Background

1. At the March 2016 Board meeting the staff presented a summary of the feedback received¹ in response to the Board's Request for Views *2015 Agenda Consultation*² (the RFV). The feedback presented in March 2016 was obtained from comment letters on the RFV and in outreach activities undertaken by Board members and staff.

Purpose

2. This paper follows on from the comment letter and outreach summary paper presented at the March 2016 Board meeting. The purpose of this paper is to provide the Board with a comprehensive but high level summary of the feedback heard from the investment community on the RFV. This paper also explains the ways in which feedback was received from investors³ and investor representative organisations and includes a summary of the demographics of investors that provided such feedback. This paper is provided for informational purposes only.

¹ <http://www.ifrs.org/Meetings/MeetingDocs/IASB/2016/March/AP24A-2015-Agenda-Consultation.pdf>

² http://www.ifrs.org/Current-Projects/IASB-Projects/IASB-agenda-consultation/2015-agenda-consultation/Documents/Request%20for%20Views_Agenda%20Consultation_AUG%202015.pdf

³ Reference to investors is meant to broadly encompass the various members of the investment community, such as asset owners and managers, credit ratings analysts, sell-side analysts, creditors and lenders, private investors and consultants. In this document the terms 'investor', 'investment community' and 'user' are used interchangeably.

The staff will not be asking the Board to make any decisions. Additional analysis of such feedback will be performed by the applicable project team at future Board meetings.

Structure of this paper

3. This paper is structured as follows:
 - (a) Process for getting input from the investment community—(paragraphs 4-9);
 - (b) Key messages received from the investment community on the RFV—(paragraphs 10-36);
 - (c) Prioritisation of topics by the investment community—(paragraphs 37-47);
 - (d) Appendix A—Tables of responses received from the investment community;
 - (e) Appendix B—Demographics of investor respondents to the survey and investor comment letter respondents; and
 - (f) Appendix C—List of comment letters received from the investment community.

Process for getting input from the investment community

4. The Board received 12 comment letters from investors or investor representative organisations on the RFV. In addition to those comment letters, the Board received input via investor outreach meetings⁴ and an online survey.

Online Survey

5. Aside from the comment letters received, the main method of performing outreach with the investment community on the RFV⁵ was an online survey. This is partly

⁴ These comprised nine meetings with different investor representative groups, including the November 2015 public meeting with the Capital Markets Advisory Committee (CMAC). A summary of that meeting can be found here: http://www.ifrs.org/Meetings/MeetingDocs/Other%20Meeting/2015/November/CMAC/Nov2015_CMACSsummary.pdf. The main points of feedback from the outreach meetings are incorporated into this paper.

due to the subject matter (for example, we wished to find the best way to understand the relative importance to investors of the research projects listed in the consultation document) and partly because the Board receives fewer public comment letters from the investment community than from other stakeholders.

6. Respondents were asked to provide demographic information about themselves, but could choose whether to complete the online survey anonymously or to give their names. The survey comprised two parts. Part I asked questions related to the Request for Views *Trustees' Review of Structure and Effectiveness: Issues for the Review* (the Trustees' RFV)⁶, while Part II focused on the Board's RFV.
7. The questions in Part I of the survey (the Trustees' RFV) were grouped into two sections⁷:
 - (a) a question on the **broader corporate reporting debate (Question 9)**, which asked whether the IFRS Foundation should broaden the scope of its work to cover areas outside of financial reporting; and
 - (b) two questions on **technology (Questions 10 and 11)**. Question 10 asked whether respondents thought that current or future developments could impact the relevance of IFRS Standards. Question 11 asked what steps the Board could take to maintain the relevance of IFRS Standards in the face of changing technology.
8. The questions in Part II of the survey (the Board's RFV questions) were grouped into three sections:
 - (a) a **'free form' question (Question 12)**, which asked respondents to list up to three financial reporting topics, however big or small, on which they would like the Board to focus;
 - (b) **prioritisation questions (Questions 13-27)**, which asked respondents to prioritise the various research projects listed in the RFV; and

⁵ It is possible that there is some overlap from comment letter and survey respondents, although comment letters are organisation- or group-based and survey responses are from individuals.

⁶ http://www.ifrs.org/About-us/IFRS-Foundation/Oversight/Trustees/Documents/WEBSITE_IFRS-Foundation-Trustees-Review%20-of-Structure-and-Effectiveness_JULY-2015.pdf

⁷ Investor responses to these questions were also included in the March 2016 Board paper *AP24B Trustees' Review of Structure and Effectiveness*:
<http://www.ifrs.org/Meetings/MeetingDocs/IASB/2016/March/AP24B-2015-Agenda-Consultation.pdf>

- (c) **other projects (Questions 28-29)**, which asked respondents to comment on the Board’s decision that no further research was needed on certain projects.

9. Whilst this survey was targeted at the investment community, any stakeholder was free to answer the survey. Approximately half of the respondents to the survey were preparers, auditors or academics⁸. While this paper will only summarise the views heard from the investment community respondents, for completeness we included demographics and details of priorities for all respondents to the survey in *AP24D Online survey—results and demographics profile*⁹.

Key messages received from the investment community on the RFV

10. Investors welcomed the Board undertaking the RFV. The main messages received from investors on the RFV included the following¹⁰:
- (a) the needs of users should be given the highest priority when the Board makes decisions regarding the allocation of resources;
 - (b) the Board should rely on the work of national standard-setters and other research available where possible given its resource constraints;
 - (c) the overall Disclosure Initiative project and the *Conceptual Framework* project carried the highest priority with regard to the components of the Board’s work plan and the five main areas of technical projects;
 - (d) there was a concern that certain investor priorities may be perceived as less of a priority if they are being classified as research projects;
 - (e) changes to Standards should be in the form of minimal narrow-scope amendments that significantly enhance financial reporting;
 - (f) Post-implementation Reviews (PIRs) should play a more prominent role in the standard-setting process;

⁸ Out of 169 respondents, 86 were **users/investors**.

⁹ The responses from ‘non-users’ on the Trustees’ RFV were included in the feedback to the Board on that consultation. Non-user comments about individual research projects are included in the related project-specific papers to be discussed at this and future Board meetings.

