

Summary of the Capital Markets Advisory Committee discussions

The International Accounting Standards Board's (the Board) independent investor advisory group, the Capital Markets Advisory Committee (CMAC), held its final meeting of 2016 on 3 November.

The meeting took place at the Board's offices in London. Recordings of the meeting discussions, the agenda and related papers are available on the [meeting page](#). For more information about the CMAC, please [click here](#).

The topics for discussion were:

- Accounting options
- IFRS 13 Post-implementation Review
- Digital reporting
- Primary Financial Statements

Accounting options

This session was presented by Sam Holland, a guest speaker from Standard and Poor's, who provided CMAC members with a paper on Accounting Options that he had previously presented to the European Financial Reporting Advisory Group User Panel. The purpose of the discussion was to gather CMAC members' views about presentation options in the International Financial Reporting Standards, which is relevant given the Board's current work on the theme of Better Communication.

Mr. Holland explained that Standard & Poor's credit analysts have to make a large number of adjustments to reported financial information because of accounting presentation options, as such options can create hurdles to comparability that impede financial analysis.

Mr Holland and CMAC members discussed:

Statement of Cash Flows and the presentation of interest and dividends received:

- many CMAC members agreed that presentation options in this circumstance can lead to inconsistencies across companies which can create problems for analysts seeking to make comparisons. In light of the Board's work on the Primary Financial Statements project, some members acknowledged that the choices may appear arbitrary to some and that there could be merits to reducing unnecessary complexity. On balance, CMAC members expressed a tone that is strongly in favour of reducing options, but also recognized that this is not always possible or even desirable in some cases.

The idea of developing a principle limiting the number of accounting choices:

- a few CMAC members suggested that presentation choices could be made more useful, the imposition of a requirement that choices be thoroughly justified. However, some CMAC members said that the Board should be mindful of how it approaches reducing options as this can, in some cases, help lead companies down the path of increasing their disclosure of alternative performance measures. Taking a "cookie cutter" approach to some of these issues runs the risk of producing information that distorts rather than reveals any insights into financial performance. Committee members in general recognised that there would be a trade-off to balance between improving comparability of information in the eyes of investors while allowing companies sufficient presentation options to help them tell the company story in a principles-based accounting system. One CMAC member challenged the benefit of such flexibility as in some instances it allows issuers to present information that reduces the understandability of the underlying situation. One CMAC member said that disclosures around presentation choices requires improvement as readers of financial statements still encounter situations in which a company has made a presentation choice but neglected to disclose to investors the choice that it made in presenting its financial statements.

The CMAC members decided that this topic included a few issues that the Board's Primary Financial Statements project team should consider in its research project.

IFRS 13 Post-implementation Review

The staff explained the background of IFRS 13 *Fair Value Measurement* and described Phase 1 of the Post-implementation review (PIR) of IFRS 13. The staff presented questions to the CMAC members about the information provided by IFRS 13 and asked the members to describe their uses of the information on fair value. The CMAC members said that the disclosures required by IFRS 13 were useful in their analysis of an entity. They highlighted that the hierarchy of fair value measurement levels and accompanying disclosures provide useful information as they give investors an insight into the valuations.

The members discussed sensitivity analysis disclosures for level 3 instruments and while this was generally found useful some members indicated that users still need more detailed information about the models or the sensitivity. More detailed information about the models would allow users to assess the reasonability of the underlying assumptions used and their effect on the sensitivity analysis. On this issue, some members said they would have preferred a disclosure revealing the effect of measurement uncertainty.

The CMAC members also indicated that they see boilerplate disclosures in practice and would like to see more granularity in disclosures provided with some asking for more disclosures for level 2 measurements as well. The staff will present the findings from Phase 1 of the PIR to the Board, and the Board will decide on the scope, approach and timing of the second stage of PIR, including the public Request for Information.

Digital reporting

This session started with a presentation by a representative from the Financial Reporting Lab of the UK Financial Reporting Council. The representative summarised the findings from a previous Lab project looking at the Digital Present of corporate reporting. They then introduced the Lab's Digital Future project and the results of an initial survey.

The CMAC members discussed a number of points on the first study and the survey results.

A number of members discussed the possible uses for augmented reality and virtual reality in corporate reporting. One member commented that it could potentially be used for virtual tours and meetings but that problems could include cost and a potential lack of human interaction.

Another member suggested that financial reporting is quite a long way behind industry in the use of technology and it may be too early to jump straight to technologies such as virtual reality.

A further member reminded the group that virtual reality and augmented reality are different technologies. Augmented reality may be more useful than virtual reality.

One member of the CMAC asked if the focus of the project was on financial reporting. The presenter responded that they are looking for a consistent set of attributes describing good reporting across all corporate reporting. They will then examine the uses for individual technologies.

Other comments included:

- one member of the CMAC noted that audit is an important factor to consider. Without audit checks some of the different sources of information could be misleading. For example, a virtual reality tour might not accurately represent the real environment. While members mostly discussed the implications of virtual reality technology, the paper also discusses the use of augmented reality technology, which for some members seemed even more ambitious.
- one member of the CMAC indicated that spreadsheet downloads of information were very useful. They allow the company to tell their own story; other ways for the companies to tell their own story are not needed. The member emphasised that it was important that the information provided by companies was open-access and not restricted (eg password protected).
- one member emphasised that standard-setters need to pay attention to the global nature of reporting and the whole package of corporate reporting, not just the financial statements.
- a number of members of the CMAC discussed the current use of PDF in reporting. In particular, some members expressed the view that the quality of PDF is variable and that some PDFs can be easier to use than others.

