A brief introduction to the Corporate Reporting Users' Forum

IFRS Advisory Council February 2016

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What is the CRUF?

The Corporate Reporting Users' Forum was set up in 2005 and has since grown from 12 to more than 250 participants globally.

The CRUF is an informal network of buy-side, sell-side, credit ratings and governance professionals (both equity and fixed income) who wish to engage in the reporting debate but who, working in isolation, would not have the time to do so.

Investment professionals participate in the CRUF as individuals – not as representatives of their employers.

The CRUF is a discussion forum. It does not seek to achieve consensus views, though at times some or all of its participants will agree to make joint representations to standard setters, regulators or to the media.

CRUF Guiding Principles

The Corporate Reporting Users' Forum

Accounting standards that govern the preparation of corporate reports should be principles-based and comprehensible to the financially literate. These standards should not result in outputs that are at odds with economic reality.
Such standards should be based on the presumption that the stated principles are faithfully applied. Therefore standards should avoid unnecessary detailed prescription and not unduly restrict companies in presenting meaningful results that are in accordance with those principles

Corporate reports should report economic reality.
Accounting standards should require compliance with their spirit rather than their letter so that preparers are required to disclose economic 'substance' rather than accounting or legal 'form'.

Corporate reports should provide information that is clear, understandable, consistent and relevant.
No single primary statement should take precedence.
Not all information that is relevant for users of corporate reports has to be reflected in the primary financial statements. Some information, such as contextual and non-financial information may best be presented outside the primary financial statements. Accounting standards should not discourage companies from presenting additionalinformation that is useful to users.

Users want transparent and comprehensive disclosures.
Corporate reports should be prepared with the objective of providing a fundamental source of information for investors and creditors on which to base their decisions

The purpose of the cash flow statement should be to identify and explain cash inflows and outflows over the period. Further, the cash flow and accompanying notes should provide insights into the drivers ofmaintainable cash flows as well as the trends over time of these drivers.
The cashflow should be capable of comparison and reconciliation with the profit and loss and balance sheet. The impact of acquisitions and disposals on these cashflows should also be clear

The purpose of the balance sheet should be to reflect the capital invested in the business along with capital adequacy, compliance with legal covenants and stewardship.
The purpose should not be to determine the entity's fair value. Further information regarding the values of individual assets and liabilities (including assumptions and sensitivities), should be provided in the notes.

The purpose of the profit and loss statement should be to identify the returns generated fromthe capital invested in the business.
The profit and loss and the accompanying notes should clearly differentiate and analyse relevant information, such as:operating performance from financing activities; recurring from non-recurring activities; value changes from trading activities.

The CRUF Organisation

Canada

UK

Germany

USA

France

Japan

India

Hong Kong

South Africa

Australia

New Zealand

- CRUF groups meet regularly in most parts of the world and the network continues to grow.
- The three European CRUFs (UK, Germany and France) hold three common meetings a year to give a European investor view. These meetings also include investors from parts of Europe that do not currently have their own country group.
- Views are shared across territories through the creation of subgroups on specific accounting topics and through direct feedback from those helping to coordinate CRUF activities.

CRUF has subgroups that span all territories:

Insurance | Banking | Leasing

Technology | IR | RevRec

How does the CRUF communicate its views?

The CRUF communicates its views through:

- Informal discussions with standard setters, corporates, regulators etc
- Comment letters to standard-setters, regulators and others
- Presentations at conferences
- Press coverage
- The CRUF website (www.cruf.com)
- CRUF chairs meet by phone at least once annually to share views across the network

Does anyone listen to the CRUF?

The CRUF is a very active participant in the reporting debate:

- The IASB, FASB and EFRAG regularly ask the CRUF for its opinion on the various standards under review
- Government and regulatory authorities (e.g. UK Financial Reporting Council and ESMA) often seek CRUF views on reporting issues
- A CRUF participant is a member of the IFRS Advisory Council, and several CRUF participants are members on the IASB's Capital Market Advisory Committee (CMAC) and the EFRAG User panel
- Corporate bodies frequently request meetings with the CRUF to discuss reporting matters
- CRUF participants make up a substantial part of the user representation on the Financial Stability Board's Enhanced Disclosure Task Force (EDTF)
- CRUF participants are regularly asked to speak about reporting at conferences

CRUF Comment Letters

CRUF
The Corporate Reporting Users' Forum

- About the CRUF
- Engagement with Stakeholders
- Thought Leadership
- Media
- CRUF Guiding Principles

Engagement with Stakeholders

2016

- Agenda Consultation, CRUF letter to IASB, January 2016
- European Single Electronic Format Consultation, CRUF letter to ESMA, January 2016