¹⁰ These messages were also a part of the main messages received from all stakeholders that were communicated to the Board at the March 2016 Board meeting in AP24A.

- (g) there should be a ‘period of calm’ (eg no significant new Standards-level projects) so that stakeholders could digest the effects of new Standards and allow the Board to concentrate on implementation and application issues;
 - (h) the pace of change to existing Standards is slow and too many projects have taken too long to complete;
 - (i) mixed views were expressed regarding the interval between agenda consultations, with an overall preference for a five year interval;
 - (j) mixed views were expressed regarding whether the Board should broaden the scope of its work— those in favour stated that an integrated reporting framework would improve the quality of global corporate reporting for investors while those not in favour stated that the Board should maintain its focus on financial reporting; and
 - (k) consideration of technological improvements could provide for more timely and accurate financial reporting and contribute to the standardisation of accounting information.
11. These messages are discussed in more detail in paragraphs 12-36 and are organised with reference to some of the questions raised in the RFV.
- Balance between the Board’s types of activities (Question 1 in the RFV)*
12. In terms of the allocation of resources for projects, some investors were of the view that the Board should make decisions based on the needs of investors which should be given the highest consideration. These investors suggested that changes should be made to Standards only when there is a clearly identified need from the capital markets.
13. Some investors commented that given the resource constraints, the Board should rely on the work of national standard-setters and other research available where possible.
14. For one of the investor representative organisations, asking investors to indicate preferences according to how the Board organises its work (as research, standards-level, etc) can often be confusing. Articulation of priorities by ‘financial topic or analytic problem’ in language which appears in financial

statements would be a more effective means of obtaining investor input to the process. There was also a concern that classifying certain investor priorities as research projects may indicate that the Board is treating these topics as a low priority.

Comments received on Standards-level projects (Question 4 in the RFV)

15. On major projects, investors commented that the Disclosure Initiative and the *Conceptual Framework* projects should have the highest priority and they provided the following comments:

(a) the overall Disclosure Initiative project:

- (i) a few investors questioned the *structure* of the current Disclosure Initiative project and its various sub-topics or threads. On this point, an asset manager and an investor representative organisation were concerned that fragmenting the project into numerous areas risked making the project less effective. These investors stressed that the Disclosure Initiative should address the perception of a proliferation of irrelevant information in financial statements and that financial reporting is often seen as a form of compliance rather than communication;
- (ii) other investors commented that they do not see disclosure overload as the principle issue of concern. Instead, they see improved financial statement presentation, emphasising matters of importance and increasing communication effectiveness through tables and cross-referencing, as more important than developing a disclosure framework or reducing the volume of disclosures; and
- (iii) one investor commented that ‘materiality’ is currently understood in many different ways and that a ‘business-model’ approach could solve this problem.

(b) the *Conceptual Framework*:

- (i) many investors stressed the importance of this project to users of financial reports (for example, because it serves as the foundation for high-level principles). Because the Board uses the Conceptual Framework to develop and revise accounting standards, a comprehensive review is fundamental to improving transparency and governance in corporate reporting. A request was also made for continued collaboration with the Financial Accounting Standards Board on this project, due to the effects on global investors;
- (ii) one asset manager indicated that the value of the revised *Conceptual Framework* will be diminished if significant areas such as performance reporting and other comprehensive income (OCI) are left unresolved. In addition, to avoid inconsistencies, the Disclosure Initiative needs to be undertaken in conjunction with any future revisions to the *Conceptual Framework*;
- (iii) one investor representative group was supportive of the Board's current efforts with respect to OCI and moving away from the focus on comprehensive income as the measure of performance;
- (iv) however, another investor representative organisation was disappointed that the Board did not define OCI. They were also concerned with the direction of the Exposure Draft on the *Conceptual Framework* and the Board's approach to certain topics, such as measurement and the 'apparent primacy of the income statement'. While they did respond to the Discussion Paper on the *Conceptual Framework*, they did not respond to the Exposure Draft 'given the low receptivity to, and incorporation of, investor perspectives in the Exposure Draft...and the lack of direct and immediate link to tangible improvement in standards and financial reporting'; and

- (v) another investor group requested that the Board define net income as an element of financial statements both as part of the *Conceptual Framework* project and in other projects, as applicable.

16. With regards to Rate-regulated activities, a few investors indicated that, given its narrow scope, this project should be given low priority. One investor representative group believed that the project would not be able to address the complexities of the variety of regulatory environments and takes ‘excessive resources with a limited chance of fundamental improvement to financial reporting’. That group suggested that the Board should limit its ambitions on any such project to improving disclosures.
17. Some investors emphasised that the Board should give priority to finalising the Insurance Contracts and Leases¹¹ projects.

Research projects (Questions 2 and 3 in the RFV)

18. Investors generally supported an evidence-based research programme and noted that undertaking research allowed the Board to explore matters and identify whether a topic needed to be addressed before it decided if further work was required. One CMAC member suggested that the research agenda should be limited to two or three issues.
19. Investors also supported narrow-scope amendments and were of the view that there was still room for many narrow-scope but significant improvements to the Standards. They commented that this approach would be more beneficial than waiting for the overhaul of an entire Standard. These investors provided the overall Disclosure Initiative project as an example of considering targeted improvements that can significantly enhance financial reporting.
20. In addition, a CMAC member noted that because large projects consume time and resources, greater benefits might be achieved through smaller changes that remedy urgent issues.
21. A few investors commented that although the needs of investors were listed as the first item in paragraph 55(a) of the RFV, very little has been accomplished on

¹¹ IFRS 16 *Leases* was issued in January 2016.

certain issues that were identified as a high priority in both the *Request for Views: Agenda Consultation 2011* and this RFV. On this point, a few investors questioned why some projects were listed as part of the research phase (eg Primary Financial Statements (formerly Performance Reporting)) when work has already been done on prior similar projects, such as the previous Financial Statement Presentation project, and the views of investors have been made clear that such a project is needed.

Implementation support and maintenance of IFRS Standards (Question 5 of the RFV)

22. Many investors commented that the Board should devote significant resources to the maintenance of IFRS Standards through either additional narrow-scope amendments or PIRs.

