

STAFF PAPER

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Prepared for the Capital Markets Advisory Committee Meeting

Paper topic	Follow up on issues discussed at the November 2016 CMAC meeting		
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Purpose of this paper

1. This paper provides a brief, high-level update to the Capital Markets Advisory Committee (CMAC)¹ on how the staff or the International Accounting Standards Board (the Board) considered the advice received during the CMAC meeting held in November 2016. It is for information purposes only.

¹ Information about the CMAC's past meetings can be found at <http://www.ifrs.org/About-us/IASB/Advisory-bodies/CMAC/past-meetings/Pages/past-meetings.aspx>.

Update on advice received at the November 2016 CMAC meeting

Topic	Summary of CMAC views presented	Next steps / action taken by the IASB
<p>IFRS 13 Post-implementation Review</p>	<p>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.</p> <p>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.</p> <p>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.</p>	<p>At the January 2017 Board meeting the Board discussed the following matters, for which no decisions were made:</p> <ul style="list-style-type: none"> a) the PIR process, background information on IFRS 13 and work streams related to fair value measurement; b) whether convergence between IFRS 13 and Topic 820 Fair Value Measurement in US Generally Accepted Accounting Principles (GAAP) has been compromised as a result of subsequent standard-setting work carried out by the Board or the Financial Accounting Standards Board; c) activities and feedback during Phase 1 of the PIR; and d) a ‘scoping review’ to identify relevant issues raised in academic literature on fair value measurement. <p>The Board also discussed the next steps in the PIR and tentatively decided to:</p> <ul style="list-style-type: none"> a) proceed with Phase 2 of the PIR; b) focus the scope of the PIR on:

	<p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> i. the effectiveness of disclosures about fair value measurements; ii. the unit of account and fair value measurement of quoted investments; iii. the application of judgement in specific areas; and iv. the application of highest and best use when measuring the fair value of non-financial assets. <p>In addition, the PIR will explore the need for education on measuring the fair value of biological assets and unquoted equity instruments.</p> <p>c) conduct the following activities during Phase 2 of the PIR:</p> <ul style="list-style-type: none"> i. issue a request for information (RFI) with questions in the areas included in b above; ii. review academic and non-academic literature; iii. conduct outreach on the questions included in the RFI, with additional consultations with investors and preparers to assess what information is useful and what information is costly to prepare in respect of disclosures about fair value measurement; and iv. gather additional evidence to supplement the information received from the above activities.
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		<p>At the February 2017 meeting, the Board discussed the response period for the RFI and the due process steps followed during the first phase of the PIR. The Board decided:</p> <ul style="list-style-type: none"> a) that the response period for the RFI on the PIR of IFRS 13 would be set at a minimum 120 days; and b) that they were satisfied that all required due process steps had been completed during the first phase of the PIR. <p>The Board plans to have a completed RFI ready for publication in May as a part of the next steps in the project.</p>
<p>Digital Reporting</p>	<p>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.</p> <p>The CMAC members discussed a number of points on the first study and the survey results.</p> <p>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</p>	<p>The Financial Reporting Lab (Lab) appreciated the perspectives raised by the committee. Where appropriate, the Lab incorporated the committee's points into its Digital research. The first output from the Lab's Digital Future project will be released publically in early Q2.</p>

	<p>meetings but that problems could include cost and a potential lack of human interaction.</p> <p>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.</p> <p>A further member reminded the group that virtual reality and augmented reality are different technologies. Augmented reality may be more useful than virtual reality.</p> <p>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.</p> <p>Other comments included:</p> <ul style="list-style-type: none">•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	
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	<p>discusses the use of augmented reality technology, which for some members seemed even more ambitious.</p> <ul style="list-style-type: none"> •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. <p>A number of improvements to corporate reporting formats were suggested by members of the CMAC. These included:</p> <ul style="list-style-type: none"> •better linking within reports. For example, drill-down hyperlinks from headlines to notes and into and out of management commentary could be included. 	
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- 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.

	<p>Another CMAC member said that it would be useful to have central repositories of financial statements such as SEDAR² (Canada) and EDGAR³(USA) available for Europe and other jurisdictions using IFRS.</p> <p>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.</p> <p>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</p>	
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² <http://www.sedar.com/>

³ <https://www.sec.gov/edgar.shtml>

	<p>investors is that it currently lacks a software application equivalent to Acrobat Reader that could promote wider usage.</p>	
<p>Primary Financial Statements</p>	<p>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.</p> <p>The resulting discussion highlighted the following points:</p> <ul style="list-style-type: none"> • CMAC members had mixed views on the possible approaches for improving the structure and content of the primary financial statements. <ul style="list-style-type: none"> ○ 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 that providing a principle-based definition of finance income and expenses in the statement(s) of financial performance would be beneficial. The support of standardized sub-total seem to follow from a concern ○ members expressed mixed views on introducing an operating profit subtotal. Some members supported introducing an operating profit subtotal because it 	<ul style="list-style-type: none"> • A summary of the staff's research and outreach, which incorporated feedback received from CMAC members, was presented to the Board in November 2016. • In its December 2016 meeting, the Board tentatively decided that the PFS project should explore: <ul style="list-style-type: none"> – targeted improvements to the statement(s) of financial performance and statement of cash flows; – improved guidance on disaggregation; and – the development of templates for the statement(s) of financial performance, the statement of cash flows and the statement of financial position for a small number of industries.

	<p>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.</p> <ul style="list-style-type: none"> ○ 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 	
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	<p>alignment between different primary financial statements needs to be considered.</p> <ul style="list-style-type: none">• 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.	
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