2015

- Concept paper for Issuance of Green Bonds in India, CRUF India letter to SEBI December 2015
- Trustees' Review of Structure and Effectiveness, CRUF comment letter to IASB, Dec 2015
- Conceptual Framework, CRUF comment letter to IASB, Dec 2015
- Endorsement of IFRS 9, CRUF comment letter to EFRAG, Nov 2015
- CRUF comment letter to IASB re Effective date of IFRS 15, July 2015
- CRUF comment letter to IASB re Classification of Liabilities, June 2015
- CRUF comment letter to IASB re Disclosure Initiative Proposed Amendment to IAS 7, April 2015
- CRUF comment letter to JFSA re Japan's Corporate Governance Code, January 2015

2014

- CRUF comment letter to IIRC on Assurance on IR December 2014
- Global CRUF comment letter on Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging Nov 2014
- CRUF comment letter to EFRAG on Goodwill Amortisation September 2014
- CRUF comment letter to EFRAG re Leases, September 2014
- Global CRUF comment letter to IASB on IAS 1 proposed amendments, August 2014
- CRUF comment letter to FRC on the proposed revisions to the UK Corporate Governance Code 2014
- Guidelines on Adjusted Performance Measures, CRUF response to ESMA, July 2014
- Conceptual Framework, CRUF letter to the IASB, January 2014
- Conceptual Framework, CRUF Japan letter to the IASB, January 2014

2013

- Insurance Contracts, CRUF Japan letter to the IASB October 2013
- Leases ED, CRUF letter to the IASB, September 2013
- Leases ED, CRUF Canada letter to the IASB, September 2013
- CRUF letter to Mr Philippe Maystadt, September 2013
- Financial Instruments: Expected Credit Losses, CRUF Japan letter to the IASB, June 2013
- Proposed amendments to IFRS 10 and IAS28, letter to the IASB, April 2013
- Letter to Competition Commission on Statutory Audit Market Inquiry, April 2013
- Equity Method: Share of Other Net Asset Changes, CRUF Japan letter to the IASB, March 2013
- Clarification of Acceptable methods of Depreciation and Amortisation, CRUF Japan letter to the IASB, March 2013

2012

- Letter to the FRC and EFRAG on Disclosure Framework
- Letter to Parliamentary Commission on Banking Standards, Dec 2012
- Annual Improvements, letter to the IASB, September 2012
- Discussion on materiality, letter to ESMA, March 2012
- Revenue Recognition, letter to the IASB, March 2012
- Definition of capital disclosure requirements, letter to Basel Committee, February 2012
- Investment Entities, letter to the IASB, January 2012

Comments for submission by noon on 20 November 2015 to commentletters@efrag.org

Roger Marshall
Acting President of the EFRAG Board
35 Square de Meeûs
B-1000 Brussels

20 November 2015

Dear Mr Marshall,

Comments on the EFRAG draft letter to the European Commission posted on the EFRAG website on 13 November 2015 relating to the endorsement of IFRS 9

As members of the Corporate Reporting Users Forum, we are writing in response to your recent draft letter to the European Commission on the endorsement of IFRS 9.

We are surprised and disappointed by the view that EFRAG expresses in the draft, recommending that insurers, unlike all other businesses, be permitted, but not required, to comply with IFRS 9 in 2018.

Three CRUF members have already engaged directly with EFRAG on this matter. For the reasons set out fully in a letter dated 22 July 2015 to the IASB from two of them, William Hawkins and Andrew Crean, and further short comments made on 29 June 2015 to the UK FRC and the IASB by a third CRUF member, Crispin Southgate (see Appendix for details), we do not think European insurers should be allowed special dispensation to delay the implementation of IFRS 9 at all.

The IASB has since sought to accommodate the concerns of insurers in this regard and will shortly be publishing an exposure draft to assist them. We are therefore all the more firmly of the view that insurers should be required to comply with IFRS 9 from 2018, since it seems likely that they will benefit from transitional arrangements for which, from the users' perspective, we question the need.

CRUF Five Quick Wins 2011

The Corporate Reporting Users' Forum

Five Quick Wins

If the investment community were in charge of the evolution of reporting, what would they change?

The participants in the global CRUF community have been talking at some length about the usefulness of reporting today. Through their discussions, they have identified a number of areas where financial statements are not meeting the needs of the capital markets. Some of the topics highlighted through the CRUF's debates would require a fundamental review of existing accounting standards. However, a number of the most commonly cited frustrations could be resolved today through voluntary disclosure by companies.

This document highlights just five of the CRUF's most commonly cited "quick wins". The intention is to focus on the pragmatic rather than rehearse conceptual debates. It is hoped that areas identified could be addressed by most companies without significant incremental cost. However, the CRUF recognises that this will not be universally true. Similarly, it recognises that there will be companies for whom elements of this list will not be relevant. And so the Forum wishes to stress that it does not wish companies to view this as yet another check list; its ambition is simply to offer some feedback on the effectiveness of some areas of reporting today.

Five Quick Wins

1. Segmental

As investment professionals, we typically build our models from the "bottom up" and so rely on management to provide the financial and non-financial metrics that will allow us to forecast financial performance for a segment and to compare the operational performance and valuation metrics of a given segment against similar entities.