23. Investors also commented that PIRs should play a more prominent role in the standard-setting process and add value by *improving* the Standard under review. In this regard, there were widespread views from investors that more work needed to be done on IFRS 3 *Business Combinations* and IFRS 8 *Operating Segments*. In particular, investors commented that:
 - (a) additional work is needed on IFRS 3. For example:
 - (i) the recent PIR did not sufficiently address issues relating to goodwill amortisation, disclosure of pro forma information and information needs pertaining to mergers and acquisitions. One investor representative group noted that investors are heavily dependent on the availability and quality of pro forma information. Even though the Standards suggest providing this information, it is often not provided or is not of sufficient granularity and the key assumptions used are not disclosed;
 - (ii) provision of prior year comparative pro forma information would also be useful although the priority is not as high; and
 - (iii) some investors called for clear disclosures of the total consideration paid for an acquisition (including the debt

acquired or any pension liabilities assumed), the dilutive effects of the transaction, a clear description of intangibles acquired, distinguishing between those acquired assets that have a finite life (eg a patent) and those that are sustained through expenditure that goes through the income statement (eg customer lists and brands), and clear disclosures of the financial returns (or expected returns) from the acquired assets or businesses if possible.

- (b) segment reporting under IFRS 8 still does not provide all the information needed by investors. For example:
 - (i) investors called for more granularity and disaggregation of segments by disclosing a minimum number of the most important line items;
 - (ii) segment disclosures were recommended by many CMAC members as an area that would benefit from additional guidance. Information about operating segments is key to assessing any business; and
 - (iii) more specifically, a separate investor representative group called for disclosure by segment of line items such as revenue, operating profit (or similar measure), total assets, total liabilities and operating cash flows.

24. The Board is currently working on proposals to improve IFRS 8 following its earlier PIR.

25. A few investors commented that greater emphasis should be placed on pre-issuance quality controls such as fatal flaw reviews. More specifically, these investors called for fatal flaw reviews to be made available to a wider range of preparers so that any operational issues may be flagged.

Level and pace of change (Question 6 in the RFV)

26. Some investors called for a 'period of calm' so that stakeholders could digest the effects of new Standards and allow for a stable framework for financial reporting. In their view, a period of calm would allow the Board to concentrate on

implementation and application issues. Some CMAC members also thought that the Board changes IFRS Standards too frequently.

27. One investor called for the Board to look at reducing the burden of change by bundling the effective dates for different Standards. One CMAC member suggested that changes should be stockpiled and that all changes should be made once every three years.
28. Some investors commented that the pace of change for current Standards was slow and were concerned that there were too many projects that had taken too long to complete.
29. To address the slow pace of change, a few investors suggested that the Board simplify its agenda and utilise national standard setters and accounting bodies to complete certain projects where appropriate. One investor expressed a call for ‘a period of acceleration to increase the pace at which the many and much needed improvements are brought to the users of financial statements’.
30. Another investor commented that progress can be slow when the Board tries to address the needs of specific groups such as industry organisations, and that trying to address such needs may undermine the integrity of what the Board is trying to achieve.

Interval between agenda consultations (Question 8 of the RFV)

31. Investors expressed mixed views on the interval between agenda consultations, with an overall preference for a five year interval. They provided the following comments:
 - (a) a five year interval between agenda consultations would be most appropriate because this would allow the Board to complete its major projects before the commencement of the next consultation process. These investors did note, however, that there should be some flexibility to accommodate exceptional circumstances that might necessitate a shorter period between consultations and proposed a mid-term review to ensure that the needs of users can be met; and
 - (b) a few investors favoured a three year interval between agenda consultations in order to best plan for short and long-term agenda

requirements. They noted that a shorter term horizon allowed for more frequent and regular feedback from stakeholders and that this would signal that their feedback is a key consideration for the Board's planning activities. One investor commented that the current three year interval already effectively results in an interval of four years as the previous agenda consultation dates from July 2011.

Trustees' RFV

32. With regard to whether the Board should undertake an extension of its work into wider corporate reporting, investors expressed mixed views:
- (a) those in favour believed that an integrated reporting framework would improve the quality, consistency and reliability of global corporate reporting, particularly with respect to environmental, social and governance (ESG) issues. One investor indicated that 'financial reporting is incomplete and imperfect without non-financial reporting'. Another investor commented that IFRS Standards should also apply to non-profit organizations such as charities, since these entities represent a significant portion of the gross domestic product of many countries; and
 - (b) those that were not in favour commented that the Board already had enough to do with limited resources. Undertaking projects in fields other than financial reporting might dilute the credibility of the Board. Some investors commented that the Board should focus on improving financial reporting, including finishing its work on current Standards, while staying alert to the implications of other key corporate reporting developments.
33. The majority of investors commented on the importance of considering technology with respect to the relevance of IFRS Standards, especially because technological improvements could provide for more timely and accurate financial reporting. They also noted that the standardisation of accounting information is critical if data analytics are to be applied to financial statements successfully. One investor commented that ultimately IFRS Standards should be 'paving the way' to fully automated financial reporting.

34. One asset manager and one investor representative organisation who responded to the RFV supported the Board taking forward work on financial reporting for small and medium-sized enterprises (SMEs). They preferred *IFRS for SMEs* as the reporting framework to be used rather than the creation of new distinct Standards that may arise, for example, as part of the European Commission’s work on developing a Capital Markets Union¹². This is because, in their view, IFRS Standards as a reporting framework are widely understood by investors and provide quality, comparable information.

Other comments (Question 7 of the RFV)

35. US GAAP convergence was mentioned by a few investors. In particular, two investors stressed the importance of increasing convergence with US GAAP given the potential benefits of convergence to the capital markets and the cost of capital, whereas a third investor was pleased to see that a single jurisdiction would not dominate the Board’s agenda and would not affect the quality of Standards.
36. Two investors commented on the usefulness of the Board’s investor outreach programme. They felt that such activities help investors to understand how their analysis may be affected by upcoming improvements to the Standards and are vital to support continued improvements to in financial reporting.