A number of improvements to corporate reporting formats were suggested by members of the CMAC. These included:

- better linking within reports. For example, drill-down hyperlinks from headlines to notes and into and out of management commentary could be included.
- consistency between the formats provided by companies, especially in spreadsheets.
- the timely provision of reports. For example, spreadsheets are not used if provided significantly after the initial corporate report.
- a global system for accessing financial information.
- a universal download format for financial information.

A CMAC member suggested that coverage is a main reason XBRL is not frequently used at the moment. If only 20% of companies have XBRL then it is not worth the effort of acquiring the new skills and then getting the XBRL to communicate with your model. Another CMAC member also agreed that electronic reporting involves costs for investors and time to acquire new knowledge and know-how.

Members also pointed out that users need to be confident that the technology is stable before investing in internal changes required for adoption.

One CMAC member suggested that the interest in structured electronic information is there: many investors use data aggregators. Asking companies to place the files on their website is not enough; there needs to be a free solution for all that allows investors to link the information to their models.

Another CMAC member said that it would be useful to have central repositories of financial statements such as SEDAR¹ (Canada) and EDGAR²(USA) available for Europe and other jurisdictions using IFRS.

One CMAC member suggested that a timeline or roadmap for how technologies will evolve could help. There are layers of technology and one may be a bottleneck for others, making it hard to imagine the future. This member also suggested looking at quick gains such as for instance better linking of the notes to primary financial statements. This member thought that the current IFRS Taxonomy design does not provide that kind of information.

The members expressed the view that there were some lower cost changes that could be done quickly (searchable pdf, global platform for information, posting and archival of company presentations, conference call and videos). At the same time the ability to download information into models is a key requirement – the assumption seems to be that XBRL is needed or some similar technology to meet this requirement. Another challenge with using XBRL technology for investors is that it currently lacks a software application equivalent to Acrobat Reader that could promote wider usage.

Primary Financial Statements

The purpose of the session was to obtain the CMAC members' views on some possible approaches for improving the structure and content of the primary financial statements. These possible approaches are described in Agenda Paper 4.

The resulting discussion highlighted the following points:

- CMAC members had mixed views on the possible approaches for improving the structure and content of the primary financial statements.
 - many CMAC members supported introducing some standardised subtotals in the statement(s) of financial performance. Among the members who supported introducing standardised subtotals, many members supported introducing an 'Earnings Before Interest and Taxes' (EBIT) subtotal. Some members commented that an EBIT subtotal is relatively easy to define and provides a meaningful starting point for their analysis. There is diversity in practice in what is included in finance income and expenses in current financial reporting, and providing a principle-based definition of finance income and expenses in the statement(s) of financial performance would be beneficial.
 - members expressed mixed views on introducing an operating profit subtotal. Some members supported introducing an operating profit subtotal because it would allow users to quickly get a sense of entities' operating performance. Other members thought that it would be very difficult for the Board to define an operating profit subtotal.

¹ <http://www.sedar.com/>

² <https://www.sec.gov/edgar.shtml>

- members also expressed mixed views on introducing a recurring operating profit subtotal. Some members supported introducing such performance measures in the statement(s) of financial performance because it provides useful information. One member commented that the national standard-setter in the member's region introduced operating profit and recurring operating profit subtotals more than ten years ago and these subtotals have been useful for users of financial statements. Other members considered that defining what is 'recurring' is too difficult for the Board. One member expressed concern about current practice, in particular, the fact that some entities who voluntarily present a recurring operating profit subtotal change the definition which makes it difficult to compare results over time.
- some CMAC members questioned whether it is necessary to introduce new subtotals. They were more interested in improving disaggregation and transparency.
- some members supported introducing more structure in the statement(s) of financial performance, for example, through providing illustrative examples. One member suggested that more structure will facilitate digital reporting because tagging would become easier.
- some members commented that the Board should also consider improvements in the statement of cash flows and the statement of financial position along with the statement(s) of financial performance. Some members said that better alignment between different primary financial statements needs to be considered.
- several members expressed the view that entities will continue to use alternative performance measures (APMs) despite the Board's efforts to improve the structure and content of the primary financial statements. Some members advised the Board not to get involved in defining alternative performance measures but another member felt that the IASB needs to ensure directly or indirectly that when alternative performance measures are quoted then they should be defined and used by the preparer in a consistent manner over time. One member expressed the view that introducing additional performance measures in financial statements would provide meaningful 'anchor points' for users of financial statements to analyse APMs.
- one member suggested that the Board should undertake further empirical research into the demand for improvements to the structure and content of the primary financial statements.

Next steps

The staff reported the feedback received to the Board in the November 2016 Board meeting. The Board will consider the scope of the Primary Financial Statements project at its December 2016 Board meeting.

Next CMAC meeting

The next CMAC meeting will take place in London on [Thursday 16 March](#). The agenda topics will be posted on the IFRS website prior to the meeting.