To do this, the CRUF encourage management, where possible, to consider including the following lines in their segment disclosures, particularly where such information is available as management is already using them to assess segmental performance:

- Revenue
- Op profit (or a similar measure)
- Share of results of associates and JVs (income statement data)
- Depreciation and other non-cash expenditure
- Operating cash flow
- Cap ex
- PP&E
- Operating net assets
- Share of net assets of associates and JVs (balance sheet data)
- Working capital
- Debt
- Total assets and liabilities
- Capital employed

We would like to stress "through management's eyes" metrics – both financial and non-financial, and those that are required by IFRS 8 and are incremental, are most useful if they are reconciled to the IFRS basis used in the group accounts.

Whilst the CRUF welcomes a "common sense" check on the number of segments separately identified so they are not unreasonably numerous, where practicable, we encourage management to use the "business model" as the "unit of account" when deciding on the primary segmental split so that reported segments do not contain very dissimilar business activities.

2. Net debt reconciliation

The CRUF strongly encourages management to provide a net debt reconciliation.

A net debt reconciliation allows us to assess how business financing has changed over time. Without it, we are left struggling to understand the impact of FX movements arising on debt, the value of debt acquired or disposed of in business combinations, the impact of fair value and fair value hedge adjustments, whether the increase in cash balances can be explained by a commensurate increase in debt, and so on.

As "net debt" is not defined under IFRS, we would also encourage companies to make clear how they calculate the figure and reconciling each component, and for companies to remain consistent in that definition from year to year, where possible.

3. Debt

The economic downturn and continued strain on the availability of financing have resulted in an increased focus on cash and an entity's ability to fund working capital requirements, refinance existing debt and secure new debt. What are management's plans for servicing existing debt and are there any risks associated with this? For investors to feel more comfortable with an entity's funding arrangements, the CRUF encourage companies to:

- Provide greater detail on maturity schedules – for example, it would be helpful if management provided the debt repayments that fall due in each year (for a minimum of 5 years) rather than sticking to the buckets identified, as an example in IFRS7, of "less than 1 month, 1-3 months, 3 months to 1 year and 1 – 5 years".
- It is most frustrating that, as IFRS7's requirement that the maturity schedules include gross contractual amounts including interest, we cannot always relate the numbers presented in the maturity schedules to the carrying values in the balance sheet. We would be most grateful if companies could help us tie the two sets of data together, showing principal and interest payments separately, and reconciling total gross payments to the balance sheet (ie showing adjustments for discounting, fair value hedge adjustments, fair value option adjustments etc.)
- Although IFRS requires management to report on any defaults or breaches of loan agreement terms that are not resolved by the period end, we would value additional information about the principal covenants – their terms and any restrictions in place.
- In similar vein, we would appreciate clearer disclosure of any restrictions on the repatriation of cash that might impede the ability to meet future financing needs.
- As the investment community is interested in the underlying economic flows of a business, we encourage companies to provide better disclosure of the effective interest rates that they face and the effective currency of debt obligations.

4. Cash disclosures

Whilst the talk on conference calls and in investor presentations may focus primarily on lines from the income statement, to understand the quality and sustainability of performance we need to be able to tie across the key lines of the primary statements.

Given that most analysts will use the operating line in the income statement in analytical models, the CRUF would encourage companies to help us to tie across the statements by starting the cash flow statement at an operating line.

We would also welcome more detailed descriptions of the adjustments made to derive operating cash flow so that they can be more easily related to items on the balance sheet (eg changes in significant components of working capital assets and liabilities, differences relating to various provisions such as pensions, asset retirement obligations, derivatives, etc).

If possible, we would appreciate the capex line being split into maintenance, growth and acquisition spend.

We would also welcome greater clarity about non cash transactions and how they affect the cash flow statement (eg new finance leases, non-cash contributions to pension trusts, non-cash consideration in a business combination). Summarizing these would provide clearer context for the analysis of amounts that are reported as cash flows.

5. M&A

M&A activity is on the increase. Given the size and significance of many of these transactions, we encourage management to provide us with enough information to assess the value created through such activities. In the absence of some clear description of how value has been extracted from the significant sums invested in M&A, it is hard for investors to have confidence that the return on such investment is sufficient.

To do this, we would welcome:

- A clear disclosure of the total consideration paid for an acquisition (including the debt acquired, pension liabilities assumed etc).
- A clear description of the intangibles acquired. In particular, we would like to be able to distinguish 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). This will allow us to determine whether we wish to reverse the associated amortisation charge or not.
- Management will typically discuss the strategic rationale for any acquisition made. However, once the acquisition has been finalised, it can be difficult to assess whether the stated strategic ambitions have been met. We would welcome clear disclosure of the financial returns from the acquired assets or businesses. However, we recognise that integration often means that it is sometimes difficult to identify returns specifically attributable to them. In the absence of such information, we appreciate any insight – perhaps through non financial metrics – that companies can bring regarding the skill and discipline with which they manage acquisitions.