STAFF PAPER

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Prepared for the Capital Markets Advisory Committee Meeting

Paper topic	**Follow up on issues discussed at the October 2017 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 October 2017. 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 October 2017 CMAC meeting

Topic	Summary of CMAC views presented	Next steps / action taken by the IASB
Discussion Paper *Disclosure Initiative—Principles of Disclosure*	The purpose of this session was to provide CMAC members with an overview of the feedback received from investors on the Discussion Paper *Disclosure Initiative—Principles of Disclosure* (Discussion Paper). CMAC members were asked for their views on the feedback received, and on which areas of the Discussion Paper to prioritise. CMAC members' comments on each section of the Discussion Paper have been summarised below. ***Principles of effective communication*** One member asked whether the principles of effective communication suggested in the Discussion Paper were applicable to other documents, such as press releases. The staff clarified that the principles were intended to apply to entities' financial statements. The member suggested that the application of the principles to other reports should be voluntary. Another member said it might be difficult to assess compliance with these principles. This member thinks that these principles might be better placed within the *Conceptual Framework for Financial Reporting*. ***Roles of the primary financial statements and the notes*** One member suggested that rather than being indifferent about the location of information, investors hold different views about whether particular information should be included in	The comments received from CMAC members formed part of the feedback received on the Discussion Paper that was presented to the Board at its February 2018 Board Meeting.

	the primary financial statements or in the notes. This member added that investors generally view information presented in the primary financial statements as having a higher degree of audit assurance. A few members suggested that the Board should consider providing more explicit guidance on the level of disaggregation of line items in the primary financial statements. These members added that the information in primary financial statements is sometimes too summarised, and that more disaggregation of line items would be useful for investors. ***Location of information*** Some members stated that they would prefer if information that is not required by IFRS Standards (non-IFRS information) is provided outside financial statements. Other members, however, suggested that such information is useful for analysing the entirety of a business and could be included in financial statements if presented fairly. These members supported the Discussion Paper's approach to the presentation of non-IFRS information. A few members expressed doubts about the effectiveness of the suggested requirements in the Discussion Paper to require non-IFRS information to be included in the financial statements. In particular: one member reported noticing an increase in the use of performance measures in annual reports after the introduction of the European Securities and Markets Authority's Guidelines on Alternative Performance Measures. However, disclosure of performance measures typically did not include the rationales behind some of the adjustments included in the measures, or a clear reconciliation to amounts presented in primary financial statements. This member highlighted the importance of taking steps to prevent a similar	

	outcome if the requirements suggested in the Discussion Paper for the placement of non-IFRS information in the financial statements become finalised. another member said the requirements suggested in the Discussion Paper could be useful when an entity provides non-IFRS information as a result of fulfilling the disclosure requirements of IFRS 8 *Operating Segments*. A few other members found the requirements suggested in the Discussion Paper seemed too restrictive, and said it could result in entities limiting the use of non-IFRS information in their financial statements. ***Use of performance measures in the financial statements*** Some members said that earnings before interest, tax, depreciation and amortisation (EBITDA) is important for business analysis. These members added that clearly defined measures that reconcile to amounts presented in primary financial statements would be useful to investors. In particular: a few members stated that an adjusted EBITDA measure provided by an entity might be useful to investors as long as the entity reconciled this measure with an EBITDA measure defined by the Board and disclosed this reconciliation consistently across periods; and a member pointed out that there are a limited number of IFRS defined subtotals which makes it difficult, in practice, to reconcile measures not specified in IFRS Standards (non-IFRS measures) to IFRS information. This member thought that defining more subtotals in IFRS Standards would address this issue and give more assurance to investors about non-IFRS measures currently provided in financial statements. Members had mixed views about prohibiting entities from presenting measures that are not necessarily subtotals directly arising from recognition and measurement requirements in	