Prioritisation of topics by the investment community

Main messages

37. Regardless of the type of investor (eg buy-side or sell-side), geography or the channel through which they shared their views (comment letters, outreach meetings or the online survey), Primary Financial Statements (sometimes seen as a continuation of the Financial Statement Presentation project) clearly stood out as the most important topic /project across the investment community. Reasons given include the importance of performance reporting and certain subtotals such as operating profit to investors’ analyses.

¹² The Capital Markets Union (CMU) is a plan of the European Commission to mobilise capital in Europe. See: http://ec.europa.eu/finance/capital-markets-union/index_en.htm

38. Although not necessarily the top priority for all investors, Principles of Disclosure (and some Disclosure Initiative issues) was the only other project that stood out across all outreach channels as important for investors.
39. The focus on these two topics is similar to the responses provided by investors in the Request for Views *Agenda Consultation 2011*¹³. The investor feedback on other possible agenda topics will be fed back to the Board in papers on those topics.

Other priorities

40. As noted above, while a considerable number of investors completed the survey, there was no strong consensus on other topics. The priority of the remaining topics often varied depending on the nature of the response or by the demographic of the respondent. This is not to discount the importance of the other topics that investors have noted. The fact that investors took the time to complete the survey and the free-form question is an indication of the importance to this group of stakeholders in providing input on the RFV.

Drilling down

Primary Financial Statements

41. As noted above, Primary Financial Statements (PFS) clearly stood out as the most important topic to investors. Some investors would like to see the forthcoming Primary Financial Statements project continue the work on Financial Statement Presentation that was paused in 2010¹⁴.
42. Investors also see performance reporting as a key issue related to this project. For example, at the November 2015 CMAC meeting there was a strong view amongst CMAC members in support of the Board taking forward work on performance reporting. Several CMAC members suggested that non-GAAP measures, or alternative performance measures, should also be covered by the Board when reviewing this topic. CMAC members also discussed whether any performance

¹³ See Agenda Paper 5B *Agenda Consultation 2011 Feedback from users of financial statements* at <http://www.ifrs.org/Meetings/Pages/IASB-January-2012.aspx>.

¹⁴ <http://www.ifrs.org/Current-Projects/IASB-Projects/Financial-Statement-Presentation/Phase-B/Pages/Phase-B-Replacement-of-IAS-1-and-IAS-7.aspx#>

reporting proposals would need to be tailored to individual industries such as banking, investment or insurance.

43. Other investors provided the following comments on this project:

- (a) investors attach a high priority to this project as, in their view, the project will examine the purpose, structure and content of the primary financial statements and address how to report on performance;
- (b) performance measures such as operating profit are of great necessity to users of financial statements and should be defined, which is currently not the case;
- (c) improving the format, scope and standards for financial statements provides for deeper and broader understanding of factors affecting an entity’s performance; and
- (d) given the prior work on the financial statement presentation project, it is unclear why this project was classified in the assessment stage portion of the research agenda.

44. The following tables give more information on the weight of investor responses on this topic when looking at comment letters, responses to Question 12 and responses to Question 13 of the survey.

Question 12: Top three financial reporting topics (<u>Free form</u>)			
	Number of investor respondents that requested the Board to work on the PFS project	Percentage of investor respondents that requested the Board to work on the PFS project	Total number of investor respondents to Q12
Total	16	30%	53¹⁵
Broken down by:			
Sell-side	4	29%	14

¹⁵ While there were 86 investor respondents to the survey, they were not required to answer all questions. 53 investors responded to Question 12.

Question 12: Top three financial reporting topics (<u>Free form</u>)			
Buy-side	5	36%	14
Personal investors	7	35%	19
Consultants	0	0%	6
Total	16	30%	53

Question 13: Prioritisation of Primary Financial Statements (<u>Prompted</u>)							
	Number of investor respondents that gave PFS a <u>high</u> priority	Percentage of investor respondents that gave PFS a <u>high</u> priority	Number of investor respondents that gave PFS a <u>medium</u> priority	Percentage of investor respondents that gave PFS a <u>medium</u> priority	Number of investor respondents that gave PFS a <u>low</u> priority or <u>no</u> opinion	Percentage of investor respondents that gave PFS a <u>low</u> priority or <u>no</u> opinion	Total number of investor respondents
Total	42	59%	20	28%	9	13%	71¹⁶
Broken down by:							
Sell-side	12	60%	5	25%	3	15%	20
Buy-side	15	63%	7	29%	2	8%	24
Personal investors	12	63%	5	26%	2	11%	19
Consultants	3	38%	3	38%	2	24%	8
Total	42	59%	20	28%	9	13%	71

¹⁶ While there were 86 investor respondents to the survey, they were not required to answer all questions. 71 investors responded to Question 13.

Investor comment letters			
	Number of investor respondents that requested the Board to work on the PFS project	Percentage of investor respondents that requested the Board to work on the PFS project	Total number of investor letters
Total	9	75%	12
Broken down by:			
Buy-side	2	67%	3
Representative bodies	7	78%	9

Principles of Disclosure

45. Although not necessarily the top priority for all investors, Principles of Disclosure was the only other project that stood out across all outreach channels as important for investors. 17% (9/53) of those users responding to the free form survey question (Question 12), 90% (65/72) of those users responding to the prompted survey question (Question 14) and 67% (8/12) of those users responding by comment letter listed Principles of Disclosure as a priority topic. Reasons given include a desire for a stronger framework for disclosures. The perceived lack of coherence in the disclosures today results in information about the same topic often being dispersed throughout the financial statements. Some also believe that this project has the potential to reduce the perceived complexity in financial statements by ‘streamlining’ disclosures.
46. Some investors provided comments relating to non-GAAP reporting including standardising ratios and noted the following:
 - (a) non-GAAP figures and ratios play a significant role in financial analysis and can allow for better monitoring of a business. However, they need to be standardised more because there are many different definitions of such ratios; and

- (b) the Board should incorporate guidelines similar to those issued by the European Securities and Markets Authority (ESMA) relating to the use of Alternative Performance Measures (APMs)¹⁷ with the aim of raising the credibility of APMs presented in the financial statements globally.