	IFRS Standards, for example, underlying or normalised EBITDA. However, most of the members agreed that this type of information should be disclosed in the notes (for example, in the segment reporting note) as long as it is disclosed fairly, as suggested in the Discussion Paper. ***Disclosure of accounting policies*** When considering an amount resulting from a number of complex transactions, one member stated a preference for including more details about the accounting policies applied for such transactions alongside the note relating to that amount. This member also expressed a preference for including more detail about the accounting policies applied to a transaction that affects a number of line items in the primary financial statements (for example, unwinding of sales discounts). ***New Zealand Accounting Standards Board staff's approach to drafting disclosure requirements in IFRS Standards*** A few members stated that the approach for drafting disclosure requirements developed by the staff of the New Zealand Accounting Standards Board is promising and worth further consideration. These members were surprised not to have received many comments from investors on this topic.	
Primary Financial Statements—project update	The purpose of this session was to provide an update on the Primary Financial Statements project. Since this project was discussed at the joint CMAC and Global Preparers Forum meeting in June 2017, the Board has discussed staff proposals for: including an investing category in the statement(s) of financial performance; and	The staff will update the CMAC on the Board's discussions since the last project update and seek CMAC views on a number of issues.

	improving disaggregation of expenses by nature and by function. CMAC members had the following responses to the staff proposals: one CMAC member said that the criterion for including items in the investing category should be that the item is ‘not controlled by the entity’, because this criterion is more objective than ‘no significant synergies with an entity’s other resources’. CMAC members debated the implications of the staff proposals for the presentation of the share of profit or loss of associates and joint ventures, and had different views on whether the share of profit or loss of all associates and joint ventures should be excluded from ‘profit before financing and tax’ (EBIT). one CMAC member suggested the Board should consider a columnar approach for presenting the adjustments made in calculating the management performance measure. two CMAC members commented on the definition of capital structure: one member encouraged the Board to develop a principle-based approach to capital structure and to allow entities some flexibility in defining their own capital structures. The member’s view was that an entity should then use a definition of finance income and expenses in the statement(s) of financial performance that is consistent with the entity’s definition of capital structure in the statement of financial position. one member said capital structure should not include cash that is restricted, such as cash in a foreign subsidiary that would trigger a substantial tax liability when repatriated. one member suggested the first consultation document in the project should be an Exposure Draft rather than a Discussion Paper, so that the project could be completed more quickly.	

Primary Financial Statements—financial institutions	The purpose of this session was to gain CMAC members' views on useful subtotals for the presentation of financial performance for banks. The members discussed: whether the metrics users need for analysing financial performance of banks are readily available and reported consistently; whether any defined performance measures above profit before tax in banks' statement(s) of financial performance would be useful for users; and whether these subtotals could be consistent with measures that the staff proposed for non-financial institutions, such as 'profit before investing, financing and tax'; and 'profit before financing and tax' (EBIT). CMAC members agreed that the Board should research this area, and expressed the belief that there are problems with how banks present their statement(s) of financial performance. Issues raised and suggestions made by CMAC members were as follows: many banks are conglomerates. Some CMAC members analyse separately the activities of such banks, for example, banking (lending and deposit taking), providing services (such as transaction advisory and underwriting) and trading would each be considered individually. Segment notes and other notes, rather than consolidated primary financial statements, provide the most useful information for this purpose. Some CMAC members said requiring presentation by function would improve the statement(s) of financial performance, because such a requirement would allow investors to distinguish results from banking from results from other activities. They are also interested in information by nature, but this could be provided in the notes. there are inconsistencies in how line items and subtotals, such as net interest margin (NIM), are calculated. For example, a mix of 'by nature' and 'by function' presentation is used when presenting interest, and there is diversity in practice. However, one member said the notes included the inputs needed to calculate two interest measures they use in their analysis—'banking NIM' and 'total NIM'. a clear link between the statements of financial performance and financial position is important for some types of analysis, for example, calculating performance metrics such as	The staff are considering the feedback received from CMAC members and are planning to discuss our proposals with the Board during the next few months

	return on assets, return on equity and return on risk-weighted assets. In the members' view, this link is unclear at present and the project should explore improving this link. some CMAC members said investors do not use EBIT for analysing banks, and many said that defining an EBIT subtotal for banks would not be useful, as interest income and expenses are part of a bank's core business and should be analysed together. However, some CMAC members asked for additional information about the cost of banks' regulatory capital.	
Post-implementation Review of IFRS 13 *Fair Value Measurement*	The purpose of this session was to share preliminary feedback from investors on the Post-implementation Review (PIR) of IFRS 13 *Fair Value Measurement,* and to discuss investors' suggestions for improvements relating to fair value measurement and its presentation. The staff mentioned that the analysis of responses to the Board's Request for Information is still in progress. CMAC members discussed the suggestions from investors relating to disclosures about fair value measurements, including: removing the requirement for reconciliation of changes to Level 3 fair value measurements; expanding disclosures for Level 1 and Level 2 fair value measurements to include unrealised gains/losses recognised in profit and loss; improving disclosures about valuation techniques and inputs; and various suggestions related to analysis of the sensitivity of Level 3 fair value measurements to reasonably possible changes in significant unobservable inputs. CMAC members expressed the following views: a lack of support by many for reducing disclosures relating to Level 3 fair value measurements, because of their importance in less stable financial times. Several CMAC	The staff presented to the Board in January 2018 the feedback from phase 2 of the PIR of IFRS 13, including feedback from: - the Request for Information on IFRS 13, published in May 2017 and closed for comment in September 2017 ; - the external academic literature review , conducted from June to November 2017; and - research by staff, completed during phase 2 of the PIR. The papers provided to the Board included CMAC members' comments from