Other key comments that came out of the survey responses and comment letters

47. Besides the Principles of Disclosures and Primary Financial Statements projects, other topics that investors would like the Board to work on are included below (excluding Standards-level projects that are discussed earlier on in this paper). The main comments for projects that investors would like to add to the work plan are in paragraph 47 (a)-(g). Comments on individual research projects are listed in paragraph 47 (h)-(s).

New projects

- (a) IAS 7 *Statement of Cash Flows*, cash disclosures and debt disclosures, including a net debt reconciliation:
- (i) many investor respondents indicated the long-standing request from users for improvement to the cash flow statement (eg to make it more intuitive and direct);
 - (ii) a few investor groups requested information about the amount of cash and cash equivalent balances that are freely available to be used by the parent company at the reporting date as well as about the existence of potential restrictions on the transfer of cash and cash equivalent balances;
 - (iii) investors that included debt disclosures in their responses indicated a general need for more information in this area, such as information on debt covenants, debt maturity profiles and liquidity;
 - (iv) some investors requested more information to enable them to understand an entity's financing structure. This would include disclosures such as an aggregate overview of nominal debt maturities per annum, a reconciliation between the aggregate nominal and the aggregate carrying amount of debt, the location of debt in the group structure,

¹⁷ <https://www.esma.europa.eu/sites/default/files/library/2015/10/2015-esma-1415en.pdf>

the entity's hedging policy for debt exposures and all assets pledged to providers of debt;

- (v) a few investors commented that it should be mandatory to report cash flows from operating activities using both the direct and the indirect methods; and
 - (vi) a few investors noted that the Board did not go far enough in its recent amendment of IAS 7, and that the Board should still introduce a requirement to disclose a net debt reconciliation.
- (b) Financial Instruments:
- (i) some investors stated that financial instruments accounting was still too complicated. It should be streamlined with a greater focus on what is really relevant to the entity; and
 - (ii) a few investors raised concerns that some requirements of IFRS 9 *Financial Instruments* may significantly affect asset allocation decisions in the investment management industry.
- (c) Industry-specific issues:
- (i) one investor called for greater co-ordination with the Basel requirements to ensure consistency;
 - (ii) another investor commented that it was difficult to compare the financial statements of Real Estate Investment Trusts (REITS) since some of them used fair value accounting whilst others used historical cost; and
 - (iii) one investor stated that understanding the accounting for liabilities in the financial services industry was difficult.
- (d) IFRS 12 *Disclosures of Interests in Other Entities*:
- (i) one investor representative group and one investor indicated the need for better information to assess what is attributable to the non-controlling interests or 'proportionate shares' in other entities, and requested the Board to explore such a requirement in the PIR of IFRS 12; and
 - (ii) another investor indicated that disclosures about off balance sheet funding vehicles is important because entities aim to

maintain a 'healthy' balance sheet whilst at the same time controlling the cost of funding;

(e) *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:*

- (i) one investor commented that too many small items are presented prematurely as discontinued operations and that this technique overstates growth year by year, compared to a multi-year trend.

(f) Climate risk:

- (i) one investor requested the Board to start a project on accounting for climate risk as a matter of urgency. This investor noted that these risks are growing, and highlighted increasingly stringent climate-related regulations, foreseeable physical impacts of climate change leading to impairment or liabilities.

(g) *IFRS 13 Fair Value Measurement:*

- (i) investors commenting on this topic indicated that entities should mark- to- market all liquid and illiquid assets to whatever degree possible ; and
- (ii) one investor commented that it was still not clear whether the fair value measurement of investment companies or investment funds should be classified within Level 2 or Level 3 of the fair value hierarchy.

Research projects

(h) Goodwill and Impairment:

- (i) many investors still requested the Board to consider this topic;
- (ii) some investors stated that because the non-amortisation of goodwill, together with the current impairment requirements, allow entities the flexibility to record losses when they wish, they may manage losses and avoid variability in earnings. Some other investors commented that goodwill should be capitalised and amortised in a systematic fashion and that the goodwill impairment test was inconsistent and subjective;

- (iii) a few other investors stated that the separation between goodwill and other intangibles is arbitrary and decreases comparability between companies. Other investors commented that there was no merit in distinguishing acquisition related intangible assets from goodwill; and
 - (iv) many CMAC members thought that the Board should designate goodwill as a priority. Some CMAC members thought that disclosures about goodwill impairment testing should be developed to provide more information about the assumptions made and the success of previous acquisitions. One CMAC member thought that impairment should be based on an assessment of whether pre-acquisition projections had been achieved. A few CMAC members thought that amortisation of goodwill should be considered.
- (i) Income taxes:
- (i) one investor called for more transparent tax disclosures to better understand the drivers behind an entity's tax rate and the cash tax amounts paid; and
 - (ii) another investor commented that deferred tax assets was considered to be a problematic area, with investors finding it difficult to separate deferred taxes and taxes paid in the income statement.
- (j) Financial Instruments with Characteristics of Equity:
- (i) one investor commented that they would define both equity and liabilities narrowly and then segregate instruments with elements of both debt and equity into a separate balance sheet caption. They would also require expanded disclosures of the nature of the instruments and their features, their priority of payment, their fair values and a sensitivity analysis of such instruments to changes in market condition or to features which impact their valuations or cash characteristics;
 - (ii) another investor stated that the capital structure of companies can often be complex so adequately disclosing the embedded characteristics of debt with equity characteristics and equity with debt characteristics is very

important, including the dilutive aspects on earnings per share and proportional ownership; and

- (iii) some investors commented on the importance of the project and stated that the proposals should be based on principles that are understandable (for example, assessment of the most subordinated claim on the assets of an entity).
- (k) Equity method of accounting for investments:
- (i) a majority of investor respondents agreed that while an equity method project is important, it may not be urgent. Most also indicated that it would be helpful to introduce clearer guidance about the presentation of the entity's share of the investee's net assets in the entity's financial statements;
 - (ii) a number of investor respondents stated that although not perfect; figures presented in the investors' financial statements using the equity method provided them with a starting point for understanding the value of the holding; and
 - (iii) a few respondents stated that the equity method of accounting should be abolished; perhaps to be replaced with proportional consolidation.
- (l) Discount rates:
- (i) investors who rated this project as a high priority commented that discount rates have a significant impact on measurements based on the present value of future cash flows. They stated that this information is very important to investors. They indicated that current guidance has conceptual issues and inconsistencies;
 - (ii) a few investors mentioned specific issues, such as whether to continue to include salary rises in IAS 19 *Employee Benefits*, a low or negative interest rate environment and interest rates for the financial sector; and
 - (iii) a few investors commented that it would be difficult to create a general rule on the discount rate to be used and that it would be more important to improve transparency

through disclosures about, for example, how the discount rate was determined and an analysis of sensitivity to changes in discount rates.

- (m) Post-employment Benefits (including pensions):
 - (i) some investors commented that pension accounting is still too complex and existing disclosures are uninformative and inadequate;
 - (ii) investors also highlighted that there is a general trend away from defined benefit (DB) pension plans towards defined contribution plans, including intermediate steps such as hybrid defined benefit/defined contribution plans. Some support initiatives to address the accounting for such plans;
 - (iii) some investors commented that it was important to maintain good accounting standards for DB plans to convey key risk management information to plan sponsors; and
 - (iv) a few investors questioned whether more work is needed for DB plan accounting as DB plans were in decline.
- (n) Provisions, Contingent Liabilities and Contingent Assets:
 - (i) one investor commented that it would be useful for the Board to conclude the work it began on this project because of its significant bearing on measurement principles and forward-looking information, and given the broad applicability of this Standard.
- (o) Share-based payments:
 - (i) a few investors commented that this topic was complex with one investor stating that investors rarely knew the true cost of an entity's employee stock incentive plans;
 - (ii) one investor thought that the key issues related more to valuation rather than accounting; and
 - (iii) a few investors observed that some of the most frequent adjustments when stating non-GAAP earnings metrics related to share-based payments.
- (p) Definition of a business:

- (i) one investor commented that it is challenging to apply the definition of a business, because it is an accounting construct rather than an economic construct; and
 - (ii) another investor commented that the accounting treatments of a business and a group of assets should be aligned.
- (q) Pollutant Pricing Mechanisms (formerly Emissions Trading Schemes):
 - (i) a few investors commented that this topic is potentially an important emerging issue given developments around climate change and emissions controls; and
 - (ii) one investor commented that the focus should be more on disclosure than on recognition and measurement.
- (r) Extractive Activities/ Intangible Assets/Research and Development:
 - (i) some investors commented that the Board should look at the inconsistencies between the treatment of acquired and internally generated intangibles, their recognition and measurement, and the accounting for research and development costs; and
 - (ii) at present, there is a high percentage of corporate value that is not represented on the balance sheet. Hence a project that addresses internally generated intangibles should be undertaken.
- (s) Dynamic Risk Management:
 - (i) while acknowledging that this project is important for particular industries such as financial institutions, some investors commented that they were not sure whether a comprehensive accounting solution could be developed to reflect the economics of dynamic risk management activities; and
 - (ii) a few investors commented that enhanced disclosures would enable them to understand what entities do.

Appendix A—Tables of responses from the investment community

Part I: Investor comment letter respondents

1. We received 12 comment letters from investors or investor representative organisations. We divided the information that was included in these letters into three tables:
 - a. **Table 1** shows topics, by order of priority, that either correspond to Standards-level projects or that the respondents would like the Board to add to the work plan;
 - b. **Table 2** shows the topics, by order of priority, that correspond to the individual research projects listed in the RFV; and
 - c. **Table 3** shows the responses to whether the Board should remove certain projects from its research agenda.

Table 1: *Investor comment letter topics that either correspond to Standards-level projects or that the respondents would like the Board to add to the work plan*

Topic	High priority	Medium priority	Low priority	Total
Disclosure Initiative-overall	6			6
IFRS 8 <i>Operating Segments</i>	5			5
<i>Conceptual Framework</i>	5			5
Insurance Contracts	5			5
IAS 7 <i>Statement of Cash Flows</i> , cash disclosures and debt disclosures including a net debt reconciliation	4	1		5
IFRS 3 <i>Business Combinations</i>	3			3
Financial instruments	3			3
IFRS for SMEs	2			2
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	1			1
Accounting for climate risk	1			1
Leases	1			1
Rate-regulated Activities			3	3

Table 2: Investor comment letter topics that correspond to the individual research projects listed in the RFV

Project	High priority	Medium priority	Low priority	No opinion	Total¹⁸
Primary Financial Statements	9				9
Principles of Disclosure	8				8
Goodwill and Impairment	4				4
Discount Rates	3				3
Provisions, Contingent Liabilities and Contingent Assets	2	2			4
Income Taxes	2		2		4
Post-employment Benefits (including Pensions)	2		1		3
Definition of a Business	2	1			3
Financial Instruments with Characteristics of Equity	2	1			3
Share-based Payment	1	1	1		3
Equity Method of Accounting for Investments	1	1			2
Pollutant Pricing Mechanisms (formerly Emissions Trading Schemes)	1	1			2
Business Combinations under Common Control	1		1		2
Extractive Activities/ Intangible Assets/Research and Development	1	1			2
Dynamic Risk Management			1		1

¹⁸ Note that the total does not correspond to total user/investor comment letters received for the 2015 Agenda Consultation nor is the total always the same for each topic. This is because not all investor comment letters responded to all of the questions in the 2015 Agenda Consultation.

Table 3: *Investor comment letter responses to whether the Board should remove certain projects from its research agenda*

Project	Yes	Other	Total
Foreign Currency Translation	2	1 medium priority 1 low priority	4
High Inflation	2	1 low priority	3

Part II: Survey responses from investors¹⁹

2. The following tables summarise the user/investor responses to the survey. We divided the information that was included in the survey into three sections:
 - a. **Section 1** shows the responses to the survey questions related to the Trustees' RFV (Questions 9-11), which asked respondents:
 - i. to indicate whether the IFRS Foundation should broaden the scope of its work; and
 - ii. whether current or future developments in technology could impact the relevance of IFRS Standards;
 - b. **Section 2** shows the responses to the free form survey question (Question 12), which asked respondents to list the three areas of financial reporting that they would most like the Board to improve; and
 - c. **Section 3** provides the ranking of individual research projects in line with those listed in the RFV (Questions 13-29).