	members found the reconciliation of changes in Level 3 fair value measurements useful, as it helps identify changes that could be concerns. some members found ‘sensitivity analysis’ to be a misleading term. They preferred ‘uncertainty analysis’—that is, the range of possible outcomes. one member said that at times, reconciliation and numerical sensitivity analysis may not be material and that in such circumstances, the requirement to provide them could be removed. one member noted that Level 2 currently accounts for 70% of fair value measurements and has always been the largest category. The member suggested requiring additional disclosures for Level 2 fair value measurements, similar to those currently required for Level 3. one member said that whilst supporting expanding disclosures for Level 1 and Level 2 fair value measurements to include unrealised gains/losses recognised in profit and loss, they would also recommend presenting changes in Level 3 fair value measurements in ‘Other Comprehensive Income’. some members presented examples where an item labelled as ‘other’ represented the largest item in a note. They asked for more disaggregation in such situations. Some members noted that disaggregation by asset types is more useful than disaggregation by measurement basis. Members also discussed feedback on the unit of account and fair value measurement. Most members, like most other investors consulted by the staff, thought that fair value measurement for assets for which a price of an individual share is available in an active market, should always be equal to the product of share price and the number of shares, even if the unit of account for those assets is not an individual share. Members also pointed out that there were no new arguments made during the discussion.	meetings during phase 2. At a future Board meeting, the staff will discuss whether to take any steps as a result of the feedback received.

Perceptions of the IFRS Foundation—reputation research findings and potential actions	The purpose of the session was to present CMAC members with the findings in the reputation research survey report *Perceptions of the IFRS Foundation* (survey) and seek their views to assist the staff in the development of recommendations. The results of the survey were generally positive, but certain key themes emerged that were consistent with feedback received through other channels. The staff asked the CMAC members the following: How can the IFRS Foundation (Foundation) improve its engagement with its stakeholders, what does great engagement look like? How do you think the Capital Markets Advisory Committee could be better utilised as ambassadors for the Foundation? How do you think we can improve timeliness without adversely affecting the quality of IFRS Standards, or while still conducting wider outreach and consulting more widely? One CMAC member asked the staff to recognise that investors often work in environments where circumstances hinder them from involvement in the standard-setting process, and that employers may not see the value of being involved. Another member suggested that to combat this, the staff should reach out to employers at a high level. Several CMAC members stressed the need to make outreach targeted, and practically focussed, to heighten investor engagement. The consensus was that staff should speak to investors using their own terminology, and focus on outcomes and effects, rather than the technical detail of the accounting changes being proposed. The power of online communication channels for engagement and educational purposes was highlighted, with social media, webinars, and podcasts cited as engaging ways to reach large numbers of people. To be effective, the content conveyed through these media should be practical, understandable and accessible. A member also suggested consulting with local industry and trade groups to increase engagement within the investor community.	The Trustees received a presentation on the survey and the staff plans for addressing the key issues at their meeting in November 2017. They agreed that staff should develop a more detailed work plan and reaffirmed their view that a further survey should be conducted in 2020. Staff are developing a work plan that addresses the issues in the survey and has regard to the points made by the CMAC and other advisory bodies. This includes greater transparency on projects, more coordination of outreach activity, and more consistent approaches to management of technical projects.

	Several CMAC members expressed strong views that increasing the speed of standard-setting should not be a priority. New standards and amendments should be thoroughly considered and consulted on widely to ensure a quality product. They suggested that the IFRS Foundation could try instead to better manage stakeholder expectations regarding speed and deadlines.	