Section 1: Investor responses to the Trustees' RFV questions (Questions 9-11)

3. We provided the investor responses to Questions 9 and 10 in Table 4. Question 11 was a free form response question that asked what steps the Board could take to maintain the relevance of IFRS Standards in the face of changing technology. The responses to Question 11 are included in the overview of comments on the Trustees' RFV.

¹⁹ Out of 169 respondents to the 2015 Agenda Consultation survey, 86 were users/investors and 83 were preparers, auditors or academics.

Table 4: Survey responses from investors to Questions 9 and 10

Survey question	Yes	No	No opinion	Total ²⁰
Question 9: Should the IFRS Foundation broaden the scope of its work?	24	49	12	85
Question 10: Could current or future developments in technology impact the relevance of IFRS Standards?	35	30	20	85

Section 2: Investor responses to the free form survey question (Question 12)

4. We have further divided the responses to survey Question 12 into three tables:
 - a. **Table 5** shows the other topics that respondents to Question 12 would like the Board to consider. These topics either correspond to Standards-level projects or are new topics that the respondents would like the Board to add to the work plan;
 - b. **Table 6** shows the topics included by respondents that correspond to high-level reporting issues; and
 - c. **Table 7** shows the topics, by order of priority, that correspond to the individual research projects listed in the RFV.

Table 5: Survey free form response from investors—topics that either correspond to Standards-level projects or that the respondents would like the Board to add to the work plan

Project	Number of investor respondents to Q12 requesting this project	% of total investor respondents ²¹ to Q12
IAS 7 <i>Statement of Cash Flows</i> , cash disclosures and debt disclosures including a net debt reconciliation	8	15%
<i>Conceptual Framework</i>	6	11%

²⁰ Note that the total does not correspond to total user/investor respondents to the survey nor is it always the same for each question. This is because survey respondents were not required to answer all questions to the survey.

²¹ 53 investors in total responded to this question.

Project	Number of investor respondents to Q12 requesting this project	% of total investor respondents²¹ to Q12
Insurance Contracts	4	8%
IFRS 8 <i>Operating Segments</i>	4	8%
Financial instruments	3	6%
Leases	3	6%
Industry specific issues	3	6%
IFRS 3 <i>Business Combinations</i>	3	6%
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	2	4%
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	2	4%
IFRS 13 <i>Fair Value Measurement</i>	2	4%
IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	1	2%
Disclosure Initiative	1	2%
Rate-regulated Activities	1	2%

Table 6: Survey free form response from investors—topics that correspond to high-level reporting issues

Topic	Number of investor respondents to Q12 requesting this topic	% of total investor respondents to Q12
Scope of IFRS	5	9%
Integrated reporting	3	6%
Convergence	2	4%
Other—time to complete, especially when considering special interest groups	1	2%

Topic	Number of investor respondents to Q12 requesting this topic	% of total investor respondents to Q12
Other— codify standards similar to US GAAP (too much overlap and reference links in current standards)	1	2%
Other—period of calm to catch up and digest	1	2%

Table 7: Survey free form response from investors—topics that correspond to the individual research projects listed in the RFV

Project	Number of investors respondents to Q12 requesting this project	% of total respondents to Q12 ²²
Primary Financial Statements	16	30%
Principles of Disclosure	13	25%
Income Taxes	6	11%
Extractive Activities (1) Intangible Assets/Research and Development (5)	6	11%
Business Combinations under Common Control	4	8%
Equity Method of Accounting for Investments	3	6%
Goodwill and Impairment	3	6%
Financial Instruments with Characteristics of Equity	3	6%
Post-employment Benefits (including Pensions)	2	4%

²² The staff have included percentages in this table here to indicate the significance of the numbers with respect to the total free form respondents, even if the absolute number is not large.

Project	Number of investors respondents to Q12 requesting this project	% of total respondents to Q12 ²²
Discount Rates	1	2%
Dynamic Risk Management	1	2%
Provisions, Contingent Liabilities and Contingent Assets	1	2%

Section 3: Ranking of individual research projects listed in the survey (Questions 13-29)

5. We have further divided the responses that correspond to the research projects in the RFV into two tables:

- a. **Table 8** shows the topics, by order of priority, that correspond to the individual research projects listed in the RFV (Questions 13-27 of the survey); and
- b. **Table 9** shows the responses to whether the Board should remove certain projects from its research agenda (Questions 28 and 29 of the survey).

Table 8: Survey ranking by investors of prompted research project questions (Questions 13-27)

Project	High priority	Medium priority	Low priority	No opinion	Total ²³
Primary Financial Statements	42	20	8	1	71
Principles of Disclosure	33	32	4	3	72
Goodwill and Impairment	29	30	7	4	70
Financial Instruments with Characteristics of Equity	24	25	11	9	69
Discount Rates	18	30	18	6	72
Equity Method of Accounting for Investments	16	25	22	7	70
Dynamic Risk Management	15	23	23	9	70

²³ Note that the total does not correspond to total user/investor respondents to the survey nor is it always the same for each question. This is because survey respondents were not required to answer all questions to the survey.

Project	High priority	Medium priority	Low priority	No opinion	Total²³
Provisions, Contingent Liabilities and Contingent Assets	11	34	18	7	70
Share-based Payment	11	26	25	8	70
Pollutant Pricing Mechanisms (formerly Emissions Trading Schemes)	11	19	30	9	69
Income Taxes	10	36	17	8	71
Post-employment Benefits (including Pensions)	10	31	22	7	70
Business Combinations under Common Control	9	31	17	13	70
Extractive Activities/ Intangible Assets/Research and Development	8	18	30	14	70
Definition of a Business	8	29	26	6	69

Table 9: Survey responses by investors to whether the Board should remove certain projects from its research agenda (Questions 28 and 29)

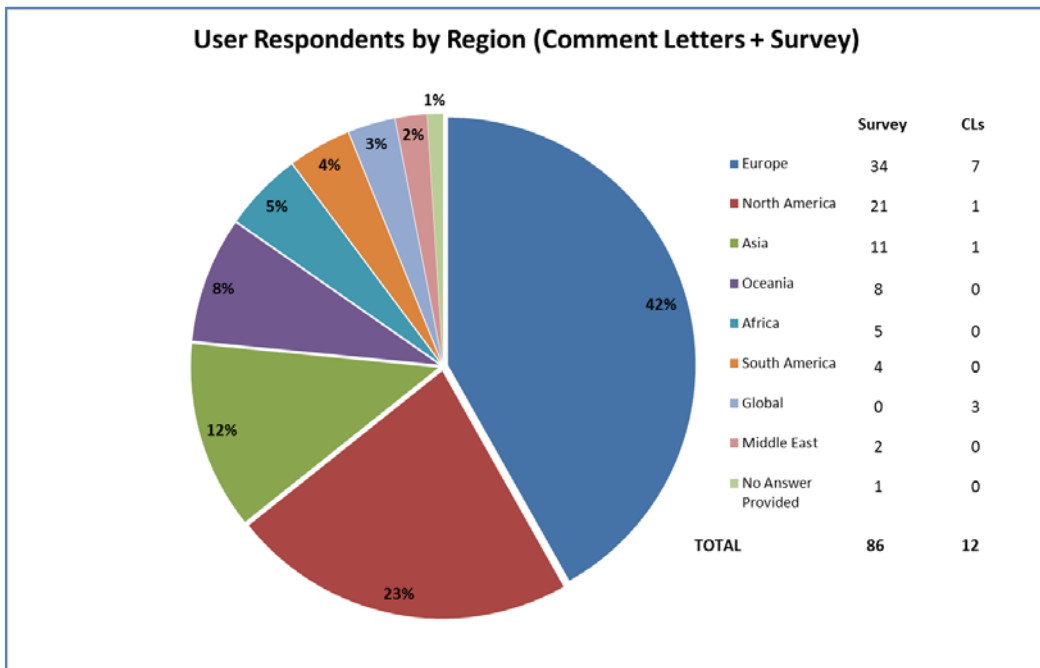
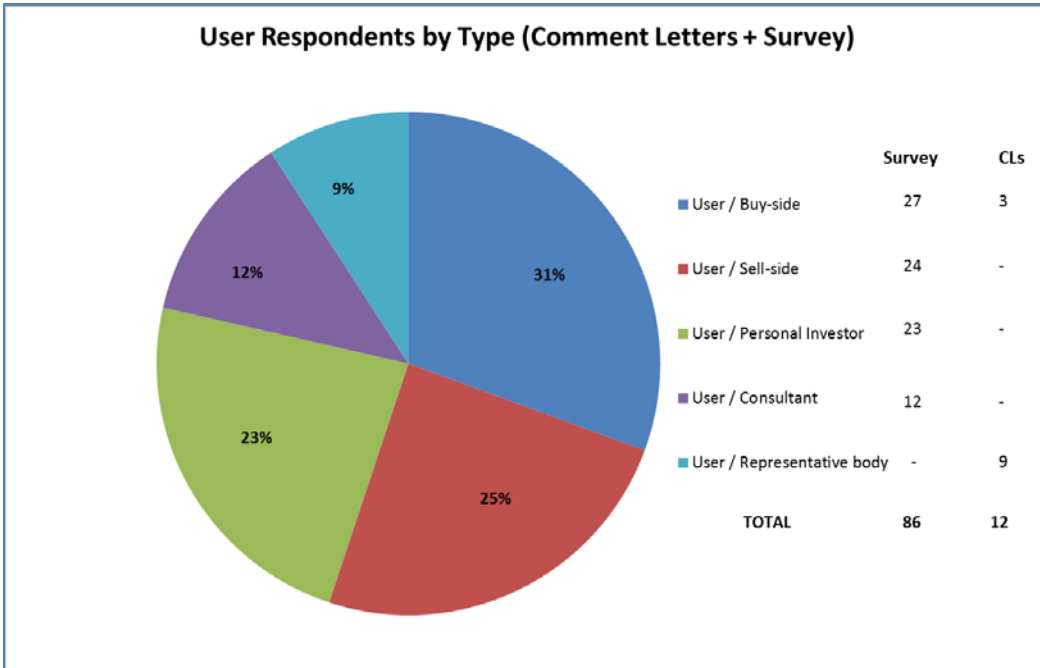
Project	Yes	No	No opinion	Total²⁴
Foreign Currency Translation	27	6	37	70
High Inflation	31	8	31	70

²⁴ Note that the total does not correspond to total user/investor respondents to the survey nor is it always the same for each question. This is because survey respondents were not required to answer all questions to the survey.

Appendix B—Demographics of survey and comment letters-investor respondents

This appendix provides a breakdown of the demographics of the respondents to the online survey and from comment letters, by region and type of user.

Demographic information on user respondents –survey and comment letters



Appendix C—List of comment letters received from the investment community

The table below lists the comment letters the Board received from investors or investor representative groups, the feedback from which has been provided in the body of this paper.

CL#	Investor Respondent	Region	Entity type
90	Association Française des Investisseurs Institutionnels (Af2i) [Association of French Institutional Investors]	Europe	User / representative body
98	BlackRock, Inc.	Global	User / buy-side
82	California Public Employees' Retirement System (CalPERS)	North America	User / buy-side
119	CFA Institute	Global	User / representative body
48	Eumedion - Corporate Governance Forum	Europe	User / representative body
108	Française de la Gestion Financière (AFG) [the French Asset Management Association]	Europe	User / representative body
71	The CFA Society of the UK (CFA UK)	Europe	User / representative body
114	The Corporate Reporting Users Forum (CRUF)	Global	User / representative body
28	The Investment Association	Europe	User / representative body
112	Sarasin & Partners, LLP	Europe	User / buy-side
54	The Securities Analysts Association of Japan (SAAJ)	Asia	User / representative body
100	Société Française des Analystes Financiers (SFAF) [French Society of Financial Analysts]	Europe	User / representative body